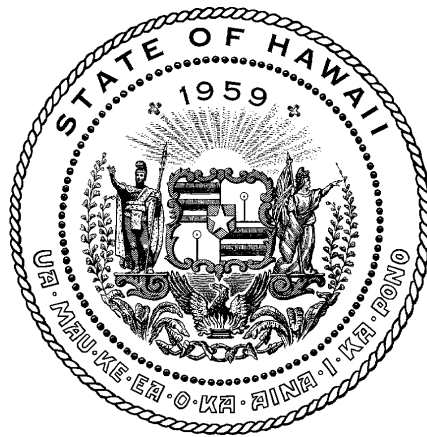


Digest of Tax Measures

ENACTED BY THE STATE OF HAWAII
TWENTY-SEVENTH LEGISLATURE—REGULAR SESSION OF 2014



Prepared by the State of Hawaii
Department of Taxation
Issued: December 3, 2014

NOTE: This Digest is issued solely as a guide and is not intended to be complete.

Introduction

This digest summarizes the Hawaii tax laws enacted during the 2014 Regular Session. It is issued solely as a guide and is not intended to be either authoritative or complete. Bills and Acts can be viewed on the State Capitol website at <http://www.capitol.hawaii.gov>.

KEY TO ABBREVIATIONS

S.B.	=	Senate Bill
S.D.	=	Senate Draft
H.B.	=	House Bill
H.D.	=	House Draft
C.D.	=	Conference Draft
SCR	=	Senate Concurrent Resolution
HCR	=	House Concurrent Resolution
SSCR	=	Senate Standing Committee Report
HSCR	=	House Standing Committee Report
CCR	=	Conference Committee Report
HRS	=	Hawaii Revised Statutes
HAR	=	Hawaii Administrative Rules
L Sp	=	Legislative Special Session
SLH	=	Session Laws of Hawaii

Table of Contents

ADMINISTRATIVE TAX LAWS

ACT 89	1
S.B. 2895, S.D. 1, H.D. 1, C.D. 1 Funding Taxpayer Education	
ACT 136	1
S.B. 2779, S.D. 1, H.D. 1, C.D. 1 Disclosing Tax Information to the Legislative Auditor	
ACT 174	1
H.B. 1671, H.D. 1, S.D. 1, C.D. 1 Increasing Transient Accommodations Tax revenue given to counties	
ACT 235	2
S.B. 2483, S.D. 1, H.D. 1, C.D. 1 Subordinating tax liens to liens by condominium associations	

INCOME TAX LAWS

ACT 43	3
S.B. 2890, S.D. 1 Amending definition of estate taxes in chapter 235, HRS	
ACT 88	3
S.B. 2886, S.D. 1, H.D. 1 Conforming Hawaii Income Tax Law to the Internal Revenue Code	
ACT 101	5
H.B. 2464, H.D. 1, S.D. 1, C.D. 1 Amending the Important Agricultural Lands credit	
ACT 200	5
H.B. 1702, H.D. 2, S.D. 2, C.D. 1 Creating a Capital Infrastructure Tax Credit	

ESTATE AND GENERATION-SKIPPING TRANSFER TAX LAWS

ACT 44	6
S.B. 2887, S.D. 1 Conforming the Estate and Generation-Skipping Transfer Tax to the Internal Revenue Code	

GENERAL EXCISE TAX LAWS

ACT 42	7
S.B. 2896, S.D. 1 Clarifying the General Excise Tax Wholesale Rate Imposed upon Sale of Tangible Personal Property	
ACT 143	7
H.B. 1772, H.D. 1, S.D. 1, C.D. 1 Creating a Patient-Centered Community Care Contractor exemption	

MISCELLANEOUS TAX LAWS

ACT 107 8
S.B. 2196, S.D. 2, H.D. 1, C.D. 1
Amending the Environmental Response and Food Security Tax

ACT 110 8
S.B. 2731, S.D. 2, H.D. 2
Creating a Car-Sharing Vehicle Surcharge

TABLE: Changes to Hawaii Revised Statutes..... 10

DIGEST OF FEDERAL LAWS

Digest of Public Law Number 113-15: Taxable Vaccines..... 12
(P.L. No. 113-15; June 25, 2013)

Digest of Public Law Number 113-22: Kay Bailey Hutchison Spousal IRA 12
(P.L. No. 113-22; July 25, 2013)

Digest of the Continuing Appropriations Act, 2014: Premium Tax Credit 13
(P.L. No. 113-46; October 17, 2013)

Digest of the Public Law Number 113-63: Charitable Distribution for Ambushed Firefighter 13
(P.L. No. 113-63; December 20, 2013)

INDEX BY BILL NUMBER 14

INDEX BY ACT NUMBER..... 15

APPENDIX: Expired Federal Tax Laws 16

ADMINISTRATIVE TAX LAWS

Administrative tax laws control the way the Department collects and distributes taxes.
Administrative tax laws may affect all tax types.

ACT 89

S.B. 2895, S.D. 1, H.D. 1, C.D. 1

Relating to Taxpayer Education

SSCR 2188; HSCR 1513-14; CCR 62-14

SECT AFF: 235-20.5

Act 89 authorizes the Department of Taxation to use Tax Administration Special Fund monies for taxpayer education programs, including tax publications.

EFFECTIVE: Upon approval, June 16, 2014.

ACT 136

S.B. 2779, S.D. 1, H.D. 1, C.D. 1

Relating to Financial Audit of the State of Hawaii by the Legislative Auditor

SSCR 2536; HSCR 1517-14; CCR 64-14

SECT AFF: 23-5; 231-18; 235-116; 237-34; 237D-13; 251-12

Act 136 authorizes the Department of Taxation to give the Legislative Auditor tax return information needed to prepare the Comprehensive Annual Financial Report.

Act 136 increases the punishment for intentional disclosure of tax return information to a class C felony. A person convicted of a class C felony may be subject to imprisonment of up to five years, a fine of up to \$10,000, or both.

EFFECTIVE: Upon approval, June 24, 2014.

ACT 174

H.B. 1671, H.D. 1, S.D. 1, C.D. 1

Relating to Transient Accommodations Tax

HSCR 160-14; HSCR 764-14; SSCR 3063; SSCR 3411; CCR 145-14

SECT AFF: 237D-6.5

Act 174 increases the amount of the transient accommodations tax (TAT) revenue given to the counties to \$103,000,000 per year for fiscal years 2014-15 and 2015-16.

Thereafter the amount reverts to \$93,000,000 per year.

Act 174 creates a joint state-county working group to (1) evaluate the way the state and counties divide the duties and responsibility for providing public services, and (2) recommend the proper distribution of the TAT revenues among the State and the counties to the legislature. The working group is administratively attached to the Office of the Auditor.

EFFECTIVE: July 1, 2014.

ACT 235

S.B. 2483, S.D. 1, H.D. 1, C.D. 1

Relating to Condominium Associations

SSCR 2088; SSCR 2716; HSCR 1108-14; HSCR 1518-14; CCR 68-14
SECT AFF: 514B-146;

Act 235 amends lien priority by giving only real property tax liens priority over condominium association liens. Before this change, all tax liens had priority over condominium association liens.

EFFECTIVE: July 1, 2014.

INCOME TAX LAWS

Income tax laws amend Hawaii's income tax. The income tax law is in Chapter 235 of the Hawaii Revised Statutes. In general, the income tax is a tax on a worker's wages and other income and on business's profits.

ACT 43

S.B. 2890, S.D. 1

***Relating to Application of the Internal Revenue Code to Hawaii
Income Tax Law***

SSCR 2457; HSCR 1515-14

SECT AFF: 235-3

Act 43 amends the definition of "Estate taxes" in the Hawaii Income Tax Law to include a reference to Chapter 236E, Hawaii Revised Statutes.

EFFECTIVE: Upon approval, April 23, 2014, but applied retroactively to January 26, 2012.

ACT 88

S.B. 2886, S.D. 1, H.D. 1

***Relating to Conformity of the Hawaii Income Tax Law to the Internal
Revenue Code***

SSCR 2540; HSCR 1512-14

SECT AFF: 235-2.3; 235-2.4; 235-2.45; 235-2.5

Act 88 conforms Hawaii income tax law to the Internal Revenue Code (Code) as of December 31, 2013, and makes various technical amendments.

Section 2 of Act 88 amends section 235-2.3(a), Hawaii Revised Statutes (HRS), to conform the Hawaii income tax law to the operative Code sections of subtitle A, chapter 1, as amended on December 31, 2013. Generally, subtitle A, chapter 1, refers to Code sections 1 through 1400T.

The following pieces of legislation amending the Code, enacted previous to December 31, 2013, were analyzed to determine if amendments to conformity were necessary:

1. "To amend the Internal Revenue Code of 1986 to include vaccines against seasonal influenza with the definition of taxable vaccines," P.L. 113-15, enacted June 25, 2013;
2. "To rename section 219(c) of the Internal Revenue Code of 1986 as the Kay Bailey Hutchison Spousal IRA," P.L. 113-22, enacted July 25, 2013;

3. "Continuing Appropriations Act, 2014," P.L. 113-46, enacted October 17, 2013;
4. "Fallen Firefighters Assistance Tax Clarification Act of 2013," P.L. 113-63, enacted December 20, 2013.

No amendments to conformity were necessary due to the above-listed federal legislation.

Section 3 of Act 88 amends section 235-2.4, HRS, to update conformity to various individual Code sections and to make various technical amendments. Section 235-2.4(b), HRS, is amended to reflect the repeal of two provisions already inoperative for Hawaii income tax purposes. Section 235-2.4(g), HRS, is amended to clean up the dates of inoperability regarding Code sections 132(f)(2)(A) and (B), due to an extension affecting the two provisions.

Section 3 of Act 88 also amends conformity to Code section 164 in order to disallow a double tax benefit for income taxes paid to a foreign jurisdiction. The amendment disallows the deduction for foreign income taxes paid if the taxpayer has taken the credit allowed under section 235-55, HRS.

Section 4.1 of Act 88 amends section 235-2.45(e), HRS, to provide that the 100 per cent exclusion for gain on certain small business stock is not operative for Hawaii income tax purposes.

Section 4.2 of Act 88 amends section 235-2.45(h), HRS, to continue nonconformance to the shortened recognition periods provided in Code section 1374(d)(7)(B), (C), and (D).

Section 4.3 of Act 88 amends section 235-2.45(m), HRS, to provide for nonconformance to the administrative provisions of Subchapter C of the Code. Conformity to the substantive provisions of Subchapter C is maintained. The amendment will allow the Department of Taxation to impose its own administrative procedures to this area of law and remain consistent with the administration of the remainder of Hawaii income tax law.

Section 5 of Act 88 amends section 235-2.5(c), HRS, by removing the date contained in that section. This amendment will alleviate the need to amend section 235-2.5(c), HRS, each year but will maintain the meaning and intention of that section.

EFFECTIVE: Upon approval, June 16, 2014, for tax years beginning after December 31, 2013; provided that retroactive and prospective effective dates contained in the congressional acts relating to the Internal Revenue Code and enacted between January 3, 2013 and December 31, 2013 shall be operative.

ACT 101

H.B. 2464, H.D. 1, S.D. 1, C.D. 1

Relating to Tax Credits

HSCR 688-14; SSCR 2882; SSCR 3341; CCR 111-14

SECT AFF: 235-110.93

Act 101 amends the Important Agricultural Land Qualified Agricultural Cost Tax Credit. The Act clarifies that the amount of the credit is:

- (1) First year – the lesser of 25% of qualified agricultural costs or \$625,000,
- (2) Second year – the lesser of 15% of qualified agricultural costs or \$250,000,
- (3) Third year - the lesser of 10% of qualified agricultural costs or \$125,000.

EFFECTIVE: Upon approval, June 19, 2014, for taxable years beginning after July 1, 2008.

ACT 200

H.B. 1702, H.D. 2, S.D. 2, C.D. 1

Relating to the Capital Infrastructure Tax Credit

HSCR 76-14; HSCR 804-14; SSCR 2847; SSCR 3355; CCR 123-14

SECT AFF: One new section added to Chapter 235; one new section added to Chapter 241.

Act 200 establishes a capital infrastructure tax credit for tenants who are relocated due to the Kapalama container terminal modernization project. The tax credit is the lesser of 50% of the capital infrastructure costs paid or incurred by the qualified infrastructure tenant during the taxable year or \$1,250,000. The credit is available for taxable years beginning after December 31, 2013, but not for taxable years beginning after December 31, 2019.

Act 200 provides that the credit be recaptured if within three years of claiming the credit the tenant fails to continue in the line of business it conducted on July 1, 2014 or if a claimant of the credit disposes of its interest in the tenant. The recapture is equal to 100% of the credit claimed in the preceding five taxable years.

EFFECTIVE: July 1, 2014, for taxable beginning after December 31, 2013.

ESTATE AND GENERATION-SKIPPING TRANSFER TAX LAWS

Estate and generation-skipping transfer tax laws amend the estate and generation-skipping transfer tax. The tax is in Chapter 236E of the Hawaii Revised Statutes. In general, the estate tax is a tax on the assets a person owns when they die. In general, the generation-skipping transfer tax is a tax on gifts made to people more than one generation younger than the giver.

ACT 44

S.B. 2887, S.D. 1

Relating to the Estate and Generation-Skipping Transfer Taxes

SSCR 2190; HSCR 1514-14

SECT AFF: 236E-3; 236E-6

Act 44 conforms the State's estate and generation-skipping transfer tax law to the Internal Revenue Code of 1986, as amended as of December 31, 2013.

Act 44 amends the definition of "applicable exclusion amount" for Hawaii estate tax purposes to require the Hawaii applicable exclusion amount to be reduced by the amount of federally taxable gifts made by the decedent.

EFFECTIVE: Upon approval, June 16, 2014, applies to decedents dying or taxable transfers occurring after December 31, 2013.

GENERAL EXCISE TAX LAWS

The general excise tax (GET) is a tax on the gross income of all Hawaii businesses.

ACT 42

S.B. 2896, S.D. 1

Relating to General Excise Tax Wholesale Rate Imposed upon Sale of Tangible Personal Property

SSCR 2539; HSCR 1516-14

SECT AFF: 237-13

Act 42 clarifies that wholesale sales of tangible personal property are subject to the general excise tax at the rate of one-half of one per cent of the gross proceeds of sales. Act 42 addresses the inadvertent repeal of the wholesale rate for tangible personal property by Act 135, SLH 2003, and represents no change in application of the tax.

EFFECTIVE: Upon approval, April 23, 2014.

ACT 143

H.B. 1772, H.D. 1, S.D. 1, C.D. 1

Relating to the General Excise Tax

HSCR 513-14; HSCR 807-14; SSCR 3026; SSCR 3366; CCR 77-14

SECT AFF: 237-24

Act 143 exempts from the general excise tax amounts received by a Patient-Centered Community Care (PCCC) contractor used to pay third party health care providers pursuant to a contract with the United States. According to the U.S. Department of Veterans Affairs PCCC Fact Sheet updated September 5, 2013, the contractor for Hawaii is Tri-West Healthcare Alliance Corp. This exemption does not apply to third party health care providers receiving payments under this program. The payments received by third party health care providers are subject to tax.

EFFECTIVE: July 1, 2014; provided that the amendments made to section 237-24, Hawaii Revised Statutes, by section 2 of this Act shall not be repealed when that section is reenacted on December 31, 2018.

MISCELLANEOUS TAX LAWS

ACT 107

S.B. 2196, S.D. 2, H.D. 1, C.D. 1

Relating to Energy

SSCR 2216; SSCR 2645; HSCR 1179-14; HSCR 1645-14; CCR 104-14
SECT AFF: Three new sections added to Chapter 304A; 243-3.5; Act 73, §10, SLH 2010; Act 73, §14, SLH 2010

Act 107 extends the sunset of the \$1.05 per barrel rate of the Environmental Response, Energy and Food Security Tax (Environmental Response Tax) to June 30, 2030. Act 107 also extends the sunset date of the allocations of portions of the Environmental Response Tax to the Environmental Response Revolving Fund, the Energy Security Special Fund, and the Agricultural Development and Food Security Special Fund to June 30, 2030.

Act 107 re-establishes the Energy Systems Development Special Fund and re-establishes an allocation of a portion of the Environmental Response Tax to the Energy Systems Development Special Fund. The allocation is to sunset June 30, 2030.

EFFECTIVE: July 1, 2014.

ACT 110

S.B. 2731, S.D. 2, H.D. 2

Relating to a Car-Sharing Vehicle Surcharge Tax

SSCR 2344; SSCR 2721; HSCR 1026-14; HSCR 1575-14
SECT AFF: One new section added to Chapter 251; 251-1; 251-3; 437D-8.4

Act 110 imposes a surcharge tax on car-sharing organizations. The car-sharing surcharge tax is 25 cents per half-hour that a vehicle is rented by a car-sharing organization. The surcharge tax is capped at \$3 per day, matching the per-day, per-rental rate of the rental motor vehicle surcharge tax.

Act 110 defines a car-sharing organization as a rental motor vehicle lessor that operates a membership program in which:

1. Self-service access to a fleet of vehicles is provided, with or without requiring a reservation, exclusively to members of the organization who have paid a membership fee;

2. Members are charged a usage rate, either hourly or by the minute, for each use of a vehicle;
3. Members are not required to enter into a separate written agreement with the organization each time the member reserves and uses a vehicle; and
4. The average paid use period for all vehicles provided by the organization during any taxable period is six hours or less.

EFFECTIVE: January 1, 2015.

CHANGES TO HAWAII REVISED STATUTES

This table lists the sections of Hawaii Revised Statutes affected by tax laws passed during the 2014 Regular Session.

KEY: Am = Amended
 E = Extended
 N = New
 R = Repealed
 ____ = Chapter or section number to be assigned in HRS Supplement

SECTIONS OF HRS AFFECTED			
SECTION NO.	EFFECT	ACT NO.	BILL NO.
23-5	Am	136	S.B. 2779, S.D. 1, H.D. 1, C.D. 1
231-18	Am	136	S.B. 2779, S.D. 1, H.D. 1, C.D. 1
235-2.3	Am	88	S.B. 2886, S.D. 1, H.D. 1
235-2.4	Am	88	S.B. 2886, S.D. 1, H.D. 1
235-2.45	Am	88	S.B. 2886, S.D. 1, H.D. 1
235-2.5	Am	88	S.B. 2886, S.D. 1, H.D. 1
235-3	Am	43	S.B. 2890, S.D. 1
235-20.5	Am	89	H.B. 2895, S.D. 1, H.D. 1, C.D. 1
235-110.93	Am	101	H.B. 2464, H.D. 1, S.D. 1, C.D. 1
235-116	Am	136	S.B. 2779, S.D. 1, H.D. 1, C.D. 1
235-____	N	200	H.B. 1702, H.D. 2, S.D. 2, C.D. 1
236E-3	Am	44	S.B. 2887, S.D. 1
236E-6	Am	44	S.B. 2887, S.D. 1
237-13	Am	42	S.B. 2896, S.D. 1
237-24	Am	143	H.B. 1772, H.D. 1, S.D. 1, C.D. 1
237-34	Am	136	S.B. 2779, S.D. 1, H.D. 1, C.D. 1
237D-6.5	Am	174	H.B. 1671, H.D.1, S.D.1, C.D. 1
237D-13	Am	136	S.B. 2779, S.D. 1, H.D. 1, C.D. 1
241-____	N	200	H.B. 1702, H.D. 2, S.D. 2, C.D. 1
243-3.5	Am	107	S.B. 2196, S.D. 2, H.D. 1, C.D. 1
251-1	Am	110	S.B. 2731, S.D.2, H.D.2
251-3	Am	110	S.B. 2731, S.D.2, H.D.2
251-12	Am	136	S.B. 2779, S.D. 1, H.D. 1, C.D. 1
251-____	N	110	S.B. 2731, S.D.2, H.D.2
304A____	N	107	S.B. 2196, S.D. 2, H.D. 1, C.D. 1
304A____	N	107	S.B. 2196, S.D. 2, H.D. 1, C.D. 1
304A____	N	107	S.B. 2196, S.D. 2, H.D. 1, C.D. 1
437D-8.4	Am	110	S.B. 2731, S.D.2, H.D.2
514B-146	Am	235	S.B. 2483, S.D.1, H.D.1, C.D. 1

CHANGES TO HAWAII REVISED STATUTES

SECTIONS OF HRS AFFECTED			
SECTION NO.	EFFECT	ACT NO.	BILL NO.
Act 73 §10, SLH 2010	E	107	S.B. 2196, S.D. 2, H.D 1, C.D. 1
Act 73 §14, SLH 2010	E	107	S.B. 2196, S.D. 2, H.D 1, C.D. 1
CHAPTERS AFFECTED			
CHAPTER NO.	EFFECT	ACT NO.	BILL NO.
251	Am	110	S.B. 2731, S.D. 2, H.D. 2

DIGEST OF FEDERAL LAWS

This section summarizes the changes made to the Internal Revenue Code during 2014. This section includes changes to subtitle A, chapter 1; subtitle B; and certain 6000 series sections of the Internal Revenue Code. Unless otherwise noted, all references are to the Internal Revenue Code of 1986, as amended.

Digest of Public Law Number 113-15 (P.L. No. 113-15; June 25, 2013)

<u>CODE SECTION</u>	<u>DESCRIPTION OF PROVISION</u>
---------------------	---------------------------------

The following provision is NOT operative for Hawaii income tax purposes.

§4132	<p>Definition of taxable vaccines</p> <p>The Act amends the definition of taxable vaccines to include vaccines against seasonal influenza.</p> <p>Effective June 25, 2013.</p>
--------------	---

Digest of Public Law Number 113-22 (P.L. No. 113-22; July 25, 2013)

<u>CODE SECTION</u>	<u>DESCRIPTION OF PROVISION</u>
---------------------	---------------------------------

The following provision is operative for Hawaii income tax purposes.

§219(c)	<p>Kay Bailey Hutchison Spousal IRA</p> <p>The Act renames §219(c) to be called the Kay Bailey Hutchison Spousal IRA.</p> <p>Effective July 25, 2013.</p>
----------------	--

**Digest of the Continuing Appropriations Act, 2014
(P.L. No. 113-46; October 17, 2013)**

CODE SECTION DESCRIPTION OF PROVISION

The following provision is NOT operative for Hawaii income tax purposes.

§§36B and 1402 **Premium Tax Credit**

The Act requires the Secretary of the Department of Health and Human Services to ensure that health insurance exchanges verify the qualifications of all individuals applying for the premium tax credit under section §36B and the cost-sharing reduction provisions of §1402. The Secretary must certify to the Congress that such verification is operative prior to making the benefits available.

Effective October 17, 2013.

**Digest of the Public Law Number 113-63
(P.L. No. 113-63; December 20, 2013)**

CODE SECTION DESCRIPTION OF PROVISION

The following provision is NOT operative for Hawaii income tax purposes.

Non-Code section **Limited relaxation of charitable distribution rules for distributions relating to the ambush of firefighters on December 24, 2012 in Webster, New York**

The Act provides for certain targeted distributions to be considered part of an organization's exempt functions for purposes of the organizations tax exempt status under §501 of the Internal Revenue Code. The rule applies to §501(c)(3) organizations other than private foundations.

Effective for payments made on or after December 24, 2012 and before January 19, 2014.

INDEX BY BILL NUMBERS

This table indexes the tax laws passed during the 2014 Regular Session by bill number.

BILL NO.	ACT NO.	BILL TITLE	PAGE NO.
H.B. 1671, H.D. 1, S.D. 1, C.D. 1	174	Relating to Transient Accommodations Tax	1
H.B. 1702, H.D. 2, S.D. 2, C.D. 1	200	Relating to the Capital Infrastructure Credit	5
H.B. 1772, H.D. 1, S.D. 1, C.D. 1	143	Relating to the General Excise Tax	7
H.B. 2464, H.D. 1, S.D. 1, C.D. 1	101	Relating to Tax Credits	5
S.B. 2196, S.D. 2 H.D. 1, C.D. 1	107	Relating to Energy	8
S.B. 2483, S.D. 1, H.D. 1, C.D. 1	235	Relating to Condominium Associations	2
S.B. 2731, S.D. 2, H.D. 2	110	Relating to a Car-Sharing Vehicle Surcharge Tax	8
S.B. 2779, S.D. 1, H.D. 1, C. D. 1	136	Relating to Financial Audit of the State of Hawaii by the Legislative Auditor	1
S.B. 2886, S.D. 1, H.D. 1	88	Relating to Conformity of the Hawaii Income Tax Law to the Internal Revenue Code	3
S.B. 2887, S.D. 1	44	Relating to the Estate and Generation-Skipping Transfer Taxes	6
S.B. 2890, S.D. 1	43	Relating to Application of the Internal Revenue Code to Hawaii Income Tax Law	3
S.B. 2895, S.D. 1, H.D. 1, C.D. 1	89	Relating to Taxpayer Education	1
S.B. 2896, S.D. 1	42	Relating to General Excise Tax Wholesale Rate Imposed upon Sale of Tangible Personal Property	7

INDEX BY ACT NUMBERS

This table indexes the tax laws passed during the 2014 Regular Session by Act number.

ACT NO.	BILL NO.	BILL TITLE	PAGE NO.
42	S.B. 2896, S.D. 1	Relating to General Excise Tax Wholesale Rate Imposed upon Sale of Tangible Personal Property	7
43	S.B. 2890, S.D. 1	Relating to Application of the Internal Revenue Code to Hawaii Income Tax Law	3
44	S.B. 2887, S.D. 1	Relating to the Estate and Generation-Skipping Transfer Taxes	6
88	S.B. 2886, S.D. 1, H.D. 1	Relating to Conformity of the Hawaii Income Tax Law to the Internal Revenue Code	3
89	S.B. 2895, S.D. 1, H.D. 1, C.D. 1	Relating to Taxpayer Education	1
101	H.B. 2464, H.D. 1, S.D. 1, C.D. 1	Relating to Tax Credits	5
107	S.B. 2196, S.D. 2, H.D. 1, C.D. 1	Relating to Energy	8
110	S.B. 2731, S.D. 2, H.D. 2	Relating to a Car-Sharing Vehicle Surcharge Tax	8
136	S.B. 2779, S.D. 1, H.D. 1, C.D. 1	Relating to Financial Audit of the State of Hawaii by the Legislative Auditor	1
143	H.B. 1772, H.D. 1, S.D. 1, C.D. 1	Relating to the General Excise Tax	7
174	H.B. 1671, H.D. 1, S.D. 2, C.D. 1	Relating to Transient Accommodations Tax	1
200	H.B. 1702, H.D. 2, S.D. 2, C.D. 1	Relating to the Capital Infrastructure Credit	5
235	S.B. 2483, S.D. 1, H.D. 1, C.D. 1	Relating to Condominium Associations	2

APPENDIX

Expired Federal Tax Laws

This appendix summarizes the federal tax laws that expired during 2013. Expired tax laws are often extended retroactively. If extended retroactively then they will be applicable to 2014 taxes.

CODE SECTION DESCRIPTION OF PROVISION

The following provisions are NOT operative for Hawaii income tax purposes.

§25C(g) Credit for certain non-business energy property (energy efficient homes)

§25C allowed an individual to claim an income tax credit for 10% of amounts paid for qualified energy efficiency improvements installed during the taxable year and for the amounts paid for residential energy property expenditures.

Generally, residential energy property expenditures include energy-efficient buildings, qualified natural-gas, propane, or oil furnaces or water heaters, and advanced main air circulating fans.

The credit does not apply to property placed in service after December 31, 2013.

§§30A and 936 American Samoa economic development credit

Prior to 2006 §936 allowed a qualifying domestic corporation operating within, and having extensive amounts of gross income sourced from within, a possession of the United States to claim a tax credit estimating its taxable income in that possession. The Tax Relief and Health Care Act of 2006 (2006 TRA) extended the credit for American Samoa only.

To qualify after January 1, 2006 the corporation had to be an existing credit claimant, meaning that the corporation qualified for the credit and had elected to use it as of October 13, 1995, and also had to have elected to use §936 for its last tax year beginning before January 1, 2006. The credit was allowed for the corporation's first six tax years that began after December 31, 2005 and before January 1, 2012, thus for tax years 2006 through 2011. The amount of the credit allowed was amended to equal 60% of qualified wages and fringe benefit expenses and various percentages of short, medium, and long-term depreciable tangible property.

The credit is not available for tax years beginning after December 31, 2013.

§30C(g)(2) Alternative fuel vehicle refueling property (non-hydrogen refueling property)

§30C allowed an income tax credit for 30% of the cost of any qualified alternative fuel vehicle refueling property placed in service during the taxable year. The credit was capped at \$30,000 per year for depreciable property, and \$1,000 per year for other property.

The credit is not available for any property, other than property relating to hydrogen, placed in service after December 31, 2013. For property relating to hydrogen, the credit is not available for property placed in service after December 31, 2014.

§30D(g)(3)(E) Credit for 2- or 3-wheeled plug-in electric vehicles

§30D(g) allowed an income tax credit for each qualified two- or three-wheeled plug-in vehicle placed in service by the taxpayer during the taxable year. The credit is equal to the lesser of 10% of the cost or \$2,500.

In general, to qualify a vehicle must be for street use, have a gross vehicle weight rating of less than 14,000 pounds, be propelled by electricity from a rechargeable battery of at least 2.5 kilowatt hours of power, and be capable of speeds of at least 45 miles per hour.

The credit is not available for vehicles acquired after December 31, 2013.

§35(a), (b)(1)(B) Credit for health insurance costs of eligible individuals

§35(a) allowed an individual taxpayer to claim an income tax credit for 72.5% of the amount paid for health coverage for the taxpayer and the taxpayer's family members. In general, the credit is available to those individuals qualifying for Trade Adjustment Assistance and to certain pension recipients.

The credit is not available for any month of coverage beginning after December 31, 2013.

§40(b)(6)(H) Second generation biofuel producer credit

§40(b)(6) allowed an income tax credit of \$1.01 per gallon of qualified second generation biofuel produced. The credit is offset in the case of fuel eligible for the alcohol credit or the ethanol credit. In general, second generation biofuel is liquid fuel that is derived from qualified feedstocks.

The credit is not available for qualified second generation biofuel produced after December 31, 2013.

§40A(g) Biodiesel and renewable diesel used as fuel

§40A allows a series of income tax credits, claimed under §38 as part of the general business credit, for production of biodiesel mixtures, sale or use of biodiesel, and the production of agri-biodiesel.

The biodiesel mixtures credit is equal to \$1.00 per gallon of diesel used in production of biodiesel mixtures. The credit for the sale or use of biodiesel is equal to \$1.00 per gallon of biodiesel, not in a mixture, used or sold by the taxpayer.

The small agri-biodiesel producer credit is equal to 10 cents for each gallon of qualified agri-biodiesel production. Agri-biodiesel is biodiesel derived solely from virgin oils, including those derived from corn, soybeans, sunflower seeds, cottonseeds, and canola among other sources.

The above credits are not available for any sale or use after December 31, 2013.

The following provisions are operative for Hawaii income tax purposes.

§41 Tax credit for research and experimentation expenses

§41 allowed a credit equal to 20% of the amount by which qualified research expenses (QREs) exceed a base amount or the alternative simplified credit. The research credit is composed of two additional, separately computed, credits. These are the university basic research credit and the energy research consortium credit.

The research credit is not available for amounts paid or incurred after December 31, 2013.

§42(b)(2) Minimum low-income housing credit rate of 9% for non-subsidized buildings

§42 allows a low income housing credit equal to the applicable percentage multiplied by the qualified basis of the low-income property. §42(b)(2) allowed a minimum applicable percentage of 9% for the low-income housing credit.

The low-income housing credit allows investors in low-income buildings to claim the low-income housing credit over the ten years following the year the housing is placed in service. The credit is calculated by applying the applicable percentage to the basis of the building. The applicable percentage is meant to produce a credit equal to 70% of the present value of the basis of newly constructed or substantially rehabilitated housing that is not federally subsidized. For such property that is federally subsidized, the credit is meant to equal 30% of the present value of the basis of the building.

The minimum applicable percentage of 9% is not applicable to housing credit amount allocations made after December 31, 2013.

The following provisions are NOT operative for Hawaii income tax purposes.

§45(d) and 48(a)(5) Beginning of construction date for renewable power facilities

§45 defines the credit for production of renewable energy; §48 defines the energy credit component of the investment credit. §45(d) allows eligibility for the production credit based on the start date of construction rather than the more typical placed in service rule. §45(d) allows most facilities on which construction began before January 1, 2014 to be eligible for the credit.

§48(a)(5) allows facilities eligible for the start of construction rule under §45(d) to claim the energy credit component of the investment credit based on the same start of construction rule.

For the production credit and the energy credit, the start of construction date cannot be used for eligibility of any facilities on which construction began after December 31, 2013.

§45(e)(10)(A) Credit for production of coal by Indian coal production facilities

§45(d)(10) defines qualified facility to include an Indian coal production facility for purposes of the production credit. §45(e)(10)(A) defines the amount of the credit for production of Indian coal. The credit is equal to an applicable dollar amount per ton

of coal produced and sold during the 8 year period beginning January 1, 2006.

The credit for production of Indian coal is not available for coal produced after December 31, 2013.

§45A(f) Indian employment tax credit

§45A allowed an income tax credit to an employer for the qualified wages and expenses associated with employing an enrolled member of an Indian tribe, or a spouse of such person, within an Indian reservation.

The Indian employment tax credit does not apply to taxable years beginning after December 31, 2013.

§45D(f)(1) New markets tax credit

§45D allowed an income tax credit for investments in qualified community development entities (CDEs). In general a community development entity is an entity for which the primary mission is serving or providing investment capital for low-income communities or low-income persons.

The credit is equal to either 5% or 6% of the taxpayer's investment in a community development entity. However, for the investment itself to qualify, it must be acquired directly by the taxpayer at original issue for cash and be used to make qualified low-income community investments.

The new markets tax credit is allocated an annual aggregate cap by §45D(f)(1). There is no allocated amount for calendar years after 2013.

§45G(f) Railroad track maintenance credit

§45G allowed an income tax credit for 50% of qualified railroad track maintenance expenditures paid or incurred during a taxable year. The credit is limited to \$3,500 multiplied by the number of miles of track owned or assigned to the taxpayer.

The railroad track maintenance credit is not available for expenditures made in tax years beginning after December 31, 2013.

§45L(g) New energy efficient home credit

§45L allowed an income tax credit for the construction of new energy efficient homes sold as residences. The credit is claimed under §38 by the taxpayer who constructed or manufactured the home.

The credit is equal to \$2,000 for homes that consume 50% less energy for heating and cooling than a comparable unit; the credit is equal to \$1,000 for homes that consume 35% less energy for heating and cooling than a comparable unit.

The new energy efficient home credit is not available for homes acquired after December 31, 2013.

§45M(b) Energy efficient appliance credit

§45M allowed an income tax credit for the production of energy efficient appliances. The credit varied depending on the type of appliance and the extent of the energy and water efficiency.

The energy efficient appliance credit is not available for appliances manufactured after December 31, 2013.

§45N Mine rescue team training credit

§45N allowed an income tax credit for amounts paid or incurred to train mine rescue teams. The credit equaled the lesser of \$10,000 or 20% of the training program costs paid or incurred for training mine rescue employees.

The mine rescue team training credit is not available for taxable years beginning after December 31, 2013.

§45P Employer wage credit for employees who are active duty members of the uniformed services

When an employee is called to active duty in the U.S. military and its employer voluntarily pays the difference between what the employer would have paid the employee and what the military pays the employee, §45P allowed eligible small businesses to claim a credit equal to 20% of the differential wage payments made.

The differential wage credit is not available for amounts paid after December 31, 2013.

§51(c)(4) Work opportunity tax credit

§51 allowed employers to claim an income tax credit equal to 40% of qualified first-year wages paid to employees of a targeted group. Generally, targeted groups are veterans, ex-felons, rehabilitation referrals, summer youth employees, recipients of supplemental nutrition assistance or long-term family assistance, and recipients of social security.

The work opportunity tax credit is not available for amounts paid for work begun after December 31, 2013.

§54E(c)(1) Qualified zone academy bonds

§54E allowed for the sale and use of qualified zone academy bonds (QZABs). The bondholder receives a tax credit in lieu of interest payments, thus reducing the cost of borrowing to the issuer. To qualify a school must be a public school with standard curricula and must be in an empowerment zone or enterprise community. The requirements for QZABs are numerous and detailed in §54E.

QZABs have historically been subject to an annual aggregate cap. The cap for calendar years beginning after December 31, 2013 is zero.

The following provisions are operative for Hawaii income tax purposes.

- §62(a)(2)(D) Above-the-line deduction for teachers' expenses**
- §62(a)(2)(D) allowed an above-the-line deduction of up to \$250 for out of pocket expenses paid by kindergarten through 12th grade teachers for classroom related expenses including for books, computer equipment, and supplementary materials.
- The deduction is not available for tax years beginning after December 31, 2013.
- §108(a)(1)(E) Exclusion for discharge of indebtedness income on principal residence**
- §108(a)(1)(E) allowed taxpayers to exclude from income any discharge of indebtedness income resulting from discharge of qualified principal residence indebtedness.
- The exclusion provision is not available for indebtedness discharged after December 31, 2013.

The following provisions are NOT operative for Hawaii income tax purposes.

- §132(f)(2) Parity between exclusion for employer provided mass transit and parking benefits**
- §132(f) allows the exclusion of certain employer provided transportation related fringe benefits, including benefits for parking benefits and mass transit passes. Under the general rule, the maximum exclusion for parking benefits is \$175 per month while the maximum exclusion for mass transit passes is \$100. §132(f)(2) allowed a temporary parity between the exclusion amount for mass transit benefits and the exclusion amount for parking benefits.
- The parity provision is not applicable to month beginning after December 31, 2013.
- §§142(d)(2)(ii) and 42(g)(4); Non-Code section Treatment of military basic pay housing allowances under low-income housing credit**
- §42 allows a low-income housing credit. §42(g)(4) makes certain rules contained in §142 applicable for the low-income housing credit. §142(d)(2)(ii) contains a special rule excluding military basic pay housing allowances from the income calculation relevant to the low-income housing credit.
- The Housing Assistance Tax Act of 2008 added the special rule, which was extended by the American Taxpayer Relief Act of 2012.
- The exclusion is not applicable to income determinations made after December 31, 2013.

The following provisions are operative for Hawaii income tax purposes.

- §163(h)(3)(E) Premiums for mortgage insurance treated as qualified residence interest**
- §163(h)(3)(E) allowed mortgage insurance premiums paid in connection with acquisition indebtedness to be deducted as qualified residence interest, subject to a phaseout as adjusted gross income exceeds \$100,000.
- The deduction is not available for premiums paid or accrued after December 31, 2013.
- §164(b)(5) Deduction for state and local general sales taxes**
- §164(b)(5) allowed an itemized deduction for state and local general sales taxes paid in lieu of an itemized deduction for state and local income taxes paid.
- The deduction for state and local general sales taxes is not available for taxable years beginning after December 31, 2013.
- §168(e)(3)(A) Three-year depreciation for race horses two years or younger**
- §168(e)(3)(A) allowed a three-year cost recovery period for any race horse two years old or younger placed in service before January 1, 2014. For race horses placed in service after December 31, 2013 the section allows a three-year cost recovery period for race horses that are more than two years old when placed in service.
- The three-year cost recovery period for any race horse two years old or younger is not available for any race horse placed in service after December 31, 2013.
- §168(e)(3)(E)(iv), (e)(3)(E)(v), and (e)(3)(E)(ix) 15-year depreciation for qualified leasehold, restaurant, and retail improvements**
- §168(e)(3)(E) allowed 15-year cost recovery periods for qualified leasehold improvement property, qualified retail improvement property, and qualified restaurant property. Generally, nonresidential real property is depreciated using a 39-year cost recovery period.
- The 15-year cost recovery period is not available for property placed in service after December 31, 2013.
- §168(i)(15) and 168(e)(3)(C) Seven-year recovery period for motorsports entertainment complexes**
- §168(e)(3)(C) allowed a seven-year cost recovery period for motorsports complexes as defined at §168(i)(15).
- The seven-year cost recovery period is not available for complexes placed in service after December 31, 2013.

The following provisions are NOT operative for Hawaii income tax purposes.

- §168(j)(8) Accelerated depreciation for business property on Indian reservations**
- §168(j) allowed shortened recovery periods for property on qualified Indian reservations.
- The shortened cost recovery periods are not applicable to property placed in service after December 31, 2013.
- §§168(k) and 460(c)(6)(B) Bonus depreciation**
- §168(k) allows bonus depreciation of 50% of the adjusted basis of qualified property. Qualified property is property with a recovery period of 20 years or less, computer software, water utility property, or qualified leasehold improvement property.
- Bonus depreciation is not available for property acquired and placed in service after December 31, 2013.
- §168(k)(4) Election to accelerate AMT and research credits**
- §168(k)(4) allowed taxpayers to forego bonus depreciation in favor of increasing the limitations on current credits under §168(k)(4)(B). The credits that can be increased by this election are otherwise deferred pre-2006 alternative minimum tax credits and research credits.
- The election is only available for property the basis of which is attributable to manufacture, construction, or production taking place before January 1, 2014.

The following provisions are operative for Hawaii income tax purposes.

- §168(l) Bonus depreciation allowance and alternative minimum tax depreciation relief for certain biofuel plant property**
- §168(l) allowed 50% bonus depreciation and the exemption from the alternative minimum tax depreciation adjustment for second-generation biofuel plant property.
- The allowance is not available for property placed in service after December 31, 2013.
- §170(b)(1)(E)(vi) Special rules for qualified conservation easements contributed by individuals**
- §170(b)(1)(E) allowed a deduction for a qualified conservation contribution of up to 50% of the contribution base. In the case of a qualified farmer or rancher the limit is 100% of the contribution base. In general a qualified conservation contribution is of qualified real property to a qualified organization for conservation purposes. The contribution base is generally the adjusted gross income without any deduction for net operating loss carryback.
- The special rule is not available for contributions made after December 31, 2013.

§170(b)(2)(B)(iii) Special rules for qualified conservation easements contributed by corporate farmers and ranchers

§170(b)(2)(B) allowed corporate farmers and ranchers to take deductions for qualified conservation contributions up to 100% of their taxable income. To qualify a farmer must not be a publicly traded company and must derive more than 50% of its gross income from farming.

The special rule is not available for contributions made after December 31, 2013.

§170(e)(3)(C) Above basis deduction for charitable contributions of food inventory

§170(e)(3)(C) allowed a business, whether or not a C corporation, a deduction for contribution of food inventory in excess of the basis of the property contributed. For businesses other than C corporations, such deductions cannot exceed 10% of the business's aggregate net income for that taxable year.

The special allowance is not available for contributions made after December 31, 2013.

The following provisions are NOT operative for Hawaii income tax purposes.

§179(b)(1), (2), (c)(2), (f)

§179 allows a taxpayer to treat the cost of qualified property that would otherwise be capitalized as an expense and thus deductible in full in the year placed in service. The allowable amount is capped and subject to phaseout as the cost of qualifying property exceeds a threshold. For previous taxable years the expensing limit was enhanced to \$500,000 and the phaseout threshold to \$2,000,000. The default expensing limit is \$25,000 and the default phaseout threshold is \$200,000.

§179(c)(2) allowed a taxpayer to revoke the §179 election without the consent of the Secretary of the Treasury and any such revocation is irrevocable.

The enhanced expensing limit and phaseout threshold are not available for taxable years beginning after December 31, 2013. The unilateral revocation of a §179 election is not allowed for tax years beginning after December 31, 2013.

§179(d)(1)(A)(ii) Eligibility of software for §179 election

§179(d)(1)(A)(ii) defines §179 property to include computer software. The inclusion does not apply to computer software placed in service in taxable years beginning after December 31, 2013.

The following provisions are operative for Hawaii income tax purposes.

§179C(c)(1) Election to expense certain refineries

§179C allowed 50% of the cost of qualified refinery property to be expensed and deducted in the year the refinery is placed in service.

The special rule for 50% expensing is not available for refineries placed in service after December 31, 2013.

§179D(h) Energy efficient commercial buildings deduction

§179D allowed a deduction for an amount equal to the cost of energy efficient commercial buildings. Generally, to qualify property must be depreciable property installed as part of interior lighting, heating, cooling, ventilation, or hot water systems or as part of the building envelope and as part of a plan to reduce energy and power costs.

The deduction is not available for property placed in service after December 31, 2013.

The following provisions are NOT operative for Hawaii income tax purposes.

§179E(a) Election to expense advanced mine safety equipment

§179E allowed a taxpayer to elect to deduct 50% of the cost of advanced mine safety equipment in the first year the property is placed in service.

The election is not available for property placed in service after December 31, 2013.

§181(f) Expensing rules for certain film and television productions

§181 allowed a taxpayer to deduct the entire cost of qualified film or television productions. Costs eligible to be deducted are limited to \$15,000,000 per film or television production. The limit is \$20,000,000 for costs incurred in a low-income community or a distressed area.

The expensing allowance is not available for costs of film or television productions commenced after December 31, 2013.

§199(d)(8) Deduction for production activities in Puerto Rico

§199 allows taxpayers to deduct various trade or business expenses for domestic production activities conducted in the United States. §199(d)(8) allowed taxpayers producing in Puerto Rico to take advantage of the deduction under a special rule including Puerto Rico as part of the United States.

The special rule does not apply to taxable years beginning after December 31, 2013.

§222(e) Deduction for qualified tuition and related expenses

§222 allowed an above-the-line deduction for qualified tuition and related expenses paid for higher education. Eligible expenses include tuition and fees paid to an institute of higher education for the taxpayer, the taxpayer's spouse, or any dependent of the taxpayer. The deduction is subject to caps based on filing type and may be reduced by the amount of other education-related benefits.

The deduction is not available for taxable years beginning after December 31, 2013.

The following provision is operative for Hawaii income tax purposes.

§408(d)(8)(F) Deductibility of distributions from individual retirement accounts for charitable purposes

§408(d)(8) allowed taxpayers to deduct distributions received from Individual Retirement Accounts if the distributions are made directly to charity. The deduction is capped at \$100,000 per taxable year. Deductible distributions are taken into account for purposes of the required minimum distribution rules as if they did not receive special treatment.

The exclusion does not apply to distributions made during taxable years beginning after December 31, 2013.

The following provision is NOT operative for Hawaii income tax purposes.

§451(i) Election to defer gain on qualifying electric transmission transactions

§451(i) allowed qualified electric utilities to defer gain from qualifying electric transmission transactions to the extent the amount realized was used to purchase exempt utility property within four years of the sale. The deferral requires recognition over an 8-taxable year period beginning with the year of the sale.

The deferral is not available for any transactions made after December 31, 2013.

The following provision is operative for Hawaii income tax purposes.

§512(b)(13)(E) Exclusion from tax-exempt parent's unrelated business income of specified payments from controlled entity

§512(b)(13) requires a tax-exempt parent to include specified payments from a 50% controlled subsidiary, either taxable or tax-exempt, in unrelated business taxable income (UBTI) to the extent the payments reduce the net unrelated income, or increase the net unrelated costs, of the controlled subsidiary.

§512(b)(13)(E) provided that only those amounts exceeding the payments that would have been made had the contract been at arm's length be included in the parent's UBTI. The section also imposes a penalty equal to 20% of the excess payment.

The special rule at §512(b)(13)(3) is not available for payments received or accrued after December 31, 2013.

The following provisions are NOT operative for Hawaii income tax purposes.

§§871(k)(1)(C) and (k)(2)(C); 881 Treatment of dividends of regulated investment companies

§871 imposes a tax on nonresident alien individuals for certain income received. §871(k)(1) allows a nonresident alien to exclude interest-related dividends received from regulated investment companies. §871(k)(2) allows a similar exclusion for short-term capital gain dividends.

§881(e)(1)(A) and (e)(2) allow similar exclusions for foreign corporations not

connected with a United States business and reference the definitions of interest-related dividend and short-term capital gain dividend in §871(k)(1)(C) and (k)(2)(C).

The exclusions are not applicable to dividends with respect to taxable years beginning after December 31, 2013.

§897(h)(4) Inclusion of regulated investment entities in definition of qualified investment entity for certain Foreign Investment in Real Property Tax Act purposes

§897(h)(4) requires qualified investment entities to withhold on distributions to foreign persons under the Foreign Investment Real Property Tax Act (FIRPTA). There is an exception to this general rule for regularly traded stock if the taxpayer has not owned more than 5% of that class of stock during the one-year period preceding the date of distribution.

§897(h)(4)(A)(II) includes regulated investment companies (RICs) in the definition of qualified investment entity, thus qualifying RICs for the exception to withholding under FIRPTA.

The inclusion of RICs in the definition of qualified investment entities does not apply after December 31, 2013.

§§953 and 954 Subpart F exception for active financing income retroactively restored and extended

Subpart F of the Internal Revenue Code requires United States taxpayers who are 10% shareholders of a controlled foreign corporation (CFC) to include in income a pro rata share of the CFC's insurance income and adjusted net foreign base company income. §§ 953(e) and 954(h) allowed multiple exemptions from the general inclusion of Subpart F.

The exceptions for Subpart F inclusion are not available for tax years of foreign corporations beginning after December 31, 2013; the exception is only available in taxable years of United States shareholders with or within which any such taxable year of such foreign corporation ends.

§954(c)(6) Look-through treatment for payments between related controlled foreign corporations under foreign personal holding company income rules

Subpart F of the Internal Revenue Code requires United States taxpayers who are 10% shareholders of a controlled foreign corporation (CFC) to include in income a pro rata share of the CFC's subpart F income. For this purpose §954(c)(6) states that subpart F income does not include dividends and interest received from a related corporation from the same country or rents and royalties from a related corporation on property within the country in which the CFC is organized. In other words, these receipts are given look-through treatment.

Look-through treatment between related CFCs is not available for tax years of foreign corporations beginning after December 31, 2013; the exception is only available in taxable years of United States shareholders with or within which any such taxable year of such foreign corporation ends.

§1202(a)(4) 100% exclusion of gain on certain small business stock

§1202 allows noncorporate taxpayers an exclusion of gain on the sale of qualified small business stock held for more than five years. The general rule is a 50% exclusion. §1202(a)(4) allowed a more generous exclusion of 100% of the gain on qualified small business stock.

The 100% exclusion is not available for stock acquired after December 31, 2013.

The following provision is operative for Hawaii income tax purposes.

§1367(a)(2) Reduction of S corporation's shareholder's basis only by basis of contributed property

§1367(a)(2) provides that when an S corporation makes a charitable contribution the corresponding reduction in the shareholders' basis is limited to the basis of the property contributed and applied on a proportionate basis to each shareholder.

The special rule limiting the reduction of basis is not available for contributions made in tax years beginning after December 31, 2013.

The following provisions are NOT operative for Hawaii income tax purposes.

§1374(d)(7)(C) Five-year recognition period for S corporations' built-in gains

In general, S corporations are taxed at the highest rate on gains attributable to built-in gain realized during the recognition period, generally the ten year period following a conversion from a C corporation. §1374(d)(7)(C) allows a shortened recognition period of five years.

The shortened five-year recognition period is not available for taxable years beginning after December 31, 2013.

§§1391; 1394; 1396; 1397A; and 1397B Empowerment zone tax incentives

Certain distressed urban and rural areas can be designated as empowerment zones by state and local governments. Empowerment zones are eligible for a range of special tax incentives.

Designated empowerment zones are not effective after December 31, 2013.

§§6426 and 6427 Incentives for alternative fuel and alternative fuel mixtures

§6426(d) allows a 50 cent per gallon excise tax credit against the tax imposed by §4041 for alternative fuel sold for use in a motor vehicle or motor boat. §6426(e) allows a 50 cent per gallon excise tax credit against the tax imposed by §4081 for fuel used to produce an alternative fuel mixture for sale. The credit is refundable in some circumstances. §6427(e) allows an outlay equal to applicable credits under §6426 for fuel not used for taxable services.

The credits under §§6426(d) and (e) and the outlay payments under §6427(e) are not available for the any sale or use after December 31, 2013.

§7652(f)

Temporary increase in limit on cover over of rum excise tax revenue to Puerto Rico and the Virgin Islands

§7562(e)(1) provides that the §5001(a)(1) excise tax on rum imported into the United States from Puerto Rico and the Virgin Islands is paid (or covered over) into the treasury of Puerto Rico and the Virgin Islands. §7652(f) provides an upper limit on the amount that can be paid under this provision of \$10.50 per gallon or the tax actually imposed by §5001(a)(1), whichever is lesser. A special rule allowed \$13.25 per gallon to be paid to Puerto Rico and the Virgin Islands.

The special rule is not applicable to rum imported after December 31, 2013.