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May 27, 2009

DEPARTMENT OF TAXATION ANNOUNCEMENT NO. 2009-04

RE: Act 60, Session Laws of Hawaii 2009, Relating to Taxation.

On May 8, 2009, the Legislature overrode Governor Linda Lingle's veto and House Bill 1747, HD 1, SD 1, CD1 became law as Act 60.

For taxable years beginning after December 31, 2008, Act 60 increases the income tax for the highest income bracket.

For taxable years beginning after December 31, 2010, Act 60 increases the personal exemption and the standard deduction amounts.

Increases to the income brackets, personal exemption, and standard deduction by Act 60 will be repealed on December 31, 2015, and the rates, and personal exemption and standard deduction amounts in effect prior to January 1, 2009 will automatically be reenacted.

For the majority of taxpayers, this means that:

For tax years 2009 through 2015, taxpayers who file a joint return will pay:

- 9.00% on taxable income over $300,000, but not over $350,000;
- 10.00% on taxable income over $350,000, but not over $400,000; and
- 11.00% on taxable income over $400,000.

For tax years 2009 through 2015, heads of a household will pay:

- 9.00% on taxable income over $225,000, but not over $262,500;
- 10.00% on taxable income over $262,500, but not over $300,000; and
- 11.00% on taxable income over $300,000.

For tax years 2009 through 2015, unmarried individuals and married individuals who file separately will pay:

- 9.00% on taxable income over $150,000, but not over $175,000;
- 10.00% on taxable income over $175,000, but not over $200,000; and
- 11.00% on taxable income over $200,000.

For tax years 2011 through 2015, the personal exemption amount will increase from $1,040 to $1,144.

For tax years 2011 through 2015, the standard deduction amount will be:

- $4,400 in the case of a joint return, or a surviving spouse;
- $3,212 in the case of a head of household; and
- $2,200 in the case of an individual return.

Booklet A, Employer's Tax Guide, will not be reissued at this time. The withholding calculations stop at the 8% tax rate, so no changes to the tables are necessary as the result of this legislation.

Taxpayers are urged to adjust their withholding and estimated tax payments as a result of this legislation. Act 60 provides, for a limited period of time, that no penalty or interest will be imposed because of any underpayment of tax by a taxpayer or an employer where the only reason for the underpayment is attributable to the increased tax rates imposed by Act 60. The period where no penalty or interest will be imposed is generally ninety (90) days after Act 60 became law, or August 6, 2009. In the case of estimated tax payments, the period where no penalty or interest will be imposed lasts until the due date of the taxpayer's estimated tax payment that falls on or after August 6, 2009.

Taxpayers must still ensure that their entire year's estimated tax liability is paid, either through withholding or estimated tax payments, by the due date for their third and fourth estimated tax payment periods in order to avoid paying a penalty.

For more information on Act 60, please contact the Rules Office at 808-587-1577.

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