JAN 2 1 2022

A BILL FOR AN ACT

RELATING TO TAXATION.

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

1	PART I
2	SECTION 1. The legislature finds that the coronavirus
3	disease 2019 (COVID-19) spread globally and was declared a
4	pandemic by the World Health Organization on March 11, 2020.
5	Upon reaching Hawaii's shores, the COVID-19 outbreak disrupted
6	the local economy, resulting in a fiscal downturn that is
7	expected to impact the State's budget for years to come.
8	The legislature additionally finds that at the peak of
9	Hawaii's economic downturn in 2020, the State experienced levels
10	of unemployment not seen since the Great Depression. For
11	example, the unemployment rate in Kahului skyrocketed to thirty-
12	five per cent in April, nearly ten per cent higher than the
13	national unemployment rate at the peak of the Great Depression
14	and the highest of any metropolitan area in the United States at
15	the time, according to the United States Bureau of Labor
16	Statistics.

- 1 The legislature further finds that Hawaii's cost of living
- 2 continues be burdensome for island residents. According to the
- 3 National Low Income Housing Coalition's "Out of Reach 2021"
- 4 report, a minimum wage employee must work one hundred fourteen
- 5 hours per week to afford a one-bedroom rental home at fair
- 6 market prices. To afford a two-bedroom residence without being
- 7 cost burdened, the National Low Income Housing Coalition
- 8 estimates that a person must earn \$37.69 per hour. Hawaii's
- 9 electricity prices are also the highest in the nation, while the
- 10 cost of other essential items, like food and clothing, has risen
- 11 significantly in the past year.
- 12 The legislature also finds that taxing unemployment
- 13 compensation worsens the financial hardship faced by people who
- 14 have lost their jobs. Fifteen states, including Alabama,
- 15 Alaska, California, Florida, Montana, Nevada, New Hampshire, New
- 16 Jersey, Pennsylvania, South Dakota, Tennessee, Texas, Virginia,
- 17 Washington, and Wyoming, do not tax unemployment compensation;
- 18 nine of those states do not impose personal income taxes.
- 19 Moreover, Hawaii was one of only thirteen states that levied its
- 20 personal income tax on the first \$10,200 of unemployment income

received by individuals in 2020, when the first emergency public 1 health orders went into effect. 2 Accordingly, the purpose of this Act is to increase revenue 3 for essential public services and uplift Hawaii's most 4 5 vulnerable workers by: 6 (1)Increasing the personal income tax rate and 7 implementing a rate recapture mechanism that phases out lower tax brackets for high earners; 8 9 (2) Increasing the tax on capital gains; 10 (3) Increasing the corporate income tax and establishing a 11 single corporate income tax rate; and 12 (4) Exempting unemployment payments from the State's 13 personal income tax. PART II 14 15 SECTION 2. Section 235-51, Hawaii Revised Statutes, is 16 amended as follows: 1. By amending subsections (a) through (c) to read: 17 "(a) There is hereby imposed on the taxable income of 18 19 every: Taxpayer who files a joint return under section 235-20

93; and

21

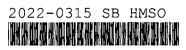
1	(2) Surviving spouse,	
2	a tax determined in accordance with the	following table:
3	In the case of any taxable year beg	ginning after December
4	31, 2017:	
5	If the taxable income is:	The tax shall be:
6	Not over \$4,800	1.40% of taxable income
7	Over \$4,800 but	\$67.00 plus 3.20% of
8	not over \$9,600	excess over \$4,800
9	Over \$9,600 but	\$221.00 plus 5.50% of
10	not over \$19,200	excess over \$9,600
11	Over \$19,200 but	\$749.00 plus 6.40% of
12	not over \$28,800	excess over \$19,200
13	Over \$28,800 but	\$1,363.00 plus 6.80% of
14	not over \$38,400	excess over \$28,800
15	Over \$38,400 but	\$2,016.00 plus 7.20% of
16	not over \$48,000	excess over \$38,400
17	Over \$48,000 but	\$2,707.00 plus 7.60% of
18	not over \$72,000	excess over \$48,000
19	Over \$72,000 but	\$4,531.00 plus 7.90% of
20	not over \$96,000	excess over \$72,000
21	Over \$96,000 but	\$6,427.00 plus 8.25% of

1	not over \$300,000	excess over \$96,000
2	Over \$300,000 but	
3	not over \$350,000	excess over \$300,000
4	Over \$350,000 but	\$27,757.00 plus 10.00% of
5	not over \$400,000	excess over \$350,000
6	Over \$400,000	\$32,757.00 plus 11.00% of
7		excess over \$400,000.
8	In the case of any taxable year	beginning after December
9	31, 2021:	
10	If the taxable income is:	The tax shall be:
11	Not over \$4,800	1.40% of taxable income
12	Over \$4,800 but	\$67.00 plus 3.20% of
13	not over \$9,600	excess over \$4,800
14	Over \$9,600 but	\$221.00 plus 5.50% of
15	not over \$19,200	excess over \$9,600
16	Over \$19,200 but	\$749.00 plus 6.40% of
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2	not over \$72,000	excess over \$48,000
3	Over \$72,000 but	\$4,531.00 plus 7.90% of
4	not over \$96,000	excess over \$72,000
5	Over \$96,000 but	\$6,427.00 plus 8.25% of
6	not over \$200,000	excess over \$96,000
7	Over \$200,000 but	\$4,531.00 plus 9.00% of
8	not over \$300,000	excess over \$72,000
9	Over \$300,000 but	\$2,016.00 plus 10.00% of
10	not over \$400,000	excess over \$38,400
11	Over \$400,000 but	\$749.00 plus 11.00% of
12	not over \$450,000	excess over \$19,200
13	Over \$450,000 but	\$67.00 plus 12.00% of
14	not over \$500,000	excess over \$4,800
15	Over \$500,000	13.00% of all taxable
16		income.
17	(b) There is hereby imposed on	the taxable income of every
18	head of a household a tax determined	in accordance with the
19	following table:	
20	In the case of any taxable year	beginning after December
21	31, 2017:	

1	If the taxable income is:	The tax shall be:
2	Not over \$3,600	1.40% of taxable income
3	Over \$3,600 but	\$50.00 plus 3.20% of
4	not over \$7,200	excess over \$3,600
5	Over \$7,200 but	\$166.00 plus 5.50% of
6	not over \$14,400	excess over \$7,200
7	Over \$14,400 but	\$562.00 plus 6.40% of
8	not over \$21,600	excess over \$14,400
9	Over \$21,600 but	\$1,022.00 plus 6.80% of
10	not over \$28,800	excess over \$21,600
11	Over \$28,800 but	\$1,512.00 plus 7.20% of
12	not over \$36,000	excess over \$28,800
13	Over \$36,000 but	\$2,030.00 plus 7.60% of
14	not over \$54,000	excess over \$36,000
15	Over \$54,000 but	\$3,398.00 plus 7.90% of
16	not over \$72,000	excess over \$54,000
17	Over \$72,000 but	\$4,820.00 plus 8.25% of
18	not over \$225,000	excess over \$72,000
19	Over \$225,000 but	\$17,443.00 plus 9.00% of
20	not over \$262,500	excess over \$225,000
21	Over \$262,500 but	\$20,818.00 plus 10.00% of

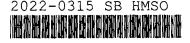
1	not over \$300,000	excess over \$262,500
2	Over \$300,000	\$24,568.00 plus 11.00% of
3		excess over \$300,000.
4	In the case of any taxable year k	peginning after December
5	<u>31, 2021:</u>	
6	If the taxable income is:	The tax shall be:
7	Not over \$3,600	1.40% of taxable income
8	Over \$3,600 but	\$50.00 plus 3.20% of
9	not over \$7,200	excess over \$3,600
10	Over \$7,200 but	\$166.00 plus 5.50% of
11	not over \$14,400	excess over \$7,200
12	Over \$14,400 but	\$562.00 plus 6.40% of
13	not over \$21,600	excess over \$14,400
14	Over \$21,600 but	\$1,022.00 plus 6.80% of
15	<u>not over \$28,800</u>	excess over \$21,600
16	Over \$28,800 but	\$1,512.00 plus 7.20% of
17	<u>not over \$36,000</u>	excess over \$28,800
18	Over \$36,000 but	\$2,030.00 plus 7.60% of
19	<u>not over \$54,000</u>	excess over \$36,000
20	Over \$54,000 but	\$3,398.00 plus 7.90% of
21	not over \$72,000	excess over \$54,000



1	Over \$72,000 but	\$4,820.00 plus 8.25% of
2	not over \$150,000	excess over \$72,000
3	Over \$150,000 but	\$3,398.00 plus 9.00% of
4	not over \$225,000	excess over \$54,000
5	Over \$225,000 but	\$1,512.00 plus 10.00% of
6	not over \$300,000	excess over \$28,800
7	Over \$300,000 but	\$562.00 plus 11.00% of
8	not over \$350,000	excess over \$14,400
9	Over \$350,000 but	\$50.00 plus 12.00% of
10	not over \$400,000	excess over \$3,600
11	Over \$400,000	13% of all taxable
12		income.
13	(c) There is hereby imposed	on the taxable income of (1)
14	every unmarried individual (other	than a surviving spouse, or
15	the head of a household) and (2) of	on the taxable income of every
16	married individual who does not ma	ake a single return jointly
17	with the individual's spouse under	section 235-93 a tax
18	determined in accordance with the	following table:
19	In the case of any taxable ye	ear beginning after December
20	31, 2017:	
21	If the taxable income is	: The tax shall be:

1	Not over \$2,400	1.40% of taxable income
2	Over \$2,400 but	\$34.00 plus 3.20% of
3	not over \$4,800	excess over \$2,400
4	Over \$4,800 but	\$110.00 plus 5.50% of
5	not over \$9,600	excess over \$4,800
6	Over \$9,600 but	\$374.00 plus 6.40% of
7	not over \$14,400	excess over \$9,600
8	Over \$14,400 but	\$682.00 plus 6.80% of
9	not over \$19,200	excess over \$14,400
10	Over \$19,200 but	\$1,008.00 plus 7.20% of
11	not over \$24,000	excess over \$19,200
12	Over \$24,000 but	\$1,354.00 plus 7.60% of
13	not over \$36,000	excess over \$24,000
14	Over \$36,000 but	\$2,266.00 plus 7.90% of
15	not over \$48,000	excess over \$36,000
16	Over \$48,000 but	\$3,214.00 plus 8.25% of
17	not over \$150,000	excess over \$48,000
18	Over \$150,000 but	\$11,629.00 plus 9.00% of
19	not over \$175,000	excess over \$150,000
20	Over \$175,000 but	\$13,879.00 plus 10.00% of
21	not over \$200,000	excess over \$175,000

1	Over \$200,000	\$16,379.00 plus 11.00% of
2		excess over \$200,000.
3	In the case of any taxable year	beginning after December
4	31, 2021:	
5	If the taxable income is:	The tax shall be:
6	Not over \$2,400	1.40% of taxable income
7	Over \$2,400 but	\$34.00 plus 3.20% of
8	not over \$4,800	excess over \$2,400
9	Over \$4,800 but	\$110.00 plus 5.50% of
10	not over \$9,600	excess over \$4,800
11	Over \$9,600 but	\$374.00 plus 6.40% of
12	not over \$14,400	excess over \$9,600
13	Over \$14,400 but	\$682.00 plus 6.80% of
14	not over \$19,200	excess over \$14,400
15	Over \$19,200 but	\$1,008.00 plus 7.20% of
16	not over \$24,000	excess over \$19,200
17	Over \$24,000 but	\$1,354.00 plus 7.60% of
18	not over \$36,000	excess over \$24,000
19	Over \$36,000 but	\$2,266.00 plus 7.90% of
20	not over \$48,000	excess over \$36,000
21	Over \$48,000 but	\$3,214.00 plus 8.25% of



I	<u>not over \$100,000</u>	excess over \$48,000
2	Over \$100,000 but	\$2,266.00 plus 9.00% of
3	not over \$150,000	excess over \$36,000
4	Over \$150,000 but	\$1,008.00 plus 10.00% of
5	not over \$200,000	excess over \$19,200
6	Over \$200,000 but	\$374.00 plus 11.00% of
7	not over \$250,000	excess over \$9,600
8	Over \$250,000 but	\$34.00 plus 12.00% of
9	not over \$300,000	excess over \$2,400
10	Over \$300,000	13.00% of all taxable
11		income."
12	2. By amending subsection (f) t	co read:
13	"(f) If a taxpayer has a net ca	apital gain for any taxable
14	year to which this subsection applies	s, then the tax imposed by
15	this section shall not exceed the sum	n of:
16	(1) The tax computed at the rat	tes and in the same manner
17	as if this subsection had r	not been enacted on the
18	greater of:	
19	(A) The taxable income red	duced by the amount of net
20	capital gain, or	

1	(B) The amount of taxable income taxed at a fate
2	below $[7.25]$ 11 per cent, plus
3	(2) A tax of $[7.25]$ 11 per cent of the amount of taxable
4	income in excess of the amount determined under
5	paragraph (1).
6	This subsection shall apply to individuals, estates, and
7	trusts for taxable years beginning after December 31, 1986."
8	PART III
9	SECTION 3. Section 235-71, Hawaii Revised Statutes, is
10	amended as follows:
11	1. By amending subsections (a) and (b) to read:
12	"(a) A tax at the rates herein provided shall be assessed,
13	levied, collected, and paid for each taxable year on the taxable
14	income of every corporation, including a corporation carrying on
15	business in partnership, except that in the case of a regulated
16	investment company the tax is as provided by subsection (b) and
17	further that in the case of a real estate investment trust as
18	defined in section 856 of the Internal Revenue Code of 1954 the
19	tax is as provided in subsection (d). "Corporation" includes
20	any professional corporation incorporated pursuant to chapter
21	415A.

1 The tax on all taxable income shall be at the rate of [4.4]2 per cent if the taxable income is not over \$25,000, 5.4 per cent 3 if over \$25,000 but not over \$100,000, and on all over \$100,000, 4 6.4] 9.6 per cent. 5 (b) In the case of a regulated investment company there is 6 imposed on the taxable income, computed as provided in sections 7 852 and 855 of the Internal Revenue Code but with the changes 8 and adjustments made by this chapter (without prejudice to the 9 generality of the foregoing, the deduction for dividends paid is 10 limited to such amount of dividends as is attributable to income 11 taxable under this chapter), a tax [consisting in the sum of the 12 following: 4.4 per cent-if-the-taxable-income-is-not-over 13 \$25,000, 5.4 per cent if over \$25,000 but not over \$100,000, and 14 on all over \$100,000, 6.4] of 9.6 per cent." 15 2. By amending subsection (d) to read: 16 "(d) In the case of a real estate investment trust there 17 is imposed on the taxable income, computed as provided in 18 sections 857 and 858 of the Internal Revenue Code but with the 19 changes and adjustments made by this chapter (without prejudice 20 to the generality of the foregoing, the deduction for dividends 21 paid is limited to such amount of dividends as is attributable

1 to income taxable under this chapter), a tax [consisting in the 2 sum of the following: 4.4 per cent if the taxable income is not 3 over \$25,000, 5.4 per cent if over \$25,000 but not over \$100,000, and on all over \$100,000, 6.4] of 9.6 per cent. In addition to any other penalty provided by law any real estate 5 6 investment trust whose tax liability for any taxable year is 7 deemed to be increased pursuant to section 859(b)(2)(A) or 8 860(c)(1)(A) after December 31, 1978, (relating to interest and 9 additions to tax determined with respect to the amount of the 10 deduction for deficiency dividends allowed) of the Internal 11 Revenue Code shall pay a penalty in an amount equal to the 12 amount of interest for which such trust is liable that is 13 attributable solely to such increase. The penalty payable under 14 this subsection with respect to any determination shall not 15 exceed one-half of the amount of the deduction allowed by 16 section 859(a), or 860(a) after December 31, 1978, of the 17 Internal Revenue Code for such taxable year." 18 PART IV 19 SECTION 4. Section 235-7, Hawaii Revised Statutes, is

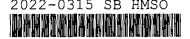
amended by amending subsection (a) to read as follows:

20

1	(a)	There shall be excluded from gross income, adjusted
2	gross inc	ome, and taxable income:
3	(1)	Income not subject to taxation by the State under the
4		Constitution and laws of the United States;
5	(2)	Rights, benefits, and other income exempted from
6		taxation by section 88-91, having to do with the state
7		retirement system, and the rights, benefits, and other
8		income, comparable to the rights, benefits, and other
9		income exempted by section 88-91, under any other
10		<pre>public retirement system;</pre>
11	(3)	Any compensation received in the form of a pension for
12		past services;
13	(4)	Compensation paid to a patient affected with Hansen's
14		disease employed by the State or the United States in
15		any hospital, settlement, or place for the treatment
16		of Hansen's disease;
17	(5)	Except as otherwise expressly provided, payments made
18		by the United States or this State, under an act of
19		Congress or a law of this State, which by express
20		provision or administrative regulation or
21		interpretation are exempt from both the normal and

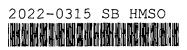


7		surtaxes of the officed states, even though not so
2		exempted by the Internal Revenue Code itself;
3	(6)	Any income expressly exempted or excluded from the
4		measure of the tax imposed by this chapter by any
5		other law of the State, it being the intent of this
6		chapter not to repeal or supersede any such express
7		exemption or exclusion;
8	(7)	Income received by each member of the reserve
9		components of the Army, Navy, Air Force, Marine Corps,
10		or Coast Guard of the United States of America, and
11		the Hawaii National Guard as compensation for
12		performance of duty, equivalent to pay received for
13		forty-eight drills (equivalent of twelve weekends) and
14		fifteen days of annual duty, at an:
15		(A) E-1 pay grade after eight years of service;
16		provided that this subparagraph shall apply to
17		taxable years beginning after December 31, 2004;
18		(B) E-2 pay grade after eight years of service;
19		provided that this subparagraph shall apply to
20		taxable years beginning after December 31, 2005;



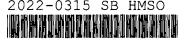
1		(C)	E-3 pay grade after eight years of service;
2			provided that this subparagraph shall apply to
3			taxable years beginning after December 31, 2006;
4		(D)	E-4 pay grade after eight years of service;
5			provided that this subparagraph shall apply to
6			taxable years beginning after December 31, 2007;
7			and
8		(E)	E-5 pay grade after eight years of service;
9			provided that this subparagraph shall apply to
10			taxable years beginning after December 31, 2008;
11	(8)	Incor	me derived from the operation of ships or aircraft
12		if th	ne income is exempt under the Internal Revenue
13		Code	pursuant to the provisions of an income tax
14		treat	ty or agreement entered into by and between the
15		Unite	ed States and a foreign country[;] provided that
16		the 1	tax laws of the local governments of that country
17		recip	procally exempt from the application of all of
18		their	r net income taxes, the income derived from the
19		opera	ation of ships or aircraft that are documented or
20		ragio	stered under the laws of the United States;
20		regr.	stered under the ramp of the onread blaces,

1	(9)	The value of legal services provided by a legal
2		service plan to a taxpayer, the taxpayer's spouse, and
3		the taxpayer's dependents;
4	(10)	Amounts paid, directly or indirectly, by a legal
5		service plan to a taxpayer as payment or reimbursement
6		for the provision of legal services to the taxpayer,
7		the taxpayer's spouse, and the taxpayer's dependents;
8	(11)	Contributions by an employer to a legal service plan
9		for compensation (through insurance or otherwise) to
10		the employer's employees for the costs of legal
11		services incurred by the employer's employees, their
12		spouses, and their dependents; [and]
13	(12)	Amounts received in the form of a monthly surcharge by
14		a utility acting on behalf of an affected utility
15		under section 269-16.3; provided that amounts retained
16		by the acting utility for collection or other costs
17		shall not be included in this exemption[-]; and
18	(13)	Income received as unemployment compensation benefits
19		under chapter 383."
20	SECT	ION 5. Section 383-161, Hawaii Revised Statutes, is
21	amended by	y amending subsection (a) to read as follows:

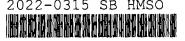


1	(a) Any agreement by an individual to waive, release, or	
2	commute the individual's rights to benefits or any other rights	
3	under this chapter shall be void, except agreements to withhold	
4	and deduct benefits for the following purposes:	
5	(1) The payment of child support obligations as provided	
6	in section 383-163.5;	
7	(2) The voluntary deduction and withholding of federal	
8	[and state] income tax from unemployment compensation	
9	as provided in section 383-163.6; and	
10	(3) The repayment of uncollected overissuances of food	
11	stamp coupons as provided in section 383-163.7."	
12	SECTION 6. Section 383-163, Hawaii Revised Statutes, is	
13	amended to read as follows:	
14	"§383-163 No assignment of benefits; waiver. No	
15	assignment, pledge, or encumbrance of any right to benefits	
16	which are or may become due or payable under this chapter shall	
17	be valid and the right to benefits shall not be subject to levy,	
18	execution, attachment, garnishment, or any other remedy for the	
19	collection of debt. No waiver of this section shall be valid,	
20	except that this section shall not apply to:	

(1)	section 363-163.5 with respect to the withholding and
	deduction of benefits for the payment of child support
	obligations;
(2)	Section 383-163.6 with respect to the voluntary
	withholding and deduction of benefits for payment of
	federal [and state] income taxes; and
(3)	Section 383-163.7 with respect to the withholding and
	deduction of benefits for repayment of uncollected
	overissuances of food stamp coupons."
SECT	ION 7. Section 383-163.6, Hawaii Revised Statutes, is
amended b	y amending subsection (a) to read as follows:
"(a)	An individual filing a new claim for unemployment
compensat	ion shall, at the time of filing the claim, be advised
that:	
(1)	Unemployment compensation is subject to federal [and
	<pre>state] income tax;</pre>
(2)	Requirements exist pertaining to estimated tax
	payments;
(3)	The individual may elect to have federal income tax
	deducted and withheld from the individual's payment of
	(2) (3) SECT amended b "(a) compensat that: (1)



1		unemployment compensation at the amount specified in
2		the federal Internal Revenue Code;
3	[(4)	The individual may elect to have state income tax
4		deducted and withheld-from the individual's-payment of
5		unemployment compensation at the amount specified in
6		section 235-69;
7	(5)]	(4) The individual may elect to have state and local
8		income taxes deducted and withheld from the
9		individual's payment of unemployment compensation for
10		other states and localities outside this State at the
11		percentage established by the state or locality, if
12		the department by agreement with the other state or
13		locality is authorized to deduct and withhold income
14		tax; and
15	[-(6)]	(5) The individual shall be permitted to change a
16		previously elected withholding status no more than
17		once during a benefit year."
18	SECT	ION 8. Section 235-69, Hawaii Revised Statutes, is
19	repealed.	
20	[" [\$	235-69] Voluntary deduction and withholding of state
21	income tax	k from unemployment compensation. An individual



11

S.B. NO. 2242

1	receiving unemployment compensation benefits under chapter 383
2	may elect to have state income tax deducted and withheld from
3	the individual's payment of unemployment compensation at the
4	rate of five per cent in accordance with section 383-163.6."]
5	PART V
6	SECTION 9. Statutory material to be repealed is bracketed
7	and stricken. New statutory material is underscored.
8	SECTION 10. This Act, upon its approval, shall apply to
9	taxable years beginning after December 31, 2021; provided that
Λ	mant IV shall take offers metroagtive to Japuary 1 2022

INTRODUCED BY:



Report Title:

Taxation; Personal Income Tax; Capital Gains; Corporate Tax; Unemployment Benefits

Description:

Increases personal income tax revenues for high earning taxpayers by establishing new income tax brackets and rates that are applied against a broader level of taxable income for taxable years beginning after 12/31/2021. Increases the tax on capital gains. Increases the corporate income tax and establishes a single corporate income tax rate. Exempts unemployment payments from the State's personal income tax from 1/1/2022.

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