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# A BILL FOR AN ACT

RELATING TO LEASEHOLD CONVERSION.

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

- 1           SECTION 1. Section 235-7, Hawaii Revised Statutes, is  
2 amended by amending subsection (a) to read as follows:
- 3           "(a) There shall be excluded from gross income, adjusted  
4 gross income, and taxable income:
- 5           (1) Income not subject to taxation by the State under the  
6 Constitution and laws of the United States;
- 7           (2) Rights, benefits, and other income exempted from  
8 taxation by section 88-91, having to do with the state  
9 retirement system, and the rights, benefits, and other  
10 income, comparable to the rights, benefits, and other  
11 income exempted by section 88-91, under any other  
12 public retirement system;
- 13           (3) Any compensation received in the form of a pension for  
14 past services;
- 15           (4) Compensation paid to a patient affected with Hansen's  
16 disease employed by the State or the United States in  
17 any hospital, settlement, or place for the treatment  
18 of Hansen's disease;



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

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

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

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



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



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



1       (13) One hundred per cent of the gain realized by a fee  
2       simple owner from the sale of a leased fee interest in  
3       units within a condominium project, cooperative  
4       project, or planned unit development to the  
5       association of apartment owners or the residential  
6       cooperative housing corporation of the leasehold  
7       units; provided that:

8       (A) The term "fee simple owner" shall include legal  
9       and equitable owners;

10       (B) The terms "fee simple owner," "legal and  
11       equitable owner," and "leased fee interest" shall  
12       have the same meanings as under section 516-1;  
13       and

14       (C) The terms "condominium project" and "cooperative  
15       project" shall have the same meanings as under  
16       section 514C-1."

17       SECTION 2. Statutory material to be repealed is bracketed  
18 and stricken. New statutory material is underscored.

19       SECTION 3. This Act, upon its approval, shall apply to  
20 taxable years beginning after December 31, 2007, and ending  
21 December 31, 2012.



**Report Title:**

Leased Fee Interest Sale; Capital Gains Exemption

**Description:**

Exempts from income taxation 100% of capital gains realized during taxable years 2008-2012 from the sale of leased fee interests in condominium units to association of apartment owners or residential cooperative housing corporations.

