

JAN 26 2009

A BILL FOR AN ACT

RELATING TO TAXATION.

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

1 SECTION 1. The fixed rate of the general excise tax has
2 placed an unfair and unequal social tax burden on the low-income
3 families in Hawaii and those taxpayers who live on a fixed
4 retirement income. Given that the excise tax is generally
5 applied to retail consumers at a fixed rate of four per cent, or
6 4.5 per cent in the city and county of Honolulu, low-income
7 families and taxpayers living on a fixed retirement income are
8 paying a larger percentage of their disposable income toward the
9 general excise tax in comparison to high-income taxpayers. The
10 lack of a progressive nature of the general excise tax has
11 shifted a heavier social tax burden that is unfair to Hawaii's
12 low-income taxpayers.

13 The purpose of this Act is to ease the burden of the
14 general excise tax on low-income families in Hawaii and those
15 taxpayers living on a fixed retirement income by exempting
16 certain medical services, drugs, non-processed fresh foods, and



1 other basic foods that low-income families and senior citizens
2 generally consume.

3 The legislature finds that Hawaii should follow the lead of
4 many other states that have already enacted statutes exempting
5 similar services and products from their sales or excise taxes,
6 but Hawaii should do so in a revenue neutral manner. Thus, this
7 Act is intended to be revenue neutral in the sense that it is
8 aimed at providing general excise tax relief for those low-
9 income taxpayers in Hawaii that would substantially benefit from
10 a reduced general excise tax burden, but also raising taxes in
11 other areas. Specifically, this Act is designed to remain
12 revenue neutral by increasing the income tax bracket and rate of
13 tax for high-income individual taxpayers, as well as increasing
14 the excise tax rates applicable to proceeds from liquor,
15 cigarettes, and tobacco sales.

16 SECTION 2. Section 235-51, Hawaii Revised Statutes, is
17 amended to read as follows:

18 "**§235-51 Tax imposed on individuals; rates.** (a) There is
19 hereby imposed on the taxable income of (1) every taxpayer who
20 files a joint return under section 235-93; and (2) every
21 surviving spouse a tax determined in accordance with the
22 following table:



1 In the case of any taxable year beginning after
2 December 31, 2001:

3	If the taxable income is:	The tax shall be:
4	Not over \$4,000	1.40% of taxable income
5	Over \$4,000 but	\$56.00 plus 3.20% of
6	not over \$8,000	excess over \$4,000
7	Over \$8,000 but	\$184.00 plus 5.50% of
8	not over \$16,000	excess over \$8,000
9	Over \$16,000 but	\$624.00 plus 6.40% of
10	not over \$24,000	excess over \$16,000
11	Over \$24,000 but	\$1,136.00 plus 6.80% of
12	not over \$32,000	excess over \$24,000
13	Over \$32,000 but	\$1,680.00 plus 7.20% of
14	not over \$40,000	excess over \$32,000
15	Over \$40,000 but	\$2,256.00 plus 7.60% of
16	not over \$60,000	excess over \$40,000
17	Over \$60,000 but	\$3,776.00 plus 7.90% of
18	not over \$80,000	excess over \$60,000
19	Over \$80,000	\$5,356.00 plus 8.25% of
20		excess over \$80,000.

21 In the case of any taxable year beginning after
22 December 31, 2006:



1	If the taxable income is:	The tax shall be:
2	Not over \$4,800	1.40% of taxable income
3	Over \$4,800 but	\$67.00 plus 3.20% of
4	not over \$9,600	excess over \$4,800
5	Over \$9,600 but	\$221.00 plus 5.50% of
6	not over \$19,200	excess over \$9,600
7	Over \$19,200 but	\$749.00 plus 6.40% of
8	not over \$28,800	excess over \$19,200
9	Over \$28,800 but	\$1,363.00 plus 6.80% of
10	not over \$38,400	excess over \$28,800
11	Over \$38,400 but	\$2,016.00 plus 7.20% of
12	not over \$48,000	excess over \$38,400
13	Over \$48,000 but	\$2,707.00 plus 7.60% of
14	not over \$72,000	excess over \$48,000
15	Over \$72,000 but	\$4,531.00 plus 7.90% of
16	not over \$96,000	excess over \$72,000
17	Over \$96,000	\$6,427.00 plus 8.25% of
18		excess over \$96,000.

19 In the case of any taxable year beginning after
20 December 31, 2008:

21	<u>If the taxable income is:</u>	<u>The tax shall be:</u>
22	<u>Not over \$4,800</u>	<u>1.40% of taxable income</u>



1	<u>Over \$4,800 but</u>	<u>\$67.00 plus 3.20% of</u>
2	<u>not over \$9,600</u>	<u>excess over \$4,800</u>
3	<u>Over \$9,600 but</u>	<u>\$221.00 plus 5.50% of</u>
4	<u>not over \$19,200</u>	<u>excess over \$9,600</u>
5	<u>Over \$19,200 but</u>	<u>\$749.00 plus 6.40% of</u>
6	<u>not over \$28,800</u>	<u>excess over \$19,200</u>
7	<u>Over \$28,800 but</u>	<u>\$1,363.00 plus 6.80% of</u>
8	<u>not over \$38,400</u>	<u>excess over \$28,800</u>
9	<u>Over \$38,400 but</u>	<u>\$2,016.00 plus 7.20% of</u>
10	<u>not over \$48,000</u>	<u>excess over \$38,400</u>
11	<u>Over \$48,000 but</u>	<u>\$2,707.00 plus 7.60% of</u>
12	<u>not over \$72,000</u>	<u>excess over \$48,000</u>
13	<u>Over \$72,000 but</u>	<u>\$4,531.00 plus 7.90% of</u>
14	<u>not over \$96,000</u>	<u>excess over \$72,000</u>
15	<u>Over \$96,000 but</u>	<u>\$6,427.00 plus 8.25% of</u>
16	<u>not over \$</u>	<u>excess over \$96,000</u>
17	<u>Over \$</u>	<u>\$ plus % of</u>
18		<u>excess over \$.</u>

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



1 In the case of any taxable year beginning after

2 December 31, 2001:

3	If the taxable income is:	The tax shall be:
4	Not over \$3,000	1.40% of taxable income
5	Over \$3,000 but	\$42.00 plus 3.20% of
6	not over \$6,000	excess over \$3,000
7	Over \$6,000 but	\$138.00 plus 5.50% of
8	not over \$12,000	excess over \$6,000
9	Over \$12,000 but	\$468.00 plus 6.40% of
10	not over \$18,000	excess over \$12,000
11	Over \$18,000	\$852.00 plus 6.80% of
12	but not over \$24,000	excess over \$18,000
13	Over \$24,000 but	\$1,260.00 plus 7.20% of
14	not over \$30,000	excess over \$24,000
15	Over \$30,000 but	\$1,692.00 plus 7.60% of
16	not over \$45,000	excess over \$30,000
17	Over \$45,000 but	\$2,832.00 plus 7.90% of
18	not over \$60,000	excess over \$45,000
19	Over \$60,000	\$4,017.00 plus 8.25% of
20		excess over \$60,000.

21 In the case of any taxable year beginning after

22 December 31, 2006:



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1	If the taxable income is:	The tax shall be:
2	Not over \$3,600	1.40% of taxable income
3	Over \$3,600 but	\$50.00 plus 3.20% of
4	not over \$7,200	excess over \$3,600
5	Over \$7,200 but	\$166.00 plus 5.50% of
6	not over \$14,400	excess over \$7,200
7	Over \$14,400 but	\$562.00 plus 6.40% of
8	not over \$21,600	excess over \$14,400
9	Over \$21,600 but	\$1,022.00 plus 6.80% of
10	not over \$28,800	excess over \$21,600
11	Over \$28,800 but	\$1,512.00 plus 7.20% of
12	not over \$36,000	excess over \$28,800
13	Over \$36,000 but	\$2,030.00 plus 7.60% of
14	not over \$54,000	excess over \$36,000
15	Over \$54,000 but	\$3,398.00 plus 7.90% of
16	not over \$72,000	excess over \$54,000
17	Over \$72,000	\$4,820.00 plus 8.25% of
18		excess over \$72,000.

19 In the case of any taxable year beginning after

20 December 31, 2008:

21	<u>If the taxable income is:</u>	<u>The tax shall be:</u>
22	<u>Not over \$3,600</u>	<u>1.40% of taxable income</u>



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1	<u>Over \$3,600 but</u>	<u>\$50.00 plus 3.20% of</u>
2	<u>not over \$7,200</u>	<u>excess over \$3,600</u>
3	<u>Over \$7,200 but</u>	<u>\$166.00 plus 5.50% of</u>
4	<u>not over \$14,400</u>	<u>excess over \$7,200</u>
5	<u>Over \$14,400 but</u>	<u>\$562.00 plus 6.40% of</u>
6	<u>not over \$21,600</u>	<u>excess over \$14,400</u>
7	<u>Over \$21,600 but</u>	<u>\$1,022.00 plus 6.80% of</u>
8	<u>not over \$28,800</u>	<u>excess over \$21,600</u>
9	<u>Over \$28,800 but</u>	<u>\$1,512.00 plus 7.20% of</u>
10	<u>not over \$36,000</u>	<u>excess over \$28,800</u>
11	<u>Over \$36,000 but</u>	<u>\$2,030.00 plus 7.60% of</u>
12	<u>not over \$54,000</u>	<u>excess over \$36,000</u>
13	<u>Over \$54,000 but</u>	<u>\$3,398.00 plus 7.90% of</u>
14	<u>not over \$72,000</u>	<u>excess over \$54,000</u>
15	<u>Over \$72,000 but</u>	<u>\$4,820.00 plus 8.25% of</u>
16	<u>not over \$ _____</u>	<u>excess over \$72,000</u>
17	<u>Over \$ _____</u>	<u>\$ _____ plus _____ % of</u>
18		<u>excess over \$ _____ .</u>

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

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

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

2 December 31, 2006:

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

21 In the case of any taxable year beginning after

22 December 31, 2008:



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



1 (d) The tax imposed by section 235-2.45 on estates and
 2 trusts shall be determined in accordance with the following
 3 table:

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

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



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excess over \$40,000.

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

<u>If the taxable income is:</u>	<u>The tax shall be:</u>
<u>Not over \$2,000</u>	<u>1.40% of taxable income</u>
<u>Over \$2,000 but</u> <u>not over \$4,000</u>	<u>\$28.00 plus 3.20% of</u> <u>excess over \$2,000</u>
<u>Over \$4,000 but</u> <u>not over \$8,000</u>	<u>\$92.00 plus 5.50% of</u> <u>excess over \$4,000</u>
<u>Over \$8,000 but</u> <u>not over \$12,000</u>	<u>\$312.00 plus 6.40% of</u> <u>excess over \$8,000</u>
<u>Over \$12,000 but</u> <u>not over \$16,000</u>	<u>\$568.00 plus 6.80% of</u> <u>excess over \$12,000</u>
<u>Over \$16,000 but</u> <u>not over \$20,000</u>	<u>\$840.00 plus 7.20% of</u> <u>excess over \$16,000</u>
<u>Over \$20,000 but</u> <u>not over \$30,000</u>	<u>\$1,128.00 plus 7.60% of</u> <u>excess over \$20,000</u>
<u>Over \$30,000 but</u> <u>not over \$40,000</u>	<u>\$1,888.00 plus 7.90% of</u> <u>excess over \$30,000</u>
<u>Over \$40,000 but</u> <u>not over \$</u>	<u>\$2,678.00 plus 8.25% of</u> <u>excess over \$40,000</u>



1 organization upon failure of the professional
2 employment organization to collect, account for, and
3 pay over any income tax withholding for assigned
4 employees or any federal or state taxes for which the
5 professional employment organization is responsible.

6 As used in this paragraph, "professional employment
7 organization", "client company", and "assigned
8 employee" shall have the meanings provided in section
9 373K-1[-]; and

10 (4) Amounts received as proceeds from the sale of:

- 11 (A) Medical services, as defined in this paragraph;
- 12 (B) Drugs, as defined in this paragraph; and
- 13 (C) Non-processed fresh foods, as defined in this
14 paragraph.

15 For the purposes of this paragraph:

16 "Drugs" means prescription drugs and related products,
17 including over the counter medicines, that are rendered or
18 furnished by a licensed or certified physician or
19 pharmacist and dispensed by filling or refilling a written
20 or oral prescription.

21 "Medical services" means any type of care, treatment,
22 surgery, hospitalization, attendance, service, supply, or



1 related products rendered or furnished by a licensed or
2 certified physician, dispensing optician, physical
3 therapist, nurse, or massage therapist.

4 "Non-processed fresh foods" means fresh foods sold by
5 a grocery store, market, or open market that does not
6 include preservatives or additives, provided that all
7 bread, rice, and milk shall be "non-processed fresh
8 foods"."

9 SECTION 4. Section 244D-4, Hawaii Revised Statutes, is
10 amended by amending subsection (a) to read as follows:

11 "(a) Every person who sells or uses any liquor in the
12 State not taxable under this chapter, in respect of the
13 transaction by which the person or the person's vendor acquired
14 the liquor, shall pay a gallonage tax which is hereby imposed at
15 the following rates for the various liquor categories defined in
16 section 244D-1:

17 For the period July 1, 1997, to June 30, 1998, the tax rate
18 shall be:

- 19 (1) \$5.92 per wine gallon on distilled spirits;
20 (2) \$2.09 per wine gallon on sparkling wine;
21 (3) \$1.36 per wine gallon on still wine;
22 (4) \$0.84 per wine gallon on cooler beverages;



1 (5) \$0.92 per wine gallon on beer other than draft beer;

2 (6) \$0.53 per wine gallon on draft beer;

3 On July 1, 1998, and thereafter, each of the following tax

4 [~~rate~~] rates shall increase and be:

5 (1) [~~\$5.98~~] \$ _____ per wine gallon on distilled spirits;

6 (2) [~~\$2.12~~] \$ _____ per wine gallon on sparkling wine;

7 (3) [~~\$1.38~~] \$ _____ per wine gallon on still wine;

8 (4) [~~\$0.85~~] \$ _____ per wine gallon on cooler beverages;

9 (5) [~~\$0.93~~] \$ _____ per wine gallon on beer other than draft
10 beer;

11 (6) [~~\$0.54~~] \$ _____ per wine gallon on draft beer;

12 and at a proportionate rate for any other quantity so sold or
13 used."

14 SECTION 5. Section 245-3, Hawaii Revised Statutes, is
15 amended by amending subsection (a) to read as follows:

16 "(a) Every wholesaler or dealer, in addition to any other
17 taxes provided by law, shall pay for the privilege of conducting
18 business and other activities in the State:

19 (1) An excise tax equal to 5.00 cents for each cigarette
20 sold, used, or, possessed by a wholesaler or dealer
21 after June 30, 1998, whether or not sold at wholesale,



1 or if not sold then at the same rate upon the use by
2 the wholesaler or dealer;

3 (2) An excise tax equal to 6.00 cents for each cigarette
4 sold, used, or possessed by a wholesaler or dealer
5 after September 30, 2002, whether or not sold at
6 wholesale, or if not sold then at the same rate upon
7 the use by the wholesaler or dealer;

8 (3) An excise tax equal to 6.50 cents for each cigarette
9 sold, used, or possessed by a wholesaler or dealer
10 after June 30, 2003, whether or not sold at wholesale,
11 or if not sold then at the same rate upon the use by
12 the wholesaler or dealer;

13 (4) An excise tax equal to 7.00 cents for each cigarette
14 sold, used, or possessed by a wholesaler or dealer
15 after June 30, 2004, whether or not sold at wholesale,
16 or if not sold then at the same rate upon the use by
17 the wholesaler or dealer;

18 (5) An excise tax equal to 8.00 cents for each cigarette
19 sold, used, or possessed by a wholesaler or dealer on
20 and after September 30, 2006, whether or not sold at
21 wholesale, or if not sold then at the same rate upon
22 the use by the wholesaler or dealer;



- 1 (6) An excise tax equal to 9.00 cents for each cigarette
2 sold, used, or possessed by a wholesaler or dealer on
3 and after September 30, 2007, whether or not sold at
4 wholesale, or if not sold then at the same rate upon
5 the use by the wholesaler or dealer;
- 6 (7) An excise tax equal to 10.00 cents for each cigarette
7 sold, used, or possessed by a wholesaler or dealer on
8 and after September 30, 2008, whether or not sold at
9 wholesale, or if not sold then at the same rate upon
10 the use by the wholesaler or dealer;
- 11 (8) An excise tax equal to [~~11.00~~] _____ cents for each
12 cigarette sold, used, or possessed by a wholesaler or
13 dealer on and after September 30, 2009, whether or not
14 sold at wholesale, or if not sold then at the same
15 rate upon the use by the wholesaler or dealer;
16 provided that the rate is more than 11.00 cents for
17 each cigarette sold, used, or possessed by a
18 wholesaler or dealer;
- 19 (9) An excise tax equal to [~~12.00~~] _____ cents for each
20 cigarette sold, used, or possessed by a wholesaler or
21 dealer on and after September 30, 2010, whether or not
22 sold at wholesale, or if not sold then at the same



1 rate upon the use by the wholesaler or dealer;
2 provided that the rate is more than 12.00 cents for
3 each cigarette sold, used, or possessed by a
4 wholesaler or dealer;

5 (10) An excise tax equal to [~~13.00~~] _____ cents for each
6 cigarette sold, used, or possessed by a wholesaler or
7 dealer on and after September 30, 2011, whether or not
8 sold at wholesale, or if not sold then at the same
9 rate upon the use by the wholesaler or dealer; [~~and~~]
10 provided that the rate is more than 13.00 cents for
11 each cigarette sold, used, or possessed by a
12 wholesaler or dealer; and

13 (11) An excise tax equal to [~~forty~~] _____ per cent of the
14 wholesale price of each article or item of tobacco
15 products sold by the wholesaler or dealer, whether or
16 not sold at wholesale, or if not sold then at the same
17 rate upon the use by the wholesaler or dealer[~~-~~];
18 provided that the rate is more than forty per cent of
19 the wholesale price of each article or item of tobacco
20 products sold by the wholesaler or dealer.

21 Where the tax imposed has been paid on cigarettes or tobacco
22 products that thereafter become the subject of a casualty loss



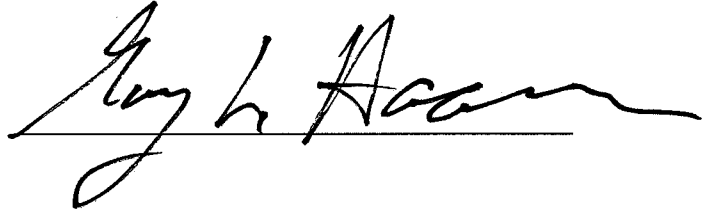
1 deduction allowable under chapter 235, the tax paid shall be
2 refunded or credited to the account of the wholesaler or dealer.
3 The tax shall be applied to cigarettes through the use of
4 stamps."

5 SECTION 6. Statutory material to be repealed is bracketed
6 and stricken. New statutory material is underscored.

7 SECTION 7. This Act shall take effect on July 1, 2009;
8 provided that section 2 of this Act shall apply to taxable years
9 beginning after December 31, 2008.

10

INTRODUCED BY:

A handwritten signature in black ink, appearing to read "Guy L. Acorn", is written over a horizontal line.

Report Title:

General Excise Tax; Exempt Services and Products; Adjusts Taxes

Description:

Creates a higher income tax bracket and rate of tax for high-income individual taxpayers. Eliminates general excise tax on medical services, drugs, and non-processed fresh foods. Increases excise taxes on the proceeds from the sale of liquor, cigarettes, and tobacco. This Act is intended to be revenue neutral.

