



GOV. MSG. NO. 846

EXECUTIVE CHAMBERS
HONOLULU

LINDA LINGLE
GOVERNOR

July 15, 2009

The Honorable Colleen Hanabusa, President
and Members of the Senate
Twenty-Fifth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

Dear Madam President and Members of the Senate:

I am transmitting herewith HB1544 HD1 SD1 CD1, without my approval, and with the statement of objections relating to the measure.

HB1544 HD1 SD1 CD1

A BILL FOR AN ACT
RELATING TO TAX EXEMPTIONS.

Sincerely,

A handwritten signature in black ink, appearing to read "Linda Lingle", written in a cursive style.

LINDA LINGLE

EXECUTIVE CHAMBERS

HONOLULU

July 15, 2009

STATEMENT OF OBJECTIONS TO HOUSE BILL NO. 1544

Honorable Members
Twenty-Fifth Legislature
State of Hawaii

Pursuant to Section 16 of Article III of the Constitution of the State of Hawaii, I am returning herewith, without my approval, House Bill No. 1544, entitled "A Bill for an Act Relating to Tax Exemptions."

The purpose of this bill is to phase out the Hawaii income tax personal exemption starting in tax year 2009. This measure decreases the Hawaii personal exemption of \$1,040 per person by two percent for every \$2,500 over the income threshold of \$119,963 for individual filers and \$179,963 for joint filers. The measure sunsets on June 30, 2015.

This bill is objectionable because it is a tax increase on Hawaii residents and businesses at a time when additional taxation will delay our economic recovery. Unlike the Hawaii personal exemption of \$1,040, which has not been adjusted since 1985, the current federal income tax personal exemption is \$3,500 and it is adjusted annually for inflation.

The purpose of a personal exemption was to recognize that a certain basic level of income should not be taxed since it serves as a floor to cover living costs. This original purpose has seriously eroded over time. Hawaii's personal exemption is only one-third of what the federal government recognizes and does not take into account the current higher cost of living in Hawaii and the escalating costs households and businesses are experiencing.

STATEMENT OF OBJECTIONS
HOUSE BILL NO. 1544
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Finally, this bill targets the same group of taxpayers that are already affected by the income tax increase enacted by the Legislature earlier this session. It will particularly impact those companies that report their income as personal income. This legislation will further curtail their ability to create jobs or increase wages of their current employees. It is inappropriate for the same taxpayers to shoulder more tax burden, which discourages spending and investments.

For the foregoing reasons, I am returning House Bill No. 1544 without my approval.

Respectfully,

A handwritten signature in black ink, appearing to read 'L. Lingle', written over the printed name.

LINDA LINGLE
Governor of Hawaii

A BILL FOR AN ACT

RELATING TO TAX EXEMPTIONS.

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

1 SECTION 1. Section 235-54, Hawaii Revised Statutes, is
2 amended to read as follows:

3 "**§235-54 Exemptions.** (a) In computing the taxable income
4 of any individual, there shall be deducted, in lieu of the
5 personal exemptions allowed by the Internal Revenue Code[7] of
6 1986, as amended, and except as provided in subsection (c),
7 personal exemptions computed as follows: Ascertain the number
8 of exemptions which the individual can lawfully claim under the
9 Internal Revenue Code, add an additional exemption for the
10 taxpayer or the taxpayer's spouse who is sixty-five years of age
11 or older within the taxable year, and multiply that number by
12 \$1,040, for taxable years beginning after December 31, 1984. A
13 nonresident shall prorate the personal exemptions on account of
14 income from sources outside the [State] state as provided in
15 section 235-5. In the case of an individual with respect to
16 whom an exemption under this section is allowable to another
17 taxpayer for a taxable year beginning in the calendar year in
18 which the individual's taxable year begins, the personal



1 exemption amount applicable to such individual under this
2 subsection for such individual's taxable year shall be zero.

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

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

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

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

11 (c) The phaseout under Section 151(d)(3) of the Internal
12 Revenue Code of 1986, as amended, shall apply to this section;
13 provided that the threshold income amounts under Section
14 151(d)(3)(C) of the Internal Revenue Code of 1986, as amended,
15 shall be reduced by twenty-five per cent for the purposes of
16 this subsection; provided further that the threshold income
17 amounts under Section 151(d)(3)(C) of the Internal Revenue Code
18 of 1986, as amended, used to determine the twenty-five per cent
19 reduction under this subsection shall be maintained at the
20 amounts in place on July 1, 2008.

21 ~~[(e)]~~ (d) A blind person, a deaf person, and any person
22 totally disabled, in lieu of the personal exemptions allowed by



1 the Internal Revenue Code, shall be allowed, and there shall be
2 deducted in computing the taxable income of a blind person, a
3 deaf person, or a totally disabled person, instead of the
4 exemptions provided by subsection (a), the amount of \$7,000."

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

7 SECTION 3. This Act shall take effect upon its approval,
8 and shall apply to taxable years beginning after December 31,
9 2008; provided that this Act shall be repealed on June 30, 2015,
10 and section 235-54, Hawaii Revised Statutes, shall be reenacted
11 in the form in which it read on the day before the effective
12 date of this Act.

