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DEPARTMENT OF TAXATION ANNOUNCEMENT NO. 2026-06

RE: Tax Law Changes from the 2026 Regular Legislative Session

This announcement summarizes the measures passed during the Regular Legislative Session of 2026 that amend or affect State tax laws.

Act 20: General Excise Tax Exemption for Aircraft Service and Maintenance

Act 20 (House Bill 1688, H.D.1, S.D.2, C.D.1) amends section 237-24.9, Hawaii Revised Statutes (HRS), relating to the general excise tax (GET) exemption for amounts received from the servicing and maintenance of aircraft, or the construction of aircraft service and maintenance facilities located within Hawai'i, by expanding the exemption to include amounts received from the sale of material, parts, or tools to an air carrier if they are purchased for aircraft service and maintenance or for the construction of an aircraft service and maintenance facility. The Federal Aviation Act of 1958 defines which persons or entities qualify as air carriers for purposes of the exemption. Act 20 becomes effective on January 1, 2027.

Act 24: Income Tax Bracket and Tax Credit Amendments

Act 24 (Senate Bill 3125, S.D.1, H.D.1, C.D.2) amends the income tax brackets for tax years 2027 and 2029 by lowering the income tax rates for the second bracket from 3.2% to 2.5%, and third bracket from 5.5% to 5%, and adding a new 13% top bracket level for taxable income greater than $500,000 (single filers), $750,000 (head of household filers), and $1 million (joint filers).

Act 24 also amends section 235-12.5, HRS, relating to the Renewable Energy Technologies Income Tax Credit (RETITC), by requiring that credits be certified by the Hawaiʻi State Energy Office and establishing an annual aggregate cap of $40 million. Additionally, effective for tax year 2027, the credit will not be available for individuals whose adjusted gross income exceeds $175,000 and joint filers whose adjusted gross income exceeds $350,000. The RETITC will not be available for taxable years beginning after December 31, 2029, and the allowable credits will be $0 beginning January 1, 2030.

Additionally, Act 24 makes the Capital Goods Excise Tax Credit unavailable for taxable years beginning after December 31, 2027; makes the Renewable Fuels Production Tax Credit unavailable for taxable years beginning after December 31, 2028; repeals the High Technology Business Investment Tax Credit and the Tax Credit for Research Activities on January 1, 2029; and repeals the Technology Infrastructure Renovation Tax Credit on January 1, 2028.

Act 35: Conformity with the Internal Revenue Code

Act 35 (House Bill 2329, H.D.1, S.D.1, C.D.1) amends section 235-2.3(a), HRS, to conform Hawaiʻi income tax law to the operative sections of subtitle A, chapter 1, of the Internal Revenue Code (IRC), as amended as of December 31, 2025. Act 35 also amends section 235-2.3(b), HRS, which lists provisions in the IRC that are not operative under chapter 235, HRS. Also amended are sections 235-2.4 and 235-2.45, HRS, which list IRC provisions that are operative under chapter 235, HRS, subject to modifications. Finally, Act 35 updates section 236E-3, HRS, to conform Hawaiʻi estate and generation-skipping transfer tax law to the operative sections of subtitle B of the IRC, as amended as of December 31, 2025.

Act 35 makes various amendments to conformity to the IRC in response to the One Big Beautiful Bill Act (OBBBA), Public Law 119-21, enacted July 4, 2025.

Changes to conformity under Act 35 include, but are not limited to, the following:

- Hawaiʻi will conform to IRC section 67(h), which disallows miscellaneous itemized deductions. Hawaiʻi previously decoupled from the federal suspension of miscellaneous itemized deductions for tax years 2018 through 2025.
- Hawaiʻi will conform to IRC section 132(f), which disallows a gross income exclusion for qualified bicycle commuting reimbursement. Hawaiʻi previously decoupled from the federal suspension of the gross income exclusion.
- Hawaiʻi will conform to IRC section 165(h)(5), which disallows personal casualty loss deductions, except those attributable to federal or state declared disasters. Hawaiʻi previously decoupled from federal treatment and allowed personal casualty loss deductions for losses arising from fire, storm, shipwreck, or other casualty, or from theft.
- Hawaiʻi will conform to IRC section 274, which disallows deductions for entertainment, amusement, and recreation. Hawaiʻi previously decoupled from federal treatment and allowed a deduction for entertainment, amusement, and recreation.

New federal provisions that Hawaiʻi conforms to include, but are not limited to, the following:

- IRC section 128, which provides employees with a gross income exclusion of up to $2,500 for employer contributions to a Trump Account, and IRC section 139J, which provides beneficiaries of a Trump Account with a gross income exclusion for qualified general contributions to their Trump Account.
- IRC section 170, which reinstates the charitable deduction for individuals who do not

itemize deductions and imposes a charitable deduction floor for individuals and corporations.

- IRC section 224, which creates a deduction of up to $25,000 for qualified tips.

New federal provisions that Hawaiʻi does not conform to include, but are not limited to, the following:

- IRC section 139K, which provides a gross income exclusion to individuals who receive a scholarship from a Scholarship Granting Organization.
- IRC section 163(h), which creates a deduction of up to $10,000 for qualified passenger vehicle loan interest.
- IRC section 225, which creates a deduction of up to $12,500 for qualified overtime compensation.

Act 35 became effective on May 26, 2026, and applies to taxable years beginning after December 31, 2025, and decedents dying or taxable transfers occurring after December 31, 2025.

Act 118: Income Tax Withholding on Retirement Distributions

Act 118 (S.B. 2881, S.D.1, H.D.1, C.D.1) amends chapter 235, HRS, to allow a taxpayer to elect to have taxable income from retirement-related accounts that are reported on federal Internal Revenue Service Form 1099-R be subject to withholding at an applicable rate under chapter 235, HRS. The taxpayer must notify the entity making the distribution of the taxpayer's election to have income tax withheld on taxable retirement payments, and the distributing entity must then deduct and withhold the amount elected by the taxpayer. Any withholding would be reported on the taxpayer's return as a credit against their tax liability. Act 118 became effective June 8, 2026 and applies to taxable years beginning after December 31, 2026.

Act 160: Tax Expenditure Evaluation

Act 160 (H.B. 2429, H.D.2, S.D.2, C.D.1) amends chapter 201, HRS, requiring the Department of Business, Economic Development & Tourism (DBEDT), in collaboration with the Department of Taxation (DOTAX), to study and evaluate the effectiveness of income tax credits and GET and use tax exemptions and report to the legislature by September 1st of each year with a summary of descriptive statistics. Act 160 became effective July 1, 2026, and applies to taxable years beginning after December 31, 2026.

Act 182: State Enterprise Zones

Act 182 (S.B. 2360, S.D.1, H.D.2, C.D.1) adds new activity types that qualify for the tax benefits associated with the Enterprise Zone (EZ) program, including: the sale of tangible personal property manufactured and sold at retail in an EZ for consumption or use by the purchaser and not for resale; the production of value-added agricultural products, all or some of which were grown within an EZ; the research, development, sale, or production of all types of medical and health care services; the activities of the Hawai‘i food and product innovation network; the provision of professional services by health care professionals in health care-related sectors, including but not limited to home health care agencies, specialized care practices, and health coaching; the research and development of aerospace technology; and information technology design and production services.

Act 182 also amends section 209E-10 to extend the timeframe that the EZ tax credits may be claimed from 7 years to 9 years, and extends the GET exemption period from 7 years to 9 years, and for qualified businesses engaged in the manufacturing of tangible personal property or the producing or processing of agricultural products, the period is extended from 10 years to 12 years.

Act 182 is effective for all qualified businesses that join the EZ program on or after July 1, 2026. The extended time frames noted above for the tax credits are effective for taxable years beginning after December 31, 2026, and the extended time frames for the GET exemption are effective on January 1, 2028.

Act 185: Updates to the Motion Picture, Digital Media, and Film Production Income Tax Credit ("Film Credit")

Act 185 (S.B. 2580, S.D.2, H.D.1, C.D.1) makes various amendments to section 235-17, HRS, relating to the Film Credit:

First, the amount of the Film Credit is increased by 5% of qualified production costs incurred after December 31, 2025, by a qualified production with a workforce of at least 80% local hires.

Second, Act 185 adds a requirement for taxpayers claiming film credits to obtain a third-party certification by a qualified certified public accountant to verify the production costs for which credits are being claimed.

Third, the total tax credits that can be claimed per qualified production has been increased from $17 million to $20 million for qualified production costs incurred after December 31, 2025, but this per-production cap does not apply to a qualified production that incurs at least $60 million of qualified production costs.

Fourth, the total credit limit for all qualified productions (i.e., the aggregate cap) has been increased from $50 million to $60 million per year.

Fifth, effective retroactively to qualified production costs incurred after December 31, 2023, if the total amount of credits claimed in any particular year is less than the aggregate amount of credits allowed for that year, the unused amount (the difference between the aggregate cap for that year and the total credits claimed in that year) will be added to the aggregate amount of credits allowed for the subsequent year.

Sixth, the definitions for "qualified production" and "qualified production costs" have also been amended to include certain streaming productions.

Seventh, the sunset date of the Film Credit has been extended from January 1, 2033 to January 1, 2038.

In addition to amendments to the Film Credit, Act 185 also amends section 237-24.75, HRS, to include a GET exemption for reimbursements received by a "motion picture project employer" from a client company (i.e., a production company), for costs paid or incurred by the client company for reasonable employment related costs of motion picture project workers or loan-out companies. Additional information regarding this GET exemption is contained in Tax Information Release No. 2026-01.

Act 205: Low-Income Housing Tax Credit Allocations, Sales, Transfers and Assignments

Act 205 (H.B. 1920, H.D.1, S.D.2, C.D.1) amends the Low-Income Housing Tax Credit (LIHTC), section 235-110.8, HRS, to allow a partner or member of a partnership or limited liability company that has been allocated a credit to further allocate, transfer, sell, or assign all or a portion of the credit to any taxpayer, regardless of whether the taxpayer owns a direct or indirect interest in the qualified low-income building. The transferor is required to notify DOTAX of the transfer, sale, or assignment by the twentieth day of first month following the end of the taxable year for which the credit may be claimed. Only credits issued after July 1, 2026, are eligible to be allocated, transferred, sold, or assigned, and only one transfer is allowed, i.e., the transferee cannot further allocate, transfer, sell, or assign all or a portion of the credit.

Act 215: General Excise Tax Exemption for Affordable Housing Projects

Act 215 (H.B. 2385, H.D.3, S.D.1, C.D.1) amends section 46-15.1, HRS, by repealing the general excise tax (GET) exemption for county-certified housing projects and clarifying that a county may not exercise the authority granted to the Hawaiʻi Housing Finance and Development Corporation (HHFDC) under section 201H-36(a)(6), HRS. Act 215 also amends section 201H-36(a), which lists projects that HHFDC may approve and certify for the GET exemption under section 237-29, HRS, by adding projects developed under a county assistance program approved by HHFDC, where at least 50% of the available units are for households with incomes at or below 100% of the median family income as determined by the U.S. Department of Housing and Urban Development (HUD). For new projects developed under a county assistance program, the eligibility requirements will be subject to a minimum term of 15 years from the date of issuance of the certificate or occupancy.

Further, Act 215 amends section 201H-36(a)(5) by deleting language that limited the GET and use tax exemption for projects developed under a contract described in section 104-2(i)(2), HRS, to contracting costs only.

Act 215 became effective July 8, 2026, but the amendments to sections 46-15.1 and 201H-36 will become effective on January 1, 2027. Act 215 also includes several provisions that prevent the repeal of this Act's amendments by previously established statutory sunset dates and establishes a repeal date of July 1, 2031, at which time sections 46-15.1 and 201H-36, HRS, will be reenacted in the form in which they read prior to the effective date of this Act.

Act 217: Individual Housing Accounts

Act 217 (S.B. 2552, S.D.1, H.D.1, C.D.1) amends section 235-5.5, HRS, to increase the maximum annual deduction for contributions to an individual housing account (IHA) for the purchase of a first principal residence from $5,000 to $20,000 for individuals and from $10,000 to $40,000 for joint filers. Act 217 also increases the total allowable deduction per individual taxpayer, and total allowable contributions that may be made to an IHA, across all years from $25,000 to $200,000. Act 217 became effective July 8, 2026, and applies to taxable years beginning after December 31, 2026.

Act 229: Tobacco Enforcement

Act 229 (S.B. 3076, S.D.1, H.D.2, C.D.1) amends part I of chapter 245, HRS, by adding a new section authorizing the forfeiture and destruction of any cigarette or tobacco product, package or cigarettes or tobacco products, carton of cigarettes or tobacco products, or container of cigarettes or tobacco products that are untaxed or unlawfully possessed, kept, stored, received, held, owned, acquired, retained, transported, imported, or caused to be imported, distributed, sold, or offered for sale in violation of part I of chapter 245. Act 229 also amends section 245-9, HRS, which grants DOTAX and the Department of the Attorney General the authority to inspect and seize contraband, by clarifying that businesses engaged in the sale of "tobacco products," including electronic smoking devices and e-liquids, are subject to inspection in the same manner as businesses engaged in the sale of cigarettes. Act 229 becomes effective on September 1, 2026.

If you have any questions about this Taxation Announcement, please contact the Rules Office at (808) 587-1530 or by email at Tax.Rules.Office@hawaii.gov.

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