

JAN 25 2006

S.B. NO. 2376

A BILL FOR AN ACT

RELATING TO INCREASING THE STANDARD DEDUCTION AND ADJUSTING THE
BRACKETS FOR INDIVIDUAL INCOME TAXATION.

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

1 SECTION 1. This Act aims to provide an income tax cut for
2 all individual taxpayers. The provision increasing the standard
3 deduction will primarily benefit low and moderate-income
4 individuals by raising the Hawaii standard deduction to
5 approximately seventy-five per cent of the 2005 federal standard
6 deduction. In addition, this Act aims to cut taxes for
7 basically all taxpayers by narrowing the disparity between the
8 State's income tax brackets and the economic reality of Hawaii's
9 high cost of living.

10 The Tax Review Commission has consistently recommended that
11 both the standard deduction and individual income tax brackets
12 be increased to assure the State's tax structure provides
13 financial equity to the poor. The State's present standard
14 deduction of \$1,900 for joint filers is markedly lower than the
15 federal standard deduction of \$10,000. This disparity stands as
16 the primary explanation as to why the State continues to tax
17 those on public assistance who work full-time or part-time.

1 Likewise, low and moderate-income individuals and families
2 continue to be overtaxed by the State's highly compressed tax
3 brackets. The income tax brackets are so grossly
4 disproportionate that those on public assistance continue to be
5 taxed and the average two-earner family can be taxed at the
6 highest marginal rate.

7 The Tax Review Commission has consistently recommended
8 these changes to reflect the economic realities of living in
9 Hawaii. These provisions of the tax law can no longer go
10 unchecked. This Act accomplishes meaningful tax relief for low
11 and moderate-income families by making the necessary amendments
12 to the tax laws. This Act shall be known as the "Tax Equity and
13 Fairness Act of 2006".

14 SECTION 2. Section 235-2.4, Hawaii Revised Statutes, is
15 amended by amending subsection (a) to read as follows:

16 "(a) Section 63 (with respect to taxable income defined)
17 of the Internal Revenue Code shall be operative for the purposes
18 of this chapter, except that the standard deduction amount in
19 section 63(c) of the Internal Revenue Code shall instead mean:

20 (1) [~~\$1,900~~] \$7,500 in the case of:

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

- 1 (B) A surviving spouse (as defined in section 2(a) of
2 the Internal Revenue Code);
- 3 (2) [~~\$1,650~~] \$5,475 in the case of a head of household (as
4 defined in section 2(b) of the Internal Revenue Code);
- 5 (3) [~~\$1,500~~] \$3,750 in the case of an individual who is
6 not married and who is not a surviving spouse or head
7 of household; or
- 8 (4) [~~\$950~~] \$3,750 in the case of a married individual
9 filing a separate return.

10 Section 63(c)(4) shall not be operative in this State.

11 Section 63(c)(5) shall be operative, except that the limitation
12 on basic standard deduction in the case of certain dependents
13 shall be the greater of \$500 or such individual's earned income.

14 Section 63(f) shall not be operative in this State.

15 The standard deduction amount for nonresidents shall be
16 calculated pursuant to section 235-5."

17 SECTION 3. Section 235-51, Hawaii Revised Statutes, is
18 amended by amending subsections (a), (b), (c), and (d) to read
19 as follows:

20 "(a) There is hereby imposed on the taxable income of (1)
21 every taxpayer who files a joint return under section 235-93;

1 and (2) every surviving spouse a tax determined in accordance
 2 with the following table:

3 ~~[In the case of any taxable year beginning after December~~
 4 ~~31, 1998:~~

5 If the taxable income is:	The tax shall be:
6 Not over \$4,000	1.60% of taxable income
7 Over \$4,000 but	\$64.00 plus 3.90% of
8 not over \$8,000	excess over \$4,000
9 Over \$8,000 but	\$220.00 plus 6.80% of
10 not over \$16,000	excess over \$8,000
11 Over \$16,000 but	\$764.00 plus 7.20% of
12 not over \$24,000	excess over \$16,000
13 Over \$24,000 but	\$1,340.00 plus 7.50% of
14 not over \$32,000	excess over \$24,000
15 Over \$32,000 but	\$1,940.00 plus 7.80% of
16 not over \$40,000	excess over \$32,000

1	Over \$40,000 but	\$2,564.00 plus 8.20% of
2	not over \$60,000	excess over \$40,000
3	Over \$60,000 but	\$4,204.00 plus 8.50% of
4	not over \$80,000	excess over \$60,000
5	Over \$80,000	\$5,904.00 plus 8.75% of
6		excess over \$80,000
7	In the case of any taxable year beginning after December	
8	31, 2000:	
9	If the taxable income is:	The tax shall be:
10	Not over \$4,000	1.50% of taxable income
11	Over \$4,000 but	\$60.00 plus 3.70% of
12	not over \$8,000	excess over \$4,000
13	Over \$8,000 but	\$208.00 plus 6.40% of
14	not over \$16,000	excess over \$8,000
15	Over \$16,000 but	\$720.00 plus 6.90% of
16	not over \$24,000	excess over \$16,000

1	Over \$24,000 but	\$1,272.00 plus 7.30% of
2	not over \$32,000	excess over \$24,000
3	Over \$32,000 but	\$1,856.00 plus 7.60% of
4	not over \$40,000	excess over \$32,000
5	Over \$40,000 but	\$2,464.00 plus 7.90% of
6	not over \$60,000	excess over \$40,000
7	Over \$60,000 but	\$4,044.00 plus 8.20% of
8	not over \$80,000	excess over \$60,000
9	Over \$80,000	\$5,684.00 plus 8.50% of
10		excess over \$80,000]

11 In the case of any taxable year beginning after December
 12 31, 2001:

13	If the taxable income is:	The tax shall be:
14	Not over \$4,000	1.40% of taxable income
15	Over \$4,000 but	\$56.00 plus 3.20% of
16	not over \$8,000	excess over \$4,000

1	Over \$8,000 but	\$184.00 plus 5.50% of
2	not over \$16,000	excess over \$8,000
3	Over \$16,000 but	\$624.00 plus 6.40% of
4	not over \$24,000	excess over \$16,000
5	Over \$24,000 but	\$1,136.00 plus 6.80% of
6	not over \$32,000	excess over \$24,000
7	Over \$32,000 but	\$1,680.00 plus 7.20% of
8	not over \$40,000	excess over \$32,000
9	Over \$40,000 but	\$2,256.00 plus 7.60% of
10	not over \$60,000	excess over \$40,000
11	Over \$60,000 but	\$3,776.00 plus 7.90% of
12	not over \$80,000	excess over \$60,000
13	Over \$80,000	\$5,356.00 plus 8.25% of
14		excess over \$80,000
15	<u>In the case of any taxable year beginning after December</u>	
16	<u>31, 2005:</u>	

1	<u>If the taxable income is:</u>	<u>The tax shall be:</u>
2	<u>Not over \$5,000</u>	<u>1.40% of taxable income</u>
3	<u>Over \$5,000 but</u>	<u>\$70.00 plus 3.20% of</u>
4	<u>not over \$10,000</u>	<u>excess over \$5,000</u>
5	<u>Over \$10,000 but</u>	<u>\$230.00 plus 5.50% of</u>
6	<u>not over \$20,000</u>	<u>excess over \$10,000</u>
7	<u>Over \$20,000 but</u>	<u>\$780.00 plus 6.40% of</u>
8	<u>not over \$30,000</u>	<u>excess over \$20,000</u>
9	<u>Over \$30,000 but</u>	<u>\$1,420.00 plus 6.80% of</u>
10	<u>not over \$40,000</u>	<u>excess over \$30,000</u>
11	<u>Over \$40,000 but</u>	<u>\$2,100.00 plus 7.20% of</u>
12	<u>not over \$50,000</u>	<u>excess over \$40,000</u>
13	<u>Over \$50,000 but</u>	<u>\$2,820.00 plus 7.60% of</u>
14	<u>not over \$75,000</u>	<u>excess over \$50,000</u>
15	<u>Over \$75,000 but</u>	<u>\$4,720.00 plus 7.90% of</u>
16	<u>not over \$100,000</u>	<u>excess over \$75,000</u>

1 Over \$100,000 \$6,695.00 plus 8.25% of
 2 excess over \$100,000

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

6 ~~[In the case of any taxable year beginning after December~~
 7 ~~31, 1998:~~

8 If the taxable income is:	The tax shall be:
9 Not over \$3,000	1.60% of taxable income
10 Over \$3,000 but	\$48.00 plus 3.90% of
11 not over \$6,000	excess over \$3,000
12 Over \$6,000 but	\$165.00 plus 6.80% of
13 not over \$12,000	excess over \$6,000
14 Over \$12,000 but	\$573.00 plus 7.20% of
15 not over \$18,000	excess over \$12,000
16 Over \$18,000 but	\$1,005.00 plus 7.50% of
17 not over \$24,000	excess over \$18,000

1	Over \$24,000 but	\$1,455.00 plus 7.80% of
2	not over \$30,000	excess over \$24,000
3	Over \$30,000 but	\$1,923.00 plus 8.20% of
4	not over \$45,000	excess over \$30,000
5	Over \$45,000 but	\$3,153.00 plus 8.50% of
6	not over \$60,000	excess over \$45,000
7	Over \$60,000	\$4,428.00 plus 8.75% of
8		excess over \$60,000
9	In the case of any taxable year beginning after December	
10	31, 2000:	
11	If the taxable income is:	The tax shall be:
12	Not over \$3,000	1.50% of taxable income
13	Over \$3,000 but	\$45.00 plus 3.70% of
14	not over \$6,000	excess over \$3,000
15	Over \$6,000 but	\$156.00 plus 6.40% of
16	not over \$12,000	excess over \$6,000

- 1 ~~Over \$12,000 but~~ ~~\$540.00 plus 6.90% of~~
- 2 ~~not over \$18,000~~ ~~excess over \$12,000~~
- 3 ~~Over \$18,000 but~~ ~~\$954.00 plus 7.30% of~~
- 4 ~~not over \$24,000~~ ~~excess over \$18,000~~
- 5 ~~Over \$24,000 but~~ ~~\$1,392.00 plus 7.60% of~~
- 6 ~~not over \$30,000~~ ~~excess over \$24,000~~
- 7 ~~Over \$30,000 but~~ ~~\$1,848.00 plus 7.90% of~~
- 8 ~~not over \$45,000~~ ~~excess over \$30,000~~
- 9 ~~Over \$45,000 but~~ ~~\$3,033.00 plus 8.20% of~~
- 10 ~~not over \$60,000~~ ~~excess over \$45,000~~
- 11 ~~Over \$60,000~~ ~~\$4,263.00 plus 8.50% of~~
- 12 ~~excess over \$60,000]~~

13 In the case of any taxable year beginning after December
14 31, 2001:

15 If the taxable income is: The tax shall be:

16 Not over \$3,000 1.40% of taxable income

1	Over \$3,000 but	\$42.00 plus 3.20% of
2	not over \$6,000	excess over \$3,000
3	Over \$6,000 but	\$138.00 plus 5.50% of
4	not over \$12,000	excess over \$6,000
5	Over \$12,000 but	\$468.00 plus 6.40% of
6	not over \$18,000	excess over \$12,000
7	Over \$18,000 but	\$852.00 plus 6.80% of
8	not over \$24,000	excess over \$18,000
9	Over \$24,000 but	\$1,260.00 plus 7.20% of
10	not over \$30,000	excess over \$24,000
11	Over \$30,000 but	\$1,692.00 plus 7.60% of
12	not over \$45,000	excess over \$30,000
13	Over \$45,000 but	\$2,832.00 plus 7.90% of
14	not over \$60,000	excess over \$45,000
15	Over \$60,000	\$4,017.00 plus 8.25% of
16		excess over \$60,000

1 In the case of any taxable year beginning after December
2 31, 2005:

3 <u>If the taxable income is:</u>	<u>The tax shall be:</u>
4 <u>Not over \$3,750</u>	<u>1.40% of taxable income</u>
5 <u>Over \$3,750 but</u>	<u>\$53.00 plus 3.20% of</u>
6 <u>not over \$7,500</u>	<u>excess over \$3,750</u>
7 <u>Over \$7,500 but</u>	<u>\$173.00 plus 5.50% of</u>
8 <u>not over \$15,000</u>	<u>excess over \$7,500</u>
9 <u>Over \$15,000 but</u>	<u>\$585.00 plus 6.40% of</u>
10 <u>not over \$22,500</u>	<u>excess over \$15,000</u>
11 <u>Over \$22,500 but</u>	<u>\$1,065.00 plus 6.80% of</u>
12 <u>not over \$30,000</u>	<u>excess over \$22,500</u>
13 <u>Over \$30,000 but</u>	<u>\$1,575.00 plus 7.20% of</u>
14 <u>not over \$37,500</u>	<u>excess over \$30,000</u>
15 <u>Over \$37,500 but</u>	<u>\$2,115.00 plus 7.60% of</u>
16 <u>not over \$56,250</u>	<u>excess over \$37,500</u>

1	<u>Over \$56,250 but</u>	<u>\$3,540.00 plus 7.90% of</u>
2	<u>not over \$75,000</u>	<u>excess over \$56,250</u>
3	<u>Over \$75,000</u>	<u>\$5,021.00 plus 8.25% of</u>
4		<u>excess over \$75,000</u>

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

11 ~~[In the case of any taxable year beginning after December~~
12 ~~31, 1998:~~

13	If the taxable income is:	The tax shall be:
14	Not over \$2,000	1.60% of taxable income
15	Over \$2,000 but	\$32.00 plus 3.90% of
16	not over \$4,000	excess over \$2,000
17	Over \$4,000 but	\$110.00 plus 6.80% of

- 1 ~~not over \$8,000~~ ~~excess over \$4,000~~
- 2 ~~Over \$8,000 but~~ ~~\$382.00 plus 7.20% of~~
- 3 ~~not over \$12,000~~ ~~excess over \$8,000~~
- 4 ~~Over \$12,000 but~~ ~~\$670.00 plus 7.50% of~~
- 5 ~~not over \$16,000~~ ~~excess over \$12,000~~
- 6 ~~Over \$16,000 but~~ ~~\$970.00 plus 7.80% of~~
- 7 ~~not over \$20,000~~ ~~excess over \$16,000~~
- 8 ~~Over \$20,000 but~~ ~~\$1,282.00 plus 8.20% of~~
- 9 ~~not over \$30,000~~ ~~excess over \$20,000~~
- 10 ~~Over \$30,000 but~~ ~~\$2,102.00 plus 8.50% of~~
- 11 ~~not over \$40,000~~ ~~excess over \$30,000~~
- 12 ~~Over \$40,000~~ ~~\$2,952.00 plus 8.75% of~~
- 13 ~~excess over \$40,000~~

14 ~~In the case of any taxable year beginning after December~~
15 ~~31, 2000:~~

16 ~~If the taxable income is:~~ ~~The tax shall be:~~

1	Not over \$2,000	1.50% of taxable income
2	Over \$2,000 but	\$30.00 plus 3.70% of
3	not over \$4,000	excess over \$2,000
4	Over \$4,000 but	\$104.00 plus 6.40% of
5	not over \$8,000	excess over \$4,000
6	Over \$8,000 but	\$360.00 plus 6.90% of
7	not over \$12,000	excess over \$8,000
8	Over \$12,000 but	\$636.00 plus 7.30% of
9	not over \$16,000	excess over \$12,000
10	Over \$16,000 but	\$928.00 plus 7.60% of
11	not over \$20,000	excess over \$16,000
12	Over \$20,000 but	\$1,232.00 plus 7.90% of
13	not over \$30,000	excess over \$20,000
14	Over \$30,000 but	\$2,022.00 plus 8.20% of
15	not over \$40,000	excess over \$30,000
16	Over \$40,000	\$2,842.00 plus 8.50% of

1 ~~excess over \$40,000]~~

2 In the case of any taxable year beginning after December
3 31, 2001:

4 If the taxable income is:	The tax shall be:
5 Not over \$2,000	1.40% of taxable income
6 Over \$2,000 but	\$28.00 plus 3.20% of
7 not over \$4,000	excess over \$2,000
8 Over \$4,000 but	\$92.00 plus 5.50% of
9 not over \$8,000	excess over \$4,000
10 Over \$8,000 but	\$312.00 plus 6.40% of
11 not over \$12,000	excess over \$8,000
12 Over \$12,000 but	\$568.00 plus 6.80% of
13 not over \$16,000	excess over \$12,000
14 Over \$16,000 but	\$840.00 plus 7.20% of
15 not over \$20,000	excess over \$16,000
16 Over \$20,000 but	\$1,128.00 plus 7.60% of

1	not over \$30,000	excess over \$20,000
2	Over \$30,000 but	\$1,888.00 plus 7.90% of
3	not over \$40,000	excess over \$30,000
4	Over \$40,000	\$2,678.00 plus 8.25% of
5		excess over \$40,000

6 In the case of any taxable year beginning after December
7 31, 2005:

8	<u>If the taxable income is:</u>	<u>The tax shall be:</u>
9	<u>Not over \$2,500</u>	<u>1.40% of taxable income</u>
10	<u>Over \$2,500 but</u>	<u>\$35.00 plus 3.20% of</u>
11	<u>not over \$5,000</u>	<u>excess over \$2,500</u>
12	<u>Over \$5,000 but</u>	<u>\$115.00 plus 5.50% of</u>
13	<u>not over \$10,000</u>	<u>excess over \$5,000</u>
14	<u>Over \$10,000 but</u>	<u>\$390.00 plus 6.40% of</u>
15	<u>not over \$15,000</u>	<u>excess over \$10,000</u>
16	<u>Over \$15,000 but</u>	<u>\$710.00 plus 6.80% of</u>

1	<u>not over \$20,000</u>	<u>excess over \$15,000</u>
2	<u>Over \$20,000 but</u>	<u>\$1,050.00 plus 7.20% of</u>
3	<u>not over \$25,000</u>	<u>excess over \$20,000</u>
4	<u>Over \$25,000 but</u>	<u>\$1,410.00 plus 7.60% of</u>
5	<u>not over \$37,500</u>	<u>excess over \$25,000</u>
6	<u>Over \$37,500 but</u>	<u>\$2,360.00 plus 7.90% of</u>
7	<u>not over \$50,000</u>	<u>excess over \$37,500</u>
8	<u>Over \$50,000</u>	<u>\$3,348.00 plus 8.25% of</u>
9		<u>excess over \$50,000</u>

10 (d) The tax imposed by section 235-2.45 on estates and
 11 trusts shall be determined in accordance with the following
 12 table:

13 ~~[In the case of any taxable year beginning after December~~
 14 ~~31, 1998:~~

15	If the taxable income is:	The tax shall be:
16	Not over \$2,000-	1.60% of taxable income
17	Over \$2,000 but-	\$32.00 plus 3.90% of

1	not over \$4,000	excess over \$2,000
2	Over \$4,000 but	\$110.00 plus 6.80% of
3	not over \$8,000	excess over \$4,000
4	Over \$8,000 but	\$382.00 plus 7.20% of
5	not over \$12,000	excess over \$8,000
6	Over \$12,000 but	\$670.00 plus 7.50% of
7	not over \$16,000	excess over \$12,000
8	Over \$16,000 but	\$970.00 plus 7.80% of
9	not over \$20,000	excess over \$16,000
10	Over \$20,000 but	\$1,282.00 plus 8.20% of
11	not over \$30,000	excess over \$20,000
12	Over \$30,000 but	\$2,102.00 plus 8.50% of
13	not over \$40,000	excess over \$30,000
14	Over \$40,000	\$2,952.00 plus 8.75% of
15		excess over \$40,000

1	In the case of any taxable year beginning after December	
2	31, 2000+	
3	If the taxable income is:	The tax shall be:
4	Not over \$2,000	1.50% of taxable income
5	Over \$2,000 but	\$30.00 plus 3.70% of
6	not over \$4,000	excess over \$2,000
7	Over \$4,000 but	\$104.00 plus 6.40% of
8	not over \$8,000	excess over \$4,000
9	Over \$8,000 but	\$360.00 plus 6.90% of
10	not over \$12,000	excess over \$8,000
11	Over \$12,000 but	\$636.00 plus 7.30% of
12	not over \$16,000	excess over \$12,000
13	Over \$16,000 but	\$928.00 plus 7.60% of
14	not over \$20,000	excess over \$16,000
15	Over \$20,000 but	\$1,232.00 plus 7.90% of
16	not over \$30,000	excess over \$20,000

~~1 Over \$30,000 but \$2,022.00 plus 8.20% of~~
~~2 not over \$40,000 excess over \$30,000~~
~~3 Over \$40,000 \$2,842.00 plus 8.50% of~~
~~4 excess over \$40,000]~~

5 In the case of any taxable year beginning after December
6 31, 2001:

7 If the taxable income is:	The tax shall be:
8 Not over \$2,000	1.40% of taxable income
9 Over \$2,000 but	\$28.00 plus 3.20% of
10 not over \$4,000	excess over \$2,000
11 Over \$4,000 but	\$92.00 plus 5.50% of
12 not over \$8,000	excess over \$4,000
13 Over \$8,000 but	\$312.00 plus 6.40% of
14 not over \$12,000	excess over \$8,000
15 Over \$12,000 but	\$568.00 plus 6.80% of
16 not over \$16,000	excess over \$12,000

1 Over \$16,000 but \$840.00 plus 7.20% of
 2 not over \$20,000 excess over \$16,000
 3 Over \$20,000 but \$1,128.00 plus 7.60% of
 4 not over \$30,000 excess over \$20,000
 5 Over \$30,000 but \$1,888.00 plus 7.90% of
 6 not over \$40,000 excess over \$30,000
 7 Over \$40,000 \$2,678.00 plus 8.25% of
 8 excess over \$40,000"

9 SECTION 4. Statutory material to be repealed is bracketed
 10 and stricken. New statutory material is underscored.

11 SECTION 5. This Act shall take effect upon its approval
 12 and shall apply to taxable years beginning after December 31,
 13 2005.

14 INTRODUCED BY: 
 15 BY REQUEST

JUSTIFICATION SHEET

SB. NO. 2376

DEPARTMENT: Taxation

TITLE: A BILL FOR AN ACT RELATING TO INCREASING THE STANDARD DEDUCTION AND ADJUSTING THE BRACKETS FOR INDIVIDUAL INCOME TAXATION.

PURPOSE: To provide income tax relief for lower-income individuals by raising the Hawaii standard deduction and widening the tax brackets.

MEANS: Amend sections 235-2.4(a) and 235-51(a)-(d), Hawaii Revised Statutes.

JUSTIFICATION: By raising the Hawaii standard deduction to approximately 75 percent of the 2005 federal standard deduction, fewer individuals will owe state income taxes. In addition, the marriage penalty will be eliminated. More individuals who file will be able to take the standard deduction rather than itemizing deductions. In addition, by widening the brackets, there will be a tax cut for all taxpayers.

Impact on the public: Limits the burden of filing individual income tax returns and reduces the tax burden.

Impact on the department and other agencies: Reduces the administrative burden by reducing the number of individual income tax returns that are processed by the Department of Taxation to the extent that individuals do not file returns to claim refundable tax credits.

GENERAL FUND: \$85.9 million per fiscal year.

OTHER FUNDS: None.

PPBS PROGRAM DESIGNATION: HMS 102.

OTHER AFFECTED AGENCIES: None.

EFFECTIVE DATE: Upon approval, and shall apply to taxable years beginning after December 31, 2005.