Hawaii Muni Bond Market Update

January, 2018

Hawaiian Tax-Free Trust

In the fourth quarter of 2017, several changes to tax laws were enacted at the federal and state level that may affect a portion of Hawaii residents and Hawaii municipal bond investors starting in 2018. The Tax Cuts and Jobs Act, passed by Congress in December, introduced sweeping changes to the Internal Revenue Code, marking the first major tax reform since 1986. Among the changes are adjustments to the personal and corporate tax rates at the federal level and adjustments to the deductions for state and local taxes (SALT). In addition, Hawaii's 2017 Legislative Session resulted in changes to the State's tax laws. Act 107 amended the income tax law to reduce the tax burden on lower-income taxpayers, and as a result, reinstated three tax brackets for the highest-income taxpayers starting in 2018.

What impact will these changes have on Hawaii's municipal bond investors?

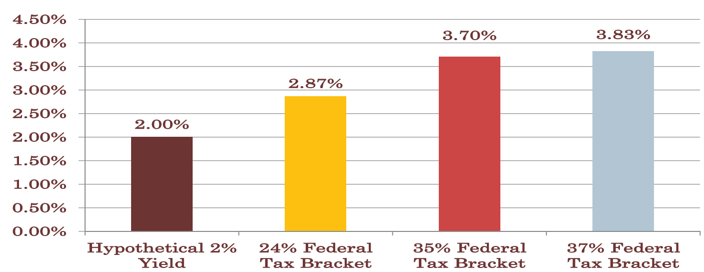
2018 Federal & State Combined Tax Rates

TAXPAYER INCOME STATUS		FEDERAL TAX RATE	NET INV. INCOME TAX	HAWAII STATE TAX RATE	COMBINED EFFECTIVE RATE
SINGLE RETURN	MARRIED RETURN				
$38,700-48,000	$77,400-96,000	22.00%		7.90%	28.16%
$48,001-82,500	$96,001-165,000	22.00%		8.25%	28.44%
$82,501-150,000	$165,001-250,000	24.00%		8.25%	30.27%
$150,001-157,500		24.00%		9.00%	30.84%
	$250,001-300,000	24.00%	3.80%	8.25%	34.07%
	$300,001-315,000	24.00%	3.80%	9.00%	34.64%
$157,501-175,000		32.00%		9.00%	38.12%
$175,001-200,000		32.00%		10.00%	38.80%
	$315,001-350,000	32.00%	3.80%	9.00%	41.92%
	$350,001-400,000	32.00%	3.80%	10.00%	42.60%
$200,001-500,000	$400,000-600,000	35.00%	3.80%	11.00%	45.95%
OVER $500,000	OVER $600,000	37.00%	3.80%	11.00%	47.73%

The table to the right shows single and joint return brackets with the new estimated 2018 federal, state and combined tax rates. With the reinstatement of the higher Hawaii income tax rates, the highest earners may now be paying a combined tax-rate of over 47%. In addition, the Tax Cuts and Jobs Act now limits state and local tax (SALT) deductions for income, sales and property to $10,000 annually, which for residents of Hawaii, may be equivalent to increasing their marginal tax rate.

Individuals affected by the recent federal and state tax changes may find tax-exempt municipal bonds to be a beneficial investment. The Hawaiian Tax-Free Trust seeks to provide as high a level of current income exempt from Hawaii state and regular federal income taxes, as is consistent with preservation of capital, by investing in municipal obligations which pay interest exempt from Hawaii state and federal income taxes.

The chart to the right uses three of the new federal tax brackets, along with the corresponding 2018 Hawaii state income tax rates and the Net Investment Income Tax, where applicable, to illustrate what a taxable investment would have to yield to match a tax-free investment with a 2% yield, in the tax brackets indicated.



Municipal bonds continue to be considered a high-quality investment and may be suitable for conservative investors in all tax brackets. Historically, municipal default rates, as a percentage of issuance, have remained very low, even through the Great Recession.

Hypothetical yields are for illustrative purposes only. The illustration assumes a hypothetical fixed rate of return at the specified tax rates, and does not reflect the performance of an actual investment in any security. The combined effective tax rates represent the 24%, 35% and 37% federal income tax rates combined with the highest state income tax rate at the corresponding income level for joint filers and the Net Investment Income Tax (NIIT) where applicable. NIIT is a 3.8% tax established by the Patient Protection and Affordable Care Act, that applies to the lesser of (1) net investment income or (2) a taxpayer's modified adjusted gross income (MAGI) in excess of an applicable threshold amount. For certain investors, some Fund dividends may be subject to federal and state taxes, including the Alternative Minimum Tax. Consult your professional tax advisor.

Mutual fund investing involves risk; loss of principal is possible. Investments in bonds may decline in value due to rising interest rates, a real or perceived decline in credit quality of the issuer, borrower, counterparty, or collateral, adverse tax or legislative changes, court decisions, market or economic conditions. Fund performance could be more volatile than that of funds with greater geographic diversification.

Before investing in the Fund, carefully read about and consider the investment objectives, risks, charges,expenses and other information found in the Fund prospectus. The prospectus is available from your financial advisor, and when you call 800-437-1020 or visit www.aquilafunds.com.

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