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**TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

TESTIMONY ON THE FOLLOWING MEASURE:
S.B. No. 1470, Relating to Income Tax Withholding.

BEFORE THE:
Senate Committee on Ways and Means

DATE: Wednesday, February 12, 2025
TIME: 10:00 a.m.
LOCATION: State Capitol, Room 211

Chair Dela Cruz, Vice-Chair Moriwaki, and Members of the Committee:

The Department of Taxation (DOTAX) offers the following testimony in support of S.B. 1470, an Administration measure, for your consideration.

S.B. 1470 amends section 235-61, Hawaii Revised Statutes (HRS), relating to the withholding of tax on wages, to:

- (1) Repeal the maximum tax rate that may be considered in determining the amount of income tax that must be withheld;
- (2) Repeal the requirement that a standard deduction allowance be treated as if it was denominated as a withholding exemption; and
- (3) Permit the Director of Taxation to prescribe a standard deduction allowance in an amount more or less than one whole exemption.

The bill is effective upon approval and applies to taxable years beginning after December 31, 2024.

The existing cap on the maximum tax rate that may be considered in determining income tax withholding does not function for taxpayers in brackets with rates higher

than eight percent. For these wage earners, the maximum cap may result in the underwithholding of income tax. Repealing the cap allows taxpayers to more accurately estimate withholding to reflect their expected liabilities.

The requirement that a standard deduction allowance be treated as if it was denominated as a withholding exemption complicates DOTAX's issuance of withholding tables, due to changes to the standard deduction and income tax brackets under Act 46, Session Laws of Hawaii 2024. Untying the standard deduction allowance from the value of the withholding exemption would allow DOTAX to more effectively assist employers in their estimation of employees' withholding liabilities in the Employer's Tax Guide.

Permitting the Director of Taxation to prescribe a standard deduction allowance in an amount more or less than one whole exemption would allow for more precise estimation of employees' income tax liabilities using calculations involving fractional amounts, e.g., .5, .75, 1.25, 1.5., or 1.75 allowed exemptions.

DOTAX estimates no material revenue impact as a result of this bill.

Thank you for the opportunity to provide testimony in support of this measure.

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LATE

SUBJECT: WITHHOLDING, Allow Additional Flexibility in Withholding

BILL NUMBER: SB 1470, HB 1151

INTRODUCED BY: SB by KOUCHI by request; HB by NAKAMURA by request (Governor's Package)

EXECUTIVE SUMMARY: For taxable years beginning after December 31, 2024, (1) repeals the maximum tax rate that may be considered in determining the amount of income tax that must be withheld and the requirement that a standard deduction allowance be treated as if it was denominated as a withholding exemption, and (2) for the purpose of income tax withholding, permits the Director of Taxation to prescribe a standard deduction allowance in an amount more or less than one whole exemption.

SYNOPSIS: Amends section 235-61, HRS, to remove the current requirement that wage withholding take place at a maximum rate of 8%.

Provides that a standard deduction allowance could be more or less than one exemption if so prescribed by the director of taxation.

Removes language now providing that a standard deduction allowance will be treated as a withholding exemption.

EFFECTIVE DATE: Upon approval, applies to taxable years beginning after December 31, 2024.

STAFF COMMENTS: This is an Administration bill sponsored by the Department of Taxation and designated TAX-07 (25).

This bill involves wage withholding. Withholding is not tax, but it is a collection device to make sure that the tax is paid to the government when it needs to be. A withholding system should be designed to collect a reasonable estimate of taxes owed. The provisions that the Department of Taxation is complaining about in fact distort the withholding system, so there is a valid case for making those changes.

Digested: 2/9/2025