CHAPTER 235
INCOME TAX LAW

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This is an unofficial compilation of the Hawaii Revised Statutes.

Note

Itemized deductions; limitations (repealed January 1, 2016). L 2011, c 97, §§3, 6; L 2013, c 256.

Cross Reference

Civil relief for state military forces, see chapter 657D.

Tax Information Release No. 90-3, "Income Taxation and Eligibility for Credits of an Individual Taxpayer Whose Status Changes from Resident to Nonresident or from Nonresident to Resident" Supplemented and superseded in part by TIR 97-1

Tax Information Release No. 90-10, "Clarification of Taxation and the Eligibility for Personal Exemptions & Credits of Residents & Nonresidents in the Military and Spouses and Dependents of Persons in the Military" Supplemented and superseded in part by TIR 97-1

Tax Information Release No. 97-1, "Determination of Residence Status"

Tax Information Release No. 2010-01, "Military Spouses Residency Relief Act ("MSRRA")"

Law Journals and Reviews

Taxes in Hawaii Since July 1, 1968: A Report on the Unreported Decisions of Judge Dick Yin Wong. Arthur B. Reinwald, 9 HBJ 95.

Taxes in Hawaii 1983-1988: A Funny Thing Happened at the Forum. 22 HBJ 53.

PART I. GENERAL PROVISIONS

18-235-1 §235-1 Definitions.

"Biotechnology" means fundamental knowledge regarding the function of biological systems from the macro level to the molecular and subatomic levels that has application to development including the development of novel products, services, technologies, and subtechnologies from insights gained from research advances that add to that body of fundamental knowledge.

"Blind" means a person whose central visual acuity does not exceed 20/200 in the better eye with correcting lenses, or whose visual acuity is greater than 20/200 but is accompanied by a limitation in the field of vision such that the widest diameter of the visual field subtends an angle no greater than twenty degrees. The impairment of sight shall be certified to on forms prescribed by the department of taxation on the basis of a written report on an examination performed by a qualified ophthalmologist or qualified optometrist.

"Computer data" means any representation of information, knowledge, facts, concepts, or instructions that is being prepared or has been prepared and is intended to be processed, is being processed, or has been processed in a computer or computer network.

"Computer program" means an ordered set of computer data representing coded instructions or statements, that, when executed by a computer, causes the computer to perform one or more computer operations.

"Computer software" means computer data, a computer program, or a set of computer programs, procedures, or associated documentation concerned with the operation and function of a computer system, and includes both systems and application programs and subdivisions, such as assemblers, compilers, routines, generators, and utility programs.

"Corporation" means the same as in the Internal Revenue Code. A "domestic corporation" is one organized under the laws of the State. A "foreign corporation" is any other corporation.

"Deaf" means a person whose average loss in the speech frequencies (500-2000 Hertz) in the better ear is eighty-two decibels, A.S.A., or worse. The impairment of deafness shall be certified to by a qualified otolaryngologist or a licensed audiologist under chapter 468E on forms prescribed by the department of taxation.

"Dividend" means any distribution by a corporation to its shareholders or holders on an interest therein which is treated as a dividend by the Internal Revenue Code.

"Employee" means the same as in the Internal Revenue Code.

"Fiduciary" means the same as in the Internal Revenue Code.

"Fiscal year" means the same as in the Internal Revenue Code.

"Gross income", "adjusted gross income", "ordinary income", "ordinary loss", and "taxable income" respectively mean the same as gross income, adjusted gross income, ordinary income, ordinary loss, and taxable income as defined and determined under the Internal Revenue Code, except as otherwise provided in this chapter.

"Head of household" means any individual who qualifies as a head of household under the Internal Revenue Code.

"Husband and wife" means the same as in the Internal Revenue Code.

"Income tax law of 1901" means the income tax law enacted by Act 20 of the Session Laws of 1901 as it read from time to time prior to the enactment of the income tax law of 1932.

"Income tax law of 1932" means the income tax law enacted by Act 44 of the Second Special Session Laws of 1932, as it read from time to time prior to the enactment of the income tax law of 1957.

"Income tax law of 1957" means the income tax law enacted by the Twenty-Ninth Legislature, as it reads from time to time.

"Includes" and "including" when used in a definition shall not be deemed to exclude other things otherwise within the meaning of the term defined.

"Individual" means a person other than a trust, estate, partnership, or corporation, as defined.

"Internal Revenue Code of 1954, as amended" includes the Internal Revenue Code of 1986 and the Internal Revenue Code of 1986, as amended.

"Investment" means a nonrefundable investment, at risk, as that term is used in section 465 (with respect to deductions limited to amount at risk) of the Internal Revenue Code, in a qualified high technology business, of cash that is transferred to the qualified high technology business, the transfer of which is in connection with a transaction in exchange for stock, interests in partnerships, joint ventures, or other entities, licenses (exclusive or nonexclusive), rights to use technology, marketing rights, warrants, options, or any items similar to those included in this definition, including but not limited to options or rights to acquire any of the items included in this definition. The nonrefundable investment is entirely at risk of loss where repayment depends upon the success of the qualified high technology business. If the money invested is to be repaid to the taxpayer, no repayment except for dividends or interest shall be made for at least one year from the date the investment is made. The annual amount of any dividend and interest payment to the taxpayer shall not exceed twelve per cent of the amount of the investment.

"Legal service plan" or "plan" means a plan in which the cost of the services are paid by a member or by some other person or organization in the member's behalf. A legal service plan is a plan by which legal services are rendered to members identifiable in terms of some common interest. A plan shall provide:

(1) That individual members shall be afforded freedom of choice in the selection of their own attorney or attorneys to provide legal services under the plan; and

(2) For the payment of equal amounts for the cost of services rendered without regard to the identity of the attorney or attorneys selected by the plan member or members. No plan shall otherwise discriminate on the basis of the selection.

18-235-1.01 "Nonresident" means every individual other than a resident.

"Nonresident estate" or "nonresident trust" means one other than resident.

"Paid or incurred, paid or accrued" means the same as in the Internal Revenue Code.

"Partner" means the same as in the Internal Revenue Code.

"Partnership" means the same as in the Internal Revenue Code.

"Person" includes an individual, a trust, estate, partnership, association, company, or corporation.

18-235-1.11 "Person totally disabled" means a person who is totally and permanently disabled, either physically or mentally, which results in the person's inability to engage in any substantial gainful business or occupation.

The disability shall be certified to by a:

(1) Physician or osteopathic physician licensed under chapter 453;

(2) Qualified out-of-state physician who is currently licensed to practice in the state in which the physician resides; or

(3) Commissioned medical officer in the United States Army, Navy, Marine Corps, or Public Health Service, engaged in the discharge of the officer's official duty.

Certification shall be on forms prescribed by the department of taxation.

"Regulated investment company" means a corporation which qualifies as such under sections 851 and 852 of the Internal Revenue Code.

18-235-1.01 "Resident" means every:

(1) Individual domiciled in the State; and

(2) Other individual, whether domiciled in the State or not, who resides in the State. To "reside" in the State means to be in the State for other than a temporary or transitory purpose. Every individual who is in the State more than two hundred days of the taxable year in the aggregate shall be presumed to be a resident of the State. This presumption may be overcome by evidence satisfactory to the department of taxation that the individual maintains a permanent place of abode outside of the State and is in the State for a temporary or transitory purpose. No person shall be deemed to have gained or lost a residence simply because of the person's presence or absence in compliance with military or naval orders of the United States, or while engaged in aviation or navigation, or while a student at any institution of learning.

18-235-1.16 "Resident estate" means an estate of a resident decedent the fiduciary of which was appointed by a court of this State and the administration of which is carried on in this State, and "resident trust" means a trust of which the fiduciary is a resident of the State or the administration of which is carried on in the State.

"Shareholder" means the same as in the Internal Revenue Code.

"Stock" means the same as in the Internal Revenue Code.

"Taxable year" means the calendar year or the fiscal year ending during such calendar year upon the basis of which income is computed under this chapter. "Taxable year" includes, in the case of a return made for a fractional part of a year under this chapter or under regulations prescribed by the department of taxation, the period for which such return is made, and in cases where the department terminates the taxable year in accordance with section 231-24 and levies a jeopardy assessment on income for such portion or period of a year under section 235-109, then the period or portion of the year for which the jeopardy assessment is made.

"Taxpayer" means a person subject to a tax imposed by this chapter.

"Trade or business" includes the performance of the functions of a public office.

"Uniformed services of the United States" means the Army, Navy, Air Force, Marine Corps, Coast Guard, Coast and Geodetic Survey, and Public Health Service, and all regular and reserve components thereof, including the National Guard. The term "uniformed services of the United States" applies only to persons who are deemed members thereof under the laws of the United States relating to pay and allowances. Services as a member of the uniformed services includes inactive duty training.

"Without regard to source in the State" shall mean income derived or earned from all sources whether from sources located within or from sources located without the State. [L Sp 1957, c 1, pt of §2; am L 1959, c 246, §13 and c 277, pt of §6; am L Sp 1959 2d, c 1, §§16, 19; Supp, §121-1; am L 1967, c 250, §2; HRS §235-1; am L 1968, c 42, §3; am L 1970, c 90, §1; am L 1971, c 97, §1; am L 1973, c 217, §10; am L 1974, c 42, §2; am L 1976, c 156, §5 and c 208, §1; am L 1978, c 173, §2(3), (4), and (5); am imp L 1984, c 90, §1; gen ch 1985; am L 1987, c 239, §1(4); am L 1988, c 81, §1; am L 1990, c 17, §1; am L 1997, c 178, §1; am L 2000, c 297, §4; am L 2001, c 36, §1; am L 2009, c 11, §27; am L 2012, c 34, §17; am L 2017, c 12, §39]

Note

Definition of "prepaid legal service plan" changed to "legal service plan". L 2012, c 34, §17.

Cross Reference

Tax Information Release No. 57-78, "Adoption of Internal Revenue Code" OBSOLETE

Tax Information Release No. 89-3, "State Tax Benefits Available to Persons With Impaired Sight, Impaired Hearing, or Who Are Totally Disabled"

Tax Information Release No. 90-3, "Income Taxation and Eligibility for Credits of an Individual Taxpayer Whose Status Changes from Resident to Nonresident or from Nonresident to Resident" Supplemented and superseded in part by TIR 97-1

Tax Information Release No. 90-10, "Clarification of Taxation and the Eligibility for Personal Exemptions & Credits of Residents & Nonresidents in the Military and Spouses and Dependents of Persons in the Military" Supplemented and superseded in part by TIR 97-1

Tax Information Release No. 90-14, "Withholding of Tax on the Disposition of Real Property by Nonresident Persons" Superseded by TIR 2017-01

Tax Information Release No. 94-2, "State Tax Benefits Available to Persons Totally Disabled"

Tax Information Release No. 97-1, "Determination of Residence Status"

Tax Information Release No. 97-4, "Application of the Business Entity Classification Rules Under the 'Check-the-box' Regulations to the Hawaii Income Tax and Other Taxes"

Tax Information Release No. 2003-1, "Application of Section 235-110.9, Hawaii Revised Statutes (HRS), relating to the High Technology Business Investment Credit"

Tax Information Release No. 2007-03, "Imposition of Hawaii State Income Tax on Income Earned by Nonresident Merchant Seamen and Withholding Obligations of Employers of Nonresident Merchant Seamen"

Tax Information Release No. 2008-04, "Certain Prototype Costs That May Be Eligible for the Hawaii Tax Credit For Research Activities Under Section 235-110.91, Hawaii Revised Statutes"

Tax Information Release No. 2010-01, "Military Spouses Residency Relief Act ("MSRRA")"

Tax Information Release No. 2017-01, "Withholding of State Income Taxes on the Disposition of Hawaii Real Property"

Attorney General Opinions

Definitions of "marriage" and "spouse" under the federal Defense of Marriage Act, Pub. L. No. 104-199, 110 Stat. 2419, may preclude civil union partners of the same gender under the State's Civil Union Act from filing jointly for federal income tax purposes, but they do not preclude civil union partners from filing joint tax returns for Hawaii income tax purposes. Att. Gen. Op. 11-2.

"Resident" clarified. Att. Gen. Op. 65-5.

Case Notes

Redemption of stock taxable as gain or profit held not dividend. 79 F.2d 761.

"Taxable year". 33 H. 766.

Abandonment of Hawaiian domicile and acquisition of new. 51 H. 339, 461 P.2d 131.

§235-2 REPEALED. L 2016, c 53, §2.

§235-2.1 REPEALED. L 2016, c 53, §3.

§235-2.2 REPEALED. L 2016, c 53, §4.

18-235-2.3 **§235-2.3 Conformance to the federal Internal Revenue Code; general application.** (a) For all taxable years beginning after December 31, 2018, as used in this chapter, except as provided in section 235-2.35, "Internal Revenue Code" means subtitle A, chapter 1, of the federal Internal Revenue Code of 1986, as amended as of December 31, 2018, as it applies to the determination of gross income, adjusted gross income, ordinary income and loss, and taxable income, except those provisions of the Internal Revenue Code and federal public laws which, pursuant to this chapter, do not apply or are otherwise limited in application and except for the provisions of Public Law 109-001, which apply to Section 170 of the Internal Revenue Code. The provisions of Public Law 109-001 to accelerate the deduction for charitable cash contributions for the relief of victims of the 2004 Indian Ocean tsunami are applicable for the calendar year that ended December 31, 2004, and the calendar year ending December 31, 2005.

Prior law shall continue to be used to determine:

(1) The basis of property, if a taxpayer first determined the basis of property in a taxable year to which prior law applies; and

(2) Gross income, adjusted gross income, ordinary income and loss, and taxable income for a taxable year to which prior law applies.

(b) The following Internal Revenue Code subchapters, parts of subchapters, sections, subsections, and parts of subsections shall not be operative for the purposes of this chapter, unless otherwise provided:

(1) Subchapter A (Sections 1 to 59A) (with respect to determination of tax liability), except Section 1(h)(2) (relating to net capital gain reduced by the amount taken into account as investment income), except Sections 2(a), 2(b), and 2(c) (with respect to the definition of "surviving spouse" and "head of household"), except Section 41 (with respect to the credit for increasing research activities), except Section 42 (with respect to low-income housing credit), except Sections 47 and 48, as amended, as of December 31, 1984 (with respect to certain depreciable tangible personal property), and except Section 48(d)(3), as amended, as of February 17, 2009 (with respect to the treatment of United States Department of Treasury grants made under Section 1603 of the American Recovery and Reinvestment Tax Act of 2009). For treatment, see sections 235-110.91, 235-110.7, and 235-110.8;

(2) Section 78 (with respect to dividends received from certain foreign corporations by domestic corporations choosing foreign tax credit);

(3) Section 86 (with respect to social security and tier 1 railroad retirement benefits);

(4) Section 91 (with respect to certain foreign branch losses transferred to specified 10-percent owned foreign corporations);

(5) Section 103 (with respect to interest on state and local bonds). For treatment, see section 235-7(b);

(6) Section 114 (with respect to extraterritorial income). For treatment, any transaction as specified in the transitional rule for 2005 and 2006 as specified in the American Jobs Creation Act of 2004 Section 101(d) and any transaction that has occurred pursuant to a binding contract as specified in the American Jobs Creation Act of 2004 Section 101(f) are inoperative;

(7) Section 120 (with respect to amounts received under qualified group legal services plans). For treatment, see section 235-7(a)(9) to (11);

(8) Section 122 (with respect to certain reduced uniformed services retirement pay). For treatment, see section 235-7(a)(3);
(9) Section 135 (with respect to income from United States savings bonds used to pay higher education tuition and fees). For treatment, see section 235-7(a)(1);
(10) Section 139C (with respect to COBRA premium assistance);
(11) Subchapter B (Sections 141 to 150) (with respect to tax exemption requirements for state and local bonds);
(12) Section 151 (with respect to allowance of deductions for personal exemptions). For treatment, see section 235-54;
(13) Section 179B (with respect to expensing of capital costs incurred in complying with Environmental Protection Agency sulphur regulations);
(14) Section 181 (with respect to special rules for certain film and television productions);
(15) Section 196 (with respect to deduction for certain unused investment credits);
(16) Section 199 (with respect to the U.S. production activities deduction);
(17) Section 199A (with respect to qualified business income);
(18) Section 222 (with respect to qualified tuition and related expenses);
(19) Sections 241 to 247 (with respect to special deductions for corporations). For treatment, see section 235-7(c);
(20) Section 250 (with respect to foreign-derived intangible income and global intangible low-taxed income);
(21) Section 267A (with respect to certain related party amounts paid or accrued in hybrid transactions or with hybrid entities);
(22) Section 280C (with respect to certain expenses for which credits are allowable). For treatment see, section 235-110.91;
(23) Section 291 (with respect to special rules relating to corporate preference items);
(24) Section 367 (with respect to foreign corporations);
(25) Section 501(c)(12), (15), (16) (with respect to exempt organizations); except that section 501(c)(12) shall be operative for companies that provide potable water to residential communities that lack any access to public utility water services;
(26) Section 515 (with respect to taxes of foreign countries and possessions of the United States);
(27) Subchapter G (sections 531 to 565) (with respect to corporations used to avoid income tax on shareholders);
(28) Subchapter H (sections 581 to 597) (with respect to banking institutions), except Section 584 (with respect to common trust funds). For treatment, see chapter 241;
(29) Section 642(a) and (b) (with respect to special rules for credits and deductions applicable to trusts). For treatment, see sections 235-54(b) and 235-55;
(30) Section 646 (with respect to tax treatment of electing Alaska Native settlement trusts);
(31) Section 668 (with respect to interest charge on accumulation distributions from foreign trusts);
(32) Subchapter L (sections 801 to 848) (with respect to insurance companies). For treatment, see sections 431:7-202 and 431:7-204;
(33) Section 853 (with respect to foreign tax credit allowed to shareholders). For treatment, see section 235-55;
(34) Section 853A (with respect to credits from tax credit bonds allowed to shareholders);
(35) Subchapter N (Sections 861 to 999) (with respect to tax based on income from sources within or without the United States), except Sections 985 to 989 (with respect to foreign currency transactions). For treatment, see sections 235-4, 235-5, 235-7(b), and 235-55;
(36) Section 1042(g) (with respect to sales of stock in agricultural refiners and processors to eligible farm cooperatives);
(37) Section 1055 (with respect to redeemable ground rents);
(38) Section 1057 (with respect to election to treat transfer to foreign trust, etc., as taxable exchange);
(39) Sections 1291 to 1298 (with respect to treatment of passive foreign investment companies);
(40) Subchapter Q (sections 1311 to 1351) (with respect to readjustment of tax between years and special limitations);
(41) Subchapter R (sections 1352 to 1359) (with respect to election to determine corporate tax on certain international shipping activities using per ton rate);
(42) Subchapter U (Sections 1391 to 1397F) (with respect to designation and treatment of empowerment zones, enterprise communities, and rural development investment areas). For treatment, see chapter 209E;
(43) Subchapter W (Sections 1400 to 1400C) (with respect to District of Columbia enterprise zone);
(44) Section 1400O (with respect to education tax benefits);
(45) Section 1400P (with respect to housing tax benefits);
(46) Section 1400R (with respect to employment relief);
(47) Section 1400T (with respect to special rules for mortgage revenue bonds);
(48) Section 1400U-1 (with respect to allocation of recovery zone bonds);
(49) Section 1400U-2 (with respect to recovery zone economic development bonds); and

(50) Section 1400U-3 (with respect to recovery zone facility bonds) [L 1978, c 173, §2(1); am L 1979, c 62, §2(1) to (3); am L 1980, c 235, §1 and c 238, §2; am L 1981, c 3, §2(2), c 208, §2, and c 209, §1; am L 1982, c 22, §1(1) and c 25, §1; am L 1983, c 88, §1; am L 1984, c 99, §1; am L 1985, c 19, pt of §1; am L 1986, c 283, §1; am L 1987, c 39, §2, and c 239, §1(5); am L 1988, c 10, §1(2), c 102, §1, c 107, §2, and c 216, §3; am L 1989, c 13, §1; am L 1990, c 15, §1 and c 289, §2; am L 1991, c 54, §1 and c 137, §2; am L 1992, c 37, §1; am L 1993, c 73, §1; am L 1994, c 13, §2; am L 1995, c 7, §1; am L 1996, c 187, §1; am L 1997, c 297, §2; am L 1998, c 113, §1; am L 1999, c 178, §28 and c 198, §1; am L 2000, c 174, § 2; am L 2001, c 199, §1; am L 2002, c 223, §2; am L 2003, c 172, §2; am L 2004, c 89, §3; am L 2005, c 60, §2; am L 2006, c 124, §1; am L 2007, c 84, §1; am L 2008, c 93, §1; am L 2009, c 133, §2; am L 2010, c 112, §4; am L 2011, c 91, §2; am L 2012, c 179, §2 and c 184, §2; am L 2013, c 43, §2; am L 2014, c 88, §2; am L 2015, c 52, §2; am L 2016, c 33, §2 and c 53, §1; am L 2017, c 95, §2; am L 2018, c 27, §2; am L 2019, c 69, §2]

Note

The 2017 amendment applies to taxable years beginning after December 31, 2016. L 2017, c 95, §5(1).
The 2018 amendment applies to taxable years beginning after December 31, 2017. L 2018, c 27, §15(1).
The 2019 amendment applies to taxable years beginning after December 31, 2018. L 2019, c 69, §8(1).

Cross Reference

Tax Information Release No. 53-77, "Benefits Received Under Individual Retirement Plans and Self-Employed Retirement Plans"
Tax Information Release No. 57-78, "Adoption of Internal Revenue Code" OBSOLETE
Tax Information Release No. 83-3, "State Tax Treatment of Pension and Profit Sharing Plans, Individual Retirement Accounts, H.R. 10 Plans and the Like"
Tax Information Release No. 84-1, "Taxability of Interest on U.S. Obligations"
Tax Information Release No. 90-4, "Taxability of Benefit Payments from Pension Plan to Participants Who Attain Age 70-1/2 as Required by the Internal Revenue Code (IRC) Section 401(a)(9)(C)"
Tax Information Release No. 91-4, "Hawaii Tax Obligations of Nonprofit Organizations"
Tax Information Release No. 92-3, "Income Tax Issues Affecting Nonresident Aliens" Supplemented and superseded in part by TIR 97-1
Tax Information Release No. 93-6, "Moving Expenses - Hawaii Quarantine Fees"
Tax Information Release No. 94-4, "Application of State Taxes on Rebates for the Purchase and Installation of Ultra-low Flush Toilets" OBSOLETE
Tax Information Release No. 96-5, "Taxation Pensions under the Hawaii Net Income Tax Law: Deferred Compensation Arrangements; Rollover IRAs; Sub-Accounts of Pension Plans; Social Security and Railroad Retirement Act Benefits; Limitations on Deductions for Contributions to a Nonqualified Plan"
Tax Information Release No. 97-4, "Application of the Business Entity Classification Rules Under the 'Check-the-box' Regulations to the Hawaii Income Tax and Other Taxes"
Tax Information Release No. 2001-1, "The Application of Certain Hawaii Taxes to Qualified Subchapter S Subsidiary Corporations, Qualified Subchapter S Trusts, and Electing Small Business Trusts"
Tax Information Release No. 2003-2, "Extension of Deadlines and Other Tax Relief for Members of the Armed Forces, Reserves, and Hawaii National Guard"

Attorney General Opinions

Hawaii's net income tax law incorporates Internal Revenue Code of 1954, as amended, with certain exceptions, for purposes of determining gross income. Att. Gen. Op. 91-03.

§235-2.35 Operation of certain Internal Revenue Code provisions not operative under section 235-2.3. The following sections of the federal Internal Revenue Code of 1986, as amended, shall be operative for purposes of this chapter:

(1) Section 6038(D) (with respect to information with respect to foreign financial assets). With respect to persons required to report information under this section, section 6662(j) (with respect to imposition of accuracy-related penalties on underpayments) and section 6501(e)(1)(A)(ii) (with respect to limitations on assessment and collection) shall also be operative for purposes of this chapter and shall be applied consistently with the correlating provisions of sections 231-36.6 and 235-111;
(2) Section 6045B (with respect to returns relating to actions affecting basis in securities); and
(3) Section 6050W (with respect to returns relating to payments made in settlement of payment card and third party network transactions). [L 2010, c 112, §2; am L 2011, c 43, §5 and c 91, §3; am L 2012, c 179, §3]

Note

The 2012 amendment applies to taxable years beginning after December 31, 2011. L 2012, c 179, §5.

§235-2.4 Operation of certain Internal Revenue Code provisions; Sections 63 to 530. (a) Section 63 (with respect to taxable income defined) of the Internal Revenue Code shall be operative for the purposes of this chapter, subject to the following:

(1) Section 63(c)(1)(B) (relating to the additional standard deduction), 63(c)(1)(C) (relating to the real property tax deduction), 63(c)(1)(D) (relating to the disaster loss deduction), 63(c)(1)(E) (relating to the

motor vehicle sales tax deduction, 63(c)(4) (relating to inflation adjustments), 63(c)(7) (defining the real property tax deduction), 63(c)(8) (defining the disaster loss deduction), 63(c)(9) (defining the motor vehicle sales tax deduction), and 63(f) (relating to additional amounts for the aged or blind) of the Internal Revenue Code shall not be operative for purposes of this chapter;

(2) *[Paragraph effective until December 31, 2012. For paragraph effective January 1, 2013, see below.]* Section 63(c)(2) (relating to the basic standard deduction) of the Internal Revenue Code shall be operative, except that the standard deduction amounts provided therein shall instead mean:

(A) $4,000 in the case of:

(i) A joint return as provided by section 235-93; or

(ii) A surviving spouse (as defined in Section 2(a) of the Internal Revenue Code);

(B) $2,920 in the case of a head of household (as defined in Section 2(b) of the Internal Revenue Code);

(C) $2,000 in the case of an individual who is not married and who is not a surviving spouse or head of household; or

(D) $2,000 in the case of a married individual filing a separate return;

(2) *[Paragraph effective January 1, 2013. For paragraph effective until December 31, 2012, see above.]* Section 63(c)(2) (relating to the basic standard deduction) of the Internal Revenue Code shall be operative, except that the standard deduction amounts provided therein shall instead mean:

(A) $4,400 in the case of:

(i) A joint return as provided by section 235-93; or

(ii) A surviving spouse (as defined in section 2(a) of the Internal Revenue Code);

(B) $3,212 in the case of a head of household (as defined in Section 2(b) of the Internal Revenue Code);

(C) $2,200 in the case of an individual who is not married and who is not a surviving spouse or head of household; or

(D) $2,200 in the case of a married individual filing a separate return;

(3) Section 63(c)(5) (limiting the basic standard deduction in the case of certain dependents) of the Internal Revenue Code shall be operative, except that the limitation shall be the greater of $500 or the individual's earned income; and

(4) The standard deduction amount for nonresidents shall be calculated pursuant to section 235-5.

(b) Section 67 (with respect to the 2-percent floor on miscellaneous itemized deductions) of the Internal Revenue Code shall be operative for purposes of this chapter, except that the suspension in section 67(g) shall not be operative for purposes of this chapter.

(c) Section 68 (with respect to the overall limitation on itemized deductions) of the Internal Revenue Code shall be operative; provided that the:

(1) Thresholds shall be those that were operative for federal tax year 2009; and

(2) Suspension in section 68(f) shall not be operative for purposes of this chapter.

(d) Section 72 (with respect to annuities; certain proceeds of endowment and life insurance contracts) of the Internal Revenue Code shall be operative for purposes of this chapter and be interpreted with due regard to section 235-7(a), except that the ten per cent additional tax on early distributions from retirement plans in section 72(t) shall not be operative for purposes of this chapter.

(e) Section 85 (with respect to unemployment compensation) of the Internal Revenue Code shall be operative for purposes of this chapter, except that section 85(c) shall not be operative for purposes of this chapter.

(f) Section 108 (with respect to income from discharge of indebtedness) of the Internal Revenue Code shall be operative for purposes of this chapter, except that section 108(i) (relating to deferral and ratable inclusion of income arising from business indebtedness discharged by the reacquisition of a debt instrument) shall not be operative for purposes of this chapter.

(g) Section 121 (with respect to exclusion of gain from sale of principal residence) of the Internal Revenue Code shall be operative for purposes of this chapter, except that for the election under section 121(f), a reference to section 1034 treatment means a reference to section 235-2.4(n) in effect for taxable year 1997.

(h) Section 132 (with respect to certain fringe benefits) of the Internal Revenue Code shall be operative for purposes of this chapter, except that:

(1) The suspensions in section 132(f)(8) and 132(g)(2) shall not be operative for purposes of this chapter; and

(2) Section 132(n) shall not apply to United States Department of Defense Homeowners Assistance program payments authorized by the American Recovery and Reinvestment Act of 2009.

(i) Section 162 (with respect to trade or business expenses) of the Internal Revenue Code shall be operative for the purposes of this chapter, except that sections 162(f)(2), (3), and (4) (all of which relate to exceptions to the general rule, established in section 162(f)(1), that no deduction is allowed for the payment of fines or penalties) shall not be operative for purposes of this chapter.

(j) Section 163 (with respect to interest) of the Internal Revenue Code shall be operative for the purposes of this chapter, except that the following provisions shall not be operative for purposes of this chapter:

(1) Section 163(d)(4)(B) (defining net investment income to exclude dividends);

(2) Section 163(e)(5)(F) (suspension of applicable high-yield discount obligation (AHYDO) rules);
(3) Section 163(h)(3)(F) (limiting mortgage interest); and
(4) Section 163(i)(1) as it applies to debt instruments issued after January 1, 2010, (defining AHYDO).

(k) Section 164 (with respect to taxes) of the Internal Revenue Code shall be operative for the purposes of this chapter, except that:
(1) Section 164(b)(6)(B) (limiting the deduction for state and local taxes) shall not be operative for the purposes of this chapter;
(2) The deductions under section 164(a)(3) and (b)(5) shall not be operative for corporate taxpayers and shall be operative only for the following individual taxpayers:
(A) A taxpayer filing a single return or a married person filing separately with a federal adjusted gross income of less than $100,000;
(B) A taxpayer filing as a head of household with a federal adjusted gross income of less than $150,000; and
(C) A taxpayer filing a joint return or as a surviving spouse with a federal adjusted gross income of less than $200,000; and
(3) Section 164(a)(3) shall not be operative for any amounts for which the credit under section 235-55 has been claimed.

(l) Section 165 (with respect to losses) of the Internal Revenue Code shall be operative for purposes of this chapter, except that:
(1) The amount prescribed by sections 165(h)(1) (relating to the limitation per casualty) of the Internal Revenue Code shall be a $100 limitation per casualty;
(2) Section 165(h)(3)(A) and (B) (both of which relate to special rules for personal casualty gains and losses in federally declared disasters) of the Internal Revenue Code shall not be operative for the purposes of this chapter;
(3) Section 165(h)(5) (relating to the limitation on the deductibility of personal casualty losses that are not attributable to federally declared disasters) shall not be operative for purposes of this chapter; and
(4) Section 165 as operative for this chapter shall also apply to losses sustained from the sale of stocks or other interests issued through the exercise of the stock options or warrants granted by a qualified high technology business as defined in section 235-7.3.

(m) Section 168 (with respect to the accelerated cost recovery system) of the Internal Revenue Code shall be operative for purposes of this chapter, except that sections 168(j) (relating to property on Indian reservations), 168(k) (relating to the special allowance for certain property acquired during the period specified therein), 168(m) (relating to the special allowance for certain reuse and recycling property), and 168(n) (relating to the special allowance for qualified disaster assistance property) of the Internal Revenue Code shall not be operative for purposes of this chapter.

(n) Section 172 (with respect to net operating loss deductions) of the Internal Revenue Code shall be operative for purposes of this chapter, as further provided in section 235-7(d), except that section 172(b)(1)(J) and (j) (both of which relate to qualified disaster losses) of the Internal Revenue Code shall not be operative for purposes of this chapter.

(o) Section 179 (with respect to the election to expense certain depreciable business assets) of the Internal Revenue Code shall be operative for purposes of this chapter, except as provided in this subsection:
(1) The aggregate cost provided in section 179(b)(1), which may be taken into account under section 179(a) for any taxable year, shall not exceed $25,000;
(2) The amount at which the reduction in limitation provided in section 179(b)(2) begins shall exceed $200,000 for any taxable year; and
(3) The following shall not be operative for purposes of this chapter:
(A) Defining section 179 property to include computer software in section 179(d)(1);
(B) Inflation adjustments in section 179(b)(5);
(C) Irrevocable election in section 179(c)(2); and
(D) Special rules for qualified disaster assistance property in section 179(e).

(p) Section 198A (with respect to the expensing of qualified disaster assistances expenses) of the Internal Revenue Code shall not be operative for purposes of this chapter.

(q) Section 217 (with respect to moving expenses) of the Internal Revenue Code shall be operative for purposes of this chapter, except that the suspension in section 217(k) shall not be operative for purposes of this chapter.

(r) Section 219 (with respect to retirement savings) of the Internal Revenue Code shall be operative for the purpose of this chapter. For the purpose of computing the limitation on the deduction for active participants in certain pension plans for state income tax purposes, adjusted gross income as used in section 219 as operative for this chapter means federal adjusted gross income.

(s) Section 220 (with respect to medical savings accounts) of the Internal Revenue Code shall be operative for the purpose of this chapter, but only with respect to medical services accounts that have been approved by the Secretary of the Treasury of the United States.

(t) Section 265 (with respect to expenses and interest relating to tax-exempt income) of the Internal Revenue Code shall be operative for purposes of this chapter; except that section 265(b)(3)(G) and (7) shall not be operative and section 265 shall not apply to expenses for royalties and other income derived from any patents, copyrights, and trade secrets by an individual or a qualified high technology business as defined in section 235-7.3. These expenses shall be deductible.

(u) Section 274 (with respect to the disallowance of certain entertainment, etc., expenses) of the Internal Revenue Code shall be operative for this chapter in the form that it existed as of December 21, 2017.

(v) Section 280E (with respect to expenditures in connection with the illegal sale of drugs) of the Internal Revenue Code shall be operative for the purposes of this chapter, except that section 280E shall not be operative with respect to the production and sale of medical cannabis and manufactured cannabis products by dispensaries licensed under chapter 329D and their subcontractors, as defined in section 329D-1.

(w) Section 382 (with respect to limitation on net operating loss carryforwards and certain built-in losses following ownership change) of the Internal Revenue Code shall be operative for the purposes of this chapter, except that section 382(n) shall not be operative for purposes of this chapter.

(x) Section 408A (with respect to Roth Individual Retirement Accounts) of the Internal Revenue Code shall be operative for the purposes of this chapter, except that section 408A(d)(3)(A)(iii) shall not be operative for purposes of this chapter. For the purposes of determining the aggregate amount of contributions to a Roth Individual Retirement Account or qualified rollover contribution to a Roth Individual Retirement Account from an individual retirement plan other than a Roth Individual Retirement Account, adjusted gross income as used in section 408A as operative for this chapter means federal adjusted gross income.

(y) In administering the provisions of sections 410 to 417 (with respect to special rules relating to pensions, profit sharing, stock bonus plans, etc.), sections 418 to 418E (with respect to special rules for multiemployer plans), and sections 419 and 419A (with respect to treatment of welfare benefit funds) of the Internal Revenue Code, the department of taxation shall adopt rules under chapter 91 relating to the specific requirements under those sections and to other administrative requirements under those sections as may be necessary for the efficient administration of sections 410 to 419A.

In administering sections 401 to 419A (with respect to deferred compensation) of the Internal Revenue Code, Public Law 93-406, section 1017(i), shall be operative for the purposes of this chapter.

In administering section 402 (with respect to the taxability of beneficiary of employees' trust) of the Internal Revenue Code, the tax imposed on lump sum distributions by section 402(e) of the Internal Revenue Code shall be operative for the purposes of this chapter and the tax imposed therein is hereby imposed by this chapter at the rate determined under this chapter.

(z) In administering section 403 (with respect to taxation of employee annuities) of the Internal Revenue Code, any funds that represent pre-tax employee deferrals or contributions that are distributed from the annuity and used solely to obtain retirement credits under the state employees' retirement system shall not be treated as a rollover for purposes of section 403(b)(8)(A) of the Internal Revenue Code, and those funds shall be subject to income tax under this chapter.

(aa) Section 451 (which provides general rules for taxable year of inclusion) of the Internal Revenue Code shall be operative, except that section 451(k)(3) and (6), as it relates to a qualified electric utility, shall not be operative for purposes of this chapter.

(bb) In administering section 457 (with respect to compensation plans of state and local governments and tax-exempt organizations) of the Internal Revenue Code, any funds that represent pre-tax employee deferrals or contributions that are distributed from the deferred compensation plan and used solely to obtain retirement credits under the state employees' retirement system shall not be treated as a rollover for purposes of section 457(e)(16)(A) of the Internal Revenue Code and those funds shall be subject to income tax under this chapter.

(cc) Section 468B (with respect to special rules for designated settlement funds) of the Internal Revenue Code shall be operative for the purposes of this chapter and the tax imposed therein is hereby imposed by this chapter at a rate equal to the maximum rate in effect for the taxable year imposed on estates and trusts under section 235-51.

(dd) Section 469 (with respect to passive activities and credits limited) of the Internal Revenue Code shall be operative for the purposes of this chapter. For the purpose of computing the offset for rental real estate activities for state income tax purposes, adjusted gross income as used in section 469 as operative for this chapter means federal adjusted gross income.

(ee) Sections 512 to 514 (with respect to taxation of business income of certain exempt organizations) of the Internal Revenue Code shall be operative for the purposes of this chapter as provided in this subsection.

"Unrelated business taxable income" means the same as in the Internal Revenue Code, except that:

(1) In the computation of unrelated business taxable income:

(A) Sections 235-3 to 235-5, and 235-7 (except subsection (c)), shall apply; and

(B) Section 512(a)(7) shall not apply;

(2) In the determination of the net operating loss deduction there shall not be taken into account any amount of income or deduction that is excluded in computing the unrelated business taxable income; and

(3) Unrelated business taxable income shall not include any income from a legal service plan.

For a person described in section 401 or 501 of the Internal Revenue Code, as modified by section 235-2.3, the tax imposed by section 235-51 or 235-71 shall be imposed upon the person's unrelated business taxable income.

(ff) Section 521 (with respect to cooperatives) and subchapter T (sections 1381 to 1388, with respect to cooperatives and their patrons) of the Internal Revenue Code shall be operative for the purposes of this chapter as to any cooperative fully meeting the requirements of section 421-23, except that Internal Revenue Code section 521 cooperatives need not be organized in Hawaii.

(gg) Sections 527 (with respect to political organizations) and 528 (with respect to certain homeowners associations) of the Internal Revenue Code shall be operative for the purposes of this chapter and the taxes imposed in each section are hereby imposed by this chapter at the rates determined under section 235-71.

(hh) Section 529 (with respect to qualified tuition programs) shall be operative for the purposes of this chapter, except that sections 529(c)(6), 529(c)(7) and 529(e)(3)(A)(iii) shall not be operative.

(ii) Section 529A (with respect to qualified ABLE programs) shall be operative for the purposes of this chapter, except that section 529A(c)(3) (with respect to additional tax for distributions not used for disability expenses) shall not be operative.

(jj) Section 530 (with respect to Coverdell education savings accounts) of the Internal Revenue Code shall be operative for the purposes of this chapter. For the purpose of determining the maximum amount that a contributor could make to an education individual retirement account for state income tax purposes, modified adjusted gross income as used in section 530 as operative for this chapter means federal modified adjusted gross income as defined in section 530. [L 1985, c 19, pt of §1; am L 1987, c 239, §1(6); am L 1989, c 13, §2 and c 321, §2; am L 1990, c 16, §2; am L 1991, c 207, §1; am L 1996, c 187, §2; am L 1997, c 297, §3; am L 1998, c 113, §2; am L 1999, c 198, §2, c 253, §2, and c 270, §2; am L 2000, c 148, pt of §2, c 174, §3, and c 297, pt of §5; am L 2001, c 221, §5; am L 2002, c 223, §3; L 2003, c 172, §3; am L 2004, c 89, §4; am L 2005, c 60, §3; am L 2006, c 110, §2; am L 2008, c 93, §2; am L 2009, c 60, §1, c 133, §3, c 165, §2, and c 181, §1; am L 2010, c 23, §1, and c 112, §§5, 6; am L 2011, c 91, §4 and c 97, §§2, 4; am L 2012, c 34, §§9, 18; am L 2014, c 88, §3; am L 2015, c 52, §3; am L 2016, c 230, §4; am L 2017, c 170, §2; am L 2018, c 27, §3; am L 2019, c 69, §3, and c 111, §6]

Note

The 2015 amendment applies to taxable years beginning after December 31, 2014. L 2015, c 52, §5.
The 2016 amendment applies to taxable years beginning after December 31, 2015. L 2016, c 230, §25.
The 2018 amendment applies to taxable years beginning after December 31, 2017. L 2018, c 27, §15(1).
The 2019 amendment applies to taxable years beginning after December 31, 2018. L 2019, c 69, §8(1).

Cross Reference

Tax Information Release No. 81-3, "New Hebrides Land Investment" OBSOLETE
Tax Information Release No. 83-3, "State Tax Treatment of Pension and Profit Sharing Plans, Individual Retirement Accounts, H.R. 10 Plans and the Like"
Tax Information Release No. 90-6, "Act 16, Session Laws of Hawaii 1990, Relating to S Corporations"
Tax Information Release No. 91-4, "Hawaii Tax Obligations of Nonprofit Organizations"
Tax Information Release No. 91-7, "Withholding of Tax on the Disposition of Real Property by Nonresident Persons and Rollover of Gain on the Sale of a Principal Residence by Persons in the Military" Superseded by TIR 2017-01
Tax Information Release No. 92-3, "Income Tax Issues Affecting Nonresident Aliens"
Tax Information Release No. 97-1, "Determination of Residence Status"
Tax Information Release No. 2017-01, "Withholding of State Income Taxes on the Disposition of Hawaii Real Property"

§235-2.45 Operation of certain Internal Revenue Code provisions; sections 641 to 7518. (a) Section 641 (with respect to imposition of tax) of the Internal Revenue Code shall be operative for the purposes of this chapter subject to the following:

(1) The deduction for exemptions shall be allowed as provided in section 235-54(b);

(2) The deduction for contributions and gifts in determining taxable income shall be limited to the amount allowed in the case of an individual, unless the contributions and gifts are to be used exclusively in the state; and

(3) The tax imposed by section 1(e) of the Internal Revenue Code as applied by section 641 of the Internal Revenue Code is hereby imposed by this chapter at the rate and amount as determined under section 235-51 on estates and trusts.

(b) Section 667 (with respect to treatment of amounts deemed distributed by trusts in preceding years) of the Internal Revenue Code shall be operative for the purposes of this chapter and the tax imposed therein is hereby imposed by this chapter at the rate determined under this chapter; except that the reference to tax-exempt interest to which section 103 of the Internal Revenue Code applies in section 667(a) of the Internal Revenue Code shall instead be a reference to tax-exempt interest to which section 235-7(b) applies.

(c) Section 685 (with respect to treatment of qualified funeral trusts) of the Internal Revenue Code shall be operative for purposes of this chapter, except that the tax imposed under this chapter shall be computed at the tax rates provided under section 235-51, and no deduction for the exemption amount provided in section 235-54(b) shall

be allowed. The cost-of-living adjustment determined under section 1(f)(3) of the Internal Revenue Code shall be operative for the purpose of applying section 685(c)(3) under this chapter.

(d) Section 704 of the Internal Revenue Code (with respect to a partner's distributive share) shall be operative for purposes of this chapter; except that section 704(b)(2) shall not apply to:

(1) Allocations of the high technology business investment tax credit allowed by section 235-110.9 for investments made before May 1, 2009;

(2) Allocations of net operating loss pursuant to section 235-111.5; or

(3) Allocations of low-income housing tax credits among partners under section 235-110.8.

(e) Section 1202 (with respect to partial exclusion for gain from certain small business stock) of the Internal Revenue Code shall be operative for purposes of this chapter, except that section 1202(a)(3) and (4) shall not be operative for purposes of this chapter.

(f) Section 1212 (with respect to capital loss carrybacks and carryforwards) of the Internal Revenue Code shall be operative for the purposes of this chapter; except that for the purposes of this chapter the capital loss carryback provisions of section 1212 shall not be operative and the capital loss carryforward allowed by section 1212(a) shall be limited to five years; except for a qualified high technology business as defined in section 235-7.3, which shall be limited to fifteen years.

(g) Section 1221 (with respect to the definition of capital assets) is operative; provided that the provisions of section 301 of Public Law 110-343, which provide that gain or loss from the sale or exchange of any applicable preferred stock by any applicable financial institution (such terms being defined by Public Law 110-343) shall be treated as ordinary income or loss, shall not be operative. A sale or exchange of any applicable preferred stock by any applicable financial institution (as those terms are defined by section 301 of Public Law 110-343) shall be treated as a sale of a capital asset and taxed accordingly.

(h) Subchapter S (sections 1361 to 1379) (with respect to tax treatment of S corporations and their shareholders) of chapter 1 of the Internal Revenue Code shall be operative for the purposes of this chapter as provided in part VII.

(i) Section 1400N (with respect to tax benefits for Gulf Opportunity Zone) of the Internal Revenue Code shall be operative for the purposes of this chapter, except that sections 1400N(a) (with respect to tax-exempt bond financing); 1400N(b) (with respect to advance refundings of certain tax-exempt bonds); 1400N(c)(with respect to the low income housing credit);1400N(d) (with respect to special allowance for certain property acquired on or after August 28, 2005); 1400N(e) (with respect to increase in expensing under section 179); 1400N(h) (with respect to increase in rehabilitation credit); 1400N(l) (with respect to credit to holders of Gulf tax credit bonds); 1400N(m) (with respect to application of new markets tax credit to investments in community development entities serving Gulf Opportunity Zone); 1400N(n) (with respect to treatment of representations regarding income eligibility for purposes of qualified residential rental project requirements) shall not be operative for purposes of this chapter.

(j) Section 1400S (with respect to additional tax relief provisions) of the Internal Revenue Code shall be operative for the purposes of this chapter, except that section 1400S(d) (with respect to the special rule for determining earned income) shall not be operative for the purposes of this chapter.

(k) Subchapter Z (sections 1400Z-1 to 1400Z-2) (with respect to opportunity zones) shall be operative for purposes of this chapter; except that for purposes of this chapter, subchapter Z shall only apply to qualified opportunity zones, as defined in section 1400Z-1, that are designated as such by the chief executive officer of this State.

(l) Section 6015 (with respect to relief from joint and several liability on joint return) of the Internal Revenue Code is operative for purposes of this chapter.

(m) Sections 6103(i)(3)(C) and 6103(i)(7) (with respect to disclosures of information to the United States Justice Department or appropriate federal or state law enforcement agency for purposes of investigating terrorist incidents, threats, or activities, and for analyzing intelligence concerning investigating terrorist incidents, threats, or activities) of the Internal Revenue Code shall be operative for the purposes of this chapter.

(n) Sections 6221, 6222, 6223, 6225, and 6226 (with respect to partnership audits) of subchapter C of chapter 63 of the Internal Revenue Code shall be operative for the purposes of this chapter; provided that if a taxpayer makes the election under section 6221(b) for federal income tax purposes, that taxpayer shall also make the same election for Hawaii income tax purposes.

(o) Section 6241 (with respect to definitions and special rules regarding partnerships) of the Internal Revenue Code shall be operative for the purposes of this chapter, except that the definitions that appear in items numbered (1), (3), and (5) shall not be operative for purposes of this chapter.

(p) Section 6501(e) (with respect to limitation on assessment and collection where there is a substantial omission of items) of the Internal Revenue Code shall be operative for purposes of this chapter.

(q) Section 6511(h) (with respect to running of periods of limitation suspended while taxpayer is unable to manage financial affairs due to disability) of the Internal Revenue Code shall be operative for purposes of this chapter, with due regard to section 235-111 relating to the limitation period for assessment, levy, collection, or credit.

(r) Section 7518 (with respect to capital construction fund for commercial fishers) of the Internal Revenue Code shall be operative for the purposes of this chapter. Qualified withdrawals for the acquisition, construction, or reconstruction of any qualified asset that is attributable to deposits made before the effective date of this section shall

not reduce the basis of the asset when withdrawn. Qualified withdrawals shall be treated on a first-in-first-out basis. [L 2000, c 148, pt of §2, c, 174, §1, and c 297, pt of §5; am L 2001, c 45, §2 and c 221, §6; am L 2003, c 100, §4; am L 2005, c 60, §4; am L 2006, c 124, §2; am L 2008, c 93, §3; am L 2009, c 133, §4 and c 178, §2; am L 2010, c 112, §7; am L 2014, c 88, §4; am L 2017, c 3, §4; am L 2018, c 27, §4; am L 2019, c 69, §4]

Note

Effect of L 2017, c 3 on tax credits. L 2017, c 3, §8.
The 2018 amendment applies to taxable years beginning after December 31, 2017. L 2018, c 27, §15.
The 2019 amendment applies to taxable years beginning after December 31, 2018. L 2019, c 69, §8(1).

Cross Reference

Tax Information Release No. 81-3, "New Hebrides Land Investment" OBSOLETE
Tax Information Release No. 83-3, "State Tax Treatment of Pension and Profit Sharing Plans, Individual Retirement Accounts, H.R . 10 Plans and the Like"
Tax Information Release No. 90-6, "Act 16, Session Laws of Hawaii 1990, Relating to S Corporations"
Tax Information Release No. 91-4, "Hawaii Tax Obligations of Nonprofit Organizations"
Tax Information Release No. 91-7, "Withholding of Tax on the Disposition of Real Property by Nonresident Persons and Rollover of Gain on the Sale of a Principal Residence by Persons in the Military" Superseded by TIR 2017-01
Tax Information Release No. 92-3, "Income Tax Issues Affecting Nonresident Aliens"
Tax Information Release No. 97-1, "Determination of Residence Status"
Tax Information Release No. 2002-1, "Audit of Net Income, General Excise, and Use Tax Returns; Appeal Rights; Claims for Refund; and Payment to State Under Protest"
Tax Information Release No. 2017-01, "Withholding of State Income Taxes on the Disposition of Hawaii Real Property"

§235-2.5 Administration, adoption, and interrelationship of Internal Revenue Code and Public Laws with this chapter. (a) Reference in provisions of the Internal Revenue Code which are operative in this State to provisions in the Internal Revenue Code which are not operative in this State shall be considered inoperative for the purposes of determining gross income, adjusted gross income, ordinary income and loss, and taxable income; provided that:

(1) References to time limits and other administrative provisions in subtitle F (sections 6001 to 7873) of the Internal Revenue Code contained in operative sections of the Internal Revenue Code shall be deemed references to applicable provisions of this chapter or chapter 231 or 232, and in the absence of applicable provisions in this chapter or chapter 231 or 232, then to rules adopted by the director of taxation under subsection (b);

(2) If inoperative provisions of the Internal Revenue Code have been codified in this chapter such references shall be deemed references to the codified provisions in this chapter. Transitory and savings provisions in federal Public Laws amending sections of the Internal Revenue Code operative in this chapter shall be operative for the purposes of this chapter. Provisions in this chapter or chapter 231 or 232 in conflict with the Internal Revenue Code or transitory or savings provisions in federal Public Law shall control; and

(3) Retroactive and prospective provisions in federal Public Laws amending sections of the federal Internal Revenue Code operative in this chapter affecting taxable years beginning or ending before the December 31 date in section 235-2.3 shall be operative for the purposes of this chapter; provided that the effective dates in Public Law 96-471 placing it in effect for the taxable year 1980 shall be operative for the purposes of this chapter.

(b) The director of taxation may adopt by rule under chapter 91 the rules and regulations promulgated by the United States Secretary of Treasury or a delegate of the Secretary relating to the provisions of subtitle A, chapter 1 or 6, of the Internal Revenue Code operative in this chapter and any administrative provisions of the Internal Revenue Code (subtitle F, sections 6001 to 7873) not in conflict with or similar to provisions contained in this chapter or chapter 231 or 232 either by reference or by setting them forth in full.

(c) The department of taxation shall submit to each regular session of the legislature a bill to amend sections 235-2.3, 235-2.4, and 235-2.45 and such other sections and subsections of this chapter as may be necessary to adopt the Internal Revenue Code as it exists on the December 31 preceding such regular session. In submitting the bill the department may provide that certain amendments to the Internal Revenue Code by Congress during the preceding calendar year shall not be operative in this State or as operative are limited in their operation. The department shall also prepare a digest and explanation of the amended provisions of the Internal Revenue Code recommended for operation, as well as those provisions that are limited in their operation, or that are not recommended for operation, and shall submit with the bill required by this subsection the digest, explanation, and a statement of revenue impact of the adoption of the bill. In preparing the bill, digest, and explanation the department may request the assistance of the office of the legislative reference bureau.

It is the intent of the legislature that it shall each year adopt all amendments to the Internal Revenue Code for the calendar year preceding the year in which the legislature meets; provided that the legislature may choose to adopt none of the amendments to the Internal Revenue Code or may provide that certain amendments are limited in their operation. [L 1985, c 19, pt of §1; am L 1988, c 102, §2; am L 1989, c 13, §3; am L 1996, c 187, §3; am L 2001, c 199, §2; am L 2008, c 93, §4; am L 2013, c 43, §3; am L 2014, c 88, §5]

Note

The 2014 amendment applies to taxable years beginning after December 31, 2013. L 2014, c 88, §7.

Cross Reference

Tax Information Release No. 98-6, "Application of Income Tax and Franchise Tax Laws to Real Estate Investment Trusts and Their Owners"

§235-3 Legislative intent, how Internal Revenue Code shall apply, in general. (a) It is the intent of this chapter, in addition to the essential purpose of raising revenue, to conform the income tax law of the State as closely as may be with the Internal Revenue Code in order to simplify the filing of returns and minimize the taxpayer's burdens in complying with the income tax law. The rules and regulations, forms and procedures adopted and established under this chapter shall conform as nearly as possible, and unless there is good reason to the contrary, to the rules and regulations, forms and procedures adopted and established under the Internal Revenue Code.

(b) The Internal Revenue Code, so far as made operative by this chapter, is a statute adopted and incorporated by reference. The Internal Revenue Code shall be applied using changes in nomenclature and other language, including the omission of inapplicable language, where necessary to effectuate the intent of this section. In the Internal Revenue Code, references to terms such as:

(1) "Secretary or his delegate" shall refer to the director of taxation and the director's duly authorized subordinates;

(2) "Estate taxes" shall refer to the estate and transfer tax imposed by chapter 236D or the estate and generation-skipping tax imposed by chapter 236E, as applicable;

(3) "The highest rate of tax imposed upon individuals" or "39.6 per cent" shall refer to the highest rate imposed upon individuals under section 235-51;

(4) "The highest rate of tax imposed upon corporations" shall refer to the highest rate imposed upon corporations under section 235-71; and

(5) "Interest at the underpayment rate" or "interest at the overpayment rate" shall refer to the interest rate set forth in section 231-39(b)(4) or section 231-23(d)(1), as the case may be.

(c) Where, under a provision of the Internal Revenue Code made operative in this chapter, the allowance or disallowance to a taxpayer of a deduction, exclusion, adjustment, credit, or exemption is dependent on whether, under the Internal Revenue Code or a prior applicable federal income tax law, the following was or was not, is or is not, in relation to the same taxpayer or another taxpayer, for the same taxable year or a prior taxable year, an operative factor: the imposition or payment of an income tax, an inclusion in gross income, an exclusion from gross income, or a deduction from gross income—the allowance or disallowance under this chapter of such deduction, exclusion, adjustment, credit, or exemption shall depend on the operativeness of such factor or factors under this chapter or a prior applicable income tax law of the State. This subsection shall govern the application of such sections of the Internal Revenue Code as, for example, sections 111, 215, 668(b), and 7852(c) and all matters of a similar nature.

(d) Whenever, in a taxable year of a corporation or its shareholders not governed by the income tax law of 1957, a distribution of money, stock, securities, or other property (whether in complete or partial liquidation or otherwise) has been made by a corporation to shareholders owning such shares in the State, or stock, securities, or other property has been transferred to a corporation, or corporate stock or securities exchanged, in the course of a corporate organization or reorganization effected under the laws of the State, in the application of the income tax law of 1957 effect shall be given to the recognition of income by the income tax laws of 1901 and 1932, if any, to the extent necessary to avoid double taxation, for example, in determining the earnings and profits of any corporation involved or the basis of any stock, securities, or other property so received, transferred, or exchanged. No increase in basis shall be allowed on account of such events in taxable years not governed by the income tax law of 1957, except as provided by this subsection. As used in this subsection the words "double taxation" mean and refer to double taxation of the same taxpayer, or taxation of both a corporation and its shareholders when the taxation of both would not have occurred had the income tax law of 1957 governed prior taxable years.

(e) In the determination of the basis or adjusted basis of any stock, securities, or other property:

(1) If the property was acquired by an exchange (including an involuntary conversion or the sale of an old residence and purchase of a new residence where both occur within a one-year period) the "cost" thereof to the taxpayer shall be deemed to include among other things, any income of the taxpayer recognized by the income tax laws of 1901 and 1932 as a result of the exchange;

(2) If the basis is dependent upon acquisition from a decedent, the property shall be deemed to have been acquired from a decedent if deemed so acquired for the purposes of chapter 236 prior to July 1, 1983, or after June 30, 1983, under this chapter but not otherwise, and the residence or nonresidence of the decedent, the location of the property, and chapter 236 for property acquired prior to July 1, 1983, or this chapter where the property has been acquired after June 30, 1983, shall be considered;

(3) If the basis is dependent upon deductions, exclusions, or exemptions taken or allowable, under the Internal Revenue Code or a prior applicable federal income tax law, in a prior year, it shall depend upon deductions,

exclusions, or exemptions taken or allowable under the income tax law of the State governing such prior years;

(4) If the basis is dependent upon the election provided for by section 307, Internal Revenue Code, it shall be governed by the election actually made under the Internal Revenue Code for the taxable year, whether or not the taxable year was governed by the income tax law of 1957. [L Sp 1957, c 1, pt of §2; am L Sp 1959 2d, c 1, §16; Supp, §121-2; HRS §235-3; am L 1979, c 62, §pt of §2; am L 1983, c 217, §§7(1), (2); am imp L 1984, c 90, §1; gen ch 1985; am L 1996, c 187, §4; am L 2014, c 43, §1]

Note

The 2014 amendment is retroactive to January 26, 2012. L 2014, c 43, §3.

18-235-4 **§235-4 Income taxes by the State; residents, nonresidents, corporations, estates, and trusts.** (a) Residents. The tax imposed by this chapter applies to the entire income of a resident, computed without regard to source in the State.

(b) Nonresidents. In the case of a nonresident, the tax applies to the income received or derived from property owned, personal services performed, trade, or business carried on, and any and every other source in the State.

In the case of a nonresident spouse filing a joint return with a resident spouse, the tax applies to the entire income of the nonresident spouse computed without regard to source in the State.

(c) Change of status. Except where a joint return is filed, when the status of a taxpayer changes during the taxable year from resident to nonresident, or from nonresident to resident, the tax imposed by this chapter applies to the entire income earned during the period of residence in the manner provided in subsection (a) of this section and during the period of nonresidence the tax shall apply upon the income received or derived as a nonresident in the manner provided in subsection (b) of this section; provided that if it cannot be determined whether income was received or derived during the period of residence or during the period of nonresidence, there shall be attributed to the State such portion of the income as is determined by applying to such income for the whole taxable year the ratio which the period of residence in the State bears to the whole taxable year, unless the taxpayer shows to the satisfaction of the department of taxation that the result is to attribute to the state income, dependent upon residence, received or derived during the period of nonresidence, in which event the amount of income as to which such showing is made shall be excluded.

The apportionment of income provided by this subsection shall not apply where one spouse is a resident of this State and a joint return is filed with the nonresident spouse in which event the tax shall be computed on their aggregate income in the manner provided in section 235-52 without regard to source in the State. Where, however, both spouses change their status from resident to nonresident or from nonresident to resident, their income shall be apportioned in the manner provided in this subsection.

(d) A corporation, foreign or domestic, is taxable upon the income received or derived from property owned, trade or business carried on, and any and every other source in the State. In addition thereto a domestic corporation is taxable upon its income from property owned, trade or business carried on, and any and every other source outside the State, unless subjected to income tax thereon in any other jurisdiction. Subjection to federal tax does not constitute subjection to income tax in another jurisdiction. "Corporation" includes any professional corporation incorporated pursuant to chapter 415A or 416.

(e)(1) The income of a resident estate or trust shall be computed without regard to source in the State. The income of a nonresident estate or trust shall be that received or derived from sources in the State.

(2) A beneficiary of an estate or trust, or person treated as the owner of any portion of a trust, who is taxable upon income thereof under the Internal Revenue Code, shall be taxed thereon as herein provided, irrespective of the taxability of the estate or trust or whether it is required to make a fiduciary return under this chapter. If all such income consists of income which would be taxable under this chapter if received directly by the beneficiary or person, the beneficiary or person shall be taxed upon all of it. If some of it consists of income which would not be taxable if received directly by the beneficiary or person, then unless the trust instrument provides otherwise the income of each such beneficiary or person shall be conclusively presumed to have been received or derived out of each class of income of the estate or trust, and the beneficiary or person shall be taxed upon such part of it as would be taxable if received directly by the beneficiary or person.

(3) Each estate or trust shall include in its return all of the information necessary to determine the taxability of the income of the estate or trust, regardless of source. Only in the case of a nonresident estate or trust of which all the beneficiaries are nonresidents and no part of which is treated as owned by a resident shall the return be confined to income from sources in the State. This paragraph shall not cause income to be taxed to an estate or trust that otherwise would not have been so taxed. [L Sp 1957, c 1, pt of §2; am L Sp 1959 2d, c 1, §16; Supp, §121-3; HRS §235-4; am L 1969, c 226, §5; am L 1974, c 9, §1; am L 1976, c 60, §1; am L 1978, c 95, §1; am L 1983, c 167, §18 and c 206, §1; am imp L 1984, c 90, §1; gen ch 1985; am L 1988, c 141, §19]

Note

Chapter 416 referred to in text is repealed.

Cross Reference

Professional corporations, see chapter 415A.

Tax Information Release No. 92-7, "Application of State Taxes on Inventory and Business Interruption Insurance Proceeds"

Tax Information Release No. 96-1, "Computer Company's Provision of In-State Repair Services Creates Nexus"

Tax Information Release No. 97-4, "Application of the Business Entity Classification Rules Under the 'Check-the-box' Regulations to the Hawaii Income Tax and Other Taxes"

Tax Information Release No. 2010-01, "Military Spouses Residency Relief Act ("MSRRA")"

Attorney General Opinions

Refund of real property tax after termination of a trust becomes income to the beneficiaries. Att. Gen. Op. 64-5.

Taxability of income earned out-of-state by resident. Att. Gen. Op. 65-5.

Case Notes

Income tax not applicable to inheritance under territorial laws. 14 H. 38.

Tax on annuity from property held in trust is payable by annuitant and not trustee. 20 H. 589. Annuities paid from trust taxable as income. 32 H. 51. Tax paid by employer for employee is income of employee. 38 H. 188.

Gifts inter vivos deemed not income. 25 H. 603.

Tax on income in year payment made for damages caused by labor strike. Stock of mainland agents is taxable by Territory. 26 H. 299, aff'd 289 F. 664.

Only taxes actually paid during the taxable year deductible as expenses and not reserve for taxes for succeeding years. 27 H. 336.

Intangibles. 31 H. 264, aff'd 47 F.2d 869.

Profits realized from sale of stock taxable in year of transaction. Tax on profit on stock redeemed by corporation. 32 H. 896, aff'd 79 F.2d 671.

Retrospective tax laws. 33 H. 766.

Tax on income of corporation is valid. 1 U.S.D.C. Haw 294, aff'd 121 F. 772.

Ability of State to tax income of nonresidents turns on situs of property generating income. 64 H. 258, 640 P.2d 282.

Intangible property generating income acquired a business situs in Hawaii and could be taxed under subsections (b) and (e)(2). 64 H. 258, 640 P.2d 282.

[§235-4.2] Persons lacking physical presence in the State; nexus presumptions. A person that lacks physical presence in the State is presumed to be systematically and regularly engaging in business in the State and taxable under this chapter if, during the current or preceding calendar year:

(1) The person engages in two hundred or more business transactions with persons within the State; or

(2) The sum of the value of the person's gross income attributable to sources in this State equals or exceeds $100,000 or for a person that does business within and without the State the numerator of the person's sales factor for the State equals or exceeds $100,000. [L 2019, c 221, §1]

Note

Section applies to taxable years beginning after December 31, 2019. L 2019, c 221, §3.

§235-4.3 REPEALED. L 1999, c 253, §5.

§235-4.5 Taxation of trusts, beneficiaries; credit. (a) There shall be excluded from gross income any intangible income, such as dividends and interest, earned by a trust sited in this State to the extent that, during the taxable year of the trust, the beneficial interest in the trust shall be held by a beneficiary or beneficiaries residing outside this State. This exclusion shall not apply to income received from real property held in a land trust formed under chapter 558.

(b) If a trust sited in this State owns one hundred per cent of the stock of a foreign corporation which does not engage in an active trade or business but acts solely as a holding company receiving intangible income, such as dividends and interest, the intangible income of the foreign corporation shall be excluded from gross income for Hawaii income tax purposes but only to the extent that the income of the trust beneficiaries is excluded from taxation under subsection (a). As used in this section, foreign corporation means a corporation not created or organized in the United States or under the laws of the United States, Hawaii, or any other state.

(c) Any resident beneficiary of a trust with a situs in another state may claim a credit for income taxes paid by the trust to the other state on any income received which is attributable to assets other than intangibles. [L 1985, c 283, §1; am L 1988, c 33, §1]

18-235-5 **§235-5 Allocation of income of persons not taxable upon entire income.** (a) This section applies to income not subject to part II of this chapter, including nonbusiness income and certain section 235-22 income.

(b) Income (including gains), also losses, from property owned in the State and from any other source in the State shall be determined by an allocation and separate accounting so far as practicable. Losses from property owned outside the State and from other sources outside the State shall not be deducted.

(c) Deductions connected with income taxable under this chapter shall be allowed, but deductions connected with income not taxable under this chapter shall not be allowed. Deductions from adjusted gross income that are not connected with particular property or income, such as medical expenses, shall be allowed only to the extent of the ratio of the adjusted gross income attributed to this State to the entire adjusted gross income computed without regard to source in the State.

Deductions by individual taxpayers from gross income for alimony and separate maintenance payments under section 215 of the Internal Revenue Code shall be allowed only to the extent of the ratio of gross income attributed to this State to the entire gross income computed without regard to source in this State; provided that as used in this sentence "gross income" means gross income as defined in the Internal Revenue Code, minus the deductions allowed by section 62 of the Internal Revenue Code, other than the deductions for alimony and separate maintenance payments under section 215 of the Internal Revenue Code.

Deductions by individual taxpayers from gross income for pension, profit-sharing, stock bonus plans, and other plans qualified under sections 401 to 409 of the Internal Revenue Code, as such sections are operative for the purposes of this chapter, shall be allowed only to the extent that such deductions are attributed to compensation earned in this State.

(d) The standard deduction as provided in section 235-2.4 and personal exemptions as provided in section 235-54 shall be allowed only to the extent of the ratio of the adjusted gross income attributed to this State to the entire adjusted gross income computed without regard to source in the State.

(e) If in the opinion of the department the allocations hereinabove provided do not clearly and accurately reflect the actual amount of the adjusted gross income and taxable income received or derived from all property owned and any and every other source in the State, or if any person shows that the allocations hereinabove provided result in adjusted gross income or taxable income being attributed to the State in a larger amount than is just and equitable, then the same shall be determined, allocated, and apportioned under such rules, processes, and formulas as the department prescribes as being just and equitable. [L Sp 1957, c 1, pt of §2; am L Sp 1959 2d, c 1, §16; Supp, §121-4; HRS §235-5; am L 1978, c 173, §2(6); am L 1983, c 88, §2; am imp L 1984, c 90, §1; gen ch 1985; am L 1989, c 11, §1; am L 1999, c 253, §3]

Cross Reference

Tax Information Release No. 57-78, "Adoption of Internal Revenue Code" OBSOLETE
Tax Information Release No. 92-3, "Income Tax Issues Affecting Nonresident Aliens" Supplemented by TIR 97-1

18-235-5.5 **§235-5.5 Individual housing accounts.** (a) There shall be allowed as a deduction from gross income the amount, not to exceed $5,000, paid in cash during the taxable year by an individual taxpayer to an individual housing account established for the individual's benefit to provide funding for the purchase of the individual's first principal residence. A deduction not to exceed $10,000 shall be allowed for a married couple filing a joint return. No deduction shall be allowed on any amounts distributed less than three hundred sixty-five days from the date on which a contribution is made to the account. Any deduction claimed for a previous taxable year for amounts distributed less than three hundred sixty-five days from the date on which a contribution was made shall be disallowed and the amount deducted shall be included in the previous taxable year's gross income and the tax reassessed. The interest paid or accrued within the taxable year on the account shall not be included in the individual's gross income. For purposes of this section, the term "first principal residence" means a residential property purchased with the payment or distribution from the individual housing account which shall be owned and occupied as the only home by an individual who did not have any interest in, individually, or whose spouse did not have any interest in, if the individual is married, a residential property within the last five years of opening the individual housing account.

In the case of a married couple filing separate returns, the sum of the deductions allowable to each of them for the taxable year shall not exceed $5,000, or $10,000 for a joint return, for amounts paid in cash, excluding interest paid or accrued thereon.

The amounts paid in cash allowable as a deduction under this section to an individual for all taxable years shall not exceed $25,000, excluding interest paid or accrued. In the case of married individuals having separate individual housing accounts, the sum of the separate accounts and the deduction under this section shall not exceed $25,000, excluding interest paid or accrued thereon.

(b) For purposes of this section, the term "individual housing account" means a trust created or organized in Hawaii for the exclusive benefit of an individual, or, in the case of a married individual, for the exclusive benefit of the individual and spouse jointly, but only if the written governing instrument creating the trust meets the following requirements:

(1) Contributions shall not be accepted for the taxable year in excess of $5,000 (or $10,000 in the case of a joint return) or in excess of $25,000 for all taxable years, exclusive of interest paid or accrued;

(2) The trustee is a bank, a savings and loan association, a credit union, or a depository financial services loan company, chartered, licensed, or supervised under federal or state law, whose accounts are insured by the Federal Deposit Insurance Corporation, the National Credit Union Administration, or any agency of this

State or any federal agency established for the purpose of insuring accounts in these financial institutions. The financial institution must actively make residential real estate mortgage loans in Hawaii;

(3) The assets of the trust shall be invested only in fully insured savings or time deposits. Funds held in the trust may be commingled for purposes of investment, but individual records shall be maintained by the trustee for each individual housing account holder that show all transactions in detail;

(4) The entire interest of an individual or married couple for whose benefit the trust is maintained shall be distributed to the individual or couple not later than one hundred twenty months after the date on which the first contribution is made to the trust;

(5) Except as provided in subsection (g), the trustee shall not distribute the funds in the account unless the trustee:

(A) Verifies that the money is to be used for the purchase of a first principal residence located in Hawaii, and provides that the instrument of payment is payable to the mortgagor, construction contractor, or other vendor of the property purchased; or

(B) Withholds an amount equal to ten per cent of the amount withdrawn from the account and remits this amount to the director within ten days after the date of the withdrawal. The amount withheld shall be applied to the liability of the taxpayer under subsections (c) and (e); and

(6) If any amounts are distributed before the expiration of three hundred sixty-five days from the date on which a contribution is made to the account, the trustee shall so notify in writing the taxpayer and the director. If the trustee makes the verification required in paragraph (5)(A), then the department shall disallow the deduction under subsection (a) and subsections (c), (e), and (f) shall not apply to that amount. If the trustee withholds an amount under paragraph (5)(B), then the department shall disallow the deduction under subsection (a) and subsection (e) shall apply, but subsection (c) shall not apply.

(c) Any contributions paid or distributed out of an individual housing account shall be included in gross income by the individual for whose benefit the account was established for the taxable year in which the payment or distribution is received, unless the amount is used exclusively in connection with the purchase of the first principal residence in Hawaii for the individual for whose benefit the account was established.

(d) The transfer of an individual's interest in an individual housing account to a spouse under a dissolution of marriage decree or under a written instrument incident to a dissolution of marriage shall not be considered a taxable transfer made by the individual, and the interest, at the time of the transfer, shall be treated as part of an individual housing account of the transferee, and not of the transferor. After the transfer, the account shall be treated, for purposes of this section, as maintained for the benefit of the transferee.

(e) If a distribution from an individual housing account to an individual for whose benefit the account was established is made and not used in connection with the purchase of the first principal residence in Hawaii for the individual, the tax liability of the individual under this chapter for the taxable year in which the distribution is received shall be increased by an amount equal to ten per cent of the amount of the distribution which is includable in the individual's gross income for the taxable year.

If, during any taxable year, the individual uses the account or any portion thereof as security for a loan, the portion so used shall be treated as if it had been distributed to that individual.

(f) If the individual for whose benefit the individual housing account was established purchases a residential property in Hawaii with the distribution from the individual housing account:

(1) Before January 1, 1990, and if the individual sells in any manner or method or by use of any instrument conveying or transferring the residential property, the gross income of the individual under this chapter for the taxable year in which the residential property is sold, conveyed, or transferred, whichever is applicable, shall include an amount equal to the amount of the distribution from the individual housing account, and in addition, the gross income of the individual shall be increased by an amount equal to ten per cent of the total distribution from the individual housing account; or

(2) After December 31, 1989, the individual shall report one-tenth of the total distribution from the individual housing account used to purchase the residential property as gross income in the taxable year in which the distribution is completed and in each taxable year thereafter until all of the distribution has been included in the individual's gross income at the end of the tenth taxable year after the purchase of the residential property. If the individual sells in any manner or method or by use of any instrument conveying or transferring the residential property, the gross income of the individual under this chapter for the taxable year in which the residential property is sold, conveyed, or transferred, whichever is applicable, shall include an amount equal to the amount of the distribution from the individual housing account not previously reported as gross income, and in addition, the tax liability of the individual shall be increased by an amount equal to ten per cent of the total distribution from the individual housing account. If the individual sells the residential property in any manner as provided in this paragraph after all of the distribution has been included in the individual's gross income at the end of the tenth taxable year after the purchase of the residential property, the tax liability of the individual shall not be increased by an amount equal to ten per cent of the total distribution from the individual housing account.

An individual who purchased a residential property in Hawaii with the distribution from an individual housing account before January 1, 1990, who is subject to paragraph (1) may elect to report as provided in paragraph (2). The election shall be made before January 1, 1991. If the individual makes the election, the individual shall report one-tenth of the total distribution from the individual housing account as gross income in the taxable year in which the election occurs and in each taxable year thereafter until all of the distribution has been included in gross income as provided by paragraph (2). If the individual making the election sells the residential property in any manner as provided in paragraph (2), then the individual shall include as income the amount of the distribution not previously reported as income and increase the individual's tax liability as provided in the second sentence of paragraph (2), except when the third sentence of paragraph (2) applies.

In the alternative, any individual subject to paragraph (2) who established the individual housing account before January 1, 1990, may elect within one year after the date of purchase, to be subject to paragraph (1).

(g) No tax liability shall be imposed under this section if:

(1) The payment or distribution is attributable to the individual dying or becoming totally disabled; or

(2) Residential property subject to subsection (f) is transferred by will or by operation of law or sold due to the death or total disability of an individual or individual's spouse,

subject to the following:

An individual shall not be considered to be totally disabled unless proof is furnished of the total disability in the form and manner as the director may require.

Upon the death of an individual for whose benefit an individual housing account has been established, the funds in the account shall be payable to the estate of the individual; provided that if the account was held jointly by the decedent and a spouse of the decedent, the account shall terminate and be paid to the surviving spouse; or, if the surviving spouse so elects, the spouse may continue the account as an individual housing account. Upon the total disability of an individual for whose benefit an individual housing account has been established, the individual or the individual's authorized representative may elect to continue the account or terminate the account and be paid the assets; provided that if the account was held jointly by a totally disabled person and a spouse of that person, then the spouse or an authorized representative may elect to continue the account or terminate the account and be paid the assets.

(h) If the individual for whose benefit the individual housing account was established subsequently marries a person who has or has had any interest in residential property, the individual's housing account shall be terminated, the funds therein shall be distributed to the individual, and the amount of the funds shall be includable in the individual's gross income for the taxable year in which such marriage took place; provided that the tax liability defined under subsection (f) shall not be imposed.

(i) The trustee of an individual housing account shall make reports regarding the account to the director and to the individual for whom the account is maintained with respect to contributions, distributions, and other matters as the director may require under rules. The reports shall be filed at a time and in a manner as may be required by rules adopted under chapter 91. A person who fails to file a required report shall be subject to a penalty of $10 to be paid to the director for each instance of failure to file. [L 1982, c 285, §2; am L 1986, c 231, §2; am L 1990, c 99, §§1, 2; am L 1992, c 183, §§1, 2; am L 1994, c 49, §1; am L 1998, c 120, §2; am L 2017, c 12, §40]

[§235-5.6] Individual development account contribution tax credit. (a) There shall be allowed to each taxpayer subject to the tax imposed under this chapter, an individual development account contribution tax credit certified under chapter 257 which shall be applied against the taxpayer's net income tax liability, if any, imposed by this chapter for the taxable year in which the credit is properly claimed.

(b) The individual development account contribution tax credit shall be equal to fifty per cent of the amount contributed by the taxpayer to a fiduciary organization as defined by and in the manner prescribed in chapter 257. If a deduction is taken under section 170 (with respect to charitable contributions and gifts) of the Internal Revenue Code, no tax credit shall be allowed for that portion of the contribution for which the deduction was taken.

(c) If the tax credit under this section exceeds the taxpayer's income tax liability, the excess of the tax credit over liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted. All claims, including any amended claims, for tax credits under this section shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit.

(d) Application for the credit under this section shall be upon forms provided by the department.

(e) The credit under this section shall be available for taxable years beginning after December 31, 1999, but shall not be available for taxable years beginning after December 31, 2004. [L 2000, c 184, § 1]

§235-6 Foreign manufacturing corporation; warehousing of products. (a) For the purposes of sections 235-21 to 235-39, a foreign corporation engaged in the business of manufacturing without the State, having its manufactured products warehoused in this State by another person who is engaged in the business of warehousing in this State and whose compensation for providing the warehousing is included in the measure of the tax imposed by chapter 237 or 239, shall not be deemed to be carrying on a trade or business in this State if all of the following requirements are met:

(1) Every delivery of sale of such products so warehoused is made at the warehouse to fill an order for such property procured by a representative (as defined in subsection (b)) from a seller licensed under chapter 237 and purchasing such property for purposes of resale;

(2) Every order so procured was made subject to acceptance and was accepted by the corporation at an office located out of this State;

(3) No collection for the payment of the products delivered as described in paragraph (1) is made in this State by any of its employees or agents or by any representative; and

(4) Except as provided in this section, it is not carrying on a trade or business in this State within the meaning of sections 235-21 to 235-39.

(b) "Representative" means a salesperson, commission agent, broker, or other person who is authorized or employed as an independent contractor and not as an employee by the foreign manufacturing corporation described in subsection (a) to assist the manufacturer in selling its products in this State, by procuring orders for such sale, and who carries on such activities in this State (it being immaterial whether such activities are regular or intermittent), but whose functions and authority do not include the accepting of orders for, or the making of deliveries of, or the collecting of payment for deliveries of such products. [L 1963, c 70, §1; Supp, §121-4.1; HRS §235-6; am L 1992, c 134, §1; gen ch 1993]

§235-7 Other provisions as to gross income, adjusted gross income, and taxable income. (a) There shall be excluded from gross income, adjusted gross income, and taxable income:

18-235-7-01 (1) Income not subject to taxation by the State under the Constitution and laws of the United States;

18-235-7-02 (2) Rights, benefits, and other income exempted from taxation by section 88-91, having to do with the state retirement system, and the rights, benefits, and other income, comparable to the rights, benefits, and other income exempted by section 88-91, under any other public retirement system;

18-235-7-03 (3) Any compensation received in the form of a pension for past services;

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

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

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

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

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

(B) E-2 pay grade after eight years of service; provided that this subparagraph shall apply to taxable years beginning after December 31, 2005;

(C) E-3 pay grade after eight years of service; provided that this subparagraph shall apply to taxable years beginning after December 31, 2006;

(D) E-4 pay grade after eight years of service; provided that this subparagraph shall apply to taxable years beginning after December 31, 2007; and

(E) E-5 pay grade after eight years of service; provided that this subparagraph shall apply to taxable years beginning after December 31, 2008;

(8) Income derived from the operation of ships or aircraft if the income is exempt under the Internal Revenue Code pursuant to the provisions of an income tax treaty or agreement entered into by and between the United States and a foreign country, provided that the tax laws of the local governments of that country reciprocally exempt from the application of all of their net income taxes, the income derived from the operation of ships or aircraft that are documented or registered under the laws of the United States;

(9) The value of legal services provided by a legal service plan to a taxpayer, the taxpayer's spouse, and the taxpayer's dependents;

(10) Amounts paid, directly or indirectly, by a legal service plan to a taxpayer as payment or reimbursement for the provision of legal services to the taxpayer, the taxpayer's spouse, and the taxpayer's dependents;

(11) Contributions by an employer to a legal service plan for compensation (through insurance or otherwise) to the employer's employees for the costs of legal services incurred by the employer's employees, their spouses, and their dependents; and

(12) Amounts received in the form of a monthly surcharge by a utility acting on behalf of an affected utility under section 269-16.3; provided that amounts retained by the acting utility for collection or other costs shall not be included in this exemption.

(13) *[Subsection effective until December 31, 2017.]* One hundred per cent of the gain realized by a fee simple owner from the sale of a leased fee interest in units within a condominium project, cooperative project, or planned unit development to the association of owners under chapter 514A or 514B, or the residential cooperative corporation of the leasehold units.

For purposes of this paragraph:

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

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

"Condominium project" and "cooperative project" shall have the same meanings as provided under section 514C-1.

(b) There shall be included in gross income, adjusted gross income, and taxable income:

(1) Unless excluded by this chapter relating to the uniformed services of the United States, cost-of-living allowances and other payments exempted by Section 912 of the Internal Revenue Code, but Section 119 of the Internal Revenue Code nevertheless shall apply; and

(2) Unless expressly exempted or excluded as provided by subsection (a)(6), interest on the obligations of a State or a political subdivision thereof.

(c) The deductions of or based on dividends paid or received, allowed to a corporation under Chapter 1, Subchapter B, Part VIII of the Internal Revenue Code, shall not be allowed. In lieu thereof there shall be allowed as a deduction the entire amount of dividends received by any corporation upon the shares of stock of a national banking association, qualifying dividends, as defined in Section 243(b) of the Internal Revenue Code, received by members of an affiliated group, or dividends received by a small business investment company operating under the Small Business Investment Act of 1958 (Public Law 85-699) upon shares of stock qualifying under paragraph (3), seventy per cent of the amount received by any corporation as dividends:

(1) Upon the shares of stock of another corporation, if at the date of payment of the dividend at least ninety-five per cent of the other corporation's capital stock is owned by one or more corporations doing business in this state and if the other corporation is subjected to an income tax in another jurisdiction (but subjection to federal tax does not constitute subjection to income tax in another jurisdiction); and

(2) Upon the shares of stock of a bank or insurance company organized and doing business under the laws of the State;

(3) Upon the shares of stock of another corporation, if at least fifteen per cent of the latter corporation's business, for the taxable year of the latter corporation preceding the payment of the dividend, has been attributed to this State.

However, except for national bank dividends, the deductions under this subsection are not allowed when they would not have been allowed under section 243 of the Internal Revenue Code, as amended by Public Law 85-866, by reason of subsections (b) and (c) of section 246 of the Internal Revenue Code. For the purposes of this subsection fifteen per cent of a corporation's business shall be deemed to have been attributed to this State if fifteen per cent or more of the entire gross income of the corporation as defined in this chapter (which for the purposes of this subsection shall be computed without regard to source in the state and shall include income not taxable by reason of the fact that it is from property not owned in the state or from a trade or business not carried on in the state in whole or in part), under section 235-5 and the other provisions of this chapter, shall have been attributed to the State and subjected to assessment of the taxable income therefrom (including the determination of the resulting net loss, if any).

18-235-7-15 (d)(1) For taxable years ending before January 1, 1967, the net operating loss deductions allowed as carrybacks and carryovers by the Internal Revenue Code shall not be allowed. In lieu thereof the net operating loss deduction shall consist of the excess of the deductions allowed by this chapter over the gross income, computed with the modifications specified in paragraphs (1) to (4) of section 172(d) of the Internal Revenue Code, and with the further modification stated in paragraph (3) hereof; and shall be allowed as a deduction in computing the taxable income of the taxpayer for the succeeding taxable year;

(2)(A) With respect to net operating loss deductions resulting from net operating losses for taxable years ending after December 31, 1966, the net operating loss deduction provisions of the Internal Revenue Code shall apply, provided that there shall be no net operating loss deduction carried back to any taxable year ending prior to January 1, 1967;

(B) In the case of a taxable year beginning in 1966 and ending in 1967, the entire amount of all net operating loss deductions carried back to the taxable year shall be limited to that portion of taxable income for such taxable year which the number of days in 1967 bears to the total days in the taxable year ending in 1967; and

(C) The computation of any net operating loss deduction for a taxable year covered by this subsection shall require the further modifications stated in paragraphs (3), (4), and (5) of this subsection;

(3) In computing the net operating loss deduction allowed by this subsection there shall be included in gross income the amount of interest which is excluded from gross income by subsection (a), decreased by the amount of interest paid or accrued which is disallowed as a deduction by subsection (e). In determining the amount of the net operating loss deduction under this subsection of any corporation, there shall be disregarded the net operating loss of such corporation for any taxable year for which the corporation is an electing small business corporation;

(4) No net operating loss carryback or carryover shall be allowed by this chapter if not allowed under section 172 of the Internal Revenue Code;

(5) The election to relinquish the entire carryback period with respect to a net operating loss allowed under section 172(b)(3)(C) of the Internal Revenue Code shall be operative for the purposes of this chapter; provided that no taxpayer shall make such an election as to a net operating loss of a business where such net operating loss occurred in the taxpayer's business prior to the taxpayer entering business in this state;

(6) The five-year carryback period for net operating losses for any taxable year ending during 2001 and 2002 in section 172(b)(1)(H) of the Internal Revenue Code as it read on December 31, 2008, shall not be operative for purposes of this chapter; and

(7) The election for the carryback for 2008 or 2009 net operating losses of small businesses as provided in section 172(b)(1)(H) of the Internal Revenue Code as it read on December 31, 2009, shall not be operative for purposes of this chapter.

(e) There shall be disallowed as a deduction the amount of interest paid or accrued within the taxable year on indebtedness incurred or continued, (1) to purchase or carry bonds the interest upon which is excluded from gross income by subsection (a); or (2) to purchase or carry property owned without the state, or to carry on trade or business without the state, if the taxpayer is a person taxable only upon income from sources in the state.

(f) Losses of property as the result of tidal wave, hurricane, earthquake, or volcanic eruption, or as a result of flood waters overflowing the banks or walls of a river or stream, or from any other natural disaster, to the extent of the amount deductible, under this chapter, not compensated for by insurance or otherwise, may be deducted in the taxable year in which sustained, or at the option of the taxpayer may be deducted in equal installments over a period of five years, the first such year to be the calendar year or fiscal year of the taxpayer in which such loss occurred. [L Sp 1957, c 1, pt of §2; am L 1959, c 276, §2 and c 277, §8(a); am L Sp 1959 1st, c 29, §8; am L 1963, c 26, §1, c 47, §1, c 91, §2 and c 146, §4; am L 1965, c 155, §31(a) and c 201, §5; Supp, §121-5; am L 1967, c 32, §1; HRS §235-7; am L 1968, c 18, §2; am L 1969, c 152, §1; am L 1970, c 180, §1; am L 1971, c 95, §1; am L 1976, c 156, §6; am L 1978, c 173, §2(7); am L 1979, c 62, §2(6), (7), c 105, §21, and c 224, §3; am L 1981, c 185, §1 and c 209, §2; am L 1982, c 25, §2; am L 1983, c 124, §16; am imp L 1984, c 90, §1; gen ch 1985; am L 1987, c 39, §3 and c 239, §1(7), (8); am L 1990, c 340, §2; am L 1992, c 103, §1; am L 1993, c 337, §5; am L Sp 1995, c 10, §3; am L 2003, c 172, §4; am L 2004, c 197, §2; am L 2007, c 166, §1; am L 2008, c 28, §21; am L 2010, c 59, §1 and c 112, §8; am L 2012, c 34, §19 and c 165, §5; am L 2017, c 205, §4]

Note

The following acts exempted their amendments from the January 1, 2018 repeal and reenactment condition of L 2007, c 166, §3 as amended by L 2012, c 220, §5:

L 2010, c 59; L 2012, c 34 and c 165.

Cross Reference

Tax Information Release No. 53-77, "Benefits Received Under Individual Retirement Plans and Self-Employed Retirement Plans"

Tax Information Release No. 57-78, "Adoption of Internal Revenue Code" OBSOLETE

Tax Information Release No. 80-5, "Deductions for Political Contributions" OBSOLETE

Tax Information Release No. 84-1, "Taxability of Interest on U.S. Obligations"

Tax Information Release No. 88-7, "Taxability of Amounts Received Under the Civil Liberties Act of 1988 for Income Tax Purposes"

Tax Information Release No. 90-4, "Taxability of Benefit Payments from Pension Plan to Participants Who Attain Age 70-1/2 as Required by the Internal Revenue Code (IRC) Section 401(a)(9)(C)"

Tax Information Release No. 95-3, "Immunity from Net Income Taxation Under Public Law 86-272"

Tax Information Release No. 96-1, "Computer Company's Provision of In-State Repair Services Creates Nexus"

Tax Information Release No. 96-5, "Taxation of Pensions under the Hawaii Net Income Tax Law: Deferred Compensation Arrangements; Rollover IRAs; Sub-Accounts of Pension Plans; Social Security and Railroad Retirement Act Benefits; Limitations on Deductions for Contributions to a Nonqualified Plan"

Tax Information Release No. 98-6, "Application of Income Tax and Franchise Tax Laws to Real Estate Investment Trusts and Their Owners"

Tax Information Release No. 98-7, "Change in Accounting Period from Calendar to Fiscal Year for Public Service Companies"

Tax Information Release No. 99-2, "Dividends Received Deduction"

Tax Information Release No. 2010-01, "Military Spouses Residency Relief Act ("MSRRA")"

Attorney General Opinions

Federal home loan banks, not being national banks, dividends received therefrom are taxable. Att. Gen. Op. 65-8.

Case Notes

Depreciation not actually sustained during year, not deductible. 18 H. 15.
No federal or territorial inhibition against imposition of tax upon income accruing prior to enactment. 33 H. 766.
Insurance premiums on life of president not an actual business expense. 36 H. 11.
Cited: 18 H. 530; 18 H. 596; 34 H. 515, 583.

§235-7.3 Royalties derived from patents, copyrights, or trade secrets excluded from gross income. (a) In addition to the exclusions in section 235-7, there shall be excluded from gross income, adjusted gross income, and taxable income, amounts received by an individual or a qualified high technology business as royalties and other income derived from any patents, copyrights, and trade secrets:

(1) Owned by the individual or qualified high technology business; and
(2) Developed and arising out of a qualified high technology business.

(b) With respect to performing arts products, this exclusion shall extend to:

(1) The authors of performing arts products, or any parts thereof, without regard to the application of the work-for-hire doctrine under United States copyright law;
(2) The authors of performing arts products, or any parts thereof, under the work-for-hire doctrine under United States copyright law; and
(3) The assignors, licensors, and licensees of any copyright rights in performing arts products, or any parts thereof.

(c) For the purposes of this section:

"Performing arts products" means:

(1) Audio files, video files, audiovideo files, computer animation, and other entertainment products perceived by or through the operation of a computer; and
(2) Commercial television and film products for sale or license, and reuse or residual fee payments from these products.

"Qualified high technology business" means a business that conducts more than fifty per cent of its activities in qualified research.

"Qualified research" means:

(1) The same as in section 41(d) of the Internal Revenue Code;
(2) The development and design of computer software for ultimate commercial sale, lease, license or to be otherwise marketed, for economic consideration. With respect to the software's development and design, the business shall have substantial control and retain substantial rights to the resulting intellectual property;
(3) Biotechnology;
(4) Performing arts products;
(5) Sensor and optic technologies;
(6) Ocean sciences;
(7) Astronomy; or
(8) Nonfossil fuel energy-related technology. [L 1999, c 178, §22; am L 2000, c 297, §6; am L 2001, c 221, §7; am L 2004, c 215, §6]

Cross Reference

Tax Information Release No. 2007-05, "Department of Taxation's Position on Qualified High Technology Business Status for Disregarded Entities"
Tax Information Release No. 2008-02, "Advanced Notice of Proposed Administrative Rules Relating to the Taxation of the Motion Picture and Television Film Production Industry"
Tax Information Release No. 2009-05, "Advanced Notice of Proposed Administrative Rules Relating to the Taxation of the Motion Picture and Television Film Production Industry"

§235-7.5 Certain unearned income of minor children taxed as if parent's income. (a) In the case of any child to whom this section applies, the tax imposed by this chapter shall be equal to the greater of:

(1) The tax imposed by section 235-51 without regard to this section, or
(2) The sum of:
  (A) The tax which would be imposed by section 235-51 if the taxable income of such child for the taxable year were reduced by the net unearned income of such child, plus
  (B) Such child's share of allocable parental tax.

(b) This section shall apply to any child for any taxable year if:

(1) Such child has not attained age fourteen before the close of the taxable year, and
(2) Either parent of such child is alive at the close of the taxable year.

(c) For the purpose of this section:

(1) The term "allocable parental tax" means the excess of:

(A) The tax which would be imposed by section 235-51 on the parent's taxable income if such income included the net unearned income of all children of the parent to whom this section applies, over,

(B) The tax imposed by section 235-51 on the parent without regard to this section.

For purposes of subparagraph (A), net unearned income of all children of the parent shall not be taken into account in computing any exclusion, deduction, or credit of the parent.

(2) A child's share of any allocable parental tax of a parent shall be equal to an amount which bears the same ratio to the total allocable parental tax as the child's net unearned income bears to the aggregate net unearned income of all children of such parent to whom this section applies.

(3) Except as provided in rules, if the parent does not have the same taxable year as the child, the allocable parental tax shall be determined on the basis of the taxable year of the parent ending in the child's taxable year.

(d) For purposes of this section:

(1) The term "net unearned income" means the excess of:

(A) The portion of the adjusted gross income for the taxable year which is not attributable to earned income as defined in the Internal Revenue Code, over,

(B) The sum of:

(i) The amount in effect for the taxable year under section 63(c)(5)(A) (relating to the limitation on standard deduction in the case of certain dependents) of the Internal Revenue Code as operative under section 235-2.4(a), plus

(ii) The greater of the amount described in clause (i) or, if the child itemizes the child's deductions for the taxable year, the amount of the itemized deductions allowed by this chapter for the taxable year which are directly connected with the production of the portion of adjusted gross income referred to in subparagraph (A).

(2) The amount of the net unearned income for any taxable year shall not exceed the individual's taxable income for such taxable year.

(e) For purposes of this section, the parent whose taxable income shall be taken into account shall be:

(1) In the case of parents who are not married (within the meaning of section 235-93), the custodial parent (within the meaning of section 152(e) (with respect to the support test in case of child of divorced parents, etc.) of the Internal Revenue Code) of the child, and

(2) In the case of married individuals filing separately, the individual with the greater taxable income.

(f) The parent of any child to whom this section applies for any taxable year shall provide the social security number of such parent to such child and such child shall include such parent's social security number on the child's return of tax imposed by this section for such taxable year.

(g) Election to claim certain unearned income of child on parent's return.

(1) If:

(A) Any child to whom this section applies has gross income for the taxable year only from interest and dividends (including Alaska Permanent Fund dividends),

(B) Such gross income is more than $500 and less than $5,000,

(C) No estimated tax payments for such year are made in the name and social security number of such child, and no amount has been deducted and withheld under section 3406 (with respect to backup withholding) of the Internal Revenue Code, and

(D) The parent of such child (as determined under subsection (e)) elects the application of paragraph (2),

such child shall be treated (other than for purposes of this paragraph) as having no gross income for such year and shall not be required to file a return under this chapter.

(2) In the case of a parent making the election under this subsection:

(A) The gross income of each child to whom such election applies (to the extent the gross income of such child exceeds $1,000) shall be included in such parent's gross income for the taxable year,

(B) The tax imposed by this section for such year with respect to such parent shall be the amount equal to the sum of:

(i) The amount determined under section 235-51 after the application of subparagraph (A), plus

(ii) For each such child, the lesser of $10 or two per cent of the excess of the gross income of such child over $500.

(3) The director shall prescribe such rules as may be necessary or appropriate to carry out the purposes of this subsection. [L 1987, c 239, §1(3); am L 1989, c 13, §4; am L 1990, c 15, §2; am L 1991, c 54, §2; am L 2001, c 199, §3]

Cross Reference

Tax Information Release No. 90-7, "Parent's Election to Include Certain Unearned Income of Children on Parent's Hawaii Net Income Tax Return"

§235-8 REPEALED. L 1987, c 239, §1(9).

§235-9 Exemptions; generally. Except as provided in sections 235-61 to 235-67 relating to withholding and collection of tax at source, and section 235-2.4 relating to "unrelated business taxable income", the following persons and organizations shall not be taxable under this chapter: banks, building and loan associations, financial services loan companies, financial corporations, small business investment companies, trust companies, mortgage loan companies, financial holding companies, subsidiaries of financial holding companies as defined in chapter 241, and development companies taxable under chapter 241; insurance companies, agricultural cooperative associations, and fish marketing associations exclusively taxable under other laws; and persons engaged in the business of motion picture and television film production as defined by the director of taxation. [L Sp 1957, c 1, pt of §2; am L 1965, c 224, §4; Supp, §121-6; HRS §235-9; am L 1976, c 156, §7 and c 203, §4; am L 1979, c 62, §2(8); am L 1982, c 92, §4; am imp L 1984, c 90, §1; gen ch 1985; am L 1987, c 239, §1(10); am L 1989, c 266, §3; am L 1992, c 106, §2; am L 1997 c 107, §2]

Cross Reference

Tax Information Release No. 65-79, "State Taxation of Homeowners Associations for Income, General Excise and Use Taxes"

Tax Information Release No. 98-1, "Income Tax Exemption and Credits Available for Persons Engaged in the Motion Picture and Television Film Production Business" Superseded by TIR 2006-02 relating to HRS §235-17.

Tax Information Release No. 99-4. "Application of the Franchise Tax, General Excise Tax, and Income Tax to Mortgage Loan Companies, Including Mortgage Loan Companies Organized as Passthrough Entities and Sole Proprietorships"

Tax Information Release No. 2009-05, "Advanced Notice of Proposed Administrative Rules Relating to the Taxation of the Motion Picture and Television Film Production Industry"

Attorney General Opinions

Definitions of "marriage" and "spouse" under the federal Defense of Marriage Act, Pub. L. No. 104-199, 110 Stat. 2419, may preclude civil union partners of the same gender under the State's Civil Union Act from filing jointly for federal income tax purposes, but they do not preclude civil union partners from filing joint tax returns for Hawaii income tax purposes. Att. Gen. Op. 11-2.

Case Notes

Exempting particular classes from income taxes does not render law objectionable on grounds of inequality. 35 H. 855, aff'd 130 F.2d 786.

Exemption is grant of immunity where otherwise liable to assessment. 35 H. 855, aff'd 130 F.2d 786.

Claims for exemption strictly construed. 36 H. 340.

§235-9.5 Stock options from qualified high technology businesses excluded from taxation. (a) Notwithstanding any law to the contrary, all income earned and proceeds derived from stock options or stock, including stock issued through the exercise of stock options or warrants, from a qualified high technology business or from a holding company of a qualified high technology business by an employee, officer, or director of the qualified high technology business, or investor who qualifies for the credit under section 235-110.9, that would otherwise be taxed as ordinary income or as capital gains to those persons shall be excluded from taxation under this chapter.

Similar provisions shall apply to options to acquire equity interests and to equity interests themselves with regard to entities other than corporations.

(b) For the purposes of this section:

"Holding company of a qualified high technology business" means any business entity that possesses:

(1) At least eighty per cent of the total voting power of the stock or other interest; and

(2) At least eighty per cent of the total value of the stock or other interest; in the qualified high technology business.

"Income earned and proceeds derived from stock options or stock" includes income from:

(1) Dividends from stock or stock received through the exercise of stock options or warrants;

(2) The receipt or the exercise of stock options or warrants; or

(3) The sale of stock options or stock, including stock issued through the exercise of stock options or warrants.

"Qualified high technology business" means the same as defined in section 235-7.3. [L 1999, c 178, §20, am L 2000, c 297, §7; am L 2001, c 221, §8]

Note

Applies to taxable years beginning after December 31, 1999. L 1999, c 178, §31(2).

Applicability of 2000 amendment. L 2000, c 297, §§10, 35(1). [It is the intention of the legislature in making amendments in this Part to sections 235-7.3, 235-9.5, 235-110.9, and 235-110.91, Hawaii Revised Statutes, that the amendments be liberally construed, and in this regard, the department of taxation given liberal latitude to interpret those amendments in light of current industry standards. The amendments made in this Part to sections 235-7.3, 235-9.5, 235-110.9, and 235-110.91, Hawaii Revised Statutes, shall not be construed to disqualify any taxpayer who has received a favorable written determination from the department of taxation under the original provisions of those sections as enacted by Act 178, Session Laws of Hawaii, 1999.]

The 2001 amendment applies to taxable years beginning after December 31, 2001. L 2001, c 221, §15(1).

Applicability of 2004 amendment. L 2004, c 215, §10. It is the intention of the legislature in making amendments in this Part to sections 235-7.3, 235-9.5, 235-110.9, and 235-110.91, Hawaii Revised Statutes, that the amendments be construed in a manner consistent with the intent of this Act. The department of taxation further given liberal latitude to interpret those amendments in light of current industry standards. The amendments

made in this Part to sections 235-7.3, 235-9.5, 235-110.9, and 235-110.91, Hawaii Revised Statutes, shall not be construed to disqualify any taxpayer who has received a favorable written determination from the department of taxation under the original provisions of those sections as enacted by Act 178, Session Laws of Hawaii, 1999.

Cross Reference

Tax Information Release No. 2007-05, "Department of Taxation's Position on Qualified High Technology Business Status for Disregarded Entities"

§235-10 REPEALED. L 1978, c 173, §2(8).

§235-11 REPEALED. L 1988, c 107, §1.

18-235-12 **§235-12 REPEALED.** L 2018, c 18, §50

§235-12.2 REPEALED. L 1988, c 64, §2.

18-235-12.5 **§235-12.5 Renewable energy technologies; income tax credit.** (a) When the requirements of subsection (d) are met, each individual or corporate taxpayer that files an individual or corporate net income tax return for a taxable year may claim a tax credit under this section against the Hawaii state individual or corporate net income tax. The tax credit may be claimed for every eligible renewable energy technology system that is installed and placed in service in the State by a taxpayer during the taxable year. The tax credit may be claimed as follows:

(1) For each solar energy system: thirty-five per cent of the actual cost or the cap amount determined in subsection (b), whichever is less; or

(2) For each wind-powered energy system: twenty per cent of the actual cost or the cap amount determined in subsection (b), whichever is less;

provided that multiple owners of a single system shall be entitled to a single tax credit; and provided further that the tax credit shall be apportioned between the owners in proportion to their contribution to the cost of the system.

In the case of a partnership, S corporation, estate, or trust, the tax credit allowable is for every eligible renewable energy technology system that is installed and placed in service in the State by the entity. The cost upon which the tax credit is computed shall be determined at the entity level. Distribution and share of credit shall be determined pursuant to section 235-110.7(a).

(b) The amount of credit allowed for each eligible renewable energy technology system shall not exceed the applicable cap amount, which is determined as follows:

(1) If the primary purpose of the solar energy system is to use energy from the sun to heat water for household use, then the cap amounts shall be:

(A) $2,250 per system for single-family residential property;

(B) $350 per unit per system for multi-family residential property; and

(C) $250,000 per system for commercial property;

(2) For all other solar energy systems, the cap amounts shall be:

(A) $5,000 per system for single-family residential property; provided that if all or a portion of the system is used to fulfill the substitute renewable energy technology requirement pursuant to section 196-6.5(a)(3), the credit shall be reduced by thirty-five per cent of the actual system cost or $2,250, whichever is less;

(B) $350 per unit per system for multi-family residential property; and

(C) $500,000 per system for commercial property; and

(3) For all wind-powered energy systems, the cap amounts shall be:

(A) $1,500 per system for single-family residential property; provided that if all or a portion of the system is used to fulfill the substitute renewable energy technology requirement pursuant to section 196-6.5(a)(3), the credit shall be reduced by twenty per cent of the actual system cost or $1,500, whichever is less;

(B) $200 per unit per system for multi-family residential property; and

(C) $500,000 per system for commercial property.

(c) For the purposes of this section:

"Actual cost" means costs related to the renewable energy technology systems under subsection (a), including accessories and installation, but not including the cost of consumer incentive premiums unrelated to the operation of the system or offered with the sale of the system and costs for which another credit is claimed under this chapter.

"Household use" means any use to which heated water is commonly put in a residential setting, including commercial application of those uses.

"Renewable energy technology system" means a new system that captures and converts a renewable source of energy, such as solar or wind energy into:

(1) A usable source of thermal or mechanical energy;

(2) Electricity; or

(3) Fuel.

"Solar or wind energy system" means any identifiable facility, equipment, apparatus, or the like that converts solar or wind energy to useful thermal or electrical energy for heating, cooling, or reducing the use of other types of energy that are dependent upon fossil fuel for their generation.

(d) For taxable years beginning after December 31, 2005, the dollar amount of any utility rebate shall be deducted from the cost of the qualifying system and its installation before applying the state tax credit.

(e) The director of taxation shall prepare any forms that may be necessary to claim a tax credit under this section, including forms identifying the technology type of each tax credit claimed under this section, whether for solar or wind. The director may also require the taxpayer to furnish reasonable information to ascertain the validity of the claim for credit made under this section and may adopt rules necessary to effectuate the purposes of this section pursuant to chapter 91.

(f) If the tax credit under this section exceeds the taxpayer's income tax liability, the excess of the credit over liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted, unless otherwise elected by the taxpayer pursuant to subsection (g) or (h). All claims for the tax credit under this section, including amended claims, shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure to comply with this subsection shall constitute a waiver of the right to claim the credit.

(g) For solar energy systems, a taxpayer may elect to reduce the eligible credit amount by thirty per cent and if this reduced amount exceeds the amount of income tax payment due from the taxpayer, the excess of the credit amount over payments due shall be refunded to the taxpayer; provided that tax credit amounts properly claimed by a taxpayer who has no income tax liability shall be paid to the taxpayer; and provided further that no refund on account of the tax credit allowed by this section shall be made for amounts less than $1.

The election required by this subsection shall be made in a manner prescribed by the director on the taxpayer's return for the taxable year in which the system is installed and placed in service. A separate election may be made for each separate system that generates a credit. An election once made is irrevocable.

(h) Notwithstanding subsection (g), for any renewable energy technology system, an individual taxpayer may elect to have any excess of the credit over payments due refunded to the taxpayer, if:

(1) All of the taxpayer's income is exempt from taxation under section 235-7(a)(2) or (3); or

(2) The taxpayer's adjusted gross income is $20,000 or less (or $40,000 or less if filing a tax return as married filing jointly);

provided that tax credits properly claimed by a taxpayer who has no income tax liability shall be paid to the taxpayer; and provided further that no refund on account of the tax credit allowed by this section shall be made for amounts less than $1.

A husband and wife who do not file a joint tax return shall only be entitled to make this election to the extent that they would have been entitled to make the election had they filed a joint tax return.

The election required by this subsection shall be made in a manner prescribed by the director on the taxpayer's return for the taxable year in which the system is installed and placed in service. A separate election may be made for each separate system that generates a credit. An election once made is irrevocable.

(i) No taxpayer shall be allowed a credit under this section for the portion of the renewable energy technology system required by section 196-6.5 that is installed and placed in service on any newly constructed single-family residential property authorized by a building permit issued on or after January 1, 2010.

(j) To the extent feasible, using existing resources to assist the energy-efficiency policy review and evaluation, the department shall assist with data collection on the following for each taxable year:

(1) The number of renewable energy technology systems that have qualified for a tax credit during the calendar year by:

(A) Technology type; and

(B) Taxpayer type (corporate and individual); and

(2) The total cost of the tax credit to the State during the taxable year by:

(A) Technology type; and

(B) Taxpayer type.

(k) This section shall apply to eligible renewable energy technology systems that are installed and placed in service on or after July 1, 2009. [L 2003, c 207, §2; am L 2004, c 97, §1; am L 2006, c 240, §3; am L 2007, c 151, §1; am L 2008, c 204, §4; am L 2009, c 154, §1 and c 155, §15]

Note

The L 2009, c 154 amendment applies to taxable years beginning after December 31, 2008. L 2009, c 154, §3.

Cross Reference

Tax Information Release 2012-01, "Temporary Administrative Rules Relating to the Renewable Energy Technologies Income Tax Credit (RETITC)"

Tax Information Release 2007-02, "Relating to the Renewable Energy Technologies Income Tax Credit"

Tax Information Release 2010-02, "Further guidance regarding the term "system" for purposes of the Renewable Energy Technologies Income Tax Credit, HRS §235-12.5"

Tax Information Release 2010-03, "Further technical clarification regarding the term "system" for purposes of the Renewable Energy Technologies Income Tax Credit, HRS §235-12.5"

Tax Information Release 2010-10, "Common Income Tax & General Excise Tax Issues Associated with the Renewable Energy Technologies Income Tax Credit, HRS §235-12.5"

[§235-13] Sales of residential land to lessees; involuntary conversion. (a) A sale by an organization exempt under section 501(c)(3), or treated as an estate or trust under Subchapter J of the Internal Revenue Code to a lessee of the entire interest in the land of the lessor organization, estate, or trust shall be an involuntary conversion of property used in trade or business or a capital asset of the lessor organization, estate, or trust and shall not be a sale of property held by the lessor organization, estate or trust in the ordinary course of a trade or business, irrespective of the number of such sales in any taxable year, if:

(1) The lessee has a right to terminate such lease and to acquire the entire interest of the lessor in the land, which right exists by virtue of chapter 516 and not because of any private agreement or privately created condition;

(2) The lessee exercises the lessee's right to purchase such entire interest;

(3) The lessor organization, estate, or trust has held the land for a period determined under subsection (b) prior to the date of purchase by lessee; and

(4) The land is developed single-family residential land.

(b) The period for which a lessor organization, estate, or trust has held land, within the meaning of subsection (a)(3), shall be determined under the rules of section 1223 of the Internal Revenue Code, except that if such land shall have been acquired by the lessor organization, estate, or trust from a decedent, within the meaning of section 1014 of the Internal Revenue Code, or if such land shall have been acquired by the lessor organization, estate, or trust from a donor, within the meaning of section 1015 (other than section 1015(c)) of the Internal Revenue Code, the holding period shall include the period during which such land shall have been held by such decedent or by such donor and also the period if any for which such land shall have been held by an inter vivos or testamentary trust estate created by such decedent or by such donor.

(c) This section shall not apply with respect to any transaction governed by section 1055 of the Internal Revenue Code.

(d) As used in this section:

(1) "Lessee" means the original lessee and any successor who has the right under chapter 516 to bring about an involuntary conversion.

(2) "Lessor" means any fee simple owner, any sublessor, and any person entitled to share in the rents or subrents of the land involved in an involuntary conversion described in subsection (a).

(e) The gain derived from sales qualified as involuntary conversion of property under this section shall be treated as provided in section 1033 of the Internal Revenue Code of 1954, as amended. [L 1977, c 75, §1; am imp L 1984, c 90, §1; gen ch 1985]

[§235-15] Tax credits to promote the purchase of child passenger restraint systems. (a) Any taxpayer who files an individual income tax return for a taxable year may claim an income tax credit under this section against the Hawaii state individual net income tax.

(b) The tax credit shall be $25; provided that the taxpayer purchases one or more new child passenger restraint systems in the tax year for which the credit is properly claimed; and provided that such restraint system can be shown to be in substantial conformity with specifications for such restraint systems set forth by the federal motor vehicle safety standards which were in effect at the time of such purchase.

(c) If the tax credit claimed by the taxpayer under this section exceeds the amount of the income tax payments due from the taxpayer, the excess of credit over payments due shall be refunded to the taxpayer; provided that the tax credit properly claimed by a taxpayer who has no income tax liability shall be paid to the taxpayer; and provided that no refunds or payments on account of the tax credit allowed by this section shall be made for amounts less than $1.

(d) The director of taxation shall prepare such forms as may be necessary to claim a credit under this section, may require proof of the claim for the tax credit, and may adopt rules pursuant to chapter 91.

(e) All of the provisions relating to assessments and refunds under this chapter and under section 231-23(c)(1) shall apply to the tax credit under this section.

(f) Claims for the tax credit under this section, including any amended claims, shall be filed on or before the end of the twelfth month following the taxable year for which the credit maybe claimed. [L 1982, c 134, §1]

Revision Note

In subsection (e), "231-23(c)(1)" substituted for "231-23(d)(1)".

Cross Reference

Tax Information Release No. 83-1, "Tax Credit for Purchase of Child Passenger Restraint System"
Tax Information Release No. 83-2, "Treatment of Tax Credits for State Income Tax Purposes"

§235-16 REPEALED. L 2003, c 135, §9.

§235-16.5 Cesspool upgrade, conversion, or connection; income tax credit. *[Section repealed December 31, 2020. L 2015, c 120 §4.]* (a) There shall be allowed to each taxpayer subject to the tax imposed under this chapter, a cesspool upgrade, conversion, or connection income tax credit that shall be deductible from the taxpayer's net income tax liability, if any, imposed by this chapter for the taxable year in which the credit is properly claimed.

(b) In the case of a partnership, S corporation, estate, or trust, the tax credit allowable is for qualified expenses incurred by the entity for the taxable year. The expenses upon which the tax credit is computed shall be determined at the entity level. Distribution and share of credit shall be determined by rule.

(c) The cesspool upgrade, conversion, or connection income tax credit shall be equal to the qualified expenses of the taxpayer, up to a maximum of $10,000; provided that, in the case of a qualified cesspool that is a residential large capacity cesspool, the amount of the credit shall be equal to the qualified expenses of the taxpayer, up to a maximum of $10,000 per residential dwelling connected to the cesspool, as certified by the department of health pursuant to subsection (e). There shall be allowed a maximum of one cesspool upgrade, conversion, or connection income tax credit per qualified cesspool or per tax map key number where more than one residence is connected to a residential large-capacity cesspool. The cesspool upgrade, conversion, or connection income tax credit shall be available only for the taxable year in which the taxpayer's qualified expenses are certified by the appropriate government agency.

(d) The total amount of tax credits allowed under this section shall not exceed $5,000,000 for all taxpayers in any taxable year; provided that any taxpayer who is not eligible to claim the credit in a taxable year due to the $5,000,000 cap having been exceeded for that taxable year shall be eligible to claim the credit in the subsequent taxable year.

(e) The department of health shall:

(1) Certify all qualified cesspools for the purposes of this section;

(2) Collect and maintain a record of all qualified expenses certified by an appropriate government agency for the taxable year; and

(3) Certify to each taxpayer the amount of credit the taxpayer may claim; provided that if, in any year, the annual amount of certified credits reaches $5,000,000 in the aggregate, the department of health shall immediately discontinue certifying credits and notify the department of taxation.

The director of health may adopt rules under chapter 91 as necessary to implement the certification requirements under this section.

(f) The director of taxation:

(1) Shall prepare any forms that may be necessary to claim a tax credit under this section;

(2) May require the taxpayer to furnish reasonable information to ascertain the validity of the claim for the tax credit made under this section; and

(3) May adopt rules under chapter 91 necessary to effectuate the purposes of this section.

(g) If the tax credit under this section exceeds the taxpayer's income tax liability, the excess of the credit over liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted. All claims for the tax credit under this section, including amended claims, shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit.

(h) This section shall not apply to taxable years beginning after December 31, 2020.

(i) As used in this section:

"Aerobic treatment unit system" means an individual wastewater system that consists of an aerobic treatment unit tank, aeration device, piping, and a discharge method that is in accordance with rules adopted by the department of health relating to household aerobic units.

"Cesspool" means an individual wastewater system consisting of an excavation in the ground whose depth is greater than its widest surface dimension, which receives untreated wastewater, and retains or is designed to retain the organic matter and solids discharged into it, but permits the liquid to seep through its bottom or sides to gain access to the underground geographic formation.

"Qualified cesspool" means a cesspool that is:

(1) Certified by the department of health to be:

(A) Located within:

(i) Five hundred feet of a shoreline, perennial stream, or wetland; or

(ii) A source water assessment program area (two year time of travel from a cesspool to a public drinking water source);

(B) Shown to impact drinking water supplies or recreational waters; or

(C) A residential large capacity cesspool; or

(2) Certified by a county or private sewer company to be appropriate for connection to its existing sewer system.

"Qualified expenses" means costs that are necessary and directly incurred by the taxpayer for upgrading or converting a qualified cesspool into a septic system or an aerobic treatment unit system, or connecting a qualified cesspool to a sewer system, and that are certified as such by the appropriate government agency.

"Residential large capacity cesspool" means a cesspool that is connected to more than one residential dwelling.

"Septic system" means an individual wastewater system that typically consists of a septic tank, piping, and a drainage field where there is natural biological decontamination as wastewater discharged into the system is filtered through soil.

"Sewer system" means a system of piping, with appurtenances, for collecting and conveying wastewater from source to discharge following treatment.

"Wastewater" means any liquid waste, whether or not treated and whether animal, mineral, or vegetable, including agricultural, industrial, and thermal wastes." [L 2015, c 120, §2; am L 2016, c 182, §1; am L 2017, c 125, §2; am L 2018, c 133, §1]

Note

Section applies to taxable years beginning after December 31, 2015. L 2015, c 120, §4.
The 2016 amendment applies to taxable years beginning after December 31, 2015. L 2016, c 182, §3.
The 2017 amendment shall take effect on July 1, 2017.
The 2018 amendment applies to taxable years beginning after December 31, 2017. L 2018, c 133, §3.

§235-17 Motion picture, digital media, and film production income tax credit. *[Section effective until December 31, 2018. For section effective January 1, 2019, see below.]* (a) Any law to the contrary notwithstanding, there shall be allowed to each taxpayer subject to the taxes imposed by this chapter, an income tax credit that shall be deductible from the taxpayer's net income tax liability, if any, imposed by this chapter for the taxable year in which the credit is properly claimed. The amount of the credit shall be:

(1) Twenty per cent of the qualified production costs incurred by a qualified production in any county of the State with a population of over seven hundred thousand; or

(2) Twenty-five per cent of the qualified production costs incurred by a qualified production in any county of the State with a population of seven hundred thousand or less.

A qualified production occurring in more than one county may prorate its expenditures based upon the amounts spent in each county, if the population bases differ enough to change the percentage of tax credit.

In the case of a partnership, S corporation, estate, or trust, the tax credit allowable is for qualified production costs incurred by the entity for the taxable year. The cost upon which the tax credit is computed shall be determined at the entity level. Distribution and share of credit shall be determined by rule.

If a deduction is taken under section 179 (with respect to election to expense depreciable business assets) of the Internal Revenue Code of 1986, as amended, no tax credit shall be allowed for those costs for which the deduction is taken.

The basis for eligible property for depreciation of accelerated cost recovery system purposes for state income taxes shall be reduced by the amount of credit allowable and claimed.

(b) The credit allowed under this section shall be claimed against the net income tax liability for the taxable year. For the purposes of this section, "net income tax liability" means net income tax liability reduced by all other credits allowed under this chapter.

(c) If the tax credit under this section exceeds the taxpayer's income tax liability, the excess of credits over liability shall be refunded to the taxpayer; provided that no refunds or payment on account of the tax credits allowed by this section shall be made for amounts less than $1. All claims, including any amended claims, for tax credits under this section shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit.

(d) To qualify for this tax credit, a production shall:

(1) Meet the definition of a qualified production specified in subsection (l);

(2) Have qualified production costs totaling at least $200,000;

(3) Provide the State, at a minimum, a shared-card, end-title screen credit, where applicable;

(4) Provide evidence of reasonable efforts to hire local talent and crew; and

(5) Provide evidence of financial or in-kind contributions or educational or workforce development efforts, in partnership with related local industry labor organizations, educational institutions, or both, toward the furtherance of the local film and television and digital media industries.

(e) On or after July 1, 2006, no qualified production cost that has been financed by investments for which a credit was claimed by any taxpayer pursuant to section 235-110.9 is eligible for credits under this section.

(f) To receive the tax credit, the taxpayer shall first prequalify the production for the credit by registering with the department of business, economic development, and tourism during the development or preproduction stage. Failure to comply with this provision may constitute a waiver of the right to claim the credit.

(g) The director of taxation shall prepare forms as may be necessary to claim a credit under this section. The director may also require the taxpayer to furnish information to ascertain the validity of the claim for credit made under this section and may adopt rules necessary to effectuate the purposes of this section pursuant to chapter 91.

(h) Every taxpayer claiming a tax credit under this section for a qualified production shall, no later than ninety days following the end of each taxable year in which qualified production costs were expended, submit a written, sworn statement to the department of business, economic development, and tourism, identifying:

(1) All qualified production costs as provided by subsection (a), if any, incurred in the previous taxable year;

(2) The amount of tax credits claimed pursuant to this section, if any, in the previous taxable year; and

(3) The number of total hires versus the number of local hires by category and by county.

This information may be reported from the department of business, economic development, and tourism to the legislature in redacted form pursuant to subsection (i)(4).

(i) The department of business, economic development, and tourism shall:

(1) Maintain records of the names of the taxpayers and qualified productions thereof claiming the tax credits under subsection (a);

(2) Obtain and total the aggregate amounts of all qualified production costs per qualified production and per qualified production per taxable year;

(3) Provide a letter to the director of taxation specifying the amount of the tax credit per qualified production for each taxable year that a tax credit is claimed and the cumulative amount of the tax credit for all years claimed; and

(4) Submit a report to the legislature no later than twenty days prior to the convening of each regular session detailing the non-aggregated qualified production costs that form the basis of the tax credit claims and expenditures, itemized by taxpayer, in a redacted format to preserve the confidentiality of the taxpayers claiming the credit.

Upon each determination required under this subsection, the department of business, economic development, and tourism shall issue a letter to the taxpayer, regarding the qualified production, specifying the qualified production costs and the tax credit amount qualified for in each taxable year a tax credit is claimed. The taxpayer for each qualified production shall file the letter with the taxpayer's tax return for the qualified production to the department of taxation. Notwithstanding the authority of the department of business, economic development, and tourism under this section, the director of taxation may audit and adjust the tax credit amount to conform to the information filed by the taxpayer.

(j) Total tax credits claimed per qualified production shall not exceed $15,000,000.

(k) Qualified productions shall comply with subsections (d), (e), (f), and (h).

(l) For the purposes of this section:

"Commercial":

(1) Means an advertising message that is filmed using film, videotape, or digital media, for dissemination via television broadcast or theatrical distribution;

(2) Includes a series of advertising messages if all parts are produced at the same time over the course of six consecutive weeks; and

(3) Does not include an advertising message with Internet-only distribution.

"Digital media" means production methods and platforms directly related to the creation of cinematic imagery and content, specifically using digital means, including but not limited to digital cameras, digital sound equipment, and computers, to be delivered via film, videotape, interactive game platform, or other digital distribution media.

"Post-production" means production activities and services conducted after principal photography is completed, including but not limited to editing, film and video transfers, duplication, transcoding, dubbing, subtitling, credits, closed captioning, audio production, special effects (visual and sound), graphics, and animation.

"Production" means a series of activities that are directly related to the creation of visual and cinematic imagery to be delivered via film, videotape, or digital media and to be sold, distributed, or displayed as entertainment or the advertisement of products for mass public consumption, including but not limited to scripting, casting, set design and construction, transportation, videography, photography, sound recording, interactive game design, and post-production.

"Qualified production":

(1) Means a production, with expenditures in the state, for the total or partial production of a feature-length motion picture, short film, made-for-television movie, commercial, music video, interactive game, television series pilot, single season (up to twenty-two episodes) of a television series regularly filmed in the state (if the number of episodes per single season exceeds twenty-two, additional episodes for the same season shall constitute a separate qualified production), television special, single television episode that is not part of a television series regularly filmed or based in the state, national magazine show, or national talk show. For the purposes of subsections (d) and (j), each of the aforementioned qualified production categories shall constitute separate, individual qualified productions; and

(2) Does not include:

(A) News;

(B) Public affairs programs;

(C) Non-national magazine or talk shows;
(D) Televised sporting events or activities;
(E) Productions that solicit funds;
(F) Productions produced primarily for industrial, corporate, institutional, or other private purposes; and
(G) Productions that include any material or performance prohibited by chapter 712.

"Qualified production costs" means the costs incurred by a qualified production within the state that are subject to the general excise tax under chapter 237 or income tax under this chapter and that have not been financed by any investments for which a credit was or will be claimed pursuant to section 235-110.9. Qualified production costs include but are not limited to:

(1) Costs incurred during preproduction such as location scouting and related services;
(2) Costs of set construction and operations, purchases or rentals of wardrobe, props, accessories, food, office supplies, transportation, equipment, and related services;
(3) Wages or salaries of cast, crew, and musicians;
(4) Costs of photography, sound synchronization, lighting, and related services;
(5) Costs of editing, visual effects, music, other post-production, and related services;
(6) Rentals and fees for use of local facilities and locations, including rentals and fees for use of state and county facilities and locations that are not subject to general excise tax under chapter 237 or income tax under this chapter;
(7) Rentals of vehicles and lodging for cast and crew;
(8) Airfare for flights to or from Hawaii, and interisland flights;
(9) Insurance and bonding;
(10) Shipping of equipment and supplies to or from Hawaii, and interisland shipments; and
(11) Other direct production costs specified by the department in consultation with the department of business, economic development, and tourism;

provided that any government-imposed fines, penalties, or interest that are incurred by a qualified production within the State shall not be "qualified production costs. [L 1997, c 107, §1; am L 1998, c 156, §11; am L 2006, c 88, §2; am L 2013, c 89, §2]

Note

Applies to taxable years beginning after December 31, 1996. L 1997, c 107, §7.

The 1998 amendment applies to taxable years beginning after December 31, 1998. L 1998, c 156, §13.

The 2006 amendment is effective July 1, 2006 and applies to qualified production costs incurred on or after July 1, 2006, and before January 1, 2016. Act 88 shall be repealed on January 1, 2016, and section 235-17, HRS, shall be reenacted in the form in which it read on the day before the effective date of the Act.

The 2013 amendment is effective on July 1, 2013, and applies to taxable years beginning after December 31, 2012. L 2013, c 89, §6.

L 2013, c 89, §3 amends Act 88, L 2006 §4:

"SECTION 4. This Act shall take effect on July 1, 2006; provided that:

(1) Section 2 of this Act shall apply to qualified production costs incurred on or after July 1, 2006, and before January 1, [2016;] 2019; and

(2) This Act shall be repealed on January 1, [2016,] 2019, and section 235-17, Hawaii Revised Statutes, shall be reenacted in the form in which it read on the day before the effective date of this Act."

Cross Reference

Tax Information Release No. 98-1, "Income Tax Exemption and Credits Available for Persons Engaged in the Motion Picture and Television Film Production Business" Superseded by TIR 2006-02 relating to HRS §235-17.

Tax Information Release No. 2006-02, "Refundable Income Tax Credit for Persons Engaged in the Motion Picture, Television, and Digital Media Production Business"

Tax Information Release No. 2008-02, "Advanced Notice of Proposed Administrative Rules Relating to the Taxation of the Motion Picture and Television Film Production Industry"

Tax Information Release No. 2009-05, "Advanced Notice of Proposed Administrative Rules Relating to the Taxation of the Motion Picture and Television Film Production Industry"

Tax Information Release No. 2010-04, "Interpretation of "Qualified Production" for purposes of Tax Credit Claims under the Motion Picture, Digital Media, and Film Production Income Tax Credit, HRS §235-17"

§235-17 Motion picture, digital media, and film production income tax credit. *[Section effective January 1, 2019. For section effective until December 31, 2018, see above. Repeal and reenactment on January 1, 2026. L 2017, c 143, §3]* (a) Any law to the contrary notwithstanding, there shall be allowed to each taxpayer subject to the taxes imposed by this chapter, an income tax credit that shall be deductible from the taxpayer's net income tax liability, if any, imposed by this chapter for the taxable year in which the credit is properly claimed. The amount of the credit shall be:

(1) Twenty per cent of the qualified production costs incurred by a qualified production in any county of the State with a population of over seven hundred thousand; or
(2) Twenty-five per cent of the qualified production costs incurred by a qualified production in any county of the State with a population of seven hundred thousand or less.

A qualified production occurring in more than one county may prorate its expenditures based upon the amounts spent in each county, if the population bases differ enough to change the percentage of tax credit.

In the case of a partnership, S corporation, estate, or trust, the tax credit allowable is for qualified production costs incurred by the entity for the taxable year. The cost upon which the tax credit is computed shall be determined at the entity level. Distribution and share of credit shall be determined by rule.

If a deduction is taken under section 179 (with respect to election to expense depreciable business assets) of the Internal Revenue Code of 1986, as amended, no tax credit shall be allowed for those costs for which the deduction is taken.

The basis for eligible property for depreciation of accelerated cost recovery system purposes for state income taxes shall be reduced by the amount of credit allowable and claimed.

(b) The credit allowed under this section shall be claimed against the net income tax liability for the taxable year. For the purposes of this section, "net income tax liability" means net income tax liability reduced by all other credits allowed under this chapter.

(c) If the tax credit under this section exceeds the taxpayer's income tax liability, the excess of credits over liability shall be refunded to the taxpayer; provided that no refunds or payment on account of the tax credits allowed by this section shall be made for amounts less than $1. All claims, including any amended claims, for tax credits under this section shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit.

(d) To qualify for this tax credit, a production shall:

(1) Meet the definition of a qualified production specified in subsection (m);

(2) Have qualified production costs totaling at least $200,000;

(3) Provide the State a qualified Hawaii promotion, which shall be at a minimum, a shared-card, end-title screen credit, where applicable;

(4) Provide evidence of reasonable efforts to hire local talent and crew;

(5) Provide evidence when making any claim for products or services acquired or rendered outside of this State that reasonable efforts were unsuccessful to secure and use comparable products or services within this State;

(6) Provide evidence of financial or in-kind contributions or educational or workforce development efforts, in partnership with related local industry labor organizations, educational institutions, or both, toward the furtherance of the local film and television and digital media industries.

(e) On or after July 1, 2006, no qualified production cost that has been financed by investments for which a credit was claimed by any taxpayer pursuant to section 235-110.9 is eligible for credits under this section.

(f) To receive the tax credit, the taxpayer shall first prequalify the production for the credit by registering with the department of business, economic development, and tourism during the development or preproduction stage.

(g) The director of taxation shall prepare forms as may be necessary to claim a credit under this section. The director may also require the taxpayer to furnish information to ascertain the validity of the claim for credit made under this section and may adopt rules necessary to effectuate the purposes of this section pursuant to chapter 91.

(h) Every taxpayer claiming a tax credit under this section for a qualified production shall, no later than ninety days following the end of each taxable year in which qualified production costs were expended, submit a written, sworn statement to the department of business, economic development, and tourism, together with a verification review by a qualified certified public accountant using procedures prescribed by the department of business, economic development, and tourism, identifying:

(1) All qualified production costs as provided by subsection (a), if any, incurred in the previous taxable year;

(2) The amount of tax credits claimed pursuant to this section, if any, in the previous taxable year; and

(3) The number of total hires versus the number of local hires by category and by county.

This information may be reported from the department of business, economic development, and tourism to the legislature in redacted form pursuant to subsection (i)(4).

(i) The department of business, economic development, and tourism shall:

(1) Maintain records of the names of the taxpayers and qualified productions thereof claiming the tax credits under subsection (a);

(2) Obtain and total the aggregate amounts of all qualified production costs per qualified production and per qualified production per taxable year;

(3) Provide a letter to the director of taxation specifying the amount of the tax credit per qualified production for each taxable year that a tax credit is claimed and the cumulative amount of the tax credit for all years claimed; and

(4) Submit a report to the legislature no later than twenty days prior to the convening of each regular session detailing the non-aggregated qualified production costs that form the basis of the tax credit claims and expenditures, itemized by taxpayer, in a redacted format to preserve the confidentiality of the taxpayers claiming the credit.

Upon each determination required under this subsection, the department of business, economic development, and tourism shall issue a letter to the taxpayer, regarding the qualified production, specifying the qualified production costs

and the tax credit amount qualified for in each taxable year a tax credit is claimed. The taxpayer for each qualified production shall file the letter with the taxpayer's tax return for the qualified production to the department of taxation. Notwithstanding the authority of the department of business, economic development, and tourism under this section, the director of taxation may audit and adjust the tax credit amount to conform to the information filed by the taxpayer.

(j) Total tax credits claimed per qualified production shall not exceed $15,000,000.

(k) Qualified productions shall comply with subsections (d), (e), (f), and (h).

(l) The total amount of tax credits allowed under this section in any particular year shall be $50,000,000; however, if the total amount of credits applied for in any particular year exceeds the aggregate amount of credits allowed for such year under this section, the excess shall be treated as having been applied for in the subsequent year and shall be claimed in such year; provided that no excess shall be allowed to be claimed after December 31, 2025.

(m) For the purposes of this section:

"Commercial":

(1) Means an advertising message that is filmed using film, videotape, or digital media, for dissemination via television broadcast or theatrical distribution;

(2) Includes a series of advertising messages if all parts are produced at the same time over the course of six consecutive weeks; and

(3) Does not include an advertising message with Internet-only distribution.

"Digital media" means production methods and platforms directly related to the creation of cinematic imagery and content, specifically using digital means, including but not limited to digital cameras, digital sound equipment, and computers, to be delivered via film, videotape, interactive game platform, or other digital distribution media.

"Post-production" means production activities and services conducted after principal photography is completed, including but not limited to editing, film and video transfers, duplication, transcoding, dubbing, subtitling, credits, closed captioning, audio production, special effects (visual and sound), graphics, and animation.

"Production" means a series of activities that are directly related to the creation of visual and cinematic imagery to be delivered via film, videotape, or digital media and to be sold, distributed, or displayed as entertainment or the advertisement of products for mass public consumption, including but not limited to scripting, casting, set design and construction, transportation, videography, photography, sound recording, interactive game design, and post-production.

"Qualified production":

(1) Means a production, with expenditures in the state, for the total or partial production of a feature-length motion picture, short film, made-for-television movie, commercial, music video, interactive game, television series pilot, single season (up to twenty-two episodes) of a television series regularly filmed in the state (if the number of episodes per single season exceeds twenty-two, additional episodes for the same season shall constitute a separate qualified production), television special, single television episode that is not part of a television series regularly filmed or based in the state, national magazine show, or national talk show. For the purposes of subsections (d) and (j), each of the aforementioned qualified production categories shall constitute separate, individual qualified productions; and

(2) Does not include:

(A) News;

(B) Public affairs programs;

(C) Non-national magazine or talk shows;

(D) Televised sporting events or activities;

(E) Productions that solicit funds;

(F) Productions produced primarily for industrial, corporate, institutional, or other private purposes; and

(G) Productions that include any material or performance prohibited by chapter 712.

"Qualified production costs" means the costs incurred by a qualified production within the state that are subject to the general excise tax under chapter 237 or income tax under this chapter and that have not been financed by any investments for which a credit was or will be claimed pursuant to section 235-110.9. Qualified production costs include but are not limited to:

(1) Costs incurred during preproduction such as location scouting and related services;

(2) Costs of set construction and operations, purchases or rentals of wardrobe, props, accessories, food, office supplies, transportation, equipment, and related services;

(3) Wages or salaries of cast, crew, and musicians;

(4) Costs of photography, sound synchronization, lighting, and related services;

(5) Costs of editing, visual effects, music, other post-production, and related services;

(6) Rentals and fees for use of local facilities and locations, including rentals and fees for use of state and county facilities and locations that are not subject to general excise tax under chapter 237 or income tax under this chapter;

(7) Rentals of vehicles and lodging for cast and crew;

(8) Airfare for flights to or from Hawaii, and interisland flights;

(9) Insurance and bonding;

(10) Shipping of equipment and supplies to or from Hawaii, and interisland shipments; and

(11) Other direct production costs specified by the department in consultation with the department of business, economic development, and tourism;

provided that any government-imposed fines, penalties, or interest that are incurred by a qualified production within the State shall not be "qualified production costs. [L 1997, c 107, §1; am L 1998, c 156, §11; am L 2006, c 88, §2; am L 2013, c 89, §2; am L 2017, c 143, §2; am L 2019, c 275, §2]

Note

Applies to taxable years beginning after December 31, 1996. L 1997, c 107, §7.

The 1998 amendment applies to taxable years beginning after December 31, 1998. L 1998, c 156, §13.

The 2006 amendment is effective July 1, 2006 and applies to qualified production costs incurred on or after July 1, 2006, and before January 1, 2016. Act 88 shall be repealed on January 1, 2016, and section 235-17, HRS, shall be reenacted in the form in which it read on the day before the effective date of the Act.

The 2013 amendment is effective on July 1, 2013, and applies to taxable years beginning after December 31, 2012. L 2013, c 89, §6.

L 2013, c 89, §3 amends Act 88, L 2006 §4:

"SECTION 4. This Act shall take effect on July 1, 2006; provided that:

(1) Section 2 of this Act shall apply to qualified production costs incurred on or after July 1, 2006, and before January 1, [2016;] 2019; and

(2) This Act shall be repealed on January 1, [2016,] 2019, and section 235-17, Hawaii Revised Statutes, shall be reenacted in the form in which it read on the day before the effective date of this Act."

The 2017 amendment is effective on December 31, 2018, and applies to taxable years beginning after December 31, 2018. L 2017, c 143, §9.

L 2017, c 143, §3 amends Act 88, L 2006 §4 and Act 89, L 2013 §4:

"SECTION 4. This Act shall take effect on July 1, 2006; provided that:

(1) Section 2 of this Act shall apply to qualified production costs incurred on or after July 1, 2006, and before January 1, [2016;] [2019;] 2026 and

(2) This Act shall be repealed on January 1, [2016,] [2019,] 2026, and section 235-17, Hawaii Revised Statutes, shall be reenacted in the form in which it read on the day before the effective date of this Act."

The 2019 amendment applies to taxable years beginning after December 31, 2018. L 2019, c 275, §7.

Cross Reference

Tax Information Release No. 98-1, "Income Tax Exemption and Credits Available for Persons Engaged in the Motion Picture and Television Film Production Business" Superseded by TIR 2006-02 relating to HRS §235-17.

Tax Information Release No. 2006-02, "Refundable Income Tax Credit for Persons Engaged in the Motion Picture, Television, and Digital Media Production Business"

Tax Information Release No. 2008-02, "Advanced Notice of Proposed Administrative Rules Relating to the Taxation of the Motion Picture and Television Film Production Industry"

Tax Information Release No. 2009-05, "Advanced Notice of Proposed Administrative Rules Relating to the Taxation of the Motion Picture and Television Film Production Industry"

Tax Information Release No. 2010-04, "Interpretation of "Qualified Production" for purposes of Tax Credit Claims under the Motion Picture, Digital Media, and Film Production Income Tax Credit, HRS §235-17"

Tax Information Release No. 2018-04, "Guidance Regarding the Motion Picture, Digital Media, and Film Production Income Tax Credit; Temporary Hawaii Administrative Rules §§ 18-235-17-01 to 18-235-17-20; Act 143, Session Laws of Hawaii 2017"

Tax Information Release No. 2019-01, "Proposed Administrative Rules Relating to the Motion Picture, Digital Media, and Film Production Income Tax Credit as amended by Act 143, Session Laws of Hawaii 2017"

Tax Information Release No. 2019-04, "Mandatory Verification Review (Agreed Upon Procedures Report) for the Motion Picture, Digital Media, and Film Production Income Tax Credit"

§235-17.5 REPEALED. L 2019, c 260, §3.

[§235-18] Deposit beverage container deposit exemption. This chapter shall not apply to amounts received as a deposit beverage container deposit collected under part VIII of chapter 342G. [L 2004, c 241, §1]

[§235-19] Exceptional trees; tax deduction. (a) Subject to subsection (b), there shall be allowed as a deduction from gross income the amount, not to exceed $3,000 per exceptional tree, for amounts paid, excluding interest paid or accrued thereon, during the taxable year by an individual taxpayer for expenditures to maintain, on the taxpayer's real property, each exceptional tree that has been designated by the county arborist advisory committee under chapter 58 as an exceptional tree.

(b) No deduction shall be allowed to exceed the amount of expenditures deemed reasonably necessary by a certified arborist. No deduction shall be allowed in more than one taxable year out of every three consecutive taxable years.

(c) The director of taxation shall prepare such forms as may be necessary to claim a tax deduction under this section, may require proof of the claim for the tax deduction, including an affidavit signed by the certified arborist, and may adopt rules pursuant to chapter 91.

(d) For the purpose of this section, the term "exceptional tree" shall have the same meaning as defined in section 58-3. [L 2004, c 195, §2]

Note

Section applies to amounts paid in taxable years beginning after December 31, 2003. L 2004, c 195, §4.

[§235-20] Comfort letters; authority to assess fees; established. The department may assess and collect a fee for the issuance of any comfort letter of the department. All fees collected under this section shall be deposited into the tax administration special fund established under section 235-20.5. [L 2004, c 215, pt of §3]

Note

L 2004, c 215, §13 provides:

"SECTION 13. Any comfort letter or other written communication issued by the department of taxation prior to the effective date of this Act [July 1, 2004] may continue to be relied upon by the taxpayer to whom such comfort letter or other written communication was issued (including the qualified high technology business and its investors) and shall be respected by the department of taxation, notwithstanding any of the amendments contained in this Act, provided that the assumptions and representations contained in such comfort letter or other written communication remain true and accurate in all material respects. The high technology provisions of sections 235-2.4, 235-2.45, 235-7.3, 235-9.5, 235-110.51, 235-110.9, 235-110.91, 235-111.5, and 237-23.5, Hawaii Revised Statutes, in effect at the time of the comfort letter or other written communication shall continue to apply without regard to any amendments to such provisions under this Act with respect to any transactions or investments made or committed prior to the effective date of this Act [July 1, 2004]."

18-235-20.5 **§235-20.5 Tax administration special fund; established.** (a) There is established a tax administration special fund, into which shall be deposited:

(1) Fees collected under sections 235-20 and 235-110.9;

(2) Revenues collected by the special enforcement section pursuant to section 231-85; provided that in each fiscal year, of the total revenues collected by the special enforcement section, all revenues in excess of $2,000,000 shall be deposited into the general fund; and

(3) Fines assessed pursuant to section 237D-4.

(b) The moneys in the fund shall be used for the following purposes:

(1) Issuing comfort letters, letter rulings, written opinions, and other guidance to taxpayers;

(2) Issuing certificates under sections 235-110.9;

(3) Administering the operations of the special enforcement section;

(4) Funding support staff positions in the special enforcement section; and

(5) Developing, implementing, and providing taxpayer education programs, including tax publications. [L 2004, c 215, pt of §3; am L 2007, c 206, §3; am L 2009, c 134, §5; am L 2014, c 89, §1; am L 2015, c 204, §2; am L 2018, c 123, §1; am L 2019, c 261, §1]

Note

Authorization to establish five new positions in the special enforcement section; funded pursuant to this section. L 2018, c 123, §2.

[§235-] Tax credit for flood victims. *[Note: section is temporary and uncodified, no title was given section, effective for taxable years after December 31, 2003 and ending before January 1, 2007]* (a) There shall be allowed to each taxpayer who is not claimed or is not otherwise eligible to be claimed as a dependent by another taxpayer for federal or Hawaii state individual income tax purposes, who files a net income tax return for a taxable year, a one-time nonrefundable flood victim tax credit, except as otherwise provided in this Act. The tax credit shall be deductible from the taxpayer's net income tax liability imposed by chapter 235.

(b) The amount of the tax credit shall be ten per cent of the amount expended by the taxpayer for costs directly related to the damage directly caused by heavy rain and flooding occurring on the dates specified in subsection (c) to the taxpayer's real or personal property; provided that:

(1) The expenses or costs are not reimbursable by insurance proceeds or disaster relief payments from government agencies or non-profit organizations;

(2) The tax credit shall not exceed $10,000 per taxpayer; and

(3) No refund as provided in subsection (f) or payment on account of the tax credit allowed by this Act shall be made for amounts less than $1.

(c) The tax credit shall apply to a taxpayer who suffered damage to the taxpayer's real or personal property that is situated in the State, having occurred:

(1) On October 30 of 2004 in Manoa, Oahu; or

(2) During February 20 to April 9 of 2006 in Kauai, Hawaii, Maui and Honolulu counties.

(d) To qualify for the income tax credit, the taxpayer shall certify to the department of taxation that the taxpayer is in compliance with all applicable federal, state, and county statutes, rules, and regulations.

(e) To qualify for the income tax credit, the taxpayer shall sign a statement and provide information determined by the department of taxation as necessary to claim the credit under penalties of perjury.

(f) If the tax credit under this section exceeds the taxpayer's net income tax liability, any excess of the tax credit may be used as a credit against the taxpayer's income tax liability for the taxable year the credit is claimed; provided that tax credits properly claimed by a taxpayer shall be refunded to the taxpayer after being credited against the taxpayer's income tax liability for the taxable year, if the taxpayer qualifies under one of the following tests:

(1) All of the taxpayer's income is exempt from taxation under section 235-7(a)(2) or section 235-7(a)(3); or

(2) The taxpayer's adjusted gross income is $20,000 or less.

(g) In the case of a partnership, S corporation, estate, trust, or association of apartment owners, the tax credit allowable is for expenses incurred and paid for by the entity for the taxable year. The cost upon which the tax credit is computed shall be determined at the entity level.

(h) If a deduction is taken under section 179 (with respect to election to expense certain depreciable business assets) of the Internal Revenue Code of 1986, as amended, no tax credit shall be allowed for that portion of the expenses for which the deduction is taken.

The basis of property shall not be increased by any amount for which the credit is allowable and claimed. In the alternative, the taxpayer shall treat the amount of the credit allowable and claimed as a taxable income item for the taxable year in which it is properly recognized under the method of accounting used to compute taxable income.

(i) No taxpayer who claims the tax credit under this section shall claim any other credit or deduction for the same losses or other expenses or costs.

(j) Every claim, including amended claims, for the tax credit under this section shall be filed on or before December 31, 2007. Failure to meet the filing requirements of this subsection shall constitute a waiver of the right to claim the tax credit.

(k) If at any time after claiming the tax credit, the taxpayer no longer qualifies for the credit because of subsequent recovery for expenses utilized to calculate the credit, the credits claimed shall be recaptured. The recapture shall be equal to one hundred per cent of the tax credits that were subsequently ineligible as a result of later recovery. The amount of the recaptured tax credits shall be added to the taxpayer's tax liability for the taxable year in which the recapture occurs.

(l) In the case of fraud, making of a false statement, or willful disregard for the facts, associated with making a return or otherwise claiming the tax credit, there shall be added to the amount wrongfully claimed on a return a penalty of 50 per cent of the amount of such credit claimed.

(m) The director of taxation shall prepare any forms as may be necessary to claim a tax credit under this section, may require proof of the claim for the tax credit, and may adopt rules without regard to chapter 91 to effectuate the purposes of this section. [L 2006, c 110, §4]

[§235-] *[Note: section is temporary and uncodified, no title was given section, shall apply to the taxable year 2007.]* L 2007, c 210, §2 (a) There shall be allowed for each resident individual taxpayer for the taxable year 2007, a refundable one-time general income tax credit that shall be deducted from income tax liability computed under chapter 235, Hawaii Revised Statutes; provided that no refunds or payments on account of the tax credits allowed by this section shall be made for amounts less than $1.

(b) There shall be allowed to a husband and wife who file a joint return a one-time general income tax credit in accordance with the following table:

If the adjusted gross income is:	The credit shall be:
Under $5,000	$160
$5,000 and over but under $10,000	150
$10,000 and over but under $15,000	140
$15,000 and over but under $20,000	130
$20,000 and over but under $30,000	120
$30,000 and over but under $40,000	110
$40,000 and over but under $50,000	100
$50,000 and over but under $60,000	90
$60,000 and over	0

(c) There shall be allowed to every taxpayer filing a head of household tax return a one-time general income tax credit in accordance with the following table:

If the adjusted gross income is:	The credit shall be:
Under $5,000	$140
$5,000 and over but under $10,000	130
$10,000 and over but under $15,000	120
$15,000 and over but under $20,000	110
$20,000 and over but under $30,000	100
$30,000 and over but under $40,000	90
$40,000 and over but under $50,000	80
$50,000 and over but under $60,000	70
$60,000 and over	0

(d) There shall be allowed to every (1) unmarried individual (other than a surviving spouse, or the head of household) and (2) married individual filing a separate tax return a one-time general income tax credit in accordance with the following table:

If the adjusted gross income is:	The credit shall be:
Under $5,000	$65
$5,000 and over but under $10,000	55
$10,000 and over but under $15,000	45
$15,000 and over but under $20,000	35
$20,000 and over but under $30,000	25
$30,000 and over	0

L 2007, c 210, §3 (a) Each taxpayer that claims the one-time general income tax credit shall have been a resident of the state, as defined in section 235-1, Hawaii Revised Statutes, for at least nine months regardless of whether the resident was physically in the state for nine months.

(b) The one-time general income tax credit shall not be available to:

(1) Any person who has been convicted of a felony and who has been committed to prison and has been physically confined for the full taxable year;

(2) Any person who would otherwise be eligible to be claimed as a dependent but who has been committed to a youth correctional facility and has resided at the facility for the full taxable year; or

(3) Any misdemeanant who has been committed to jail and has been physically confined for the full taxable year.

(c) The tax credit claimed by a resident taxpayer pursuant to this Act shall be deductible from the taxpayer's individual income tax liability for the taxable year 2007. If the tax credit claimed by a resident taxpayer exceeds the amount of income tax payment due from the resident taxpayer, the excess of credits over payments due shall be refunded to the resident taxpayer; provided that a tax credit properly claimed by a resident individual who has no income tax liability shall be paid to the resident individual.

(d) All claims for tax credits under this Act, including any amended claims, shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credits may be claimed. Failure to comply with this filing requirement shall constitute a waiver of the right to claim the credit.

(e) A husband and wife who do not file a joint tax return, shall only be entitled to claim the one-time general income tax credit to the extent that they would have been entitled to the one-time general income tax credit had they filed a joint tax return.

(f) The tax refund paid to a resident taxpayer pursuant to this Act shall not be included in the resident taxpayer's gross income.

(g) For the purpose this Act, "adjusted gross income" means adjusted gross income as defined by the Internal Revenue Code.

Note

Act 210 applies to the taxable year beginning after December 31, 2006. L 2007, c 210, §5.

[§235-] *[Note: section is temporary and uncodified, no title was given section, shall apply to the taxable year 2008.]* L 2008, c 58, §2 (a) There shall be allowed each resident individual taxpayer who files an individual income tax return for the taxable year 2008 and who is not claimed or is not otherwise eligible to be claimed as a dependent by another taxpayer for federal or Hawaii state individual income tax purposes, a general income tax credit of $1, which shall be deducted from income tax liability computed under chapter 235, Hawaii Revised Statutes; provided that a resident individual who has no income or no income taxable under chapter 235, Hawaii Revised Statutes, and who is not claimed or is not otherwise eligible to be claimed as a dependent by a taxpayer for federal or Hawaii state individual income tax purposes may claim this credit.

Each resident individual taxpayer may claim the general income tax credit multiplied by the number of qualified exemptions to which the taxpayer is entitled.

Each person for whom the general income tax credit is claimed shall have been a resident of the state, as defined in section 235-1, Hawaii Revised Statutes, for at least nine months regardless of whether the qualified resident was physically in the state for nine months. Multiple exemptions shall not be granted for the general income tax credit because of age or deficiencies in vision, hearing, or other disability.

The general income tax credit shall not be available to:

(1) Any person who has been convicted of a felony and who has been committed to prison and has been physically confined for the full taxable year;

(2) Any person who would otherwise be eligible to be claimed as a dependent but who has been committed to a youth correctional facility and has resided at the facility for the full taxable year; or

(3) Any misdemeanant who has been committed to jail and has been physically confined for the full taxable year.

The tax credit claimed by a resident taxpayer pursuant to this Act shall be deductible from the resident taxpayer's individual income tax liability for the taxable year 2008. If the tax credit claimed by a resident taxpayer exceeds the amount of income tax payment due from the resident taxpayer, the excess of credits over payments due shall be refunded

to the resident taxpayer; provided that a tax credit properly claimed by a resident individual who has no income tax liability shall be paid to the resident individual.

All claims for tax credits under this Act, including any amended claims, shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credits may be claimed. Failure to comply with this filing requirement shall constitute a waiver of the right to claim the credit.

(b) This section implements the provisions of article VII, section 6, of the Hawaii Constitution, enacted by the 1978 constitutional convention, which reads as follows:

DISPOSITION OF EXCESS REVENUES

Section 6. Whenever the state general fund balance at the close of each of two successive fiscal years exceeds five percent of general fund revenues for each of the two fiscal years, the legislature in the next regular session shall provide for a tax refund or tax credit to the taxpayers of the State, as provided by law. [L 2008, c 58, §2.]

[§235-] *[Note: section is temporary and uncodified, no title was given section, shall apply to the taxable year 2009.]* L 2009, c 84, §2 (a) There shall be allowed to each resident individual taxpayer, who files an individual income tax return for the taxable year 2009, and who is not claimed or is not otherwise eligible to be claimed as a dependent by another taxpayer for federal or Hawaii state individual income tax purposes, a general income tax credit of $1 that shall be deducted from income tax liability computed under chapter 235, Hawaii Revised Statutes; provided that a resident individual who has no income or no income taxable under chapter 235, Hawaii Revised Statutes, and who is not claimed or is not otherwise eligible to be claimed as a dependent by a taxpayer for federal or Hawaii state individual income tax purposes, may claim this credit.

Each resident individual taxpayer may claim the general income tax credit multiplied by the number of qualified exemptions to which the taxpayer is entitled.

Each person for whom the general income tax credit is claimed shall have been a resident of the state, as defined in section 235-1, Hawaii Revised Statutes, for at least nine months regardless of whether the qualified resident was physically in the state for nine months. Multiple exemptions shall not be granted for the general income tax credit because of age or deficiencies in vision, hearing, or other disability.

The general income tax credit shall not be available to:

(1) Any person who has been convicted of a felony and who has been committed to prison and has been physically confined for the full taxable year;
(2) Any person who would otherwise be eligible to be claimed as a dependent but who has been committed to a youth correctional facility and has resided at the facility for the full taxable year; or
(3) Any misdemeanant who has been committed to jail and has been physically confined for the full taxable year.

The tax credit claimed by a resident taxpayer pursuant to this Act shall be deductible from the resident taxpayer's individual income tax liability for the taxable year 2009. If the tax credit claimed by a resident taxpayer exceeds the amount of income tax payment due from the resident taxpayer, the excess of credits over payments due shall be refunded to the resident taxpayer; provided that a tax credit properly claimed by a resident individual who has no income tax liability shall be paid to the resident individual.

All claims for tax credits under this Act, including any amended claims, shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credits may be claimed. Failure to comply with this filing requirement shall constitute a waiver of the right to claim the credit.

(b) This section implements the provisions of article VII, section 6, of the Hawaii Constitution, proposed by the 1978 constitutional convention, and enacted by the voters on November 7, 1978, which reads as follows:

DISPOSITION OF EXCESS REVENUES

Section 6. Whenever the state general fund balance at the close of each of two successive fiscal years exceeds five percent of general fund revenues for each of the two fiscal years, the legislature in the next regular session shall provide for a tax refund or tax credit to the taxpayers of the State, as provided by law. [L 2009, c 84, §2.]

§235- Itemized deductions; limitations. *[Note: section is temporary and uncodified, shall apply to taxable years beginning after December 31, 2010 and shall be repealed on January 1, 2016 and not apply to taxable years beginning after December 31, 2015. L 2011, c 97, §6]* Notwithstanding any other law to the contrary, itemized tax deductions claimed pursuant to this chapter shall not exceed the lesser of:

(1) The limitation on itemized deductions under section 68 of the Internal Revenue Code; or
(2) Any of the following that may be applicable:
    (A) $25,000 for a taxpayer filing a single return or a married person filing separately with a federal adjusted gross income of $100,000 or more;

(B) $37,500 for a taxpayer filing as a head of household with a federal adjusted gross income of $150,000 or more; and

(C) $50,000 for a taxpayer filing a joint return or as a surviving spouse with a federal adjusted gross income of $200,000 or more;

provided that the cap amounts established in this paragraph shall not apply to charitable contributions deductible under this chapter. [L 2011, c 97, §3; am L 2013, c 256, §1]

PART II. UNIFORM DIVISION OF INCOME FOR TAX PURPOSES

18-235-21 **§235-21 Definitions.** As used in this part, unless the context otherwise requires:

"Business income" means income arising from transactions and activity in the regular course of the taxpayer's trade or business and includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's regular trade or business operations.

"Commercial domicile" means the principal place from which the trade or business of the taxpayer is directed or managed.

"Compensation" means wages, salaries, commissions, and any other form of remuneration paid to employees for personal services.

"Nonbusiness income" means all income other than business income.

"Public utility" has the meaning given that term in section 269-1.

"Sales" means all gross receipts of the taxpayer not allocated under sections 235-24 to 235-28.

"State" means any state of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, and any foreign country or political subdivision thereof. [L 1967, c 33, pt of §1; HRS §235-21]

Revision Note

Numeric designations deleted.

18-235-22 **§235-22 Taxpayers affected.** Any taxpayer having income from business activity which is taxable both within and without this State, other than activity as a public utility or the rendering of purely personal services by an individual, shall allocate and apportion the taxpayer's net income as provided in this part. [L 1967, c 33, pt of §1; HRS §235-22; am imp L 1984, c 90, §1; gen ch 1985]

18-235-23 **§235-23 Taxable in another state.** For purposes of allocation and apportionment of income under this part, a taxpayer is taxable in another state if:

(1) In that state the taxpayer is subject to a net income tax, a franchise tax measured by net income, a franchise tax for the privilege of doing business, or a corporate stock tax, or

(2) That state has jurisdiction to subject the taxpayer to a net income tax regardless of whether, in fact, the state does or does not. [L 1967, c 33, pt of §1; HRS §235-23; am imp L 1984, c 90, §1; gen ch 1985]

§235-24 Specified nonbusiness income. Rents and royalties from real or tangible personal property, capital gains, interest, dividends, or patent or copyright royalties, to the extent that they constitute nonbusiness income, shall be allocated as provided in sections 235-25 to 235-27. [L 1967, c 33, pt of §1; HRS §235-24]

§235-25 Rents; royalties. (a) Net rents and royalties from real property located in this State are allocable to this State.

(b) Net rents and royalties from tangible personal property are allocable to this State:

(1) If and to the extent that the property is utilized in this State, or

(2) In their entirety if the taxpayer's commercial domicile is in this State and the taxpayer is not organized under the laws of or taxable in the state in which the property is utilized.

(c) The extent of utilization of tangible personal property in a state is determined by multiplying the rents and royalties by a fraction, the numerator of which is the number of days of physical location of the property in the state during the rental or royalty period in the taxable year and the denominator of which is the number of days of physical location of the property everywhere during all rental or royalty periods in the taxable year. If the physical location of the property during the rental or royalty period is unknown or unascertainable by the taxpayer, tangible personal property is utilized in the state in which the property was located at the time the rental or royalty payer obtained possession. [L 1967, c 33, pt of §1; HRS §235-25]

Cross Reference

Tax Information Release No. 2010-01, "Military Spouses Residency Relief Act ("MSRRA")"

§235-26 Allocation of capital gains and losses. (a) Capital gains and losses from sales of real property located in this State are allocable to this State.

(b) Capital gains and losses from sales of tangible personal property are allocable to this State if:

(1) The property had a situs in this State at the time of the sale; or

(2) The taxpayer's commercial domicile is in this State and the taxpayer is not taxable in the state in which the property had a situs.

(c) Except in the case of the sale of a partnership interest, capital gains and losses from sales of intangible personal property are allocable to this State if the taxpayer's commercial domicile is in this State.

(d) Gain or loss from the sale of a partnership interest is allocable to this State in the ratio of the original cost of partnership tangible property in the State to the original cost of partnership tangible property everywhere, determined at the time of the sale. If more than fifty per cent of the value of a partnership's assets consists of intangibles, gain or loss from the sale of the partnership interest shall be allocated to this State in accordance with the sales factor of the partnership for its first full tax period immediately preceding its tax period during which the partnership interest was sold. [L 1967, c 33, pt of §1; HRS §235-26; am L 1989, c 19, §1]

Cross Reference

Tax Information Release No. 2010-01, "Military Spouses Residency Relief Act ("MSRRA")"

§235-27 Allocation of interest and dividends. Interest and dividends are allocable to this State if the taxpayer's commercial domicile is in this State. [L 1967, c 33, pt of §1; HRS §235-27]

§235-28 Allocation of patent and copyright royalties. (a) Patent and copyright royalties are allocable to this State:

(1) If and to the extent that the patent or copyright is utilized by the payer in this State, or

(2) If and to the extent that the patent or copyright is utilized by the payer in a state in which the taxpayer is not taxable and the taxpayer's commercial domicile is in this State.

(b) A patent is utilized in a state to the extent that it is employed in production, fabrication, manufacturing, or other processing in the state or to the extent that a patented product is produced in the state. If the basis of receipts from patent royalties does not permit allocation to states or if the accounting procedures do not reflect states of utilization, the patent is utilized in the state in which the taxpayer's commercial domicile is located.

(c) A copyright is utilized in a state to the extent that printing or other publication originates in the state. If the basis of receipts from copyright royalties does not permit allocation to states or if the accounting procedures do not reflect states of utilization, the copyright is utilized in the state in which the taxpayer's commercial domicile is located. [L 1967, c 33, pt of §1; HRS §235-28]

Cross Reference

Tax Information Release No. 2010-01, "Military Spouses Residency Relief Act ("MSRRA")"

18-235-29 **§235-29 Apportionment of business income; percentage.** All business income shall be apportioned to this State by multiplying the income by a fraction, the numerator of which is the property factor plus the payroll factor plus the sales factor, and the denominator of which is three. [L 1967, c 33, pt of §1; HRS §235-29]

18-235-30 **§235-30 Apportionment; property factor.** The property factor is a fraction, the numerator of which is the average value of the taxpayer's real and tangible personal property owned or rented and used in this State during the tax period and the denominator of which is the average value of all the taxpayer's real and tangible personal property owned or rented and used during the tax period. [L 1967, c 33, pt of §1; HRS §235-30]

18-235-31 **§235-31 Apportionment; property factor; owned and used property.** Property owned by the taxpayer is valued at its original cost. Property rented by the taxpayer is valued at eight times the net annual rental rate. Net annual rental rate is the annual rental rate paid by the taxpayer less any annual rental rate received by the taxpayer from subrentals. [L 1967, c 33, pt of §1; HRS §235-31]

18-235-32 **§235-32 Apportionment; property factor; average value.** The average value of property shall be determined by averaging the values at the beginning and ending of the tax period but the director of taxation may require the averaging of monthly values during the tax period if reasonably required to reflect properly the average value of the taxpayer's property. [L 1967, c 33, pt of §1; HRS §235-32]

18-235-33 **§235-33 Apportionment; payroll factor.** The payroll factor is a fraction, the numerator of which is the total amount paid in this State during the tax period by the taxpayer for compensation, and the denominator of which is the total compensation paid everywhere during the tax period. [L 1967, c 33, pt of §1; HRS §235-33]

18-235-34 **§235-34 Compensation; where paid.** Compensation is paid in this State if:

(1) The individual's service is performed entirely within the State;

(2) The individual's service is performed both within and without the State, but the service performed without the State is incidental to the individual's service within the State; or

(3) Some of the service is performed in the State and:

(A) The base of operations or, if there is no base of operations, the place from which the service is directed or controlled is in the State; or

(B) The base of operations or the place from which the service is directed or controlled is not in any state in which some part of the service is performed, but the individual's residence is in this State. [L 1967, c 33, pt of §1; HRS §235-34; am L 2017, c 12, §41]

18-235-35 **§235-35 Apportionment; sales factor.** The sales factor is a fraction, the numerator of which is the total sales of the taxpayer in this State during the tax period, and the denominator of which is the total sales of the taxpayer everywhere during the tax period. [L 1967, c 33, pt of §1; HRS §235-35]

18-235-36 **§235-36 Apportionment; sales factor; tangible personalty.** Sales of tangible personal property are in this State if:

(1) The property is delivered or shipped to a purchaser, other than the United States government, within this State regardless of the f.o.b. point or other conditions of the sale; or

(2) The property is shipped from an office, store, warehouse, factory, or other place of storage in this State and the:

(A) Purchaser is the United States government; or

(B) Taxpayer is not taxable in the state of the purchaser. [L 1967, c 33, pt of §1; HRS §235-36; am L 2017, c 12, §42]

18-235-37 **§235-37 Apportionment; sales factor; nontangible personalty.** Sales, other than sales of tangible personal property, are in this State:

(1) In the case of intangible property, to the extent the intangible property is used in this State; or

(2) In the case of a service, to the extent the service is used or consumed in this State. [L 1967, c 33, pt of §1; HRS §235-37; am L 2019, c 96, §2]

Note

The 2019 amendment applies to taxable years beginning after December 31, 2019. L 2019, c 96, §4.

18-235-38 **§235-38 Equitable adjustment of formula.** If the allocation and apportionment provisions of this part do not fairly represent the extent of the taxpayer's business activity in this State, the taxpayer may petition for or the director of taxation may require, in respect to all or any part of the taxpayer's business activity, if reasonable:

(1) Separate accounting;

(2) The exclusion of any one or more of the factors;

(3) The inclusion of one or more additional factors which will fairly represent the taxpayer's business activity in this State; or

(4) The employment of any other method to effectuate an equitable allocation and apportionment of the taxpayer's income. [L 1967, c 33, pt of §1; HRS §235-38]

18-235-38.5 **[§235-38.5] Application.** It is the intent of the legislature that in administering this chapter, this part, and sections 235-4 and 235-5 or as a member of or administering the multistate tax compact under chapter 255 the department of taxation shall not use or allow the use of the worldwide method of unitary taxation upheld in Container Corporation of America v. The Franchise Tax Board, 463 U.S. 159. It is the intent of the legislature that the department of taxation shall continue to apply this chapter, part, sections 235-4 and 235-5, and chapter 255 as they were applied before the above case was decided. [L 1984, c 53, §2]

§235-39 Citation of part. This part may be cited as the "Uniform Division of Income for Tax Purposes Act". [L 1967, c 33, pt of §1; HRS §235-39]

§235-51 Tax imposed on individuals; rates. (a) There is hereby imposed on the taxable income of every:

(1) Taxpayer who files a joint return under section 235-93; and

(2) Surviving spouse,

a tax determined in accordance with the following table:

In the case of any taxable year beginning after December 31, 2001:

If the taxable income is:	The tax shall be:
Not over $4,000	1.40% of taxable income
Over $4,000 but not over $8,000	$56.00 plus 3.20% of excess over $4,000
Over $8,000 but not over $16,000	$184.00 plus 5.50% of excess over $8,000
Over $16,000 but not over $24,000	$624.00 plus 6.40% of excess over $16,000
Over $24,000 but not over $32,000	$1,136.00 plus 6.80% of excess over $24,000
Over $32,000 but not over $40,000	$1,680.00 plus 7.20% of excess over $32,000
Over $40,000 but not over $60,000	$2,256.00 plus 7.60% of excess over $40,000
Over $60,000 but not over $80,000	$3,776.00 plus 7.90% of excess over $60,000
Over $80,000	$5,356.00 plus 8.25% of excess over $80,000

In the case of any taxable year beginning after December 31, 2006:

If the taxable income is:	The tax shall be:
Not over $4,800	1.40% of taxable income
Over $4,800 but not over $9,600	$67.00 plus 3.20% of excess over $4,800
Over $9,600 but not over $19,200	$221.00 plus 5.50% of excess over $9,600
Over $19,200 but not over $28,800	$749.00 plus 6.40% of excess over $19,200
Over $28,800 but not over $38,400	$1,363.00 plus 6.80% of excess over $28,800
Over $38,400 but not over $48,000	$2,016.00 plus 7.20% of excess over $38,400
Over $48,000 but not over $72,000	$2,707.00 plus 7.60% of excess over $48,000
Over $72,000 but not over $96,000	$4,531.00 plus 7.90% of excess over $72,000
Over $96,000	$6,427.00 plus 8.25% of excess over $96,000

In the case of any taxable year beginning after December 31, 2017:

If the taxable income is:	The tax shall be:
Not over $4,800	1.40% of taxable income
Over $4,800 but not over $9,600	$67.00 plus 3.20% of excess over $4,800
Over $9,600 but not over $19,200	$221.00 plus 5.50% of excess over $9,600
Over $19,200 but not over $28,800	$749.00 plus 6.40% of excess over $19,200
Over $28,800 but not over $38,400	$1,363.00 plus 6.80% of excess over $28,800
Over $38,400 but not over $48,000	$2,016.00 plus 7.20% of excess over $38,400
Over $48,000 but not over $72,000	$2,707.00 plus 7.60% of excess over $48,000
Over $72,000 but not over $96,000	$4,531.00 plus 7.90% of excess over $72,000

Over $96,000 but not over $300,000	$6,427.00 plus 8.25% of excess over $96,000
Over $300,000 but not over $350,000	$23,257.00 plus 9.00% of excess over $300,000
Over $350,000 but not over $400,000	$27,757.00 plus 10.00% of excess over $350,000
Over $400,000	$32,757.00 plus 11.00% of excess over $400,000

(b) There is hereby imposed on the taxable income of every head of a household a tax determined in accordance with the following table:

In the case of any taxable year beginning after December 31, 2001:

If the taxable income is:	The tax shall be:
Not over $3,000	1.40% of taxable income
Over $3,000 but not over $6,000	$42.00 plus 3.20% of excess over $3,000
Over $6,000 but not over $12,000	$138.00 plus 5.50% of excess over $6,000
Over $12,000 but not over $18,000	$468.00 plus 6.40% of excess over $12,000
Over $18,000 but not over $24,000	$852.00 plus 6.80% of excess over $18,000
Over $24,000 but not over $30,000	$1,260.00 plus 7.20% of excess over $24,000
Over $30,000 but not over $45,000	$1,692.00 plus 7.60% of excess over $30,000
Over $45,000 but not over $60,000	$2,832.00 plus 7.90% of excess over $45,000
Over $60,000	$4,017.00 plus 8.25% of excess over $60,000

In the case of any taxable year beginning after December 31, 2006:

If the taxable income is:	The tax shall be:
Not over $3,600	1.40% of taxable income
Over $3,600 but not over $7,200	$50.00 plus 3.20% of excess over $3,600
Over $7,200 but not over $14,400	$166.00 plus 5.50% of excess over $7,200
Over $14,400 but not over $21,600	$562.00 plus 6.40% of excess over $14,400
Over $21,600 but not over $28,800	$1,022.00 plus 6.80% of excess over $21,600
Over $28,800 but not over $36,000	$1,512.00 plus 7.20% of excess over $28,800
Over $36,000 but not over $54,000	$2,030.00 plus 7.60% of excess over $36,000
Over $54,000 but not over $72,000	$3,398.00 plus 7.90% of excess over $54,000
Over $72,000	$4,820.00 plus 8.25% of excess over $72,000

In the case of any taxable year beginning after December 31, 2017:

If the taxable income is:	The tax shall be:
Not over $3,600	1.40% of taxable income
Over $3,600 but not over $7,200	$50.00 plus 3.20% of excess over $3,600
Over $7,200 but not over $14,400	$166.00 plus 5.50% of excess over $7,200
Over $14,400 but not over $21,600	$562.00 plus 6.40% of excess over $14,400
Over $21,600 but not over $28,800	$1,022.00 plus 6.80% of excess over $21,600
Over $28,800 but not over $36,000	$1,512.00 plus 7.20% of excess over $28,800

Over $36,000 but not over $54,000	$2,030.00 plus 7.60% of excess over $36,000
Over $54,000 but not over $72,000	$3,398.00 plus 7.90% of excess over $54,000
Over $72,000 but not over $225,000	$4,820.00 plus 8.25% of excess over $72,000
Over $225,000 but not over $262,500	$17,443.00 plus 9.00% of excess over $225,000
Over $262,500 but not over $300,000	$20,818.00 plus 10.00% of excess over $262,500
Over $300,000	$24,568.00 plus 11.00% of excess over $300,000

(c) There is hereby imposed on the taxable income of (1) every unmarried individual (other than a surviving spouse, or the head of a household) and (2) on the taxable income of every married individual who does not make a single return jointly with the individual's spouse under section 235-93 a tax determined in accordance with the following table:

In the case of any taxable year beginning after December 31, 2001:

If the taxable income is:	The tax shall be:
Not over $2,000	1.40% of taxable income
Over $2,000 but not over $4,000	$28.00 plus 3.20% of excess over $2,000
Over $4,000 but not over $8,000	$92.00 plus 5.50% of excess over $4,000
Over $8,000 but not over $12,000	$312.00 plus 6.40% of excess over $8,000
Over $12,000 but not over $16,000	$568.00 plus 6.80% of excess over $12,000
Over $16,000 but not over $20,000	$840.00 plus 7.20% of excess over $16,000
Over $20,000 but not over $30,000	$1,128.00 plus 7.60% of excess over $20,000
Over $30,000 but not over $40,000	$1,888.00 plus 7.90% of excess over $30,000
Over $40,000	$2,678.00 plus 8.25% of excess over $40,000

In the case of any taxable year beginning after December 31, 2006:

If the taxable income is:	The tax shall be:
Not over $2,400	1.40% of taxable income
Over $2,400 but not over $4,800	$34.00 plus 3.20% of excess over $2,400
Over $4,800 but not over $9,600	$110.00 plus 5.50% of excess over $4,800
Over $9,600 but not over $14,400	$374.00 plus 6.40% of excess over $9,600
Over $14,400 but not over $19,200	$682.00 plus 6.80% of excess over $14,400
Over $19,200 but not over $24,000	$1,008.00 plus 7.20% of excess over $19,200
Over $24,000 but not over $36,000	$1,354.00 plus 7.60% of excess over $24,000
Over $36,000 but not over $48,000	$2,266.00 plus 7.90% of excess over $36,000
Over $48,000	$3,214.00 plus 8.25% of excess over $48,000

In the case of any taxable year beginning after December 31, 2017:

If the taxable income is:	The tax shall be:
Not over $2,400	1.40% of taxable income
Over $2,400 but not over $4,800	$34.00 plus 3.20% of excess over $2,400
Over $4,800 but not over $9,600	$110.00 plus 5.50% of excess over $4,800
Over $9,600 but not over $14,400	$374.00 plus 6.40% of excess over $9,600

Over $14,400 but not over $19,200	$682.00 plus 6.80% of excess over $14,400
Over $19,200 but not over $24,000	$1,008.00 plus 7.20% of excess over $19,200
Over $24,000 but not over $36,000	$1,354.00 plus 7.60% of excess over $24,000
Over $36,000 but not over $48,000	$2,266.00 plus 7.90% of excess over $36,000
Over $48,000 but not over $150,000	$3,214.00 plus 8.25% of excess over $48,000
Over $150,000 but not over $175,000	$11,629.00 plus 9.00% of excess over $150,000
Over $175,000 but not over $200,000	$13,879.00 plus 10.00% of excess over $175,000
Over $200,000	$16,379.00 plus 11.00% of excess over $200,000

(d) The tax imposed by section 235-2.45 on estates and trusts shall be determined in accordance with the following table:

In the case of any taxable year beginning after December 31, 2001:

If the taxable income is:	The tax shall be:
Not over $2,000	1.40% of taxable income
Over $2,000 but not over $4,000	$28.00 plus 3.20% of excess over $2,000
Over $4,000 but not over $8,000	$92.00 plus 5.50% of excess over $4,000
Over $8,000 but not over $12,000	$312.00 plus 6.40% of excess over $8,000
Over $12,000 but not over $16,000	$568.00 plus 6.80% of excess over $12,000
Over $16,000 but not over $20,000	$840.00 plus 7.20% of excess over $16,000
Over $20,000 but not over $30,000	$1,128.00 plus 7.60% of excess over $20,000
Over $30,000 but not over $40,000	$1,888.00 plus 7.90% of excess over $30,000
Over $40,000	$2,678.00 plus 8.25% of excess over $40,000

(e) Any taxpayer, other than a corporation, acting as a business entity in more than one state who is required by this chapter to file a return may elect to report and pay a tax of .5 per cent of the taxpayer's annual gross sales if the:

(1) Taxpayer's only activities in this State consist of sales;

(2) Taxpayer does not own or rent real estate or tangible personal property; and

(3) Taxpayer's annual gross sales in or into this State during the tax year is not in excess of $100,000.

(f) If a taxpayer has a net capital gain for any taxable year to which this subsection applies, then the tax imposed by this section shall not exceed the sum of:

(1) The tax computed at the rates and in the same manner as if this subsection had not been enacted on the greater of:

(A) The taxable income reduced by the amount of net capital gain, or

(B) The amount of taxable income taxed at a rate below 7.25 per cent, plus

(2) A tax of 7.25 per cent of the amount of taxable income in excess of the amount determined under paragraph (1).

This subsection shall apply to individuals, estates, and trusts for taxable years beginning after December 31, 1986. [L Sp 1957, c 1, pt of §2; am L 1965, c 155, §31(b), (c); Supp, §121-8; am L 1967, c 250, §1; HRS §235-51; am L 1974, c 10, §1; am L 1978, c 173, §2(10); am L 1979, c 62, §2(9); am L 1982, c 22, §1(2); am L 1987, c 239, §1(11); am L 1988, c 102, §3; am L 1989, c 321, §3; L 1998, c 157, §2; am L 2001, c 199, §4; am L 2006, c 110, §3; am L 2007 c 9 §11; am L 2009, c 60 §2; am L 2011, c 97, §4; am L 2017, c 12, §43 and c 107, §2]

Note

The 2011 amendment to L 2009, c 60 amendment applies to taxable years beginning after December 31, 2008 and shall be repealed on December 31, 2015 and section 235-51(a), (b), and (c), Hawaii Revised Statutes, shall be reenacted in the form in which it read on the day before the effective date of Act 97, SLH 2011. L 2011, c 97, §4.

Cross Reference

Tax Information Release No. 57-78, "Adoption of Internal Revenue Code" OBSOLETE

Tax Information Release No. 99-4. "Application of the Franchise Tax, General Excise Tax, and Income Tax to Mortgage Loan Companies, Including Mortgage Loan Companies Organized as Passthrough Entities and Sole Proprietorships"

Law Journals and Reviews

Rule of Strict Construction in Tax Cases, a Question of Classification or Exemption, Arthur B. Reinwald, 11 HBJ 98.

Case Notes

Intangibles, situs. 31 H. 264, aff'd 47 F.2d 869.
Incidence of income taxes not proper for jury's consideration in awarding damages. 49 H. 42, 410 P.2d 976.
Statues imposing taxes are strictly construed in favor of taxpayer. 56 H. 321, 536 P.2d 91.

18-235-52 **§235-52 Tax in case of joint return or return of surviving spouse.** In the case of a joint return of a husband and wife under section 235-93, the tax imposed, as near as may be, by this chapter shall be twice the tax which would be imposed if the taxable income were cut in half. For purposes of this section and section 235-53, a return of a surviving spouse, as defined in the Internal Revenue Code, shall be treated as a joint return of a husband and wife under section 235-93. [L Sp 1957, c 1, pt of §2; Supp, §121-9; HRS §235-52; am L 1982, c 22, §1(3); am L 1987, c 239, §1(12)]

Case Notes

Joint return, joint responsibility for tax deficiency. 49 H. 688, 427 P.2d 86.

18-235-53 **§235-53 Tax tables for individuals.** (a) Imposition of tax table tax:

(1) In general. In lieu of the tax imposed by section 235-51, there is hereby imposed for each taxable year on the taxable income of every individual:

(A) Who does not itemize the individual's deductions for the taxable year; and

(B) Whose taxable income for such taxable year does not exceed the ceiling amount,

a tax determined under tables, applicable to such taxable year, which shall be prescribed by the director. In the tables so prescribed, the amounts of tax shall be computed on the basis of the rates prescribed by section 235-51.

(2) Ceiling amount defined. For purposes of paragraph (1), the term "ceiling amount" means, with respect to any taxpayer, the amount (not less than $20,000) determined by the director for the tax rate category in which such taxpayer falls.

(3) Authority to prescribe tables for taxpayers who itemize deductions. The director may provide that this section shall apply also for any taxable year to individuals who itemize their deductions. Any tables prescribed under the preceding sentence shall be on the basis of taxable income.

(b) Section inapplicable to certain individuals. This section shall not apply to:

(1) An individual making a return for a period of less than twelve months on account of a change in annual accounting period, and

(2) An estate or trust.

(c) Tax treated as imposed by section 235-51. For purposes of this chapter, the tax imposed by this section shall be treated as tax imposed by section 235-51.

(d) Taxable income. Whenever it is necessary to determine the taxable income of an individual to whom this section applies, the taxable income shall be determined under section 235-2.4(a). [L Sp 1957, c 1, pt of §2; am L Sp 1959 2d, c 1, §16; Supp, §121-10; HRS §235-53; am L 1968, c 8, §2; am L 1977, c 46, §1; am L 1981, c 208, §3; am L 1987, c 239, §§1(13), (14)]

18-235-54 **§235-54 Exemptions.** (a) *[This subsection (a) is effective until December 31, 2012. For subsection (a) effective on January 1, 2013, see below.]* In computing the taxable income of any individual, there shall be deducted, in lieu of the personal exemptions allowed by the Internal Revenue Code of 1986, as amended, and except as provided in subsection (c), personal exemptions computed as follows: Ascertain the number of exemptions which the individual can lawfully claim under the Internal Revenue Code, add an additional exemption for the taxpayer or the taxpayer's spouse who is sixty-five years of age or older within the taxable year, and multiply that number by $1,040, for taxable years beginning after December 31, 1984. A nonresident shall prorate the personal exemptions on account of income from sources outside the State as provided in section 235-5. In the case of an individual with respect to whom an exemption under this section is allowable to another taxpayer for a taxable year beginning in the calendar year in which the individual's taxable year begins, the personal exemption amount applicable to such individual under this subsection for such individual's taxable year shall be zero.

(a) *[Subsection effective January 1, 2013. For subsection effective until December 31, 2012, see above.]* In computing the taxable income of any individual, there shall be deducted, in lieu of the personal exemptions allowed by the Internal Revenue Code of 1986, as amended, and except as provided in subsection (c), personal exemptions computed as follows: Ascertain the number of exemptions which the individual can lawfully claim under the Internal Revenue Code, add an additional exemption for the taxpayer or the taxpayer's spouse who is sixty-five years of age or older within the

taxable year, and multiply that number by $1,144, for taxable years beginning after December 31, 1984. A nonresident shall prorate the personal exemptions on account of income from sources outside the state as provided in section 235-5. In the case of an individual with respect to whom an exemption under this section is allowable to another taxpayer for a taxable year beginning in the calendar year in which the individual's taxable year begins, the personal exemption amount applicable to such individual under this subsection for such individual's taxable year shall be zero.

(b) In computing the taxable income of an estate or trust there shall be allowed, in lieu of the deductions allowed under subsection (a), the following:

(1) An estate shall be allowed a deduction of $400.

(2) A trust which, under its governing instrument, is required to distribute all of its income currently shall be allowed a deduction of $200.

(3) All other trusts shall be allowed a deduction of $80.

(c) The phaseout under section 151(d)(3) of the Internal Revenue Code of 1986, as amended, shall apply to this section; provided that the threshold income amounts under section 151(d)(3)(C) of the Internal Revenue Code of 1986, as amended, shall be reduced by twenty-five per cent for the purposes of this subsection; provided further that the threshold income amounts under section 151(d)(3)(C) of the Internal Revenue Code of 1986, as amended, used to determine the twenty-five per cent reduction under this subsection shall be maintained at the amounts in place on July 1, 2008.

(d) A blind person, a deaf person, and any person totally disabled, in lieu of the personal exemptions allowed by the Internal Revenue Code, shall be allowed, and there shall be deducted in computing the taxable income of a blind person, a deaf person, or a totally disabled person, instead of the exemptions provided by subsection (a), the amount of $7,000. [L Sp 1957, c 1, pt of §2; am L 1960, c 4, §1; Supp, §121-11; HRS §235-54; am L 1970, c 90, §2 and c 180, §2; am L 1978, c 181, §1; am L 1980, c 241, §2; am L 1985, c 78, §1; am L 1987, c 239, §1(15); am L 1999, c 253, §4; am L 2009, c 60, §3; am L Sp 2009, c 14, §1; am L 2011, c 97, §4]

Note

The L 2009, c 60 amendment of subsection (a) applies to taxable years beginning after December 31, 2012. L 2011, c 97, §4. Effect of L 2009, c 60 amendment on underpayments. L 2009, c 60, §4.

The L Sp 2009, c 14 amendment applies to taxable years beginning after December 31, 2008. L Sp 2009, c 14, §3.

Cross Reference

Tax Information Release No. 89-3, "State Tax Benefits Available to Persons With Impaired Sight, Impaired Hearing, or Who Are Totally Disabled"

Tax Information Release No. 90-10, "Clarification of Taxation and the Eligibility for Personal Exemptions & Credits of Residents & Nonresidents in the Military and Spouses and Dependents of Persons in the Military" Supplemented and superseded in part by TIR 97-1

Tax Information Release No. 92-3, "Income Tax Issues Affecting Nonresident Aliens"

Tax Information Release No. 94-2, "State Tax Benefits Available to Persons Totally Disabled"

Tax Information Release No. 97-1, "Determination of Residence Status"

Law Journals and Reviews

Rule of Strict Construction in Tax Cases, a Question of Classification or Exemption, Arthur B. Reinwald, 11 HBJ 98.

Case Notes

Statutes granting exemptions are strictly construed in favor of taxpayer. 56 H. 321, 536 P.2d 91.

18-235-55 **§235-55 Tax credits for resident taxpayers.** (a) Whenever an individual or person liable to the taxes imposed upon individuals, who is a resident of the State or who has filed a joint resident return under section 235-93, has become liable for income taxes to a state, or to the District of Columbia, Puerto Rico, or any other territory or possession of the United States, or to a foreign country upon any part of the individual's or person's taxable income for the taxable year, derived or received from sources without the State and taxed under the laws of such other jurisdiction irrespective of the residence or domicile of the recipient, there shall be credited against the tax payable by the individual or person under this chapter the tax so paid by the individual or person to the other jurisdiction upon the individual's or person's producing for the department of taxation satisfactory evidence:

(1) Of such tax payment; and

(2) That the laws of the other jurisdiction do not allow the individual or person a credit against the taxes imposed by such jurisdiction for the taxes paid or payable under this chapter, or do allow such credit in an amount which has been deducted in computing the amount of credit sought under this section.

(b) The application of such credit, however:

(1) Shall not be allowed with respect to any taxable income or any tax which under subchapter N of chapter 1 of the Internal Revenue Code of 1954 (which is applicable for federal purposes but not for state purposes) is or may be the subject of an exclusion, exemption, or tax credit; and

(2) Shall not operate to reduce the tax payable under this chapter to an amount less than that which would have been payable had the taxpayer been taxable only on the income from property owned, personal services performed, trade or business carried on, and other sources in the State.

(c) If any taxes paid to another jurisdiction for which a taxpayer has been allowed a credit under this section are at any time credited or refunded to the taxpayer, such fact shall be reported by the taxpayer to the department within twenty days after the credit or refund. Failure to make such report shall be deemed failure to make a return and subject to the penalties imposed by law in such cases. A tax equal to the credit allowed for the taxes so credited or refunded shall be due and payable from the taxpayer upon notice and demand from the department. If the amount of such tax is not paid within ten days from the date of the notice and demand, the taxpayer shall be subject to the usual penalties and interest for delinquency in payment.

(d) Nothing in this section shall be construed to permit a credit against the taxes imposed by this chapter on account of federal income taxes. [L Sp 1957, c 1, pt of §2; am L 1959, c 277, §9(a); am L Sp 1959 2d, c 1, §16; Supp, §121-12; HRS §235-55; am imp L 1984, c 90, §1; gen ch 1985; am L 1996, c 187, §5]

Cross Reference

Tax Information Release No. 83-2, "Treatment of Tax Credits for State Income Tax Purposes"

Tax Information Release No. 90-10, "Clarification of Taxation and the Eligibility for Personal Exemptions & Credits of Residents & Nonresidents in the Military and Spouses and Dependents of Persons in the Military" Supplemented and superseded in part by TIR 97-1

Tax Information Release No. 99-4. "Application of the Franchise Tax, General Excise Tax, and Income Tax to Mortgage Loan Companies, Including Mortgage Loan Companies Organized as Passthrough Entities and Sole Proprietorships"

Tax Information Release No. 97-1, "Determination of Residence Status"

18-235-55.5 **§235-55.5 REPEALED.** L 1990, c 187, §2.

Cross Reference

For present provision, see §235-55.8.

§235-55.6 Expenses for household and dependent care services necessary for gainful employment. (a) Allowance of credit.

(1) In general. For each resident taxpayer, who files an individual income tax return for a taxable year, and who is not claimed or is not otherwise eligible to be claimed as a dependent by another taxpayer for federal or Hawaii state individual income tax purposes, who maintains a household which includes as a member one or more qualifying individuals (as defined in subsection (b)(1)), there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the applicable percentage of the employment-related expenses (as defined in subsection (b)(2)) paid by the individual during the taxable year. If the tax credit claimed by a resident taxpayer exceeds the amount of income tax payment due from the resident taxpayer, the excess of the credit over payments due shall be refunded to the resident taxpayer; provided that tax credit properly claimed by a resident individual who has no income tax liability shall be paid to the resident individual; and provided further that no refunds or payment on account of the tax credit allowed by this section shall be made for amounts less than $1.

(2) Applicable percentage. For purposes of paragraph (1), the taxpayer's applicable percentage shall be determined as follows:

Adjusted gross income	Applicable Percentage
Not over $25,000	25%
Over $25,000 but not over $30,000	24%
Over $30,000 but not over $35,000	23%
Over $35,000 but not over $40,000	22%
Over $40,000 but not over $45,000	21%
Over $45,000 but not over $50,000	20%
Over $50,000	15%

(b) Definitions of qualifying individual and employment-related expenses. For purposes of this section:

(1) Qualifying individual. The term "qualifying individual" means:

(A) A dependent of the taxpayer who is under the age of thirteen and with respect to whom the taxpayer is entitled to a deduction under section 235-54(a),

(B) A dependent of the taxpayer who is physically or mentally incapable of caring for oneself, or

(C) The spouse of the taxpayer, if the spouse is physically or mentally incapable of caring for oneself.

(2) Employment-related expenses.

(A) In general. The term "employment-related expenses" means amounts paid for the following expenses, but only if such expenses are incurred to enable the taxpayer to be gainfully employed for any period for which there are one or more qualifying individuals with respect to the taxpayer:

(i) Expenses for household services, and

(ii) Expenses for the care of a qualifying individual.

Such term shall not include any amount paid for services outside the taxpayer's household at a camp where the qualifying individual stays overnight.

(B) Exception. Employment-related expenses described in subparagraph (A) which are incurred for services outside the taxpayer's household shall be taken into account only if incurred for the care of:

(i) A qualifying individual described in paragraph (1)(A), or

(ii) A qualifying individual (not described in paragraph (1)(A)) who regularly spends at least eight hours each day in the taxpayer's household.

(C) Dependent care centers. Employment-related expenses described in subparagraph (A) which are incurred for services provided outside the taxpayer's household by a dependent care center (as defined in subparagraph (D)) shall be taken into account only if:

(i) Such center complies with all applicable laws, rules, and regulations of this State, if the center is located within the jurisdiction of this State; or

(ii) Such center complies with all applicable laws, rules, and regulations of the jurisdiction in which the center is located, if the center is located outside the State; and

(iii) The requirements of subparagraph (B) are met.

(D) Dependent care center defined. For purposes of this paragraph, the term "dependent care center" means any facility which:

(i) Provides care for more than six individuals (other than individuals who reside at the facility), and

(ii) Receives a fee, payment, or grant for providing services for any of the individuals (regardless of whether such facility is operated for profit).

(c) Dollar limit on amount creditable. The amount of the employment-related expenses incurred during any taxable year which may be taken into account under subsection (a) shall not exceed:

(1) $2,400 if there is one qualifying individual with respect to the taxpayer for such taxable year, or

(2) $4,800 if there are two or more qualifying individuals with respect to the taxpayer for such taxable year.

The amount determined under paragraph (1) or (2) (whichever is applicable) shall be reduced by the aggregate amount excludable from gross income under section 129 (with respect to dependent care assistance programs) of the Internal Revenue Code for the taxable year.

(d) Earned income limitation.

(1) In general. Except as otherwise provided in this subsection, the amount of the employment-related expenses incurred during any taxable year which may be taken into account under subsection (a) shall not exceed:

(A) In the case of an individual who is not married at the close of such year, such individual's earned income for such year, or

(B) In the case of an individual who is married at the close of such year, the lesser of such individual's earned income or the earned income of the individual's spouse for such year.

(2) Special rule for spouse who is a student or incapable of caring for oneself. In the case of a spouse who is a student or a qualified individual described in subsection (b)(1)(C), for purposes of paragraph (1), such spouse shall be deemed for each month during which such spouse is a full-time student at an educational institution, or is such a qualifying individual, to be gainfully employed and to have earned income of not less than:

(A) $200 if subsection (c)(1) applies for the taxable year, or

(B) $400 if subsection (c)(2) applies for the taxable year.

In the case of any husband and wife, this paragraph shall apply with respect to only one spouse for any one month.

(e) Special rules. For purposes of this section:

(1) Maintaining household. An individual shall be treated as maintaining a household for any period only if over half the cost of maintaining the household for the period is furnished by the individual (or, if the individual is married during the period, is furnished by the individual and the individual's spouse).

(2) Married couples must file joint return. If the taxpayer is married at the close of the taxable year, the credit shall be allowed under subsection (a) only if the taxpayer and the taxpayer's spouse file a joint return for the taxable year.

(3) Marital status. An individual legally separated from the individual's spouse under a decree of divorce or of separate maintenance shall not be considered as married.

(4) Certain married individuals living apart. If:

(A) An individual who is married and who files a separate return:

(i) Maintains as the individual's home a household that constitutes for more than one-half of the taxable year the principal place of abode of a qualifying individual, and

(ii) Furnishes over half of the cost of maintaining the household during the taxable year, and

(B) During the last six months of the taxable year the individual's spouse is not a member of the household, the individual shall not be considered as married.

(5) Special dependency test in case of divorced parents, etc. If:

(A) Paragraph (2) or (4) of section 152(e) of the Internal Revenue Code of 1986, as amended, applies to any child with respect to any calendar year, and

(B) The child is under age thirteen or is physically or mentally incompetent of caring for the child's self,

in the case of any taxable year beginning in the calendar year, the child shall be treated as a qualifying individual described in subsection (b)(1)(A) or (B) (whichever is appropriate) with respect to the custodial parent (within the meaning of section 152(e)(1) of the Internal Revenue Code of 1986, as amended), and shall not be treated as a qualifying individual with respect to the noncustodial parent.

(6) Payments to related individuals. No credit shall be allowed under subsection (a) for any amount paid by the taxpayer to an individual:

(A) With respect to whom, for the taxable year, a deduction under section 151(c) of the Internal Revenue Code of 1986, as amended (relating to deduction for personal exemptions for dependents) is allowable either to the taxpayer or the taxpayer's spouse, or

(B) Who is a child of the taxpayer (within the meaning of section 151(c)(3) of the Internal Revenue Code of 1986, as amended) who has not attained the age of nineteen at the close of the taxable year.

For purposes of this paragraph, the term "taxable year" means the taxable year of the taxpayer in which the service is performed.

(7) Student. The term "student" means an individual who, during each of five calendar months during the taxable year, is a full-time student at an educational organization.

(8) Educational organization. The term "educational organization" means a school operated by the department of education under chapter 302A, an educational organization described in section 170(b)(1)(A)(ii) of the Internal Revenue Code of 1986, as amended, or a university, college, or community college.

(9) Identifying information required with respect to service provider. No credit shall be allowed under subsection (a) for any amount paid to any person unless:

(A) The name, address, taxpayer identification number, and general excise tax license number of the person are included on the return claiming the credit,

(B) If the person is located outside the State, the name, address, and taxpayer identification number, if any, of the person and a statement indicating that the service provider is located outside the State and that the general excise tax license and, if applicable, the taxpayer identification numbers are not required, or

(C) If the person is an organization described in section 501(c)(3) of the Internal Revenue Code and exempt from tax under section 501(a) of the Internal Revenue Code, the name and address of the person are included on the return claiming the credit.

In the case of a failure to provide the information required under the preceding sentence, the preceding sentence shall not apply if it is shown that the taxpayer exercised due diligence in attempting to provide the information so required.

(f) Rules. The director of taxation shall prescribe such rules under chapter 91 as may be necessary to carry out the purposes of this section. [L 1977, c 196, §2; am L 1979, c 62, §2(10); am L 1981, c 234, §1; am L 1982, c 25, §3; am imp L 1984, c 90, §1; gen ch 1985; am L 1985, c 19, §2; am L 1987, c 239, §1(16); am L 1988, c 102, §4; am L 1989, c 13, §5, c 321, §4 and c 322, §1; am L 1993, c 73, §§2, 3; am L 1996, c 89, §10; am L 2016, c 235, §1]

Note

The 2016 amendment applies to taxable years beginning after December 31, 2015. L 2016, c 235, §3.

Cross Reference

Tax Information Release No. 83-2, "Treatment of Tax Credits for State Income Tax Purposes"

18-235-55.7 **§235-55.7 Income tax credit for low-income household renters.** (a) As used in this section:

(1) "Adjusted gross income" is defined by section 235-1.

(2) "Qualified exemption" includes those exemptions permitted under this chapter; provided that a person for whom exemption is claimed has physically resided in the State for more than nine months during the taxable year; and provided that multiple exemption shall not be granted because of deficiencies in vision, hearing, or other disability.

(3) "Rent" means the amount paid in cash in any taxable year for the occupancy of a dwelling place which is used by a resident taxpayer or the resident taxpayer's immediate family as the principal residence in this State. Rent is limited to the amount paid for the occupancy of the dwelling place only, and is exclusive of charges for utilities, parking stalls, storage of goods, yard services, furniture, furnishings, and the like. Rent shall not include any rental claimed as a deduction from gross income or adjusted gross income for income tax purposes, any ground rental paid for use of land only, and any rent allowance or subsidies received.

(b) Each resident taxpayer who occupies and pays rent for real property within the State as the resident taxpayer's residence or the residence of the resident taxpayer's immediate family which is not partially or wholly exempted from real property tax, who is not eligible to be claimed as a dependent for federal or state income taxes by another, and who files an individual net income tax return for a taxable year, may claim a tax credit under this section against the resident taxpayer's Hawaii state individual net income tax.

(c) Each taxpayer with an adjusted gross income of less than $30,000 who has paid more than $1,000 in rent during the taxable year for which the credit is claimed may claim a tax credit of $50 multiplied by the number of qualified exemptions to which the taxpayer is entitled; provided each taxpayer sixty-five years of age or over may claim double the tax credit; and provided that a resident individual who has no income or no income taxable under this chapter may also claim the tax credit as set forth in this section.

(d) If a rental unit is occupied by two or more individuals, and more than one individual is able to qualify as a claimant, the claim for credit shall be based upon a pro rata share of the rent paid.

(e) The tax credits shall be deductible from the taxpayer's individual net income tax for the tax year in which the credits are properly claimed; provided that a husband and wife filing separate returns for a taxable year for which a joint return could have been made by them shall claim only the tax credits to which they would have been entitled had a joint return been filed. In the event the allowed tax credits exceed the amount of the income tax payments due from the taxpayer, the excess of credits over payments due shall be refunded to the taxpayer; provided that allowed tax credits properly claimed by an individual who has no income tax liability shall be paid to the individual; and provided further that no refunds or payments on account of the tax credits allowed by this section shall be made for amounts less than $1.

(f) The director of taxation shall prepare and prescribe the appropriate form or forms to be used herein, may require proof of the claim for tax credits, and may adopt rules pursuant to chapter 91.

(g) All of the provisions relating to assessments and refunds under this chapter and under section 231-23(d)(1) shall apply to the tax credits hereunder.

(h) Claims for tax credits under this section, including any amended claims thereof, shall be filed on or before the end of the twelfth month following the taxable year for which the credit may be claimed. [L Sp 1977 1st, c 15, §1; am L 1981, c 230, §1; am imp L 1984, c 90, §1; gen ch 1985; am L 1989, c 321, §5; am L 1990, c 98, §1]

Revision Note

In subsection (g), "231-23(c)(1)" substituted for "231-23(d)(1)".

Cross Reference

For additional tax credits, see §§235-110.6, 110.7, 110.8.
Tax Information Release No. 83-2, "Treatment of Tax Credits for State Income Tax Purposes"

[§235-55.75] Earned income tax credit. (a) Each qualifying individual taxpayer may claim a nonrefundable earned income tax credit. The tax credit, for the appropriate taxable year, shall be twenty per cent of the federal earned income tax credit allowed and properly claimed under section 32 of the Internal Revenue Code and reported as such on the individual's federal income tax return.

(b) For a part-year resident, the tax credit shall equal the amount of the tax credit calculated in subsection (a) multiplied by the ratio of Hawaii adjusted gross income to federal adjusted gross income.

(c) For purposes of this section, "qualifying individual taxpayer" means a taxpayer that:

(1) Files a federal income tax return for the taxable year claiming the earned income tax credit under section 32 of the Internal Revenue Code; and

(2) Files a Hawaii income tax return using the filing status used on the federal income tax return for the taxable year and claiming the same dependents claimed on the federal income tax return for the taxable year.

(d) The credit allowed under this section shall be claimed against the net income tax liability for the taxable year. If the tax credit under this section exceeds the taxpayer's income tax liability, the excess of the tax credit over liability may be used as a credit against the taxpayer's net income tax liability in subsequent years until exhausted. All claims, including amended claims, for a tax credit under this section shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit.

(e) No credit shall be allowed under this section for any taxable year in the disallowance period. For purposes of this subsection, the disallowance period is:

(1) The period of ten taxable years after the most recent taxable year for which there was a final administrative or judicial decision that the taxpayer's claim for credit under this section was due to fraud; and

(2) The period of two taxable years after the most recent taxable year for which there was a final administrative or judicial decision disallowing the taxpayer's claim for credit.

(f) The director of taxation:

(1) Shall prepare any forms necessary to claim a tax credit under this section;

(2) May require proof of the claim for the tax credit;
(3) Shall alert eligible taxpayers of the tax credit using appropriate and available means;
(4) Shall prepare an annual public report to the legislature and the governor containing the:
(A) Number of credits granted for the prior calendar year;
(B) Total amount of the credits granted; and
(C) Average value of the credits granted to taxpayers whose earned income falls within various income ranges; and
(5) May adopt rules pursuant to chapter 91 to effectuate this section.

(g) This section shall apply to taxable years beginning after December 31, 2017, but shall not apply to taxable years beginning after December 31, 2022. [L 2017, c 107, §1]

18-235-55.8 **§235-55.8 REPEALED.** L 1998, c 157, §3.

Note

Application. L 1998, c 157, §7.

§235-55.85 Refundable food/excise tax credit. (a) Each individual taxpayer, who files an individual income tax return for a taxable year, and who is not claimed or is not otherwise eligible to be claimed as a dependent by another taxpayer for federal or Hawaii state individual income tax purposes, may claim a refundable food/excise tax credit against the taxpayer's individual income tax liability for the taxable year for which the individual income tax return is being filed; provided that an individual who has no income or no income taxable under this chapter and who is not claimed or is not otherwise eligible to be claimed as a dependent by a taxpayer for federal or Hawaii state individual income tax purposes may claim this credit.

(b) Each individual taxpayer may claim a refundable food/excise tax credit multiplied by the number of qualified exemptions to which the taxpayer is entitled in accordance with the table below; provided that a husband and wife filing separate tax returns for a taxable year for which a joint return could have been filed by them shall claim only the tax credit to which they would have been entitled had a joint return been filed.

Adjusted gross income for taxpayers filing a single return	Credit per exemption
Under $5,000	$110
$5,000 under $10,000	$100
$10,000 under $15,000	$ 85
$15,000 under $20,000	$ 70
$20,000 under $30,000	$ 55
$30,000 and over	$ 0

Adjusted gross income for heads of household, married individuals filing separate returns, and married couples filing joint returns	Credit per exemption
Under $5,000	$110
$5,000 under $10,000	$100
$10,000 under $15,000	$ 85
$15,000 under $20,000	$ 70
$20,000 under $30,000	$ 55
$30,000 under $40,000	$ 45
$40,000 under $50,000	$ 35
$50,000 and over	$ 0

(c) For the purposes of this section, a qualified exemption is defined to include those exemptions permitted under this chapter; provided that no additional exemption may be claimed by a taxpayer who is sixty-five years of age or older; provided that a person for whom exemption is claimed has been physically present in the State for more than nine months during the taxable year; and provided further that multiple exemptions shall not be granted because of deficiencies in vision or hearing, or other disability. For purposes of claiming this credit only, a minor child receiving support from the department of human services of the State, social security survivor's benefits, and the like, may be considered a dependent and a qualified exemption of the parent or guardian.

(d) The tax credit under this section shall not be available to:
(1) Any person who has been convicted of a felony and who has been committed to prison and has been physically confined for the full taxable year;
(2) Any person who would otherwise be eligible to be claimed as a dependent but who has been committed to a youth correctional facility and has resided at the facility for the full taxable year; or
(3) Any misdemeanant who has been committed to jail and has been physically confined for the full taxable year.

(e) The tax credits claimed by a taxpayer pursuant to this section shall be deductible from the taxpayer's individual income tax liability, if any, for the tax year in which they are properly claimed. If the tax credits claimed by a taxpayer exceed the amount of income tax payment due from the taxpayer, the excess of credits over payments due shall be refunded to the taxpayer; provided that tax credits properly claimed by a individual who has no income tax liability shall be paid to the individual; and provided further that no refunds or payment on account of the tax credits allowed by this section shall be made for amounts less than $1.

(f) All claims for tax credits under this section, including any amended claims, shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credits may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit.

(g) For the purposes of this section, "adjusted gross income" means adjusted gross income as defined by the Internal Revenue Code. [L 1998, c 157, §1; am L 2007, c 211, §1; am L 2015, c 223, §2; am L 2017, c 107, §3]

Note

The 2015 amendment shall apply to taxable years beginning after December 31, 2015. L 2015, c 223, §4.

§235-55.9 REPEALED. L 2000, c 18, §7.

§235-55.91 Credit for employment of vocational rehabilitation referrals. (a) There shall be allowed to each taxpayer subject to the tax imposed by this chapter, a credit for employment of vocational rehabilitation referrals which shall be deductible from the taxpayer's net income tax liability, if any, imposed by this chapter for the taxable year in which the credit is properly claimed.

(b) The amount of the credit determined under this section for the taxable year shall be equal to twenty per cent of the qualified first-year wages for that year. The amount of the qualified first-year wages which may be taken into account with respect to any individual shall not exceed $6,000.

(c) For purposes of this section:

"Hiring date" means the day the vocational rehabilitation referral is hired by the employer.

"Qualified first-year wages" means, with respect to any vocational rehabilitation referral, qualified wages attributable to service rendered during the one-year period beginning with the day the individual begins work for the employer.

"Qualified wages" means the wages paid or incurred by the employer during the taxable year to an individual who is a vocational rehabilitation referral and more than one-half of the wages paid or incurred for such an individual is for services performed in a trade or business of the employer.

"Vocational rehabilitation referral" means any individual who is certified by the department of human services vocational rehabilitation and services for the blind division in consultation with the Hawaii state employment service of the department of labor and industrial relations as:

(1) Having a physical or mental disability which, for such individual, constitutes or results in a substantial handicap to employment; and

(2) Having been referred to the employer upon completion of (or while receiving) rehabilitative services pursuant to:

(A) An individualized written rehabilitation plan under the State's plan for vocational rehabilitation services approved under the Rehabilitation Act of 1973, as amended; or

(B) A program of vocational rehabilitation carried out under chapter 31 of Title 38, United States Code; or

(C) An individual work plan developed and implemented by an employment network pursuant to subsection (g) of section 1148 of the Social Security Act, as amended, with respect to which the requirements of such subsection are met.

"Wages" has the meaning given to such term by section 3306(b) of the Internal Revenue Code (determined without regard to any dollar limitation contained in the Internal Revenue Code section). "Wages" shall not include:

(1) Amounts paid or incurred by an employer for any period to any vocational rehabilitation referral for whom the employer receives state or federally funded payments for on-the-job training of the individual for the period;

(2) Amounts paid to an employer (however utilized by the employer) for any vocational rehabilitation referral under a program established under section 414 of the Social Security Act; and

(3) If the principal place of employment is at a plant or facility, and there is a strike or lockout involving vocational rehabilitation referrals at the plant or facility, amounts paid or incurred by the employer to the vocational rehabilitation referral for services which are the same as, or substantially similar to, those services performed by employees participating in, or affected by, the strike or lockout during the period of strike or lockout.

(d) The following shall apply to certifications of vocational rehabilitation referrals:

(1) An individual shall not be treated as a vocational rehabilitation referral unless, on or before the day on which the individual begins work for the employer, the employer:

(A) Has received a certification from the department of human services vocational rehabilitation and services for the blind division that the individual is a qualified vocational rehabilitation referral; or

(B) Has requested in writing the certification from the department of human services vocational rehabilitation and services for the blind division that the individual is a qualified vocational rehabilitation referral.

For purposes of the preceding sentence, if on or before the day on which the individual begins work for the employer, the individual has received from the department of human services vocational rehabilitation and services for the blind division a written preliminary determination that the individual is a vocational rehabilitation referral, then "the fifth day" shall be substituted for "the day" in the preceding sentence.

(2) If an individual has been certified as a vocational rehabilitation referral and the certification is incorrect because it was based on false information provided by the individual, the certification shall be revoked and wages paid by the employer after the date on which notice of revocation is received by the employer shall not be treated as qualified wages.

(3) In any request for a certification of an individual as a vocational rehabilitation referral, the employer shall certify that a good faith effort was made to determine that such individual is a vocational rehabilitation referral.

(e) The following wages paid to vocational rehabilitation referrals are ineligible to be claimed by the employer for this credit:

(1) No wages shall be taken into account under this section with respect to a vocational rehabilitation referral who:

(A) Bears any of the relationships described in section 152(d)(2)(A) to (G) of the Internal Revenue Code to the taxpayer, or, if the taxpayer is a corporation, to an individual who owns, directly or indirectly, more than fifty per cent in value of the outstanding stock of the corporation (determined with the application of section 267(c) of the Internal Revenue Code);

(B) If the taxpayer is an estate or trust, is a grantor, beneficiary, or fiduciary of the estate or trust, or is an individual who bears any of the relationships described in section 152(d)(2)(A) to (G) of the Internal Revenue Code to a grantor, beneficiary, or fiduciary of the estate or trust; or

(C) Is a dependent (described in section 152(d)(2)(H) of the Internal Revenue Code) of the taxpayer, or, if the taxpayer is a corporation, of an individual described in subparagraph (A), or, if the taxpayer is an estate or trust, of a grantor, beneficiary, or fiduciary of the estate or trust.

(2) No wages shall be taken into account under this section with respect to any vocational rehabilitation referral if, prior to the hiring date of the individual, the individual had been employed by the employer at any time during which the individual was not a vocational rehabilitation referral.

(3) No wages shall be taken into account under this section with respect to any vocational rehabilitation referral unless such individual either:

(A) Is employed by the employer at least ninety days; or

(B) Has completed at least one hundred-twenty hours of services performed for the employer.

(f) In the case of a successor employer referred to in section 3306(b)(1) of the Internal Revenue Code, the determination of the amount of the tax credit allowable under this section with respect to wages paid by the successor employer shall be made in the same manner as if the wages were paid by the predecessor employer referred to in the section.

(g) No credit shall be determined under this section with respect to wages paid by an employer to a vocational rehabilitation referral for services performed by the individual for another person unless the amount reasonably expected to be received by the employer for the services from the other person exceeds the wages paid by the employer to the individual for such services.

(h) The credit allowed under this section shall be claimed against net income tax liability for the taxable year. A tax credit under this section which exceeds the taxpayer's income tax liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted.

(i) All claims for tax credits under this section, including any amended claims, shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credits may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit.

(j) No deduction shall be allowed for that portion of the wages or salaries paid or incurred for the taxable year that is equal to the amount of the credit determined under this section.

(k) The director of taxation may adopt any rules under chapter 91 and forms necessary to carry out this section. [L 1990, c 289, §1; am L 1991, c 137, §1; am L 2008, c 93, §5; am L 2015, c 53, §1]

Note

The 2008 amendment applies to taxable years beginning after December 31, 2007; provided that the retroactive and prospective effective dates contained in the congressional acts relating to the Internal Revenue Code and enacted during 2007 shall be operative for chapter 235. L 2008, c 93, §7.

§§235-56, 56.5, and 57 REPEALED. L 1974, c 221, §§1(2), (3), and (4).

§§235-58, 58.1, and 58.2 REPEALED. L 1978, c 173, §2(11).

§235-59 Decedents. In respect of a decedent, the determination of the income of the taxable period in which falls the date of the decedent's death, and the determination of the income of the estate and of the persons who acquire rights from the decedent or by reason of the decedent's death, shall be governed by the Internal Revenue Code. [L Sp 1957, c 1, pt of §2; Supp, §121-14; HRS §235-59; am imp L 1984, c 90, §1; gen ch 1985]

§235-60 REPEALED. L 1978, c 173, §2(12).

WITHHOLDING AND COLLECTION OF TAX AT SOURCE

18-235-61 **§235-61 Withholding of tax on wages.** (a) As used in this section:

"Employee" includes an officer or elected official, or any other employee.

"Employer" means:

(1) The person or government for whom an individual performs or performed any service, of whatever nature, as the employee of that person or government;

(2) The person having control of the payment of the wages if the employer as heretofore defined does not have control thereof; and

(3) Any person subject to the jurisdiction of the State and paying wages on behalf of an employer as heretofore defined if the employer is not subject to the jurisdiction of the State;

provided that the term employer shall not include any government that is not subject to the laws of the State except as, and to the extent that, it consents to the application of sections 235-61 to 235-67 to it.

"Wages" means wages, commissions, fees, salaries, bonuses, and every and all other kinds of remuneration for, or compensation attributable to, services performed by an employee or for the employee's employer, including the cash value of all remuneration paid in any medium other than cash and the cost-of-living allowances and other payments included in gross income by section 235-7(b), but excluding income excluded from gross income by section 235-7 or other provisions of this chapter.

(b) Every employer, as defined herein, making payment of wages, as herein defined, to employees, shall deduct and withhold from such wages an amount of tax determined as provided in this section.

(c) For each withholding period (whether weekly, biweekly, monthly, or otherwise) the amount of tax to be withheld under this section shall be at a rate that, for the taxable year, will yield the tax imposed by section 235-51 upon each employee's annual wage, as estimated from the employee's current wage in any withholding period, but for the purposes of this subsection of the rates provided by section 235-51 the maximum to be taken into consideration shall be eight per cent. The tax for the taxable year shall be calculated upon the following assumptions:

(1) That the employee's annual wage, as estimated from the employee's current wage in the withholding period, will be the employee's sole income for the taxable year;

(2) That there will be no deductions therefrom in determining adjusted gross income;

(3) That in determining taxable income there shall be a standard deduction allowance, which shall be an amount equal to one exemption (or more than one exemption if so prescribed by the director) unless the taxpayer:

(A) Is married and the taxpayer's spouse is an employee receiving wages subject to withholding; or

(B) Has withholding exemption certificates in effect with respect to more than one employer.

For the purposes of this section, any standard deduction allowance under this paragraph shall be treated as if it were denominated a withholding exemption;

(4) That in determining taxable income there also will be deducted the amount of exemptions and withholding allowances granted to the employee in the computation of taxable income, as shown by a certificate to be filed with the employer as provided by subsection (f); and

(5) If it appears from the certificate filed pursuant to subsection (f) that the employee, under section 235-93, is entitled to make a joint return, that the employee and the employee's spouse will so elect.

(d) Alternatively, at the election of the employer, the employer may deduct and withhold from each employee an amount of tax determined on the basis of tables to be prepared and furnished by the department of taxation, which amount of tax shall be substantially equivalent to the amount of tax provided by subsection (c) hereof.

18-235-61-03 (e) The department, by rule, may require the deduction and withholding of tax from any remuneration or compensation paid for or attributable to services that are not subject to the general excise tax imposed by chapter 237, whether or not such withholding is provided for hereinabove. Every person so required to deduct and withhold tax, or from whom tax is required to be deducted and withheld, shall be subject to sections 235-61 to 235-67, and every person so required to deduct and withhold tax shall be deemed an employer for the purposes of this chapter.

The department, by rule, may exempt any employer from the requirement of deduction and withholding of taxes, even though the requirement is imposed by this section, if and to the extent that the department finds the requirement unduly onerous or impracticable of enforcement.

18-235-61-09 (f) On or before the date of the commencement of employment with an employer, the employee shall furnish the employer with a signed certificate relating to the number of exemptions which the employee claims, which shall in no event exceed the number to which the employee is entitled on the basis of the existing facts, and also showing whether the employee is married and is, under section 235-93, entitled to make a joint return. The certificate shall be in such form and contain such information as may be prescribed by the department.

If, on any day during the calendar year, there is a change in the employee's marital status and the employee no longer is entitled to make a joint return, or the number of exemptions to which the employee is entitled is less than the number of exemptions claimed by the employee on the certificate then in effect with respect to the employee, the employee shall within ten days thereafter furnish the employer with a new certificate showing the employee's present marital status, or relating to the number of exemptions which the employee then claims, which shall in no event exceed the number to which the employee is entitled on the basis of the existing facts. If, on any day during the calendar year, there is a change in the employee's marital status and though previously not entitled to make a joint return the employee now is so entitled, or the number of exemptions to which the employee is entitled is greater than the number of exemptions claimed, the employee may furnish the employer with a new certificate showing the employee's present marital status, or relating to the number of exemptions which the employee then claims, which shall in no event exceed the number to which the employee is entitled on the basis of the existing facts.

Such certificate shall take effect at the times set forth in the Internal Revenue Code.

(g) In determining the deduction allowed by subsection (c)(4) an employee shall be entitled to withholding allowances or additional reductions in withholding under this subsection. In determining the number of additional withholding allowances or the amount of additional reductions in withholding under this subsection, the employee may take into account (to the extent and in the manner provided by rules) estimated itemized deductions and tax credits allowable under this chapter; and such additional deductions and other items as may be specified by the director in rules. For the purposes of this subsection a fractional number shall not be taken into account unless it amounts to one-half or more, in which case it shall be increased to the next whole number.

(1) As used in this subsection, unless the context otherwise requires:

(A) "Estimated itemized deductions" means the aggregate amount which the employee reasonably expects will be allowed as deductions under sections 235-2.3, 235-2.4, 235-2.45 and 235-7, other than the deductions referred to in Internal Revenue Code section 151 and those deductions required to be taken into account in determining adjusted gross income under Internal Revenue Code section 62(a) (with the exception of paragraph 10 thereof) for the estimation year. In no case shall the aggregate amount be greater than the sum of:

(i) The amount of the deductions reflected in the employee's net income tax return for the taxable year preceding the estimation year of (if a return has not been filed for the preceding taxable year at the time the withholding exemption certificate is furnished the employer) the second taxable year preceding the estimation year; or

(ii) The amount of estimated itemized deductions and tax credits allowable under this chapter and any additional deductions to which entitled; and

(iii) The amount of the employee's determinable additional deductions for the estimation year.

(B) "Estimated wages" means the aggregate amount which the employee reasonably expects will constitute wages for the estimation year;

(C) "Determinable additional deductions" means those estimated itemized deductions which:

(i) Are in excess of the deductions referred to in subparagraph (A) reflected on the employee's net income tax return for the taxable year preceding the estimation year; and

(ii) Are demonstrably attributable to an identifiable event during the estimation year or the preceding taxable year which can reasonably be expected to cause an increase in the amount of such deductions on the net income tax return for the estimation year.

(D) "Estimation year", in the case of an employee who files the employee's return on the basis of a calendar year, means the calendar year in which the wages are paid; provided that in the case of an employee who files the employee's return on a basis other than the calendar year, the employee's estimation year, and the amounts deducted and withheld to be governed by the estimation year, shall be determined under rules prescribed by the director of taxation.

(2) Under this subsection, the following special rules shall apply:

(A) Married individuals. The number of withholding allowances to which a husband and wife are entitled under this subsection shall be determined on the basis of their combined wages and deductions. This subparagraph shall not apply to a husband and wife who filed separate returns for the taxable year preceding the estimation year and who reasonably expect to file separate returns for the estimation year;

(B) Limitation. In the case of employees whose estimated wages are at levels at which the amounts deducted and withheld under this chapter generally are insufficient (taking into account a reasonable allowance for deductions and exceptions) to offset the liability for tax under this chapter with respect to the wages from which the amounts are deducted and withheld, the director may by rule reduce the withholding allowances to which those employees would, but for this subparagraph, be entitled under this subsection;

(C) Treatment of allowances. For purposes of this chapter, any withholding allowance under this subsection shall be treated as if it were denominated a withholding exemption.

(3) The director may prescribe tables by rule under chapter 91 pursuant to which employees shall determine the number of withholding allowances to which they are entitled under this subsection.

(h) The director of taxation may adopt by rule under chapter 91 the rules and regulations promulgated by the United States Secretary of Treasury or a delegate of the Secretary relating to the provisions of subtitle C, chapter 24 of the Internal Revenue Code operative in this section. [L Sp 1957, c 1, pt of §2; am L Sp 1959 2d, c 1, §16; am L 1965, c 155, §31(d); Supp, §121-16; HRS §235-61; am L 1981, c 138, §1; am L 1982, c 23, §1; am L 1983, c 206, §2; am imp L 1984, c 90, §1; gen ch 1985; am L 1987, c 239, §1(17), (18); am L 1993, c 73, §4; am L 1995, c 92, §7; am L 1996, c 187, §6; am L 2001, c 199, §5; am L 2017, c 12, §44]

Cross Reference

Tax Information Release No. 33-71, "Withholding of Hawaii Income Taxes"
Tax Information Release No. 82-3, "State Income Tax Withholding on Sick Pay Including Temporary Disability Insurance"
Tax Information Release No. 95-4, "Employee Withholding Certificates"
Tax Information Release No. 2007-03, "Imposition of Hawaii State Income Tax on Income Earned by Nonresident Merchant Seamen and Withholding Obligations of Employers of Nonresident Merchant Seamen"
Tax Information Release No. 2010-01, "Military Spouses Residency Relief Act ("MSRRA")"

Case Notes

Statute did not apply, where defendants United States, director of taxation, and director of labor and industrial relations sought taxes that principal (subcontractor) failed to remit at the time it controlled its funds and payment of wages; because unpaid taxes accrued when principal had control over its payment of wages, plaintiff surety (which issued subcontractor's performance and payment bond) may not be held liable for these funds. 67 F. Supp. 2d 1183.

§235-62 Return and payment of withheld taxes. (a) Every employer required by this chapter to withhold taxes on wages paid in any quarter of the calendar year shall make a return of such wages to the department of taxation on or before the fifteenth day of the calendar month following the close of each such quarter for which the taxes have been withheld.

(b) The return shall be in such form, including computer printouts or other electronic formats, and contain such information as may be prescribed by the director of taxation. The return shall be filed with the director at the first taxation district in Honolulu.

(c) Every return required under this section shall be accompanied by a remission of the complete amount of tax withheld, as reported in the return; provided that each employer whose liability for taxes withheld exceeds $40,000 annually shall remit the complete amount of tax withheld on a semi-weekly schedule; provided further that each employer whose liability for taxes withheld exceeeds $5,000 but does not exceed $40,000 annually shall remit the complete amount of tax withheld on a monthly schedule. Notwithstanding the tax liability threshold in this subsection, the director of taxation is authorized to require any employer who is required to remit any withheld taxes to the federal government on a semi-weekly schedule, to remit the complete amount of tax withheld to the department on a semi-weekly schedule. The director of taxation may grant an exemption to the requirement to remit the complete amount of tax withheld on a semi-weekly schedule for good cause.

(d) If the director believes collection of the tax may be in jeopardy, the director may require any person required to make a return under this section to make such return and pay such tax at any time.

(e) The director, for good cause, may extend the time for making returns and payments, but not beyond the fifteenth day of the second month following the regular due date of the return. With respect to wages paid out of public moneys, the director, in the director's discretion, may prescribe special forms for, and different procedures and times for the filing of, the returns by employers paying the wages, or may waive the filing of any returns upon the conditions and subject to rules the director may prescribe.

(f) For purposes of this section, "semi-weekly schedule" means:

(1) On or before the following Wednesday if wages were paid on the immediately preceding Wednesday, Thursday, or Friday; or

(2) On or before the following Friday if wages were paid on the immediately preceding Saturday, Sunday, Monday, or Tuesday.

In addition to the allowances provided under section 231-21, each employer shall have at least three banking days following the close of the semi-weekly period by which to remit the taxes withheld as provided for in section 6302 of the Internal Revenue Code.

(g) For the purposes of this section, "monthly schedule" means on or befere the fifteenth day of the calendar month following the month for which the taxes have been withheld. [L Sp 1957, c 1, pt of §2; am L Sp 1959 2d, c 1, §16; am L 1964, c 24, §2; Supp, §121-17; am L 1966, c 19, §3; am L 1967, c 26, §2 and c 37, §1; HRS §235-62; am L 1970, c 37, §2; am L 1980, c 211, §2; am L 1981, c 138, §2; am imp L 1984, c 90, §1; gen ch 1985; am L 1992, c 38, §1; am L Sp 2001 3d, c 8, §2; am L 2004, c 113, §3; am L 2005, c 27, §2; am L 2009, c 196, §3; am L 2017, c 7, §2]

Note

The 2009 amendment applies to returns and payments due after May 31, 2009. L 2009, c 196, §8.

Cross Reference

Tax Information Release No. 2001-1, "The Application of Certain Hawaii Taxes to Qualified Subchapter S Subsidiary Corporations, Qualified Subchapter S Trusts, and Electing Small Business Trusts"

Tax Information Release No. 2004-1, "Act 113, Session Laws of Hawaii 2004, Relating to Income Tax Withholding"

Tax Announcement 2005-01, "Instructions on Filing Federal Schedule B (Form 941), Report of Tax Liability for Semiweekly Schedule Depositors, for Hawaii Withholding Tax Purposes"

§235-63 Statements to employees. Every employer required to deduct and withhold any tax on the wages of any employee shall furnish to each employee in respect of the employee's employment during the calendar year, on or before January 31 of the succeeding year, or if the employee's employment is terminated before the close of a calendar year, within thirty days after the date of receipt of a written request from the employee if such thirty-day period ends before January 31, a written statement, showing the period covered by the statement, the wages paid by the employer to the employee during such period, and the amount of the tax deducted and withheld or paid in respect of such wages. Each such employer shall file on or before the last day of February following the close of the calendar year a duplicate copy of each such statement. The department of taxation may grant to any employer a reasonable extension of time, not in excess of sixty days, with respect to any statement required by this section to be furnished to an employee or filed, and may by regulation provide for the furnishing or filing of statements at such other times and containing such other information as may be required for the administration of this chapter. The department shall prescribe the form of the statement required by this section and may adopt any federal form appropriate for the purpose. [L Sp 1957, c 1, pt of §2; am L Sp 1959 2d, c 1, §16; Supp, §121-18; HRS §235-63; am L 1980, c 236, §1; am L 1983, c 88, §3; am imp L 1984, c 90, §1; gen ch 1985]

§235-64 Taxes withheld by employer held in trust; employer's liability. (a) All taxes withheld by any employer under section 235-61 shall be held in trust by the employer for the State and for the payment of the same to the collector in the manner and at the time required by this chapter. If any employer fails, neglects, or refuses to deduct and withhold from the wages paid to an employee, or to pay over, the amount of tax required, the employer shall be liable to pay to the State the amount of the tax. An employer may recover from an employee any amount which the employer should have withheld but did not withhold from the employee's wages, if the employer has been required to pay and has paid the amount to the State out of the employer's own funds pursuant to this section.

(b) In addition to the liability imposed by subsection (a) if any employer fails, neglects, or refuses to deduct and withhold from the wages paid to any employee, or to pay over, the amount of tax required, any person excluding those who have only ministerial duties, who is under a duty to deduct and withhold or to pay over, the amount of tax required, and who wilfully fails to perform such duty, shall be liable to the State for the amount of the tax. The liability may be assessed and collected in the same manner as the liability imposed by subsection (a); provided that two or more persons may be assessed under this subsection jointly or in the alternative, but the tax shall be collected only once with respect to the same wages. The voluntary or involuntary dissolution of the employer, or the withdrawal and surrender of its right to engage in business within this State shall not discharge the liability hereby imposed. [L Sp 1957, c 1, pt of §2; am L 1959, c 277, §11; Supp, §121-19; HRS §235-64; am L 1974, c 11, §1; am imp L 1984, c 90, §1; gen ch 1985; am L 1990, c 82, §1; am L 2002, c 153, §4]

Note

The 2002 amendment applies to withholding requirements for payroll periods beginning on or after July 1, 2002. L 2002, c 153, §7(2).

[§235-64.2] Withholdings by partnerships, estates, and trusts. Partnerships, estates, and trusts shall withhold an amount equal to the highest marginal tax rate applicable to a nonresident taxpayer multiplied by the amount of the taxpayer's distributive share of income attributable to the State reflected on the partnership's, estate's, and trust's return for the taxable period. All amounts withheld shall be paid to the department of taxation in a manner that the department may prescribe. Withholding shall not be required to be submitted by a publicly traded partnership, as defined by section 7704(b) of the Internal Revenue Code, otherwise in compliance with this section. A publicly traded partnership shall file an annual information return reporting the name, address, taxpayer identification number, and other information requested by the department of taxation of each unit holder with income sourced to the State. [L 2019, c 232, §1]

Note

Section applies to taxable years beginning after December 31, 2018. L 2019, c 232, §4.

§235-65 REPEALED. L 1995, c 92, §22.

18-235-66 **§235-66 Further withholdings at source; crediting of withheld taxes.** (a) The department of taxation by regulation, may require the deduction and withholding of tax from any gross income or adjusted gross income of a nonresident, in order to collect the tax imposed by this chapter on the nonresident.

(b) Income upon which any tax has been withheld at the source under sections 235-61 to 235-64.2, or under regulations adopted pursuant to subsection (a), shall be included in the return of the recipient of such income, but any amount of tax so withheld shall be credited against the amount of income tax as computed in the return, and if in excess of the tax due for the taxable year shall be refunded as provided in section 235-110. [L Sp 1957, c 1, pt of §2; am L Sp 1959 2d, c 1, §16; Supp, §121-21; HRS §235-66; am L 2019, c 232, §2]

Note

The 2019 amendment applies to taxable years beginning after December 31, 2018. L 2019, c 232, §4.

§235-67 Indemnity of withholder. Every person required to withhold a tax under sections 235-61 to 235-64, or under regulations adopted pursuant to section 235-66(a), is made liable for such tax and is relieved of liability for or upon the claim or demand of any other person for the amount of any payments to the department of taxation made in accordance with such sections. [L Sp 1957, c 1, pt of §2; am L Sp 1959 2d, c 1, §16; Supp, §121-22; HRS §235-67]

§235-68 Withholding of tax on the disposition of real property by nonresident persons. (a) As used in this section:

"Nonresident person" means every person other than a resident person.

"Property" or "real property" has the meaning as the same term is defined in section 231-1.

"Resident person" means any:

(1) Individual included in the definition of resident in section 235-1;
(2) Corporation incorporated or granted a certificate of authority under chapter 414, 414D, or 415A;
(3) Partnership formed or registered under chapter 425 or 425E;
(4) Foreign partnership qualified to transact business pursuant to chapter 425 or 425E;
(5) Limited liability company formed under chapter 428 or any foreign limited liability company registered under chapter 428; provided that if a single member limited liability company has not elected to be taxed as a corporation, the single member limited liability company shall be disregarded for purposes of this section and this section shall be applied as if the sole member is the transferor;
(6) Limited liability partnership formed under chapter 425;
(7) Foreign limited liability partnership qualified to transact business under chapter 425;
(8) Trust included in the definition of resident trust in section 235-1; or
(9) Estate included in the definition of resident estate in section 235-1.

"Transferee" means any person, the State and the counties and their respective subdivisions, agencies, authorities, and boards, acquiring real property which is located in Hawaii.

"Transferor" means any person disposing real property that is located in Hawaii.

(b) Unless otherwise provided in this section, every transferee shall deduct and withhold a tax equal to 7.25 per cent of the amount realized on the disposition of Hawaii real property. Every person required to withhold a tax under this section is made liable for the tax and is relieved of liability for or upon the claim or demand of any other person for the amount of any payments to the department made in accordance with this section.

(c) Every transferee required by this section to withhold tax under subsection (b) shall make a return of the amount withheld to the department of taxation not more than twenty days following the transfer date.

(d) No person shall be required to deduct and withhold any amount under subsection (b), if the transferor furnishes to the transferee an affidavit by the transferor stating the transferor's taxpayer identification number and:

(1) The transferor is a resident person; or
(2) That by reason of a nonrecognition provision of the Internal Revenue Code as operative under this chapter or the provisions of any United States treaty, the transferor is not required to recognize any gain or loss with respect to the transfer;
(3) A brief description of the transfer; and
(4) A brief summary of the law and facts supporting the claim that recognition of gain or loss is not required with respect to the transfer.

This subsection shall not apply if the transferee has actual knowledge that the affidavit referred to in this subsection is false.

(e) An application for a withholding certificate may be submitted by the transferor to the department setting forth:

(1) The name, address, and taxpayer identification number, if any, of the parties to the transaction and the location and general description of the real property to be transferred; and
(2) A calculation and written justification showing that the transferor will not realize any gain with respect to the transfer; or
(3) A calculation and written justification showing that there will be insufficient proceeds to pay the withholding required under subsection (b) after payment of all costs, including selling expenses and the amount of any mortgage or lien secured by the property.

Upon receipt of the application, the department shall determine whether the transferor has realized or will realize any gain with respect to the transfer, or whether there will be insufficient proceeds to pay the withholding. If the department is satisfied that no gain will be realized or that there will be insufficient proceeds to pay the withholding, it shall issue a withholding certificate stating the amount to be withheld, if any.

The submission of an application for a withholding certificate to the department does not relieve the transferee of its obligation to withhold or to make a return of the tax under subsections (b) and (c).

(f) No person shall be required to deduct and withhold any amount under subsection (b) if one or more individual transferors furnishes to the transferee an affidavit by the transferor stating the transferor's taxpayer identification number, that for the year preceding the date of the transfer the property has been used by the transferor as a principal residence, and that the amount realized for the property does not exceed $300,000.

(g) The department may enter into written agreements with persons who engage in more than one real property transaction in a calendar year or other persons to whom meeting the withholding requirements of this section are not practicable. The written agreements may allow the use of a withholding method other than that prescribed by this section or may waive the withholding requirement under this section. [L 1990, c 213, §1; am L 1991, c 279, §1; am L 1995, c 92, §8; am L 1997, c 178, §2; am L 2002, c 40, §6; am L 2003, c 210, §3; am L 2005, c 23, §1; am L 2018, c 122, §1]

Note

Chapter 415 referred to in definition of "resident person" is repealed. For present provisions, see chapter 414.

Effective July 1, 2002, chapter 415B referred to in definition of "resident person" is repealed. For provisions effective July 1, 2002, see chapter 414D.

L 2005, c 23, §3 provides:

"SECTION 3. This Act shall take effect upon its approval [April 22, 2005] and apply to taxable years beginning after December 31, 2004; provided that nothing in this Act shall be construed to create any inference with respect to the proper tax treatment of single member limited liability companies for taxable years prior to the taxable year beginning on January 1, 2005."

The 2018 amendment applies to real estate dispositions that occur on or after September 15, 2018. L 2018, c 122, §3.

Cross Reference

Tax Information Release No. 2002-2, "Withholding of State Income Taxes on Disposition of Hawaii Real Property" Superseded by TIR No. 2017-01

Tax Information Release No. 2017-01, "Withholding of State Income Taxes on Disposition of Hawaii Real Property"

[§235-69] Voluntary deduction and withholding of state income tax from unemployment compensation. An individual receiving unemployment compensation benefits under chapter 383 may elect to have state income tax deducted and withheld from the individual's payment of unemployment compensation at the rate of five percent in accordance with section 383-163.6. [L 1996, c 157, §1]

PART IV. CORPORATION INCOME TAX

18-235-71 **§235-71 Tax on corporations; rates; credit of shareholder of regulated investment company.** (a) A tax at the rates herein provided shall be assessed, levied, collected, and paid for each taxable year on the taxable income of every corporation, including a corporation carrying on business in partnership, except that in the case of a regulated investment company the tax is as provided by subsection (b) and further that in the case of a real estate investment trust as defined in section 856 of the Internal Revenue Code of 1954 the tax is as provided in subsection (d). "Corporation" includes any professional corporation incorporated pursuant to chapter 415A.

The tax on all taxable income shall be at the rate of 4.4 per cent if the taxable income is not over $25,000, 5.4 per cent if over $25,000 but not over $100,000, and on all over $100,000, 6.4 per cent.

(b) In the case of a regulated investment company there is imposed on the taxable income, computed as provided in sections 852 and 855 of the Internal Revenue Code but with the changes and adjustments made by this chapter (without prejudice to the generality of the foregoing, the deduction for dividends paid is limited to such amount of dividends as is attributable to income taxable under this chapter), a tax consisting in the sum of the following: 4.4 per cent if the taxable income is not over $25,000, 5.4 per cent if over $25,000 but not over $100,000, and on all over $100,000, 6.4 per cent.

(c) In the case of a shareholder of a regulated investment company there is hereby allowed a credit in the amount of the tax imposed on the amount of capital gains which by section 852(b)(3)(D) of the Internal Revenue Code is required to be included in the shareholder's return and on which there has been paid to the State by the regulated investment company the tax at the rate imposed by subsection (b); the amount of this credit may be applied or refunded as provided in section 235-110.

(d) In the case of a real estate investment trust there is imposed on the taxable income, computed as provided in sections 857 and 858 of the Internal Revenue Code but with the changes and adjustments made by this chapter (without prejudice to the generality of the foregoing, the deduction for dividends paid is limited to such amount of dividends as is attributable to income taxable under this chapter), a tax consisting in the sum of the following: 4.4 per cent if the taxable income is not over $25,000, 5.4 per cent if over $25,000 but not over $100,000, and on all over $100,000, 6.4 per cent. In addition to any other penalty provided by law any real estate investment trust whose tax liability for any taxable year is deemed to be increased pursuant to section 859(b)(2)(A) or 860(c)(1)(A) after December 31, 1978, (relating to interest and additions to tax determined with respect to the amount of the deduction for deficiency dividends allowed) of the Internal Revenue Code shall pay a penalty in an amount equal to the amount of interest for which such trust is liable that is attributable solely to such increase. The penalty payable under this subsection with respect to any determination shall not exceed one-half of the amount of the deduction allowed by section 859(a), or 860(a) after December 31, 1978, of the Internal Revenue Code for such taxable year.

(e) Any corporation acting as a business entity in more than one state and which is required by this chapter to file a return and whose only activities in this State consist of sales and which does not own or rent real estate or tangible personal property and whose annual gross sales in or into this State during the tax year are not in excess of $100,000 may elect to report and pay a tax of .5 per cent of such annual gross sales. [L Sp 1957, c 1, pt of §2; am L 1965, c 155, §§10, 11, 12 and c 201, §6; Supp, §121-23; HRS §235-71; am L 1969, c 226, §5; am L 1974, c 10, §2; am L 1978, c 173, §2(13); am L 1979, c 62, §2(11); am L 1983, c 167, §18; am L 1985, c 270, §4; am L 1987, c 239, §1(19); am L 1988, c 10, §1(3), (4)]

Cross Reference

Professional corporation, see chapter 415A.
Tax Information Release No. 57-78, "Adoption of Internal Revenue Code" OBSOLETE
Tax Information Release No. 87-4, "Corporation Tax Rates for 1987"

§235-71.5 Alternative tax for corporations. Section 1201 (with respect to alternative tax for corporations) of the Internal Revenue Code of 1986, as amended as of December 31, 1996, shall be operative for the purposes of this chapter and shall be applied as set forth in this section. If for any taxable year a corporation, regulated investment company, or real estate investment trust has a net capital gain, then, in lieu of the tax imposed by section 235-71, there is hereby imposed a tax (if such tax is less than the tax imposed under section 235-71) which shall consist of the sum of:

(1) A tax computed on the taxable income reduced by the amount of the net capital gain, at the rates and in the manner as if this section had not been enacted, plus
(2) The sum of:
  (A) 3.08 per cent of the lesser of:
    (i) The net capital gain determined by including only the gain or loss which is properly taken into account for the portion of the taxable year before April 1, 1987 (i.e., the amount in paragraph (1)), or
    (ii) The net capital gain for the taxable year, plus
  (B) 4 per cent of the excess (if any) of:
    (i) The net capital gain for the taxable year, over
    (ii) The amount of the net capital gain taken into account under subparagraph (A). [L 1988, c 10, §1(1); am L 1998, c 113, §3]

§235-72 Corporations carrying on business in partnership. Corporations carrying on business in partnership shall be treated in the same manner by this chapter as they are treated by the Internal Revenue Code. [L Sp 1957, c 1, pt of §2; Supp, §121-24; HRS §235-72; am L 1978, c 173, §2(14)]

Cross Reference

Tax Information Release No. 57-78, "Adoption of Internal Revenue Code" OBSOLETE

PART V. ELECTION BY SMALL BUSINESS CORPORATION

§§235-81 to 89 REPEALED. L 1978, c 173, §2(15).

§235-91 REPEALED. L 1978, c 173, §2(16).

[§235-91.5] Income tax credits; ordering of credit claims. Notwithstanding any other law to the contrary providing for the use of an income tax credit under this chapter, in the offsetting of a taxpayer's income tax liability, tax credits that may be refunded or paid to the taxpayer who has no income tax liability shall be used first, followed by nonrefundable tax credits that may be used as credit against taxes in subsequent years until exhausted. [L 2010, c 21, §2]

Note

Applies to taxable years beginning on or after January 1, 2010. L 2010, c 21, §4.

18-235-92 **§235-92 Returns, who shall make.** For each taxable year, returns shall be made by the following persons to the department of taxation in such form and manner as it shall prescribe:

(1) Every person doing business in the State during the taxable year, whether or not the person derives any taxable income therefrom. As used in this paragraph "doing business" includes all activities engaged in or caused to be engaged in with the object of gain or economic benefit, direct or indirect, except personal services performed as an employee under the direction and control of an employer. Every person receiving rents from property owned in the State is classed as "doing business" and shall make a return whether or not the person derives taxable income therefrom.

(2) Every corporation having for the taxable year gross income subject to taxation under this chapter; provided that an affiliated group of domestic corporations may make and file a consolidated return for the taxable year in lieu of separate tax returns in the manner and to the extent, so far as applicable, set forth in sections 1501 through 1505 and 1552 of the Internal Revenue Code of 1954, as amended.

(3) Every individual, estate, or trust having for the taxable year gross income subject to taxation under this chapter, except as exempted from the filing of a return by regulations of the department.

The department may by regulation excuse the filing of a return by an individual, estate, or trust in cases not coming within paragraph (1), where the gross income and exemptions are such that no tax is expected to accrue under this chapter, or are such that substantially all the tax will have been collected through tax withholdings or at the source. [L Sp 1957, c 1, pt of §2; am L Sp 1959 2d, c 1, §16; Supp, §121-26; HRS §235-92; am L 1968, c 24, §2; am L 1978, c 173, §2(17); am imp L 1984, c 90, §1; gen ch 1985]

Cross Reference

Tax Information Release No. 57-78, "Adoption of Internal Revenue Code" OBSOLETE

Tax Information Release No. 65-79, "State Taxation of Homeowners Associations for Income, General Excise and Use Taxes"

Tax Information Release No. 97-2, "Filing of a Combined Hawaii Income Tax Return by a Unitary Business as Part of a Unitary Group" REVISED

Tax Information Release No. 2001-1, "The Application of Certain Hawaii Taxes to Qualified Subchapter S Subsidiary Corporations, Qualified Subchapter S Trusts, and Electing Small Business Trusts"

18-235-93 **§235-93 Joint returns.** (a) A husband and wife, having that status for purposes of the Internal Revenue Code and entitled to make a joint federal return for the taxable year, may make a single return jointly of taxes under this chapter for the taxable year. In that case the tax shall be computed on their aggregate income as provided in section 235-52, and the liability with respect to the tax shall be joint and several. For purposes of this chapter "aggregate income" means the income of both spouses without regard to source in the State.

(b) If an individual has filed a separate return for a taxable year for which a joint return could have been made by the taxpayer and the taxpayer's spouse, an election thereafter to make a joint return for the taxable year shall be made only upon compliance with rules of the department of taxation, which may limit the election and prescribe the terms and provisions applicable in such cases as nearly as may be in conformity with the Internal Revenue Code.

(c) The filing of a joint return after the individual has filed a separate return without full payment of the amount shown as tax on the joint return may be elected; provided all other requirements for the filing of a joint return under this section and the rules of the department are complied with. [L Sp 1957, c 1, pt of §2; am L Sp 1959 2d, c 1, §16; Supp, §121-27; HRS §235-93; am L 1974, c 9, §2; am L 1982, c 22, §1(4); am L 1997, c 297, §4]

Cross Reference

Tax Information Release No. 92-3, "Income Tax Issues Affecting Nonresident Aliens"

Tax Information Release No. 97-1, "Determination of Residence Status"

Law Journals and Reviews

Tax Justice and Same-Sex Domestic Partner Health Benefits: An Analysis of the Tax Equity For Health Plan Beneficiaries Act. 32 UH L. Rev. 73 (2009).

[§235-93.4] Effect of civil union. All provisions of the Internal Revenue Code referred to in this chapter that apply to a husband and wife, spouses, or person in a legal marital relationship shall be deemed to apply in this chapter to partners in a civil union with the same force and effect as if they were "husband and wife", "spouses", or other terms that describe persons in a legal marital relationship. [L 2011, c 1, §4]

Note

Section applies to taxable years beginning after December 31, 2011. L 2011, c 1, §10.

Attorney General Opinions

Civil union partners have all the same rights, benefits, protections, and responsibilities under the law as married couples who are of the opposite gender; civil union partners have the same tax filing status options as married couples who are of the opposite gender for Hawaii income tax purposes for taxable years beginning after December 31, 2011. Att. Gen. Op. 11-2.

Definitions of "marriage" and "spouse" under the federal Defense of Marriage Act, Pub. L. No. 104-199, 110 Stat. 2419, may preclude civil union partners of the same gender under the State's Civil Union Act from filing jointly for federal income tax purposes, but they do not preclude civil union partners from filing joint tax returns for Hawaii income tax purposes. Att. Gen. Op. 11-2.

§235-93.5 REPEALED. L 1999, c 198, §3.

18-235-94 **§235-94 Returns by agent, guardian, etc.; liability of fiduciaries.** (a) Returns of decedents. If an individual is deceased, the return of the individual required under section 235-92 shall be made by the individual's personal representative or other person charged with the care of property of the decedent.

(b) Persons under a disability. If an individual is unable to make a return required under section 235-92 or 235-97, the return of the individual shall be made by a duly authorized agent, the individual's committee, guardian, fiduciary, or other person charged with the care of the person or property of the individual. The preceding sentence shall not apply in the case of a receiver appointed by authority of law in possession of only a part of the property of an individual.

(c) Receivers, trustees, and assignees for corporations. In a case where a receiver, trustee in bankruptcy, or assignee, by order of a court of competent jurisdiction, by operation of law, or otherwise, has possession of or holds title to all or substantially all the property or business of a corporation, whether or not the property or business is being operated, such receiver, trustee, or assignee shall make the return of income for the corporation in the same manner and form as corporations are required to make such returns.

(d) Returns of estates and trusts. Returns of an estate or a trust shall be made by the fiduciary thereof.

(e) Joint fiduciaries. Under such regulations as the department of taxation may prescribe, a return made by one of two or more joint fiduciaries shall be sufficient compliance with the requirement of this section. A return made pursuant to this subsection shall contain a statement that the fiduciary has sufficient knowledge of the affairs of the person for whom the return is made to enable the fiduciary to make the return, and the return is, to the best of the fiduciary's knowledge and belief, true and correct.

(f) Liability of fiduciaries. A tax imposed upon a fiduciary shall be a charge upon the property held by the fiduciary in that capacity. [L Sp 1957, c 1, pt of §2; am L Sp 1959 2d, c 1, §16; Supp, §121-28; HRS §235-94; am L 1976, c 200, pt of §1; am imp L 1984, c 90, §1; gen ch 1985]

§235-94.5 REPEALED. L 1990, c 16, §4.

18-235-95 **§235-95 Partnership returns.** Every partnership shall make a return for each taxable year upon forms prescribed by the department of taxation, itemizing its gross income and allowable deductions and including the names and addresses of the persons who would be entitled to share in the income if distributed and the amount of each distributive share. The return shall be authenticated by the signature of any one of the partners, under the penalties provided by section 231-36, and the fact that a partner's name is signed on the return shall be prima facie evidence that such partner is authorized to sign the return on behalf of the partnership. All provisions of this chapter relating to returns shall be applicable to partnership returns except as specifically otherwise stated in this section. [L Sp 1957, c 1, pt of §2; am L Sp 1959 2d, c 1, §16; Supp, §121-29; HRS §235-95; am L 1995, c 92, §9]

Cross Reference

Tax Information Release No. 97-4, "Application of the Business Entity Classification Rules Under the "Check-the-box" Regulations to the Hawaii Income Tax and Other Taxes"

Tax Information Release No. 2001-1, "The Application of Certain Hawaii Taxes to Qualified Subchapter S Subsidiary Corporations, Qualified Subchapter S Trusts, and Electing Small Business Trusts"

18-235-96 **§235-96 Returns by persons making payments.** By duly promulgated regulations the department of taxation may require that any individual, partnership, corporation, joint stock company, association, insurance company, or other person, being a resident or having a place of business in this State, in whatever capacity acting, including lessees or mortgagors of

real and personal property, fiduciaries, employers, and all officers and employees of the State or of any political subdivision thereof, having the control, receipt, custody, disposal, or payment of any annuity or interest on deposits or funds held in trust, including taxable income from endowment policies, other interest (except interest coupons payable to bearer), dividends, wages, rentals, royalties, premiums, or other emoluments, gains, profits, and income, paid or payable during any year to any person, shall, on such date or dates as the department shall from time to time designate, make a return to the department furnishing the information required by the regulations. [L Sp 1957, c 1, pt of §2; am L Sp 1959 2d, c 1, §16; Supp, §121-30; HRS §235-96]

[§235-96.5] Returns relating to unemployment. (a) The state department of labor and industrial relations shall submit a return to the department of taxation according to the forms or rules prescribed by the director of taxation setting forth the aggregate amounts of payments of unemployment compensation and the name and address of the individual to whom paid under chapters 383 to 385.

(b) The department of labor and industrial relations shall furnish to each individual whose name is set forth in such return a written statement showing:

(1) The name and address of the department of labor and industrial relations; and

(2) The aggregate amount of payments to the individual as shown on such return.

The written statement required by this subsection shall be furnished to the individual on or before January 31 of the year following the calendar year for which the return under subsection(a) was made. No statement shall be required to be furnished to any individual under this subsection if the aggregate amount of payments to such individual shown on the return made under subsection (a) is less than $10. [L 1979, c 62, §2(4)]

18-235-97 **§235-97 Estimates; tax payments; returns.**

(a)(1) Individuals, corporations (including S corporations), estates, and trusts, shall annually furnish the department of taxation with a declaration of estimated tax for the current taxable year. Declarations of estimated tax, except as otherwise provided by rule, shall be governed by the provisions as to returns contained in sections 235-94, 235-98, 235-99, and 235-128. The declarations shall be made on estimated tax payment voucher forms. The payment voucher shall be filed, in the case of taxpayers on the calendar year basis, on or before April 20. In the case of a husband and wife who are entitled to submit a joint payment voucher for federal purposes, a single payment voucher may be submitted by them jointly, in which case the liability with respect to the estimated tax shall be joint and several; if a joint payment voucher is submitted but a joint income tax return is not made for the taxable year, the estimated tax for the year may be treated as the estimated tax of either the husband or the wife or may be divided between them.

(2) Each taxpayer shall transmit, with the payment voucher, payment of one-quarter of the estimated tax for the current taxable year. In determining this quarterly payment and all other installments, there first shall be deducted from the total estimated tax the amount of estimated tax withholding or collection at source for the taxable year. Thereafter, on the twentieth day of June and September, the taxpayer shall transmit with the payment voucher, payment of one-quarter of the estimated tax. The fourth quarter payment of the estimated tax shall be transmitted with the payment voucher by January 20 of the year following the taxable year for which the estimate was made.

(3) Taxpayers operating on a fiscal year basis shall make similar estimates and tax payments, on or before the twentieth day of the fourth month of the fiscal year and periodically thereafter so as to conform to the payments and returns required in the case of those on a calendar year basis.

(4) The department by rule may excuse individuals from filing an estimate in those cases where the gross income and exemptions are such that no tax is expected to accrue under this chapter, or are such that substantially all the tax will be collected through tax withholding or at the source.

(5) In the case of a foreign corporation, the department may excuse the filing of an estimate and the payment of estimated tax if it is satisfied that less than fifteen per cent of the corporation's business for the taxable year will be attributable to the State. For the purposes of this paragraph, fifteen per cent of a corporation's business shall be deemed attributable to the State if fifteen per cent or more of the entire gross income of the corporation (which for the purposes of this paragraph means gross income computed without regard to source in the State) is attributable to the State under sections 235-21 to 235-39 or other provisions of this chapter.

(6) In the case of a taxpayer whose tax liability is less than $500, the filing of an estimate and the payment of estimated tax shall not be required.

(b) Net income returns for the taxable year shall be filed with the department on or before the twentieth day of the fourth month following the close of the taxable year, and shall be accompanied by payment of the balance of the tax for the taxable year, or the entire tax for the taxable year, as the case may be. These returns shall be filed both by persons required to make declarations of estimated tax pursuant to this section and by persons not required to make declarations of estimated tax.

(c) At the election of the taxpayer, any installment of the estimated tax may be paid prior to the date prescribed for its payment.

(d) A person who, under the regulations of the department adopted pursuant to subsection (a)(4), is relieved of filing an estimate, shall if the regulations cease to apply by reason of a change of circumstances during the taxable year, file the required estimate on the first quarterly payment date prescribed for payment of estimated taxes, following such change of circumstances, and pay the estimated tax in equal installments computed by allocating the entire amount shown by the estimate for the current taxable year to the remaining quarterly payment dates.

(e) An amendment of an estimate may be filed, under regulations prescribed by the department. If an amendment is filed, the remaining installments, if any, shall be ratably increased or decreased to reflect the increase or decrease in the estimate. The amended estimate may be accompanied by payment of the amount of underpayment, if any, and if so this shall be considered in determining the period of the underpayment as provided in subsection (g).

(f) In the case of any underpayment of estimated tax, except as provided by this subsection, there shall be added to the tax for the taxable year an amount determined at the rate of two-thirds of one per cent a month or fraction of a month upon the amount of the underpayment for the period of the underpayment.

(1) The amount of the underpayment shall be the excess of:
  (A) The required installment, over
  (B) The amount, if any, of the installment paid on or before the due date for the installment.

(2) The period of the underpayment shall run from the due date for the installment to whichever of the following dates is the earlier:
  (A) The twentieth day of the fourth month following the close of the taxable year, or
  (B) With respect to any portion of the underpayment, the date on which the portion is paid. For purposes of this paragraph, a payment of estimated tax on any installment date shall be credited against unpaid required installments in the order in which the installments are required to be paid.

(3) For the purposes of this section, the term "tax" means the tax imposed under this chapter reduced by any credits available to the taxpayer other than the credit for amounts withheld from the taxpayer's wages or taxes withheld at the source, if any, or estimated tax payments or payments remitted with extension requests for the taxable year.

(4) Sections 6654(d), (e)(2), (e)(3), (h), (i), (j), (k), and (l), (with respect to failure by an individual to pay estimated income tax), and 6655(d), (e), (g)(2), (g)(3), (g)(4), and (i) (with respect to failure by a corporation to pay estimated income tax) of the Internal Revenue Code, as of the date set forth in section 235-2.3(a), shall be operative for the purposes of this section; provided that the due dates contained in any of the preceding Internal Revenue Code sections shall be deemed to be the twentieth day of the applicable month; and provided further that, for purposes of this chapter in applying section 6654(d), the required annual payment shall be the lesser of sixty per cent of the tax shown on the return for the taxable year (or, if no return is filed, sixty per cent of the tax for the taxable year) or one hundred per cent of the tax shown on the return of the individual for the preceding taxable year.

(g) The amounts of taxes withheld from wages or collected at source shall be deemed payments of estimated tax, and an equal part of any such amount shall be deemed paid on each installment date for the taxable year, unless the taxpayer establishes the dates on which all amounts were actually withheld or collected, in which case the amounts so withheld or collected shall be deemed payments of estimated tax on the dates on which such amounts were actually withheld or collected. [L Sp 1957, c 1, pt of §2; am L 1959, c 277, §12; am L Sp 1959 2d, c 1, §16; Supp, §121-31; am L 1967, c 134, §4; HRS §235-97; am L 1979, c 62, §2(12); am imp L 1984, c 90, §1; gen ch 1985; am L 1990, c 16, §3; am L 1991, c 20, §1; am L 1993, c 73, §§5, 6; am L 1995, c 67, §1; am L 1998, c 113, §4; am L 2002, c 190, §1; am L 2003, c 14, §1]

Revision Note

In subsection (d), "(a)(4)" substituted for "(a)(5)".

Note

The 2003 amendment applies to taxable years beginning after December 31, 2002. L 2003, c 14, §4.

18-235-98 **§235-98 Returns; form, verification and authentication, time of filing.** Returns shall be in such form as the department of taxation may prescribe from time to time and shall be verified by written declarations that the statements therein made are subject to the penalties prescribed in section 231-36. Corporate returns shall be authenticated by the signature of the president, vice president, treasurer, assistant treasurer, chief accounting officer, or any other officer duly authorized so to act, under the penalties prescribed by section 231-36. The fact that an individual's name is signed on the corporation return shall be prima facie evidence that the individual is authorized to sign the return on behalf of the corporation.

The department may grant a reasonable extension of time for filing returns under such rules as it shall prescribe. Except as otherwise provided by statute for cases in which exceptional circumstances require additional time, including cases of persons who are outside the United States, no extension of time for filing returns shall be for more than six

months in order to expedite the timely determination of tax liability and the timely remission of taxes. [L Sp 1957, c 1, pt of §2; am L Sp 1959 2d, c 1, §16; Supp, §121-32; HRS §235-98; am L 1995, c 92, §10; am L 2003, c 14, §2]

Note

The 2003 amendment applies to taxable years beginning after December 31, 2002. L 2003, c 14, §4.

Cross Reference

Tax Information Release No. 97-4, "Application of the Business Entity Classification Rules Under the "Check-the-box" Regulations to the Hawaii Income Tax and Other Taxes"

18-235-99 **§235-99 Same; place for filing.** Returns shall be filed with the collector for the taxation district in which is located the legal residence or principal place of business of the person making the return, or, if such person has no legal residence or principal place of business in the State, then with the collector at Honolulu. [L Sp 1957, c 1, pt of §2; Supp, §121-33; am L 1967, c 37, §1; HRS §235-99]

§235-100 Persons in military service. The collection from any person in the military service of any tax on the income of such person, whether falling due prior to or during the person's period of military service (which term, as used in this section, shall have the same meaning as in the Soldiers' and Sailors' Civil Relief Act of 1940, as amended), shall be deferred for a period extending not more than six months after the termination of the person's period of military service if such person's ability to pay such tax is materially impaired by reason of such service. No interest on any amount of tax, collection of which is deferred for any period under this section, and no penalty for nonpayment of such amount during such period, shall accrue for such period of deferment by reason of such nonpayment. The running of any statute of limitations against the collection of such tax by distraint or otherwise shall be suspended for the period of military service of any individual the collection of whose tax is deferred under this section, and for an additional period of nine months beginning with the day following the period of military service. [L Sp 1957, c 1, pt of §2; Supp, §121-34; HRS §235-100; am imp L 1984, c 90, §1; gen ch 1985]

Cross Reference

Civil relief for state military force, see §657D-43.

Tax Information Release No. 2003-2, "Extension of Deadlines and Other Tax Relief for Members of the Armed Forces, Reserves, and Hawaii National Guard"

[§235-100.5] Abatement of income taxes of members of armed forces on death. [Section retroactive to August 2, 1990.] Section 692 (with respect to income taxes of members of armed forces on death) of the Internal Revenue Code shall be operative for the purposes of this chapter and the department shall have the authority to abate income taxes as provided in section 692.

For the purposes of this section "member of the Armed Forces of the United States" shall have the same meaning as provided by section 7701(a)(15) of the Internal Revenue Code. [L 1991, c 208, §3]

Cross Reference

Tax Information Release No. 2003-2, "Extension of Deadlines and Other Tax Relief for Members of the Armed Forces, Reserves, and Hawaii National Guard"

§235-101 Federal returns and assessments, when copies are required. (a) In prescribing the form of return the department of taxation may require that a person who is required to file a federal income tax return include in the person's return a reconciliation of the return with the person's federal return, or that the person furnish with the return and as a part thereof a copy of the federal return.

(b) It shall be the duty of every person who is required by section 235-92 to make a return, to report to the department, as to any taxable year governed by this chapter, if:

(1) The amount of taxable income as returned to the United States is changed, corrected, or adjusted by an officer of the United States or other competent authority;
(2) A change in taxable income results from a renegotiation of a contract with the United States or a subcontract thereunder;
(3) A recomputation of the income tax imposed by the United States under the Internal Revenue Code results from any cause; or
(4) An amended income tax return is made to the United States.

The report shall be made within ninety days after the change, correction, adjustment, or recomputation is finally determined or the amended return is filed, as the case may be. The report required by this subsection shall be made in the form of an amendment of the person's return filed under this chapter. The amended return shall be accompanied by a copy of the document issued by the United States under paragraphs (1) to (3). The statutory period for the assessment of any deficiency or the determination of any refund attributable to this report shall not expire before the expiration of one year from the date the department is notified by the taxpayer or the Internal Revenue Service, whichever is earlier, of the

report in writing. Before the expiration of this one-year period, the department and the taxpayer may agree in writing to the extension of this period. The period so agreed upon may be further extended by subsequent agreements in writing made before the expiration of the period previously agreed upon.

(c) Whenever, in the opinion of the department, it is necessary to examine any federal income tax return of any taxpayer or any determination, assessment, or report related thereto, the department may compel the taxpayer to produce for inspection a copy of any federal return, copies of all statements and schedules in support thereof, and copies of all determinations, assessments, and reports related thereto. [L Sp 1957, c 1, pt of §2; am L Sp 1959 2d, c 1, §16; Supp, §121-35; HRS §235-101; am L 1978, c 173, §2(18); am imp L 1984, c 90, §1; gen ch 1985; am L 1989, c 18, §1; am L 1993, c 31, §1; am L 2017, c 12, §45]

Cross Reference

Tax Information Release No. 57-78, "Adoption of Internal Revenue Code" OBSOLETE

18-235-102 **§235-102 Records and special returns.** (a) Records. Every person liable to any tax imposed by this chapter or for the collection or deduction thereof at source, shall keep full, complete, regular, and accurate books of account in which all the person's transactions shall be entered in regular order; provided that the director of taxation may, by regulation, provide for the keeping of simpler accounts in cases where, by reason of the smallness of the income or otherwise, undue hardship or expense will be caused by the keeping of full books of account. All books of account required to be kept by this chapter shall be preserved for a period of three years, except that the director may, in writing, consent to their destruction within such period or may require that they be kept longer.

(b) Special returns and statements. Whenever it is necessary, in the judgment of the director, the director may require any taxpayer, or person liable for the collection or deduction of tax at source, by notice served upon the taxpayer or other person, to make such returns or render such signed statements as the director deems sufficient to show whether or not the taxpayer or other person is liable under this chapter. [L Sp 1957, c 1, pt of §2; am L Sp 1959 2d, c 1, §16; am L 1963, c 45, §4(a); Supp, §121-36; HRS §235-102; am L 1969, c 274, §1; am imp L 1984, c 90, §1; gen ch 1985]

Cross Reference

Tax Information Release No. 2002-1, "Audit of Net Income, General Excise, and Use Tax Returns; Appeal Rights; Claims for Refund; and Payment to State Under Protest"

Case Notes

Cited: 33 H. 766.

§235-102.5 Income check-off authorized. (a) Any individual whose state income tax liability for any taxable year is $3 or more may designate $3 of the liability to be paid over to the Hawaii election campaign fund, any other law to the contrary notwithstanding, when submitting a state income tax return to the department. In the case of a joint return of a husband and wife having a state income tax liability of $6 or more, each spouse may designate that $3 be paid to the fund. The director of taxation shall revise the individual state income tax form to allow the designation of contributions to the fund on the face of the tax return and immediately above the signature lines. An explanation shall be included which clearly states that the check-off does not constitute an additional tax liability. If no designation was made on the original tax return when filed, a designation may be made by the individual on an amended return filed within twenty months and ten days after the due date for the original return for such taxable year. A designation once made whether by an original or amended return may not be revoked.

(b) Notwithstanding any law to the contrary, any individual whose state income tax refund for any taxable year is $2 or more may designate $2 of the refund to be deposited into the school-level minor repairs and maintenance special fund established by section 302A-1504.5, when submitting a state income tax return to the department. In the case of a joint return of a husband and wife having a state income tax refund of $4 or more, each spouse may designate that $2 be deposited into the special fund. The director of taxation shall revise the individual state income tax return form to allow the designation of contributions to the special fund on the face of the tax return and immediately above the signature lines. If no designation was made on the original tax return when filed, a designation may be made by the individual on an amended return filed within twenty months and ten days after the due date for the original return for such taxable year. A designation once made, whether by an original or amended return, may not be revoked.

(c) Notwithstanding any law to the contrary, any individual whose state income tax refund for any taxable year is $5 or more may designate $5 of the refund to be paid over to the libraries special fund established by section 312-3.6, when submitting a state income tax return to the department. In the case of a joint return of a married couple having a state income tax refund of $10 or more, each spouse may designate that $5 be deposited into the special fund. The director of taxation shall revise the individual state income tax form to allow the designation of contributions to the fund on the face of the tax return and immediately above the signature lines. If no designation was made on the original tax return when filed, a designation may be made by the individual on an amended return filed within twenty months

and ten days after the due date for the original return for that taxable year. A designation once made, whether by an original or amended return, may not be revoked.

(d) Notwithstanding any law to the contrary, any individual whose state income tax refund for any taxable year is $5 or more may designate $5 of the refund to be paid over as follows:

(1) One-third to the Hawaii children's trust fund under section 350B-2; and

(2) Two-thirds to be divided equally among:

(A) The domestic violence prevention special fund under the department of health in section 321-1.3;

(B) The spouse and child abuse special fund under the department of human services in section 346-7.5; and

(C) The spouse and child abuse special account under the judiciary in section 601-3.6.

When designated by a taxpayer submitting a state income tax return to the department, the department of budget and finance shall allocate the moneys among the several funds as provided in this subsection. In the case of a joint return of a husband and wife having a state income tax refund of $10 or more, each spouse may designate that $5 be paid over as provided in this subsection. The director of taxation shall revise the individual state income tax form to allow the designation of contributions pursuant to this subsection on the face of the tax return and immediately above the signature lines. If no designation was made on the original tax return when filed, a designation may be made by the individual on an amended return filed within twenty months and ten days after the due date for the original return for such taxable year. A designation once made, whether by an original or amended return, may not be revoked. [L 1979, c 224, §4; am L 1991, c 112, §1; am L 2001, c 311, §3; am L 2002, c 16, §9; am L 2003, c 193, §2; am L 2004, c 228, §1; am L 2008, c 244, §34; am L 2018, c 170, §2; am L 2019, c 84, §2]

Note

The 2018 amendment applies to taxable years beginning after December 31, 2017. L 2018, c 170, §4.

[235-102.6] Refund splitting. (a) Any individual taxpayer required to make a return under this chapter shall be entitled to direct the deposit of an income tax refund into a maximum of three checking or savings accounts at a financial institution; provided that a taxpayer designating the direct deposit shall have electronically filed the taxpayer's return for federal and state income taxes and made a similar direct deposit electronic designation to the same checking or savings accounts on the electronic return.

(b) The department of taxation shall be authorized to modify and revise its returns and computer systems to carry out the purposes of this section. [L 2008, c 202, §2]

Note

Section applies to taxable years beginning after December 31, 2007. L 2008, c 202, §5.

§235-103 REPEALED. L 2019, c 17, §2.

§235-104 Penalties. Penalties and interest shall be added to and become part of the tax, when and as provided by sections 231-39 and 235-97. The penalties and interest provided by section 231-39 shall apply to employers as well as taxpayers. [L Sp 1957, c 1, pt of §2; Supp, §121-38; HRS §235-104]

Case Notes

When penalty applied. 33 H. 766.

§235-105 Failure to keep records, render returns, or make reports by responsible persons. The penalties provided by sections 231-34, 231-35, and 231-36 shall apply to any person, whether acting as principal, agent, officer, or director for oneself, itself, or another person and shall apply to each single violation. These penalties shall be in addition to other penalties provided by law. [L Sp 1957, c 1, pt of §2; am L Sp 1959 2d, c 1, §16; Supp, §121-39; HRS §235-105; am imp L 1984, c 90, §1; gen ch 1985; am L 1995, c 92, §11]

Cross Reference

Classification of offense and authorized punishment, see §§701-107, 706-640, 663.

Tax Information Release No. 2002-1, "Audit of Net Income, General Excise, and Use Tax Returns; Appeal Rights; Claims for Refund; and Payment to State Under Protest"

§235-106 REPEALED. L 1995, c 92, §23.

§235-107 Procedure upon failure to file return. If any taxpayer or employer liable to make and file a return under this chapter fails, neglects, or refuses to make and file a return as required within the time prescribed, or declines to authenticate a return if made, the department of taxation shall make a return for the taxpayer or employer from the best information obtainable and shall levy and assess against the taxpayer or employer the tax upon the amount of taxable

income, or the tax required to be withheld from wages and paid over, as shown by such return, to which shall be added the penalties and interest provided by section 231-39. The assessment shall be presumed to be correct until and unless, upon an appeal duly taken as provided in this chapter, the contrary shall be clearly proved by the taxpayer or employer and the burden of proof upon appeal shall be upon the taxpayer or employer to disprove the correctness of the assessment. Notice of the assessment shall be given, and an appeal therefrom may be taken, in the manner and within the time provided in section 235-108(b) and section 235-114. [L Sp 1957, c 1, pt of §2; am L Sp 1959 2d, c 1, §16; Supp, §121-41; HRS §235-107]

§235-108 Audit of return; procedure; additional taxes. (a) Audit. The director of taxation or a responsible person designated by the director to act in the premises for the purpose of verification or audit of a return made by the taxpayer or employer, or for the purpose of making a return where none has been made, is authorized and empowered to examine all account books, bank books, bank statements, records, vouchers, copies of federal tax returns, and any and all other documents and evidences having any relevancy to the determination of the income or wages as required to be returned under this chapter, and the director may employ the director's powers under section 231-7 for such purposes.

(b) Additional taxes. If the department of taxation discovers from the examination of the return or otherwise that income, or the liability of an employer in respect of wages, or any portion thereof, has not been assessed, it may assess the same and give notice to the taxpayer or employer of the assessment, and the taxpayer or employer shall thereupon have an opportunity within thirty days to confer with the department as to the proposed assessment. After the expiration of thirty days from such notification the department shall assess the income of the taxpayer, or the liability of the employer in respect of wages, or any portion thereof which it believes has not heretofore been assessed, and shall give notice to the taxpayer or employer of the amount of the tax and interest and penalties if any, and the amount thereof shall be paid within twenty days after the date the notice was mailed, properly addressed to the taxpayer or employer at the taxpayer's or employer's last known address or place of business. [L Sp 1957, c 1, pt of §2; am L Sp 1959 2d, c 1, §16; Supp, §121-42; HRS §235-108; am imp L 1984, c 90, §1; gen ch 1985]

Case Notes

Assessor not bound to take return as true. 16 H. 796.
Method of computing deprecation not reflective of income. 18 H. 530.
Reassessment proper when income in previous year unreported. 28 H. 261.

18-235-109 **§235-109 Jeopardy assessments, security for payment, etc.** Section 231-24 shall apply to the taxes imposed by this chapter, both in respect of taxpayers and employers. [L Sp 1957, c 1, pt of §2; Supp, §121-43; HRS §235-109]

§235-109.5 REPEALED. L 2017, c 3, §5.

§235-110 Credits and refunds. (a) If the taxpayer has paid as an installment of the tax more than the amount determined to be the correct amount of such installment, the overpayment shall be credited against the unpaid installments, if any. If the amount already paid, whether or not on the basis of installments, exceeds the amount determined to be the correct amount of the tax, the amount of the credit shall be refunded in the manner provided in section 231-23(c). Within the meaning of this subsection, each amount of tax deducted and withheld from a taxpayer's wages is an installment of taxes paid by the taxpayer. A refund or credit shall be made to an employer only to the extent that the amount of overpayment claimed by the employer as a credit or refund was not deducted and withheld by the employer.

(b) This section does not apply in the case of a payment made pursuant to an assessment by the department of taxation under section 235-107 or 235-108(b). No refund or overpayment credit may be had under this section in any event unless the original payment of the tax was due to the law having been interpreted or applied in respect of the taxpayer concerned differently than in respect of the taxpayers generally. As to all tax payments for which a refund or credit is not authorized by this section (including without prejudice to the generality of the foregoing cases of unconstitutionality) the remedies provided by appeal or under section 40-35 are exclusive. However, nothing in this subsection shall be deemed applicable to a credit or refund authorized by sections 235-55, 235-66, or 235-71, or resulting from the tax as returned being less than the tax as estimated; in any of these cases a credit or refund is authorized even though the tax for the taxable year remains subject to determination by the department and assessment as provided by law.

(c) Any refund earned under this section shall be made in the manner provided in section 231-23(c). [L Sp 1957, c 1, pt of §2; am L 1959, c 277, §13; am L Sp 1959 2d, c 1, §16; am L 1963, c 45, §§4(b), (c), (d); Supp, §121-44; HRS §235-110]

Revision Note

In subsections (a) and (c), "231-23(c)" substituted for "231-23(d)".

Cross Reference

Tax Information Release No. 2002-1, "Audit of Net Income, General Excise, and Use Tax Returns; Appeal Rights; Claims for Refund; and Payment to State Under Protest"

Attorney General Opinions

Levy on unclaimed warrants by Internal Revenue Service for delinquent federal taxes should be honored. Att. Gen. Op. 62-4.

§235-110.2 Credit for school repair and maintenance. (a) There shall be allowed to each taxpayer licensed under chapter 444, 460J, or 464, who is subject to the tax imposed by this chapter, and does not owe the State delinquent taxes, penalties, or interest, a credit for contributions of in-kind services for the repair and maintenance of public schools provided by the licensed taxpayer in Hawaii. The credit shall be deductible from the taxpayer's net income tax liability, if any, imposed by this chapter for the taxable year in which the credit is properly claimed.

(b) The amount of the credit determined under this section for the taxable year shall be equal to ten per cent of the value of contributions of in-kind services to the Hawaii school repair and maintenance fund for that taxable year; provided that the aggregate value of the contributions of in-kind services claimed by a taxpayer shall not exceed $40,000.

(c) For purposes of this section:

"Public schools" has the same meaning as defined in section 302A-101.

"Value of contributions of in-kind services" means the fair market value of uncompensated services or labor as determined and certified by the department of accounting and general services.

(d) The credit allowed under this section shall be claimed against net income tax liability for the taxable year. A tax credit under this section which exceeds the taxpayer's income tax liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted.

(e) All claims for tax credits under this section, including any amended claims, shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credits may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit.

(f) The department of education shall maintain records of the names of taxpayers eligible for the credit and the total value of in-kind services contributed for the repair and maintenance of public schools for the taxable year. All contributions shall be verified by the department of education. The department of education shall total all contributions that the department of education certifies. Upon each determination, the department of education shall issue a certificate to the taxpayer certifying:

(1) The amount of the contribution;

(2) That the taxpayer is licensed under chapter 444, 460J, or 464; and

(3) That the taxpayer has obtained a current and valid certificate signed by the director of taxation, showing that the taxpayer does not owe the State any delinquent taxes, penalties, or interest.

The taxpayer shall file the certificate from the department of education with the taxpayer's tax return with the department of taxation. When the total amount of certified contributions reaches $2,500,000, the department of education shall immediately discontinue certifying contributions and notify the department of taxation. In no instance shall the total amount of certified contributions exceed $2,500,000 for each taxable year.

(g) The State shall provide not more than $250,000 in tax credits for contributions of in-kind services in Hawaii for the repair and maintenance of public schools.

(h) The director of taxation shall prepare any forms that may be necessary to allow a credit to be claimed under this section. [L 2001, c 309, §2; am L 2004, c 213, §2]

Cross Reference

Hawaii 3R's school repair and maintenance fund, see §302A-1502.4.
School repair and maintenance fund (Helping Hands Hawaii), see §302A-1502.5.

[§235-110.25] Healthcare preceptor tax credit. (a) There shall be allowed to each taxpayer subject to the tax imposed by this chapter, a healthcare preceptor tax credit that shall be deductible from the taxpayer's net income tax liability, if any, imposed by this chapter for the taxable year in which the credit is properly claimed.

(b) The amount of the credit shall be equal to $1,000 for each volunteer-based supervised clinical training rotation supervised by the taxpayer, up to a maximum of $5,000 per taxable year, regardless of the number of volunteer-based supervised clinical training rotations supervised by the taxpayer.

(c) The director of taxation:

(1) Shall prepare any forms that may be necessary to claim a tax credit under this section;

(2) May require the taxpayer to furnish reasonable information to ascertain the validity of the claim for the tax credit made under this section; and

(3) May adopt rules pursuant to chapter 91 necessary to effectuate the purposes of this section.

(d) The preceptor credit assurance committee, established under section 321-2.7, shall:

(1) Maintain records of the names, addresses, and license numbers of the taxpayers claiming the credit under this section;

(2) Certify the number of volunteer-based supervised clinical training rotations each taxpayer conducted by:

(A) Verifying that the taxpayer meets the requirements to serve as a preceptor;

(B) Verifying the number of hours the taxpayer spent supervising an eligible student in each volunteer-based supervised clinical training rotation;

(C) Verifying that the eligible student was enrolled in an academic program in Hawaii; and

(D) Verifying that the taxpayer was uncompensated; and

(3) Certify the amount of the tax credit for each taxpayer for each taxable year and the cumulative amount of the tax credit.

Upon each determination, the preceptor credit assurance committee shall issue a certificate to the taxpayer verifying the number of volunteer-based supervised clinical training rotations supervised by the taxpayer, the credit amount certified for the taxpayer for each taxable year, and the cumulative amount of tax credits certified. The taxpayer shall file the certificate with the taxpayer's tax return with the department.

(e) If in any taxable year the annual amount of certified credits for all taxpayers reaches $1,500,000 in the aggregate, the preceptor credit assurance committee shall immediately discontinue certifying credits and notify the department of taxation. In no instance shall the preceptor credit assurance committee certify a total amount of credits exceeding $1,500,000 per taxable year. To comply with this restriction, the preceptor credit assurance committee shall certify or deny credits in the order submitted for certification; provided that credits shall not be submitted for certification prior to the supervised clinical training rotation being performed.

(f) If the tax credit under this section exceeds the taxpayer's income tax liability, the excess of the credit over liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted. All claims for the tax credit under this section, including amended claims, shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credits may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit.

(g) For the purposes of this section:

"Academic program" means an academic degree granting program or graduate medical education program that:

(1) Holds either its principal accreditation or a physical location in Hawaii; and

(2) Provides education to students, of whom more than fifty per cent are residents of Hawaii.

"Advanced practice registered nurse student" means an individual participating in a nationally accredited academic program that is for the education of advanced practice registered nurses and recognized by the state board of nursing pursuant to chapter 457.

"Eligible professional degree or training certificate" means a degree or certificate that fulfills a requirement to be a physician or osteopathic physician, pursuant to chapter 453, an advanced practice registered nurse, pursuant to chapter 457, or a pharmacist, pursuant to chapter 461.

"Eligible student" means an advanced practice registered nurse student, medical student, or pharmacy student who is enrolled in an academic program;

"Medical student" means an individual participating in a nationally accredited academic program leading to the medical doctor or doctor of osteopathy degree. "Medical student" includes graduates from nationally accredited academic programs who have continued their training, in the role of resident or fellow, to obtain the additional qualifications needed for medical licensure, pursuant to chapter 453, or specialty certification.

"Nationally accredited" means holding an institutional accreditation by name to offer post-secondary medical primary care education. Accreditation for medical students shall be offered by the Liaison Committee on Medical Education or American Osteopathic Association Commission on Osteopathic College Accreditation. Accreditation for advanced practice registered nurse students shall be offered by the Commission on Collegiate Nursing Education.

"Pharmacy student" means an individual participating in an academic program that is nationally accredited for the training of individuals to become registered pharmacists pursuant to chapter 461.

"Preceptor" means a physician or osteopathic physician, licensed pursuant to chapter 453, an advanced practice registered nurse, licensed pursuant to chapter 457, or a pharmacist, licensed pursuant to chapter 461, who is a resident of Hawaii and who maintains a professional primary care practice in this State.

"Primary care" means the principal point of continuing care for patients provided by a healthcare provider, including health promotion, disease prevention, health maintenance, counseling, patient education, diagnosis and treatment of acute and chronic illnesses, and coordination of other specialist care that the patient may need.

"Volunteer-based supervised clinical training rotation" means an uncompensated period of supervised clinical training of an eligible student that totals at least eighty hours of supervisory time annually, in which a preceptor provides personalized instruction, training, and supervision to an eligible student to enable the eligible student to obtain an eligible professional degree or training certificate." [L 2018, c 43, §2]

Note

Section applies to taxable years beginning after December 31, 2018. L 2018, c 43, §6.

Department of health to evaluate the efficacy of the healthcare preceptor tax credit; report to 2024 legislature. L 2018, c 43, §4.

§235-110.3 REPEALED. L 2016, c 202, §3.

§235-110.31 Renewable fuels production tax credit. *[Section repealed December 31, 2021. L 2016, c 202 §6.]* (a) As used in this section:

"Credit period" means a maximum period of five consecutive years, beginning from the first taxable year in which a taxpayer begins renewable fuels production at a level of at least two billion five-hundred million British thermal units of renewable fuels per calendar year.

"Net income tax liability" means income tax liability reduced by all other credits allowed under this chapter.

"Renewable feedstocks" means:

(1) Biomass crops and other renewable organic material, including but not limited to logs, wood chips, wood pellets, and wood bark;
(2) Agricultural residues;
(3) Oil crops, including but not limited to algae, canola, jatropha, palm, soybean, and sunflower;
(4) Sugar and starch crops, including but not limited to sugar cane and cassava;
(5) Other agricultural crops;
(6) Grease and waste cooking oil;
(7) Food wastes;
(8) Municipal solid wastes and industrial wastes;
(9) Water; and
(10) Animal residues and wastes,

that can be used to generate energy.

"Renewable fuels" means fuels produced from renewable feedstocks, provided that the fuel:

(1) Is sold as a fuel in Hawaii; and
(2) Meets the relevant ASTM International specifications or other industry specifications for the particular fuel, including but not limited to:
    (A) Methanol, ethanol, or other alcohols;
    (B) Hydrogen;
    (C) Biodiesel or renewable diesel;
    (D) Biogas;
    (E) Other biofuels; or
    (F) Renewable jet fuel or renewable gasoline; or
    (G) Logs, wood chips, wood pellets, or wood bark.

(b) Each year during the credit period, there shall be allowed to each taxpayer subject to the taxes imposed by this chapter, a renewable fuels production tax credit that shall be applied to the taxpayer's net income tax liability, if any, imposed by this chapter for the taxable year in which the credit is properly claimed.

For each taxpayer producing renewable fuels, the annual dollar amount of the renewable fuels production tax credit during the five-year credit period shall be equal to 20 cents per seventy-six thousand British thermal units of renewable fuels using the lower heating value sold for distribution in Hawaii; provided that the taxpayer's production of renewable fuels is not less than two billion five hundred million British thermal units of renewable fuels per calendar year; provided further that the amount of the tax credit claimed under this section by a taxpayer shall not exceed $3,000,000 per taxable year. No other tax credit may be claimed under this chapter for the costs incurred in producing the renewable fuels that are used to properly claim a tax credit under this section for the taxable year.

(c) Not later than thirty days following the close of the calendar year, every taxpayer claiming a credit under this section shall complete and file an independent, third-party certified statement, at the taxpayer's sole expense, with the department of business, economic development, and tourism in the form prescribed by the department of business, economic development, and tourism providing the following information:

(1) The type, quantity, and British thermal unit value, using the lower heating value, of each qualified fuel, broken down by the type of fuel, produced and sold during the previous calendar year;
(2) The feedstock used for each type of qualified fuel;
(3) The proposed total amount of credit to which the taxpayer is entitled for each calendar year and the cumulative amount of the tax credit the taxpayer received during the credit period;
(4) The number of full-time and number of part-time employees of the facility and those employees' states of residency, totaled per state; and
(5) The number and location of all renewable fuel production facilities within and outside of the State.

Upon each determination, the department of business, economic development, and tourism shall issue a certificate to the taxpayer verifying the amount of renewable fuels produced and sold, the credit amount certified for each taxable year, and the cumulative amount of the tax credit during the credit period. The taxpayer shall file the certificate with the taxpayer's tax return with the department of taxation. Notwithstanding the department of business, economic development, and

tourism's certification authority under this section, the director of taxation may audit and adjust the certification to conform to the facts.

If in any year, the annual amount of certified credits reaches $3,000,000 in the aggregate, the department of business, economic development, and tourism shall immediately discontinue certifying credits and notify the department of taxation. In no instance shall the total amount of certified credits exceed $3,000,000 per year. Notwithstanding any other law to the contrary, the verification and certification information compiled by the department of business, economic development, and tourism shall be available for public inspection and dissemination under chapter 92F.

(d) Within thirty calendar days after the due date of the statement required under subsection (c), the department of business, economic development, and tourism shall:

(1) Acknowledge receipt of the statement in writing; and

(2) Issue a certificate to the taxpayer reporting the amount of renewable fuels produced and sold, the amount of credit that the taxpayer is entitled to claim for the previous calendar year, and the cumulative amount of the tax credit during the credit period.

(e) The taxpayer shall file the certificate issued under subsection (d) with the taxpayer's tax return with the department of taxation. The director of taxation may audit and adjust the certification to conform to the facts.

(f) The total amount of tax credits allowed under this section shall not exceed $3,000,000 for all eligible taxpayers in any calendar year. In the event that the credit claims under this section exceed $3,000,000 for all eligible taxpayers in any given calendar year, the $3,000,000 shall be divided between all eligible taxpayers for that year in proportion to the total amount of renewable fuels produced by all eligible taxpayers. Upon reaching $3,000,000 in the aggregate, the department of business, economic development, and tourism shall immediately discontinue issuing certificates and notify the department of taxation. In no instance shall the total dollar amount of certificates issued exceed $3,000,000 per year.

(g) Notwithstanding any other law to the contrary, the information collected and compiled by the department of business, economic development, and tourism under subsections (c) and (d) for the purposes of the renewable fuels production tax credit, shall be available for public inspection and dissemination subject to chapter 92F.

(h) If the credit under this section exceeds the taxpayer's net income tax liability, the excess of the credit over liability may be used as a credit against the taxpayer's net income tax liability in subsequent years until exhausted. All claims for a credit under this section shall be properly filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure to comply with the foregoing provision or to provide the certified statement required under subsection (c) shall constitute a waiver of the right to claim the credit.

(i) Prior to production of any renewable fuels for the calendar year, the taxpayer shall provide written notice of the taxpayer's intention to begin production of renewable fuels. The written notice shall be provided to the department of taxation and the department of business, economic development, and tourism, and shall include information on the taxpayer, facility location, facility production capacity, anticipated production start date, and the taxpayer's contact information. Notwithstanding any other law to the contrary, the written notice described in this subsection, including taxpayer and facility information, shall be available for public inspection and dissemination subject to chapter 92F.

(j) The taxpayer shall provide written notice to the director of taxation and the director of business, economic development, and tourism within thirty days following the start of production. The notice shall include the production start date and expected renewable fuels production for the next twelve months. Notwithstanding any other law to the contrary, the written notice described in this subsection shall be available for public inspection and dissemination subject to chapter 92F.

(k) In the case of a partnership, S corporation, estate, or trust, distribution and share of the renewable fuels production tax credit shall be determined pursuant to section 704(b) (with respect to a partner's distributive share) of the Internal Revenue Code of 1986, as amended. For a fiscal year taxpayer, the taxpayer shall report such credit in the taxable year in which the calendar year end is included.

(l) Following each calendar year in which a credit under this section has been claimed, the director of business, economic development, and tourism shall submit a written report to the governor and legislature regarding the production and sale of renewable fuels. The report shall include:

(1) The number and location of renewable fuels production facilities in the State and outside the State that have claimed a credit under this section;

(2) The total number of British thermal units of renewable fuels, broken down by type of fuel produced and sold during the previous calendar year; and

(3) The projected number of British thermal units of renewable fuels production for the succeeding year.

(m) The director of taxation shall prepare forms that may be necessary to claim a credit under this section. The director of taxation may require the taxpayer to furnish information to ascertain the validity of the claim for credit made under this section and may adopt rules necessary to effectuate the purposes of this section pursuant to chapter 91. [L 2016, c 202, §2; am L 2017, c 142, §2; am L 2018, c 143, §2]

Note

Section applies to taxable years beginning after December 31, 2016. L 2016, c 202, §6.

The 2017 amendment applies to taxable years beginning after December 31, 2017. L 2017, c 142, §4.
The 2018 amendment applies to taxable years beginning after December 31, 2017. L 2018, c 143, §4.

Cross Reference

Tax Information Release No. 2018-03, "Renewable Fuels Production Tax Credit, Hawaii Revised Statutes Section 235-110.31"

§§235-110.4, 110.45 REPEALED. L 2007, c 9, §§23, 24.

§235-110.46 REPEALED. L 2017, c 3, §6.

§235-110.5 REPEALED. L 1987, c 40, §2.

§235-110.51 Technology infrastructure renovation tax credit. (a) There shall be allowed to each taxpayer subject to the taxes imposed by this chapter, an income tax credit which shall be deductible from the taxpayer's net income tax liability, if any, imposed by this chapter for the taxable year in which the credit is properly claimed.

(b) The amount of the credit shall be four per cent of the renovation costs incurred during the taxable year for each commercial building located in Hawaii.

(c) In the case of a partnership, S corporation, estate, trust, or any developer of a commercial building, the tax credit allowable is for renovation costs incurred by the entity for the taxable year. The cost upon which the tax credit is computed shall be determined at the entity level. Distribution and share of credit shall be determined pursuant to section 235-110.7(a).

(d) If a deduction is taken under section 179 (with respect to election to expense depreciable business assets) of the Internal Revenue Code, no tax credit shall be allowed for that portion of the renovation cost for which the deduction is taken.

(e) The basis of eligible property for depreciation or accelerated cost recovery system purposes for state income taxes shall be reduced by the amount of credit allowable and claimed. In the alternative, the taxpayer shall treat the amount of the credit allowable and claimed as a taxable income item for the taxable year in which it is properly recognized under the method of accounting used to compute taxable income.

(f) The credit allowed under this section shall be claimed against the net income tax liability for the taxable year.

(g) If the tax credit under this section exceeds the taxpayer's income tax liability, the excess of credit over liability may be carried forward until exhausted.

(h) The tax credit allowed under this section shall not be available for taxable years beginning after December 31, 2010.

(i) As used in this section:

"Net income tax liability" means income tax liability reduced by all other credits allowed under this chapter.

"Renovation costs" means costs incurred after December 31, 2000, to plan, design, install, construct, and purchase technology-enabled infrastructure equipment to provide a commercial building with technology-enabled infrastructure.

"Technology-enabled infrastructure" means:

(1) High speed telecommunications systems that provide Internet access, direct satellite communications access, and videoconferencing facilities;
(2) Physical security systems that identify and verify valid entry to secure spaces, detect invalid entry or entry attempts, and monitor activity in these spaces;
(3) Environmental systems to include heating, ventilation, air conditioning, fire detection and suppression, and other life safety systems; and
(4) Backup and emergency electric power systems.

(j) No taxpayer that claims a credit under this section shall claim any other credit under this chapter. [L 2001, c 221, §2; am L 2004, c 215, §7]

18-235-110.6 **§235-110.6 Fuel tax credit for commercial fishers.** (a) Each principal operator of a commercial fishing vessel who files an individual or corporate net income tax return for a taxable year may claim an income tax credit under this section against the Hawaii state individual or corporate net income tax.

(b) The tax credit shall be an amount equal to the fuel taxes imposed under section 243-4(a) and paid by the principal operator during the taxable year.

(c) The tax credit claimed under this section by the principal operator shall be deductible from the principal operator's individual or corporate income tax liability, if any, for the tax year in which the credit is properly claimed; provided that a husband and wife filing separate returns for a taxable year for which a joint return could have been made by them shall claim only the tax credit to which they would have been entitled had a joint return been filed. If the tax credit claimed by the principal operator under this section exceeds the amount of the income tax payments due from the principal operator, the excess of credit over payments due shall be refunded to the principal operator from the state highway fund; provided that the tax credit properly claimed by a principal operator who has no income

tax liability shall be paid to the principal operator from the state highway fund; and provided further no refunds or payments on account of the tax credit allowed by this section shall be made for amounts less than $1.

(d) The director of taxation shall prepare such forms as may be necessary to claim a credit under this section, may require proof of the claim for the tax credit, and may adopt rules pursuant to chapter 91.

(e) All of the provisions relating to assessments and refunds under this chapter and under section 231-23(c)(1) shall apply to the tax credit under this section.

(f) Claims for the tax credit under this section, including any amended claims thereof, shall be filed on or before the end of the twelfth month following the taxable year for which the credit may be claimed.

(g) As used in this section:

(1) "Commercial fishing vessel" means any water vessel which is used to catch or process fish or transport fish loaded on the high seas.

(2) "Principal operator" means any individual or corporate resident taxpayer who derives at least fifty-one per cent of the taxpayer's gross annual income from commercial fishing operations. [L 1981, c 210, §1; am L 2010, c 192, §27]

Revision Note

In subsection (e), "231-23(c)(1)" substituted for "231-23(d)(1)".

Cross Reference

Tax Information Release No. 83-2, "Treatment of Tax Credits for State Income Tax Purposes"

[§235-110.65] Ship repair industry tax credit. (a) There shall be allowed to each taxpayer subject to the taxes imposed by this chapter a ship repair industry tax credit that shall be deductible from the taxpayer's net income tax liability, if any, imposed by this chapter.

(b) The amount of the tax credit shall be equal to thirty per cent of the ship repair industry costs paid or incurred by the qualified entity to design and construct the purpose-built floating [drydock] to be used by the United States Navy in Pearl Harbor; provided that:

(1) A qualified entity may form a special purpose entity for the purposes of raising investor capital and claiming the credit on behalf of the qualified entity;

(2) The qualified entity, together with all of its special purpose entities, including all partners and members of the qualified entity and its special purpose entities, shall not claim any credit in any one taxable year that exceeds $6,000,000; however, if the total amount of credits applied for in any particular year exceeds the aggregate amount of credits allowed for such year under this section, the excess shall be treated as having been applied for in the subsequent year and shall be claimed in such year; provided that no excess shall be allowed to be claimed after December 31, 2026; and

(3) In no event shall a qualified entity or any of its special purpose entities or any other taxpayer claim a credit under this section prior to January 1, 2022, or after December 31, 2026.

A qualified entity shall become eligible to claim a credit under this section only after construction of the floating drydock has been completed and the floating drydock has been placed into service.

(c) In the case of an entity taxed as a partnership, credit shall be determined at the entity level, but distribution and share of the credit may be determined notwithstanding sections 704 or 706 of the Internal Revenue Code.

(d) The credit allowed under this section shall be claimed against the net income tax liability for the taxable year. If the tax credit under this section exceeds the taxpayer's income tax liability, the excess of the tax credit over liability may be used as a credit against the taxpayer's net income tax liability in subsequent years until exhausted. All claims, including amended claims, for a tax credit under this section shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit.

(e) The director of taxation shall prepare any forms that may be necessary to claim a credit under this section. The director may also require the taxpayer to furnish information to ascertain the validity of the claim for credit made under this section. The director of taxation may adopt rules to effectuate the purposes of this section pursuant to chapter 91.

(f) Any taxpayer claiming a tax credit under this section, within ninety days of the end of the calendar year in which the credit is properly claimable, shall submit the following information to the department of taxation:

(1) The amount of the eligible costs for which the tax credit may be claimed; and

(2) The qualified entity that incurred the costs.

Failure to timely submit the information shall be subject to a penalty of $5,000 per month or a fraction thereof, not to exceed $25,000.

(g) This section shall not apply to taxable years beginning after December 31, 2026.

(h) For the purpose of this section:

"Net income tax liability" means income tax liability reduced by all other credits allowed under this chapter.

"Qualified entity" means an entity with the principal purpose of facilitating and enhancing the ship repair business in the State and that is involved in the design and construction of a purpose-built floating drydock to be used by the United States Navy in Pearl Harbor.

"Ship repair industry costs" means capital expenditures, as used in section 263 of the Internal Revenue Code and the regulations promulgated thereunder, or capital expenditures for real property, fixtures, structures, machinery, equipment, or capital assets that are paid or incurred in connection with the construction of a purpose-built floating drydock; provided that the ship repair industry costs shall not include amounts for which another credit is claimed or any amounts received in any form from the State. [L 2019, c 260, §2]

Note

Section applies to taxable years beginning after December 31, 2021. L 2019, c 260, §5.

18-235-110.7 **§235-110.7 Capital goods excise tax credit.** (a) There shall be allowed to each taxpayer subject to the tax imposed by this chapter a capital goods excise tax credit, which shall be deductible from the taxpayer's net income tax liability, if any, imposed by this chapter for the taxable year in which the credit is properly claimed.

The amount of the tax credit shall be four per cent of the cost of the eligible depreciable tangible personal property used by the taxpayer in a trade or business and placed in service within Hawaii after December 31, 2009.

In the case of a partnership, S corporation, estate, or trust, the tax credit allowable is for eligible depreciable tangible personal property that is placed in service by the entity. The cost upon which the tax credit is computed shall be determined at the entity level. Distribution and share of credit shall be determined by rules.

In the case of eligible depreciable tangible personal property for which a credit for sales or use taxes paid to another state is allowable under section 238-3(i), the amount of the tax credit allowed under this section shall not exceed the amount of use tax actually paid under chapter 238 relating to the tangible personal property.

If a deduction is taken under section 179 (with respect to election to expense certain depreciable business assets) of the Internal Revenue Code of 1954, as amended, no tax credit shall be allowed for that portion of the cost of property for which the deduction was taken.

(b) If the capital goods excise tax credit allowed under subsection (a) exceeds the taxpayer's net income tax liability, the excess of credit over liability shall be refunded to the taxpayer; provided that no refunds or payment on account of the tax credit allowed by this section shall be made for amounts less than $1.

All claims for tax credits under this section, including any amended claims, must be filed on or before the end of the twelfth month following the close of the taxable year for which the credits may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit.

(c) Application for the capital goods excise tax credit shall be upon forms provided by the department of taxation.

(d) Sections 47 (with respect to dispositions of section 38 property and the recapture percentages) of the Internal Revenue Code of 1954, as amended, as of December 31, 1984, and 280F as operative for this chapter (with respect to limitation on investment tax credit and depreciation for luxury automobiles; limitation where certain property used for personal purposes) of the Internal Revenue Code of 1954, as amended, shall be operative for purposes of this section.

(e) As used in this section, the definition of section 38 property (with respect to investment in depreciable tangible personal property) as defined by section 48(a)(1)(A), (a)(1)(B), (a)(3), (a)(4), (a)(7), (a)(8), (a)(10)(A), (b), (c), (f), (l), (m), and (s) of the Internal Revenue Code of 1954, as amended as of December 31, 1984, is operative for the purposes of this section only.

(f) As used in this section:

"Cost" means the:

(1) Actual invoice price of the tangible personal property; or

(2) Basis from which depreciation is taken under section 167 (with respect to depreciation) or from which a deduction may be taken under section 168 (with respect to accelerated cost recovery system) of the Internal Revenue Code of 1954, as amended, whichever is less.

"Eligible depreciable tangible personal property" is section 38 property as defined by the operative provisions of section 48 and having a depreciable life under section 167 or for which a deduction may be taken under section 168 of the Internal Revenue Code of 1954, as amended.

"Placed in service" means the earliest of the following taxable years:

(1) The taxable year in which, under the:

(A) Taxpayer's depreciation practice, the period for depreciation; or

(B) Accelerated cost recovery system, a claim for recovery allowances,

with respect to the property begins; or

(2) The taxable year in which the property is placed in a condition or state of readiness and availability for a specifically assigned function.

"Purchase" means an acquisition of property.

"Tangible personal property" means tangible personal property that is placed in service within Hawaii after December 31, 1987, and the purchase or importation of which resulted in a transaction that was subject to the imposition

and payment of tax at the rate of four per cent under chapter 237 or 238. "Tangible personal property" does not include tangible personal property that is an integral part of a building or structure or tangible personal property used in a foreign-trade zone, as defined under chapter 212. [L 1987, c 239, §1(2); am L 1988, c 141, §21; am L 1989, c 7, §1; am L 1990, c 184, §§7, 8; am L 1992, c 235, §6; am L 2007, c 9, §12; am L 2009, c 178, §3; am L 2018, c 18, §10]

Note

The 2009 amendment applies to investments made, renovation costs incurred, or eligible depreciable tangible property placed in service on or after May 1, 2009. L 2009, c 178, §10.

Cross Reference

Transit capital development fund, see chapter 51D.

Tax Information Release No. 88-6, "Capital Goods Excise Tax Credit"

Tax Information Release No. 88-8, "Capital Goods Excise Tax Credit Recapture"

Tax Information Release No. 89-4, "The Taxpayer Who Is Entitled to the Capital Goods Excise Tax Credit When the Parties Characterize a Transaction as a Lease or Sale-leaseback"

Tax Information Release No. 99-4. "Application of the Franchise Tax, General Excise Tax, and Income Tax to Mortgage Loan Companies, Including Mortgage Loan Companies Organized as Passthrough Entities and Sole Proprietorships"

Tax Information Release No. 2001-4, "The Definition of 'Cost'; The Payment of Tax Requirement; and Safe Harbor Guidelines Pertaining to the Capital Goods Excise Tax Credit"

Case Notes

Where taxpayer failed to file a timely claim for the credit "on or before the end of the twelfth month following the close of the taxable year for which the credits may be claimed" as required under this section, taxpayer waived its right to a capital goods excise tax credit refund. 97 H. 270 (App.), 36 P.3d 814.

§235-110.8 Low-income housing tax credit. *[Section effective until December 31, 2016. For section effective January 1, 2017, see below.]* (a) Section 42 (with respect to low-income housing credit) of the Internal Revenue Code shall be operative for the purposes of this chapter as provided in this section. A taxpayer owning a qualified low-income building who has been awarded a subaward under section 1602 of the American Recovery and Reinvestment Act of 2009, Public Law 111-5, shall also be eligible for the credit provided in this section.

(b) Each taxpayer subject to the tax imposed by this chapter, who has filed a net income tax return for a taxable year may claim a low-income housing tax credit against the taxpayer's net income tax liability. The amount of the credit shall be deductible from the taxpayer's net income tax liability, if any, imposed by this chapter for the taxable year in which the credit is properly claimed on a timely basis. A credit under this section may be claimed whether or not the taxpayer claims a federal low-income housing tax credit pursuant to section 42 of the Internal Revenue Code.

(c) The amount of the low-income housing tax credit that may be claimed by a taxpayer as provided in subsection (b) shall be fifty per cent of the applicable percentage of the qualified basis of each building located in Hawaii. The applicable percentage shall be calculated as provided in section 42(b) of the Internal Revenue Code.

(d) If a subaward under section 1602 of the American Recovery and Reinvestment Act of 2009, Public Law 111-5, has been issued for a qualified low-income building, the amount of the low-income housing tax credits that may be claimed by a taxpayer as provided in subsection (b) shall be equal to fifty per cent of the amount of the federal low-income housing tax credits that would have been allocated to the qualified low-income building pursuant to section 42(b) of the Internal Revenue Code by the corporation had a subaward not been awarded with respect to the qualified low-income building.

(e) For the purposes of this section, the determination of:

(1) Qualified basis and qualified low-income building shall be made under section 42(c);

(2) Eligible basis shall be made under section 42(d);

(3) Qualified low-income housing project shall be made under section 42(g);

(4) Recapture of credit shall be made under section 42(j), except that the tax for the taxable year shall be increased under section 42(j)(1) only with respect to credits that were used to reduce state income taxes; and

(5) Application of at-risk rules shall be made under section 42(k);

of the Internal Revenue Code.

(f) As provided in section 42(e), rehabilitation expenditures shall be treated as a separate new building and their treatment under this section shall be the same as in section 42(e). The definitions and special rules relating to credit period in section 42(f) and the definitions and special rules in section 42(i) shall be operative for the purposes of this section.

(g) The state housing credit ceiling under section 42(h) shall be zero for the calendar year immediately following the expiration of the federal low-income housing tax credit program and for any calendar year thereafter, except for the carryover of any credit ceiling amount for certain projects in progress which, at the time of the federal expiration, meet the requirements of section 42.

(h) The credit allowed under this section shall be claimed against net income tax liability for the taxable year. For the purpose of deducting this tax credit, net income tax liability means net income tax liability reduced by all other credits allowed the taxpayer under this chapter.

A tax credit under this section that exceeds the taxpayer's income tax liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted. All claims for a tax credit under this section shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure to properly and timely claim the credit shall constitute a waiver of the right to claim the credit. A taxpayer may claim a credit under this section only if the building or project is a qualified low-income housing building or a qualified low-income housing project under section 42 of the Internal Revenue Code.

Section 469 (with respect to passive activity losses and credits limited) of the Internal Revenue Code shall be applied in claiming the credit under this section.

(i) In lieu of the credit awarded under this section for a qualified low-income building that has been awarded federal credits that are subject to the state housing credit ceiling under section 42(h)(3)(C) of the Internal Revenue Code, federal credits that are allocated pursuant to section 42(h)(4) of the Internal Revenue Code, or a subaward under section 1602 of the American Recovery and Reinvestment Act of 2009, Public Law 111-5, the taxpayer owning the qualified low-income building may make a request to the corporation for a loan under section 201H-86. If the taxpayer elects to receive the loan pursuant to section 201H-86, the taxpayer shall not be eligible for the credit under this section.

(j) The director of taxation may adopt any rules under chapter 91 and forms necessary to carry out this section. [L 1988, c 216, §1; am L 1989, c 13, §6; am L 2000, c 148, §3; am L 2005, c 196, §8; am L 2011, c 158, §3]

§235-110.8 Low-income housing tax credit. *[Section effective January 1, 2017. For section effective until December 31, 2016, see above. Repeal and reenactment on December 31, 2021. L 2016, c 129, §4.]* (a) As modified herein, section 42 (with respect to low-income housing credit) of the Internal Revenue Code shall be operative for the purposes of this chapter as provided in this section. A taxpayer owning a qualified low-income building who has been awarded a subaward under Section 1602 of the American Recovery and Reinvestment Act of 2009, Public Law 111-5, shall also be eligible for the credit provided in this section.

(b) Each taxpayer subject to the tax imposed by this chapter, who has filed a net income tax return for a taxable year may claim a low-income housing tax credit against the taxpayer's net income tax liability. The amount of the credit shall be deductible from the taxpayer's net income tax liability, if any, imposed by this chapter for the taxable year in which the credit is properly claimed on a timely basis. A credit under this section may be claimed whether or not the taxpayer claims a federal low-income housing tax credit pursuant to section 42 of the Internal Revenue Code.

(c) For any qualified low-income building that receives an allocation prior to January 1, 2017, the amount of the low-income housing tax credit that may be claimed by a taxpayer as provided in subsection (b) shall be fifty per cent of the applicable percentage of the qualified basis of each building located in Hawaii. The applicable percentage shall be calculated as provided in section 42(b) of the Internal Revenue Code.

(d) For any qualified low-income building that receives an allocation after December 31, 2016, the amount of the low-income housing tax credits that may be claimed by a taxpayer as provided in subsection (b) shall be:

(1) For the first five years, equal to the amount of the federal low-income housing tax credits that have been allocated to the qualified low-income building pursuant to section 42(b) of the Internal Revenue Code by the corporation, provided that, if in any year the aggregate amount of credits under this subsection would be such that it would exceed the amount of state credits allocated by the corporation for the qualified low-income building, the credits allowed for that year shall be limited to such amount necessary to bring the total of such state credits (including the current year state credits) to the full amount of state credits allocated to the qualified low-income building by the corporation;

(2) For the sixth year, zero, except that, if, and only if, the amount of credits allowed for the first five years is less than the full amount of state credits allocated by the corporation for the qualified low-income building, an amount necessary to bring the amount of the state credits to the full amount allocated by the corporation for the qualified low-income building; and

(3) For any remaining years, zero.

(e) If a subaward under Section 1602 of the American Recovery and Reinvestment Act of 2009, Public Law 111-5, has been issued for a qualified low-income building, the amount of the low-income housing tax credits that may be claimed by a taxpayer as provided in subsection (b) shall be equal to fifty per cent of the amount of the federal low-income housing tax credits that would have been allocated to the qualified low-income building pursuant to section 42(b) of the Internal Revenue Code by the corporation had a subaward not been awarded with respect to the qualified low-income building.

(f) For the purposes of this section, the determination of:

(1) Qualified basis and qualified low-income building shall be made under section 42(c);

(2) Eligible basis shall be made under section 42(d);

(3) Qualified low-income housing project shall be made under section 42(g);

(4) Recapture of credit shall be made under section 42(j), except that the tax for the taxable year shall be increased under section 42(j)(1) only with respect to credits that were used to reduce state income taxes; and

(5) Application of at-risk rules shall be made under section 42(k);

of the Internal Revenue Code.

(g) As provided in section 42(e), rehabilitation expenditures shall be treated as a separate new building and their treatment under this section shall be the same as in section 42(e). The definitions and special rules relating to credit period in section 42(f) and the definitions and special rules in section 42(i) shall be operative for the purposes of this section.

(h) The state housing credit ceiling under section 42(h) shall be zero for the calendar year immediately following the expiration of the federal low-income housing tax credit program and for any calendar year thereafter, except for the carryover of any credit ceiling amount for certain projects in progress which, at the time of the federal expiration, meet the requirements of section 42.

(i) The credit allowed under this section shall be claimed against net income tax liability for the taxable year. For the purpose of deducting this tax credit, net income tax liability means net income tax liability reduced by all other credits allowed the taxpayer under this chapter.

A tax credit under this section that exceeds the taxpayer's income tax liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted. All claims for a tax credit under this section shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure to properly and timely claim the credit shall constitute a waiver of the right to claim the credit. A taxpayer may claim a credit under this section only if the building or project is a qualified low-income housing building or a qualified low-income housing project under section 42 of the Internal Revenue Code.

Section 469 (with respect to passive activity losses and credits limited) of the Internal Revenue Code shall be applied in claiming the credit under this section.

(j) In lieu of the credit awarded under this section for a qualified low-income building that has been awarded federal credits that are subject to the state housing credit ceiling under section 42(h)(3)(C) of the Internal Revenue Code, federal credits that are allocated pursuant to section 42(h)(4) of the Internal Revenue Code, or a subaward under Section 1602 of the American Recovery and Reinvestment Act of 2009, Public Law 111-5, the taxpayer owning the qualified low-income building may make a request to the corporation for a loan under section 201H-86 . If the taxpayer elects to receive the loan pursuant to section 201H-86, the taxpayer shall not be eligible for the credit under this section.

(k) The director of taxation may adopt any rules under chapter 91 and forms necessary to carry out this section. [L 1988, c 216, §1; am L 1989, c 13, §6; am L 2000, c 148, §3; am L 2005, c 196, §8; am L 2011, c 158, §3; am L 2016, c 129, §1; am L 2017, c 12, §46]

Note

The 2011 amendment applies to qualified low-income buildings placed in service after December 31, 2011. L 2011, c 158, §5.
The 2016 amendment applies to qualified low-income buildings awarded credits after December 31, 2016. L 2016, c 129, §4.
The 2017 amendment shall be applied retroactively and shall be effective on January 1, 2017.

Cross Reference

Tax Information Release No. 99-3. "Taxpayers Subject to the Franchise Tax May Claim the Low-income Housing Tax Credit in the Taxable Year for Which the Imposition Is Made"

§235-110.9 High technology business investment tax credit. (a) There shall be allowed to each taxpayer subject to the taxes imposed by this chapter a high technology business investment tax credit that shall be deductible from the taxpayer's net income tax liability, if any, imposed by this chapter for the taxable year in which the investment was made and the following four years provided the credit is properly claimed. The tax credit shall be as follows:

(1) In the year the investment was made, thirty-five per cent;

(2) In the first year following the year in which the investment was made, twenty-five per cent;

(3) In the second year following the investment, twenty per cent;

(4) In the third year following the investment, ten per cent; and

(5) In the fourth year following the investment, ten per cent;

of the investment made by the taxpayer in each qualified high technology business, up to a maximum allowed credit in the year the investment was made, $700,000; in the first year following the year in which the investment was made, $500,000; in the second year following the year in which the investment was made, $400,000; in the third year following the year in which the investment was made, $200,000; and in the fourth year following the year in which the investment was made, $200,000.

(b) The credit allowed under this section shall be claimed against the net income tax liability for the taxable year. For the purpose of this section, "net income tax liability" means net income tax liability reduced by all other credits allowed under this chapter.

(c) If the tax credit under this section exceeds the taxpayer's income tax liability for any of the five years that the credit is taken, the excess of the tax credit over liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted. Every claim, including amended claims, for a tax credit under this section shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit.

(d) If at the close of any taxable year in the five-year period in subsection (a):

(1) The business no longer qualifies as a qualified high technology business;

(2) The business or an interest in the business has been sold by the taxpayer investing in the qualified high technology business; or

(3) The taxpayer has withdrawn the taxpayer's investment wholly or partially from the qualified high technology business;

the credit claimed under this section shall be recaptured. The recapture shall be equal to ten per cent of the amount of the total tax credit claimed under this section in the preceding two taxable years. The amount of the credit recaptured shall apply only to the investment in the particular qualified high technology business that meets the requirements of paragraph (1), (2), or (3). The recapture provisions of this subsection shall not apply to a tax credit claimed for a qualified high technology business that does not fall within the provisions of paragraph (1), (2), or (3). The amount of the recaptured tax credit determined under this subsection shall be added to the taxpayer's tax liability for the taxable year in which the recapture occurs under this subsection.

(e) Every taxpayer, before March 31 of each year in which an investment in a qualified high technology business was made in the previous taxable year, shall submit a written, certified statement to the director of taxation identifying:

(1) Qualified investments, if any, expended in the previous taxable year; and

(2) The amount of tax credits claimed pursuant to this section, if any, in the previous taxable year.

(f) The department shall:

(1) Maintain records of the names and addresses of the taxpayers claiming the credits under this section and the total amount of the qualified investment costs upon which the tax credit is based;

(2) Verify the nature and amount of the qualifying investments;

(3) Total all qualifying and cumulative investments that the department certifies; and

(4) Certify the amount of the tax credit for each taxable year and cumulative amount of the tax credit.

Upon each determination made under this subsection, the department shall issue a certificate to the taxpayer verifying information submitted to the department, including qualifying investment amounts, the credit amount certified for each taxable year, and the cumulative amount of the tax credit during the credit period. The taxpayer shall file the certificate with the taxpayer's tax return with the department.

The director of taxation may assess and collect a fee to offset the costs of certifying tax credits claims under this section. All fees collected under this section shall be deposited into the tax administration special fund established under section 235-20.5.

(g) As used in this section:

"Investment tax credit allocation ratio" means, with respect to a taxpayer that has made an investment in a qualified high technology business, the ratio of:

(1) The amount of the credit under this section that is, or is to be, received by or allocated to the taxpayer over the life of the investment, as a result of the investment; to

(2) The amount of the investment in the qualified high technology business.

"Qualified high technology business" means a business, employing or owning capital or property, or maintaining an office, in this State; provided that:

(1) More than fifty per cent of its total business activities are qualified research; and provided further that the business conducts more than seventy-five per cent of its qualified research in this State; or

(2) More than seventy-five per cent of its gross income is derived from qualified research; and provided further that this income is received from:

(A) Products sold from, manufactured in, or produced in this State; or

(B) Services performed in this State.

"Qualified research" means the same as defined in section 235-7.3.

(h) Common law principles, including the doctrine of economic substance and business purpose, shall apply to any investment. There exists a presumption that a transaction satisfies the doctrine of economic substance and business purpose to the extent that the special allocation of the high technology business tax credit has an investment tax credit ratio of 1.5 or less of credit for every dollar invested.

Transactions for which an investment tax credit allocation ratio greater than 1.5 but not more than 2.0 of credit for every dollar invested and claimed may be reviewed by the department for applicable doctrines of economic substance and business purpose.

Businesses claiming a tax credit for transactions with investment tax credit allocation ratios greater than 2.0 of credit for every dollar invested shall substantiate economic merit and business purpose consistent with this section.

(i) For investments made on or after May 1, 2009, notwithstanding any other law to the contrary, no allocations, special or otherwise, of credits under this section may exceed the amount of the investment made by the taxpayer ultimately claiming this credit; and investment tax credit allocation ratios greater than 1.0 of credit for every dollar invested shall not be allowed. In addition, the credit shall be allowed only in accordance with subsection (a).

(j) This section shall not apply to taxable years beginning after December 31, 2010. [L 1999, c 178, §24; am L 2000, c 297, §8; am L 2001, c 221, §9; am L 2004, c 215, §8; am L 2007, c 206, §4; am L 2009, c 178, §4; am L 2017, c 3, §1]

Note

Applies to taxable years beginning after December 31, 1998, for investments made pursuant to this section on or after July 1, 1999. L 1999, c 178, §31(3).

Applicability of 2000 amendment. L 2000, c 297, §§10, 35(1). [It is the intention of the legislature in making amendments in this Part to sections 235-7.3, 235-9.5, 235-110.9, and 235-110.91, Hawaii Revised Statutes, that the amendments be liberally construed, and in this regard, the department of taxation given liberal latitude to interpret those amendments in light of current industry standards. The amendments made in this Part to sections 235-7.3, 235-9.5, 235-110.9, and 235-110.91, Hawaii Revised Statutes, shall not be construed to disqualify any taxpayer who has received a favorable written determination from the department of taxation under the original provisions of those sections as enacted by Act 178, Session Laws of Hawaii, 1999.]

L 2001, c 221, §15(2) provides:

"(2) Section 9 [amending §235-110.9] shall apply to taxable years beginning after December 31, 2000, but shall not apply to taxable years after December 31, 2005; provided that a taxpayer may continue to claim the credits if the five-year period to claim the credits commences in taxable years beginning before January 1, 2006; . . ."

Applicability of 2004 amendment. L 2004, c 215, §10. It is the intention of the legislature in making amendments in this Part to sections 235-7.3, 235-9.5, 235-110.9, and 235-110.91, Hawaii Revised Statutes, that the amendments be construed in a manner consistent with the intent of this Act. The department of taxation further given liberal latitude to interpret those amendments in light of current industry standards. The amendments made in this Part to sections 235-7.3, 235-9.5, 235-110.9, and 235-110.91, Hawaii Revised Statutes, shall not be construed to disqualify any taxpayer who has received a favorable written determination from the department of taxation under the original provisions of those sections as enacted by Act 178, Session Laws of Hawaii, 1999.

The 2007 amendment applies to investments received by a qualified high technology business after June 30, 2007. L 2007, c 206, §8.

Annual survey from businesses receiving tax credit; reports to legislature (repealed January 1, 2011). L 2007, c 206, §§2, 5.

The 2009 amendment applies to investments made, renovation costs incurred, or eligible depreciable tangible property placed in service on or after May 1, 2009. L 2009, c 178, §10.

Cross Reference

Tax Information Release No. 2003-1, "Application of Section 235-110.9, Hawaii Revised Statutes (HRS), relating to the High Technology Business Investment Credit"

Tax Information Release No. 2007-04, "Department of Taxation Policies Relating to High Technology Investment Tax Credit Allocations"

Tax Information Release No. 2007-05, "Department of Taxation's Position on Qualified High Technology Business Status for Disregarded Entities"

Law Journals and Reviews

Seed Capital is Not Enough: Lessons from Hawai`i's Attempt to Develop a High-Technology Sector. 30 UH L. Rev. 401.

Case Notes

Where the twelve-month limitation period set forth in subsection (f) (2003) plainly applied to "all claims" for a tax credit under this section and an "amended claim" is a subset of "all claims", the twelve-month limitation period clearly and unambiguously applied to plaintiff's amended claim, notwithstanding the legislature's failure to specifically provide that the term "all claims" "included amended claims". 121 H. 220 (App.), 216 P.3d 1243 (2009).

§235-110.91 Tax credit for research activities. *[Section repealed December 31, 2024. L 2019, c 261 §5]* (a) Section 41 (with respect to the credit for increasing research activities) and section 280C(c) (with respect to certain expenses for which the credit for increasing research activities are allowable) of the Internal Revenue Code shall be operative for the purposes of this chapter as provided in this section; provided that the federal tax provisions in section 41 of the Internal Revenue Code, as that section was enacted on December 31, 2011, irrespective of any subsequent changes to section 41 of the Internal Revenue Code, shall remain in effect for purposes of determining the state income tax credit under this section; provided further that the federal tax provisions in section 41 of the Internal Revenue Code, as enacted on December 31, 2011, irrespective of any subsequent amendments to section 41 of the Internal Revenue Code, shall apply only to expenses incurred for qualified research activities after December 31, 2012.

(b) All references to Internal Revenue Code sections within sections 41 and 280C(c) of the Internal Revenue Code shall be operative for purposes of this section; provided that references to the base amount in section 41 of the Internal Revenue Code shall not apply, and credit for all qualified research expenses may be taken without regard to the amount of expenses for previous years.

(c) There shall be allowed to each qualified high technology business subject to the tax imposed by this chapter an income tax credit for qualified research activities equal to the credit for research activities provided by section 41 of the Internal Revenue Code and as modified by this section; provided that, in addition to any other requirements established in this section, in order to qualify for the tax credit established in this section, the qualified high technology business shall also claim a federal tax credit for the same qualified research activities under section 41 of the Internal

Revenue Code, as enacted on December 31, 2011, irrespective of any subsequent amendments to section 41 of the Internal Revenue Code. The credit shall be deductible from the taxpayer's net income tax liability, if any, imposed by this chapter for the taxable year in which the credit is properly claimed.

(d) Every qualified high technology business, before March 31 of each year in which qualified research and development activity was conducted in the previous taxable year, shall submit a written, certified statement to the department of business, economic development, and tourism identifying:

(1) Qualified expenditures, if any, expended in the previous taxable year; and

(2) The amount of tax credits claimed pursuant to this section, if any, in the previous taxable year.

(e) The department of business, economic development, and tourism shall:

(1) Maintain records of the names and addresses of the taxpayers claiming the credits under this section and the total amount of the qualified research and development activity costs upon which the tax credit is based;

(2) Verify the nature of the qualifying research activity and the amount of the qualifying costs or expenditures;

(3) Total all qualifying and cumulative costs or expenditures that the department certifies; and

(4) Certify the amount of the tax credit for each taxable year and cumulative amount of the tax credit.

Upon each determination made under this subsection, the department of business, economic development, and tourism shall issue a certificate to the taxpayer verifying information submitted to the department of business, economic development, and tourism, including the qualifying costs or expenditure amounts, the credit amount certified for each taxable year, and the cumulative amount of the tax credit during the credit period. The taxpayer shall file the certificate with the taxpayer's tax return with the department of taxation. Notwithstanding the authority of the department of business, economic development, and tourism under this section, the director of taxation may audit and adjust the tax credit amount to conform to the facts.

The department of business, economic development, and tourism may assess and collect a fee to offset the costs of certifying tax credit claims under this section.

(f) If in any taxable year the annual amount of certified credits reaches $5,000,000 in the aggregate, the department of business, economic development, and tourism shall immediately discontinue certifying credits and notify the department of taxation. In no instance shall the department of business, economic development, and tourism certify a total amount of credits exceeding $5,000,000 per taxable year. To comply with this restriction, the department of business, economic development, and tourism shall certify credits on a first come, first served basis.

The department of taxation shall not allow the aggregate amount of credits claimed to exceed that amount per taxable year.

(g) If the tax credit for qualified research activities claimed by a taxpayer exceeds the amount of income tax payment due from the taxpayer, the excess of the tax credit over payments due shall be refunded to the taxpayer; provided that no refund on account of the tax credit allowed by this section shall be made for amounts less than $1.

(h) All claims for a tax credit under this section shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure to properly claim the credit shall constitute a waiver of the right to claim the credit.

(i) A qualified high technology business that claims the credit under this section shall complete and file with the department of business, economic development, and tourism, through that department's website, an annual survey on electronic forms prepared and prescribed by the department of business, economic development, and tourism. The annual survey shall be filed before June 30 of each calendar year following the calendar year in which the credit may be claimed under this section. The department of business, economic development, and tourism may adjust the due date of the annual survey by rules adopted pursuant to chapter 91.

(j) The annual survey under subsection (i) shall include the following information for the time period or periods specified by the department of business, economic development, and tourism:

(1) Identification of the industry sector or sectors in which the qualified high technology business conducts business, as set forth in paragraphs (2) to (8) of the definition of "qualified research" in section 235-7.3(c);

(2) Total expenditures and the qualified expenditures, if any, expended in the previous taxable year;

(3) Revenue and expense data, including a breakdown of any licensing royalty or other forms of income generated from intellectual property;

(4) Hawaii employment and wage data, including the numbers of full-time and part-time employees retained, new jobs, temporary positions, external services procured by the business, and payroll taxes;

(5) Filed intellectual property, including invention disclosures, provisional patents, and patents issued or granted; and

(6) The number of new companies spun out or established to commercialize the intellectual property owned by the qualified high technology business.

The department of business, economic development, and tourism shall request information in each of these categories sufficient to measure the effectiveness of the tax credit under this section. The department of business, economic development, and tourism may request any additional information necessary to measure the effectiveness of the tax credit, such as information related to patents. In preparing the survey and requesting any additional information,

the department of business, economic development, and tourism shall ensure that qualified high technology businesses are not subject to duplicative reporting requirements.

(k) The department of business, economic development, and tourism shall use information collected under this section and through its other reporting requirements to prepare summary descriptive statistics by category. The information shall be reported at the aggregate level to prevent compromising identities of qualified high technology business investors or other confidential information. The department of business, economic development, and tourism shall also identify each qualified high technology business that applies for or is the beneficiary of tax credits claimed under this section. The department of business, economic development, and tourism shall report the information required under this subsection to the legislature by September 1 of each year.

(l) The department of business, economic development, and tourism, in collaboration with the department of taxation, shall use the information collected to study the effectiveness of the tax credit under this section. The department of business, economic development, and tourism shall submit a report to the legislature on the following:

(1) The amount of tax credits claimed and total taxes paid by qualified high technology businesses;
(2) The number of qualified high technology businesses in each industry sector;
(3) The numbers and types of jobs created by qualified high technology businesses;
(4) External services and materials procured by the businesses;
(5) The compensation levels of jobs provided by qualified high technology businesses;
(6) Qualified research activities; and
(7) Any other factors the department of business, economic development, and tourism deems relevant.

The department of business, economic development, and tourism shall submit the report to the legislature by September 1 of each year.

(m) The director of taxation may adopt any rules under chapter 91 and forms necessary to carry out this section.

(n) This section shall not apply to taxable years beginning after December 31, 2024.

(o) As used in this section:

"Qualified high technology business" shall have the same meaning as in section 235-7.3(c).

"Qualified research shall have the same meaning as in section 41(d) of the Internal Revenue Code.

"Qualified research expenses" shall have the same meaning as in section 41(b) of the Internal Revenue Code; provided that it shall not include research expenses incurred outside of the State. [L 1999, c 178, §25; am L 2000, c 174, §4 and c 297, §9; am L 2001, c 221, §10; am L 2004, c 215, §9; am L 2013, c 270, §2; am L 2019, c 261, §2]

Note

The 2013 amendment applies to taxable years beginning after December 31, 2012. L 2013, c 270, §4.
The 2019 amendment applies to taxable years beginning after December 31, 2019. L 2019, c 261, §5(1).

Cross Reference

Tax Information Release No. 2007-05, "Department of Taxation's Position on Qualified High Technology Business Status for Disregarded Entities"
Tax Information Release No. 2008-04, "Certain Prototype Costs That May Be Eligible for the Hawaii Tax Credit For Research Activities Under Section 235-110.91, Hawaii Revised Statutes"
Tax Information Release No. 2013-02, "Department of Taxation Policies Relating to the Hawaii Tax Credit for Research Activities"

Case Notes

As subsection (f) (2003) clearly and unambiguously applied to all claims for a research activities tax credit for the 2001 taxable year, the more specific twelve-month limitation period for claiming a tax credit under this section, and not the general limitation period under §235-111, was applicable to plaintiff's amended claim. 121 H. 220 (App.), 216 P.3d 1243 (2009).

§235-110.92 REPEALED. L 2007, c 9, §25.

§235-110.93 Important agricultural land qualified agricultural cost tax credit. (a) There shall be allowed to each taxpayer an important agricultural land qualified agricultural cost tax credit that may be claimed in taxable years beginning after the taxable year during which the tax credit under section 235-110.46 is repealed, exhausted, or expired. The credit shall be deductible from the taxpayer's net income tax liability, if any, imposed by this chapter for the taxable year in which the credit is properly claimed. The tax credit amount shall be determined as follows:

(1) In the first year in which the credit is claimed, the lesser of the following:
  (A) Twenty-five per cent of the qualified agricultural costs incurred by the taxpayer after July 1, 2008; or
  (B) $625,000;
(2) In the second year in which the credit is claimed, the lesser of the following:
  (A) Fifteen per cent of the qualified agricultural costs incurred by the taxpayer after July 1, 2008; or
  (B) $250,000; and
(3) In the third year in which the credit is claimed, the lesser of the following:
  (A) Ten per cent of the qualified agricultural costs incurred by the taxpayer after July 1, 2008; or
  (B) $125,000.

The taxpayer may incur qualified agricultural costs during a taxable year in anticipation of claiming the credit in future taxable years during which the credit is available. The taxpayer may claim the credit in any taxable year after the taxable year during which the taxpayer incurred the qualified agricultural costs upon which the credit is claimed. The taxpayer also may claim the credit in consecutive or inconsecutive taxable years until exhausted.

(b) No other credit may be claimed under this chapter for qualified agricultural costs for which a credit is claimed under this section for the taxable year.

(c) The amount of the qualified agricultural costs eligible to be claimed under this section shall be reduced by the amount of funds received by the taxpayer during the taxable year from the irrigation repair and maintenance special fund under section 167-24.

(d) The cost upon which the tax credit is computed shall be determined at the entity level. In the case of a partnership, S corporation, estate, trust, or other pass through entity, distribution and share of the credit shall be determined pursuant to section 235-110.7(a).

If a deduction is taken under Section 179 (with respect to election to expense depreciable business assets) of the Internal Revenue Code, no tax credit shall be allowed for that portion of the qualified agricultural cost for which a deduction was taken.

The basis of eligible property for depreciation or accelerated cost recovery system purposes for state income taxes shall be reduced by the amount of credit allowable and claimed. No deduction shall be allowed for that portion of otherwise deductible qualified agricultural costs on which a credit is claimed under this section.

(e) If the credit under this section exceeds the taxpayer's net income tax liability for the taxable year, the excess of the credit over liability shall be refunded to the taxpayer; provided that no refunds or payments on account of the credits allowed by this section shall be made for amounts less than $1.

All claims for a tax credit under this section, including amended claims, shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credit is claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit.

(f) The director of taxation:

(1) Shall prepare any forms that may be necessary to claim a credit under this section;

(2) May require the taxpayer to furnish information to ascertain the validity of the claim for credit made under this section; and

(3) May adopt rules pursuant to chapter 91 to effectuate this section.

(g) The department of agriculture shall:

(1) Maintain records of the total amount of qualified agricultural costs for each taxpayer claiming a credit;

(2) Verify the amount of the qualified agricultural costs claimed;

(3) Total all qualified agricultural costs claimed; and

(4) Certify the total amount of the tax credit for each taxable year.

Upon each determination, the department of agriculture shall issue a certificate to the taxpayer verifying the qualifying agricultural costs and the credit amount certified for each taxable year. For a taxable year, the department of agriculture may certify a credit for a taxpayer who could have claimed the credit in a previous taxable year, but chose not to because the maximum annual credit amount under subsection (h) was reached in that taxable year.

The taxpayer shall file the certificate with the taxpayer's tax return with the department of taxation. Notwithstanding the department of agriculture's certification authority under this section, the director of taxation may audit and adjust certification to conform to the facts.

Notwithstanding any other law to the contrary, the information required by this subsection shall be available for public inspection and dissemination under chapter 92F.

(h) If in any taxable year the annual amount of certified credits reaches $7,500,000 in the aggregate, the department of agriculture shall immediately discontinue certifying credits and notify the department of taxation. In no instance shall the department of agriculture certify a total amount of credits exceeding $7,500,000 per taxable year. To comply with this restriction, the department of agriculture shall certify credits on a first come, first served basis.

The department of taxation shall not allow the aggregate amount of credits claimed to exceed that amount per taxable year.

(i) The department of agriculture, in consultation with the department of taxation, shall annually determine the information necessary to provide a quantitative and qualitative assessment of the outcomes of the tax credit.

Every taxpayer, no later than the last day of the taxable year following the close of the taxpayer's taxable year in which the credit is claimed, shall submit a certified written statement to the department of agriculture. Failure to provide the information shall result in ineligibility and a recapture of any credit already claimed for that taxable year. The amount of the recaptured tax credit shall be added to the taxpayer's tax liability for the taxable year in which the recapture occurs.

Notwithstanding any law to the contrary, a statement submitted under this subsection shall be a public document.

(j) The department of agriculture, in consultation with the department of taxation, shall annually submit a report evaluating the effectiveness of the tax credit. The report shall include but not be limited to findings and recommendations to improve the effectiveness of the tax credit to further encourage the development of agricultural businesses.

(k) As used in this section:

"Agricultural business" means any person with a commercial agricultural, silvicultural, or aquacultural facility or operation, including:

(1) The care and production of livestock and livestock products, poultry and poultry products, apiary products, and plant and animal production for nonfood uses;

(2) The planting, cultivating, harvesting, and processing of crops; and

(3) The farming or ranching of any plant or animal species in a controlled salt, brackish, or freshwater environment;

provided that the principal place of the agricultural business is maintained in the State and more than fifty per cent of the land the agricultural business owns or leases, excluding land classified as conservation land, is important agricultural land.

"Important agricultural lands" means lands identified and designated as important agricultural lands pursuant to part III of chapter 205.

"Net income tax liability" means income tax liability reduced by all other credits allowed under this chapter.

"Qualified agricultural costs" means expenditures for:

(1) The plans, design, engineering, construction, renovation, repair, maintenance, and equipment for:

(A) Roads or utilities, primarily for agricultural purposes, where the majority of the lands serviced by the roads or utilities, excluding lands classified as conservation lands, are important agricultural lands;

(B) Agricultural processing facilities in the State, primarily for agricultural purposes, where the majority of the crops or livestock processed, harvested, treated, washed, handled, or packaged are from agricultural businesses;

(C) Water wells, reservoirs, dams, water storage facilities, water pipelines, ditches, or irrigation systems in the State, primarily for agricultural purposes, providing water for lands, the majority of which, excluding lands classified as conservation lands, are important agricultural lands; and

(D) Agricultural housing in the State, exclusively for agricultural purposes; provided that:

(i) The housing units are occupied solely by farmers or employees for agricultural businesses and their immediate family members;

(ii) The housing units are owned by the agricultural business;

(iii) The housing units are in the general vicinity, as determined by the department of agriculture, of agricultural lands owned or leased by the agricultural business; and

(iv) The housing units conform to any other conditions that may be required by the department of agriculture;

(2) Feasibility studies, regulatory processing, and legal and accounting services related to the items under paragraph (1);

(3) Equipment, primarily for agricultural purposes, used to cultivate, grow, harvest, or process agricultural products by an agricultural business; and

(4) Regulatory processing, studies, and legal and other consultant services related to obtaining or retaining sufficient water for agricultural activities and retaining the right to farm on lands identified as important agricultural lands.

(l) The department of agriculture shall cease certifying credits pursuant to this section for taxable years beginning after December 31, 2021; provided that a taxpayer with accumulated, but unclaimed, certified credits may continue claiming the credits in subsequent taxable years until exhausted.

[(m)]The department of taxation, in consultation with the department of agriculture, shall submit to the legislature an annual report, no later than twenty days prior to the convening of each regular session, beginning with the regular session of 2010, regarding the quantitative and qualitative assessment of the impact of the important agricultural land qualified agricultural cost tax credit. [L 2008, c 233, §§4, 5; am L 2014, c 101, §1; am L 2018, c 87, §1]

Note

The 2014 amendment applies to taxable years beginning after July 1, 2008. L 2014, c 101, §3.

Section 167-24 referred to in subsection (c) is repealed.

[§235-110.94] Organic foods production tax credit. *[Section repealed December 31, 2021. L 2016, c 258, §5.]* (a) There shall be allowed to each qualified taxpayer subject to the tax imposed under this chapter, an income tax credit that shall be deductible from the taxpayer's net income tax liability, if any, imposed by this chapter for the taxable year in which the credit is properly claimed.

(b) The amount of the tax credit shall be equal to the qualified expenses of the qualified taxpayer, up to a maximum of $50,000.

(c) In the case of a partnership, S corporation, estate, or trust, the tax credit allowable is for qualified expenses incurred by the entity for the taxable year. The expenses upon which the tax credit is computed shall be determined at the entity level. Distribution and share of credit shall be determined by rule.

(d) The total amount of tax credits allowed under this section shall not exceed $2,000,000 for all qualified taxpayers in any taxable year; provided that any taxpayer who is not eligible to claim the credit in a taxable year due to the $2,000,000 cap having been exceeded for that taxable year shall be eligible to claim the credit in the subsequent taxable year.

(e) Every qualified taxpayer, before March 31 of each year in which qualified expenses were incurred by the taxpayer in the previous taxable year, shall submit a written, certified statement to the chairperson of the board of agriculture identifying:

(1) Qualified expenses incurred in the previous taxable year; and

(2) The amount of the tax credit claimed by the taxpayer pursuant to this section, if any, in the previous taxable year.

(f) The department of agriculture shall:

(1) Maintain records of the names and addresses of the qualified taxpayers claiming the credits under this section and the total amount of the qualified expenses upon which the tax credits are based;

(2) Verify the nature and amount of the qualified expenses;

(3) Total all qualified and cumulative expenses that the department certifies; and

(4) Certify the amount of the tax credit for each taxpayer for each taxable year and the cumulative amount of the tax credit.

Upon each determination made under this subsection, the department of agriculture shall issue a certificate to the taxpayer verifying information submitted to the department of agriculture, including amounts of qualified expenses, the credit amount certified for the taxpayer for each taxable year, and the cumulative amount of tax credits certified. The taxpayer shall file the certificate with the taxpayer's tax return with the department of taxation.

The board of agriculture may assess and collect a fee to offset the costs of certifying tax credit claims under this section.

(g) The director of taxation:

(1) Shall prepare any forms that may be necessary to claim a tax credit under this section;

(2) May require the taxpayer to furnish reasonable information to ascertain the validity of the claim for the tax credit made under this section; and

(3) May adopt rules under chapter 91 necessary to effectuate the purposes of this section.

(h) If the tax credit under this section exceeds the taxpayer's net income tax liability, the excess of the credit over liability may be used as a credit against the taxpayer's net income tax liability in subsequent years until exhausted. All claims for the tax credit under this section, including amended claims, shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit.

(i) As used in this section:

"Net income tax liability" means income tax liability reduced by all other credits allowed under this chapter.

"Organic Foods Production Act" means the federal Organic Foods Production Act of 1990, as amended (7 United States Code section 6501 et seq.).

"Organic system plan" has the same meaning as provided in 7 Code of Federal Regulations section 205.2.

"Qualified expenses" means expenses incurred by a qualified taxpayer to produce organically produced agricultural products, including expenses incurred to obtain organic certification from the United States Department of Agriculture, pursuant to the Organic Foods Production Act. "Qualified expenses" include:

(1) Application fees;

(2) Inspection costs;

(3) Fees related to equivalency agreement/arrangement requirements, travel/per diem for inspectors, user fees, sales assessments, and postage; and

(4) Costs for any equipment, materials, or supplies necessary for organic certification or production of agricultural products, in accordance with the qualified taxpayer's organic system plan and the organic production and handling requirements of the National Organic Program, codified at 7 Code of Federal Regulations part 205, subpart C, including but not limited to certified organic seed, cover crops, or animal feed.

"Qualified expenses" shall not include any amount refunded or to be refunded to the taxpayer by the United States Department of Agriculture's organic certification cost-share program or any other similar financial assistance program.

"Qualified taxpayer" means a producer, handler, or handling operation, as those terms are defined in title 7 United States Code section 6502:

(1) That sells agricultural products in adherence to the standards and requirements of the Organic Foods Production Act;

(2) That has applied for organic certification, in accordance with the requirements of the Organic Foods Production Act; and

(3) Whose gross income from the sale of organically produced agricultural products for the most recently reported fiscal year totals no more than $500,000. [L 2016, c 258, §2]

Note

Section applies to taxable years beginning after December 31, 2016. L 2016, c 258, §5.

[§235-110.97] Historic preservation income tax credit. *[Section repealed December 31, 2024. L 2019, c 267, §3.]* (a) Notwithstanding any law to the contrary, there shall be allowed to each taxpayer subject to the tax imposed by this chapter a historic preservation income tax credit for substantial rehabilitation of a certified historic structure that shall be deductible from the taxpayer's net income tax liability, if any, imposed by this chapter for the taxable year in which the tax credit is properly claimed.

(b) In the case of a partnership, S corporation, estate, trust, or any developer of a rehabilitated certified historic structure, the tax credit allowable shall be as provided under subsection (d) for the taxable year. The cost upon which the credit is computed shall be determined at the entity level and the distribution and share of the tax credit shall be determined pursuant to section 704(b) of the Internal Revenue Code.

If a deduction is taken under section 179 (with respect to election to expense depreciable business assets) of the Internal Revenue Code, no tax credit shall be allowed for that portion of the qualified expense for which the deduction is taken.

The basis of eligible property for depreciation or accelerated cost recovery system purposes for state income taxes shall be reduced by the amount of credit allowable and claimed. In the alternative, the taxpayer shall treat the amount of the credit allowable and claimed as a taxable income item for the taxable year in which it is properly recognized under the method of accounting used to compute taxable income.

(c) The amount of a historic preservation income tax credit that is certified by qualified staff of the state historic preservation division of the department of land and natural resources shall be thirty per cent of the qualified rehabilitation expenditures.

(d) The tax credit allowed under this section shall be available in the taxable year in which the substantially rehabilitated certified historic structure is placed into service. In the case of projects completed in phases, the tax credit shall be prorated to the substantially rehabilitated identifiable portion of the certified historic structure placed into service during that taxable year.

(e) If the tax credit under this section exceeds the taxpayer's income tax liability, the excess of the credit over liability may be used as a credit against the taxpayer's income tax liability in subsequent years until either the credit is exhausted, or for a period of ten years, whichever is earlier.

All claims for the tax credit under this section, including amended claims, shall be filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit.

(f) The state historic preservation division shall adopt rules pursuant to chapter 91 establishing standards and criteria for the approval of rehabilitation of certified historic structures for which the tax credit under this section is sought. These standards and criteria shall take into account whether the rehabilitation of a certified historic structure will preserve the historic character of the building.

(g) Following the completion of rehabilitation of a certified historic structure:

(1) The taxpayer shall notify the state historic preservation division that the rehabilitation has been completed and shall provide the state historic preservation division with documentation and certification of the costs incurred in rehabilitating the historic structure;

(2) Qualified staff of the state historic preservation division shall review the rehabilitation and verify the rehabilitation project's compliance with the rehabilitation plan;

(3) Upon each determination made under this subsection, the state historic preservation division shall issue a certificate to the taxpayer verifying that the rehabilitation has been completed in accordance with the approved rehabilitation plan; and

(4) The taxpayer shall file the certificate with the taxpayer's tax return with the department.

The department of land and natural resources may offset the costs of certifying tax credit claims under this section by assessing and collecting a fee, which shall be deposited into the Hawaii historic preservation special fund established under section 6E-16.

(h) The director of taxation shall prepare any forms that may be necessary to claim the tax credit under this section. The director may also require the taxpayer to furnish reasonable information to ascertain the validity of the claim for credit made under this section and may adopt rules necessary to effectuate the purposes of this section pursuant to chapter 91.

(i) The aggregate amount of the tax credits claimed for qualified rehabilitation projects shall not exceed:

(1) $1,000,000 for the 2020 taxable year;

(2) $1,000,000 for the 2021 taxable year;

(3) $1,000,000 for the 2022 taxable year;

(4) $1,000,000 for the 2023 taxable year; and

(5) $1,000,000 for the 2024 taxable year.

(j) Each taxpayer claiming a tax credit under this section, no later than the last day of the twelfth month following the close of the taxable year in which qualified costs were expended, shall submit a written, certified statement to the state historic preservation division containing the qualified rehabilitation expenditures incurred by the taxpayer and any other information the state historic preservation division or department of taxation may require.

Any taxpayer failing to submit information to the state historic preservation division in a manner prescribed by the state historic preservation division prior to the last day of the twelfth month following the close of the tax year in which qualified costs were expended shall not be eligible to receive the tax credit for those expenses, and any credit already claimed for that taxable year shall be recaptured in total. The amount of the recaptured tax credit shall be added to the taxpayer's tax liability for the taxable year in which the recapture occurs.

All information in the statement submitted under this section shall be a public document, except for information that is otherwise exempt from public disclosure in accordance with chapter 92F.

(k) Recapture of a previously claimed tax credit shall be required from any taxpayer who received a credit under this section if any of the following occur:

(1) The projected qualified expenditures do not materialize; or

(2) The rehabilitation of the certified historic structure does not proceed in a timely manner and in accordance with the approved rehabilitation plan.

Any credit under this section shall be recaptured following the close of the taxable year for which the credit is claimed if the department of land and natural resources notifies the department that the taxpayer has failed to comply with the requirements of this section or its related rules promulgated by the state historic preservation division.

(l) The state historic preservation division, in consultation with the department of taxation, shall determine the information necessary to enable a quantitative and qualitative assessment of the outcomes of the tax credit and submit a report to the legislature evaluating the effectiveness of the tax credit no later than twenty days prior to the convening of each regular legislative session. The report shall include findings and recommendations to improve the effectiveness of the tax credit in order to further encourage the rehabilitation of historic properties.

(m) For the purposes of this section:

"Certified historic structure" means any structure that is:

(1) Individually listed in the Hawaii register of historic places or the national register of historic places;

(2) Located in a historic district that is listed in the Hawaii register of historic places or the national register of historic places, and certified by the state historic preservation division as contributing to the significance of the historic district; or

(3) A structure that the state historic preservation division has determined to be eligible for inclusion in the Hawaii register of historic places, and that is subsequently listed in the Hawaii register of historic places by the date of certification by the administrator of the state historic preservation division in accordance with subsection (g).

"Qualified rehabilitation expenditures" means any costs incurred for the physical rehabilitation, renovation, or construction of a certified historic structure pursuant to a rehabilitation plan; provided that the term shall not include the taxpayer's personal labor.

"Qualified staff" means a staff person meeting the Secretary of the Interior's Historic Preservation Professional Qualification Standards for an architectural historian or historic architect.

"Rehabilitation plan" means any construction plans and specifications for the proposed rehabilitation of a historic structure in sufficient detail for evaluation of compliance with the rules adopted by the state historic preservation division.

"Substantial rehabilitation" means that the qualified rehabilitation expenditures on a certified historic structure exceed twenty-five per cent of the assessed value of the structure. [L 2019, c 267, §1]

18-235-111 **§235-111 Limitation period for assessment, levy, collection, or credit; net operating loss carrybacks.** (a) General rule. The amount of income taxes imposed by this chapter (also the amount of income taxes imposed by any preceding law of the State) and the liability of any employer in respect of wages, shall be assessed or levied and the overpayment, if any, shall be credited within three years after filing of the return for the taxable year, or within three years of the due date prescribed for the filing of the return, whichever is later. No proceeding in court without assessment for the collection of the taxes or the enforcement of the liability shall be begun after the expiration of the period. Where the assessment of the tax imposed by this chapter has been made within the period of limitation applicable thereto, the tax may be collected by levy or by a proceeding in court under chapter 231; provided that the levy is made or the proceeding was begun within fifteen years after the assessment of the tax. For any tax that has been assessed prior to July 1, 2009, the levy or proceeding shall be barred after June 30, 2024.

Notwithstanding any other provision to the contrary in this section, the limitation on collection after assessment in this section shall be suspended for the period:

(1) The taxpayer agrees to suspend the period;

(2) The assets of the taxpayer are in control or custody of a court in any proceeding before any court of the United States or any state, and for six months thereafter;

(3) An offer in compromise under section 231-3(10) is pending; and

(4) During which the taxpayer is outside the State for a continuous period of at least six months; provided that if at the time of the taxpayer's return to the State the period of limitations on collection after assessment would expire before the expiration of six months from the date of the taxpayer's return, the period shall not expire before the expiration of the six months.

(b) Limitations on credit or refund. Claim for credit or refund of an overpayment of any tax imposed by this chapter shall be filed by the taxpayer or employer within three years from the time the return was filed or from the due date prescribed for the filing of the return, or within two years from the time the tax was paid, whichever is later. For the purposes of this section, taxes paid before the due date of the return shall be deemed to have been paid on the due date of the return determined without regard to any extensions.

(1) If the claim was filed by the taxpayer during the three-year period prescribed in this subsection, the amount of the credit or refund shall not exceed the portion of the tax paid within the period, immediately preceding the filing of the claim, equal to three years plus the period of any extension of time for filing the return.

(2) If the claim was not filed within the three-year period, the amount of the credit or refund shall not exceed the portion of the tax paid during the two years immediately preceding the filing of the claim.

(3) If no claim was filed, the credit or refund shall not exceed the amount which would be allowable under paragraph (1) or (2), as the case may be, if the claim was filed on the date the credit or refund is allowed.

(c) Exceptions; fraudulent return or no return. In the case of a false or fraudulent return with intent to evade tax or liability, or of a failure to file return, the tax or liability may be assessed or levied at any time; provided that the burden of proof with respect to the issues of falsity or fraud and intent to evade tax shall be upon the State.

(d) Extension by agreement. Where, before the expiration of the time prescribed in subsection (a) for the assessment, levy, and collection of the tax or liability, or in subsection (b) for the credit or refund of an overpayment, both the department and the taxpayer or employer have consented in writing to its assessment or levy after that date, the tax or liability may be assessed or levied or the overpayment, if any, may be credited at any time prior to the expiration of the period previously agreed upon. The period so agreed upon may be extended by the subsequent agreements in writing made before the expiration of the period previously agreed upon.

(e) Overpayment of carrybacks. If an overpayment results from a net operating loss carryback, the statute of limitations in subsections (a) and (b) shall not apply. The overpayment shall be credited within three years of the due date prescribed for filing the return (including extensions thereof) for the taxable year of the net operating loss, or the period agreed to under subsection (d) with respect to the taxable year, whichever expires later. [L Sp 1957, c 1, pt of §2; am L Sp 1959 2d, c 1, §16; Supp, §121-45; HRS §235-111; am L 1969, c 274, §2; am L 1971, c 9, §1; gen ch 1985; am L 1991, c 22, §1; am L 1993, c 257, §1; am L 1994, c 18, §1; am L 2009, c 166, §6]

Note

Applicability of 2009 amendment. L 2009, c 166, §27.

Cross Reference

Suspension of limitation period during bankruptcy proceedings, see §231-3.5.

Tax Information Release No. 99-4. "Application of the Franchise Tax, General Excise Tax, and Income Tax to Mortgage Loan Companies, Including Mortgage Loan Companies Organized as Passthrough Entities and Sole Proprietorships"

Tax Information Release No. 2002-1, "Audit of Net Income, General Excise, and Use Tax Returns; Appeal Rights; Claims for Refund; and Payment to State Under Protest"

Case Notes

Applicable limitations period for refund claim for public service company taxes; when period starts to run. 68 H. 391, 716 P.2d 1128.

As §235-110.91(f) (2003) clearly and unambiguously applied to all claims for a research activities tax credit for the 2001 taxable year, the more specific twelve-month limitation period for claiming a tax credit under §235-110.91(f), and not the general limitation period under this section, was applicable to plaintiff's amended claim. 121 H. 220 (App.), 216 P.3d 1243 (2009).

§235-111.5 High technology; sale of unused net operating loss carryover. (a) A qualified high technology business as defined in section 235-7.3 may apply to the department to sell its unused net operating loss carryover to another taxpayer. If approved by the department, a qualified high technology business may sell its unused net operating loss carryover to another taxpayer in an amount equal to at least seventy-five per cent of the amount of the surrendered tax benefit, computed at the corporate rate pursuant to section 235-71; provided that the qualified high technology business may sell no more than $500,000 of its unused net operating loss carryover to another taxpayer per year. In the case of partnerships, limited liability partnerships, limited liability companies classified as partnerships, and S corporations, each partner, member, or shareholder may sell its share of the entity's total net operating loss. The tax benefit purchased by the buyer shall be claimed in the year for which the sale is approved by the department. Any use of the purchased net operating loss carryover for tax carryback or carryforward purposes shall comply with applicable law. The income from the sale of the net operating loss carryover received by the seller shall be reported on its tax return in the taxable year received but shall not be considered taxable income.

(b) No application for the sale of unused net operating losses shall be approved if the seller is a qualified high technology business that:

(1) Has demonstrated positive net income in either of the two previous full years of ongoing operations as determined on its financial statements;

(2) Has demonstrated a ratio of one hundred ten per cent or greater of operating revenues divided by operating expenses in either of the two previous full years of operations as determined on its financial statements; or

(3) Is directly or indirectly at least fifty per cent owned or controlled by another corporation that has demonstrated positive net income in either of the two previous full years of ongoing operations as determined on its financial statements or is part of a consolidated group of affiliate corporations, as filed for federal income tax purposes, that in the aggregate has demonstrated positive net income in either of the two previous full years of ongoing operations as determined on its combined financial statements.

In the case of partnerships, limited liability partnerships, limited liability companies classified as partnerships, and S corporations, the application for the sale of unused net operating losses shall only be approved to the extent that all partners, members, or shareholders certify that they have not received a tax benefit from the losses.

(c) As used in this section:

"Net operating loss" means a net operating loss for income tax purposes occurring in the two taxable years preceding the year in which the sale of net operating loss carryover occurs.

"Surrendered tax benefit" means the tax liability saved if the net operating loss carryforward could have been used by the qualified high technology business.

(d) This section shall only apply to sales of net operating loss carryovers after December 31, 2000, and before January 1, 2004. [L 2000, c 297, §3; am L 2001, c 221, §11]

18-235-112 **§235-112 Time for assessment of deficiency attributable to gain upon conversion.** (a) If a taxpayer has made the election provided in section 1033(a)(2)(A) of the Internal Revenue Code, the rules stated in this section apply.

(b) The statutory period for the assessment of any deficiency, for any taxable year in which is realized any part of the gain on the conversion which is the subject of the election referred to in subsection (a) of this section, attributable to such gain, shall not expire prior to the expiration of three years from the date the department of taxation is notified by the taxpayer (in such manner as the department has prescribed or may prescribe) of the replacement of the converted property or of an intention not to replace, and such deficiency may be assessed at any time before the expiration of this three-year period notwithstanding any other provision which would otherwise prevent such assessment.

(c) If the property or stock purchased as a replacement for converted property was purchased before the beginning of the last taxable year in which any part of the gain upon such conversion is realized, any deficiency, to the extent resulting from the election referred to in subsection (a) of this section, for any taxable year ending before such last taxable year may be assessed, notwithstanding any other provision which would otherwise prevent such assessment, at any time before the expiration of the period within which a deficiency for such last taxable year may be assessed. [L 1959, c 277, pt of §14; am L Sp 1959 2d, c 1, §16; Supp, §121-45.1; HRS §235-112; am L 1979, c 62, §2(13)]

18-235-113 **§235-113 Time for assessment of deficiency attributable to gain upon sale of a residence.** (a) If after December 31, 1957, a taxpayer during a taxable year sells at a gain property used by the taxpayer as the taxpayer's principal residence, the rules stated in this section apply.

(b) The statutory period for the assessment of any deficiency attributable to any part of the gain referred to in subsection (a) of this section shall not expire before the expiration of three years from the date the department of taxation is notified by the taxpayer (in such manner as the department has prescribed or may prescribe) of the matters set out in subsection (c) of this section, and such deficiency may be assessed at any time before the expiration of the three-year period notwithstanding any other provision which would otherwise prevent such assessment.

(c) The notice referred to in subsection (b) of this section shall inform the department of:

(1) The taxpayer's cost of purchasing the new residence which the taxpayer claims results in nonrecognition of any part of the gain referred to in subsection (a) of this section, or

(2) The taxpayer's intention not to purchase a new residence within the period specified in section 1034(a) of the Internal Revenue Code, or

(3) A failure to make such purchase within such period. [L 1959, c 277, pt of §14; am L Sp 1959 2d, c 1, §16; Supp, §121-45.2; HRS §235-113; am imp L 1984, c 90, §1; gen ch 1985]

APPEAL

§235-114 Appeals. (a) Any person aggrieved by any assessment of the tax or liability imposed by this chapter may appeal from the assessment in the manner and within the time hereinafter set forth. Appeal may be made either to the district board of review or to the tax appeal court. The first appeal to either the district board of review or to the tax appeal court may be made without payment of the tax so assessed. Either the taxpayer or the assessor may appeal to the tax appeal

court from a decision by the board or to the intermediate appellate court from a decision by the tax appeal court; provided that if the decision by the board or the tax appeal court is appealed by the taxpayer, or the decision by the board in favor of the department is not appealed, the taxpayer shall pay the tax so assessed plus interest as provided in section 231-39(b)(4).

(b) If the appeal is first made to the board, the appeal shall either be heard by the board or be transferred to the tax appeal court for hearing at the election of the taxpayer or employer. If heard by the board, an appeal shall lie from the decision thereof to the tax appeal court and to the intermediate appellate court, subject to chapter 602, in the manner and with the costs provided by chapter 232. The supreme court shall prescribe forms to be used in the appeals. The forms shall show:

(1) The amount of taxes or liability upon the basis of the taxpayer's computation of the taxpayer's taxable income or the employer's computation of the employer's liability;
(2) The amount upon the basis of the assessor's computation;
(3) The amount upon the basis of the decisions of the board of review and tax appeal court, if any; and
(4) The amount in dispute.

If or when the appeal is filed with or transferred to the tax appeal court, the court shall proceed to hear and determine the appeal, subject to appeal to the intermediate appellate court as is provided in chapter 232.

(c) Any taxpayer or employer appealing from any assessment of income taxes or liability shall lodge with the assessor or assistant assessor a notice of the appeal in writing, stating the ground of the taxpayer's or employer's objection to the additional assessment or any part thereof. The taxpayer or employer also shall file the notice of appeal with the board or the tax appeal court at any time within thirty days subsequent to the date when the notice of assessment was mailed, properly addressed to the taxpayer or employer at the taxpayer's or employer's last known residence or place of business. Except as otherwise provided, the manner of taking the appeal, the costs applicable thereto, and the hearing and disposition thereof, including the distribution of costs and of taxes paid by the taxpayer pending the appeal, shall be as provided in chapter 232.

The tax appeal court may allow an individual taxpayer to file a subsequent appeal without payment of the net income tax in cases where the total tax liability does not exceed $50,000 in the aggregate for all tax years, upon proof that the taxpayer would be irreparably injured by payment of the tax. [L Sp 1957, c 1, pt of §2; Supp, §121-46; am L 1967, c 37, §1; HRS §235-114; am L 1973, c 51, §3; am imp L 1984, c 90, §1; gen ch 1985; am L 1992, c 147, §3; am L 2000, c 199, §2; am L 2004, c 123, §1 and c 202, §25; am L 2006, c 91, §2 and c 94, §1; am L 2010, c 109, §1]

Note

The 2000 amendment does not affect rights and duties that matured, penalties that were incurred, and proceedings that were begun before June 8, 2000. L 2000, c 199, §§11 and 13.

The 2004 amendment applies to tax appeals filed on or after July 1, 2004. L 2004, c 123, §14.

L 2004 , c 202, §82 provides:

"SECTION 82. Appeals pending in the supreme court as of the effective date of this Act [July 1, 2006] may be transferred to the intermediate appellate court or retained at the supreme court as the chief justice, in the chief justice's sole discretion, directs."

Cross Reference

Tax Information Release No. 2002-1, "Audit of Net Income, General Excise, and Use Tax Returns; Appeal Rights; Claims for Refund; and Payment to State Under Protest"

Rules of Court

See Tax Appeal Court Rules.

Case Notes

Provides avenue for a full and fair consideration of taxpayer's challenge to gross receipts tax. 742 F.2d 546.

Taxpayer's 42 U.S.C. §1983 claim against validity of Hawaii's general excise tax barred, where state remedies available to taxpayer were "plain, adequate, and complete". 940 F. Supp. 260.

Mandamus to compel issuance of certificate of appeal. 18 H. 362.

Where taxpayer failed to pay the assessed tax as required by this section, the tax appeal court lacked jurisdiction for taxpayer's appeal and properly dismissed appeal. 108 H. 69 (App.), 116 P.3d 711 (2005).

GENERAL PROVISIONS

§235-115 Assessments, etc., prima facie proof. The effect of the notices of assessments and records prepared by or under the authority of the department of taxation shall be as set forth in sections 231-20 and 235-107. [L Sp 1957, c 1, pt of §2; am L Sp 1959 2d, c 1, §16; Supp, §121-47; HRS §235-115]

§235-116 Disclosure of returns unlawful; penalty. All tax returns and return information required to be filed under this chapter shall be confidential, including any copy of any portion of a federal return that may be attached to a state tax return, or any information reflected in the copy of the federal return. It shall be unlawful for any person, or any officer or employee of the State, including the auditor or the auditor's agent with regard to tax return information obtained pursuant

to section 23-5(a), to make known intentionally information imparted by any income tax return or estimate made under sections 235-92, 235-94, 235-95, and 235-97 or wilfully to permit any income tax return or estimate so made or copy thereof to be seen or examined by any person other than the taxpayer or the taxpayer's authorized agent, persons duly authorized by the State in connection with their official duties, the Multistate Tax Commission or the authorized representative thereof, except as otherwise provided by law. Any offense against the foregoing provisions shall be punishable as a class C felony. [L Sp 1957, c 1, pt of §2; Supp, §121-48; HRS §235-116; am L 1974, c 139, §3; am L 1978, c 172, §1; am imp L 1984, c 90, §1; gen ch 1985; am L 2014, c 136, §4]

Cross Reference

Tax Information Release No. 82-7, "Confidentiality of Tax Returns and Information Imparted Therein — Net Income Tax and General Excise Tax"

Case Notes

Cited: 103 F.3d 742.

§235-117 Reciprocal supplying of tax information. Notwithstanding section 235-116, the department may permit the Secretary of the Treasury of the United States, the Commissioner of Internal Revenue, the Multistate Tax Commission, or the proper officer of any state or territory imposing an income tax upon incomes of persons taxable under this chapter, or any county of this State, or the authorized representatives thereof to inspect the income tax returns and estimates of any such person for tax purposes only. The department may also furnish to these authorized persons an abstract of an income tax return or estimate or supply these persons with information concerning any item of income contained in a return or disclosed by the report of an investigation of the income or return of a taxpayer. The Multistate Tax Commission may make the information available to a duly accredited tax official of the United States, any state or territory, or the authorized representative thereof, for tax purposes only. [L Sp 1957, c 1, pt of §2; am L Sp 1959 2d, c 1, §16; Supp, §121-49; HRS §235-117; am L 1974, c 139, §4; am L Sp 2005, c 9, §4]

§235-118 Rules and regulations. Except as otherwise provided in this chapter, the department of taxation shall prescribe and have printed all needful rules and regulations for the enforcement of this chapter and such rules and regulations so made shall have the force and effect of law if they be not in conflict with the express statutory provisions to which the same are applicable. [L Sp 1957, c 1, pt of §2; am L Sp 1959 2d, c 1, §16; Supp, §121-50; HRS §235-118]

Cross Reference

Rulemaking procedure, see chapter 91.

§235-119 Taxes, state realizations. All income taxes shall be for the use of the State and shall be paid into the state treasury at such times as the director of finance shall direct. [L Sp 1957, c 1, pt of §2; am L Sp 1959 2d, c 1, §14; am L 1963, c 114, §1; Supp, §121-52; HRS §235-119]

PART VII. HAWAII S CORPORATION INCOME TAX ACT

Cross Reference

Tax Information Release No. 90-6, "Act 16, Session Laws of Hawaii 1990, Relating to S Corporations"

[§235-121] Title; definitions; federal conformity; construction. (a) The title of this part shall be the Hawaii S corporation income tax act.

(b) For purposes of this part, the following terms shall have the following meanings:

"C corporation" means a corporation which is not an S corporation.

"Income attributable to the State" means items of income, loss, deduction, or credit of the S corporation apportioned to this State pursuant to part II of this chapter or allocated to this State pursuant to section 235-5.

"Income not attributable to the State" means all items of income, loss, deduction, or credit of the S corporation other than income attributable to the State.

"Internal Revenue Code" has the meaning set forth in section 235-2.3 and as it applies to the taxable period; section references of the Internal Revenue Code shall be deemed to refer to corresponding provisions of prior and subsequent federal tax laws.

"Post-termination transition period" means that period defined in section 1377(b)(1) of the Internal Revenue Code.

"Pro rata share" means the share determined with respect to an S corporation shareholder for a taxable period in the manner provided in section 1377(a)(1) or (2) or 1362(e)(2) or (3) or (6)(D), as the case may be, of the Internal Revenue Code.

"S corporation" means a corporation for which a valid election under section 1362(a) of the Internal Revenue Code is in effect.

"Taxable period" means any taxable year or portion of a taxable year during which a corporation is an S corporation.

(c) Except as otherwise expressly provided or clearly appearing from the context, any term used in this part shall have the same meaning as when used in a comparable context in the Internal Revenue Code, or in any statute relating to federal income taxes, in effect for the taxable period. Due consideration shall be given in the interpretation of this part to applicable sections of the Internal Revenue Code in effect from time to time and to federal rulings and regulations interpreting those sections, provided the Internal Revenue Code rulings and regulations do not conflict with this part or other provisions of this chapter.

(d) This part shall be applied and construed to effectuate its general purpose to make uniform the law with respect to the subject matter of this part among states enacting it. [L 1990, c 16, pt of §1]

18-235-122 **§235-122 Taxation of an S corporation and its shareholders.** (a) An election under section 1361(b)(3) and (e), or 1362(a) of the Internal Revenue Code shall be effective for the purposes of this chapter. Evidence of a valid election for federal purposes shall be submitted to the department in such form and at such time the department may prescribe.

(b) Except as provided in the following sentence, an S corporation shall not be subject to the tax imposed by section 235-71. If income of an S corporation is subject to federal income tax, then such income as modified by section 235-123, to the extent it constitutes income attributable to the State, shall be taxed at the highest marginal rate of tax imposed on the net income of corporations. If an S corporation is required to pay a tax to this State by reason of the preceding sentence, then the income attributable to the State of the S corporation shall be reduced by the amount of the tax.

(c) Each shareholder's pro rata share of income attributable to the State and each resident shareholder's pro rata share of income not attributable to the State, to the extent modified pursuant to section 235-123, shall be taken into account by the shareholder in the manner provided in section 1366 of the Internal Revenue Code for the purposes of section 235-4 and shall be taxable under section 235-51. [L 1990, c 16, pt of §1; am L 1997, c 297, §5]

Cross Reference

Tax Information Release No. 2001-1, "The Application of Certain Hawaii Taxes to Qualified Subchapter S Subsidiary Corporations, Qualified Subchapter S Trusts, and Electing Small Business Trusts"

[§235-123] Modification and characterization of income. (a) The pro rata share of each resident and nonresident shareholder in the income attributable to the State of an S corporation, for the purposes of section 235-122(c), shall be subject to the modifications to corporate income provided by this chapter.

(b) The pro rata share of each resident shareholder in the income not attributable to the State of an S corporation, for the purposes of section 235-122(c), shall be subject to the modifications to individual income provided by this chapter.

(c) S corporation items taken into account by a shareholder pursuant to section 235-122(c) shall be characterized as though received or incurred by the corporation and not its shareholder. [L 1990, c 16, pt of §1]

[§235-124] Basis and adjustments. (a) The initial basis of a resident shareholder in the stock of an S corporation and in any indebtedness of the corporation owed to the shareholder shall be determined in the manner provided under the Internal Revenue Code. The initial basis shall be determined as of the last to occur of the date (which may be before taxable years beginning after December 31, 1989) on which:

(1) The shareholder last became a resident of this State;
(2) The shareholder acquired the stock or the indebtedness of the corporation; or
(3) The corporation became an S corporation.

(b) The initial basis of a resident shareholder in the stock and indebtedness of an S corporation shall be adjusted after the date specified in subsection (a) in the manner and to the extent required by section 1011 of the Internal Revenue Code except that, with respect to any taxable period during which the shareholder was a resident of this State:

(1) Any modification made (other than for income exempt from federal or this State's taxation) pursuant to section 235-123 shall be taken into account; and
(2) Any adjustments made pursuant to section 1367 of the Internal Revenue Code for a taxable period during which this State did not measure S corporation shareholder income by reference to the corporation's income shall not be taken into account.

(c) The initial basis of a nonresident shareholder in the stock of an S corporation and in any indebtedness of the corporation to the shareholder shall be zero. The initial basis shall be determined as of the last to occur of the date (which may be before taxable years beginning after December 31, 1989) on which:

(1) The shareholder acquired the stock or the indebtedness of the corporation;
(2) The corporation became an S corporation; or
(3) The shareholder last became a nonresident of this State.

(d) The initial basis of a nonresident shareholder in the stock and indebtedness of an S corporation shall be adjusted after the date specified in subsection (c) in the manner provided in section 1367 of the Internal Revenue

Code, except that adjustments to basis shall be limited to the income attributable to the State taken into account by the shareholder pursuant to section 235-122(c). In computing income attributable to the State for purposes of the preceding sentence, any modification made for income exempt from federal or this State's taxation shall not be taken into account.

(e) The basis of a resident shareholder in the stock of a corporation shall be reduced by the amount allowed as a loss or deduction pursuant to section 235-125(d).

(f) The basis of a resident shareholder in the stock of a corporation shall be reduced by the amount of any cash distribution which is not taxable to the shareholder as a result of the application of section 235-127(b).

(g) For purposes of this section, a shareholder shall be considered to have acquired stock or indebtedness received by gift at the time the donor acquired the stock or indebtedness, if the donor was a resident of this State at the time of the gift. [L 1990, c 16, pt of §1]

Revision Note

"Taxable years beginning after December 31, 1989" substituted for other original language.

[§235-125] Carryforwards and carrybacks; loss limitation. (a) Carryforwards and carrybacks to and from taxable periods of an S corporation shall be restricted in the manner provided in section 1371(b) of the Internal Revenue Code.

(b) The aggregate amount of losses or deductions of an S corporation taken into account by a shareholder pursuant to section 235-122(c) shall not exceed the combined adjusted bases, determined in accordance with section 235-124, of the shareholder in the stock and indebtedness of the S corporation.

(c) Any loss or deduction which is disallowed for a taxable period pursuant to subsection (b) shall be treated as incurred by the corporation in the succeeding taxable period with respect to the shareholder.

(d)(1) Any loss or deduction which is disallowed pursuant to subsection (b) for the corporation's last taxable period as an S corporation shall be treated as incurred by a shareholder on the last day of any post-termination transition period.

(2) The aggregate amount of losses and deductions taken into account by a shareholder pursuant to paragraph (1) shall not exceed the adjusted basis of the shareholder in the stock of the corporation (determined in accordance with section 235-124 at the close of the last day of any post-termination transition period and without regard to this subsection). [L 1990, c 16, pt of §1]

[§235-125.5] Transition rule. (a) A corporation for which an S election was in effect for federal purposes but not for Hawaii purposes for the taxable period immediately preceding the taxable period beginning after December 31, 1989, may elect before December 31, 1992, not to have section 235-125(a) apply to carryforwards from taxable periods preceding the taxable period beginning after December 31, 1989, for which a Hawaii S election was not in effect. An election pursuant to this section shall be applicable to all such carryforward items.

(b) A net operating loss carryforward subject to an election under this section shall be allowed as a deduction in computing S corporation taxable income after all other items of income and deductions have been taken into account in accordance with this part and shall not reduce S corporation taxable income below zero.

(c) A carryforward, other than a net operating loss carryforward, subject to an election under this section shall be taken into account by the corporation in computing taxable income as though an S election were not in effect for the year. In computing taxable income under this subsection, the allowance of a deduction for a net operating loss carryforward shall be determined in accordance with subsection (b).

(d) No carryforwards subject to the election under this section may be carried forward to a C corporation year within the meaning of Internal Revenue Code section 1371(b).

(e) An election pursuant to this section shall be made on a timely filed (including extension) S corporation income tax return for the first taxable period beginning after December 31, 1989, or an amended return filed before December 31, 1992. A copy of the election shall be attached to the S corporation tax return for each year to which the carryforward is carried. [L 1991, c 24, §1]

[§235-126] Part-year residence. For purposes of this part if a shareholder of an S corporation is both a resident and nonresident of this State during any taxable period, the shareholder's pro rata share of the S corporation's income attributable to the State and income not attributable to the State for the taxable period shall be further prorated between the shareholder's periods of residence and nonresidence, in accordance with the number of days in each period. [L 1990, c 16, pt of §1]

[§235-127] Distributions. (a) Subject to subsection (c), a distribution made by an S corporation with respect to its stock to a resident shareholder shall be taken into account by the shareholder for purposes of section 235-4 and shall be taxable under section 235-51 to the extent that the distribution is treated as a dividend or as gain from the sale or exchange of property pursuant to section 1368 of the Internal Revenue Code.

(b) Subject to subsection (c), a distribution of money made by a corporation with respect to its stock to a resident shareholder during a post-termination transition period shall not be taken into account by the shareholder for purposes of section 235-4 to the extent the distribution is applied against and reduces the adjusted basis of the stock of the shareholder in accordance with section 1371(e) of the Internal Revenue Code.

(c) In applying sections 1368 and 1371(e) of the Internal Revenue Code to any distribution referred to in subsection (a) or (b):

(1) The term "adjusted basis of the stock" means the adjusted basis of the shareholder's stock as determined under section 235-124; and

(2) The accumulated adjustments account for this State shall be equal to, and shall be adjusted in the same manner as, the S corporation's accumulated adjustments account defined in section 1368(e)(1)(A) of the Internal Revenue Code, except that the account shall also be adjusted by any modifications required to be made pursuant to section 235-123(a). [L 1990, c 16, pt of §1]

[§235-128] Returns; shareholder agreements; mandatory payments. (a) An S corporation which engages in activities in this State which would subject a C corporation to the requirement to file a return under section 235-92 shall file with the department an annual return, in the form prescribed by the department, on or before the due date prescribed for the filing of C corporation returns by section 235-97.

Every S corporation shall make a return for each taxable year, stating specifically the items of its gross income and the deductions allowable by this chapter, the name, address, and social security or federal identification number of each person owning stock in the corporation at any time during the taxable year, the number of shares of stock owned by each shareholder at all times during the taxable year, the income attributable to the State and income not attributable to the State with respect to each shareholder as determined under this part, the modifications required by section 235-123, the amount of money and other property distributed by the corporation during the taxable year to each shareholder, the date of each such distribution, and such other information as the department may by form or rule prescribe.

The S corporation, on or before the day on which such return is filed, shall furnish to each person who was a shareholder during the year a copy of the information shown on the return as the department may by form or rule prescribe. Any return filed pursuant to this section, for purposes of sections 235-111 and 235-112, shall be treated as a return filed by the corporation under section 235-92. The S corporation shall also maintain the accumulated adjustments account described in section 235-127(c)(2).

(b) The department shall permit S corporations to file composite returns and to make composite payments of tax on behalf of some or all of its nonresident shareholders. The department may permit composite returns and payments to be made on behalf of resident shareholders.

(c) An S corporation shall file with the department, in the form prescribed by the department, the agreement of each nonresident shareholder of the corporation:

(1) To file a return and make timely payment of all taxes imposed by this State on the shareholder with respect to the income of the S corporation; and

(2) To be subject to personal jurisdiction in this State for purposes of the collection of unpaid income tax, together with related interest and penalties.

If the corporation fails to timely file the agreements required by paragraphs (1) and (2) on behalf of each of its nonresident shareholders, then the corporation, at the times set forth in subsection (d), shall pay to this State on behalf of each nonresident shareholder in respect of whom an agreement has not been timely filed an amount equal to the highest marginal tax rate in effect under section 235-51 multiplied by the amount of the shareholder's pro rata share of the income attributable to the State reflected on the corporation's return for the taxable period. An S corporation shall be entitled to recover a payment made pursuant to the preceding sentence from the shareholder on whose behalf the payment was made.

(d) The agreements required to be filed pursuant to subsection (c) shall be filed at the following times:

(1) At the time the annual return is required to be filed for the first taxable period for which the S corporation became subject to this part, and

(2) At the time the annual return is required to be filed for any taxable period in which the corporation had a nonresident shareholder on whose behalf such an agreement has not been previously filed.

(e) Any amount paid by the corporation to this State pursuant to subsection (b) or (c) shall be considered to be a payment by the shareholder on account of the income tax imposed on the shareholder for the taxable period.

(f) Any officer of any S corporation who wilfully fails to provide any information, file any return or agreement, make any payment, or maintain any account as required by this section or by section 231-15.6 shall be guilty of a misdemeanor. [L 1990, c 16, pt of §1]

§235-129 Tax credits. (a) For purposes of section 235-55, each resident shareholder shall be considered to have paid a tax imposed on the shareholder in an amount equal to the shareholder's pro rata share of any net income tax paid by the S corporation to a state that does not measure the income of S corporation shareholders by the income of the S

corporation. For purposes of the preceding sentence, the term "net income tax" means any tax imposed on or measured by a corporation's net income.

(b) Each shareholder of an S corporation shall be allowed a credit against the tax imposed by section 235-51 in an amount equal to the shareholder's pro rata share of the tax credit earned by the S Corporation in this State. [L 1990, c 16, pt of §1; am L 1992, c 105, §1; am L 2007, c 151, §2]

Note

The 2007 amendment applies to taxable years beginning after December 31, 2006. L 2007, c 151, §4.

[§235-130] LIFO recapture. If an S corporation is subject to last in first out (LIFO) recapture pursuant to section 1363 of the Internal Revenue Code, then:

(1) Any increase in the tax imposed by section 235-71 by reason of the inclusion of the LIFO recapture amount in its income shall be payable in four equal installments;

(2) The first installment shall be paid on or before the due date (determined without regard to extensions) for filing the return for the first taxable year for which the corporation was subject to the LIFO recapture;

(3) The three succeeding installments shall be paid on or before the due date (determined without regard to extensions) for filing the corporation's return for the three succeeding taxable years; and

(4) For purposes of computing interest on underpayments, the last three installments shall not be considered underpayments until after the payment due date specified above. [L 1990, c 16, pt of §1]

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