

Hawaii raises state income tax rates for 2018



Hawaii's 2017 Legislative Session resulted in several changes to the State's tax laws. The full report can be accessed at the Hawaii.gov website. Act 107 amends the income tax law to reduce the tax burden of lower-income taxpayers. Along with adjustments to two other programs, it will reinstate three tax brackets for the highest-income taxpayers beginning with the 2018 tax year.

The 2009 Legislature imposed new tax brackets, 9%, 10% and 11% for taxable income over certain levels, depending on filing status. These increases were repealed on December 31, 2015. Beginning with tax returns after December 31, 2017, these three rates will be reinstated as follows:

Taxpayers who file a joint return will pay:

- 9.00% on taxable income over \$300,000, but not over \$350,000;
- 10.00% on taxable income over \$350,000, but not over \$400,000; and
- 11.00% on taxable income over \$400,000.

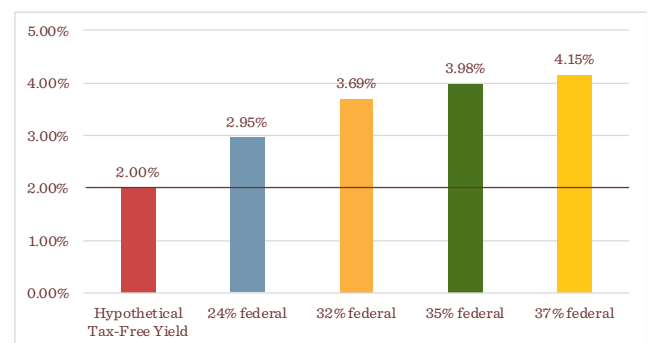
Heads of a household will pay:

- 9.00% on taxable income over \$225,000, but not over \$262,500;
- 10.00% on taxable income over \$262,500, but not over \$300,000; and
- 11.00% on taxable income over \$300,000.

Unmarried individuals and married individuals who file separately will pay:

- 9.00% on taxable income over \$150,000, but not over \$175,000;
- 10.00% on taxable income over \$175,000, but not over \$200,000; and
- 11.00% on taxable income over \$200,000.

Individuals affected by these changes may find tax-exempt municipal bonds to be a beneficial investment. Using the new 2018 top federal tax brackets along with the highest 2018 Hawaii state income tax rate and the Net Investment Income Tax, the chart at right illustrates what a taxable investment would have to yield to match a 2% double tax-free investment in the tax brackets indicated.



The Net Investment Income tax is a 3.8% tax established by the Patient Protection and Affordable Care Act (PPACA) that applies to the lesser of (1) net investment income or (2) the excess of a taxpayer's modified adjusted gross income (MAGI) in excess of an applicable threshold amount. For more information, please consult your professional tax advisor.