



CERTIFIED PUBLIC ACCOUNTANTS

Tax News Flash

In This Acuity Update:

- The Vetoes Are In

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On June 21, Governor Lingle, as required by the Hawaii Constitution, released a list of 39 bills that are still being considered for veto. In the previous Acuity Tax News Flash, we covered three of those bills.

The Governor announced her decisions today, July 6. All three of those bills have been vetoed.

On Friday, July 2, Speaker of the House Calvin Say announced that the House would not go into special session to consider veto overrides. Thus, these bills will not become law this session.

Civil Unions Derailed

STATUS: VETOED JULY 6, 2010

HB 444 SD1 extends the same rights, benefits, protections, and responsibilities of spouses in a marriage to partners in a civil union. This bill has some tax implications but has been extensively covered in other media.

"It is essentially marriage by another name," Lingle said at a press conference. Lingle added that she did not support "same gender marriage" and called for a referendum. "It would be a mistake to allow a decision of this magnitude to be made by one individual. This issue deserves to be decided by all the people of Hawaii."

High Technology Credit Spared; R&D Credit to Die Natural Death

STATUS: VETOED JULY 6, 2010

SB 2001 HD1 would have given another year of life to the tax credit for research activities, sometimes known as the 20% refundable R&D credit, but in the process would have repealed the 4% technology infrastructure renovation tax credit and the high technology business investment tax credit. The repeal was to take effect on May 1, 2010 and would not affect credits earned before the effective date, including carryover credits.

The Governor's veto message explained:

Investors, entrepreneurs, and businesses make decisions to hire staff, expand operations, or start a new enterprise based on assessments of the risks and rewards

they face. When government policies and commitments change with little notice or rationale, investors and firms understandably decide to pull back and invest their capital elsewhere.

This bill's retroactive elimination of a fundamental tax credit that numerous firms and individuals have depended upon since 1999, implies that people who invest in Hawaii can no longer trust State Government to keep its word."

The Governor further explained that the extension of the 20% research activities credit at the expense of early termination of the QHTB investment credit unfairly divides the industry. "The State should not be in the business of picking winners and losers in the technology industry when the goal is to ensure the whole industry thrives in all its diversity," the message said.

Itemized Deductions and Capital Goods Credit Escape the Ax

STATUS: NOTICE OF INTENT TO VETO GIVEN JUNE 21

HB 1907 CD1 would have imposed a hard maximum on the amount of itemized deductions that a taxpayer may claim. The caps would have been: \$50,000 for married filing jointly or surviving spouse with AGI over \$300,000; \$25,000 for single or married filing separately with AGI over \$150,000; and \$37,500 for head of household with AGI over \$225,000.

The bill also would have made the 4% Capital Goods Excise Tax Credit nonrefundable until 2015.

The Governor's veto message explains that the itemized deduction cap

is a defacto tax increase that will adversely hurt certain individuals and businesses at a time when we should be encouraging investment and spending to recharge the economy. The tax increase not only impacts taxpayers, but also disincentivizes activities such as charitable giving and homeownership. Since itemized deductions are allowed for qualifying medical and dental expenses, contributions to qualifying charitable organizations, payment of certain taxes, home mortgage interest, and qualifying job-related expenses, capping the deduction will act to discourage these expenses. Non-profits and charitable organizations that depend on contributions to serve needy populations are particularly concerned that their ability to raise funds through donations and charitable giving would be adversely affected.

As the bill related to the capital goods excise tax credit, the veto message emphasized that the credit "serves as an incentive for companies to invest in machinery and equipment that expands and upgrades their operations at a time when we want firms to make these types of investments and encourage job growth."

If you have questions about any of these news items, your client service team at Accuity can bring you the resources that you may need.

Please do not hesitate to contact your client service team for more information or Thomas Yamachika at (thomas.yamachika@accuityllp.com)



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