



DEPARTMENT OF TAXATION

STATE OF HAWAII
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TAX INFORMATION RELEASE No. 32-71

CONVEYANCE TAX

Imposition and Application of the Conveyance Tax
Whenever Certain Leases are Extended or Amended.

According to Chapter 247 of the Hawaii Revised Statutes, as amended, amendments to lease documents by extending lease terms and amendments to leases by increasing the lease rental are taxable documents within the provision of the law; and therefore, such amendments are subject to the conveyance tax provided the full unexpired term is for more than ten years.

Example No. 1

As an example of an amendment to the lease, a subject lease dated January 10, 1960 for a term of 30 years, and the lease rent of \$10,000 per year fixed for the initial 10 years; lease rent to be renegotiated every 10 years thereafter. The lease rental is renegotiated at \$15,000 per year on January 10, 1970. The difference in rent of \$5,000 (\$15,000 - \$10,000) is subject to the conveyance tax. The tax is based on the discounted cash value of the additional rent capitalized at the rate of 6% for 20 years.

(20-yr. factor = 11.469)

$11.469 \times \$5,000 = \$57,345$ (capitalized value of the difference in rent).

Example No. 2

As an example of an extension of the lease term where there is no change in the lease rent, the original term of the lease is 55 years at \$1,000 a year, dated January 2, 1960. On January 2, 1970, with 45 years remaining on the original lease, the subject lease is extended 10 years. The rent for the additional 10 years capitalized at 6% is subject to the conveyance tax.

(55-yr. factor = 15.990) (45-yr. factor = 15.455)

$15.990 - 15.455 \times \$1,000 = \535 (capitalized value of rent)

Example No. 3

As an example of an extension of fixed lease rent period or term with an increase in the fixed lease rent but no change in the overall term, the original term of the lease, dated January 2, 1960, is 55 years at \$1,000 per year for 30 years. On January 2, 1970, with 45 years remaining on the original lease, the fixed rent is increased to \$1,500 per year, and the fixed rent period is extended another 10 years. The difference in the rent over the remaining term of 45 years capitalized at 6% as shown below is subject to the conveyance tax.

(45-year factor = 15.455)

$15.455 \times (\$1,500 - \$1,000) \text{ or } \$500 = \$7,727.50$

Please be informed that penalty and interest shall be imposing for failure to pay the conveyance tax.

In summary, it is emphasized that the all inclusive language of the law indicates that all documents on conveyancing of real property, except certain exempted documents, are subject to the conveyance tax as provided by Chapter 247, HRS, as amended.