

Since 1983, the tax review commission has consistently recommended that the standard deduction be increased to assure the State's tax structure provides financial equity to the poor and to reflect the economic realities of living in Hawaii. The State's present standard deduction of \$4,000 for joint filers is markedly lower than the 2005 federal standard deduction of \$10,000. This Act accomplishes meaningful tax relief for low and moderate-income families by making the necessary amendments to the tax laws.

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

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

- (1) [~~\$4,000~~] \$7,500 in the case of:
 - (A) A joint return as provided by section 235-93; or
 - (B) A surviving spouse (as defined in section 2(a) of the Internal Revenue Code);
- (2) [~~\$2,920~~] \$5,475 in the case of a head of household (as defined in section 2(b) of the Internal Revenue Code);
- (3) [~~\$2,000~~] \$3,750 in the case of an individual who is not married and who is not a surviving spouse or head of household; or

(4) [~~\$2,000~~] \$3,750 in the case of a married individual filing a separate return.

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

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

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

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

SECTION 3. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 4. This Act shall take effect upon its approval and shall apply to taxable years beginning after December 31, 2006."