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DEPARTMENT OF TAXATION ANNOUNCEMENT NO. 2024-04

RE: Tax Law Changes from the 2024 Regular Legislative Session

This Announcement summarizes the measures passed during the Regular Legislative Session of 2024 that amend or affect State tax laws.

Act 17: Transient Accommodations Tax

Section 3 of Act 17 (Senate Bill 2919, S.D. 2, H.D. 2, C.D. 1) amends the definition of "transient accommodations" under section 237D-1, Hawaii Revised Statutes (HRS), to include certain shelters and vehicles equipped with or advertised as including sleeping accommodations. Section 3 of Act 17 takes effect on January 1, 2025.

Act 30: Clarification of County Surcharge Uses

Act 30 (Senate Bill 1099, S.D. 1, H.D. 2, C.D. 1) clarifies the authority of the counties to use county surcharge on state tax revenues for financing costs, including related debt service and financing agreement costs, for housing infrastructure. Act 30 became effective on July 1, 2024.

Act 46: Standard Deduction and Income Tax Bracket Amendments

Act 46 (House Bill 2404, H.D. 1, S.D. 1, C.D. 1) incrementally increases standard deduction amounts and widens income tax brackets for specific taxable years beginning after December 31, 2023. Specific changes to the standard deduction and income tax brackets are detailed in Department of Taxation Announcement No. 2024-03. Act 46 became effective on June 3, 2024.

Act 47: General Excise Tax Exemption for Medical and Dental Services Provided to Medicare, Medicaid, and TRICARE Patients

Act 47 (Senate Bill 1035, S.D. 2, H.D. 1, C.D. 1) exempts from the general excise tax amounts received by a hospital, infirmary, medical clinic, health care facility, pharmacy, or

medical or dental practitioner for healthcare-related goods or services purchased under the Medicaid, Medicare, or TRICARE programs. Act 47 takes effect on January 1, 2026.

Act 50: Pass-Through Entity (PTE) Taxation Amendments

Act 50 (Senate Bill 2725, H.D. 1, C.D. 1) makes several amendments to the PTE tax under section 235-51.5, HRS.

Act 50 amends the PTE tax base by imposing the tax on the sum of the distributive shares and guaranteed payments of all "qualified member[s]," which is defined as all members of an electing PTE that are individuals, trusts, or estates. Act 50 also amends the PTE tax rate to 9 percent.

Additionally, Act 50 allows a qualified member of an electing PTE to carry forward any excess credit over liability to be used as a credit against the member's net income tax liability in subsequent years until exhausted. Act 50 became effective on June 19, 2024 and applies to taxable years beginning after December 31, 2023.

Act 75: Conformity with the Internal Revenue Code

Act 75 (House Bill 2484, H.D. 1, S.D. 1, C.D. 1) updates section 235-2.3(a), HRS, to conform to the operative sections of subtitle A, chapter 1, of the Internal Revenue Code of 1986 (IRC), as amended as of December 31, 2023. Act 75 also updates section 236E-3, HRS, to conform to operative sections of subtitle B of the IRC, as amended as of December 31, 2023.

Act 75 became effective on June 21, 2024 and applies to taxable years beginning after December 31, 2023 and to decedents dying or taxable transfers occurring after December 31, 2023.

Act 76: Third-Party Rent Collectors and Removal of Tax Clearance Fees

Act 76 (House Bill 2485, H.D. 1, S.D. 2) repeals an obsolete fee that the Department of Taxation ("Department") may charge for a certified copy of a tax clearance.

Act 76 also authorizes the Department to issue a citation for failure to comply with reporting requirements under sections 237-30.5 and 237D-8.5, HRS, relating to collection of rent by a third party. Failure to comply with the reporting requirements may result in a fine of no more than $500 per violation.

Finally, Act 76 increases the unfair competition penalty to no more than $1,000 for each violation of section 237-49, HRS.

Act 76 takes effect on June 21, 2024.

Act 77: Administrative Subpoenas

Act 77 (House Bill 2486, H.D. 1, S.D. 1) amends section 231-7(a), HRS, which previously was silent on whether administrative subpoenas could be issued outside the State. Act 77 explicitly authorizes the service of administrative subpoenas both "within or without" the state. Act 77 became effective on June 21, 2024.

Act 78: Taxation Board of Review

Act 78 (House Bill 2488, H.D. 1, S.D. 1) amends the minimum qualifications for the Chairperson of the Taxation Board of Review under section 232-6(b), HRS, which previously required the Chairperson of the Taxation Board of Review be either an attorney licensed to practice law in all courts of the State, or a certified public accountant (CPA) with experience in the State, to instead require the Chairperson to be an attorney or accounting professional with experience in Hawai‘i state taxes. Act 78 became effective on July 1, 2024.

Act 139: Amendments to the Research Activities Tax Credit

Act 139 (Senate Bill 2497, S.D. 2, H.D. 1, C.D. 1) amends the research activities tax credit under section 235-110.91, HRS.

Act 139 repeals the provision that previously made the base amount in the Internal Revenue Code inapplicable to the research activities tax credit and allowed credits for all qualified research expenses to be taken without regard to previous years' expenses. Act 139 also amends the definition of "qualified high technology business" to a small business that conducts more than 50 percent of its activities in qualified research in Hawai‘i and is registered to do business in Hawai‘i. A small business is defined as a company with no more than 500 employees. Act 139 also extends the sunset date of the research activities tax credit to December 31, 2029. Act 139 became effective on July 1, 2024 and applies to taxable years beginning after December 31, 2023.

Act 169: Motion Picture, Digital Media, and Film Production Income Tax Credit ("Film Credit")

Act 169 (Senate Bill 795, S.D. 2, H.D. 1, C.D. 1) amends section 235-17(d)(7), HRS, relating to the Film Credit, which previously required that a taxpayer "be compliant" with all applicable requirements under Title 14, HRS, to instead require that the taxpayer "provide evidence of reasonable efforts to comply" with applicable requirements under Title 14. Act 169 also requires taxpayers be given notice of and an opportunity to cure any failure to meet the requirements of section 235-17(d) within 30 days of receiving the notice. Act 169 takes effect on January 1, 2025.

Act 178: Revisions and Corrections to Statutes

Section 10 of Act 178 (Senate Bill 2958, H.D. 1) amends section 235-2.3(b)(42), HRS, by replacing a clerical error to IRC Subchapter U section "1379F" with "1397F." Section 11 of Act 178 amends section 237D-6.5(b), HRS, by removing the definition for "fiscal year," as that term was deleted as a part of amendments made to subsection (b) by Act 1, Special Session of 2021. Act 178 became effective on July 2, 2024.

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

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