
A BILL FOR AN ACT

RELATING TO NET 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 of 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 married, joint
8 filing Hawaii taxpayer reaches \$200,000 in federal adjusted
9 gross income, the confluence of a number of existing provisions,
10 some of which still exist in current tax law, could result in a
11 marginal tax rate of 367,100 per cent on that last dollar. This
12 Act addresses that issue by repealing the "cliff" disallowance
13 of state tax as an itemized deduction and adopting a cap on
14 overall itemized deductions that is phased in according to
15 adjusted gross income levels.

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



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

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

8 (1) For a taxpayer filing a joint return, or as a
9 surviving spouse, with federal adjusted gross income
10 of \$100,000 or less, an amount equal to the taxpayer's
11 federal adjusted gross income;

12 (2) For a taxpayer filing a joint return, or as a
13 surviving spouse, with federal adjusted gross income
14 of at least \$100,000 but less than \$500,000, an amount
15 equal to \$100,000 reduced by twenty-five per cent of
16 the amount by which the taxpayer's federal adjusted
17 gross income exceeds \$100,000;

18 (3) For a taxpayer filing a joint return, or as a
19 surviving spouse, with federal adjusted gross income
20 of at least \$500,000, zero;



- 1 (4) For a taxpayer filing a single return with federal
2 adjusted gross income of \$50,000 or less, an amount
3 equal to the taxpayer's federal adjusted gross income;
- 4 (5) For a taxpayer filing a single return with federal
5 adjusted gross income of at least \$50,000 but less
6 than \$250,000, an amount equal to \$50,000 reduced by
7 twenty-five per cent of the amount by which the
8 taxpayer's federal adjusted gross income exceeds
9 \$50,000;
- 10 (6) For a taxpayer filing a single return with federal
11 adjusted gross income of at least \$250,000, zero;
- 12 (7) For a taxpayer filing a head of household return with
13 federal adjusted gross income of \$75,000 or less, an
14 amount equal to the taxpayer's federal adjusted gross
15 income;
- 16 (8) For a taxpayer filing a head of household return with
17 federal adjusted gross income of at least \$75,000 but
18 less than \$375,000, an amount equal to \$75,000 reduced
19 by twenty-five per cent of the amount by which the
20 taxpayer's federal adjusted gross income exceeds
21 \$75,000; and



1 (9) For a taxpayer filing a head of household return with
2 federal adjusted gross income of at least \$375,000,
3 zero."

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

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

8 (1) Section [~~164(a)(6) and (b)(6)~~] 164(b)(5) shall not be
9 operative for the purposes of this chapter;

10 [~~(2) The deductions under section 164(a)(3) and (b)(5)~~
11 ~~shall not be operative for corporate taxpayers and~~
12 ~~shall be operative only for the following individual~~
13 ~~taxpayers:~~

14 ~~(A) A taxpayer filing a single return or a married~~
15 ~~person filing separately with a federal adjusted~~
16 ~~gross income of less than \$100,000;~~

17 ~~(B) A taxpayer filing as a head of household with a~~
18 ~~federal adjusted gross income of less than~~
19 ~~\$150,000; and~~



1 ~~(C) A taxpayer filing a joint return or as a~~
2 ~~surviving spouse with a federal adjusted gross~~
3 ~~income of less than \$200,000,]~~ and
4 ~~[(3)]~~ (2) Section 164(a)(3) shall not be operative for any
5 amounts for which the credit under section 235-55 has
6 been claimed."

7 SECTION 3. Statutory material to be repealed is bracketed
8 and stricken. New statutory material is underscored.

9 SECTION 4. This Act shall take effect on July 1, 2030, and
10 shall apply to taxable years beginning after December 31, 2016.

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 taxpayer's federal adjusted gross income. (HB145 HD1)

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