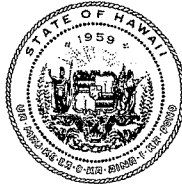


LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



KURT KAWAFUCHI
DIRECTOR OF TAXATION

SANDRA L. YAHIRO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510
FAX NO: (808) 587-1560

**HOUSE COMMITTEE ON FINANCE
TESTIMONY REGARDING HB 1544
RELATING TO TAX EXEMPTIONS**

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: FEBRUARY 26, 2009

TIME: 1PM

ROOM: 308

This measure seeks to expressly conform to the phase-out provision for the personal exemption, as provided under Section 151 of the Internal Revenue Code. This measure also adjusts the income level at which the phase out begins.

The Department of Taxation (Department) **provides comments**.

PREFERENCE FOR STRAIGHT-UP CONFORMITY—The Department understands the purpose of this measure; however prefers that any conformity in Hawaii tax law be similar to that of the Internal Revenue Code in all respects. Every decoupling of Hawaii law begins to further erode the conforming nature of Hawaii law. Decoupling can create confusion for taxpayers between the two tax jurisdictions.

The Department prefers not reducing the current personal exemption amounts given the exemption's current small dollar amount. Given Hawaii's high cost of living, the current \$1,040 personal exemption is nominal, at best. However, the Department understands the purpose of this measure and those earning six-figures as joint filers are less sympathetic.

REVENUE IMPACT— The Department acknowledges that this measure raises revenue. This measure is anticipated to result in a revenue gain of approximately \$14.1 million per year for FY10 to FY15. If the bill simply conforms to the Federal phase-out threshold, the revenue gain would be \$11.7 million per year for FY10 to FY15.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Limit personal exemption

BILL NUMBER: HB 1544

INTRODUCED BY: Chong and Yamashita

BRIEF SUMMARY: Amends HRS section 235-54 to provide that the phaseout of IRC section 151(d) (3) shall be applicable in computing exemptions for Hawaii income tax purposes provided that the threshold amounts under IRC section 151(d) (3) (c) shall be reduced by 25%.

This act shall be repealed on June 30, 2015 and HRS section 235-54 shall be reenacted in the form in which it read on the day before the effective date of this act.

EFFECTIVE DATE: Tax years beginning after December 31, 2008

STAFF COMMENTS: On the federal level, personal exemptions are subject to phase-out limits so that higher income taxpayers will lose some of their personal exemptions if their adjusted gross income (AGI) exceeds certain threshold amounts. The deduction for personal exemptions is reduced by 2% for each \$2,500 (\$1,250 for married filing separately) by which AGI exceeds the threshold amounts. For 2008, the phaseout begins at \$239,950 for taxpayers filing jointly and qualifying widowers; \$119,975 for married taxpayers filing separately; \$159,950 for single taxpayers; and \$199,950 for head of households. These amounts are indexed for inflation.

However, it appears that the bill makes reference to the amounts contained in the federal Code as written, and those amounts are static as they remain as they were in 1989 when the indexing provision went into effect. Thus, if this measure is adopted, the threshold amounts will be: \$112,000 for taxpayers filing jointly or surviving spouse (as opposed to \$179,962 had the 25% reduction been applied to the indexed amount for a joint return); \$93,750 for head of households (\$149,962); \$75,000 for single taxpayers (\$119,962); and \$56,250 for married taxpayers filing separately (\$89,981).

While this measure proposes to temporarily adopt a similar limitation for Hawaii income tax purposes for a six-year period, it should be noted that while the federal provisions are indexed for inflation, there is no similar adjustment in the proposed measure and the limitations adopted by this measure may not be appropriate for taxpayers in the years leading up to the 6/30/15 repeal date.

Digested 2/25/09