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# A BILL FOR AN ACT

RELATING TO INCREASING THE STANDARD DEDUCTION 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 a vast majority of individual taxpayers. Increasing the  
3 standard deduction will primarily benefit low and moderate-  
4 income 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 narrow the disparity  
7 between the State's high income taxes and the economic reality  
8 of Hawaii's high cost of living.

9           Since 1983, the tax review commission has consistently  
10 recommended that the standard deduction be increased to assure  
11 the State's tax structure provides financial equity to the poor  
12 and to reflect the economic realities of living in Hawaii. The  
13 State's present standard deduction of \$4,000 for joint filers is  
14 markedly lower than the 2005 federal standard deduction of  
15 \$10,000. This Act accomplishes meaningful tax relief for low  
16 and moderate-income families by making the necessary amendments  
17 to the tax laws.

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

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

7 (1) [~~\$4,000~~] \$7,500 in the case of:

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

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

11 (2) [~~\$2,920~~] \$5,475 in the case of a head of household (as  
12 defined in section 2(b) of the Internal Revenue Code);

13 (3) [~~\$2,000~~] \$3,750 in the case of an individual who is  
14 not married and who is not a surviving spouse or head  
15 of household; or

16 (4) [~~\$2,000~~] \$3,750 in the case of a married individual  
17 filing a separate return.

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

19 Section 63(c) (5) shall be operative, except that the limitation  
20 on basic standard deduction in the case of certain dependents

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1 shall be the greater of \$500 or such individual's earned income.  
2 Section 63(f) shall not be operative in this State.

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

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

7 SECTION 4. This Act shall take effect upon its approval  
8 and shall apply to taxable years beginning after December 31,  
9 2006.

10 INTRODUCED BY:

Calvin K. Y. Ay  
BY REQUEST

JAN 22 2007

JUSTIFICATION SHEET

DEPARTMENT: Taxation

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

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

MEANS: Amend section 235-2.4(a), 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.<sup>1</sup> The individuals who file will be able to take the standard deduction rather than itemizing deductions.

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

Impact on the department and other agencies: Reduces the administrative burden by decreasing the number of individual income tax returns that are processed by the Department of Taxation.

GENERAL FUND: \$30 million per year.

OTHER FUNDS: None.

PPBS PROGRAM DESIGNATION: TAX 100.

OTHER AFFECTED AGENCIES: None.

<sup>1</sup>The 2005 federal standard deduction for joint filers is \$10,000. The standard deduction as provided in this bill would provide joint filers with a \$7,500 standard deduction. The 2006 federal standard deduction is \$10,300 because the federal law automatically adjusts for inflation.

EFFECTIVE DATE: Upon approval, and shall apply to taxable years beginning after December 31, 2006.