A BILL FOR AN ACT

RELATING TO EDUCATION.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

SECTION 1. The legislature finds that article X, section 1, of the State Constitution requires the State to provide a system of public education. Compared to other states, Hawaii is unique because the State, rather than a county or local level jurisdiction, is responsible for public education. As a result, funding for public education in Hawaii is primarily sourced from the general fund of the State.

The legislature further finds that public education in Hawaii is not adequately funded. According to an analysis of real property tax in Hawaii performed by the department of business, economic development, and tourism in 2017, Hawaii's education expenditures, as a share of combined state and local government expenditures, is 27.3 per cent and ranks as the lowest in the nation. At $12,855 per child, Hawaii trails mainland school districts of similar size when adjusting for cost of living. Lagging state education expenditures drive Hawaii families to compete for private school enrollment,
leaving Hawaii with one of the highest rates of private school enrollment in the nation, according to the United States Census Bureau.

The legislature additionally finds that the United States Department of Education currently considers over seventy percent of Hawaii's public schools to be Title I schools. A majority of public school students are now considered "high-needs" students, meaning that the student qualifies for free or reduced-price lunch, is an English language learner, or is a special education student. Hawaii also ranks fifty-first out of fifty states and the District of Columbia in starting and median teacher salaries adjusted for cost of living, according to a 2017 study performed by WalletHub.com.

The legislature also finds that chronic underfunding of public schools undermines the State's goal of providing a quality education to all of Hawaii's children. Insufficient education funding results in higher class sizes, a lack of adequate classroom supplies, elimination of arts and technical education courses, budget cuts for special education and English language learner programs, and an increasing number of vacant teacher positions statewide that now exceeds over one thousand
positions. It is necessary to develop a new means of financing Hawaii's public education system to ensure that the State will be able to prepare children to meet the social and economic demands of the twenty-first century.

The purpose of this Act is to increase funding for public education in Hawaii by:

(1) Establishing a quality education special fund to supplement education programs, funded by increases in the general excise tax and income tax from high earning taxpayers;

(2) Requiring moneys budgeted for the department of education to remain equal to or greater than an inflation-adjusted minimum level of funding for subsequent fiscal years;

(3) Increasing income tax rates for high earning taxpayers; and

(4) Raising general excise tax rates by one-half per cent.

This Act minimizes the adverse effect of increasing the general excise tax rate by:

(1) Expanding availability of the income tax credit for renters to include households with an income of up to
$60,000 per year, increasing the credit amount, and
linking future increases in credit amount to the
consumer price index; and

(2) Expanding availability of the state food/excise tax
credit for households that file a joint return,
increasing the available credit by specified amounts,
and linking future annual increases in the state
food/excise tax credit to the consumer price index.

SECTION 2. Chapter 302A, Hawaii Revised Statutes, is
amended by adding a new section to be appropriately designated
and to read as follows:

"§302A- Quality education special fund. (a) There is
established within the state treasury a special fund to be known
as the quality education special fund to be administered by the
department and into which shall be deposited:

(1) The additional revenues generated and collected from
the increase in income tax rates imposed by section 5
of Act , Session Laws of Hawaii 2019; provided that
upon the enactment of any subsequent increase in
income tax rates, a sum of total income tax revenues
realized by the State in each fiscal year equal to the
percentage by which income tax rates were increased by section 5 of Act, Session Laws of Hawaii 2019, shall be deposited into the quality education special fund;

(2) The additional revenues generated and collected from the increase in general excise tax rates imposed by sections 8, 9, 10, and 11 of Act, Session Laws of Hawaii 2019; provided that upon the enactment of any subsequent increase in general excise tax rates, a sum equal to a half per cent of total general excise tax revenues realized by the State of Hawaii in each fiscal year shall be deposited into the quality education special fund;

(3) All other funds received by the department and legally available for the purposes of the quality education special fund; and

(4) Interest accrued on all amounts in the quality education special fund.

(b) Moneys budgeted for operations of the department of education from sources of funding other than the quality education special fund shall remain equal to or greater than the
inflation-adjusted minimum level of funding, except when the consumer price index for the twelve-month period ending June 30 of the preceding calendar year decreases from the prior calendar year.

(c) The quality education special fund shall not be subject to sections 36-27, 36-30, and 37-53.

(d) Moneys in the quality education special fund shall be allocated by the legislature through appropriations out of the special fund, in consultation with the department and the exclusive representatives of any appropriate bargaining units, for the purposes of:

(1) Recruiting and retaining public school teachers;
(2) Lowering public school class sizes;
(3) Improving special education staffing and resources;
(4) Offering additional instruction in career and technical education, arts, music, theatre, dance, Hawaiian studies, and Hawaiian language; and
(5) Expanding access to public preschool and afterschool programming.
(e) Amounts in the quality education special fund shall be exempt from all taxes and surcharges imposed by the State or the counties.

(f) No later than twenty days prior to the convening of each regular session, the department shall post on the department's website a report containing an accounting of the receipts of and expenditures from the quality education special fund. The legislature shall provide to the department any information necessary to complete and post the report required by this section.

(g) For the purposes of this section:

"Consumer price index" means the national consumer price index average over a twelve-month period that is published monthly by the United States Department of Labor's Bureau of Labor Statistics as the "National Consumer Price Index for All Urban Consumers-United States City Average".

"Inflation-adjusted minimum level of funding" means the total amount of funding provided to the department of education in the fiscal year 2019-2020; provided that this amount shall increase by three per cent for each subsequent fiscal year."
SECTION 3. Section 36-27, Hawaii Revised Statutes, is amended by amending subsection (a) to read as follows:

"(a) Except as provided in this section, and notwithstanding any other law to the contrary, from time to time, the director of finance, for the purpose of defraying the prorated estimate of central service expenses of government in relation to all special funds, except the:

1. Special out-of-school time instructional program fund under section 302A-1310;
2. School cafeteria special funds of the department of education;
3. Special funds of the University of Hawaii;
4. State educational facilities improvement special fund;
5. Convention center enterprise special fund under section 201B-8;
6. Special funds established by section 206E-6;
7. Aloha Tower fund created by section 206J-17;
8. Funds of the employees' retirement system created by section 88-109;
9. Hawaii hurricane relief fund established under chapter 431P;
(10) Hawaii health systems corporation special funds and the subaccounts of its regional system boards;

(11) Tourism special fund established under section 201B-

11;

(12) Universal service fund established under section 269-

42;

(13) Emergency and budget reserve fund under section 328L-

3;

(14) Public schools special fees and charges fund under section 302A-1130;

(15) Sport fish special fund under section 187A-9.5;

(16) Neurotrauma special fund under section 321H-4;

(17) Glass advance disposal fee established by section 342G-82;

(18) Center for nursing special fund under section 304A-

2163;

(19) Passenger facility charge special fund established by section 261-5.5;

(20) Solicitation of funds for charitable purposes special fund established by section 467B-15;
Land conservation fund established by section 173A-5;

Court interpreting services revolving fund under section 607-1.5;

Trauma system special fund under section 321-22.5;

Hawaii cancer research special fund;

Community health centers special fund;

Emergency medical services special fund;

Rental motor vehicle customer facility charge special fund established under section 261-5.6;

Shared services technology special fund under section 27-43;

Automated victim information and notification system special fund established under section 353-136;

Deposit beverage container deposit special fund under section 342G-104;

Hospital sustainability program special fund under section 346G-4;

Nursing facility sustainability program special fund under section 346F-4;
H.B. NO.1286

1. Hawaii 3R's school improvement fund under section 302A-1502.4;
2. After-school plus program revolving fund under section 302A-1149.5; [and]
3. Civil monetary penalty special fund under section 321-30.2[ ]; and
4. Quality education special fund under section 302A-

shall deduct five per cent of all receipts of all other special funds, which deduction shall be transferred to the general fund of the State and become general realizations of the State. All officers of the State and other persons having power to allocate or disburse any special funds shall cooperate with the director in effecting these transfers. To determine the proper revenue base upon which the central service assessment is to be calculated, the director shall adopt rules pursuant to chapter 91 for the purpose of suspending or limiting the application of the central service assessment of any fund. No later than twenty days prior to the convening of each regular session of the legislature, the director shall report all central service assessments made during the preceding fiscal year."
SECTION 4. Section 36-30, Hawaii Revised Statutes, is amended by amending subsection (a) to read as follows:

"(a) Each special fund, except the:

(1) Special out-of-school time instructional program fund under section 302A-1310;

(2) School cafeteria special funds of the department of education;

(3) Special funds of the University of Hawaii;

(4) State educational facilities improvement special fund;

(5) Special funds established by section 206E-6;

(6) Aloha Tower fund created by section 206J-17;

(7) Funds of the employees' retirement system created by section 88-109;

(8) Hawaii hurricane relief fund established under chapter 431P;

(9) Convention center enterprise special fund established under section 201B-8;

(10) Hawaii health systems corporation special funds and the subaccounts of its regional system boards;

(11) Tourism special fund established under section 201B-11;
(12) Universal service fund established under section 269-42;

(13) Emergency and budget reserve fund under section 328L-3;

(14) Public schools special fees and charges fund under section 302A-1130;

(15) Sport fish special fund under section 187A-9.5;

[±] (16) Neurotrauma special fund under section 321H-4;

[±] (17) Center for nursing special fund under section 304A-2163;

[±] (18) Passenger facility charge special fund established by section 261-5.5;

[±] (19) Court interpreting services revolving fund under section 607-1.5;

[±] (20) Trauma system special fund under section 321-22.5;

[±] (21) Hawaii cancer research special fund;

[±] (22) Community health centers special fund;

[±] (23) Emergency medical services special fund;

[±] (24) Rental motor vehicle customer facility charge special fund established under section 261-5.6;
SECTION 4. (25) Shared services technology special fund under section 27-43;

(26) Nursing facility sustainability program special fund established pursuant to [+]section 346F-4[+];

(27) Automated victim information and notification system special fund established under section 353-136;

(28) Hospital sustainability program special fund under [+]section 346G-4[+]; [and]

(29) Civil monetary penalty special fund under section 321-30.2[+]; and

(30) Quality education special fund under section 302A[+], shall be responsible for its pro rata share of the administrative expenses incurred by the department responsible for the operations supported by the special fund concerned."

SECTION 5. Section 235-51, Hawaii Revised Statutes, is amended by amending subsections (a) through (c) to read as follows:

"(a) There is hereby imposed on the taxable income of every:

(1) Taxpayer who files a joint return under section 235-93; and
(2) Surviving spouse,
a tax determined in accordance with the following table:

In the case of any taxable year beginning after December 31, 2001:

If the taxable income is: The tax shall be:

Not over $4,000 1.40% of taxable income
Over $4,000 but $56.00 plus 3.20% of
not over $8,000 excess over $4,000
Over $8,000 but $184.00 plus 5.50% of
not over $16,000 excess over $8,000
Over $16,000 but $624.00 plus 6.40% of
not over $24,000 excess over $16,000
Over $24,000 but $1,136.00 plus 6.80% of
not over $32,000 excess over $24,000
Over $32,000 but $1,680.00 plus 7.20% of
not over $40,000 excess over $32,000
Over $40,000 but $2,256.00 plus 7.60% of
not over $60,000 excess over $40,000
Over $60,000 but $3,776.00 plus 7.90% of
not over $80,000 excess over $60,000
If the taxable income is:

1. Not over $4,800
2. Over $4,800 but not over $9,600
3. Over $9,600 but not over $19,200
4. Over $19,200 but not over $28,800
5. Over $28,800 but not over $38,400
6. Over $38,400 but not over $48,000
7. Over $48,000 but not over $72,000
8. Over $72,000 but not over $96,000
9. Over $96,000 but not over $192,000
10. Over $192,000 but not over $288,000
11. Over $288,000 but not over $384,000
12. Over $384,000 but not over $480,000
13. Over $480,000 but not over $720,000
14. Over $720,000 but not over $960,000
15. Over $960,000 but not over $1,920,000
16. Over $1,920,000 but not over $2,880,000
17. Over $2,880,000 but not over $3,840,000
18. Over $3,840,000 but not over $4,800,000
19. Over $4,800,000 but not over $7,200,000
20. Over $7,200,000 but not over $9,600,000
21. Over $9,600,000 but not over $19,200,000
22. Over $19,200,000 but not over $38,400,000
23. Over $38,400,000 but not over $72,000,000
24. Over $72,000,000 but not over $96,000,000
25. Over $96,000,000 but not over $192,000,000
26. Over $192,000,000 but not over $288,000,000
27. Over $288,000,000 but not over $384,000,000
28. Over $384,000,000 but not over $480,000,000
29. Over $480,000,000 but not over $720,000,000
30. Over $720,000,000 but not over $960,000,000
31. Over $960,000,000

The tax shall be:

1. 1.40% of taxable income
2. $67.00 plus 3.20% of excess over $4,800
3. $221.00 plus 5.50% of excess over $9,600
4. $749.00 plus 6.40% of excess over $19,200
5. $1,363.00 plus 6.80% of excess over $28,800
6. $2,016.00 plus 7.20% of excess over $38,400
7. $2,707.00 plus 7.60% of excess over $48,000
8. $4,531.00 plus 7.90% of excess over $72,000
9. $5,356.00 plus 8.25% of excess over $80,000.
In the case of any taxable year beginning after December 31, 2017:

If the taxable income is: The tax shall be:

Not over $4,800 1.40% of taxable income
Over $4,800 but not over $9,600 $67.00 plus 3.20% of excess over $4,800
Over $9,600 but not over $19,200 $221.00 plus 5.50% of excess over $9,600
Over $19,200 but not over $28,800 $749.00 plus 6.40% of excess over $19,200
Over $28,800 but not over $38,400 $1,363.00 plus 6.80% of excess over $28,800
Over $38,400 but not over $48,000 $2,016.00 plus 7.20% of excess over $38,400
Over $48,000 but not over $72,000 $2,707.00 plus 7.60% of excess over $48,000

Over $96,000 $6,427.00 plus 8.25% of excess over $96,000.
If the taxable income is:  

Not over $4,800  

Over $4,800 but  

not over $9,600  

Over $9,600 but  

not over $19,200  

Over $19,200 but  

not over $28,800  

The tax shall be:  

1.40% of taxable income  

$67.00 plus 3.20% of excess over $4,800  

$221.00 plus 5.50% of excess over $9,600  

$749.00 plus 6.40% of excess over $19,200  

In the case of any taxable year beginning after December 31, 2018:
<table>
<thead>
<tr>
<th>Income Range</th>
<th>Tax Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over $28,800 but not over $38,400</td>
<td>$1,363.00 plus 6.80% of excess over $28,800</td>
</tr>
<tr>
<td>Over $38,400 but not over $48,000</td>
<td>$2,016.00 plus 7.20% of excess over $38,400</td>
</tr>
<tr>
<td>Over $48,000 but not over $72,000</td>
<td>$2,707.00 plus 7.60% of excess over $48,000</td>
</tr>
<tr>
<td>Over $72,000 but not over $96,000</td>
<td>$4,531.00 plus 7.90% of excess over $72,000</td>
</tr>
<tr>
<td>Over $96,000 but not over $300,000</td>
<td>$6,427.00 plus 8.25% of excess over $96,000</td>
</tr>
<tr>
<td>Over $300,000 but not over $350,000</td>
<td>$23,257.00 plus 11.00% of excess over $300,000</td>
</tr>
<tr>
<td>Over $350,000 but not over $400,000</td>
<td>$28,757.00 plus 12.00% of excess over $350,000</td>
</tr>
<tr>
<td>Over $400,000</td>
<td>$34,757.00 plus 13.00% of excess over $400,000</td>
</tr>
</tbody>
</table>

(b) There is hereby imposed on the taxable income of every head of a household a tax determined in accordance with the following table:
In the case of any taxable year beginning after December 31, 2001:

If the taxable income is: The tax shall be:

Not over $3,000 1.40% of taxable income

Over $3,000 but $42.00 plus 3.20% of excess over $3,000

not over $6,000

Over $6,000 but $138.00 plus 5.50% of excess over $6,000

not over $12,000

Over $12,000 but $468.00 plus 6.40% of excess over $12,000

not over $18,000

Over $18,000 but $852.00 plus 6.80% of excess over $18,000

not over $24,000

Over $24,000 but $1,260.00 plus 7.20% of excess over $24,000

not over $30,000

Over $30,000 but $1,692.00 plus 7.60% of excess over $30,000

not over $45,000

Over $45,000 but $2,832.00 plus 7.90% of excess over $45,000

not over $60,000

Over $60,000 $4,017.00 plus 8.25% of excess over $60,000.
In the case of any taxable year beginning after December 31, 2006:

If the taxable income is:   The tax shall be:
Not over $3,600   1.40% of taxable income
Over $3,600 but not over $7,200   $50.00 plus 3.20% of excess over $3,600
Over $7,200 but not over $14,400   $166.00 plus 5.50% of excess over $7,200
Over $14,400 but not over $21,600   $562.00 plus 6.40% of excess over $14,400
Over $21,600 but not over $28,800   $1,022.00 plus 6.80% of excess over $21,600
Over $28,800 but not over $36,000   $1,512.00 plus 7.20% of excess over $28,800
Over $36,000 but not over $54,000   $2,030.00 plus 7.60% of excess over $36,000
Over $54,000 but not over $72,000   $3,398.00 plus 7.90% of excess over $54,000
Over $72,000   $4,820.00 plus 8.25% of excess over $72,000.
In the case of any taxable year beginning after December 31, 2017:

<table>
<thead>
<tr>
<th>If the taxable income is:</th>
<th>The tax shall be:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $3,600</td>
<td>1.40% of taxable income</td>
</tr>
<tr>
<td>Over $3,600 but not over $7,200</td>
<td>$50.00 plus 3.20% of excess over $3,600</td>
</tr>
<tr>
<td>Over $7,200 but not over $14,400</td>
<td>$166.00 plus 5.50% of excess over $7,200</td>
</tr>
<tr>
<td>Over $14,400 but not over $21,600</td>
<td>$562.00 plus 6.40% of excess over $14,400</td>
</tr>
<tr>
<td>Over $21,600 but not over $28,800</td>
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<tr>
<td>Over $28,800 but not over $36,000</td>
<td>$1,512.00 plus 7.20% of excess over $28,800</td>
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<tr>
<td>Over $36,000 but not over $54,000</td>
<td>$2,030.00 plus 7.60% of excess over $36,000</td>
</tr>
<tr>
<td>Over $54,000 but not over $72,000</td>
<td>$3,398.00 plus 7.90% of excess over $54,000</td>
</tr>
<tr>
<td>Over $72,000 but not over $225,000</td>
<td>$4,820.00 plus 8.25% of excess over $72,000</td>
</tr>
<tr>
<td>Taxable Income</td>
<td>Tax Calculation</td>
</tr>
<tr>
<td>---------------</td>
<td>----------------</td>
</tr>
<tr>
<td>Over $225,000 but not over $262,500</td>
<td>$17,443.00 plus 9.00% of excess over $225,000</td>
</tr>
<tr>
<td>Over $262,500 but not over $300,000</td>
<td>$20,818.00 plus 10.00% of excess over $262,500</td>
</tr>
<tr>
<td>Over $300,000</td>
<td>$24,568.00 plus 11.00% of excess over $300,000</td>
</tr>
</tbody>
</table>

In the case of any taxable year beginning after December 31, 2018:

<table>
<thead>
<tr>
<th>Taxable Income</th>
<th>Tax Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $3,600</td>
<td>1.40% of taxable income</td>
</tr>
<tr>
<td>Over $3,600 but not over $7,200</td>
<td>$50.00 plus 3.20% of excess over $3,600</td>
</tr>
<tr>
<td>Over $7,200 but not over $14,400</td>
<td>$166.00 plus 5.50% of excess over $7,200</td>
</tr>
<tr>
<td>Over $14,400 but not over $21,600</td>
<td>$562.00 plus 6.40% of excess over $14,400</td>
</tr>
<tr>
<td>Over $21,600 but not over $28,800</td>
<td>$1,022.00 plus 6.80% of excess over $21,600</td>
</tr>
<tr>
<td>Over $28,800 but not over $36,000</td>
<td>$1,512.00 plus 7.20% of excess over $28,800</td>
</tr>
</tbody>
</table>
(c) There is hereby imposed on the taxable income of (1) every unmarried individual (other than a surviving spouse, or the head of a household) and (2) on the taxable income of every married individual who does not make a single return jointly with the individual's spouse under section 235-93 a tax determined in accordance with the following table:

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Tax Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over $36,000 but not over $54,000</td>
<td>$2,030.00 plus 7.60% of excess over $36,000</td>
</tr>
<tr>
<td>Over $54,000 but not over $72,000</td>
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<tr>
<td>Over $225,000 but not over $262,500</td>
<td>$17,443.00 plus 9.00% of excess over $225,000</td>
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<tr>
<td>Over $262,500 but not over $300,000</td>
<td>$20,818.00 plus 10.00% of excess over $262,500</td>
</tr>
<tr>
<td>Over $300,000</td>
<td>$24,568.00 plus 13.00% of excess over $300,000</td>
</tr>
</tbody>
</table>
In the case of any taxable year beginning after December 31, 2001:

If the taxable income is: The tax shall be:

- Not over $2,000 1.40% of taxable income
- Over $2,000 but not over $4,000 $28.00 plus 3.20% of excess over $2,000
- Over $4,000 but not over $8,000 $92.00 plus 5.50% of excess over $4,000
- Over $8,000 but not over $12,000 $312.00 plus 6.40% of excess over $8,000
- Over $12,000 but not over $16,000 $568.00 plus 6.80% of excess over $12,000
- Over $16,000 but not over $20,000 $840.00 plus 7.20% of excess over $16,000
- Over $20,000 but not over $30,000 $1,128.00 plus 7.60% of excess over $20,000
- Over $30,000 but not over $40,000 $1,888.00 plus 7.90% of excess over $30,000
- Over $40,000 $2,678.00 plus 8.25% of excess over $40,000.
In the case of any taxable year beginning after December 31, 2006:

If the taxable income is: 

- Not over $2,400
  
  The tax shall be: 
  
  - 1.40% of taxable income

- Over $2,400 but not over $4,800
  
  - $34.00 plus 3.20% of excess over $2,400

- Over $4,800 but not over $9,600
  
  - $110.00 plus 5.50% of excess over $4,800

- Over $9,600 but not over $14,400
  
  - $374.00 plus 6.40% of excess over $9,600

- Over $14,400 but not over $19,200
  
  - $682.00 plus 6.80% of excess over $14,400

- Over $19,200 but not over $24,000
  
  - $1,008.00 plus 7.20% of excess over $19,200

- Over $24,000 but not over $36,000
  
  - $1,354.00 plus 7.60% of excess over $24,000

- Over $36,000 but not over $48,000
  
  - $2,266.00 plus 7.90% of excess over $36,000

- Over $48,000
  
  - $3,214.00 plus 8.25% of excess over $48,000.
In the case of any taxable year beginning after December 31, 2017:

If the taxable income is: The tax shall be:

Not over $2,400 1.40% of taxable income
Over $2,400 but $34.00 plus 3.20% of
not over $4,800 excess over $2,400
Over $4,800 but $110.00 plus 5.50% of
not over $9,600 excess over $4,800
Over $9,600 but $374.00 plus 6.40% of
not over $14,400 excess over $9,600
Over $14,400 but $682.00 plus 6.80% of
not over $19,200 excess over $14,400
Over $19,200 but $1,008.00 plus 7.20% of
not over $24,000 excess over $19,200
Over $24,000 but $1,354.00 plus 7.60% of
not over $36,000 excess over $24,000
Over $36,000 but $2,266.00 plus 7.90% of
not over $48,000 excess over $36,000
Over $48,000 but $3,214.00 plus 8.25% of
not over $150,000 excess over $48,000
If the tax payable is:

Not over $2,400

Over $2,400 but not over $4,800

Over $4,800 but not over $9,600

Over $9,600 but not over $14,400

Over $14,400 but not over $19,200

Over $19,200 but not over $24,000

The tax shall be:

1.40% of taxable income

$34.00 plus 3.20% of excess over $2,400

$110.00 plus 5.50% of excess over $4,800

$374.00 plus 6.40% of excess over $9,600

$682.00 plus 6.80% of excess over $14,400

$1,008.00 plus 7.20% of excess over $19,200

In the case of any taxable year beginning after December 31, 2018:

If the taxable income is:

Not over $2,400

Over $2,400 but not over $4,800

Over $4,800 but not over $9,600

Over $9,600 but not over $14,400

Over $14,400 but not over $19,200

Over $19,200 but not over $24,000

The tax shall be:

$11,629.00 plus 9.00% of excess over $150,000

$13,879.00 plus 10.00% of excess over $175,000

$16,379.00 plus 11.00% of excess over $200,000.
1. Over $24,000 but not over $36,000: $1,354.00 plus 7.60% of excess over $24,000.
2. Over $36,000 but not over $48,000: $2,266.00 plus 7.90% of excess over $36,000.
3. Over $48,000 but not over $150,000: $3,214.00 plus 8.25% of excess over $48,000.
4. Over $150,000 but not over $175,000: $11,629.00 plus 9.00% of excess over $150,000.
5. Over $175,000 but not over $200,000: $13,879.00 plus 10.00% of excess over $175,000.
6. Over $200,000: $16,379.00 plus 13.00% of excess over $200,000.

SECTION 6. Section 235-55.7, Hawaii Revised Statutes, is amended to read as follows:

"§235-55.7 Income tax credit for low-income household renters. (a) As used in this section:

(1) "Adjusted gross income" is defined by section 235-1.
(2) "Qualified exemption" includes those exemptions permitted under this chapter; provided that a person for whom exemption is claimed has physically resided in the State for more than nine months during the..."
taxable year; and provided that multiple exemption
shall not be granted because of deficiencies in
vision, hearing, or other disability.

(3) "Rent" means the amount paid in cash in any taxable
year for the occupancy of a dwelling place which is
used by a resident taxpayer or the resident taxpayer's
immediate family as the principal residence in this
State. Rent is limited to the amount paid for the
occupancy of the dwelling place only, and is exclusive
of charges for utilities, parking stalls, storage of
goods, yard services, furniture, furnishings, and the
like. Rent shall not include any rental claimed as a
deduction from gross income or adjusted gross income
for income tax purposes, any ground rental paid for
use of land only, and any rent allowance or subsidies
received.

(4) "Consumer price index" means the national consumer
price index average over a twelve-month period that is
published monthly by the United States Department of
Labor's Bureau of Labor Statistics as the "National
Consumer Price Index for All Urban Consumers-United States City Average".

(b) Each resident taxpayer who occupies and pays rent for real property within the State as the resident taxpayer's residence or the residence of the resident taxpayer's immediate family which is not partially or wholly exempted from real property tax, who is not eligible to be claimed as a dependent for federal or state income taxes by another, and who files an individual net income tax return for a taxable year, may claim a tax credit under this section against the resident taxpayer's Hawaii state individual net income tax.

(c) Each taxpayer with an adjusted gross income of less than [$30,000] $60,000 who has paid more than $1,000 in rent during the taxable year for which the credit is claimed may claim a tax credit of [$50] $150 multiplied by the number of qualified exemptions to which the taxpayer is entitled; provided each taxpayer sixty-five years of age or over may claim double the tax credit; and provided that a resident individual who has no income or no income taxable under this chapter may also claim the tax credit as set forth in this section.
(d) If a rental unit is occupied by two or more individuals, and more than one individual is able to qualify as a claimant, the claim for credit shall be based upon a pro rata share of the rent paid.

(e) The tax credits shall be deductible from the taxpayer's individual net income tax for the tax year in which the credits are properly claimed; provided that a husband and wife filing separate returns for a taxable year for which a joint return could have been made by them shall claim only the tax credits to which they would have been entitled had a joint return been filed. In the event the allowed tax credits exceed the amount of the income tax payments due from the taxpayer, the excess of credits over payments due shall be refunded to the taxpayer; provided that allowed tax credits properly claimed by an individual who has no income tax liability shall be paid to the individual; and provided further that no refunds or payments on account of the tax credits allowed by this section shall be made for amounts less than $1.

(f) The director of taxation shall prepare and prescribe the appropriate form or forms to be used herein, may require
proof of the claim for tax credits, and may adopt rules pursuant
to chapter 91.

(g) All of the provisions relating to assessments and
refunds under this chapter and under section 231-23(c)(1) shall
apply to the tax credits hereunder.

(h) Claims for tax credits under this section, including
any amended claims thereof, shall be filed on or before the end
of the twelfth month following the taxable year for which the
credit may be claimed.

(i) For any taxable year beginning after December 31,
2019, each dollar amount contained in subsection (c) shall be
increased by an amount equal to such dollar amount multiplied by
the percentage, if any, by which the consumer price index for
the preceding calendar year exceeds the consumer price index for
the calendar year 2018."

SECTION 7. Section 235-55.85, Hawaii Revised Statutes, is
amended as follows:

1. By amending subsections (b) and (c) to read:

"(b) Each individual taxpayer may claim a refundable
food/excise tax credit multiplied by the number of qualified
exemptions to which the taxpayer is entitled in accordance with
the table below; provided that a husband and wife filing
separate tax returns for a taxable year for which a joint return
could have been filed by them shall claim only the tax credit to
which they would have been entitled had a joint return been
filed.

<table>
<thead>
<tr>
<th>Adjusted gross income</th>
<th>Credit per exemption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $5,000</td>
<td>[[$110]] $125</td>
</tr>
<tr>
<td>$5,000 under $10,000</td>
<td>[[$100]] $110</td>
</tr>
<tr>
<td>$10,000 under $15,000</td>
<td>[[$ 85]] $ 95</td>
</tr>
<tr>
<td>$15,000 under $20,000</td>
<td>[[$ 70]] $ 80</td>
</tr>
<tr>
<td>$20,000 under $30,000</td>
<td>[[$ 55]] $ 65</td>
</tr>
<tr>
<td>$30,000 and over</td>
<td>$  0.</td>
</tr>
</tbody>
</table>

Adjusted gross income for heads of household,
married individuals filing separate returns, and
married couples filing joint returns

<table>
<thead>
<tr>
<th>Credit per exemption</th>
</tr>
</thead>
<tbody>
<tr>
<td>[[$110]] $125</td>
</tr>
</tbody>
</table>
H.B. NO. 1285

1 $5,000 under $10,000   [$100] $110
2 $10,000 under $15,000   [$85] $95
3 $15,000 under $20,000   [$70] $80
4 $20,000 under $30,000   [$55] $65
5 $30,000 under $40,000   [$45] $50
6 $40,000 under $50,000   [$35] $40
7 $50,000 under $60,000                 $30
8 [$50,000] $60,000 and over              $0.
9 (c) For the purposes of this section, a qualified
10 exemption is defined to include those exemptions permitted under
11 this chapter; provided that no additional exemption may be
12 claimed by a taxpayer who is sixty-five years of age or older;
13 provided that a person for whom exemption is claimed has been
14 physically present in the State for more than nine months during
15 the taxable year; and provided further that multiple exemptions
16 shall not be granted because of deficiencies in vision or
17 hearing, or other disability. For purposes of claiming this
18 credit only, a minor child receiving support from the department
19 of human services of the State, social security survivor's
20 benefits, and the like, may be considered a dependent and a
21 qualified exemption of the parent or guardian. For any taxable
year beginning after December 31, 2019, each dollar amount contained in subsection (b) shall be increased by an amount equal to such dollar amount multiplied by the percentage, if any, by which the consumer price index for the preceding calendar year exceeds the consumer price index for the calendar year 2018."

2. By amending subsection (g) to read:

"(g) For the purposes of this section, "adjusted gross income" means adjusted gross income as defined by the Internal Revenue Code.

"Consumer price index" means the national consumer price index average over a twelve-month period that is published monthly by the United States Department of Labor's Bureau of Labor Statistics as the "National Consumer Price Index for All Urban Consumers-United States City Average"."

SECTION 8. Section 237-13, Hawaii Revised Statutes, is amended to read as follows:

"§237-13 Imposition of tax. There is hereby levied and shall be assessed and collected annually privilege taxes against persons on account of their business and other activities in the State measured by the application of rates against values of
products, gross proceeds of sales, or gross income, whichever is specified, as follows:

(1) Tax on manufacturers.

(A) Upon every person engaging or continuing within the State in the business of manufacturing, including compounding, canning, preserving, packing, printing, publishing, milling, processing, refining, or preparing for sale, profit, or commercial use, either directly or through the activity of others, in whole or in part, any article or articles, substance or substances, commodity or commodities, the amount of the tax to be equal to the value of the articles, substances, or commodities, manufactured, compounded, canned, preserved, packed, printed, milled, processed, refined, or prepared for sale, as shown by the gross proceeds derived from the sale thereof by the manufacturer or person compounding, preparing, or printing them, multiplied by one-half of one per cent.
(B) The measure of the tax on manufacturers is the
value of the entire product for sale.

(2) Tax on business of selling tangible personal property;
producing.

(A) Upon every person engaging or continuing in the
business of selling any tangible personal
property whatsoever, there is likewise hereby
levied, and shall be assessed and collected, a
tax equivalent to [four] 4.5 per cent of the
gross proceeds of sales of the business; provided
that, in the case of a wholesaler, the tax shall
be equal to one-half of one per cent of the gross
proceeds of sales of the business; and provided
further that insofar as the sale of tangible
personal property is a wholesale sale under
section 237-4(a)(8), the tax shall be one-half of
one per cent of the gross proceeds. Upon every
person engaging or continuing within this State
in the business of a producer, the tax shall be
equal to one-half of one per cent of the gross
proceeds of sales of the business, or the value
of the products, for sale.

(B) Gross proceeds of sales of tangible property in
interstate and foreign commerce shall constitute
a part of the measure of the tax imposed on
persons in the business of selling tangible
personal property, to the extent, under the
conditions, and in accordance with the provisions
of the Constitution of the United States and the
Acts of the Congress of the United States which
may be now in force or may be hereafter adopted,
and whenever there occurs in the State an
activity to which, under the Constitution and
Acts of Congress, there may be attributed gross
proceeds of sales, the gross proceeds shall be so
attributed.

(C) No manufacturer or producer, engaged in such
business in the State and selling the
manufacturer's or producer's products for
delivery outside of the State (for example,
consigned to a mainland purchaser via common
carrier f.o.b. Honolulu), shall be required to pay the tax imposed in this chapter for the privilege of so selling the products, and the value or gross proceeds of sales of the products shall be included only in determining the measure of the tax imposed upon the manufacturer or producer.

(D) A manufacturer or producer, engaged in such business in the State, shall pay the tax imposed in this chapter for the privilege of selling its products in the State, and the value or gross proceeds of sales of the products, thus subjected to tax, may be deducted insofar as duplicated as to the same products by the measure of the tax upon the manufacturer or producer for the privilege of manufacturing or producing in the State; provided that no producer of agricultural products who sells the products to a purchaser who will process the products outside the State shall be required to pay the tax imposed in this
chapter for the privilege of producing or selling those products.

(E) A taxpayer selling to a federal cost-plus contractor may make the election provided for by paragraph (3)(C), and in that case the tax shall be computed pursuant to the election, notwithstanding this paragraph or paragraph (1) to the contrary.

(F) The department, by rule, may require that a seller take from the purchaser of tangible personal property a certificate, in a form prescribed by the department, certifying that the sale is a sale at wholesale; provided that:

(i) Any purchaser who furnishes a certificate shall be obligated to pay to the seller, upon demand, the amount of the additional tax that is imposed upon the seller whenever the sale in fact is not at wholesale; and

(ii) The absence of a certificate in itself shall give rise to the presumption that the sale
is not at wholesale unless the sales of the business are exclusively at wholesale.

(3) Tax upon contractors.

(A) Upon every person engaging or continuing within the State in the business of contracting, the tax shall be equal to $4.5 per cent of the gross income of the business.

(B) In computing the tax levied under this paragraph, there shall be deducted from the gross income of the taxpayer so much thereof as has been included in the measure of the tax levied under subparagraph (A), on another taxpayer who is a contractor, as defined in section 237-6; provided that any person claiming a deduction under this paragraph shall be required to show in the person's return the name and general excise number of the person paying the tax on the amount deducted by the person.

(C) In computing the tax levied under this paragraph against any federal cost-plus contractor, there shall be excluded from the gross income of the
contractor so much thereof as fulfills the following requirements:

(i) The gross income exempted shall constitute reimbursement of costs incurred for materials, plant, or equipment purchased from a taxpayer licensed under this chapter, not exceeding the gross proceeds of sale of the taxpayer on account of the transaction; and

(ii) The taxpayer making the sale shall have certified to the department that the taxpayer is taxable with respect to the gross proceeds of the sale, and that the taxpayer elects to have the tax on gross income computed the same as upon a sale to the state government.

(D) A person who, as a business or as a part of a business in which the person is engaged, erects, constructs, or improves any building or structure, of any kind or description, or makes, constructs, or improves any road, street,
sidewalk, sewer, or water system, or other
improvements on land held by the person (whether
held as a leasehold, fee simple, or otherwise),
upon the sale or other disposition of the land or
improvements, even if the work was not done
pursuant to a contract, shall be liable to the
same tax as if engaged in the business of
contracting, unless the person shows that at the
time the person was engaged in making the
improvements the person intended, and for the
period of at least one year after completion of
the building, structure, or other improvements
the person continued to intend to hold and not
sell or otherwise dispose of the land or
improvements. The tax in respect of the
improvements shall be measured by the amount of
the proceeds of the sale or other disposition
that is attributable to the erection,
construction, or improvement of such building or
structure, or the making, constructing, or
improving of the road, street, sidewalk, sewer,
or water system, or other improvements. The measure of tax in respect of the improvements shall not exceed the amount which would have been taxable had the work been performed by another, subject as in other cases to the deductions allowed by subparagraph (B). Upon the election of the taxpayer, this paragraph may be applied notwithstanding that the improvements were not made by the taxpayer, or were not made as a business or as a part of a business, or were made with the intention of holding the same. However, this paragraph shall not apply in respect of any proceeds that constitute or are in the nature of rent, which shall be taxable under paragraph (9); provided that insofar as the business of renting or leasing real property under a lease is taxed under section 237-16.5, the tax shall be levied by section 237-16.5.

(4) Tax upon theaters, amusements, radio broadcasting stations, etc.
(A) Upon every person engaging or continuing within the State in the business of operating a theater, opera house, moving picture show, vaudeville, amusement park, dance hall, skating rink, radio broadcasting station, or any other place at which amusements are offered to the public, the tax shall be equal to [four] 4.5 per cent of the gross income of the business, and in the case of a sale of an amusement at wholesale under section 237-4(a)(13), the tax shall be one-half of one per cent of the gross income.

(B) The department may require that the person rendering an amusement at wholesale take from the licensed seller a certificate, in a form prescribed by the department, certifying that the sale is a sale at wholesale; provided that:

(i) Any licensed seller who furnishes a certificate shall be obligated to pay to the person rendering the amusement, upon demand, the amount of additional tax that is imposed
upon the seller whenever the sale is not at
wholesale; and

(ii) The absence of a certificate in itself shall
give rise to the presumption that the sale
is not at wholesale unless the person
rendering the sale is exclusively rendering
the amusement at wholesale.

(5) Tax upon sales representatives, etc. Upon every
person classified as a representative or purchasing
agent under section 237-1, engaging or continuing
within the State in the business of performing
services for another, other than as an employee, there
is likewise hereby levied and shall be assessed and
collected a tax equal to [four] 4.5 per cent of the
commissions and other compensation attributable to the
services so rendered by the person.

(6) Tax on service business.

(A) Upon every person engaging or continuing within
the State in any service business or calling
including professional services not otherwise
specifically taxed under this chapter, there is
likewise hereby levied and shall be assessed and collected a tax equal to [four] 4.5 per cent of the gross income of the business, and in the case of a wholesaler under section 237-4(a)(10), the tax shall be equal to one-half of one per cent of the gross income of the business.

(B) The department may require that the person rendering a service at wholesale take from the licensed seller a certificate, in a form prescribed by the department, certifying that the sale is a sale at wholesale; provided that:

(i) Any licensed seller who furnishes a certificate shall be obligated to pay to the person rendering the service, upon demand, the amount of additional tax that is imposed upon the seller whenever the sale is not at wholesale; and

(ii) The absence of a certificate in itself shall give rise to the presumption that the sale is not at wholesale unless the person
rendering the sale is exclusively rendering
services at wholesale.

(C) Where any person is engaged in the business of
selling interstate or foreign common carrier
telecommunication services within and without the
State, other than as a home service provider, the
tax shall be imposed on that portion of gross
income received by a person from service which is
originated or terminated in this State and is
charged to a telephone number, customer, or
account in this State notwithstanding any other
state law (except for the exemption under section
237-23(a)(1)) to the contrary. If, under the
Constitution and laws of the United States, the
entire gross income as determined under this
paragraph of a business selling interstate or
foreign common carrier telecommunication services
cannot be included in the measure of the tax, the
gross income shall be apportioned as provided in
section 237-21; provided that the apportionment
factor and formula shall be the same for all persons providing those services in the State.

(D) Where any person is engaged in the business of a home service provider, the tax shall be imposed on the gross income received or derived from providing interstate or foreign mobile telecommunications services to a customer with a place of primary use in this State when the services originate in one state and terminate in another state, territory, or foreign country; provided that all charges for mobile telecommunications services which are billed by or for the home service provider are deemed to be provided by the home service provider at the customer's place of primary use, regardless of where the mobile telecommunications originate, terminate, or pass through; provided further that the income from charges specifically derived from interstate or foreign mobile telecommunications services, as determined by books and records that are kept in the regular course of business by the
home service provider in accordance with section 239-24, shall be apportioned under any apportionment factor or formula adopted under subparagraph (C). Gross income shall not include:

(i) Gross receipts from mobile telecommunications services provided to a customer with a place of primary use outside this State;

(ii) Gross receipts from mobile telecommunications services that are subject to the tax imposed by chapter 239;

(iii) Gross receipts from mobile telecommunications services taxed under section 237-13.8; and

(iv) Gross receipts of a home service provider acting as a serving carrier providing mobile telecommunications services to another home service provider's customer.

For the purposes of this paragraph, "charges for mobile telecommunications services", "customer", 
"home service provider", "mobile telecommunications services", "place of primary use", and "serving carrier" have the same meaning as in section 239-22.

(7) Tax on insurance producers. Upon every person engaged as a licensed producer pursuant to chapter 431, there is hereby levied and shall be assessed and collected a tax equal to 0.15 per cent of the commissions due to that activity.

(8) Tax on receipts of sugar benefit payments. Upon the amounts received from the United States government by any producer of sugar (or the producer's legal representative or heirs), as defined under and by virtue of the Sugar Act of 1948, as amended, or other Acts of the Congress of the United States relating thereto, there is hereby levied a tax of one-half of one per cent of the gross amount received; provided that the tax levied hereunder on any amount so received and actually disbursed to another by a producer in the form of a benefit payment shall be paid by the person or persons to whom the amount is
actually disbursed, and the producer actually making a
benefit payment to another shall be entitled to claim
on the producer's return a deduction from the gross
amount taxable hereunder in the sum of the amount so
disbursed. The amounts taxed under this paragraph
shall not be taxable under any other paragraph,
subsection, or section of this chapter.

(9) Tax on other business. Upon every person engaging or
continuing within the State in any business, trade,
activity, occupation, or calling not included in the
preceding paragraphs or any other provisions of this
chapter, there is likewise hereby levied and shall be
assessed and collected, a tax equal to [four] 4.5 per
cent of the gross income thereof. In addition, the
rate prescribed by this paragraph shall apply to a
business taxable under one or more of the preceding
paragraphs or other provisions of this chapter, as to
any gross income thereof not taxed thereunder as gross
income or gross proceeds of sales or by taxing an
equivalent value of products, unless specifically
exempted."
SECTION 9. Section 237-15, Hawaii Revised Statutes, is amended to read as follows:

"§237-15 Technicians. When technicians supply dentists or physicians with dentures, orthodontic devices, braces, and similar items [which] that have been prepared by the technician in accordance with specifications furnished by the dentist or physician, and [such] the items are to be used by the dentist or physician in the dentist's or physician's professional practice for a particular patient who is to pay the dentist or physician for the same as a part of the dentist's or physician's professional services, the technician shall be taxed as though the technician were a manufacturer selling a product to a licensed retailer, rather than at the rate of [four] 4.5 per cent [which] that is generally applied to professions and services."

SECTION 10. Section 237-16.5, Hawaii Revised Statutes, is amended to read as follows:

1. By amending subsection (a) to read:

"(a) This section relates to the leasing of real property by a lessor to a lessee. There is hereby levied, and shall be assessed and collected annually, a privilege tax against persons
engaging or continuing within the State in the business of leasing real property to another, equal to \( \text{[four]} \) 4.5 per cent of the gross proceeds or gross income received or derived from the leasing; provided that where real property is subleased by a lessee to a sublessee, the lessee, as provided in this section, shall be allowed a deduction from the amount of gross proceeds or gross income received from its sublease of the real property. The deduction shall be in the amount allowed under this section.

All deductions under this section and the name and general excise tax number of the lessee's lessor shall be reported on the general excise tax return. Any deduction allowed under this section shall only be allowed with respect to leases and subleases in writing and relating to the same real property."

2. By amending subsection (f) to read:

"(f) This section shall not cause the tax upon a lessor, with respect to any item of the lessor's gross proceeds or gross income, to exceed \( \text{[four]} \) 4.5 per cent."

SECTION 11. Section 237-18, Hawaii Revised Statutes, is amended by amending subsection (f) read as follows:

"(f) Where tourism related services are furnished through arrangements made by a travel agency or tour packager and the
gross income is divided between the provider of the services and
the travel agency or tour packager, the tax imposed by this
chapter shall apply to each such person with respect to [such]
the person's respective portion of the proceeds, and no more.

As used in this subsection, "tourism related services"
means catamaran cruises, canoe rides, dinner cruises, lei
greetings, transportation included in a tour package,
sightseeing tours not subject to chapter 239, admissions to
luaus, dinner shows, extravaganzas, cultural and educational
facilities, and other services rendered directly to the customer
or tourist, but only if the providers of the services other than
air transportation are subject to a [four] 4.5 per cent tax
under this chapter or chapter 239."

SECTION 12. Section 237-31, Hawaii Revised Statutes, is
amended to read as follows:

"§237-31 Remittances. (a) All remittances of taxes
imposed by this chapter shall be made by money, bank draft,
check, cashier's check, money order, or certificate of deposit
to the office of the department of taxation to which the return
was transmitted.
(b) The department shall issue its receipts therefor to the taxpayer and shall pay the moneys into the state treasury as a state realization, to be kept and accounted for as provided by law; provided that:

(1) A sum, not to exceed $5,000,000, from all general excise tax revenues realized by the State shall be deposited in the state treasury in each fiscal year to the credit of the compound interest bond reserve fund;

(2) A sum from all general excise tax revenues realized by the State that is equal to one-half of the total amount of funds appropriated or transferred out of the hurricane reserve trust fund under sections 4 and 5 of Act 62, Session Laws of Hawaii 2011, shall be deposited into the hurricane reserve trust fund in fiscal year 2013-2014 and in fiscal year 2014-2015; provided that the deposit required in each fiscal year shall be made by October 1 of that fiscal year; and

Commencing with fiscal year 2018-2019, a sum from all general excise tax revenues realized by the State that represents the difference between the state public employer's annual required contribution for the
separate trust fund established under section 87A-42
and the amount of the state public employer's
contributions into that trust fund shall be deposited
to the credit of the State's annual required
contribution into that trust fund in each fiscal year,
as provided in section 87A-42.

(c) Notwithstanding subsection (b), beginning on January
1, 2020, the additional revenues generated and collected from
the increase in general excise tax rates imposed by sections 8,
9, 10, and 11 of Act , Session Laws of Hawaii 2019, shall be
deposited into the quality education special fund pursuant to
section 302A-___."

SECTION 13. Statutory material to be repealed is bracketed
and stricken. New statutory material is underscored.

SECTION 14. This Act shall take effect on July 1, 2019;
provided that sections 5 through 12 shall apply to taxable years
beginning after December 31, 2018.

INTRODUCED BY:

Amy &

John M. &

Tim W.
Report Title:
Education Funding; General Excise Tax; Use Tax; Income Tax;
Food/excise Tax Credit; Low-income Household Renters Tax Credit;
Quality Education Special Fund

Description:
Education funding omnibus. Raises the GET and use tax rates.
Increases income tax rates for high earning taxpayers.
Establishes quality education special fund to supplement
education budget. Increases food/excise tax credit and low-
income renter's household tax credit and ties future increases
to the U.S. Department of Labor consumer price index.

The summary description of legislation appearing on this page is for informational purposes only and is
not legislation or evidence of legislative intent.