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DEPARTMENT OF TAXATION ANNOUNCEMENT NO. 2011-20

RE: Act 97, Session Laws of Hawaii 2011, Relating to Taxation

On June 9, 2011, Governor Neil Abercrombie signed into law Senate Bill 570 SD2, HD1, CD1 as Act 97, Session Laws of Hawaii 2011.

Part II of this Act makes the income tax deduction for state taxes paid inoperative for individual filers or married filing separately filers with federal adjusted gross incomes of $100,000 or more, joint filers or surviving spouse filers with federal adjusted gross incomes of $200,000 or more and head of household filers with federal adjusted gross incomes of $150,000 or more. The Act states: "The deductions under 164(a)(3) and 164(b)(5) shall not be operative for corporate taxpayers." This means corporate taxpayers will no longer be able to deduct state income tax paid under Internal Revenue Code (IRC) § 164(a)(3), nor will they be able to deduct general excise tax paid in lieu of state income tax under IRC § 164(b)(5). However, this bill has no effect on a corporate taxpayer's ability to deduct income tax or general excise tax as an ordinary and necessary business expense under IRC § 162, which remains operative and incorporated into Chapter 235.

Part III of this Act caps itemized income tax deductions at the lesser of either the overall limitation under IRC § 68 or the amounts below:

Type of filer	Federal AGI	Amount of cap
Individual	$100,000 or more	$25,000
Head of Household	$150,000 or more	$37,500
Joint or Surviving Spouse	$200,000 or more	$50,000
Married filing separately	$100,000 or more	$25,000

For purposes of Hawaii income tax, section 68 limitations on the amount of itemized deductions apply to taxpayers whose Hawaii adjusted gross incomes exceed an applicable amount ($83,400 for individual or married filing separately filers and $166,800 for all other filers). For taxpayers whose adjusted gross incomes exceed the applicable amount, the amount of their itemized deductions allowed is reduced by the lesser of: (1) 3 percent of the excess of adjusted gross income over the applicable amount or (2) 80 percent of the amount of the itemized deductions otherwise allowed.

Part IV of this Act delays the standard deduction and personal exemption increases approved under Act 60, Session Laws of Hawaii, 2009, and makes the increases permanent. The effect is that for tax years 2011 and 2012, the standard deduction and personal exemptions will be at their 2009 amounts, and for tax years 2013 and thereafter, the standard deduction and personal exemptions will be at the higher amounts found in Act 60. The charts below illustrate what the deduction and exemption amounts will be for different filers in the coming years.

Standard Deduction

Tax Year	Amount for Individual or Married Filing Separately filers	Amount for Head of Household filers	Amount for Joint or Surviving Spouse filers
2011	$2,000	$2,920	$4,000
2012	$2,000	$2,920	$4,000
2013 and thereafter	$2,200	$3,212	$4,400

Personal Exemptions

Tax Year	Amount per exemption
2011	$1,040
2012	$1,040
2013 and thereafter	$1,144

Parts II and III of Act 97 take effect July 1, 2011. Part IV takes effect retroactively back to December 30, 2010.

For more information on this Act, please contact the Rules Office at 808-587-1577 or e-mail Tax.Technical.Section@hawaii.gov.

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