
A BILL FOR AN ACT

RELATING TO INCOME TAX.

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

1 SECTION 1. The legislature finds that a team of three
2 authors, Terrance Jalbert of the University of Hawaii at Hilo,
3 Gary Fleischmann at Texas Tech University, and Mercedes Jalbert
4 of the Institute for Business and Finance Research, published a
5 paper in 2014 entitled "Marginal Tax Rates Around the Hawaii
6 Itemized Deduction Cliff," Accounting and Taxation V. 6(1), pp.
7 25-38, 2014. The paper points out that when a Hawaii taxpayer
8 reaches \$200,000 in federal adjusted gross income, the
9 confluence of a number of existing provisions can result in a
10 marginal tax rate of 367,100 per cent on that last dollar.

11 The purpose of this Act is to address this issue by
12 following the study authors' recommendations with regard to
13 current state income tax law.

14 SECTION 2. Section 235-2.4, Hawaii Revised Statutes, is
15 amended as follows:

16 1. By amending subsection (b) to read:



1 "(b) Section 68 (with respect to the overall limitation on
2 itemized deductions) of the Internal Revenue Code shall be
3 operative; provided that the thresholds shall be those that were
4 operative for federal tax year 2009[-]; and provided further
5 that the maximum amount of itemized deductions allowed to a
6 taxpayer under this chapter shall be:

- 7 (1) For a taxpayer with federal adjusted gross income of
8 \$100,000 or less, an amount equal to the taxpayer's
9 federal adjusted gross income;
- 10 (2) For a taxpayer with federal adjusted gross income of
11 at least \$100,000 but less than \$500,000, an amount
12 equal to \$100,000 reduced by twenty-five per cent of
13 the amount by which the taxpayer's federal adjusted
14 gross income exceeds \$100,000; and
- 15 (3) For a taxpayer with federal adjusted gross income of
16 at least \$500,000, zero."

17 2. By amending subsection (i) to read:

18 "(i) Section 164 (with respect to taxes) of the Internal
19 Revenue Code shall be operative for the purposes of this
20 chapter, except that:



1 (1) Section 164(a)(6) and (b)(6) shall not be operative
2 for the purposes of this chapter; and

3 ~~[-(2) The deductions under section 164(a)(3) and (b)(5)
4 shall not be operative for corporate taxpayers and
5 shall be operative only for the following individual
6 taxpayers:~~

7 ~~-(A) A taxpayer filing a single return or a married
8 person filing separately with a federal adjusted
9 gross income of less than \$100,000;~~

10 ~~-(B) A taxpayer filing as a head of household with a
11 federal adjusted gross income of less than
12 \$150,000; and~~

13 ~~-(C) A taxpayer filing a joint return or as a
14 surviving spouse with a federal adjusted gross
15 income of less than \$200,000; and~~

16 ~~-(3)]~~ (2) Section 164(a)(3) shall not be operative for any
17 amounts for which the credit under section 235-55 has
18 been claimed."

19 SECTION 3. Statutory material to be repealed is bracketed
20 and stricken. New statutory material is underscored.



1 SECTION 4. This Act shall take effect on July 1, 2030, and
2 shall apply to taxable years beginning after December 31, 2014.



Report Title:

Taxation; Deductions

Description:

Restores the deduction for state taxes paid for taxpayers with income above specified thresholds. Establishes limitations on claims for itemized tax deductions, based on taxpayers' federal adjusted gross income. Allows corporate taxpayers to claim state and local income tax deductions. (HB83 HD1)

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