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## A BILL FOR AN ACT

RELATING TO INFLATION ADJUSTMENTS TO CHAPTER 235, HAWAII REVISED  
STATUTES.

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

1           SECTION 1. The legislature finds that inflation erodes the  
2 value of the standard deduction, personal exemption, and income  
3 tax brackets, and reduces the purchasing power of taxpayers in  
4 Hawaii. Given that the residents of our state are faced with a  
5 high cost of living, it is vital that the legislature recognize  
6 this issue and maintain the value of any and all earned income  
7 and the value of the dollar for taxpayers.

8           The income tax laws of Hawaii, combined with the effects of  
9 inflation, have created a problem for taxpayers, due to the  
10 application of inflexible, statutorily prescribed amounts for  
11 the standard deduction, personal exemption, and tax rate  
12 brackets to increasing personal incomes. This has resulted in  
13 increasing taxpayers' tax liability, while keeping taxpayers'  
14 purchasing power the same, or in some instances, even decreasing  
15 it.

16           The legislature's intent is to help reduce the impact of



1 inflation on the income earned by Hawaii taxpayers. Inflation  
2 reduces the purchasing power of taxpayers by increasing prices  
3 and reducing the value of money. Annual adjustments to  
4 taxpayers' standard deductions, personal exemptions, and income  
5 tax rate brackets would mirror the rate of inflation and ensure  
6 that taxpayers are not financially harmed by the effects of  
7 inflation and that the value of their dollar is maintained.

8         Indexing for inflation is crucial to help alleviate the  
9 strain of our state's high cost of living, especially in the  
10 wake of the recent economic downturn. Various reports have  
11 highlighted the financial challenges of living in Hawaii. In  
12 one 2013 study ranking all fifty states based on income, taxes,  
13 cost of living, unemployment, and workplace environment data,  
14 Hawaii, despite having the best workplace-environment score,  
15 placed last. In another 2013 study ranking all fifty states  
16 across ten categories ranging from the cost of doing business  
17 and cost of living to infrastructure and quality of life, Hawaii  
18 also placed last in the nation. The only category in which  
19 Hawaii scored higher than thirty-ninth was quality of life,  
20 where it placed first. Furthermore, in 2013, Honolulu was  
21 considered the second most expensive city in America in which to



1 live. Utilities, groceries, transportation, and gasoline are  
2 all at least twenty-one per cent higher than the national  
3 average and the statewide cost of living is sixty-seven per cent  
4 higher than the national average.

5 The idea of indexing for inflation is not new, and many  
6 other states and the federal government make adjustments for  
7 inflation. Fourteen states and the Internal Revenue Service  
8 index their tax brackets; thirty-one states and the District of  
9 Columbia and the Internal Revenue Service index their standard  
10 deduction amounts; and eighteen states and the District of  
11 Columbia and the Internal Revenue Service index their personal  
12 exemption amounts.

13 The purpose of this Act is to require the director of  
14 taxation to annually adjust the standard deduction, personal  
15 exemption, and income tax rate brackets for inflation.

16 SECTION 2. Chapter 235, Hawaii Revised Statutes, is  
17 amended by adding two new sections to be appropriately  
18 designated and to read as follows:

19 "§235-A Annual adjustments for inflation. (a) For  
20 taxable years beginning after December 31, 2013, the director of



1 taxation shall, by official pronouncement, multiply the cost-of-  
2 living adjustment for the calendar year by the dollar amounts  
3 contained in the following sections of this chapter:

4 (1) The standard deduction amounts provided in section  
5 235-2.4(a);

6 (2) The minimum and maximum taxable income rate bracket  
7 dollar amounts provided in sections 235-51(a), (b), and  
8 (c); provided that the rate applicable to each income  
9 bracket may not be changed; and

10 (3) Every personal exemption multiplier amount provided in  
11 section 235-54, except for subsection (b).

12 If any of the dollar amounts, as adjusted, are not multiples of  
13 \$50, any increase must be rounded to the nearest \$50.

14 (b) No adjustments pursuant to subsection (a) shall be made  
15 when the consumer price index for the twelve-month period ending  
16 June 30 of the preceding calendar year is less than zero or when  
17 the cost-of-living adjustment would reduce the previously  
18 established standard deduction, personal exemption, and income  
19 tax bracket amounts and levels.

20 (c) As used in this section:

21 "Consumer price index" means the average over a twelve-



1 month period of the National Consumer Price Index, not  
2 seasonably adjusted, published monthly by the Bureau of Labor  
3 Statistics, United States Department of Labor, designated as the  
4 "National Consumer Price Index for All Urban Consumers-United  
5 States City Average."

6 "Cost-of-living adjustment" means the consumer price index  
7 for the twelve-month period ending June 30 of the preceding  
8 calendar year divided by the consumer price index for the  
9 twelve-month period ending June 30, 2012.

10 §235-B Report to the legislature. Upon the repeal of  
11 this Act, the department of taxation shall submit a report to  
12 the legislature no later than twenty days prior to the start of  
13 the regular session of 2020, containing an evaluation and  
14 analysis of the implementation and effectiveness of the  
15 adjustments made to the standard deduction, personal exemption,  
16 and income tax brackets made by this Act along with  
17 recommendations for possible future legislation."

18 SECTION 3. New statutory material is underscored.

19 SECTION 4. This Act shall take effect upon its approval  
20 and shall apply to taxable years beginning after December 31,



1 2013, and through and including the tax year ending December 31,  
2 2018; provided that this Act shall be repealed on January 1,  
3 2019.  
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# H.B. NO. 1815

**Report Title:**

Taxation; Inflation Adjustments

**Description:**

Provides for annual adjustments to the Hawaii standard deduction, income tax rate brackets, and personal exemption in response to increases in inflation as documented by the US Department of Labor Consumer Price Index. Requires the department of taxation to submit a report to the legislature evaluating the adjustments made by the Act. Provides a sunset date.

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

