

JAN 23 2025

A BILL FOR AN ACT

RELATING TO INCOME TAX WITHHOLDING.

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

1 SECTION 1. Section 235-61, Hawaii Revised Statutes, is
2 amended by amending subsection (c) to read as follows:

3 "(c) For each withholding period (whether weekly,
4 biweekly, monthly, or otherwise) the amount of tax to be
5 withheld under this section shall be at a rate that, for the
6 taxable year, will yield the tax imposed by section 235-51 upon
7 each employee's annual wage, as estimated from the employee's
8 current wage in any withholding period~~[, but for the purposes of~~
9 ~~this subsection of the rates provided by section 235-51 the~~
10 ~~maximum to be taken into consideration shall be eight per cent]~~.

11 The tax for the taxable year shall be calculated upon the
12 following assumptions:

13 (1) That the employee's annual wage, as estimated from the
14 employee's current wage in the withholding period,
15 will be the employee's sole income for the taxable
16 year;

17 (2) That there will be no deductions therefrom in
18 determining adjusted gross income;

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(3) That in determining taxable income there shall be a standard deduction allowance, which shall be an amount equal to one exemption (or more or less than one exemption if so prescribed by the director) unless the taxpayer:

(A) Is married and the taxpayer's spouse is an employee receiving wages subject to withholding; or

(B) Has withholding exemption certificates in effect with respect to more than one employer.

~~[For the purposes of this section, any standard deduction allowance under this paragraph shall be treated as if it were denominated a withholding exemption.]~~

(4) That in determining taxable income there also will be deducted the amount of exemptions and withholding allowances granted to the employee in the computation of taxable income, as shown by a certificate to be filed with the employer as provided by subsection (f); and

(5) If it appears from the certificate filed pursuant to subsection (f) that the employee, under section 235-

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Report Title:

Income Taxation; Withholding; Exemptions

Description:

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.

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

JUSTIFICATION SHEET

SB. NO. 1470

DEPARTMENT: Taxation

TITLE: A BILL FOR AN ACT RELATING TO INCOME TAX WITHHOLDING.

PURPOSE: To (1) repeal 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, permit the Director of Taxation to prescribe a standard deduction allowance in an amount more or less than one whole exemption.

MEANS: Amend section 235-61(c), Hawaii Revised Statutes.

JUSTIFICATION: The existing cap on the maximum tax rate to be considered in determining income tax withholding does not function for taxpayers in tax brackets with rates higher than eight percent. 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 the department's issuance of withholding tables in light of future 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 the department 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.

Impact on the public: Allows taxpayers to more effectively estimate tax liabilities and adjust their withholding to avoid unexpected liabilities or over-withholding.

Impact on the department and other agencies: Assists in the promulgation of effective guidance to employers for calculating employees' withholding liabilities.

GENERAL FUND: Indeterminate.

OTHER FUNDS: None.

PPBS PROGRAM
DESIGNATION: None.

OTHER AFFECTED
AGENCIES: None.

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