
A BILL FOR AN ACT

RELATING TO TAXATION.

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

1 SECTION 1. The legislature finds that Hawaii's tax system
2 has become highly regressive, with the lowest twenty per cent of
3 Hawaii's citizens paying 13.0 per cent of their total income in
4 state and local taxes, while the highest one per cent of
5 citizens pay only 8.0 per cent of their total income in state
6 and local taxes. Only three other states tax their poor more
7 heavily than Hawaii.

8 The legislature also finds that the practice of taxing
9 capital gains at a lower rate than ordinary income results in
10 economic distortion. Taxing capital gains at a lower rate than
11 ordinary income creates an incentive to convert ordinary income
12 into capital gains by investing in tax shelters. Tax shelters
13 exist solely to generate tax savings, rather than to contribute
14 to the economy. As a result, investments in tax shelters mean
15 capital is diverted away from other more productive investments.
16 It should also be noted that the taxpayers best able to take
17 advantage of tax shelters are those with very high incomes. In
18 2011, noted investor Warren Buffett wrote in an op-ed column



1 that, in the previous tax year, he paid only 17.4 per cent of
2 his total income in federal taxes, whereas his secretary and the
3 other nineteen people who worked in his office paid an average
4 of 36 per cent.

5 The legislature further finds that treating capital gains
6 differently than ordinary income adds significant complexity to
7 our tax code. It has been noted that a large portion of the
8 Internal Revenue Code is devoted to defining the difference
9 between capital gains and ordinary income. If capital gains
10 were taxed as ordinary income, the tax code would be simplified
11 and a great deal of unnecessary complexity could be eliminated.

12 The legislature believes that, although the State is
13 currently operating at a surplus, it is still obligated to pay
14 billions of dollars in retiree health care costs and pension
15 benefits. As a result, additional sources of income will be
16 needed to meet those obligations.

17 The purpose of this Act is to make the tax system more
18 progressive by:

- 19 (1) Adjusting income tax brackets and rates; and
- 20 (2) Taxing capital gains as ordinary income.



1 SECTION 2. Act 60, Session Laws of Hawaii 2009, as amended
2 by section 4 of Act 97, Session Laws of Hawaii 2011, is amended
3 by amending section 6 to read as follows:

4 "SECTION 6. This Act shall take effect upon approval;
5 provided that:

6 (1) Section 2 shall apply to taxable years beginning after
7 December 31, 2008 [~~+~~]; and

8 (2) Sections 1 and 3 shall apply to taxable years
9 beginning after December 31, 2012 [~~+~~ and

10 ~~(3) On December 31, 2015, section 2 shall be repealed and~~
11 ~~section 235-51(a), (b), and (c), Hawaii Revised~~
12 ~~Statutes, shall be reenacted in the form in which it~~
13 ~~read on the day before the effective date of this~~
14 ~~Act]."~~

15 SECTION 3. Section 235-51, Hawaii Revised Statutes, is
16 amended as follows:

17 1. By amending subsections (a), (b), and (c) to read:

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



	If the taxable income is:	The tax shall be:
1		
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 December
20 31, 2008:

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



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1	Over \$4,800 but	\$67.00 plus 3.20% of
2	not over \$9,600	excess over \$4,800
3	Over \$9,600 but	\$221.00 plus 5.50% of
4	not over \$19,200	excess over \$9,600
5	Over \$19,200 but	\$749.00 plus 6.40% of
6	not over \$28,800	excess over \$19,200
7	Over \$28,800 but	\$1,363.00 plus 6.80% of
8	not over \$38,400	excess over \$28,800
9	Over \$38,400 but	\$2,016.00 plus 7.20% of
10	not over \$48,000	excess over \$38,400
11	Over \$48,000 but	\$2,707.00 plus 7.60% of
12	not over \$72,000	excess over \$48,000
13	Over \$72,000 but	\$4,531.00 plus 7.90% of
14	not over \$96,000	excess over \$72,000
15	Over \$96,000 but	\$6,427.00 plus 8.25% of
16	not over \$300,000	excess over \$96,000
17	Over \$300,000 but	\$23,257.00 plus 9.00% of
18	not over \$350,000	excess over \$300,000
19	Over \$350,000 but	\$27,757.00 plus 10.00% of
20	not over \$400,000	excess over \$350,000
21	Over \$400,000	\$32,757.00 plus 11.00% of
22		excess over \$400,000.



1	<u>In the case of any taxable year beginning after December</u>	
2	<u>31, 2013:</u>	
3	<u>If the taxable income is:</u>	<u>The tax shall be:</u>
4	<u>Not over \$19,200</u>	<u>0.50% of taxable income</u>
5	<u>Over \$19,200 but</u>	<u>\$96.00 plus 1.00% of</u>
6	<u>not over \$28,800</u>	<u>excess over \$19,200</u>
7	<u>Over \$28,800 but</u>	<u>\$192.00 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>\$845.00 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>\$1,536.00 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>\$3,360.00 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>\$5,256.00 plus 8.25% of</u>
16	<u>not over \$150,000</u>	<u>excess over \$96,000</u>
17	<u>Over \$150,000</u>	<u>\$9,711.00 plus 11.00% of</u>
18		<u>excess over \$150,000.</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 but	\$852.00 plus 6.80% of
12	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:



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

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1	Over \$3,600 but	\$50.00 plus 3.20% of
2	not over \$7,200	excess over \$3,600
3	Over \$7,200 but	\$166.00 plus 5.50% of
4	not over \$14,400	excess over \$7,200
5	Over \$14,400 but	\$562.00 plus 6.40% of
6	not over \$21,600	excess over \$14,400
7	Over \$21,600 but	\$1,022.00 plus 6.80% of
8	not over \$28,800	excess over \$21,600
9	Over \$28,800 but	\$1,512.00 plus 7.20% of
10	not over \$36,000	excess over \$28,800
11	Over \$36,000 but	\$2,030.00 plus 7.60% of
12	not over \$54,000	excess over \$36,000
13	Over \$54,000 but	\$3,398.00 plus 7.90% of
14	not over \$72,000	excess over \$54,000
15	Over \$72,000 but	\$4,820.00 plus 8.25% of
16	not over \$225,000	excess over \$72,000
17	Over \$225,000 but	\$17,443.00 plus 9.00% of
18	not over \$262,500	excess over \$225,000
19	Over \$262,500 but	\$20,818.00 plus 10.00% of
20	not over \$300,000	excess over \$262,500
21	Over \$300,000	\$24,568.00 plus 11.00% of
22		excess over \$300,000.



1 In the case of any taxable year beginning after

2 December 31, 2013:

3	<u>If the taxable income is:</u>	<u>The tax shall be:</u>
4	<u>Not over \$14,400</u>	<u>0.50% of taxable income</u>
5	<u>Over \$14,400 but</u>	<u>\$72.00 plus 1.00% of</u>
6	<u>not over \$21,600</u>	<u>excess over \$14,400</u>
7	<u>Over \$21,600 but</u>	<u>\$144.00 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>\$634.00 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>\$1,152.00 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>\$2,520.00 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>\$3,942.00 plus 8.25% of</u>
16	<u>not over \$112,500</u>	<u>excess over \$72,000</u>
17	<u>Over \$112,500</u>	<u>\$7,283.00 plus 11.00% of</u>
18		<u>excess over \$112,500.</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:



1	If the taxable income is:	The tax shall be:
2	Not over \$2,400	1.40% of taxable income
3	Over \$2,400 but	\$34.00 plus 3.20% of
4	not over \$4,800	excess over \$2,400
5	Over \$4,800 but	\$110.00 plus 5.50% of
6	not over \$9,600	excess over \$4,800
7	Over \$9,600 but	\$374.00 plus 6.40% of
8	not over \$14,400	excess over \$9,600
9	Over \$14,400 but	\$682.00 plus 6.80% of
10	not over \$19,200	excess over \$14,400
11	Over \$19,200 but	\$1,008.00 plus 7.20% of
12	not over \$24,000	excess over \$19,200
13	Over \$24,000 but	\$1,354.00 plus 7.60% of
14	not over \$36,000	excess over \$24,000
15	Over \$36,000 but	\$2,266.00 plus 7.90% of
16	not over \$48,000	excess over \$36,000
17	Over \$48,000 but	\$3,214.00 plus 8.25% of
18	not over \$150,000	excess over \$48,000
19	Over \$150,000 but	\$11,629.00 plus 9.00% of
20	not over \$175,000	excess over \$150,000
21	Over \$175,000 but	\$13,879.00 plus 10.00% of
22	not over \$200,000	excess over \$175,000



1 Over \$200,000 \$16,379.00 plus 11.00% of
2 excess over \$200,000.

3 In the case of any taxable year beginning after
4 December 31, 2013:

<u>If the taxable income is:</u>	<u>The tax shall be:</u>
5 <u>Not over \$9,600</u>	<u>0.50% of taxable income</u>
6 <u>Over \$9,600 but</u>	<u>\$48.00 plus 1.00% of</u>
7 <u>not over \$14,400</u>	<u>excess over \$9,600</u>
8 <u>Over \$14,400 but</u>	<u>\$96.00 plus 6.80% of</u>
9 <u>not over \$19,200</u>	<u>excess over \$14,400</u>
10 <u>Over \$19,200 but</u>	<u>\$422.00 plus 7.20% of</u>
11 <u>not over \$24,000</u>	<u>excess over \$19,200</u>
12 <u>Over \$24,000 but</u>	<u>\$768.00 plus 7.60% of</u>
13 <u>not over \$36,000</u>	<u>excess over \$24,000</u>
14 <u>Over \$36,000 but</u>	<u>\$1,680.00 plus 7.90% of</u>
15 <u>not over \$48,000</u>	<u>excess over \$36,000</u>
16 <u>Over \$48,000 but</u>	<u>\$2,628.00 plus 8.25% of</u>
17 <u>not over \$75,000</u>	<u>excess over \$48,000</u>
18 <u>Over \$75,000</u>	<u>\$4,856.00 plus 11.00% of</u>
19 <u>excess over \$75,000."</u>	

20
21 2. Amending subsection (f) to read:



1 "(f) If a taxpayer has a net capital gain for any taxable
2 year to which this subsection applies, then the tax imposed by
3 this section shall not exceed the sum of:

4 (1) The tax computed at the rates and in the same manner
5 as if this subsection had not been enacted on the
6 greater of:

7 (A) The taxable income reduced by the amount of net
8 capital gain, or

9 (B) The amount of taxable income taxed at a rate
10 below 7.25 per cent, plus

11 (2) A tax of 7.25 per cent of the amount of taxable income
12 in excess of the amount determined under paragraph

13 (1) [-];

14 provided that after December 31, 2013, all capital gains shall
15 be taxed according to the tax filing status and tax bracket
16 under subsections (a) through (d) that applies to the taxpayer.

17 This subsection shall apply to individuals, estates, and
18 trusts for taxable years beginning after December 31, 1986."

19 SECTION 4. Statutory material to be repealed is bracketed
20 and stricken. New statutory material is underscored.



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1 SECTION 5. This Act, upon its approval, shall apply to
2 taxable years beginning after December 31, 2013.

3

INTRODUCED BY:

Kal Rhoads

BTalw

JAN 22 2014



H.B. NO. 2405

Report Title:

Taxation; Income Tax Rates; Capital Gains Tax

Description:

Changes income tax brackets and rates after 12/31/2013.

Provides for taxation of capital gains as ordinary income.

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

