

ACT 321

H.B. NO. 1917

A Bill for an Act Relating to Income Taxation.

Be It Enacted by the Legislature of the State of Hawaii:

SECTION 1. Chapter 235, Hawaii Revised Statutes, is amended by adding new sections¹ to be appropriately designated and to read as follows:

“§235- Medical services excise tax credit. (a) Each resident individual taxpayer, who files an individual income tax return for a taxable year, and who is not claimed or is not otherwise eligible to be claimed as a dependent by another taxpayer for Hawaii state individual income tax purposes, may claim a medical services excise tax credit against the resident taxpayer’s individual income tax liability for the taxable year for which the individual income tax return is being filed; provided that a resident individual who has no income or no income taxable under this chapter and who is not claimed or is not otherwise eligible to be claimed as a dependent by a taxpayer for Hawaii state individual income tax purposes may claim this credit.

(b) The medical services excise tax credit shall be four per cent of qualified medical expenses paid by the resident individual during the taxable year. The amount of the tax credit claimed on each individual income tax return shall not exceed:

- (1) \$200;
- (2) \$400 for a resident individual sixty-five years of age or over; or
- (3) \$600 for a resident individual and spouse both sixty-five years of age or over;

provided that a husband and wife filing separate returns for a taxable year for which a joint return could have been filed by them shall claim only the tax credit to which they would have been entitled had a joint return been filed.

(c) For the purposes of this section, the term “qualified medical expenses” is defined to include those medical expenses allowable as deductions for income tax purposes under section 213 (with respect to medical, dental, etc., expenses) of the Internal Revenue Code; provided that the medical expense was subject to the imposition and payment of the general excise tax under chapter 237.

Qualified medical expenses shall not include the following:

- (1) Capital improvements; or
- (2) Prescription drugs or prosthetic devices exempt under section 237-24(23).

The amount of medical expenses paid during the taxable year shall not be reduced by any insurance reimbursement.

(d) The tax credits claimed by a resident taxpayer pursuant to this section shall be deductible from the resident taxpayer's individual income tax liability, if any, for the tax year in which they are properly claimed. If the tax credits claimed by a resident taxpayer exceed the amount of income tax payment due from the resident taxpayer, the excess of credits over payments due shall be refunded to the resident taxpayer; provided that tax credits properly claimed by a resident individual who has no income tax liability shall be paid to the resident individual; and provided further that no refunds or payment on account of the tax credits allowed by this section shall be made for amounts less than \$1.

(e) The director of taxation shall prepare such forms as may be necessary to claim a credit under this section. The director may also require the taxpayer to furnish reasonable information in order that the director may ascertain the validity of the claim for credit made under this section and the director may adopt rules necessary to effectuate the purposes of this section pursuant to chapter 91.

(f) All claims for tax credits under this section, including any amended claims, must be filed on or before the end of the twelfth month following the close of the taxable year for which the credits may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the credit.

(g) This section shall not be effective after December 31, 1991."

SECTION 2. Section 235-2.4, Hawaii Revised Statutes, is amended by amending subsection (a) to read as follows:

"(a) Section 63 (with respect to taxable income defined) of the Internal Revenue Code shall be operative for the purposes of this chapter, except that the standard deduction amount in section 63(c) of the Internal Revenue Code shall instead mean:

- (1) ~~[\$1,700]~~ \$1,900 in the case of:
 - (A) A joint return as provided by section 235-93, or
 - (B) A surviving spouse (as defined in section 2(a) of the Internal Revenue Code),
- (2) ~~[\$1,500]~~ \$1,650 in the case of a head of household (as defined in section 2(b) of the Internal Revenue Code),
- (3) ~~[\$1,000]~~ \$1,500 in the case of an individual who is not married and who is not a surviving spouse or head of household, or
- (4) ~~[\$850]~~ \$950 in the case of a married individual filing a separate return.

Section 63(c)(4) shall not be operative in this State. Section 63(c)(5) shall be operative, except that the limitation on standard deduction in the case of certain dependents shall be the greater of \$500 or such individual's earned income. Section 63(f) shall not be operative in this State."

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

"§235-51 Tax imposed on individuals; rates. (a) There is hereby imposed on the taxable income of (1) every taxpayer who files a joint return under section 235-93; and (2) every surviving spouse a tax determined in accordance with the following table:

[In the case of any taxable year beginning after December 31, 1986, and ending before January 1, 1988:

If the taxable income is:	The tax shall be:
Not over \$2,000	2.25% of taxable income
Over \$2,000 but not over \$4,000	\$45.00 plus 4.25% of excess over \$2,000
Over \$4,000 but not over \$6,000	\$130.00 plus 6.25% of excess over \$4,000
Over \$6,000 but not over \$10,000	\$255.00 plus 7.25% of excess over \$6,000
Over \$10,000 but not over \$20,000	\$545.00 plus 8.25% of excess over \$10,000
Over \$20,000 but not over \$28,000	\$1,370.00 plus 9.25% of excess over \$20,000
Over \$28,000 but not over \$40,000	\$2,110.00 plus 9.75% of excess over \$28,000
Over \$40,000	\$3,280.00 plus 10% of excess over \$40,000

In the case of any taxable year beginning after December 31, 1987, and ending before January 1, 1989:

If the taxable income is:	The tax shall be:
Not over \$2,400	2.25% of taxable income
Over \$2,400 but not over \$4,400	\$54.00 plus 4.25% of excess over \$2,400
Over \$4,400 but not over \$6,400	\$139.00 plus 6.25% of excess over \$4,400
Over \$6,400 but not over \$10,400	\$264.00 plus 7.25% of excess over \$6,400
Over \$10,400 but not over \$20,400	\$554.00 plus 8.25% of excess over \$10,400
Over \$20,400 but not over \$28,400	\$1,379.00 plus 9.25% of excess over \$20,400
Over \$28,400 but not over \$40,400	\$2,119.00 plus 9.75% of excess over \$28,400
Over \$40,400	\$3,289.00 plus 10% of excess over \$40,400]

In the case of any taxable year beginning after December 31, 1988:

If the taxable income is:	The tax shall be:
Not over \$3,000	[2.25%] <u>2%</u> of taxable income
Over \$3,000 but not over \$5,000	[\$67.50] <u>\$60.00</u> plus [4.25%] <u>4%</u> of excess over \$3,000
Over \$5,000 but not over \$7,000	[\$152.50] <u>\$140.00</u> plus [6.25%] <u>6%</u> of excess over \$5,000
Over \$7,000 but not over \$11,000	[\$277.50] <u>\$260.00</u> plus 7.25% of excess over \$7,000
Over \$11,000 but not over \$21,000	[\$567.50] <u>\$550.00</u> plus [8.25%] <u>8%</u> of excess over \$11,000
Over \$21,000 but not over [\$29,000] <u>\$31,000</u>	[\$1,392.50] <u>\$1,350.00</u> plus [9.25%] <u>8.75%</u> of excess over \$21,000

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Over [\$29,000] <u>\$31,000</u> but not over \$41,000	[\$2,132.50] <u>\$2,225.00</u> plus [9.75%] <u>9.5%</u> of excess over [\$29,000] <u>\$31,000</u>
Over \$41,000	[\$3,302.50] <u>\$3,175.00</u> plus 10% of excess over \$41,000

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

[In the case of any taxable year beginning after December 31, 1986, and ending before January 1, 1988:

If the taxable income is:	The tax shall be:
Not over \$1,000	2.25% of taxable income
Over \$1,000 but not over \$2,000	\$22.50 plus 3.25% of excess over \$1,000
Over \$2,000 but not over \$3,000	\$55.00 plus 5.25% of excess over \$2,000
Over \$3,000 but not over \$5,000	\$107.50 plus 6.25% of excess over \$3,000
Over \$5,000 but not over \$10,000	\$232.50 plus 7.25% of excess over \$5,000
Over \$10,000 but not over \$20,000	\$595.00 plus 8.9% of excess over \$10,000
Over \$20,000 but not over \$40,000	\$1,485.00 plus 9.8% of excess over \$20,000
Over \$40,000	\$3,445.00 plus 10% of excess over \$40,000

In the case of any taxable year beginning after December 31, 1987, and ending before January 1, 1989:

If the taxable income is:	The tax shall be:
Not over \$1,200	2.25% of taxable income
Over \$1,200 but not over \$2,200	\$27.00 plus 3.25% of excess over \$1,200
Over \$2,200 but not over \$3,200	\$59.50 plus 5.25% of excess over \$2,200
Over \$3,200 but not over \$5,200	\$112.00 plus 6.25% of excess over \$3,200
Over \$5,200 but not over \$10,400	\$237.00 plus 7.25% of excess over \$5,200
Over \$10,400 but not over \$20,400	\$614.00 plus 8.9% of excess over \$10,400
Over \$20,400 but not over \$40,400	\$1,504.00 plus 9.8% of excess over \$20,400
Over \$40,400	\$3,464.00 plus 10% of excess over \$40,400]

In the case of any taxable year beginning after December 31, 1988:

If the taxable income is:	The tax shall be:
Not over \$1,500	[2.25%] 2% of taxable income
Over \$1,500 but not over \$2,500	[\$33.75] <u>\$30.00</u> plus [3.25%] <u>3%</u> of excess over \$1,500
Over \$2,500 but not over \$3,500	[\$66.25] <u>\$60.00</u> plus [5.25%] <u>4.5%</u> of excess over \$2,500
Over \$3,500 but	[\$118.75] <u>\$105.00</u> plus [6.25%] <u>5.9%</u>

not over \$5,500	of excess over \$3,500
Over \$5,500 but	[\$243.75] <u>\$223.00</u> plus 7.25% of
not over \$11,000	excess over \$5,500
Over \$11,000 but	[\$642.50] <u>\$621.75</u> plus [8.9%] <u>8.6%</u> of
not over \$21,000	excess over \$11,000
Over \$21,000 but	[\$1,532.50] <u>\$1,481.75</u> plus [9.8%]
not over \$41,000	<u>9.6%</u> of excess over \$21,000
Over \$41,000	[\$3,492.50] <u>\$3,401.75</u> plus 10% of
	excess over \$41,000

(c) There is hereby imposed on the taxable income of (1) every unmarried individual (other than a surviving spouse, or the head of a household) and (2) on the taxable income of every married individual who does not make a single return jointly with the individual's spouse under section 235-93 a tax determined in accordance with the following table:

[In the case of any taxable year beginning after December 31, 1986, and ending before January 1, 1988:

If the taxable income is:	The tax shall be:
Not over \$1,000	2.25% of taxable income
Over \$1,000 but	\$22.50 plus 4.25% of
not over \$2,000	excess over \$1,000
Over \$2,000 but	\$65.00 plus 6.25% of
not over \$3,000	excess over \$2,000
Over \$3,000 but	\$127.50 plus 7.25% of
not over \$5,000	excess over \$3,000
Over \$5,000 but	\$272.50 plus 8.25% of
not over \$10,000	excess over \$5,000
Over \$10,000 but	\$685.00 plus 9.25% of
not over \$14,000	excess over \$10,000
Over \$14,000 but	\$1,055.00 plus 9.75% of
not over \$20,000	excess over \$14,000
Over \$20,000	\$1,640.00 plus 10% of
	excess over \$20,000

In the case of any taxable year beginning after December 31, 1987, and ending before January 1, 1989:

If the taxable income is:	The tax shall be:
Not over \$1,200	2.25% of taxable income
Over \$1,200 but	\$27.00 plus 4.25% of
not over \$2,200	excess over \$1,200
Over \$2,200 but	\$69.50 plus 6.25% of
not over \$3,200	excess over \$2,200
Over \$3,200 but	\$132.00 plus 7.25% of
not over \$5,200	excess over \$3,200
Over \$5,200 but	\$277.00 plus 8.25% of
not over \$10,200	excess over \$5,200
Over \$10,200 but	\$689.50 plus 9.25% of
not over \$14,200	excess over \$10,200
Over \$14,200 but	\$1,059.50 plus 9.75% of
not over \$20,200	excess over \$14,200
Over \$20,200	\$1,644.50 plus 10% of
	excess over \$20,200]

In the case of any taxable year beginning after December 31, 1988:

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If the taxable income is:	The tax shall be:
Not over \$1,500	[2.25%] <u>2%</u> of taxable income
Over \$1,500 but not over \$2,500	[\$33.75] <u>\$30.00</u> plus [4.25%] <u>4%</u> of excess over \$1,500
Over \$2,500 but not over \$3,500	[\$76.25] <u>\$70.00</u> plus [6.25%] <u>6%</u> of excess over \$2,500
Over \$3,500 but not over \$5,500	[\$138.75] <u>\$130.00</u> plus 7.25% of excess over \$3,500
Over \$5,500 but not over \$10,500	[\$283.75] <u>\$275.00</u> plus [8.25%] <u>8%</u> of excess over \$5,500
Over \$10,500 but not over [\$14,500] <u>\$15,500</u>	[\$696.25] <u>\$675.00</u> plus [9.25%] <u>8.75%</u> of excess over \$10,500
Over [\$14,500] <u>\$15,500</u> but not over \$20,500	[\$1,066.25] <u>\$1,112.50</u> plus [9.75%] <u>9.5%</u> of excess over [\$14,500] <u>\$15,500</u>
Over \$20,500	[\$1,651.25] <u>\$1,587.50</u> plus 10% of excess over \$20,500

(d) The tax imposed by section 235-2.4 on estates and trusts shall be determined in accordance with the following table:

[In the case of any taxable year beginning after December 31, 1986, and ending before January 1, 1988:

If the taxable income is:	The tax shall be:
Not over \$1,000	2.25% of taxable income
Over \$1,000 but not over \$2,000	\$22.50 plus 4.25% of excess over \$1,000
Over \$2,000 but not over \$3,000	\$65.00 plus 6.25% of excess over \$2,000
Over \$3,000 but not over \$5,000	\$127.50 plus 7.25% of excess over \$3,000
Over \$5,000 but not over \$10,000	\$272.50 plus 8.25% of excess over \$5,000
Over \$10,000 but not over \$14,000	\$685.00 plus 9.25% of excess over \$10,000
Over \$14,000 but not over \$20,000	\$1,055.00 plus 9.75% of excess over \$14,000
Over \$20,000	\$1,640.00 plus 10% of excess over \$20,000

In the case of any taxable year beginning after December 31, 1987, and ending before January 1, 1989:

If the taxable income is:	The tax shall be:
Not over \$1,200	2.25% of taxable income
Over \$1,200 but not over \$2,200	\$27.00 plus 4.25% of excess over \$1,200
Over \$2,200 but not over \$3,200	\$69.50 plus 6.25% of excess over \$2,200
Over \$3,200 but not over \$5,200	\$132.00 plus 7.25% of excess over \$3,200
Over \$5,200 but not over \$10,200	\$277.00 plus 8.25% of excess over \$5,200
Over \$10,200 but not over \$14,200	\$689.50 plus 9.25% of excess over \$10,200

Over \$14,200 but not over \$20,200	\$1,059.50 plus 9.75% of excess over \$14,200
Over \$20,200	\$1,644.50 plus 10% of excess over \$20,200]

In the case of any taxable year beginning after December 31, 1988:

If the taxable income is:	The tax shall be:
Not over \$1,500	[2.25%] <u>2%</u> of taxable income
Over \$1,500 but not over \$2,500	[\$33.75] <u>\$30.00</u> plus [4.25%] <u>4%</u> of excess over \$1,500
Over \$2,500 but not over \$3,500	[\$76.25] <u>\$70.00</u> plus [6.25%] <u>6%</u> of excess over \$2,500
Over \$3,500 but not over \$5,500	[\$138.75] <u>\$130.00</u> plus 7.25% of excess over \$3,500
Over \$5,500 but not over \$10,500	[\$283.75] <u>\$275.00</u> plus [8.25%] <u>8%</u> of excess over \$5,500
Over \$10,500 but not over [\$14,500] <u>\$15,500</u>	[\$696.25] <u>\$675.00</u> plus [9.25%] <u>8.75%</u> of excess over \$10,500
Over [\$14,500] <u>\$15,500</u> but not over \$20,500	[\$1,066.25] <u>\$1,112.50</u> plus [9.75%] 9.5% of excess over [<u>\$14,500</u>] <u>\$15,500</u>
Over \$20,500	[\$1,651.25] <u>\$1,587.50</u> plus 10% of excess over \$20,500

(e) Any taxpayer, other than a corporation, acting as a business entity in more than one state who is required by this chapter to file a return may elect to report and pay a tax of .5 per cent of its annual gross sales (1) where the taxpayer's only activities in this State consist of sales; and (2) who does not own or rent real estate or tangible personal property; and (3) whose annual gross sales in or into this State during the tax year is not in excess of \$100,000.

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

- (1) The tax computed at the rates and in the same manner as if this subsection had not been enacted on the greater of:
 - (A) The taxable income reduced by the amount of net capital gain, or
 - (B) The amount of taxable income taxed at a rate below 7.25 per cent, plus
- (2) A tax of 7.25 per cent of the amount of taxable income in excess of the amount determined under paragraph (1).

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

[(g) This section shall not be effective after December 31, 1990.]”

SECTION 4. Section 235-55.6, Hawaii Revised Statutes, is amended by amending subsection (a) to read as follows:

“(a) Allowance of credit.

- (1) In general. For each resident taxpayer, who files an individual income tax return for a taxable year, and who is not claimed or is not otherwise eligible to be claimed as a dependent by another taxpayer for federal or Hawaii state individual income tax purposes, who maintains a household which includes as a member one or more qualifying individuals

(as defined in subsection (b)(1)), there shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the applicable percentage of the employment-related expenses (as defined in subsection(b)(2)) paid by such individual during the taxable year. If the tax credit claimed by a resident taxpayer exceeds the amount of income tax payment due from the resident taxpayer, the excess of the credit over payments due shall be refunded to the resident taxpayer; provided that tax credit properly claimed by a resident individual who has no income tax liability shall be paid to the resident individual; and provided further that no refunds or payment on account of the tax credit allowed by this section shall be made for amounts less than \$1.

- (2) Applicable percentage defined. For purposes of paragraph (1), the term "applicable percentage" means fifteen per cent reduced (but not below ten per cent) by one percentage point of each \$2,000 (or fraction thereof) by which the taxpayer's adjusted gross income for the taxable year exceeds [\$10,000.] \$22,000."

SECTION 5. Section 235-55.7, Hawaii Revised Statutes, is amended by amending subsection (c) to read as follows:

"(c) Each taxpayer with an adjusted gross income of less than [\$20,000] \$30,000 who has paid more than \$1,000 in rent during the taxable year for which the credit is claimed may claim a tax credit of \$50 multiplied by the number of qualified exemptions to which the taxpayer is entitled; provided each taxpayer sixty-five years of age or over may claim double the tax credit."

SECTION 6. Statutory material to be repealed is bracketed. New statutory material is underscored.²

SECTION 7. This Act, upon its approval, shall apply to taxable years beginning after December 31, 1988.

(Approved June 14, 1989.)

Notes

1. So in original.

2. Edited pursuant to HRS §23G-16.5.