LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR

KURT KAWAFUCHI
DIRECTOR OF TAXATION

STANLEY SHIRAKI
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1510
FAX NO: (808) 587-1560

July 31, 2009

DEPARTMENT OF TAXATION ANNOUNCEMENT NO. 2009-22

RE: Act 14, First Special Session Laws of Hawaii 2009, Relating to Tax Exemptions.

On July 15, 2009, the Legislature overrode Governor Linda Lingle's veto and House Bill 1544, HD 1, SD 1, CD1 became law as Act 14 of the First Special Session of 2009.

The Act adds a new subsection (c) to section 235-54, Hawaii Revised Statutes. This new subsection reduces the amount that may be claimed for personal exemptions by taxpayers with adjusted gross income exceeding a threshold amount. This reduction partially conforms to a similar reduction found in the Internal Revenue Code (IRC) at § 151(d)(3). This is only a partial conformity because the threshold amounts used for federal and state purposes will differ; the state's threshold amount will be 75% of the federal threshold amounts used for 2008.

Under current law, a Hawaii taxpayer is allowed to claim personal exemptions against adjusted gross income in the amount of $1,040 per exemption. This Act reduces the exemption amount for taxpayers whose adjusted gross income exceeds:

(i) $179,963 in the case of a joint return or a surviving spouse,
(ii) $149,963 in the case of a head of a household,
(iii) $119,963 in the case of an individual who is not married and who is not a surviving spouse or head of a household, and
(iv) $89,981 in the case of a married individual filing a separate return.

In the case of a married individual filing a separate return, the amount of the reduction is 2% for each $1,250 (or fraction thereof) by which the taxpayer's adjusted gross income exceeds $89,981. For everyone else, the amount of the reduction is 2% for each $2,500 (or fraction thereof) by which the taxpayer's adjusted gross income for the taxable year exceeds the applicable threshold amount.

For tax year 2009 only, the incorporation of § 151(d)(3)(E), IRC allows taxpayers to claim more of the personal exemption by shrinking the calculated reduction to 1/3 of the amount that would otherwise have been subtracted from the personal exemption amount as a result of the phaseout.

EXAMPLE 1:
For tax year 2009: If a joint return (husband and wife, no children) is filed with an adjusted gross income of $200,000, then the reduction percentage would be 18% (($200,000 - $179,963)/$2,500=8.0148; round up to 9, and multiply by 2%), for a reduction of $374 (($1,040 x 2) x .18). Due to § 151(d)(3)(E), IRC, for tax year 2009, the reduction would only be one-third of $374, or $125, meaning the personal exemptions claimed would be $1,955 (($1,040 x 2) - $125).

For tax years after 2009: If a joint return (husband and wife, no children) is filed with an adjusted gross income of $200,000, then the reduction percentage would be 18% (($200,000 - $179,963)/$2,500=8.0148; round up to 9, and multiply by 2%), for a reduction of $374 (($1,040 x 2) x .18), meaning the personal exemptions claimed would be $1,706 (($1,040 x 2) - $374).

EXAMPLE 2:
For tax year 2009: If a married individual filed a separate return with an adjusted gross income of $95,500, then the reduction percentage would be 10% (($95,500 - $89,981)/$1,250=4.4152; round up to 5 and multiply by 2%), for a reduction of $104 (($1,040 x 1) x .10). Due to § 151(d)(3)(E), IRC, for tax year 2009, the reduction would only be one-third of $104, or $35, meaning the personal exemptions claimed would be $1,005 (($1,040 x 1) - $35).

For tax years after 2009: If a married individual filed a separate return with an adjusted gross income of $95,500, then the reduction percentage would be 10% (($95,500 - $89,981)/$1,250=4.4152; round up to 5 and multiply by 2%), for a reduction of $104 (($1,040 x 1) x .10), meaning the personal exemption claimed would be $936 (($1,040 x 1) - $104).

This Act took effect upon its approval, and applies to taxable years beginning after December 31, 2008. The provisions of this Act will be repealed on June 30, 2015, and section 235-54, Hawaii Revised Statutes, will be reenacted in the form in which it read on the day before the effective date of this Act.

For more information on this Act, please contact the Rules Office at 808-587-1577.

KURT KAWAFUCHI
Director of Taxation