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## A BILL FOR AN ACT

RELATING TO COST OF LIVING ADJUSTMENTS TO INCOME TAX RATES AND  
STANDARD DEDUCTION AND PERSONAL EXEMPTION AMOUNTS.

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

1           SECTION 1. The legislature finds that inflation erodes the  
2 value of personal exemptions and deductions in the state  
3 individual income tax structure and distorts fiscal equity among  
4 taxpayers. Inflation-induced increases in individual income tax  
5 revenues result in annual collections that exceed the amounts  
6 anticipated by legislative actions establishing rates,  
7 exemptions, deductions, and other features of the state  
8 individual income tax. Furthermore, the income tax laws of this  
9 State, in combination with economic inflation, have caused  
10 inequitable treatment of taxpayers because the application of  
11 inflexible, statutorily prescribed rates of tax, standard  
12 deduction, and personal exemption to increasing personal incomes  
13 has resulted in increasing the taxpayer's tax liability while  
14 the taxpayers purchasing power has remained the same or, in some  
15 instances, has decreased.



1           The purpose of this Act is to correct this situation by  
2 requiring that certain components of the individual income tax  
3 structure be adjusted to compensate for the impact of inflation.

4           SECTION 2. Chapter 231, Hawaii Revised Statutes, is  
5 amended by adding a new section to be appropriately designated  
6 and to read as follows:

7           "§231-    Cost of living adjustments. (a) As used in this  
8 chapter, unless the context indicates otherwise, the following  
9 terms have the following meanings.

10           "Consumer price index" means the average over a twelve-  
11 month period of the national consumer price index, not  
12 seasonally adjusted, published monthly by the Bureau of Labor  
13 Statistics, United States Department of Labor designated as the  
14 "National Consumer Price Index for All Urban Consumers-United  
15 States City Average."

16           "Cost-of-living adjustment" means an adjustment equal to  
17 the consumer price index for the twelve-month period ending  
18 December 31 of the preceding taxable year divided by the  
19 consumer price index for the twelve-month period ending December  
20 31, 2006.

21           (b) Beginning in 2007, and each subsequent year  
22 thereafter, the department of taxation shall multiply the cost-



1 of-living adjustment for taxable years beginning in the  
2 succeeding year by the following:

- 3       (1) Standard deduction amounts under section 235-2.4(a);  
4       (2) Tax rates under sections 235-51; and  
5       (3) Exemption amounts under section 235-54;  
6 and assess these taxes or recognize these amounts after  
7 adjusting for inflation as prescribed by this subsection.

8       If the dollar amounts of the tax, deduction, or exemption  
9 adjusted by the application of the cost-of-living adjustment,  
10 are not multiples of \$50, any increase shall be rounded to the  
11 next lowest multiple of \$50; provided that if the cost-of-living  
12 adjustment for any taxable year is 1.000 or less, no adjustment  
13 shall be made for that taxable year.

14       (c) The department shall incorporate necessary changes  
15 into the income tax forms, instructions, and withholding tables  
16 to effectuate the purposes of this section and may adopt rules  
17 pursuant to chapter 91 to effectuate this section.

18       SECTION 2. Section 231-3, Hawaii Revised Statutes, is  
19 amended to read as follows:

20       "**§231-3 Department, general duties and powers.** The  
21 department of taxation shall have the following duties and



1 powers, in addition to any others prescribed or granted by this  
2 chapter:

3 (1) Assessment: To make any assessment by law required to  
4 be made by the department; provided that the  
5 assessment shall reflect the cost of living  
6 adjustments to the standard deduction, income tax  
7 bracket, and personal exemption amounts under section  
8 231- ;

9 (2) Collections: To be responsible for the collection of  
10 all taxes imposed under title 14, except those which  
11 by law are to be collected by county treasurers, and  
12 for such other duties as are provided by law;

13 (3) Construction of revenue laws: To construe the tax and  
14 revenue laws, the administration of which is within  
15 the scope of the department's duties, whenever  
16 requested by any officer acting under those laws, or  
17 by an interested person;

18 (4) Enforcement of penalties: To see that penalties are  
19 enforced when prescribed by any tax or revenue law of  
20 the State (the administration of which is within the  
21 scope of the department's duties) for disobedience or  
22 evading of its provisions, and to see that complaint



1 is made against persons violating any such law; in the  
2 execution of these powers and duties the department  
3 may call upon the attorney general or any of the  
4 attorney general's deputies, including the county  
5 attorneys or public prosecutors, whose duties it shall  
6 be to assist in the institution and conduct of all  
7 proceedings or prosecutions for penalties and  
8 forfeitures, liabilities, and punishments for  
9 violation of the laws administered by the department;

10 (5) Forms: To prescribe forms to be used in or in  
11 connection with any assessment, including forms to be  
12 used in the making of returns by taxpayers or in any  
13 other proceedings connected with the assessment, and  
14 to change the same from time to time as deemed  
15 necessary;

16 (6) Inspection, examination of records: To inspect and  
17 examine the records of all public officers without  
18 charge, and to examine the books and papers of account  
19 of any person for the purpose of enabling the  
20 department to obtain all information that could in any  
21 manner aid the department in discharging its duties  
22 under any tax law;



- 1           (7) Recommendations for legislation: To recommend to the  
2           governor any amendments, changes, or modifications of  
3           the laws as may seem proper or necessary to remedy  
4           injustice or irregularity in taxation or to facilitate  
5           the assessment of taxes;
- 6           (8) Report to governor: To report to the governor  
7           annually, and at such other times and in such manner  
8           as the governor may require, concerning the acts and  
9           doings and the administration of the department, and  
10          any other matters of information concerning taxation  
11          as may be deemed of general interest;
- 12          (9) Rules: To adopt such rules as the department may deem  
13          proper effectually to carry out the purposes for which  
14          the department is constituted and to regulate matters  
15          of procedure by or before the department;
- 16          (10) Compromises: With the approval of the governor, to  
17          compromise any claim where the tax exceeds \$50,000  
18          (exclusive of penalties and interest) arising under  
19          any tax law the administration of which is within the  
20          scope of the department's duties, and to compromise  
21          any tax claim where the tax is \$50,000 or less  
22          (exclusive of penalties and interest) without seeking



1 the approval of the governor; provided that the  
2 director shall have the discretion to seek the  
3 approval of the governor to compromise any tax claim  
4 where the director deems it appropriate; and in each  
5 case the department shall post each proposed  
6 compromise, as set forth in subparagraphs (A) to (D),  
7 on the department's internet website for five calendar  
8 days before the director signs the compromise, and  
9 there shall be placed on file in the department's  
10 office a statement of:

- 11 (A) The name of the taxpayer and the amount and type  
12 of tax assessed, or proposed to be assessed;
- 13 (B) The amount of penalties and interest imposed or  
14 which could have been imposed by law with respect  
15 to the amount of tax assessed, as computed by the  
16 department;
- 17 (C) The total amount of liability as determined by  
18 the terms of the compromise, and the actual  
19 payments made thereon with the dates thereof; and
- 20 (D) The reasons for the compromise.

21 Notwithstanding the provisions of any law making  
22 unlawful the disclosure of tax returns or return



1 information, statements on file and included in the  
2 department's internet website in respect of  
3 compromises shall be open to public inspection;

4 (11) Retroactivity of rulings: To prescribe the extent, if  
5 any, to which any ruling, rule, or construction of the  
6 tax laws, of general application, shall be applied  
7 without retroactive effect;

8 (12) Remission of delinquency penalties and interest:  
9 Except in cases of fraud or wilful violation of the  
10 laws or wilful refusal to make a return setting forth  
11 the information required by law (but inclusion in a  
12 return of a claim of nonliability for the tax shall  
13 not be deemed a refusal to make a return), the  
14 department may remit any amount of penalties or  
15 interest added, under any law administered by the  
16 department, to any tax that is delinquent, in a case  
17 of excusable failure to file a return or pay a tax  
18 within the time required by law, or in a case of  
19 uncollectibility of the whole amount due; and in that  
20 case there shall be placed on file in the department's  
21 office a statement showing the name of the person





1 receiving the remission, the principal amount of the  
2 tax, and the year or period involved;

3 (13) Closing agreements: To enter into an agreement in  
4 writing with any taxpayer or other person relating to  
5 the liability of the taxpayer or other person, under  
6 any law the administration of which is within the  
7 scope of the department's duties, in respect of any  
8 taxable period, or in respect of one or more separate  
9 items affecting the liability for any taxable period;  
10 the agreement, signed by or on behalf of the taxpayer  
11 or other person concerned, and by or on behalf of the  
12 department, shall be final and conclusive, and except  
13 upon a showing of fraud or malfeasance, or  
14 misrepresentation of a material fact:

15 (A) The matters agreed upon shall not be reopened,  
16 and the agreement shall not be modified, by any  
17 officer or employee of the State; and

18 (B) In any suit, action, or proceeding, the  
19 agreement, or any determination, assessment,  
20 collection, payment, refund, or credit made in  
21 accordance therewith, shall not be annulled,  
22 modified, set aside, or disregarded;



1       (14) Other powers and duties: In addition to the powers  
2           and duties contained in this chapter, the powers and  
3           duties contained in other chapters of the law under  
4           title 14 administered by the department for levying,  
5           assessing, collecting, receiving, and enforcing  
6           payments of the tax imposed thereunder, and otherwise  
7           relating thereto, shall be severally and respectively  
8           conferred, granted, practiced, and exercised for  
9           levying, assessing, collecting, receiving, and  
10          enforcing payment of the taxes imposed under the  
11          authority of those chapters as far as the provisions  
12          are consistent with the express provisions of those  
13          chapters, as fully and effectually to all intents and  
14          purposes as if the same powers and authorities were  
15          repeated in those chapters, with reference to those  
16          taxes, and all of the provisions shall be applied,  
17          construed, deemed, and taken to refer to the taxes  
18          imposed under the authority of those chapters, in like  
19          manner."

20        SECTION 3. Section 235-2.4, Hawaii Revised Statutes, is  
21        amended by amending subsection (a) to read as follows:



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

5           (1) \$4,000 in the case of:

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

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

9           (2) \$2,920 in the case of a head of household (as defined  
10                         in section 2(b) of the Internal Revenue Code);

11           (3) \$2,000 in the case of an individual who is not married  
12                         and who is not a surviving spouse or head of  
13                         household; or

14           (4) \$2,000 in the case of a married individual filing a  
15                         separate return[-];

16 provided that any standard deduction amount claimed under this  
17 section shall reflect the cost of living adjustments under  
18 section 231- .

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

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



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 4. Section 235-51, Hawaii Revised Statutes, is  
6 amended to read as follows:

7 **"§235-51 Tax imposed on individuals; rates.** (a) There is  
8 hereby imposed on the taxable income of (1) every taxpayer who  
9 files a joint return under section 235-93; and (2) every  
10 surviving spouse a tax determined in accordance with the  
11 following table:

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

If the taxable income is:	The tax shall be:
Not over \$4,000	1.40% of taxable income
Over \$4,000 but not over \$8,000	\$56.00 plus 3.20% of excess over \$4,000
Over \$8,000 but not over \$16,000	\$184.00 plus 5.50% of excess over \$8,000
Over \$16,000 but not over \$24,000	\$624.00 plus 6.40% of excess over \$16,000
Over \$24,000 but	\$1,136.00 plus 6.80% of



1	not over \$32,000	excess over \$24,000
2	Over \$32,000 but	\$1,680.00 plus 7.20% of
3	not over \$40,000	excess over \$32,000
4	Over \$40,000 but	\$2,256.00 plus 7.60% of
5	not over \$60,000	excess over \$40,000
6	Over \$60,000 but	\$3,776.00 plus 7.90% of
7	not over \$80,000	excess over \$60,000
8	Over \$80,000	\$5,356.00 plus 8.25% of
9		excess over \$80,000.

10 In the case of any taxable year beginning after  
 11 December 31, 2006:

12	If the taxable income is:	The tax shall be:
13	Not over \$4,800	1.40% of taxable income
14	Over \$4,800 but	\$67.00 plus 3.20% of
15	not over \$9,600	excess over \$4,800
16	Over \$9,600 but	\$221.00 plus 5.50% of
17	not over \$19,200	excess over \$9,600
18	Over \$19,200 but	\$749.00 plus 6.40% of
19	not over \$28,800	excess over \$19,200
20	Over \$28,800 but	\$1,363.00 plus 6.80% of
21	not over \$38,400	excess over \$28,800
22	Over \$38,400 but	\$2,016.00 plus 7.20% of



1	not over \$48,000	excess over \$38,400
2	Over \$48,000 but	\$2,707.00 plus 7.60% of
3	not over \$72,000	excess over \$48,000
4	Over \$72,000 but	\$4,531.00 plus 7.90% of
5	not over \$96,000	excess over \$72,000
6	Over \$96,000	\$6,427.00 plus 8.25% of
7		excess over \$96,000.

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

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

13	If the taxable income is:	The tax shall be:
14	Not over \$3,000	1.40% of taxable income.
15	Over \$3,000 but	\$42.00 plus 3.20% of
16	not over \$6,000	excess over \$3,000
17	Over \$6,000 but	\$138.00 plus 5.50% of
18	not over \$12,000	excess over \$6,000
19	Over \$12,000 but	\$468.00 plus 6.40% of
20	not over \$18,000	excess over \$12,000
21	Over \$21,600 but	\$852.00 plus 6.80% of
22	not over \$24,000	excess over \$18,000



1	Over \$24,000 but	\$1,260.00 plus 7.20% of
2	not over \$30,000	excess over \$24,000
3	Over \$30,000 but	\$1,692.00 plus 7.60% of
4	not over \$45,000	excess over \$30,000
5	Over \$45,000 but	\$2,832.00 plus 7.90% of
6	not over \$60,000	excess over \$45,000
7	Over \$60,000	\$4,017.00 plus 8.25% of
8		excess over \$60,000.

9 In the case of any taxable year beginning after  
10 December 31, 2006:

11	If the taxable income is:	The tax shall be:
12	Not over \$3,600	1.40% of taxable income
13	Over \$3,600 but	\$50.00 plus 3.20% of
14	not over \$7,200	excess over \$3,600
15	Over \$7,200 but	\$166.00 plus 5.50% of
16	not over \$14,400	excess over \$7,200
17	Over \$14,400 but	\$562.00 plus 6.40% of
18	not over \$21,600	excess over \$14,400
19	Over \$21,600 but	\$1,022.00 plus 6.80% of
20	not over \$28,800	excess over \$21,600
21	Over \$28,800 but	\$1,512.00 plus 7.20% of
22	not over \$36,000	excess over \$28,000



1	Over \$36,000 but	\$2,030.00 plus 7.60% of
2	not over \$54,000	excess over \$36,000
3	Over \$54,000 but	\$3,398.00 plus 7.90% of
4	not over \$72,000	excess over \$54,000
5	Over \$72,000	\$4,820.00 plus 8.25% of
6		excess over \$72,000.

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

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

15	If the taxable income is:	The tax shall be:
16	Not over \$2,000	1.40% of taxable income
17	Over \$2,000 but	\$28.00 plus 3.20% of
18	not over \$4,000	excess over \$2,000
19	Over \$4,000 but	\$92.00 plus 5.50% of
20	not over \$8,000	excess over \$4,000
21	Over \$8,000 but	\$312.00 plus 6.40% of
22	not over \$12,000	excess over \$8,000





1	Over \$12,000 but	\$568.00 plus 6.80% of
2	not over \$16,000	excess over \$12,000
3	Over \$16,000 but	\$840.00 plus 7.20% of
4	not over \$20,000	excess over \$16,000
5	Over \$20,000 but	\$1,128.00 plus 7.60% of
6	not over \$30,000	excess over \$20,000
7	Over \$30,000 but	\$1,888.00 plus 7.90% of
8	not over \$40,000	excess over \$30,000
9	Over \$40,000	\$2,678.00 plus 8.25% of
10		excess over \$40,000.

11 In the case of any taxable year beginning after  
12 December 31, 2006:

13	If the taxable income is:	The tax shall be:
14	Not over \$2,400	1.40% of taxable income
15	Over \$2,400 but	\$34.00 plus 3.20% of
16	not over \$4,800	excess over \$2,400
17	Over \$4,800 but	\$110.00 plus 5.50% of
18	not over \$9,600	excess over \$4,800
19	Over \$9,600 but	\$374.00 plus 6.40% of
20	not over \$14,400	excess over \$9,600
21	Over \$14,400 but	\$682.00 plus 6.80% of
22	not over \$19,200	excess over \$14,400



1	Over \$19,200 but	\$1,008.00 plus 7.20% of
2	not over \$24,000	excess over \$19,200
3	Over \$24,000 but	\$1,354.00 plus 7.60% of
4	not over \$36,000	excess over \$24,000
5	Over \$36,000 but	\$2,266.00 plus 7.90% of
6	not over \$48,000	excess over \$36,000
7	Over \$48,000	\$3,214.00 plus 8.25% of
8		excess over \$48,000.

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

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

14	If the taxable income is:	The tax shall be:
15	Not over \$2,000	1.40% of taxable income
16	Over \$2,000 but	\$28.00 plus 3.20% of
17	not over \$4,000	excess over \$2,000
18	Over \$4,000 but	\$92.00 plus 5.50% of
19	not over \$8,000	excess over \$4,000
20	Over \$8,000 but	\$312.00 plus 6.40% of
21	not over \$12,000	excess over \$8,000
22	Over \$12,000 but	\$568.00 plus 6.80% of



1	not over \$16,000	excess over \$12,000
2	Over \$16,000 but	\$840.00 plus 7.20% of
3	not over \$20,000	excess over \$16,000
4	Over \$20,000 but	\$1,128.00 plus 7.60% of
5	not over \$30,000	excess over \$20,000
6	Over \$30,000 but	\$1,888.00 plus 7.90% of
7	not over \$40,000	excess over \$30,000
8	Over \$40,000	\$2,678.00 plus 8.25% of
9		excess over \$40,000.

10 (e) Any taxpayer, other than a corporation, acting as a  
 11 business entity in more than one state who is required by this  
 12 chapter to file a return may elect to report and pay a tax of .5  
 13 per cent of its annual gross sales (1) where the taxpayer's only  
 14 activities in this State consist of sales; and (2) who does not  
 15 own or rent real estate or tangible personal property; and (3)  
 16 whose annual gross sales in or into this State during the tax  
 17 year is not in excess of \$100,000.

18 (f) If a taxpayer has a net capital gain for any taxable  
 19 year to which this subsection applies, then the tax imposed by  
 20 this section shall not exceed the sum of:



1           (1) The tax computed at the rates and in the same manner  
2           as if this subsection had not been enacted on the  
3           greater of:

4           (A) The taxable income reduced by the amount of net  
5           capital gain, or

6           (B) The amount of taxable income taxed at a rate  
7           below 7.25 per cent, plus

8           (2) A tax of 7.25 per cent of the amount of taxable income  
9           in excess of the amount determined under paragraph  
10          (1).

11          This subsection shall apply to individuals, estates, and  
12          trusts for taxable years beginning after December 31, 1986.

13          (g) All tax rates established in this section shall  
14          reflect cost of living adjustments under section 231- ."

15          SECTION 5. Section 235-54, Hawaii Revised Statutes, is  
16          amended by amending subsection (a) to read as follows:

17          "(a) In computing the taxable income of any individual,  
18          there shall be deducted, in lieu of the personal exemptions  
19          allowed by the Internal Revenue Code, personal exemptions  
20          computed as follows: Ascertain the number of exemptions which  
21          the individual can lawfully claim under the Internal Revenue  
22          Code, add an additional exemption for the taxpayer or the



1 taxpayer's spouse who is sixty-five years of age or older within  
2 the taxable year, and multiply that number by \$1,040, for  
3 taxable years beginning after December 31, 1984. A nonresident  
4 shall prorate the personal exemptions on account of income from  
5 sources outside the State as provided in section 235-5. In the  
6 case of an individual with respect to whom an exemption under  
7 this section is allowable to another taxpayer for a taxable year  
8 beginning in the calendar year in which the individual's taxable  
9 year begins, the personal exemption amount applicable to such  
10 individual under this subsection for such individual's taxable  
11 year shall be zero.

12 (b) In computing the taxable income of an estate or trust  
13 there shall be allowed, in lieu of the deductions allowed under  
14 subsection (a), the following:

15 (1) An estate shall be allowed a deduction of \$400.

16 (2) A trust which, under its governing instrument, is  
17 required to distribute all of its income currently  
18 shall be allowed a deduction of \$200.

19 (3) All other trusts shall be allowed a deduction of \$80.

20 (c) A blind person, a deaf person and any person totally  
21 disabled, in lieu of the personal exemptions allowed by the  
22 Internal Revenue Code, shall be allowed, and there shall be

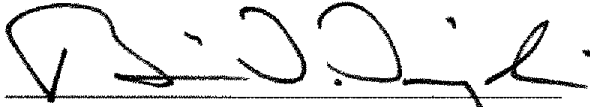



1 deducted in computing the taxable income of a blind person, a  
2 deaf person, or a totally disabled person, instead of the  
3 exemptions provided by subsection (a), the amount of \$7,000[-];  
4 provided that any exemption claimed under this section shall  
5 reflect the cost of living adjustments under section 231- ."

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

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

10

INTRODUCED BY:   
by request 



**Report Title:**

Cost of Living; Tax Rate; Standard Deduction; Personal Exemption

**Description:**

Provides for the assessment of tax rates and computation of the standard deduction and personal exemption based on inflation.

