TAX INFORMATION RELEASE No. 83-2

RE: Treatment of Tax Credits for State Income Tax Purposes

This release relates to the treatment, for Hawaii income tax purposes, of tax credits claimed and allowed under Sections 235-12, 235-14, and 235-55, Hawaii Revised Statutes. Questions have arisen as to whether refunds resulting from these credits are taxable income for State purposes.

The sections referred to above contain provisions for various net income tax credits, some of which are refundable, i.e., the excise tax credit, general income tax credit, credit for low-income household renters, credit for the purchase of child passenger restraint systems, and the fuel tax credit for commercial fishers. Essentially, with the exception of the fuel tax credit for commercial fishers, these credits are in the form of outright State grants. Nonrefundable credits include the credit for taxes paid to other states and countries, credit for child care services, and the two credits for energy conservation devices.

In accordance with legislative intent, an administrative determination has been made whereby tax refunds due to the refundable credits, with the exception of the fuel tax credit for commercial fishers, shall not be considered taxable income for Hawaii income tax purposes. The fuel tax credit for commercial fishers and the nonrefundable credits are considered to be tax benefits to those taxpayers receiving them.

The following examples will illustrate the treatment of refunds or taxes due under various circumstances. Tax liability refers to the amount shown on line 13 on the 1982 Form N-12. In all examples, assume that the taxpayers have itemized their deductions on their 1982 returns unless otherwise indicated.

EXAMPLE 1:

Tax liability		$ 863.00
Less: Child care credit	$(147.00)	
Tax withheld	(886.75)	(1,033.75)
Balance		$ (170.75)
Less: Excise tax credit	$ (24.00)	
Renter's credit	(150.00)	
General income tax credit	(300.00)	(474.00)
Overpayment (refunded in 1983)		$ (644.75)

Of the $644.75 refund, only $170.75 is to be included in income for 1983. This includes the credit for child care ($147.00) Plus the difference between the tax liability and the tax withheld ($886.75 - $863.00). There would be no deduction for additional taxes paid.

EXAMPLE 2:

Tax liability		$ 2,476.00
Tax withheld		(2,287.00)
Balance		$ 189.00
Less: General incone tax credit	$(600.00)	
Overpayment (refunded in 1983)		$ (411.00)

No part of the $411.00 refund is considered income. The taxpayer may take a deduction of $189 (the difference between the tax liability and tax withheld) as an itemized deduction on the subsequent year's return.

EXMPLE 3:   (Taxpayers did not itemize deductions.)

Tax liability		$ 246.00
Less: Fuel tax credit for commercial fishers	$(456.00)	
Excise tax credit	(68.00)	
Renter's credit	(100.00)	
General income tax credit	(200.00)	
TOTAL CREDITS	$(824.00)	(824.00)
Balance		$ (578.00)
Tax withheld		--0--
Overpayment (refunded in 1983)		$ (578.00)

Of the $578.00 refund the $456.00 fuel tax credit for commercial fishers must be reported as income since a business deduction was taken for fuel taxes paid. If they itemize their deductions in the subsequent year, they would also have a deduction for additional taxes paid in the amount of $246.00.

EXAMPLE 4:

Tax liability		$ 2,793.00
Tax withheld		(2,000.00)
Balance		$ 793.00
Less: General income tax credit	$(700.00)	
Balance due paid with return		$ 93.00

The taxpayers would have a deduction of $793.00 on their return for the subsequent year which includes the $700 general income tax credit applied to the tax liability and the $93.00 additional taxes due which were paid when the return was filed. There is no refund to report.

EXAMPLE 5:

Tax liability		$ 129.00
Less: Child care credit	$ (29.00)	
Tax Withheld	(100.00)	(129.00)
Balance		$ --0--
Less: Other credits General income tax credit	$(300.00)	
Excise tax credit	(30.00)	
Renter's credit	(150.00)	(480.00)
Overpayment (refunded in 1983)		$(480.00)

The taxpayers would have no state income tax deduction for the subsequent year nor would they have a taxable refund.

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