LEGISLATIVE REFERENCE BUREAU

TERRITORY OF HAWAII

# PERSONAL EXEMPTIONS UNDER THE HAWAII INCOME TAX

Report No. 3 - 1947
(Request No. 274)

Legislative Reference Bureau
University of Hawaii

# PERSONAL EXEMPTIONS UNDER THE HAWAII INCOME TAX

Section 5509 of the Revised Laws of Hawaii 1945, allows the deduction of the following sums in computing the net income of individuals (including fiduciaries) taxable under the income tax imposed by Chapter 102:

(a) If single, or if married but not living with spouse, $1,000;
(b) If married and living with spouse, or if head of family with dependents, $2,000;
(c) If providing chief support for dependents (other than spouse), $200 for each dependent.

This report attempts to ascertain and appraise the fiscal effects of eliminating these personal exemptions from the income tax law of the Territory.

## Summary of Conclusions

The current exemptions for single persons and heads of families under Section 5509 are on a level with those most commonly established by state income tax laws. The exemption of $1,000 granted estates and trusts, however, is higher than average, while the $200 dependency exemption is at the lower limit of the range of state exemptions.

Elimination of personal exemptions from the territorial income tax may be expected to add approximately $2,915,000 to the tax revenues, at current levels of tax rates and per capita income. To collect this additional revenue it is estimated that the costs of tax administration would be increased by about $275,000, leaving a net accretion to territorial income of approximately $2,640,000.

The bulk of this new revenue would be paid by persons receiving less than $5,000 per year, the additional tax burden falling most heavily upon the heads of families. Persons with dependents would pay larger income taxes than single taxpayers, the tax increasing with the number of dependents. Deletion of personal exemptions, therefore, would have the effect of removing much of the progressiveness now built into the income tax rate structure.

# PERSONAL EXEMPTIONS UNDER THE HAWAII INCOME TAX

by

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--Report No. 3. 1947--

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## PERSONAL EXEMPTIONS UNDER THE HAWAII INCOME TAX

### 1. Level of Income Tax Exemptions: Hawaii and the Mainland

The personal exemptions specified by Section 5509 -- $1,000 for single persons,[1] $2,000 for heads of families, and $200 per dependent -- approximate those allowed under the income tax laws of most of the states which impose such levies. Thirty states and the District of Columbia now tax personal incomes, and all but New Hampshire grant deductions which increase with the number of dependents in the taxpayer's family. (See Appendix 1). The exemptions granted to single persons by all but seven states range from $750 to $1,500,[2] while the head-of-family allowances of all but six lie within the range of $1,500 to $2,500. Delaware, Maryland, Montana, North Carolina, Oklahoma, Vermont, and Virginia grant exemptions to single and married persons which are identical with those of Hawaii.

Compared with mainland levels, however, the allowance for dependents made by the territorial income tax is low, with all but seven of the states allowing an exemption for each dependent which is larger than the $200 deduction afforded under Section 5509. No state income tax applying to wages and salaries has a dependency exemption less than $200.[3]

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[1]As used throughout this report, "single persons" include married persons separated from their spouses, and so unable to claim tax exemptions on their behalf.

[2]Including five states which grant exemptions in the form of deductions from the computed tax. Arizona, Iowa, and Minnesota, with tax-rate schedules beginning at one per cent, permit the single taxpayer to deduct $10 from his tax bill, equivalent to an allowance of $1,000 or less, depending upon his taxable income. Wisconsin, also with a basic tax rate of one per cent, allows the deduction of $8, while Kentucky, with rates beginning at two per cent, affords a $20 deduction from the single person's computed tax.

[3]The New Hampshire tax on income from certain intangibles has a flat exemption of $200 for each taxpayer.

Conversely, the $1,000 exemption afforded estates and trusts is among the higher range of such allowances under state tax laws. Of eleven states which make specific provision for the exemption of some fraction of fiduciary income, five allow a deduction of as much as $1,000, the exemption made by Section 5509. Kansas grants an exemption of $750; North Dakota, $500; Maryland and New Hampshire, $200; while California differentiates between estates and trusts, permitting the former a deduction of $1,500, against $100 for trusts. A similar differentiation is made by Minnesota, which allows a trust but half of the exemption granted estates.[4]

Shorn of its personal exemptions, the territorial income tax would be more comparable, in respect to non-business income, to the gross income taxes now imposed by Indiana, New Mexico, Washington, and West Virginia. The latter three states, however, exclude all salaries and wages, while Indiana exempts $1,000 of income to each taxpayer.[5] The rates of these gross income taxes are also much lower than those which would obtain under a territorial income tax from which Section 5509 had been eliminated. In Washington, the tax rate is graduated from 1/10 to ½ per cent; in New Mexico it varies from 1/8 to 2 per cent; it is 1 per cent on most incomes in Indiana; and in West Virginia, according to the occupation of the taxpayer, the rate varies from 1/5 to 7-4/5 per cent, with most incomes taxable at 1 per cent or less.

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[4]Deductions from the tax bill of $5 and $10, respectively. (Cf. footnote 2.)

[5]Retailers are granted an exemption of $3,000.

## 2. Estimate of the Additional Tax Yield

Under the present income tax law, most single persons deriving their income from wages and salaries or from dividends are not liable for territorial income tax unless their income exceeds $5,000. In the case of heads of families, gross income may reach $8,000 or more before income tax liability is incurred. Three factors determine the level at which the territorial income tax begins to apply: (a) the highly progressive federal income tax, deductible from gross income; (b) the two per cent compensation and dividends tax -- entirely deductible from gross income, and three-fourths of which is applied as credit against the computed income tax; and (c) the level of personal exemptions.

If personal exemptions were entirely eliminated, the effect would be to impose an income tax liability upon thousands of persons now reached under the compensation and dividends tax, but not by the income tax.[6] The removal of personal exemptions would subject persons in the lower brackets, who now pay no income taxes upon their wages and salaries, to new taxes ranging from about $10 to $30 or more. (Appendix 2).

Additional tax liability would be added to those in middle and upper income brackets already reached under the present tax law. A single person receiving a salary of $5,000, for example, should now pay about $6, but would have an income tax bill of $36 if his $1,000 exemption were removed.

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[6]According to the Office of the Tax Commissioner, approximately 130,000 persons are excused from filing income tax returns by reason of their personal exemptions, under Section 5524 of the Revised Laws 1945. An additional 145,000 with incomes entirely taxable by the compensation and dividends tax did not file, under regulations of the Tax Commissioner. (Letter from Earl W. Fase, Deputy Commissioner, dated September 12, 1947.) As a result of the tax rate increases enacted by the 1947 Territorial Legislature, and the issuance of new income tax regulations, a large fraction of the 275,000 formerly excused will now have to file.

A married man receiving $20,000 from salary and dividends would have approximately $80 added to his income tax which is now less than $50 (Appendix 2.)

Lacking current data upon the distribution of income in the Territory, as well as detailed information concerning the number of dependents among the groups hitherto not required to file tax returns, it is difficult to estimate with any exactness the amount of additional tax revenue which would result from the deletion of personal exemptions. From statistics of taxable income based upon 1947 returns (1946 income) supplied by the Office of the Tax Commissioner, to which the new tax rates have been applied, it seems likely that the additional tax receipts would approximate $2,915,000. Table I indicates the sources of the larger income tax collections.

Table I.--Sources of Additional Income Tax Revenue, if Personal Exemptions were Eliminated.

| GROUP BRACKET | |
|---|---|
| Taxable Income: | |
| Up to $5,000 . . . . . . . . . . . . . . | $2,744,000 |
| $5,000 to $10,000 . . . . . . . . . . | 117,000 |
| $10,000 to $20,000 . . . . . . . . . . | 42,000 |
| Above $20,000 . . . . . . . . . . . . | 12,000 |
| Total . . . . . . . . . . | $2,915,000 |

This approximation of $2,915,000 is based upon reported and estimated net incomes received in 1946. Since that time personal incomes have continued to rise, and this factor would make the above estimate an understatement. An influence working in the opposite direction, however, is that under the increased effective rates which would be brought about by removing personal exemptions, there would be far greater incentive for tax avoidance and evasion. It is assumed that these two offsetting forces are of about the same magnitude, and, therefore, no adjustment has been made in the estimate of additional income tax receipts.

### 3. Increased Costs of Income Tax Administration

Deletion of personal exemptions would add approximately 130,000 annual income tax returns to the number received and processed by the Bureau of Income and Miscellaneous Taxes.[7] The Office of the Tax Commissioner estimates that this additional administrative burden would necessitate an increase in its staff of 75 to 100 persons. The salaries of such a working force would approximate $250,000.[8] Additional forms, bills, assessment notices, supplies, etc., necessary to process 130,000 new returns would cost about $25,000 yearly. Office equipment, such as desks and chairs, adding machines, typewriters, etc., for the larger staff would require a capital expenditure of $75,000, not including provision of office space to house the additional personnel. Allowing a minimum of $275,000 for annual operating costs, then, at present levels of taxable personal income, the elimination of personal exemptions would net the territorial government about $2,640,000 annually.

### 4. Who Will Pay the Additional Taxes?

The new tax burden created by deletion of personal exemptions from the income tax law would fall most heavily upon salary and wage-earners in the lower income brackets, particularly upon heads of families or those with dependents. As Appendix 2 indicates, a married man with two children,

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[7]This is over and above the additional returns which will be filed as a result of the increase in the basic tax rate from two to three per cent (Act 111, S. L. 1947) and the new regulations of the Tax Commissioner.

[8]Letter from Earl W. Fase, Deputy Commissioner, dated September 12, 1947.

earning $1,000 annually and now paying no income tax, would pay a tax of $12, or 1.2 per cent. Persons with the same number of dependents would also pay about 1.2 per cent on an income of $2,000; but upon $4,000, the new tax would be less than 1 per cent. The <u>additional</u> income taxes which would be levied upon incomes already taxed under the present law would approximate 7/8 of one per cent on $8,000, ½ of one per cent on $20,000, and about 1/5 of one per cent upon an income of $50,000. In a word, the tax increment created by deletion of personal exemptions would be regressive.

Appendix 2 also shows that larger amounts of additional revenue would be collected from those with dependents than from single persons. This results from the larger (deductible) federal income taxes paid by single persons, allowing a lower tax liability under the territorial income tax. Under the current law, this effect is offset by the higher personal exemptions afforded heads of families. If the exemptions were removed, however, the amount of territorial tax would vary directly with the number of dependents claimed for federal income tax purposes. Thus, the Hawaiian income tax paid by a person earning $3,000 would be about $23 if single, $26 if married, and $32 if he has two children. In the $5,000 bracket the tax liabilities would approximate $36, $39, and $46; while on a salary of $8,000 the tax levies would be approximately $51, $59, and $69, respectively, for single persons, married persons, and married persons, with two additional dependents. At the $20,000 income level, a single person would pay a tax of about $127, but he would be assessed $145 if married and supporting two children.

Because of the heavier tax liability which would be imposed upon heads of families, an exemptionless personal income tax would create the situation where a person with a lower income but more dependents would pay a larger tax than a man in a higher income bracket, but with fewer dependents. For example, a person with three or more dependent children, earning $4,000, would have to pay more than $40 for territorial income tax, while a single man earning $5,000 would pay about $36. The head-of-family earning $2,000 annually would be taxed slightly more than the single man making $3,000, while the tax on the $3,000 income of a family head would exceed that on the $4,000 received by a single person.

### 5. Comparative Tax Burden Upon Wages, Salaries, and Dividends

To attempt a comparison of the taxes paid out of salaries and wages in the Territory with those imposed by five states, Appendix 3 shows the tax levies upon income at four levels: $2,000; $5,000; $8,000; and $50,000. Of the states chosen for comparison, Virginia affords personal exemptions identical with those of Hawaii; those of California and New York are higher; while those of Idaho and Kansas are lower than the exemptions of this Territory.

Most persons in Hawaii earning less than $8,000 now pay little or no income tax, but do pay two per cent upon their wages, salaries, and dividends, under Chapter 98 of the Revised Laws. On incomes above $8,000 from these sources, the income tax gradually increases, reaching about $95 for a single person receiving $50,000 -- a tax of less than 1/5 of one per cent.

To ascertain the relative tax burden upon wages, salaries, and dividends, it is more meaningful to include the two per cent compensation and dividend tax levied by the Territory -- a tax without personal exemptions and therefore without a counterpart among the tax systems of the states.[9]

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[9]The nearest counterpart at the state level is the one per cent Indiana gross income tax, which grants a personal exemption of $1,000.

Appendix 3 shows that when personal income and compensation tax levies are combined, the resident of Hawaii earning up to $5,000 now pays a heavier tax upon his salary or wage than he would in any of the five states selected for comparison. Above $8,000, the total income and compensation tax payment becomes comparable with the average income tax of the five states, but in the upper brackets -- $50,000 or more -- the combined Hawaiian taxes become relatively light, being exceeded by the income taxes of California, Idaho, New York, and Virginia. At this income level, only Kansas among the five states has a smaller income tax upon salaries and dividends than does Hawaii.

If personal exemptions were deleted from the territorial income tax, the resulting combined income and compensation tax assessments on low and middle-bracket incomes would exceed the income taxes imposed by any state in the Union. In the upper income ranges above $10,000, however, the taxes on income paid by salary or dividend recipients in Hawaii would continue to fall short of those imposed by California, Idaho, New York, and Virginia, among the states selected as bases for comparison. (Appendix 3.)

## 6. Impact Upon Taxation of Business Income

The effect of eliminating personal exemptions upon taxation of business incomes would be similar to that upon the taxation of wages and salaries. The added tax would be heaviest, both in absolute and relative terms, upon those with dependents. Relatively, the additional tax burden would fall most heavily upon businessmen in the lower income brackets.

These results are shown in Table II, below, which also indicates that the added amount of tax would be substantially the same for persons with an identical number of dependents, regardless of the size of their incomes. As in the case of wage and salary earners, the tax increment would vary with the number of dependents. Married persons with two or more children, for example, would have an additional tax liability more than double that assessed upon the incomes of single persons.

Table II.--Taxation of Business Income: Current and Proposed Income Tax Laws.

| Net Income[a] | Dependency Status | Present Tax | Tax Under Proposed Law | Increase |
|---|---|---|---|---|
| $ 3,000 | Single | $ 38 | $ 68 | $ 30 |
| 3,000 | Married-no children | 11 | 71 | 60 |
| 3,000 | Married-two children | 5 | 77 | 72 |
| $ 5,000 | Single | $ 81 | $111 | $ 30 |
| 5,000 | Married-no children | 54 | 114 | 60 |
| 5,000 | Married-two children | 48 | 121 | 73 |
| $ 8,000 | Single | $141 | $175 | $ 34 |
| 8,000 | Married-no children | 116 | 179 | 63 |
| 8,000 | Married-two children | 110 | 189 | 79 |
| $20,000 | Single | $387 | $427 | $ 40 |
| 20,000 | Married-no children | 349 | 429 | 80 |
| 20,000 | Married-two children | 345 | 445 | 100 |
| $50,000 | Single | $845 | $890 | $ 45 |
| 50,000 | Married-no children | 815 | 905 | 90 |
| 50,000 | Married-two children | 810 | 919 | 109 |

[a]Net of business expenses, bad debts, losses, etc., but not net of personal exemptions, federal income tax, contributions, etc. In computing the tax, a deduction of ten per cent was made to allow for all personal deductions other than the federal income tax and the exemptions discussed in this report.

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APPENDIX 1.

RATES AND PERSONAL EXEMPTIONS UNDER HAWAII AND STATE INCOME TAX LAWS

| State | Tax Rates | Unmarried | Married, head of family | For each Dependent | Fiduciary[1] |
|---|---|---|---|---|---|
| Alabama | 1½% on first $1,000 to 5% over $5,000. | $1,500 | $3,000 | $300 | |
| Arizona | 1% on first $2,000 to 4½% over $9,000 | $10 from tax | $20 from tax | $4 from tax | |
| Arkansas | 1% on first $3,000 to 5% over $25,000 | $2,500 | $3,500 | $400 | Deceased's exemptions |
| California | 1% on first $10,000 to 6% over $30,000 | $3,000 | $4,500 | $400 | Estate $1,500; trust $100 |
| Colorado | 1% on first $1,000 to 10% over $10,000 | $750 | $1,500 | $750 | |
| Delaware | 1% on first $3,000 to 3% over $10,000 | $1,000 | $2,000 | $200 | |
| District of Columbia | 1% on first $5,000 to 3% over $20,000 | $1,000 | $2,500 | $400 | |
| Georgia | 1% on first $1,000 to 7% over $20,000 | $1,000 | $2,500 | $400 | $1,000 |
| HAWAII | 3% on first $5,000 to 6% over $100,000 | $1,000 | $2,000 | $200 | $1,000 |
| Idaho | 1½% on first $1,000 to 8% over $5,000 | $700 | $1,500 | $200 | |
| Iowa | 1% on first $1,000 to 5% over $4,000 | $10 from tax | $20 from tax | $5 from tax | |
| Kansas | 1% on first $2,000 to 4% over $7,000 | $750 | $1,500 | $200 | $750 |

[1]Where specifically provided in income tax act.

RATES AND PERSONAL EXEMPTIONS UNDER HAWAII AND STATE INCOME TAX LAWS - (Continued)

| State | Tax Rates | Unmarried | Married, head of family | For each Dependent | Fiduciary[1] |
|---|---|---|---|---|---|
| Kentucky | 2% on first $3,000 to 5% over $5,000 | $20 from tax | $50 from tax | $10 from tax | |
| Louisiana | 2% on first $10,000 to 6% over $50,000 | $1,000[2] | $2,500[3] | $400 | |
| Maryland | 5% on investment income; 2½% other income | $1,000 | $2,000 | $400 | $200 |
| Massachusetts | 6% on investment income; 1½% other income | $2,000 | $2,500 | $250 | |
| Minnesota | 1% on first $1,000 to 10% over $20,000 | $10 from tax | $30 from tax | $10 from tax | Estate $10; trust $5 |
| Mississippi | 1% on first $4,000 to 6% over $25,000 | $1, 000 | $2,500 | $400 | $1,000 |
| Missouri | 1% on first $1,000 to 4% over $9,000 | $1,200 | $2,400 | $400 | |
| Montana | 1% on first $2,000 to 4% over $6,000 | $1,000 | $2,000 | $300 | |
| New Hampshire | Only on income from intangibles[4] | "$200 of each income otherwise taxable" | | | |
| New Mexico | 1% on first $10,000 to 4% over $100,000 | $1,500 | $2,500 | $200 | $1,500 |

[2]$2,500 for veterans of World War II.

[3]$5,000 for veterans of World War II.

[4]Tax levied at "average rate of taxation . . . upon other property." Varied from 3 to 3½% between 1935 and 1945.

RATES AND PERSONAL EXEMPTIONS UNDER HAWAII AND STATE INCOME TAX LAWS - (Continued)

| State | Tax Rates | Unmarried | Married, head of Family | For each Dependent | Fiduciary[1] |
|---|---|---|---|---|---|
| New York | 2% on first $1,000 to 7% over $9,000[5] | $1,000 | $2,500 | $400 | $1,000 |
| North Carolina | 3% on first $2,000 to 7% over $10,000 | $1,000 | $2,000 | $200 | $1,000 |
| North Dakota | 1% on first $2,000 to 15% over $15,000 | $500 | $1,500 | $500 | $500 |
| Oklahoma | 1% on first $1,500 to 6% over $7,500 | $1,000 | $2,000 | $500 | -- |
| Oregon | 2% on first $500 to 8% over $8,000 | $500 | $900 | $300 | |
| South Carolina | 2% on first $2,000 to 5% over $6,000 | $1,000 | $1,800 | $200 | |
| Utah | 1% on first $1,000 to 5% over $4,000 | $600[6] | $1,200[7] | $300 | |
| Vermont | 4% on intangibles; 2% on other income | $1,000 | $2,000 | $250 | |
| Virginia | 1½% on first $1,000 to 3% over $5,000 | $1,000 | $2,000 | $200 | |
| Wisconsin | 1% on first $1,000 to 7% over $12,000[8] | $8 from tax | $17.50 from tax | $4 from tax | |

[5] Rates are reduced by 50% for income arising from net capital gains and on all income during fiscal years 1946 and 1947.

[6] $2,700 for veterans of World War II.

[7] $3,300 for veterans of World War II.

[8] Plus surtax computed by deducting personal exemptions plus $37.50 from normal tax, and dividing remainder by six.

TAX LIABILITY UNDER PRESENT AND PROPOSED
TERRITORIAL INCOME TAX LAWS

| Dependency Status | Income from Wages, Salary, Dividends | Present Tax[1] | Tax, if no Personal Exemptions[1] | Increase[1] |
|---|---|---|---|---|
| Unmarried | $ 1,000 | $ 0 | $ 10 | $ 10 |
| Married-no children | 1,000 | 0 | 12 | 12 |
| Married-two children | 1,000 | 0 | 12 | 12 |
| Unmarried | $ 2,000 | $ 0 | $ 17 | $ 17 |
| Married-no children | 2,000 | 0 | 19 | 19 |
| Married-two children | 2,000 | 0 | 24 | 24 |
| Unmarried | $ 3,000 | $ 0 | $ 23 | $ 23 |
| Married-no children | 3,000 | 0 | 26 | 26 |
| Married-two children | 3,000 | 0 | 32 | 32 |
| Unmarried | $ 4,000 | $ 0 | $ 30 | $ 30 |
| Married-no children | 4,000 | 0 | 33 | 33 |
| Married-two children | 4,000 | 0 | 39 | 39 |
| Unmarried | $ 5,000 | $ 6 | $ 36 | $ 30 |
| Married-no children | 5,000 | 0 | 39 | 39 |
| Married-two children | 5,000 | 0 | 46 | 46 |
| Unmarried | $ 8,000 | $21 | $ 55 | $ 34 |
| Married-no children | 8,000 | 0 | 60 | 60 |
| Married-two children | 8,000 | 0 | 69 | 69 |
| Unmarried | $20,000 | $78 | $118 | $ 40 |
| Married-no children | 20,000 | 48 | 128 | 80 |
| Married-two children | 20,000 | 51 | 147 | 96 |
| Unmarried | $50,000 | $79 | $124 | $ 45 |
| Married-no children | 50,000 | 48 | 138 | 90 |
| Married-two children | 50,000 | 60 | 167 | 107 |

[1]Rounded off to nearest dollar.

As illustration of the method by which the tax liabilities were estimated, the tax upon a single person earning $5,000 is computed below:

| | Under Present Law | | Under Proposed Law | |
|---|---|---|---|---|
| Gross Income . . . . . . . . . . . . . . . . | | $5,000 | | $5,000 |
| Less federal income tax | $ 793 | | $ 793 | |
| Less 10% of gross income (deductible taxes, contributions, interest, etc.) | 500 | | 500 | |
| Less personal exemptions | 1,000 | 2,293 | -- | 1,293 |
| Taxable Income . . . . . . . . . . . . . . | | $2,707 | | $3,707 |
| Taxable Income | $2,707 | | $3,707 | |
| Tax rate | .03 | | .03 | |
| Income tax | $81.21 | | $111.21 | |
| Less 3/4 of compensation-dividends tax | 75.00 | | 75.00 | |
| Net Income Tax . . . . . . . . | $ 6.21 | | $36.21 | |

APPENDIX 3.

TERRITORIAL TAXES UPON SALARIES AND WAGES COMPARED WITH FIVE STATES

| | Present Law | | | Proposed Law | | | California | New York | Virginia | Idaho | Kansas |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Income Tax | Compensation-Dividends Tax | Total | Income Tax | Compensation-Dividends Tax | Total | | | | | |
| Case I: Annual Income of $2,000[1] | | | | | | | | | | | |
| (a) Unmarried | $ 0 | $ 40 | $ 40 | $ 17 | $ 40 | $ 57 | $ 0 | $ 8 | $ 12 | $ 13 | $ 8 |
| (b) Married-no children | 0 | 40 | 40 | 19 | 40 | 59 | 0 | 0 | 0 | 2 | 1 |
| (c) Married-two children | 0 | 40 | 40 | 24 | 40 | 64 | 0 | 0 | 0 | 0 | 0 |
| Case II: Annual Income of $5,000[1] | | | | | | | | | | | |
| (a) Unmarried | $ 6 | $ 100 | $ 106 | $ 36 | $ 100 | $ 136 | $ 15 | $ 50 | $ 58 | $ 85 | $ 39 |
| (b) Married-no children | 0 | 100 | 100 | 39 | 100 | 139 | 0 | 25 | 38 | 53 | 26 |
| (c) Married-two children | 0 | 100 | 100 | 46 | 100 | 146 | 0 | 14 | 32 | 39 | 22 |
| Case III: Annual Income of $8,000[1] | | | | | | | | | | | |
| (a) Unmarried | $ 21 | $ 160 | $ 181 | $ 55 | $ 160 | $ 215 | $ 42 | $ 110 | $ 130 | $ 195 | $ 89 |
| (b) Married-no children | 0 | 160 | 160 | 60 | 160 | 220 | 27 | 74 | 100 | 156 | 74 |
| (c) Married-two children | 0 | 160 | 160 | 69 | 160 | 229 | 19 | 58 | 90 | 147 | 70 |
| Case IV: Annual Income of $50,000[1] | | | | | | | | | | | |
| (a) Unmarried | $ 79 | $1,000 | $1,079 | $124 | $1,000 | $1,124 | $1,520 | $1,415 | $1,265 | $1,600 | $771 |
| (b) Married-no children | 48 | 1,000 | 1,048 | 138 | 1,000 | 1,138 | 1,430 | 1,363 | 1,235 | 1,565 | 755 |
| (c) Married-two children | 60 | 1,000 | 1,060 | 167 | 1,000 | 1,167 | 1,382 | 1,335 | 1,223 | 1,585 | 765 |

[1]Entirely from wages, salaries, and stock dividends, based upon joint return of husband and wife. In each case, the income tax was computed after deducting personal exemptions, and 10 per cent of gross income, to cover interest, contributions, deductible taxes, etc. The federal income tax was deducted in estimating the taxes of Hawaii, Idaho, and Kansas; California, New York, and Virginia do not permit its deduction. Three-fourths of Hawaii's compensation and dividends tax was deducted in computation of the Hawaii income tax.

APPENDIX 4.

PERTINENT PROVISIONS OF THE REVISED LAWS OF HAWAII RELATING TO EXEMPTIONS FROM THE INCOME TAX.

"SEC. 5503.[1] Tax on individuals. There shall be assessed, levied, collected and paid for each taxable year upon the net income of every individual doing business in or receiving or deriving income from sources within the Territory, or income included in gross income by sections 5505-5507, a tax equal to the sum of the following:

Three per centum of the amount of net income not in excess of five thousand dollars;

Three and one-half per centum of the amount of net income in excess of five thousand dollars but not in excess of ten thousand dollars;

Four per centum of the amount of net income in excess of ten thousand dollars but not in excess of twenty thousand dollars;

Four and one-half per centum of the amount of net income in excess of twenty thousand dollars but not in excess of forty thousand dollars;

Five per centum of the amount of net income in excess of forty thousand dollars but not in excess of seventy thousand dollars;

Five and one-half per centum of the amount of net income in excess of seventy thousand dollars but not in excess of one hundred thousand dollars; and

Six per centum of the amount of net income in excess of one hundred thousand dollars."

"SEC. 5504. Credits against tax. There shall be credited against the tax imposed by this chapter seventy-five per cent of the amount of any tax imposed by chapter 98, which has been withheld from, or paid by or on behalf of the taxpayer, with respect to any compensation or dividends included in the return as gross income subject to tax. In the event the tax credit exceeds the tax imposed by this chapter the amount of such excess nevertheless shall not be refunded."

"SEC. 5509. Exemptions. In computing net income of individuals the following exemptions shall be deducted:

(a) If single, or if married and not living with husband or wife, an exemption of one thousand dollars;

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[1]As amended by Section 13 of Act 111, S. L. 1947.

(b) If married and living with husband and wife, or the head of a family with dependents, an exemption of two thousand dollars; and for each person (other than husband and wife) dependent upon and receiving his chief support from the taxpayer, if under eighteen years of age, incapable of self-support, or if under twenty-one years of age and attending a recognized educational institution, an exemption of two hundred dollars; but in no event shall this larger exemption or the exemption for the same dependent be deducted by both husband and wife;

(c) An estate or trust shall be entitled to deduct an exemption of one thousand dollars. . . ."