

JOHN WAIHEE
GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809-0259

RICHARD F. KAHLE, JR.
DIRECTOR OF TAXATION

GARY S. MIJO
DEPUTY DIRECTOR

JOYCE T. OMINE
DEPUTY DIRECTOR

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TAX INFORMATION RELEASE NO. 90-7

RE: Parent's Election To Include Certain Unearned Income of Children on Parent's Hawaii Net Income Tax Return.

Under the provisions of Hawaii's Net Income Tax Law enacted in 1989, parents may elect to include on their return certain unearned income (interest and dividends in excess of \$500 but not more than \$5,000) of a child under the age of 14. This adoption of a provision identical to a federal provision has caused concern for some Hawaii parents since Hawaii's adoption included the use of federal income tax rates (15 percent) instead of the lower State income tax rates (2 percent). For this reason, the Department of Taxation recommends that parents choose NOT to take this election for the 1989 tax year.

The Department is preparing legislation to correct the tax rates used with this election. Parents who already have filed their Hawaii returns and made this election for the 1989 tax year are advised to file amended returns revoking the election and to file separate returns for their children. A return filed for a child because of the revocation of the parent's election should include a request for a waiver of penalty and interest pursuant to Tax Information Release No. 90-7 on the child's return.


RICHARD F. KAHLE, JR.
Director of Taxation