

242
HAWAII ADMINISTRATIVE RULES

TITLE 18

DEPARTMENT OF TAXATION

CHAPTER 242

MORTGAGE LOAN EXEMPTION

NOTE: Chapter 242, HRS, was repealed by Act 87, SLH 1988.

§18-242-1

F.H.A. and V.A. mortgage loans

This is an unofficial compilation of the Hawaii Administrative Rules as of December 31, 2023.

Historical Note: Chapter 242 of Title 18, Administrative Rules, is based substantially upon Regulation No. 57-4 of the Department of Taxation [Eff 6/3/59; R 2/16/82].

§18-242-1 F.H.A. and V.A. mortgage loans. (a) Scope. Chapter 242, HRS, excludes the following from the determination of state taxes: All income from mortgage loans which are made on or after June 3, 1957 and prior to June 3, 1963, and which are guaranteed or insured by the Federal Housing Administration or the Veterans Administration. To qualify for this exclusion the income must be earned or received by a lender making such loans in the State.

- (1) If the loan was made by such lender prior to June 3, 1957 the exclusion does not apply even though the loan was guaranteed or insured on or after June 3, 1957.
 - (2) The state taxes affected by chapter 242, HRS, are the Income Tax Law, chapter 235, HRS, General Excise Tax Law, chapter 237, HRS, Public Service Company Tax Law, chapter 239, HRS, and Taxation of Banks and Other Financial Corporations, chapter 241, HRS.
- (b) Deductions to be allocated according to source of income. Bad debts and losses deductible, if any, under the applicable tax law shall be allocated to the particular source of income involved. Deductions of all bad debts and losses attributable to or connected with the income excluded pursuant to chapter 242, HRS, are disallowed.
- (c) Deductions to be apportioned according to source of income.
- (1) Deductions of taxpayers who exclude income pursuant to HRS §242-1, other than bad debts or losses as set forth in §18-242-1(b), shall be apportioned to disallow any amount attributable to or connected with excluded income. The deductions that shall be apportioned include the following: expenses, interest, taxes, contributions or gifts, depreciation, and amounts contributed under employees' benefit plans to the extent they are deductible under the applicable tax law, and the return or dividends of building and loan associations deductible under section 591 of the Internal Revenue Code as adopted by chapter 235, HRS. The taxes that shall be apportioned include federal and state income taxes, to the extent that they are deductible under the applicable tax law. Deductible amounts of gains or dividends or interest derived or received shall not be apportioned.
 - (2) The method of apportioning the disallowed deductions to the income excluded by chapter 242, HRS, is as follows:
 - (A) Determine the ratio of the income excluded by chapter 242, HRS, to the gross income determined under the applicable tax law. The gross income in the denominator shall include the income excluded by chapter 242, HRS, and any dividends or interest derived or received that is excludable or deductible under the applicable tax law. The income excluded by chapter 242, HRS, is the net amount in excess of the bad debts and losses allocated pursuant to §18-242-1(b), less however, any amount of capital gain that is excludable or deductible under the applicable tax law.

- (B) Apply this ratio to the total amount of deductions (other than bad debts and losses allocated pursuant to subsection (b)) computed under the applicable tax law involved without regard to this subsection (c). [Eff 2/16/82](Auth: HRS §§231-3(9), 242-1)
(Imp: HRS §242-1)