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DEPARTMENT OF TAXATION ANNOUNCEMENT NO. 2025-02

RE: Withholding of Taxes on Income of Nonresident Partners and Beneficiaries of Partnerships, Estates, and Trusts; Act 232 Session Laws of Hawaii 2019

This Announcement supersedes Department of Taxation Announcement No. 2019-08, issued on July 19, 2019, regarding the "Delay in Implementing the Withholding of Taxes on Income of Nonresident Partners and Beneficiaries of Partnerships, Estates, and Trusts; Act 232 Session Laws of Hawaii 2019."

Act 232, Session Laws of Hawaii 2019 (Senate Bill 1360, S.D. 1, H.D. 1) became effective July 2, 2019, and applies to taxable years beginning after December 31, 2018. Act 232 requires income tax withholding for nonresident taxpayers based on the taxpayers' distributive share of income attributable to the State reflected on the partnership's, estate's, and trust's return for the taxable period. The amount withheld equals the highest marginal tax rate applicable to a nonresident taxpayer multiplied by the amount of the taxpayer's distributive share of income attributable to the State.

Act 232 provides an exemption from withholding for publicly traded partnerships, as defined by section 7704(b) of the Internal Revenue Code. A publicly traded partnership is required to file an annual information return of each unit holder with income sourced to Hawai'i.

For tax year 2025 and thereafter, the Department will process the withholding of income tax by partnerships, estates, and trusts as mandated by Act 232. Taxpayers should use Department Form N-4P and Schedule NP to report Hawai'i income taxes withheld from a nonresident partner and Form N-4T and Schedule NT if the taxpayer is a trust or estate. No quarterly withholding payments are required for partnership, trust, and estate withholding, and any payments can be made with the entity's tax return filing. Quarterly payments may still be made by filing Form N-201V or online at Hawaii Tax Online. If withholding payments are not made upon submission of the Form N-4Ps to the nonresident partners, then claims for withholding on nonresident partners' tax returns may be denied.

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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