TAX RELIEF
2007 INITIATIVES

"Helping Those Who Need It Most"

The Lingle-Aiona Administration has consistently supported and proposed tax relief for working families and low income residents. The rising cost of living and State and local tax and fee increases, make tax relief more important than ever. The Administration is proposing a comprehensive set of tax relief measures totaling $346 million that provides both one-time relief and permanent reductions to the tax burden imposed on Hawai'i's citizens over the next two years.

Taxpayer Protection Act of 2007

Every year taxpayers have to give more of their earnings to the government due to a hidden tax increase. Because Hawai'i's tax measures are not adjusted for inflation, the value of these measures erodes over time.

To offset this hidden tax increase, the Administration is proposing a bill that would require the director of taxation to automatically adjust the standard deduction, income tax brackets, and personal exemption in the Hawai'i tax code every year. The director would use the Consumer Price Index (CPI) provided by the U.S. Department of Labor to calculate the annual adjustment. This would allow these measures to retain their value over time and protect Hawai'i taxpayers from this hidden tax increase.

The bill would take effect for the current tax year, 2007, and enable the tax director to change withholding levels so that taxpayers receive this benefit this year.

This change would benefit the vast majority of taxpayers in Hawai'i, about 942,300 (82 percent) and have a revenue impact of $10 million per year.

Raise the Standard Deduction

Prior to 2006, the State standard deduction had not been changed since 1989. A small change was made last year from 20 percent to 40 percent of the federal standard deduction level. This in not enough to give genuine tax relief to those who do not itemize their taxes.

Every Tax Review Commission since 1985 (five commissions) have recommended raising the standard deduction. The Administration is proposing that the standard deduction be raised to 75 percent of the 2005 Federal level. This would be:

Single Return: $3,750 (increase from $2,000)
Joint Return: $7,500 (increase from $4,000)

This change will again benefit the vast majority of tax filers in Hawai‘i, 942,300 people or 82 percent of those who file tax returns. This will keep $30 million each year in the pockets of working families and singles in Hawai‘i. The change would take effect for the current tax year (2007) and the tax director could make the changes in the withholding rates so that wage earners would receive the benefits immediately.

Eliminate GET Tax on Essential Foods

Hawai‘i is among a small minority of states that provide no exemption from the state excise or sales tax for the sale of food. This measure provides a general excise tax (GET) exemption on 11 different food groups that have been identified by the U.S. Dept. of Agriculture (USDA) as essential foods by qualifying them under the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC program).

The eleven types of groceries that would be exempt from the food tax include milk, eggs, cheese, canned salmon and tuna, carrots, peanut butter, juices, cereals, beans, peas and lentils, as well as infant formula and infant cereal.

Removing these foods from the GET tax will eliminate $55 million in taxes paid on groceries in Hawai‘i during the next two years. It will benefit everyone in the state, especially those with children and larger families.

The USDA already requires grocery stores that participate in the WIC program to exempt these food products from local and state taxes. The exemption would take effect on January 1, 2008 to allow those food stores that do not participate in the WIC program to adjust their cash registers.

‘Ohana Tax Reduction Act of 2007

Many families today are faced with the dual challenge of raising children while taking care of aging parents. It is important to recognize the sacrifices they are making and to give them tax relief that allows them to cope with the costs of dependent care and raising the next generation.

This bill would provide two forms of tax relief. First, it would grant an additional exemption of $1,000 for each child in a household who is 18 years of age or younger, when the household income is $100,000 or less. For families with incomes between $100,000 and $200,000, the per-child exemption would be $500. The additional income could be used to cover school supplies, after school programs, and other costs of raising a child.

Second, this bill increases the tax credit that a family can claim for dependent care. Dependent care includes care of a young child, an aging parent, or a disabled loved one. The bill would increase the allowable tax credit for dependent care expenses from a maximum of $2,400 to $5,000 per dependent. The credit amount is computed on a sliding scale of between 15 percent and 25 percent of the taxpayer’s adjusted gross income.

This bill would provide $26 million a year in tax relief for families with responsibility for taking care of young children and older parents. The measure would be retroactive to January 1, 2007 to allow families to receive relief for <u>this tax year</u>. It is estimated it would benefit 494,600 taxpayers, about 43 percent of the total.

Constitutional Rebate

The State Constitution recognizes the responsibility to return some the State's surplus funds when times are good. Specifically the Constitution requires that whenever the state general fund balance at the end of two consecutive fiscal years exceeds 5 percent of the general funds, the legislature shall provide for a tax refund or credit.

The State has met that threshold and it is time to provide meaningful tax relief in the form of a check for every taxpayer (head of household and dependents) in the State. For families earning $100,000 or less, each dependent would receive $100. Thus a family of four would receive a check for $400. For families earning above $100,000 the amount would be $25 per taxpayer/ dependent.

This bill would return a total of $90.8 million. All Hawai‘i resident taxpayers/dependents (1,030,269 individuals) would receive a check.

Biofuels Tax Exemption

On December 31, 2006, the general excise tax exemption for gasoline containing alcohol, such as ethanol, expired. This caused an immediate increase in the price of gasoline of about 11 cents per gallon.

This bill would reinstate the tax exemption on gasoline blended with ethanol and extend the exemption to include biodiesel and related fuels made from natural vegetable oils or waste greases.

The bill would keep the exemption in place and help encourage the use of alternative fuels. This bill would take effect upon approval. If the extension is not granted, motorists will pay an additional $32 million in taxes for the gasoline they purchase in each of the next two years.

Vehicle Tax and Registration Fees for Military

This tax relief measure continues the Administration's efforts to lessen the fiscal burden on Hawai‘i's men and women in uniform. Specifically the measure would exempt a passenger vehicle owned by a person in uniform from State and county tax registration fees. This exemption would apply to members of the National Guard and Reserves.

This bill would help almost 10,000 members of Hawai‘i's armed services and provide State and county tax and fee relief totaling $2 million for each of the next two years.