

**HB 1544**

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**SENATE COMMITTEE ON WAYS & MEANS  
TESTIMONY REGARDING HB 1544 HD 1  
RELATING TO TAX EXEMPTIONS**

**TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)**  
**DATE: MARCH 24, 2009**  
**TIME: 9:30AM**  
**ROOM: 211**

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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 by utilizing the inflation-adjusted amounts as of July 1, 2008 and by further reducing those amounts by 25%.

The Department of Taxation (Department) **opposes** this measure.

**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. Any discussion of phasing out the already-diminutive state personal exemption should also include a discussion of conforming the state personal exemption amount to that of the federal, which is currently \$3,500 per person (versus \$1,040 in Hawaii).

**PROVIDE THE ACTUAL NUMBERS; RATHER THAN A CALCULATION**—The Department suggests that, as an alternative to the calculation provided language, that the actual amounts at which point the phase-out begins should be placed in the statute.

**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.

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SUBJECT: INCOME, Limit personal exemption

BILL NUMBER: HB 1544, HD-1

INTRODUCED BY: House Committee on Finance

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%; provided that the threshold income amounts under IRC section 151(d) (3) (c) shall be maintained at the amounts in place on July 1, 2008.

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.

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 since they will be based on the federal amounts in place on July 1, 2008, with no adjustment in subsequent years, 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 3/23/09