
A BILL FOR AN ACT

RELATING TO COST OF LIVING ADJUSTMENTS TO INCOME TAX RATES AND
STANDARD DEDUCTION AND PERSONAL EXEMPTION AMOUNTS.

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

1 SECTION 1. The legislature finds that inflation erodes the
2 value of personal exemptions and deductions in the state
3 individual income tax structure and distorts fiscal equity among
4 taxpayers. Inflation-induced increases in individual income tax
5 revenues result in annual collections that exceed the amounts
6 anticipated by legislative actions establishing rates,
7 exemptions, deductions, and other features of the state
8 individual income tax. Furthermore, the income tax laws of this
9 State, in combination with economic inflation, have caused
10 inequitable treatment of taxpayers because the application of
11 inflexible, statutorily prescribed rates of tax, standard
12 deduction, and personal exemption to increasing personal incomes
13 has resulted in increasing the taxpayer's tax liability while
14 the taxpayer's purchasing power has remained the same or, in
15 some instances, has decreased.



1 The purpose of this Act is to correct this situation by
2 requiring that certain components of the individual income tax
3 structure be adjusted to compensate for the impact of inflation.

4 SECTION 2. Chapter 231, Hawaii Revised Statutes, is
5 amended by adding a new section to be appropriately designated
6 and to read as follows:

7 "§231- Cost of living adjustments. (a) Beginning
8 in 2007, and each subsequent year thereafter, the department
9 shall multiply the cost-of-living adjustment for the taxable
10 year by the following:

11 (1) Standard deduction amounts under section 235-2.4(a);

12 (2) Tax rates under sections 235-51; and

13 (3) Exemption amounts under section 235-54;

14 and assess these taxes or recognize these amounts after
15 adjusting for inflation as prescribed by this subsection.

16 If the dollar amounts of the tax, deduction, or exemption
17 adjusted by the application of the cost-of-living adjustment are
18 not multiples of \$50, any increase shall be rounded to the next
19 lowest multiple of \$50; provided that if the cost-of-living
20 adjustment for any taxable year is 1.000 or less, no adjustment
21 shall be made for that taxable year.



1 (b) The department shall incorporate necessary changes
2 into the income tax forms, instructions, and withholding tables
3 to effectuate the purposes of this section and may adopt rules
4 pursuant to chapter 91 to effectuate this section.

5 (c) As used in this chapter, unless the context indicates
6 otherwise, the following terms have the following meanings:

7 "Consumer price index" means the average over a twelve-
8 month period of the national consumer price index, not
9 seasonally adjusted, published monthly by the Bureau of Labor
10 Statistics, United States Department of Labor, designated as the
11 "National Consumer Price Index for All Urban Consumers-United
12 States City Average".

13 "Cost-of-living adjustment" means an adjustment equal to
14 the consumer price index for the twelve-month period ending
15 December 31 of the preceding taxable year divided by the
16 consumer price index for the twelve-month period ending December
17 31, 2006.

18 SECTION 3. Section 231-3, Hawaii Revised Statutes, is
19 amended to read as follows:

20 **"§231-3 Department, general duties and powers.** The
21 department shall have the following duties and powers, in
22 addition to any others prescribed or granted by this chapter:



- 1 (1) Assessment: To make any assessment by law required to
2 be made by the department; provided that the
3 assessment shall reflect the cost-of-living
4 adjustments to the standard deduction, income tax
5 bracket, and personal exemption amounts under section
6 231- ;
- 7 (2) Collections: To be responsible for the collection of
8 all taxes imposed under title 14, except those which
9 by law are to be collected by county treasurers, and
10 for such other duties as are provided by law;
- 11 (3) Construction of revenue laws: To construe the tax and
12 revenue laws, the administration of which is within
13 the scope of the department's duties, whenever
14 requested by any officer acting under those laws, or
15 by an interested person;
- 16 (4) Enforcement of penalties: To see that penalties are
17 enforced when prescribed by any tax or revenue law of
18 the State (the administration of which is within the
19 scope of the department's duties) for disobedience or
20 evading of its provisions, and to see that complaint
21 is made against persons violating any such law; in the
22 execution of these powers and duties the department



1 may call upon the attorney general or any of the
2 attorney general's deputies, including the county
3 attorneys or public prosecutors, whose duties it shall
4 be to assist in the institution and conduct of all
5 proceedings or prosecutions for penalties and
6 forfeitures, liabilities, and punishments for
7 violation of the laws administered by the department;

8 (5) Forms: To prescribe forms to be used in or in
9 connection with any assessment, including forms to be
10 used in the making of returns by taxpayers or in any
11 other proceedings connected with the assessment, and
12 to change the same from time to time as deemed
13 necessary;

14 (6) Inspection, examination of records: To inspect and
15 examine the records of all public officers without
16 charge, and to examine the books and papers of account
17 of any person for the purpose of enabling the
18 department to obtain all information that could in any
19 manner aid the department in discharging its duties
20 under any tax law;

21 (7) Recommendations for legislation: To recommend to the
22 governor any amendments, changes, or modifications of



1 the laws as may seem proper or necessary to remedy
2 injustice or irregularity in taxation or to facilitate
3 the assessment of taxes;

4 (8) Report to governor: To report to the governor
5 annually, and at such other times and in such manner
6 as the governor may require, concerning the acts and
7 doings and the administration of the department, and
8 any other matters of information concerning taxation
9 as may be deemed of general interest;

10 (9) Rules: To adopt such rules as the department may deem
11 proper effectually to carry out the purposes for which
12 the department is constituted and to regulate matters
13 of procedure by or before the department;

14 (10) Compromises: With the approval of the governor, to
15 compromise any claim where the tax exceeds \$50,000
16 (exclusive of penalties and interest) arising under
17 any tax law the administration of which is within the
18 scope of the department's duties, and to compromise
19 any tax claim where the tax is \$50,000 or less
20 (exclusive of penalties and interest) without seeking
21 the approval of the governor; provided that the
22 director shall have the discretion to seek the



1 approval of the governor to compromise any tax claim
2 where the director deems it appropriate; and in each
3 case the department shall post each proposed
4 compromise, as set forth in subparagraphs (A) to (D),
5 on the department's internet website for five calendar
6 days before the director signs the compromise, and
7 there shall be placed on file in the department's
8 office a statement of:

- 9 (A) The name of the taxpayer and the amount and type
10 of tax assessed, or proposed to be assessed;
- 11 (B) The amount of penalties and interest imposed or
12 which could have been imposed by law with respect
13 to the amount of tax assessed, as computed by the
14 department;
- 15 (C) The total amount of liability as determined by
16 the terms of the compromise, and the actual
17 payments made thereon with the dates thereof; and
- 18 (D) The reasons for the compromise.

19 Notwithstanding the provisions of any law making
20 unlawful the disclosure of tax returns or return
21 information, statements on file and included in the



1 department's internet website in respect of
2 compromises shall be open to public inspection;

3 (11) Retroactivity of rulings: To prescribe the extent, if
4 any, to which any ruling, rule, or construction of the
5 tax laws, of general application, shall be applied
6 without retroactive effect;

7 (12) Remission of delinquency penalties and interest:
8 Except in cases of fraud or wilful violation of the
9 laws or wilful refusal to make a return setting forth
10 the information required by law (but inclusion in a
11 return of a claim of nonliability for the tax shall
12 not be deemed a refusal to make a return), the
13 department may remit any amount of penalties or
14 interest added, under any law administered by the
15 department, to any tax that is delinquent, in a case
16 of excusable failure to file a return or pay a tax
17 within the time required by law, or in a case of
18 uncollectibility of the whole amount due; and in that
19 case there shall be placed on file in the department's
20 office a statement showing the name of the person
21 receiving the remission, the principal amount of the
22 tax, and the year or period involved;



1 (13) Closing agreements: To enter into an agreement in
2 writing with any taxpayer or other person relating to
3 the liability of the taxpayer or other person, under
4 any law the administration of which is within the
5 scope of the department's duties, in respect of any
6 taxable period, or in respect of one or more separate
7 items affecting the liability for any taxable period;
8 the agreement, signed by or on behalf of the taxpayer
9 or other person concerned, and by or on behalf of the
10 department, shall be final and conclusive, and except
11 upon a showing of fraud or malfeasance, or
12 misrepresentation of a material fact:

13 (A) The matters agreed upon shall not be reopened,
14 and the agreement shall not be modified, by any
15 officer or employee of the State; and

16 (B) In any suit, action, or proceeding, the
17 agreement, or any determination, assessment,
18 collection, payment, refund, or credit made in
19 accordance therewith, shall not be annulled,
20 modified, set aside, or disregarded;

21 (14) Other powers and duties: In addition to the powers
22 and duties contained in this chapter, the powers and



1 duties contained in other chapters of the law under
2 title 14 administered by the department for levying,
3 assessing, collecting, receiving, and enforcing
4 payments of the tax imposed thereunder, and otherwise
5 relating thereto, shall be severally and respectively
6 conferred, granted, practiced, and exercised for
7 levying, assessing, collecting, receiving, and
8 enforcing payment of the taxes imposed under the
9 authority of those chapters as far as the provisions
10 are consistent with the express provisions of those
11 chapters, as fully and effectually to all intents and
12 purposes as if the same powers and authorities were
13 repeated in those chapters, with reference to those
14 taxes, and all of the provisions shall be applied,
15 construed, deemed, and taken to refer to the taxes
16 imposed under the authority of those chapters, in like
17 manner."

18 SECTION 4. Section 235-2.4, Hawaii Revised Statutes, is
19 amended by amending subsection (a) to read as follows:

20 "(a) Section 63 (with respect to taxable income defined)
21 of the Internal Revenue Code shall be operative for the purposes



1 of this chapter, except that the standard deduction amount in
2 section 63(c) of the Internal Revenue Code shall instead mean:

- 3 (1) \$4,000 in the case of:
 - 4 (A) A joint return as provided by section 235-93; or
 - 5 (B) A surviving spouse (as defined in section 2(a) of
 - 6 the Internal Revenue Code);
- 7 (2) \$2,920 in the case of a head of household (as defined
- 8 in section 2(b) of the Internal Revenue Code);
- 9 (3) \$2,000 in the case of an individual who is not married
- 10 and who is not a surviving spouse or head of
- 11 household; or
- 12 (4) \$2,000 in the case of a married individual filing a
- 13 separate return[-];

14 provided that any standard deduction amount claimed under this
15 section shall reflect the cost-of-living adjustments under
16 section 231- .

17 Section 63(c)(4) shall not be operative in this State.

18 Section 63(c)(5) shall be operative, except that the limitation
19 on basic standard deduction in the case of certain dependents
20 shall be the greater of \$500 or such individual's earned income.

21 Section 63(f) shall not be operative in this State.



1 The standard deduction amount for nonresidents shall be
2 calculated pursuant to section 235-5."

3 SECTION 5. Section 235-51, Hawaii Revised Statutes, is
4 amended to read as follows:

5 "**§235-51 Tax imposed on individuals; rates.** (a) There is
6 hereby imposed on the taxable income of (1) every taxpayer who
7 files a joint return under section 235-93; and (2) every
8 surviving spouse a tax determined in accordance with the
9 following table:

10 In the case of any taxable year beginning after
11 December 31, 2001:

If the taxable income is:	The tax shall be:
Not over \$4,000	1.40% of taxable income
Over \$4,000 but not over \$8,000	\$56.00 plus 3.20% of excess over \$4,000
Over \$8,000 but not over \$16,000	\$184.00 plus 5.50% of excess over \$8,000
Over \$16,000 but not over \$24,000	\$624.00 plus 6.40% of excess over \$16,000
Over \$24,000 but not over \$32,000	\$1,136.00 plus 6.80% of excess over \$24,000
Over \$32,000 but	\$1,680.00 plus 7.20% of



1	not over \$40,000	excess over \$32,000
2	Over \$40,000 but	\$2,256.00 plus 7.60% of
3	not over \$60,000	excess over \$40,000
4	Over \$60,000 but	\$3,776.00 plus 7.90% of
5	not over \$80,000	excess over \$60,000
6	Over \$80,000	\$5,356.00 plus 8.25% of
7		excess over \$80,000.

8 In the case of any taxable year beginning after
9 December 31, 2006:

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
17	not over \$28,800	excess over \$19,200
18	Over \$28,800 but	\$1,363.00 plus 6.80% of
19	not over \$38,400	excess over \$28,800
20	Over \$38,400 but	\$2,016.00 plus 7.20% of
21	not over \$48,000	excess over \$38,400
22	Over \$48,000 but	\$2,707.00 plus 7.60% of



1	not over \$72,000	excess over \$48,000
2	Over \$72,000 but	\$4,531.00 plus 7.90% of
3	not over \$96,000	excess over \$72,000
4	Over \$96,000	\$6,427.00 plus 8.25% of
5		excess over \$96,000.

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

9 In the case of any taxable year beginning after
10 December 31, 2001:

11	If the taxable income is:	The tax shall be:
12	Not over \$3,000	1.40% of taxable income
13	Over \$3,000 but	\$42.00 plus 3.20% of
14	not over \$6,000	excess over \$3,000
15	Over \$6,000 but	\$138.00 plus 5.50% of
16	not over \$12,000	excess over \$6,000
17	Over \$12,000 but	\$468.00 plus 6.40% of
18	not over \$18,000	excess over \$12,000
19	Over \$21,600 but	\$852.00 plus 6.80% of
20	not over \$24,000	excess over \$18,000
21	Over \$24,000 but	\$1,260.00 plus 7.20% of
22	not over \$30,000	excess over \$24,000



1	Over \$30,000 but	\$1,692.00 plus 7.60% of
2	not over \$45,000	excess over \$30,000
3	Over \$45,000 but	\$2,832.00 plus 7.90% of
4	not over \$60,000	excess over \$45,000
5	Over \$60,000	\$4,017.00 plus 8.25% of
6		excess over \$60,000.
7	In the case of any taxable year beginning after	
8	December 31, 2006:	
9	If the taxable income is:	The tax shall be:
10	Not over \$3,600	1.40% of taxable income
11	Over \$3,600 but	\$50.00 plus 3.20% of
12	not over \$7,200	excess over \$3,600
13	Over \$7,200 but	\$166.00 plus 5.50% of
14	not over \$14,400	excess over \$7,200
15	Over \$14,400 but	\$562.00 plus 6.40% of
16	not over \$21,600	excess over \$14,400
17	Over \$21,600 but	\$1,022.00 plus 6.80% of
18	not over \$28,800	excess over \$21,600
19	Over \$28,800 but	\$1,512.00 plus 7.20% of
20	not over \$36,000	excess over \$28,000
21	Over \$36,000 but	\$2,030.00 plus 7.60% of
22	not over \$54,000	excess over \$36,000



1	Over \$54,000 but	\$3,398.00 plus 7.90% of
2	not over \$72,000	excess over \$54,000
3	Over \$72,000	\$4,820.00 plus 8.25% of
4		excess over \$72,000.

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

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

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



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

9 In the case of any taxable year beginning after
10 December 31, 2006:

11	If the taxable income is:	The tax shall be:
12	Not over \$2,400	1.40% of taxable income
13	Over \$2,400 but	\$34.00 plus 3.20% of
14	not over \$4,800	excess over \$2,400
15	Over \$4,800 but	\$110.00 plus 5.50% of
16	not over \$9,600	excess over \$4,800
17	Over \$9,600 but	\$374.00 plus 6.40% of
18	not over \$14,400	excess over \$9,600
19	Over \$14,400 but	\$682.00 plus 6.80% of
20	not over \$19,200	excess over \$14,400
21	Over \$19,200 but	\$1,008.00 plus 7.20% of
22	not over \$24,000	excess over \$19,200



1	Over \$24,000 but	\$1,354.00 plus 7.60% of
2	not over \$36,000	excess over \$24,000
3	Over \$36,000 but	\$2,266.00 plus 7.90% of
4	not over \$48,000	excess over \$36,000
5	Over \$48,000	\$3,214.00 plus 8.25% of
6		excess over \$48,000.

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

10 In the case of any taxable year beginning after
11 December 31, 2001:

12	If the taxable income is:	The tax shall be:
13	Not over \$2,000	1.40% of taxable income
14	Over \$2,000 but	\$28.00 plus 3.20% of
15	not over \$4,000	excess over \$2,000
16	Over \$4,000 but	\$92.00 plus 5.50% of
17	not over \$8,000	excess over \$4,000
18	Over \$8,000 but	\$312.00 plus 6.40% of
19	not over \$12,000	excess over \$8,000
20	Over \$12,000 but	\$568.00 plus 6.80% of
21	not over \$16,000	excess over \$12,000
22	Over \$16,000 but	\$840.00 plus 7.20% of



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

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

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

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

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

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

5 (2) A tax of 7.25 per cent of the amount of taxable income
6 in excess of the amount determined under paragraph
7 (1).

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

10 (g) All tax rates established in this section shall
11 reflect cost of living adjustments under section 231- ."

12 SECTION 6. Section 235-54, Hawaii Revised Statutes, is
13 amended by amending subsection (c) to read as follows:

14 "(c) A blind person, a deaf person and any person totally
15 disabled, in lieu of the personal exemptions allowed by the
16 Internal Revenue Code, shall be allowed, and there shall be
17 deducted in computing the taxable income of a blind person, a
18 deaf person, or a totally disabled person, instead of the
19 exemptions provided by subsection (a), the amount of \$7,000[-];
20 provided that any exemption claimed under this subsection shall
21 reflect the cost-of-living adjustments under section 231- ."



1 SECTION 7. Statutory material to be repealed is bracketed
2 and stricken. New statutory material is underscored.

3 SECTION 8. This Act shall take effect on July 1, 2020, and
4 shall apply to taxable years beginning after December 31, 2006.



Report Title:

Cost of Living; Tax Rate; Standard Deduction; Personal Exemption

Description:

Provides for the assessment of tax rates and computation of the standard deduction and personal exemption based on inflation.
Effective July 1, 2020 (HB881 HD1)

