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June 26, 2006

DEPARTMENT OF TAXATION ANNOUNCEMENT NO. 2006-10

RE: Act 110, Session Laws of Hawaii 2006, Relating to Taxation

On May 19, 2006, Governor Linda Lingle signed into law House Bill 957, HD1, SD 1, CD 1, as Act 110 of the Regular Session of 2006. Included in Act 110 are three components of tax relief, including:

1) Increasing the individual income tax standard deduction to 40% of the current federal standard deduction;

2) Expanding the individual income tax brackets by 20%; and

3) Providing an income tax credit equal to 10%, up to $10,000, of the unreimbursed damage caused by the flooding that occurred in Manoa, Oahu during October 2004 and the First Quarter of 2006. *For more information on the flood tax credit, please see Department of Taxation Announcement No. 2006-04, dated May 26, 2006.*

INCREASED STANDARD DEDUCTION

Act 110 increases the individual income tax standard deduction to approximately 40% of the current federal standard deduction. Hawaii law conforms to Internal Revenue Code § 63, except for the amount of the standard deduction. The individual standard deduction is increased as follows:

Type of Return	***New Standard Deduction***	***Old Standard Deduction***
-Joint return or surviving spouse	**$4,000**	$1,900
-Head of household	**$2,920**	$1,650
-Individual not married, not a surviving spouse or head of household	**$2,000**	$1,500
-Married individual filing separate	**$2,000**	$950

INDIVIDUAL INCOME TAX BRACKETS

Act 110 substantially amended Hawaii's individual income tax brackets by expanding the brackets by approximately 20%. Act 110 eliminated the unnecessary tax brackets that have been superceded, specifically the older brackets that applied to taxable years after December 31, 1998 and December 31, 2000 and before January 1, 2002.

Act 110 retained the current individual income tax brackets, which remain in effect until the end of the 2006 taxable year. Act 110 did not expand the income tax brackets for estates and trusts.

The individual income tax brackets have been expanded as follows:

Joint Return and Surviving Spouse Return

In the case of any taxable year beginning after December 31, 2006:

If the taxable income is:	The tax shall be:
Not over $4,800	1.40% of taxable income
Over $4,800 but not over $9,600	$67.00 plus 3.20% of excess over $4,800
Over $9,600 but not over $19,200	$221.00 plus 5.50% of excess over $9,600
Over $19,200 but not over $28,800	$749.00 plus 6.40% of excess over $19,200
Over $28,800 but not over $38,400	$1,363.00 plus 6.80% of excess over $28,800
Over $38,400 but not over $48,000	$2,016.00 plus 7.20% of excess over $38,400
Over $48,000 but not over $72,000	$2,707.00 plus 7.60% of excess over $48,000
Over $72,000 but not over $96,000	$4,531.00 plus 7.90% of excess over $72,000
Over $96,000	$6,427.00 plus 8.25% of excess over $96,000

Head of Household Return

In the case of any taxable year beginning after December 31, 2006:

If the taxable income is:	The tax shall be:
Not over $3,600	1.40% of taxable income
Over $3,600 but not over $7,200	$50.00 plus 3.20% of excess over $3,600
Over $7,200 but not over $14,400	$166.00 plus 5.50% of excess over $7,200
Over $14,400 but not over $21,600	$562.00 plus 6.40% of excess over $14,400
Over $21,600 but not over $28,800	$1,022.00 plus 6.80% of excess over $21,600
Over $28,800 but not over $36,000	$1,512.00 plus 7.20% of excess over $28,000∗
Over $36,000 but not over $54,000	$2,030.00 plus 7.60% of excess over $36,000
Over $54,000 but not over $72,000	$3,398.00 plus 7.90% of excess over $54,000
Over $72,000	$4,820.00 plus 8.25% of excess over $72,000.

Unmarried Individual Return (other than Surviving Spouse or Head of Household); Married Individual Filing Separate Return

In the case of any taxable year beginning after December 31, 2006:

If the taxable income is:	The tax shall be:
Not over $2,400	1.40% of taxable income

∗ The Department is aware that there is a manifest typographical error regarding this head of household bracket. The Legislative Reference Bureau is also aware of this matter. The Revisor of Statutes is empowered to amend the printed Hawaii Revised Statutes taking into account the correction. The Department's withholding tables will reflect the correct number in anticipation of the Revisor's correction.

Over $2,400 but not over $4,800	$34.00 plus 3.20% of excess over $2,400
Over $4,800 but not over $9,600	$110.00 plus 5.50% of excess over $4,800
Over $9,600 but not over $14,400	$374.00 plus 6.40% of excess over $9,600
Over $14,400 but not over $19,200	$682.00 plus 6.80% of excess over $14,400
Over $19,200 but not over $24,000	$1,008.00 plus 7.20% of excess over $19,200
Over $24,000 but not over $36,000	$1,354.00 plus 7.60% of excess over $24,000
Over $36,000 but not over $48,000	$2,266.00 plus 7.90% of excess over $36,000
Over $48,000	$3,214.00 plus 8.25% of excess over $48,000

EFFECTIVE DATE

The above-mentioned income tax relief provided by Act 110 applies to taxable years beginning after December 31, 2006.

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

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