
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 the 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.



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

9 Indexing for inflation is crucial to help alleviate the
10 strain of our State's high cost of living. Various reports have
11 highlighted the financial challenges of living in Hawaii. In
12 one 2014 study ranking all fifty states based on average salary,
13 cost of living, employment rate, and workplace conditions,
14 Hawaii placed last, largely due to a cost of living that is one
15 hundred fifty-seven per cent of the national average and due to
16 a poor work environment score. In another 2014 study ranking
17 all fifty states for business, using ten categories ranging from
18 the cost of doing business and cost of living to infrastructure
19 and quality of life, Hawaii placed second-to-last in the nation.
20 The only category in which Hawaii scored higher than thirty-
21 third was quality of life, where it placed first. Furthermore,



1 in 2014, Honolulu was considered the second most expensive city
2 in America in which to live. Utilities, groceries,
3 transportation, and gasoline are all at least twenty-one per
4 cent higher than the national average and the cost of living is
5 sixty-nine per cent higher than the national average.

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

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

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

20 "§235- Annual adjustments for inflation. (a) For
21 taxable years beginning after December 31, 2014, the director of



1 taxation, by official pronouncement, shall 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 section 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 shall be rounded to the nearest \$50.

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

20 (c) As used in this section:



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

7 "Cost-of-living adjustment" means the consumer price index
8 for the twelve-month period ending June 30 of the preceding
9 calendar year divided by the consumer price index for the
10 twelve-month period ending June 30, 2013."

11 SECTION 3. The department of taxation shall submit a
12 report of its findings and recommendations, including any
13 proposed legislation, to the legislature no later than twenty
14 days prior to the convening of the regular session of 2020.

15 The report shall contain an evaluation and analysis of the
16 implementation and effectiveness of the adjustments made to the
17 standard deduction, personal exemption, and income tax brackets
18 pursuant to this Act.

19 SECTION 4. New statutory material is underscored.

20 SECTION 5. This Act shall take effect on July 1, 2030;
21 provided that:



- 1 (1) This Act shall apply to taxable years beginning after
2 December 31, 2014, and ending before January 1, 2020;
3 and
4 (2) Section 2 shall be repealed on January 1, 2020.



Report Title:

Income Tax; Inflation Adjustments; Report

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 U.S. Department of Labor Consumer Price Index. Requires DOTAX to submit a report to the legislature evaluating the adjustments made by the Act. Sunsets 1/1/2020. (HB1179 HD1)

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

