

JAN 24 2007

A BILL FOR AN ACT

RELATING TO CONFORMANCE OF STATE PERSONAL EXEMPTION TO FEDERAL PERSONAL EXEMPTION.

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 According to the 2001-2003 tax review commission report,
6 which focused on several areas including net income tax,
7 Hawaii's net income tax rates are very high for both the rich
8 and the poor. The commission recommended phasing in a higher
9 standard deduction and personal exemption, widening the state
10 tax brackets, and increasing overall federal conformity,
11 including conformance to federal filing deadlines.

12 The commission also reported that in 1984, the state
13 personal exemption was raised to \$1,000 to match the federal
14 personal exemption. In 2001, the state personal exemption was
15 \$1,040 and the federal exemption was \$2,900. The State
16 continues to unnecessarily tax families with income levels that



1 qualify for public assistance as a result of their failure to
2 update the personal exemption amount to the federal amount.

3 The purpose of this Act is to adopt the recommendation of
4 the tax review commission to raise the state personal exemption
5 amount by conforming the state personal exemption amount to the
6 federal personal exemption amount.

7 SECTION 2. Section 235-2.45, Hawaii Revised Statutes, is
8 amended by amending subsection (a) to read as follows:

9 "(a) Section 641 (with respect to imposition of tax) of the
10 Internal Revenue Code shall be operative for the purposes of
11 this chapter subject to the following:

12 ~~[(1) The deduction for exemptions shall be allowed as~~
13 ~~provided in section 235-54(b).]~~

14 ~~-(2)]~~ (1) The deduction for contributions and gifts in
15 determining taxable income shall be limited to
16 the amount allowed in the case of an
17 individual, unless the contributions and gifts
18 are to be used exclusively in the State; and

19 ~~-(3)]~~ (2) The tax imposed by section 1(e) of the
20 Internal Revenue Code as applied by section
21 641 of the Internal Revenue Code is hereby
22 imposed by this chapter at the rate and



1 amount as determined under section 235-51 on
2 estates and trusts."

3 SECTION 3. Section 235-54, Hawaii Revised Statutes, is
4 repealed.

5 "~~§235-54 Exemptions.~~ (a) In computing the taxable income
6 of any individual, there shall be deducted, in lieu of the
7 personal exemptions allowed by the Internal Revenue Code,
8 personal exemptions computed as follows: Ascertain the number of
9 exemptions which the individual can lawfully claim under the
10 Internal Revenue Code, add an additional exemption for the
11 taxpayer or the taxpayer's spouse who is sixty five years of age
12 or older within the taxable year, and multiply that number by
13 \$1,040, for taxable years beginning after December 31, 1984. A
14 nonresident shall prorate the personal exemptions on account of
15 income from sources outside the State as provided in section
16 235-5. In the case of an individual with respect to whom an
17 exemption under this section is allowable to another taxpayer
18 for a taxable year beginning in the calendar year in which the
19 individual's taxable year begins, the personal exemption amount
20 applicable to such individual under this subsection for such
21 individual's taxable year shall be zero.



1 ~~(b) In computing the taxable income of an estate or trust~~
2 ~~there shall be allowed, in lieu of the deductions allowed under~~
3 ~~subsection (a), the following:~~

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

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

8 ~~(3) All other trusts shall be allowed a deduction of~~
9 ~~\$80.~~

10 ~~(c) A blind person, a deaf person and any person totally~~
11 ~~disabled, in lieu of the personal exemptions allowed by the~~
12 ~~Internal Revenue Code, shall be allowed, and there shall be~~
13 ~~deducted in computing the taxable income of a blind person, a~~
14 ~~deaf person, or a totally disabled person, instead of the~~
15 ~~exemptions provided by subsection (a), the amount of \$7,000.] "~~

16 SECTION 4. Statutory material to be repealed is bracketed
17 and stricken. New statutory material is underscored.

18 SECTION 5. This Act shall take effect on January 1, 2008
19 and shall apply to taxable years beginning after December 31,
20 2007.

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INTRODUCED BY: _____



INTRODUCED BY:

Salley
W. J. Kelly
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Report Title:

Taxation; Personal Exemption; Conformance

Description:

Conforms the state personal exemption amount to the federal personal exemption amount.

