

JAN 24 2007

A BILL FOR AN ACT

RELATING TO CONFORMING STATE STANDARD DEDUCTION TO FEDERAL
STANDARD DEDUCTION.

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

1 SECTION 1. The legislature finds that pursuant to article
2 VII, section 3 of the state constitution, the state tax review
3 commission is charged with evaluating the State's tax structure
4 and recommending revenue and tax policy.

5 The commission has reported that Hawaii's net income tax
6 rates are very high for both the rich and the poor and
7 recommended phasing in a higher standard deduction and personal
8 exemption, widening the income tax brackets, increasing federal
9 conformity generally, and conforming to federal filing
10 deadlines.

11 The state's standard deduction has not kept up with
12 inflation and no longer provides equity to the poor. In tax
13 year 2004, the state standard deduction for a joint return was
14 \$1,900, and the federal standard deduction for a joint return
15 was \$9,700. This disparity is the major reason why the State
16 unnecessarily continues to tax persons with income levels that
17 qualify for public assistance.



1 The purpose of this Act is to adopt the recommendation of
2 the tax review commission to raise the standard deduction by
3 conforming the state standard deduction amount to the federal
4 standard deduction amount.

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

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

11 ~~(1) \$4,000 in the case of:~~

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

13 ~~(B) A surviving spouse (as defined in section 2(a) of~~
14 ~~the Internal Revenue Code);~~

15 ~~(2) \$2,920 in the case of a head of household (as defined~~
16 ~~in section 2(b) of the Internal Revenue Code);~~

17 ~~(3) \$2,000 in the case of an individual who is not married~~
18 ~~and who is not a surviving spouse or head of~~
19 ~~household; or~~

20 ~~(4) \$2,000 in the case of a married individual filing a~~
21 ~~separate return.~~



1 ~~Section 63(e)(4) shall not be operative in this State.~~

2 ~~Section 63(e)(5) shall be operative, except that the limitation~~

3 ~~on basic standard deduction in the case of certain dependents~~

4 ~~shall be the greater of \$500 or such individual's earned income.~~

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

6 ~~The standard deduction amount for nonresidents shall be~~

7 ~~calculated pursuant to section 235-5]."~~

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

10 SECTION 4. This Act shall take effect on July 1, 2007 and
11 shall apply to taxable years beginning after December 31, 2006.

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INTRODUCED BY:

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Report Title:

Taxation; Standard Deduction

Description:

Conforms the state standard deduction amount to reflect the federal standard deduction amount.

