

JAN 21 2011

A BILL FOR AN ACT

RELATING TO CONFORMANCE OF STATE PERSONAL EXEMPTION TO FEDERAL
PERSONAL EXEMPTION.

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

1 SECTION 1. The legislature finds that pursuant to article
2 VII, section 3, of the State Constitution, the state tax review
3 commission is charged with evaluating the state's tax structure
4 and recommending revenue and tax policy.

5 According to the 2001-2003 tax review commission report,
6 which focused on several areas including net income tax,
7 Hawaii's net income tax rates are very high for both the rich
8 and the poor. The commission recommended phasing in a higher
9 standard deduction and personal exemption, widening the state
10 tax brackets, and increasing overall federal conformity,
11 including conformance to federal filing deadlines.

12 The commission's 2001-2003 report noted that, in 1984, the
13 state personal exemption was raised to \$1,000 to match the
14 federal personal exemption. In 2001, the state personal
15 exemption was \$1,040 and the federal exemption was \$2,900. In
16 2010, the state personal exemption was still \$1,040 and the



1 federal exemption was \$3,650. The state personal exemption
2 continues to be in nonconformance with the federal exemption.

3 The State unnecessarily taxes families with income levels
4 that qualify for public assistance as a result of its failure to
5 update the personal exemption amount to the federal amount. The
6 purpose of this Act is to adopt the recommendation of the 2001-
7 2003 tax review commission to raise the state personal exemption
8 amount by conforming the state personal exemption amount to the
9 federal personal exemption amount.

10 SECTION 2. Section 235-2.45, Hawaii Revised Statutes, is
11 amended by amending subsection (a) to read as follows:

12 "(a) Section 641 (with respect to imposition of tax) of
13 the Internal Revenue Code shall be operative for the purposes of
14 this chapter subject to the following:

15 [~~(1) The deduction for exemptions shall be allowed as~~
16 ~~provided in section 235-54(b);~~

17 ~~(2)] (1) The deduction for contributions and gifts in~~
18 determining taxable income shall be limited to the
19 amount allowed in the case of an individual, unless
20 the contributions and gifts are to be used exclusively
21 in the state; and



1 ~~[(3)]~~ (2) The tax imposed by Section 1(e) of the Internal
2 Revenue Code as applied by Section 641 of the Internal
3 Revenue Code is hereby imposed by this chapter at the
4 rate and amount as determined under section 235-51 on
5 estates and trusts."

6 SECTION 3. Section 235-54, Hawaii Revised Statutes, is
7 repealed.

8 ~~["§235-54 Exemptions. (a) In computing the taxable~~
9 ~~income of any individual, there shall be deducted, in lieu of~~
10 ~~the personal exemptions allowed by the Internal Revenue Code of~~
11 ~~1986, as amended, and except as provided in subsection (c),~~
12 ~~personal exemptions computed as follows: Ascertain the number~~
13 ~~of exemptions which the individual can lawfully claim under the~~
14 ~~Internal Revenue Code, add an additional exemption for the~~
15 ~~taxpayer or the taxpayer's spouse who is sixty five years of age~~
16 ~~or older within the taxable year, and multiply that number by~~
17 ~~\$1,144, for taxable years beginning after December 31, 1984. A~~
18 ~~nonresident shall prorate the personal exemptions on account of~~
19 ~~income from sources outside the State as provided in section~~
20 ~~235-5. In the case of an individual with respect to whom an~~
21 ~~exemption under this section is allowable to another taxpayer~~
22 ~~for a taxable year beginning in the calendar year in which the~~



1 ~~individual's taxable year begins, the personal exemption amount~~
2 ~~applicable to such individual under this subsection for such~~
3 ~~individual's taxable year shall be zero.~~

4 ~~(b) In computing the taxable income of an estate or trust~~
5 ~~there shall be allowed, in lieu of the deductions allowed under~~
6 ~~subsection (a), the following:~~

7 ~~(1) An estate shall be allowed a deduction of \$400.~~

8 ~~(2) A trust which, under its governing instrument, is~~
9 ~~required to distribute all of its income currently~~
10 ~~shall be allowed a deduction of \$200.~~

11 ~~(3) All other trusts shall be allowed a deduction of \$80.~~

12 ~~(c) The phaseout under section 151(d)(3) of the Internal~~
13 ~~Revenue Code of 1986, as amended, shall apply to this section,~~
14 ~~provided that the threshold income amounts under section~~
15 ~~151(d)(3)(C) of the Internal Revenue Code of 1986, as amended,~~
16 ~~shall be reduced by twenty five per cent for the purposes of~~
17 ~~this subsection, provided further that the threshold income~~
18 ~~amounts under section 151(d)(3)(C) of the Internal Revenue Code~~
19 ~~of 1986, as amended, used to determine the twenty five per cent~~
20 ~~reduction under this subsection shall be maintained at the~~
21 ~~amounts in place on July 1, 2008.~~



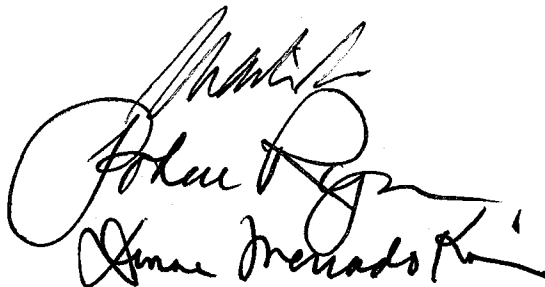
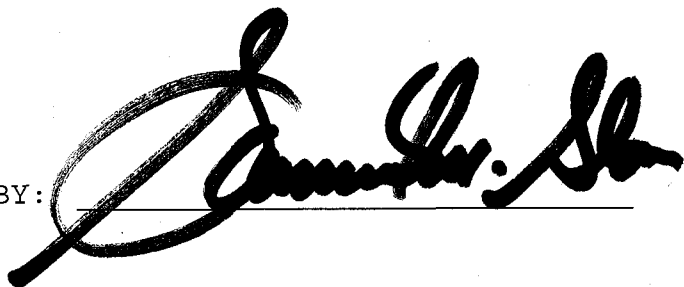
1 ~~(d) A blind person, a deaf person, and any person totally~~
2 ~~disabled, in lieu of the personal exemptions allowed by the~~
3 ~~Internal Revenue Code, shall be allowed, and there shall be~~
4 ~~deducted in computing the taxable income of a blind person, a~~
5 ~~deaf person, or a totally disabled person, instead of the~~
6 ~~exemptions provided by subsection (a), the amount of \$7,000."]~~

7 SECTION 4. Statutory material to be repealed is bracketed
8 and stricken. New statutory material is underscored.

9 SECTION 5. This Act shall take effect on January 1, 2012,
10 and shall apply to taxable years beginning after December 31,
11 2011.

12

INTRODUCED BY:



Report Title:

Taxation; Personal Exemption; Conformance

Description:

Conforms the State personal exemption amount to the federal personal exemption amount.

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