

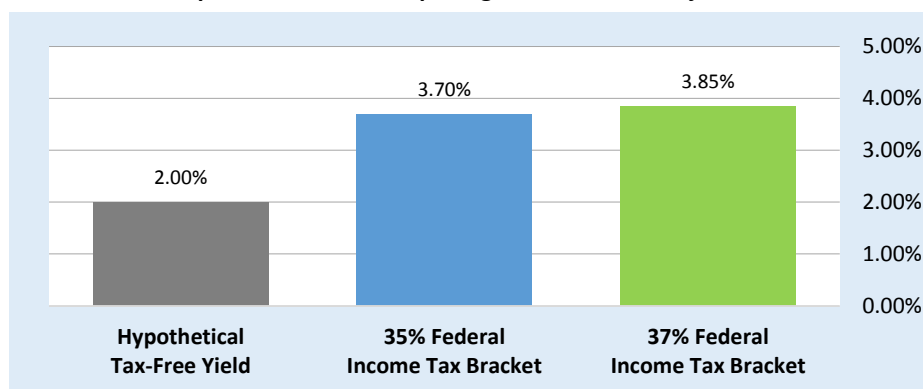
The recent passage of the Tax Cut and Jobs Act introduces several sweeping changes to both the personal and corporate tax rates at the Federal level. Although the new legislation has provided some tax relief at the Federal level, Hawaii will reinstate three tax brackets for the highest earners in 2018. Below are a few comments on how the tax reform could impact Hawaii residents who invest in Hawaii municipal bonds:

- In Hawaii, limiting the deduction for state and local taxes (SALT) for income, sales, and property to \$10,000 is equivalent to increasing the marginal tax rate for taxpayers. Therefore, it should boost municipal demand from middle to higher-income residents.
- The table at the right lists the new Federal and State tax rates, as well as the combined tax rates. The tax-free income that Hawaii municipal bonds provide to Hawaii residents is not subject to any of these taxes so individuals at all tax levels may benefit from tax-free income.
- As an illustration, using the new 2018 top federal tax brackets along with the highest 2018 Hawaii state income tax, the chart at the right illustrates what a taxable investment would have to yield to match a 2% double tax-free investment in the tax brackets indicated.
- Other factors which may impact the municipal bond market due to these policy changes are the lower Federal corporate tax rates and municipal issuers' reduced ability to refund their debt. How these changes will ultimately impact the municipal bond market remains to be seen.
- Because municipal default rates remain very low, municipal bonds continue to be considered a high quality investment, and historically, demand for municipal bonds has remained strong despite changes in tax rates.

**2018 Federal & State combined tax rates**

Taxpayer Income Status		Federal Tax Bracket	Hawaii State Tax Bracket	Combined Tax Rate
Single Return	Joint Return			
\$38,701 - \$48,000	\$77,401 - \$96,000	22.00%	7.90%	29.90%
\$48,001 - \$82,500	\$96,001 - \$165,001	22.00%	8.25%	30.25%
\$82,501 - \$150,000	\$165,001 - 300,000	24.00%	8.25%	32.25%
\$150,001 - \$157,500	\$300,001 - \$315,000	24.00%	9.00%	33.00%
\$157,501 - \$175,000	\$315,001 - \$350,000	32.00%	9.00%	41.00%
\$175,001 - \$200,000	\$350,501 - \$400,000	32.00%	10.00%	42.00%
\$200,001 - \$500,000	\$400,001 - \$600,000	35.00%	11.00%	46.00%
\$500,001+	\$600,001+	37.00%	11.00%	48.00%

**Municipal bonds are a compelling value on a tax-adjusted basis**



Note: The above table reflects the 22% federal tax brackets and above. The combined rate assumes no deductibility of state and local taxes, nor any impacts from the Alternative Minimum Tax or the Net Investment Income Tax. Each taxpayer's situation may differ depending on their individual circumstances. Please consult your tax professional before making any tax-related decisions.