

JAN 21 2011

A BILL FOR AN ACT

RELATING TO TAXATION.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. Section 235-7, Hawaii Revised Statutes, is
2 amended by amending subsection (a) to read as follows:

3 "(a) There shall be excluded from gross income, adjusted
4 gross income, and taxable income:

5 (1) Income not subject to taxation by the State under the
6 Constitution and laws of the United States;

7 (2) Rights, benefits, and other income exempted from
8 taxation by section 88-91, having to do with the state
9 retirement system, and the rights, benefits, and other
10 income, comparable to the rights, benefits, and other
11 income exempted by section 88-91, under any other
12 public retirement system;

13 (3) Any compensation received in the form of a pension for
14 past services;

15 (4) Compensation paid to a patient affected with Hansen's
16 disease employed by the State or the United States in
17 any hospital, settlement, or place for the treatment
18 of Hansen's disease;



1 (5) Except as otherwise expressly provided, payments made
2 by the United States or this State, under an act of
3 Congress or a law of this State, which by express
4 provision or administrative regulation or
5 interpretation are exempt from both the normal and
6 surtaxes of the United States, even though not so
7 exempted by the Internal Revenue Code itself;

8 (6) Any income expressly exempted or excluded from the
9 measure of the tax imposed by this chapter by any
10 other law of the State, it being the intent of this
11 chapter not to repeal or supersede any express
12 exemption or exclusion;

13 (7) Income received by each member of the reserve
14 components of the Army, Navy, Air Force, Marine Corps,
15 or Coast Guard of the United States of America, and
16 the Hawaii national guard as compensation for
17 performance of duty, equivalent to pay received for
18 forty-eight drills (equivalent of twelve weekends) and
19 fifteen days of annual duty, at an:

20 (A) E-1 pay grade after eight years of service;
21 provided that this subparagraph shall apply to
22 taxable years beginning after December 31, 2004;



- 1 (B) E-2 pay grade after eight years of service;
2 provided that this subparagraph shall apply to
3 taxable years beginning after December 31, 2005;
- 4 (C) E-3 pay grade after eight years of service;
5 provided that this subparagraph shall apply to
6 taxable years beginning after December 31, 2006;
- 7 (D) E-4 pay grade after eight years of service;
8 provided that this subparagraph shall apply to
9 taxable years beginning after December 31, 2007;
10 and
- 11 (E) E-5 pay grade after eight years of service;
12 provided that this subparagraph shall apply to
13 taxable years beginning after December 31, 2008;
- 14 (8) Income derived from the operation of ships or aircraft
15 if the income is exempt under the Internal Revenue
16 Code pursuant to the provisions of an income tax
17 treaty or agreement entered into by and between the
18 United States and a foreign country; provided that the
19 tax laws of the local governments of that country
20 reciprocally exempt from the application of all of
21 their net income taxes, the income derived from the



- 1 operation of ships or aircraft that are documented or
2 registered under the laws of the United States;
- 3 (9) The value of legal services provided by a prepaid
4 legal service plan to a taxpayer, the taxpayer's
5 spouse, and the taxpayer's dependents;
- 6 (10) Amounts paid, directly or indirectly, by a prepaid
7 legal service plan to a taxpayer as payment or
8 reimbursement for the provision of legal services to
9 the taxpayer, the taxpayer's spouse, and the
10 taxpayer's dependents;
- 11 (11) Contributions by an employer to a prepaid legal
12 service plan for compensation (through insurance or
13 otherwise) to the employer's employees for the costs
14 of legal services incurred by the employer's
15 employees, their spouses, and their dependents;
- 16 (12) Amounts received in the form of a monthly surcharge by
17 a utility acting on behalf of an affected utility
18 under section 269-16.3 shall not be gross income,
19 adjusted gross income, or taxable income for the
20 acting utility under this chapter. Any amounts
21 retained by the acting utility for collection or other
22 costs shall not be included in this exemption; [and]



1 (13) One hundred per cent of the gain realized by a fee
2 simple owner from the sale of a leased fee interest in
3 units within a condominium project, cooperative
4 project, or planned unit development to the
5 association of owners under chapter 514A or 514B, or
6 the residential cooperative corporation of the
7 leasehold units.

8 For purposes of this paragraph:

9 "Fee simple owner" shall have the same meaning as
10 provided under section 516-1; provided that it shall
11 include legal and equitable owners;

12 "Legal and equitable owner", and "leased fee
13 interest" shall have the same meanings as provided
14 under section 516-1; and

15 "Condominium project" and "cooperative project"
16 shall have the same meanings as provided under section
17 514C-1[-]; and

18 (14) The first \$50,000 received by a business in a taxable
19 year beginning after December 31, 2010; provided that
20 the business is either a:



- 1 (A) Corporation that has filed its articles of
2 incorporation in this State, in accordance with
3 chapter 414; or
- 4 (B) Pass-through entity that incurs per cent
5 or more of its operational expenses in this State
6 during the applicable tax year and is either:
 - 7 (i) A professional corporation that has filed
8 its articles of incorporation with the
9 director of the department of commerce and
10 consumer affairs in accordance with chapter
11 415A;
 - 12 (ii) A general partnership that is formed and
13 registered under the laws of this State in
14 accordance with chapter 425;
 - 15 (iii) A limited partnership that has executed and
16 delivered a certificate of limited
17 partnership to the director of the
18 department of commerce and consumer affairs
19 in accordance with chapter 425E;
 - 20 (iv) A limited liability company that has filed
21 its articles of organization in this State,
22 in accordance with chapter 428; or



1 (v) An S corporation that has made a valid
2 election under section 1362(a) of the
3 Internal Revenue Code."

4 SECTION 2. Statutory material to be repealed is bracketed
5 and stricken. New statutory material is underscored.

6 SECTION 3. This Act, upon its approval, shall apply to
7 taxable years beginning after December 31, 2010.
8

INTRODUCED BY:

ASST

Charles F. ...
JM
...



Report Title:

Business Income Tax Exemption

Description:

Exempts the first \$50,000 of taxable income received by a business that is either incorporated in Hawaii or functions as a pass-through entity that incurs a minimum percentage of operational expenses in this State during the tax year.

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.

