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December 17, 2007

DEPARTMENT OF TAXATION ANNOUNCEMENT NO. 2007-21

RE: Relief for Taxpayers Affected by High Winds, Heavy Rains and Flooding From December 4, 2007 to December 14, 2007 in the Counties of Hawaii, Kauai, Kalawao, Maui and the City and County of Honolulu

In light of the recent rainstorms that caused substantial damage to homes and businesses in the counties of Hawaii, Kauai, Kalawao, Maui and the City and County of Honolulu, the Department of Taxation ("Department") recognizes that affected taxpayers may have difficulty meeting their tax obligations. The Department, therefore, will consider requests for extensions to file and pay taxes and waivers of penalties and interest on a case-by-case basis.

I. Mark Returns "December 2007 Storm Relief"

All returns (both individual and business) that are filed under the provisions of this Announcement should be clearly marked "December 2007 Storm Relief" on the top center of the return. Do not place the words " December 2007 Storm Relief " in the "DO NOT WRITE IN THIS SPACE" area in the upper right corner of any return.

II. Hawaii Employer's Withholding Taxes

Taxpayers whose Hawaii employer's withholding tax returns were due December 15, 2007, and who, as a result of the rains and flooding could not meet these due dates, may file their returns and pay the tax due by January 15, 2008, without incurring any penalties or interest. No late filing penalty will be imposed for returns that are postmarked on or before January 15, 2008. This also applies to those who are required under 235-62, HRS, to file monthly and remit payments on a semi-weekly schedule (tax payments may be made when the return is filed). Returns should be clearly marked "December 2007 Storm Relief."

Employers who have employees at several locations in the State, including locations affected by the rains and flooding, must file their returns on time, including payments for taxes due. If complete information from locations affected by the rains and

flooding is not available by the due date of the return, an amended return should be filed when the information becomes available.

III. Special Consideration

The Department will consider requests for extensions to file and pay other taxes and waivers of penalties and interest on a case-by-case basis. Each request should include a statement as to how the December 2007 Storm Relief adversely impacted the taxpayer.

IV. Casualty Losses

For purposes of the Hawaii Income Tax Law, you may claim all of the casualty loss deductions allowed by §165 of the Internal Revenue Code (See IRS Publication 547 for more information). Casualty losses on business property are deductible in full. The first $100 of the eligible unreimbursed casualty losses on nonbusiness property is not deductible. The remaining loss is deductible to the extent it exceeds 10 per cent (10%) of the taxpayer's Hawaii adjusted gross income. The following options are available after you have determined the amount of your losses:

1. Taxpayers may deduct the losses on their 2007 income tax returns; or

2. Taxpayers may elect to deduct the losses in five (5) equal installments over a period of five (5) consecutive years, beginning with the 2007 Hawaii income tax return; or

3. If your casualty loss is more than your income, you may have a net operating loss. A net operating loss may be used to lower your taxes in an earlier year, allowing you to receive a refund for taxes that you have already paid. Or if you properly elect, a net operating loss may be used to lower your taxes in a later year. You do not have to be a business to claim this benefit; all taxpayers may claim this carryback or carryover net operating loss.

V. General Excise Tax Exemption for Insurance Proceeds Received Because of a Natural Disaster, § 237-24.7(6)

On December 7, 2007, the Governor signed a State Disaster Proclamation in which she determined (pursuant to §209-2, HRS) that a disaster had occurred in the counties of Hawaii, Kauai, Kalawao, Maui and the City and County of Honolulu. Therefore, taxpayers may be eligible for this general excise tax exemption if they receive amounts under property and casualty insurance policies for damage or loss of inventory used in a trade or business located within the counties of Hawaii, Kauai, Kalawao, Maui and the City and County of Honolulu. Please refer to the instructions for Forms G-45 and G-49 for more information.

Tax forms and information are available on the Department's website at www.hawaii.gov/tax. If you know which tax form or publication you need, please call the Department's Forms Request Line at 808-587-7572, or toll-free from the neighbor islands and continental U.S. at 1-800-222-7572. This service is available 24 hours a day, 7 days a week. Additional information is available by calling the Taxpayer Services Branch during business hours at 587-4242, or toll-free at 1-800-222-3229, or by emailing them at Taxpayer.Services@hawaii.gov.

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