
A BILL FOR AN ACT

RELATING TO INCOME TAX.

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

1 SECTION 1. Section 235-1, Hawaii Revised Statutes, is
2 amended by adding a new definition to be appropriately inserted
3 and to read as follows:

4 "Cost-of-living adjustment factor" means a factor
5 calculated by adding 1.0 to the quotient of the percent change
6 in the Urban Hawaii Consumer Price Index for all items divided
7 by 100, as published by the United States Department of Labor,
8 from July of the preceding calendar year to July of the current
9 calendar year; provided that, if the Urban Hawaii Consumer Price
10 Index is discontinued, the Chained Consumer Price Index for All
11 Urban Consumers, as published by the United States Department of
12 Labor, shall be used to calculate the cost-of-living adjustment
13 factor."

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

16 (1) By amending subsection (a) to read as follows:

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1 "(a) Section 63 (with respect to taxable income defined)
2 of the Internal Revenue Code shall be operative for the purposes
3 of this chapter, subject to the following:

4 (1) Section 63(c)(1)(B) (relating to the additional
5 standard deduction), 63(c)(1)(C) (relating to the real
6 property tax deduction), 63(c)(1)(D) (relating to the
7 disaster loss deduction), 63(c)(1)(E) (relating to the
8 motor vehicle sales tax deduction), 63(c)(4) (relating
9 to inflation adjustments), 63(c)(7) (defining the real
10 property tax deduction), 63(c)(8) (defining the
11 disaster loss deduction), 63(c)(9) (defining the motor
12 vehicle sales tax deduction), and 63(f) (relating to
13 additional amounts for the aged or blind) of the
14 Internal Revenue Code shall not be operative for
15 purposes of this chapter;

16 (2) Section 63(c)(2) (relating to the basic standard
17 deduction) of the Internal Revenue Code shall be
18 operative, except that the standard deduction amounts
19 provided therein shall instead mean:

20 (A) \$4,400 in the case of:

21 (i) A joint return as provided by section 235-
22 93; or

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- 1 (ii) A surviving spouse (as defined in section
- 2 2(a) of the Internal Revenue Code);
- 3 (B) \$3,212 in the case of a head of household (as
- 4 defined in section 2(b) of the Internal Revenue
- 5 Code);
- 6 (C) \$2,200 in the case of an individual who is not
- 7 married and who is not a surviving spouse or head
- 8 of household; [~~or~~]
- 9 (D) \$2,200 in the case of a married individual filing
- 10 a separate return;
- 11 (E) For each taxable year beginning after December
- 12 31, 2023, the director of taxation, no later than
- 13 December 15 of the preceding calendar year, shall
- 14 recompute the standard deduction amounts by
- 15 multiplying the dollar amounts for the preceding
- 16 taxable year by the cost-of-living adjustment
- 17 factor, if the cost-of-living adjustment factor
- 18 is greater than 1.0, and rounding off the
- 19 resulting product to the nearest \$1; provided
- 20 that, if the cost-of-living adjustment factor is
- 21 less than or equal to 1.0 in a given year, then
- 22 no adjustment will occur in the following year;

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1 (3) Section 63(c)(5) (limiting the basic standard
2 deduction in the case of certain dependents) of the
3 Internal Revenue Code shall be operative, except that
4 the limitation shall be the greater of \$500 or the
5 individual's earned income; and

6 (4) The standard deduction amount for nonresidents shall
7 be calculated pursuant to section 235-5."

8 (2) By amending subsection (c) to read as follows:

9 "(c) Section 68 (with respect to the overall limitation on
10 itemized deductions) of the Internal Revenue Code shall be
11 operative; provided that [~~the~~]:

12 (1) [~~Thresholds~~] The thresholds shall be [those] the
13 applicable amounts under section 68(b)(1) of the
14 Internal Revenue Code that were operative for federal
15 tax year [2009; and] 2013;

16 (2) For each taxable year beginning after December 31,
17 2023, the director of taxation, no later than December
18 15 of the preceding calendar year, shall recompute the
19 threshold amounts by multiplying the dollar amounts
20 for the preceding taxable year by the cost-of-living
21 adjustment factor, if the cost-of-living adjustment
22 factor is greater than 1.0, and rounding off the

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1 resulting product to the nearest \$1; provided that if
2 the cost-of-living adjustment factor is less than or
3 equal to 1.0 in a given year, then no adjustment will
4 occur in the following year; and

5 ~~[(2)]~~ (3) Suspension in section 68(f) shall not be
6 operative for purposes of this chapter."

7 (3) By amending subsection (k) to read as follows:

8 "(k) Section 164 (with respect to taxes) of the Internal
9 Revenue Code shall be operative for the purposes of this
10 chapter, except that:

11 (1) Section 164(b)(6)(B) (limiting the deduction for state
12 and local taxes) shall not be operative for the
13 purposes of this chapter;

14 (2) The deductions under section 164(a)(3) and (b)(5)
15 shall not be operative for corporate taxpayers [and
16 ~~shall be operative only for the following individual~~
17 ~~taxpayers:~~

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

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1 ~~(B) A taxpayer filing as a head of household with a~~
2 ~~federal adjusted gross income of less than~~
3 ~~\$150,000; and~~

4 ~~(C) A taxpayer filing a joint return or as a~~
5 ~~surviving spouse with a federal adjusted gross~~
6 ~~income of less than \$200,000]; and~~

7 (3) Section 164(a)(3) shall not be operative for any
8 amounts for which the credit under section 235-55 has
9 been claimed."

10 SECTION 3. Section 235-51, Hawaii Revised Statutes, is
11 amended to read as follows:

12 "**§235-51 Tax imposed on individuals; rates.** (a) There is
13 hereby imposed on the taxable income of every:

14 (1) Taxpayer who files a joint return under section 235-
15 93; and

16 (2) Surviving spouse,

17 a tax determined in accordance with the following table:

18 ~~[In the case of any taxable year beginning after December~~
19 ~~31, 2017:~~

20 If the taxable income is:	The tax shall be:
21 Not over \$4,800	1.40% of taxable income
22 Over \$4,800 but	\$67.00 plus 3.20% of

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~~of excess over~~

~~\$400,000.]~~

In the case of any taxable year beginning after December

31, 2023:

<u>If the taxable income is:</u>	<u>The tax shall be:</u>
<u>Not over \$5,280</u>	<u>1.40% of taxable income</u>
<u>Over \$5,280 but</u> <u>not over \$10,260</u>	<u>\$74.00 plus 3.20% of</u> <u>excess over \$5,280</u>
<u>Over \$10,560 but</u> <u>not over \$21,120</u>	<u>\$243.00 plus 5.50% of</u> <u>excess over \$10,560</u>
<u>Over \$21,120 but</u> <u>not over \$31,680</u>	<u>\$824.00 plus 6.40% of</u> <u>excess over \$21,120</u>
<u>Over \$31,680 but</u> <u>not over \$42,240</u>	<u>\$1,500.00 plus 6.80% of</u> <u>excess over \$31,680</u>
<u>Over \$42,240 but</u> <u>not over \$52,800</u>	<u>\$2,218.00 plus 7.20% of</u> <u>excess over \$42,240</u>
<u>Over \$52,800 but</u> <u>not over \$79,200</u>	<u>\$2,978.00 plus 7.60% of</u> <u>excess over \$52,800</u>
<u>Over \$79,200 but</u> <u>not over \$105,600</u>	<u>\$4,984.00 plus 7.90% of</u> <u>excess over \$79,200</u>
<u>Over \$105,600 but</u> <u>not over \$330,000</u>	<u>\$7070.00 plus 8.25% of</u> <u>excess over \$105,600</u>

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1	<u>Over \$330,000 but</u>	<u>\$25,583.00 plus 9.00% of</u>
2	<u>not over \$385,000</u>	<u>excess over \$330,000</u>
3	<u>Over \$385,000 but</u>	<u>\$30,533.00 plus 10.00% of</u>
4	<u>not over \$440,000</u>	<u>excess over \$385,000</u>
5	<u>Over \$440,000</u>	<u>\$36,033.00 plus 11.00% of</u>
6		<u>excess over \$440,000.</u>

7 (b) There is hereby imposed on the taxable income of every
8 head of a household a tax determined in accordance with the
9 following table:

10 ~~[In the case of any taxable year beginning after December~~
11 ~~31, 2017:~~

12	If the taxable income is:	The tax shall be:
13	Not over \$3,600	1.40% of taxable income
14	Over \$3,600 but	\$50.00 plus 3.20% of
15	not over \$7,200	excess over \$3,600
16	Over \$7,200 but	\$166.00 plus 5.50% of
17	not over \$14,400	excess over \$7,200
18	Over \$14,400 but	\$562.00 plus 6.40% of
19	not over \$21,600	excess over \$14,400
20	Over \$21,600 but	\$1,022.00 plus 6.80% of
21	not over \$28,800	excess over \$21,600
22	Over \$28,800 but	\$1,512.00 plus 7.20% of

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1 ~~not over \$36,000~~ ~~excess over \$28,800~~
2 ~~Over \$36,000 but~~ ~~\$2,030.00 plus 7.60% of~~
3 ~~not over \$54,000~~ ~~excess over \$36,000~~
4 ~~Over \$54,000 but~~ ~~\$3,398.00 plus 7.90% of~~
5 ~~not over \$72,000~~ ~~excess over \$54,000~~
6 ~~Over \$72,000 but~~ ~~\$4,820.00 plus 8.25% of~~
7 ~~not over \$225,000~~ ~~excess over \$72,000~~
8 ~~Over \$225,000 but~~ ~~\$17,443.00 plus 9.00% of~~
9 ~~not over \$262,500~~ ~~excess over \$225,000~~
10 ~~Over \$262,500 but~~ ~~\$20,818.00 plus 10.00% of~~
11 ~~not over \$300,000~~ ~~excess over \$262,500~~
12 ~~Over \$300,000~~ ~~\$24,568.00 plus 11.00% of~~
13 ~~excess over \$300,000.]~~

14 In the case of any taxable year beginning after December
15 31, 2023:

<u>If the taxable income is:</u>	<u>The tax shall be:</u>
16 <u>Not over \$3,960</u>	<u>1.40% of taxable income</u>
17 <u>Over \$3,960 but</u>	<u>\$55.00 plus 3.20% of</u>
18 <u>not over \$7,920</u>	<u>excess over \$3,960</u>
19 <u>Over \$7,920 but</u>	<u>\$182.00 plus 5.50% of</u>
20 <u>not over \$15,840</u>	<u>excess over \$7,920</u>
21 <u>Over \$15,840 but</u>	<u>\$618.00 plus 6.40% of</u>
22 <u>excess over \$15,840</u>	

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1	<u>not over \$23,760</u>	<u>excess over \$15,840</u>
2	<u>Over \$23,760 but</u>	<u>\$1,125.00 plus 6.80% of</u>
3	<u>not over \$31,680.</u>	<u>excess over \$23,760</u>
4	<u>Over \$31,680 but</u>	<u>\$1,663.00 plus 7.20% of</u>
5	<u>not over \$39,600</u>	<u>excess over \$31,680</u>
6	<u>Over \$39,600 but</u>	<u>\$2,233.00 plus 7.60% of</u>
7	<u>not over \$59,400</u>	<u>excess over \$39,600</u>
8	<u>Over \$59,400 but</u>	<u>\$3,738.00 plus 7.90% of</u>
9	<u>not over \$79,200</u>	<u>excess over \$59,400</u>
10	<u>Over \$79,200 but</u>	<u>\$5,302.00 plus 8.25% of</u>
11	<u>not over \$247,500</u>	<u>excess over \$79,200</u>
12	<u>Over \$247,500 but</u>	<u>\$19,187.00 plus 9.00% of</u>
13	<u>not over \$288,750</u>	<u>excess over \$247,500</u>
14	<u>Over \$288,750 but</u>	<u>\$22,900.00 plus 10.00% of</u>
15	<u>not over \$330,000</u>	<u>excess over \$288,750</u>
16	<u>Over \$330,000</u>	<u>\$27,025.00 plus 11.00% of</u>

17 excess over \$330,000.(c) There is hereby imposed on the
18 taxable income of (1) every unmarried individual (other than a
19 surviving spouse, or the head of a household) and (2) on the
20 taxable income of every married individual who does not make a
21 single return jointly with the individual's spouse under section
22 235-93 a tax determined in accordance with the following table:

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1 ~~[In the case of any taxable year beginning after December~~
2 ~~31, 2017:~~

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 but \$3,214.00 plus 8.25% of~~

20 ~~not over \$150,000 excess over \$48,000~~

21 ~~Over \$150,000 but \$11,629.00 plus 9.00% of~~

22 ~~not over \$175,000 excess over \$150,000~~

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1 ~~Over \$175,000 but~~ ~~\$13,879.00 plus 10.00% of~~
2 ~~not over \$200,000~~ ~~excess over \$175,000~~
3 ~~Over \$200,000~~ ~~\$16,379.00 plus 11.00% of~~
4 ~~excess over \$200,000.]~~

5 In the case of any taxable year beginning after December
6 31, 2023:

7	<u>If the taxable income is:</u>	<u>The tax shall be:</u>
8	<u>Not over \$2,640</u>	<u>1.40% of taxable income</u>
9	<u>Over \$2,640 but</u>	<u>\$37.00 plus 3.20% of</u>
10	<u>not over \$5,280</u>	<u>excess over \$2,640</u>
11	<u>Over \$5,280 but</u>	<u>\$121.00 plus 5.50% of</u>
12	<u>not over \$10,560</u>	<u>excess over \$5,280</u>
13	<u>Over \$10,560 but</u>	<u>\$412.00 plus 6.40% of</u>
14	<u>not over \$15,840</u>	<u>excess over \$10,560</u>
15	<u>Over \$15,840 but</u>	<u>\$750.00 plus 6.80% of</u>
16	<u>not over \$21,120</u>	<u>excess over \$15,840</u>
17	<u>Over \$21,120 but</u>	<u>\$1,109.00 plus 7.20% of</u>
18	<u>not over \$26,400</u>	<u>excess over \$21,120</u>
19	<u>Over \$26,400 but</u>	<u>\$1,489.00 plus 7.60% of</u>
20	<u>not over \$39,600</u>	<u>excess over \$26,400</u>
21	<u>Over \$39,600 but</u>	<u>\$2,492.00 plus 7.90% of</u>
22	<u>not over \$52,800</u>	<u>excess over \$39,600</u>

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1	<u>Over \$52,800 but</u>	<u>\$3,535.00 plus 8.25% of</u>
2	<u>not over \$165,000</u>	<u>excess over \$52,800</u>
3	<u>Over \$165,000 but</u>	<u>\$12,791.00 plus 9.00% of</u>
4	<u>not over \$192,500</u>	<u>excess over \$165,000</u>
5	<u>Over \$192,500 but</u>	<u>\$15,266.00 plus 10.00% of</u>
6	<u>not over \$220,000</u>	<u>excess over \$192,500</u>
7	<u>Over \$220,000</u>	<u>\$18,016.00 plus 11.00% of</u>
8		<u>excess over \$220,000.</u>

9 (d) The tax imposed by section 235-2.45 on estates and
 10 trusts shall be determined in accordance with the following
 11 table:

12 In the case of any taxable year beginning after December
 13 31, 2001:

14	If the taxable income is:	The tax shall be:
15	Not over \$2,000	1.40% of taxable income
16	Over \$2,000 but	\$28.00 plus 3.20% of
17	not over \$4,000	excess over \$2,000
18	Over \$4,000 but	\$92.00 plus 5.50% of
19	not over \$8,000	excess over \$4,000
20	Over \$8,000 but	\$312.00 plus 6.40% of
21	not over \$12,000	excess over \$8,000
22	Over \$12,000 but	\$568.00 plus 6.80% of

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1	not over \$16,000	excess over \$12,000
2	Over \$16,000 but	\$840.00 plus 7.20% of
3	not over \$20,000	excess over \$16,000
4	Over \$20,000 but	\$1,128.00 plus 7.60% of
5	not over \$30,000	excess over \$20,000
6	Over \$30,000 but	\$1,888.00 plus 7.90% of
7	not over \$40,000	excess over \$30,000
8	Over \$40,000	\$2,678.00 plus 8.25% of
9		excess over \$40,000.

10 (e) Any taxpayer, other than a corporation, acting as a
11 business entity in more than one state who is required by this
12 chapter to file a return may elect to report and pay a tax of .5
13 per cent of the taxpayer's annual gross sales if the:

- 14 (1) Taxpayer's only activities in this State consist of
15 sales;
- 16 (2) Taxpayer does not own or rent real estate or tangible
17 personal property; and
- 18 (3) Taxpayer's annual gross sales in or into this State
19 during the tax year is not in excess of \$100,000.

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

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

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

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

8 (2) A tax of 7.25 per cent of the amount of taxable
9 income in excess of the amount determined under
10 paragraph (1).

11 This subsection shall apply to individuals, estates, and
12 trusts for taxable years beginning after December 31, 1986.

13 (g) For each taxable year beginning after December 31,
14 2024, the director of taxation, no later than December 15 of the
15 preceding calendar year, shall recompute the taxable income
16 amounts within each of the income brackets in subsections (a),
17 (b), and (c) by multiplying the taxable income amounts within
18 each income bracket for the preceding taxable year by the cost-
19 of-living adjustment factor, if the cost-of-living adjustment
20 factor is greater than 1.0, and rounding off the resulting
21 product to the nearest \$1. If the cost-of-living adjustment
22 factor is less than or equal to 1.0 in a given year, then no

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1 adjustment will occur in the following year. Nothing in this
2 subsection shall be construed as permitting an adjustment to the
3 rates of tax in subsections (a), (b), and (c)."

4 SECTION 4. Section 235-54, Hawaii Revised Statutes, is
5 amended to read as follows:

6 "§235-54 Exemptions. (a) In computing the taxable income
7 of any individual, there shall be deducted, in lieu of the
8 personal exemptions allowed by the Internal Revenue Code,
9 personal exemptions computed as follows: Ascertain the number
10 of exemptions which the individual can lawfully claim under the
11 Internal Revenue Code, add an additional exemption for the
12 taxpayer or the taxpayer's spouse who is sixty-five years of age
13 or older within the taxable year, and multiply that number by
14 \$1,144, for taxable years beginning after December 31, 1984. A
15 nonresident shall prorate the personal exemptions on account of
16 income from sources outside the State as provided in section
17 235-5. In the case of an individual with respect to whom an
18 exemption under this section is allowable to another taxpayer
19 for a taxable year beginning in the calendar year in which the
20 individual's taxable year begins, the personal exemption amount
21 applicable to such individual under this subsection for such
22 individual's taxable year shall be zero.

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1 (b) In computing the taxable income of an estate or trust
2 there shall be allowed, in lieu of the deductions allowed under
3 subsection (a), the following:

4 (1) An estate shall be allowed a deduction of \$400.

5 (2) A trust which, under its governing instrument, is
6 required to distribute all of its income currently
7 shall be allowed a deduction of \$200.

8 (3) All other trusts shall be allowed a deduction of \$80.

9 (c) A blind person, a deaf person, and any person totally
10 disabled, in lieu of the personal exemptions allowed by the
11 Internal Revenue Code, shall be allowed, and there shall be
12 deducted in computing the taxable income of a blind person, a
13 deaf person, or a totally disabled person, instead of the
14 exemptions provided by subsection (a), the amount of \$7,000.

15 (d) For each taxable year beginning after December 31,
16 2023, the director of taxation, no later than December 15 of the
17 preceding calendar year, shall recompute the personal exemption
18 and deduction amounts in this section by multiplying the amount
19 for the preceding taxable year by the cost-of-living adjustment
20 factor, if the cost-of-living adjustment factor is greater than
21 1.0, and rounding off the resulting product to the nearest \$1.
22 If the cost-of-living adjustment factor is less than or equal to

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1 1.0 in a given year, then no adjustment will occur in the
2 following year."

3 SECTION 5. Section 235-55.6, Hawaii Revised Statutes, is
4 amended to read as follows:

5 "§235-55.6 Expenses for household and dependent care
6 services necessary for gainful employment. (a) Allowance of
7 credit.

8 (1) In general. For each resident taxpayer, who files an
9 individual income tax return for a taxable year, and
10 who is not claimed or is not otherwise eligible to be
11 claimed as a dependent by another taxpayer for federal
12 or Hawaii state individual income tax purposes, who
13 maintains a household which includes as a member one
14 or more qualifying individuals (as defined in
15 subsection (b)(1)), there shall be allowed as a credit
16 against the tax imposed by this chapter for the
17 taxable year an amount equal to the applicable
18 percentage of the employment-related expenses (as
19 defined in subsection (b)(2)) paid by the individual
20 during the taxable year. If the tax credit claimed by
21 a resident taxpayer exceeds the amount of income tax
22 payment due from the resident taxpayer, the excess of

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1 the credit over payments due shall be refunded to the
 2 resident taxpayer; provided that tax credit properly
 3 claimed by a resident individual who has no income tax
 4 liability shall be paid to the resident individual;
 5 and provided further that no refunds or payment on
 6 account of the tax credit allowed by this section
 7 shall be made for amounts less than \$1.

8 (2) Applicable percentage. For purposes of paragraph (1),
 9 the taxpayer's applicable percentage shall be
 10 ~~[determined as follows:~~

Adjusted gross income	Applicable percentage
Not over \$25,000	25%
Over \$25,000 but	24%
not over \$30,000	
Over \$30,000 but	23%
not over \$35,000	
Over \$35,000 but	22%
not over \$40,000	
Over \$40,000 but	21%
not over \$45,000	
Over \$45,000 but	20%
not over \$50,000	

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1 (b) Definitions of qualifying individual and
2 employment-related expenses. For purposes of this section:

3 (1) Qualifying individual. The term "qualifying
4 individual" means:

5 (A) A dependent of the taxpayer who is under the age
6 of thirteen and with respect to whom the taxpayer
7 is entitled to a deduction under section
8 235-54(a),

9 (B) A dependent of the taxpayer who is physically or
10 mentally incapable of caring for oneself, or

11 (C) The spouse of the taxpayer, if the spouse is
12 physically or mentally incapable of caring for
13 oneself.

14 (2) Employment-related expenses.

15 (A) In general. The term "employment-related
16 expenses" means amounts paid for the following
17 expenses, but only if such expenses are incurred
18 to enable the taxpayer to be gainfully employed
19 for any period for which there are one or more
20 qualifying individuals with respect to the
21 taxpayer:

22 (i) Expenses for household services, and

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1 (ii) Expenses for the care of a qualifying
2 individual.

3 Such term shall not include any amount paid for
4 services outside the taxpayer's household at a
5 camp where the qualifying individual stays
6 overnight.

7 (B) Exception. Employment-related expenses described
8 in subparagraph (A) which are incurred for
9 services outside the taxpayer's household shall
10 be taken into account only if incurred for the
11 care of:

- 12 (i) A qualifying individual described in
- 13 paragraph (1)(A), or
- 14 (ii) A qualifying individual (not described in
- 15 paragraph (1)(A)) who regularly spends at
- 16 least eight hours each day in the taxpayer's
- 17 household.

18 (C) Dependent care centers. Employment-related
19 expenses described in subparagraph (A) which are
20 incurred for services provided outside the
21 taxpayer's household by a dependent care center

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1 (as defined in subparagraph (D)) shall be taken
2 into account only if:
3 (i) Such center complies with all applicable
4 laws, rules, and regulations of this State,
5 if the center is located within the
6 jurisdiction of this State; or
7 (ii) Such center complies with all applicable
8 laws, rules, and regulations of the
9 jurisdiction in which the center is located,
10 if the center is located outside the State;
11 and
12 (iii) The requirements of subparagraph (B) are
13 met.
14 (D) Dependent care center defined. For purposes of
15 this paragraph, the term "dependent care center"
16 means any facility which:
17 (i) Provides care for more than six individuals
18 (other than individuals who reside at the
19 facility), and
20 (ii) Receives a fee, payment, or grant for
21 providing services for any of the

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1 individuals (regardless of whether such
2 facility is operated for profit).

3 (c) Dollar limit on amount creditable. The amount of the
4 employment-related expenses incurred during any taxable year
5 which may be taken into account under subsection (a) shall not
6 exceed:

7 (1) \$10,000 if there is one qualifying individual with
8 respect to the taxpayer for such taxable year, or

9 (2) \$20,000 if there are two or more qualifying
10 individuals with respect to the taxpayer for such
11 taxable year.

12 The amount determined under paragraph (1) or (2) (whichever is
13 applicable) shall be reduced by the aggregate amount excludable
14 from gross income under section 129 (with respect to dependent
15 care assistance programs) of the Internal Revenue Code for the
16 taxable year.

17 (d) Earned income limitation.

18 (1) In general. Except as otherwise provided in this
19 subsection, the amount of the employment-related
20 expenses incurred during any taxable year which may be
21 taken into account under subsection (a) shall not
22 exceed:

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1 (A) In the case of an individual who is not married
2 at the close of such year, such individual's
3 earned income for such year, or

4 (B) In the case of an individual who is married at
5 the close of such year, the lesser of such
6 individual's earned income or the earned income
7 of the individual's spouse for such year.

8 (2) Special rule for spouse who is a student or incapable
9 of caring for oneself. In the case of a spouse who is
10 a student or a qualified individual described in
11 subsection (b)(1)(C), for purposes of paragraph (1),
12 such spouse shall be deemed for each month during
13 which such spouse is a full-time student at an
14 educational institution, or is such a qualifying
15 individual, to be gainfully employed and to have
16 earned income of not less than:

17 (A) \$200 if subsection (c)(1) applies for the taxable
18 year, or

19 (B) \$400 if subsection (c)(2) applies for the taxable
20 year.

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1 In the case of any husband and wife, this paragraph
2 shall apply with respect to only one spouse for any
3 one month.

4 (e) Special rules. For purposes of this section:

5 (1) Maintaining household. An individual shall be treated
6 as maintaining a household for any period only if over
7 half the cost of maintaining the household for the
8 period is furnished by the individual (or, if the
9 individual is married during the period, is furnished
10 by the individual and the individual's spouse).

11 (2) Married couples must file joint return. If the
12 taxpayer is married at the close of the taxable year
13 the credit shall be allowed under subsection(a) only
14 if the taxpayer and the taxpayer's spouse file a joint
15 return for the taxable year.

16 (3) Marital status. An individual legally separated from
17 the individual's spouse under a decree of divorce or
18 of separate maintenance shall not be considered as
19 married.

20 (4) Certain married individuals living apart. If:

21 (A) An individual who is married and who files a
22 separate return:

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- 1 (i) Maintains as the individual's home a
2 household that constitutes for more than
3 one-half of the taxable year the principal
4 place of abode of a qualifying individual,
5 and
6 (ii) Furnishes over half of the cost of
7 maintaining the household during the taxable
8 year, and
9 (B) During the last six months of the taxable year
10 the individual's spouse is not a member of the
11 household, the individual shall not be considered
12 as married.
13 (5) Special dependency test in case of divorced parents,
14 etc. If:
15 (A) Paragraph (2) or (4) of section 152(e) of the
16 Internal Revenue Code of 1986, as amended,
17 applies to any child with respect to any calendar
18 year, and
19 (B) The child is under age thirteen or is physically
20 or mentally incompetent of caring for the child's
21 self,

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1 in the case of any taxable year beginning in the
2 calendar year, the child shall be treated as a
3 qualifying individual described in subsection
4 (b)(1)(A) or (B) (whichever is appropriate) with
5 respect to the custodial parent (within the
6 meaning of section 152(e)(1) of the Internal
7 Revenue Code of 1986, as amended), and shall not
8 be treated as a qualifying individual with
9 respect to the noncustodial parent.

10 (6) Payments to related individuals. No credit shall be
11 allowed under subsection (a) for any amount paid by
12 the taxpayer to an individual:

13 (A) With respect to whom, for the taxable year, a
14 deduction under section 151(c) of the Internal
15 Revenue Code of 1986, as amended (relating to
16 deduction for personal exemptions for dependents)
17 is allowable either to the taxpayer or the
18 taxpayer's spouse, or

19 (B) Who is a child of the taxpayer (within the
20 meaning of section 151(c)(3) of the Internal
21 Revenue Code of 1986, as amended) who has not

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1 attained the age of nineteen at the close of the
2 taxable year.

3 For purposes of this paragraph, the term "taxable
4 year" means the taxable year of the taxpayer in which
5 the service is performed.

6 (7) Student. The term "student" means an individual who,
7 during each of five calendar months during the taxable
8 year, is a full-time student at an educational
9 organization.

10 (8) Educational organization. The term "educational
11 organization" means a school operated by the
12 department of education under chapter 302A, an
13 educational organization described in section
14 170(b)(1)(A)(ii) of the Internal Revenue Code of 1986,
15 as amended, or a university, college, or community
16 college.

17 (9) Identifying information required with respect to
18 service provider. No credit shall be allowed under
19 subsection (a) for any amount paid to any person
20 unless:

21 (A) The name, address, taxpayer identification
22 number, and general excise tax license number of

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1 the person are included on the return claiming
2 the credit,
3 (B) If the person is located outside the State, the
4 name, address, and taxpayer identification
5 number, if any, of the person and a statement
6 indicating that the service provider is located
7 outside the State and that the general excise tax
8 license and, if applicable, the taxpayer
9 identification numbers are not required, or
10 (C) If the person is an organization described in
11 section 501(c)(3) of the Internal Revenue Code
12 and exempt from tax under section 501(a) of the
13 Internal Revenue Code, the name and address of
14 the person are included on the return claiming
15 the credit.

16 In the case of a failure to provide the information
17 required under the preceding sentence, the preceding
18 sentence shall not apply if it is shown that the
19 taxpayer exercised due diligence in attempting to
20 provide the information so required.

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1 (f) No credit shall be allowed under this section for any
2 taxable year in the disallowance period. For purposes of this
3 subsection, the disallowance period is:

4 (1) The period of ten taxable years after the most recent
5 taxable year for which there was a final
6 administrative or judicial decision that the
7 taxpayer's claim for credit under this section was due
8 to fraud; and

9 (2) The period of two taxable years after the most recent
10 taxable year for which there was a final
11 administrative or judicial decision disallowing the
12 taxpayer's claim for credit.

13 [~~f~~] (g) Rules. The director of taxation shall prescribe
14 such rules under chapter 91 as may be necessary to carry out the
15 purposes of this section.

16 (h) As used in this section, "adjusted gross income" means
17 adjusted gross income as defined by the Internal Revenue Code."

18 SECTION 6. Statutory material to be repealed is bracketed
19 and stricken. New statutory material is underscored.

20 SECTION 7. This Act, upon its approval, shall apply to
21 taxable years beginning after December 31, 2023; provided that
22 on December 31, 2027, the amendments to section 235-55.6(a),

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1 Hawaii Revised Statutes, in section 5 of this Act shall be
2 repealed and section 235-55.6(a), Hawaii Revised Statutes, shall
3 be reenacted in the form in which it read on the day before the
4 effective date of this Act.

5

6

INTRODUCED BY: _____

Sam

7

BY REQUEST

8

JAN 22 2024

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Report Title:

Income Tax; Standard Deduction; Itemized Deduction; Income Tax Brackets; Personal Exemption; Child and Dependent Care Tax Credit; Conformity with Federal Deductions

Description:

Provides for re-computation of the amounts for standard deduction, itemized deduction, income tax brackets, and personal exemption each tax year, taking into account the cost-of-living adjustment factor. Adds a one-time adjustment to tax brackets. Increases the applicable percentage of the employment-related expenses for which the child and dependent care income tax credit may be claimed; provides for re-computation of the applicable percentage taking into account the cost-of living adjustment factor; and provides for a disallowance period when there is a final administrative or judicial decision finding that the claim was due to fraud or disallowing the credit. Amends state conformity with certain federal deductions.

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

JUSTIFICATION SHEET

DEPARTMENT: Governor.

TITLE: A BILL FOR AN ACT RELATING TO INCOME TAX.

PURPOSE: To reduce the cost of living by providing tax relief to low- and middle-income households and working families.

MEANS: Amend sections 235-1, 235-2.4(a), (c), and (k), 235-51, 235-54, and 235-55.6, Hawaii Revised Statutes (HRS).

JUSTIFICATION: The high cost of living in the State has made it difficult for low- and middle-income households and working families to afford basic necessities.

Allowing cost-of-living adjustments to the individual income tax brackets, personal exemption amount, and standard and itemized deduction amounts will help account for inflation.

Amending the child and dependent care tax credit will provide tax relief to working families, promote preschool education, and promote labor participation by working parents.

Impact on the public: This bill will provide tax relief to reduce the cost of living for working families in the State.

Impact on the department and other agencies: The department will need to annually revise its computer tax system, forms, and publications to account for the cost-of-living adjustments to the income tax brackets, personal exemptions, standard deductions, itemized deductions, and the child and dependent care tax credit.

GENERAL FUND: Net revenue loss of \$87,400,000.

OTHER FUNDS: None.

PPBS PROGRAM
DESIGNATION: None.

OTHER AFFECTED
AGENCIES: None.

EFFECTIVE DATE: Upon approval, shall apply to taxable years beginning after December 31, 2023; provided that amendments to section 235-55.6(a), HRS, shall be repealed on December 31, 2027.