

GOV. MSG. NO. 676

EXECUTIVE CHAMBERS  
HONOLULU

LINDA LINGLE  
GOVERNOR

May 7, 2009

The Honorable Colleen Hanabusa, President  
and Members of the Senate  
Twenty-Fifth State Legislature  
State Capitol, Room 409  
Honolulu, Hawaii 96813

Dear Madam President and Members of the Senate:

I am transmitting herewith HB1747 HD1 SD1 CD1, without my approval, and with the statement of objections relating to the measure.

HB1747 HD1 SD1 CD1

A BILL FOR AN ACT  
RELATING TO TAXATION.

Sincerely,



LINDA LINGLE

EXECUTIVE CHAMBERS

HONOLULU

May 7, 2009

STATEMENT OF OBJECTIONS TO HOUSE BILL NO. 1747

Honorable Members  
Twenty-Fifth Legislature  
State of Hawaii

Pursuant to Section 16 of Article III of the Constitution of the State of Hawaii, I am returning herewith, without my approval, House Bill No. 1747, entitled "A Bill for an Act Relating to Taxation."

The purposes of House Bill No. 1747 are to increase the State income tax rates for certain income brackets and revise the standard deduction and personal exemption. The bill amends Hawaii's income tax law by (1) increasing the State income tax rates for income earners above a specified level for taxable years 2009 through 2015; (2) increasing the standard deduction amount and the allowable personal exemption amount, for taxable years 2011 through 2015; and (3) increasing the amount of the personal deduction by ten percent for the 2011 through 2015 tax period. The bill provides that no penalty or interest shall be imposed because of underpayment of taxes attributable to the increase in the tax rates. The bill also establishes a repeal (sunset) date of December 31, 2015.

This bill is objectionable because it increases the tax burden on Hawaii's families and small businesses by increasing the marginal income tax rate by as much as 33.3 percent. Hawaii currently has the eighth highest top personal income tax rate in the United States. By increasing the top marginal tax rate from 8.25 to 11 percent, this bill will make Hawaii the state with the highest personal income tax rate in the nation. Although there is the misconception that only wealthy people will be affected, this bill will adversely impact almost 37,000 persons, of which about 27,000 are sole proprietors, partnerships, or subchapter

"S" corporations whose owners report their business income through personal income tax returns.

In this broad recession which affects both the wealthy and poor and where recovery depends on people investing, buying consumer goods, and donating to charities, a tax increase will put an unnecessary strain on everyone's pocket book. Small business owners who count their business income as personal income will find it more difficult to support and grow their enterprises. This could mean more business closures, layoffs, and fewer job opportunities.

Furthermore, these tax increases will make it more difficult to attract high caliber talent to Hawaii--professions such as psychiatrists, neurosurgeons, astronomers, or engineers--who earn higher salaries and who will be deterred by our high taxes as well as our high cost of living. In an economy in serious need of top quality talent and a kick start, this is a bad idea that is not worth the revenue impact this bill is expected to produce.

During these difficult economic times, when we need to take action to support our families and businesses, we should not be taking actions to balance the State budget at the expense of the taxpayers.

For the foregoing reasons, I am returning House Bill No. 1747 without my approval.

Respectfully,



LINDA LINGLE  
Governor of Hawaii

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## A BILL FOR AN ACT

RELATING TO TAXATION.

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

1           SECTION 1. 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) of  
4 the Internal Revenue Code shall be operative for the purposes of  
5 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~~] \$4,400 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~~] \$3,212 in the case of a head of household (as  
12 defined in section 2(b) of the Internal Revenue Code);

13           (3) [~~\$2,000~~] \$2,200 in the case of an individual who is not  
14 married and who is not a surviving spouse or head of  
15 household; or

16           (4) [~~\$2,000~~] \$2,200 in the case of a married individual  
17 filing a separate return.



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

2 Section 63(c)(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 2. Section 235-51, Hawaii Revised Statutes, is  
9 amended by amending subsections (a), (b), and (c) to read as  
10 follows:

11 "(a) There is hereby imposed on the taxable income of (1)  
12 every taxpayer who files a joint return under section 235-93; and  
13 (2) every surviving spouse a tax determined in accordance with  
14 the following table:

15 In the case of any taxable year beginning after December 31,  
16 2001:

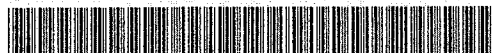
If the taxable income is:	The tax shall be:
Not over \$4,000	1.40% of taxable income
Over \$4,000 but not over \$8,000	\$56.00 plus 3.20% of excess over \$4,000
Over \$8,000 but	\$184.00 plus 5.50% of
not over \$16,000	excess over \$8,000



1	Over \$16,000 but	\$624.00 plus 6.40% of
2	not over \$24,000	excess over \$16,000
3	Over \$24,000 but	\$1,136.00 plus 6.80% of
4	not over \$32,000	excess over \$24,000
5	Over \$32,000 but	\$1,680.00 plus 7.20% of
6	not over \$40,000	excess over \$32,000
7	Over \$40,000 but	\$2,256.00 plus 7.60% of
8	not over \$60,000	excess over \$40,000
9	Over \$60,000 but	\$3,776.00 plus 7.90% of
10	not over \$80,000	excess over \$60,000
11	Over \$80,000	\$5,356.00 plus 8.25% of
12		excess over \$80,000.

13 In the case of any taxable year beginning after December 31,  
14 2006:

15	If the taxable income is:	The tax shall be:
16	Not over \$4,800	1.40% of taxable income
17	Over \$4,800 but	\$67.00 plus 3.20% of
18	not over \$9,600	excess over \$4,800
19	Over \$9,600 but	\$221.00 plus 5.50% of
20	not over \$19,200	excess over \$9,600
21	Over \$19,200 but	\$749.00 plus 6.40% of
22	not over \$28,800	excess over \$19,200



1	Over \$28,800 but	\$1,363.00 plus 6.80% of
2	not over \$38,400	excess over \$28,800
3	Over \$38,400 but	\$2,016.00 plus 7.20% of
4	not over \$48,000	excess over \$38,400
5	Over \$48,000 but	\$2,707.00 plus 7.60% of
6	not over \$72,000	excess over \$48,000
7	Over \$72,000 but	\$4,531.00 plus 7.90% of
8	not over \$96,000	excess over \$72,000
9	Over \$96,000	\$6,427.00 plus 8.25% of
10		excess over \$96,000.

11 In the case of any taxable year beginning after December 31,  
12 2008:

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



1	<u>Over \$38,400 but</u>	<u>\$2,016.00 plus 7.20% of</u>
2	<u>not over \$48,000</u>	<u>excess over \$38,400</u>
3	<u>Over \$48,000 but</u>	<u>\$2,707.00 plus 7.60% of</u>
4	<u>not over \$72,000</u>	<u>excess over \$48,000</u>
5	<u>Over \$72,000 but</u>	<u>\$4,531.00 plus 7.90% of</u>
6	<u>not over \$96,000</u>	<u>excess over \$72,000</u>
7	<u>Over \$96,000 but</u>	<u>\$6,427.00 plus 8.25% of</u>
8	<u>not over \$300,000</u>	<u>excess over \$96,000</u>
9	<u>Over \$300,000 but</u>	<u>\$23,257.00 plus 9.00% of</u>
10	<u>not over \$350,000</u>	<u>excess over \$300,000</u>
11	<u>Over \$350,000 but</u>	<u>\$27,757.00 plus 10.00% of</u>
12	<u>not over \$400,000</u>	<u>excess over \$350,000</u>
13	<u>Over \$400,000</u>	<u>\$32,757.00 plus 11.00% of</u>
14		<u>excess over \$400,000.</u>

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

18 In the case of any taxable year beginning after December 31,  
19 2001:

20	If the taxable income is:	The tax shall be:
21	Not over \$3,000	1.40% of taxable income
22	Over \$3,000 but	\$42.00 plus 3.20% of





1	not over \$6,000	excess over \$3,000
2	Over \$6,000 but	\$138.00 plus 5.50% of
3	not over \$12,000	excess over \$6,000
4	Over \$12,000 but	\$468.00 plus 6.40% of
5	not over \$18,000	excess over \$12,000
6	Over \$18,000	\$852.00 plus 6.80% of
7	but not over \$24,000	excess over \$18,000
8	Over \$24,000 but	\$1,260.00 plus 7.20% of
9	not over \$30,000	excess over \$24,000
10	Over \$30,000 but	\$1,692.00 plus 7.60% of
11	not over \$45,000	excess over \$30,000
12	Over \$45,000 but	\$2,832.00 plus 7.90% of
13	not over \$60,000	excess over \$45,000
14	Over \$60,000	\$4,017.00 plus 8.25% of
15		excess over \$60,000.
16	In the case of any taxable year beginning after December 31,	
17	2006:	
18	If the taxable income is:	The tax shall be:
19	Not over \$3,600	1.40% of taxable income
20	Over \$3,600 but	\$50.00 plus 3.20% of
21	not over \$7,200	excess over \$3,600
22	Over \$7,200 but	\$166.00 plus 5.50% of



1	not over \$14,400	excess over \$7,200
2	Over \$14,400 but	\$562.00 plus 6.40% of
3	not over \$21,600	excess over \$14,400
4	Over \$21,600 but	\$1,022.00 plus 6.80% of
5	not over \$28,800	excess over \$21,600
6	Over \$28,800 but	\$1,512.00 plus 7.20% of
7	not over \$36,000	excess over \$28,800
8	Over \$36,000 but	\$2,030.00 plus 7.60% of
9	not over \$54,000	excess over \$36,000
10	Over \$54,000 but	\$3,398.00 plus 7.90% of
11	not over \$72,000	excess over \$54,000
12	Over \$72,000	\$4,820.00 plus 8.25% of
13		excess over \$72,000.

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

15 2008:

16	<u>If the taxable income is:</u>	<u>The tax shall be:</u>
17	<u>Not over \$3,600</u>	<u>1.40% of taxable income</u>
18	<u>Over \$3,600 but</u>	<u>\$50.00 plus 3.20% of</u>
19	<u>not over \$7,200</u>	<u>excess over \$3,600</u>
20	<u>Over \$7,200 but</u>	<u>\$166.00 plus 5.50% of</u>
21	<u>not over \$14,400</u>	<u>excess over \$7,200</u>
22	<u>Over \$14,400 but</u>	<u>\$562.00 plus 6.40% of</u>



1	<u>not over \$21,600</u>	<u>excess over \$14,400</u>
2	<u>Over \$21,600 but</u>	<u>\$1,022.00 plus 6.80% of</u>
3	<u>not over \$28,800</u>	<u>excess over \$21,600</u>
4	<u>Over \$28,800 but</u>	<u>\$1,512.00 plus 7.20% of</u>
5	<u>not over \$36,000</u>	<u>excess over \$28,800</u>
6	<u>Over \$36,000 but</u>	<u>\$2,030.00 plus 7.60% of</u>
7	<u>not over \$54,000</u>	<u>excess over \$36,000</u>
8	<u>Over \$54,000 but</u>	<u>\$3,398.00 plus 7.90% of</u>
9	<u>not over \$72,000</u>	<u>excess over \$54,000</u>
10	<u>Over \$72,000 but</u>	<u>\$4,820.00 plus 8.25% of</u>
11	<u>not over \$225,000</u>	<u>excess over \$72,000</u>
12	<u>Over \$225,000 but</u>	<u>\$17,443.00 plus 9.00% of</u>
13	<u>not over \$262,500</u>	<u>excess over \$225,000</u>
14	<u>Over \$262,500 but</u>	<u>\$20,818.00 plus 10.00% of</u>
15	<u>not over \$300,000</u>	<u>excess over \$262,500</u>
16	<u>Over \$300,000</u>	<u>\$24,568.00 plus 11.00% of</u>
17		<u>excess over \$300,000.</u>

18 (c) There is hereby imposed on the taxable income of (1)  
19 every unmarried individual (other than a surviving spouse, or the  
20 head of a household) and (2) on the taxable income of every  
21 married individual who does not make a single return jointly with



1 the individual's spouse under section 235-93 a tax determined in  
2 accordance with the following table:

3 In the case of any taxable year beginning after December 31,  
4 2001:

5	If the taxable income is:	The tax shall be:
6	Not over \$2,000	1.40% of taxable income
7	Over \$2,000 but	\$28.00 plus 3.20% of
8	not over \$4,000	excess over \$2,000
9	Over \$4,000 but	\$92.00 plus 5.50% of
10	not over \$8,000	excess over \$4,000
11	Over \$8,000 but	\$312.00 plus 6.40% of
12	not over \$12,000	excess over \$8,000
13	Over \$12,000 but	\$568.00 plus 6.80% of
14	not over \$16,000	excess over \$12,000
15	Over \$16,000 but	\$840.00 plus 7.20% of
16	not over \$20,000	excess over \$16,000
17	Over \$20,000 but	\$1,128.00 plus 7.60% of
18	not over \$30,000	excess over \$20,000
19	Over \$30,000 but	\$1,888.00 plus 7.90% of
20	not over \$40,000	excess over \$30,000
21	Over \$40,000	\$2,678.00 plus 8.25% of
22		excess over \$40,000.



1 In the case of any taxable year beginning after December 31,  
2 2006:

If the taxable income is:	The tax shall be:
Not over \$2,400	1.40% of taxable income
Over \$2,400 but not over \$4,800	\$34.00 plus 3.20% of excess over \$2,400
Over \$4,800 but not over \$9,600	\$110.00 plus 5.50% of excess over \$4,800
Over \$9,600 but not over \$14,400	\$374.00 plus 6.40% of excess over \$9,600
Over \$14,400 but not over \$19,200	\$682.00 plus 6.80% of excess over \$14,400
Over \$19,200 but not over \$24,000	\$1,008.00 plus 7.20% of excess over \$19,200
Over \$24,000 but not over \$36,000	\$1,354.00 plus 7.60% of excess over \$24,000
Over \$36,000 but not over \$48,000	\$2,266.00 plus 7.90% of excess over \$36,000
Over \$48,000	\$3,214.00 plus 8.25% of excess over \$48,000.

21 In the case of any taxable year beginning after December 31,  
22 2008:



<u>If the taxable income is:</u>	<u>The tax shall be:</u>
1 <u>Not over \$2,400</u>	<u>1.40% of taxable income</u>
2 <u>Over \$2,400 but</u>	<u>\$34.00 plus 3.20% of</u>
3 <u>not over \$4,800</u>	<u>excess over \$2,400</u>
4 <u>Over \$4,800 but</u>	<u>\$110.00 plus 5.50% of</u>
5 <u>not over \$9,600</u>	<u>excess over \$4,800</u>
6 <u>Over \$9,600 but</u>	<u>\$374.00 plus 6.40% of</u>
7 <u>not over \$14,400</u>	<u>excess over \$9,600</u>
8 <u>Over \$14,400 but</u>	<u>\$682.00 plus 6.80% of</u>
9 <u>not over \$19,200</u>	<u>excess over \$14,400</u>
10 <u>Over \$19,200 but</u>	<u>\$1,008.00 plus 7.20% of</u>
11 <u>not over \$24,000</u>	<u>excess over \$19,200</u>
12 <u>Over \$24,000 but</u>	<u>\$1,354.00 plus 7.60% of</u>
13 <u>not over \$36,000</u>	<u>excess over \$24,000</u>
14 <u>Over \$36,000 but</u>	<u>\$2,266.00 plus 7.90% of</u>
15 <u>not over \$48,000</u>	<u>excess over \$36,000</u>
16 <u>Over \$48,000 but</u>	<u>\$3,214.00 plus 8.25% of</u>
17 <u>not over \$150,000</u>	<u>excess over \$48,000</u>
18 <u>Over \$150,000 but</u>	<u>\$11,629.00 plus 9.00% of</u>
19 <u>not over \$175,000</u>	<u>excess over \$150,000</u>
20 <u>Over \$175,000 but</u>	<u>\$13,879.00 plus 10.00% of</u>
21 <u>not over \$200,000</u>	<u>excess over \$175,000</u>
22	





1 SECTION 4. Notwithstanding any other law to the contrary,  
2 no penalty or interest under Title 14, Hawaii Revised Statutes,  
3 shall be imposed because of any underpayment of tax by a taxpayer  
4 or an employer attributable to the increase in the tax rates  
5 under this measure until the later of:

- 6 (1) Ninety days after this Act becomes law; or
- 7 (2) Immediately, after this Act becomes law, when the  
8 taxpayer's estimated tax payment is due.

9 SECTION 5. Statutory material to be repealed is bracketed  
10 and stricken. New statutory material is underscored.

11 SECTION 6. This Act shall take effect upon approval,  
12 provided that:

- 13 (1) Section 2 shall apply to taxable years beginning after  
14 December 31, 2008;
- 15 (2) Sections 1 and 3 shall apply to taxable years beginning  
16 after December 31, 2010; and
- 17 (3) On December 31, 2015, this Act shall be repealed and  
18 sections 235-2.4(a), 235-51(a), (b), and (c), and 235-  
19 54(a), Hawaii Revised Statutes, shall be reenacted in  
20 the form in which they read on the day before the  
21 effective date of this Act.

