



GOV. MSG. NO. 649

EXECUTIVE CHAMBERS
HONOLULU

LINDA LINGLE
GOVERNOR

July 1, 2010

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 HB1907 HD1 SD1 CD1, without my approval, and with the statement of objections relating to the measure.

HB1907 HD1 SD1 CD1

A BILL FOR AN ACT
RELATING TO TAXATION.

Sincerely,



LINDA LINGLE

EXECUTIVE CHAMBERS

HONOLULU

July 1, 2010

STATEMENT OF OBJECTIONS TO HOUSE BILL NO. 1907

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. 1907, entitled "A Bill for an Act Relating to Taxation."

The purposes of this bill are to: (1) place a cap on itemized deductions claimed on State income tax returns and (2) remove the refunding feature of the capital goods excise tax credit and delay its effectiveness for five years.

The bill is objectionable because it is a defacto tax increase that will adversely hurt certain individuals and businesses at a time when we should be encouraging investment and spending to recharge the economy. The tax increase not only impacts taxpayers, but also disincentivizes activities such as charitable giving and homeownership. Since itemized deductions are allowed for qualifying medical and dental expenses, contributions to qualifying charitable organizations, payment of certain taxes, home mortgage interest, and qualifying job-related expenses, capping the deduction will act to discourage these expenses. Non-profits and charitable organizations that depend on contributions to serve needy populations are particularly concerned that their ability to raise funds through donations and charitable giving would be adversely affected.

This tax increase targets a specific group of income taxpayers and businesses who file their taxes as individuals. Through the Legislature's veto overrides last session and this session, these entities are already being squeezed by an income

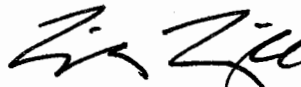
STATEMENT OF OBJECTIONS
HOUSE BILL NO. 1907
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tax increase, an income tax personal exemption phase out, and an estate tax reinstatement that amount to tax increases of almost \$97 million per year.

Second, Part II of this bill changes the terms of the capital goods excise tax credit and delays the effectiveness of this credit for five years. This is not sound economic policy since the credit serves as an incentive for companies to invest in machinery and equipment that expands and upgrades their operations at a time when we want firms to make these types of investments and encourage job growth.

For the foregoing reasons, I am returning House Bill No. 1907 without my approval.

Respectfully,



LINDA LINGLE
Governor of Hawaii

A BILL FOR AN ACT

RELATING TO TAXATION.

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

PART I

SECTION 1. Chapter 235, Hawaii Revised Statutes, is amended by adding a new section to be appropriately designated and to read as follows:

"§235- Itemized deductions; limitation. Notwithstanding any other law to the contrary, itemized tax deductions claimed pursuant to this chapter shall not exceed:

(1) \$50,000 in the case of:

(A) A joint return (as provided by section 235-93) of taxpayers with adjusted gross income of over \$300,000; or

(B) A surviving spouse (as defined in Section 2(a) of the Internal Revenue Code) with adjusted gross income of over \$300,000;

(2) \$37,500 in the case of a head of household (as defined in Section 2(b) of the Internal Revenue Code) with adjusted gross income of over \$225,000;



- 1 (3) \$25,000 in the case of an individual with adjusted
2 gross income of over \$150,000 who is not married and
3 who is not a surviving spouse or head of household; or
4 (4) \$25,000 in the case of a married individual with
5 adjusted gross income of over \$150,000 filing a
6 separate return."

PART II

8 SECTION 2. The legislature finds that the current economic
9 crisis and the resulting dire financial forecasts require a
10 thorough investigation into ways to reduce state expenses
11 wherever possible. Expenses that were funded in the past, when
12 state funds were available, may now be inappropriate,
13 considering the billion-dollar state deficit that looms ahead.

14 The purpose of this part is to reduce current state
15 expenses by removing until January 1, 2016, the refunding
16 feature of the capital goods excise tax credit.

17 SECTION 3. Section 235-110.7, Hawaii Revised Statutes, is
18 amended by amending subsection (b) to read as follows:

19 "(b) If the capital goods excise tax credit allowed under
20 subsection (a) exceeds the taxpayer's net income tax liability,
21 the excess of credit over liability shall be refunded to the
22 taxpayer; provided that for any excess credit for eligible



1 depreciable tangible personal property placed in service after
2 December 31, 2009, but before January 1, 2015, no refund shall
3 be paid prior to January 1, 2015; provided further that the
4 excess credit may be used between January 1, 2011, and December
5 31, 2015, as a deduction from the taxpayer's net income tax
6 liability; and provided further that no refunds or payment on
7 account of the tax credit allowed by this section shall be made
8 for amounts less than \$1.

9 All claims for tax credits under this section, including
10 any amended claims, must be filed on or before the end of the
11 twelfth month following the close of the taxable year for which
12 the credits may be claimed. Failure to comply with the
13 foregoing provision shall constitute a waiver of the right to
14 claim the credit."

15 PART III

16 SECTION 4. New statutory material is underscored.

17 SECTION 5. This Act shall take effect on July 1, 2010, and
18 shall apply to taxable years beginning after December 31, 2009;
19 provided that:

20 (1) This Act shall apply retroactive to January 1, 2010;

21 and

22 (2) Part I shall be repealed on January 1, 2016.

