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DEPARTMENT OF TAXATION ANNOUNCEMENT NO. 2025-04

RE: Tax Law Changes from the 2025 Regular Legislative Session

This Announcement summarizes the measures passed during the Regular Legislative Session of 2025 that amend or affect State tax laws.

Act 24: Withholding Tax on Wages

Act 24 (Senate Bill 1470) amends section 235-61, Hawaii Revised Statutes (HRS), relating to the withholding of tax on wages, to repeal the maximum 8 percent tax rate that may be considered in determining the amount of income tax that must be withheld, repeal the requirement that a standard deduction allowance must be treated as if it was denominated as a withholding exemption, and permit the Director of Taxation to prescribe a standard deduction allowance in an amount more or less than one whole exemption. Act 24 became effective on April 23, 2025, and applies to taxable years beginning after December 31, 2024.

Act 25: Earned Income Tax Credit

Act 25 (Senate Bill 1466) clarifies that nonresidents who claim the refundable earned income tax credit under section 235-55.75, HRS, are required to adjust the amount claimed using the ratio of their Hawai‘i adjusted gross income to federal adjusted gross income. Act 25 also eliminates the unlimited carryforward on nonrefundable earned income tax credits for tax year 2022. Act 25 became effective on April 23, 2025, and applies to taxable years beginning after December 31, 2024.

Act 49: Service of Notice of Appeal of County Taxes

Act 49 (Senate Bill 1467, H.D. 1) amends sections 232-5, 232-16, and 232-17, HRS, to clarify that a taxpayer who appeals a county tax is not required to serve the Director of Taxation with the notice of appeal unless the appeal involves the Department of Taxation (DOTAX). Act 49 became effective on May 14, 2025.

Act 58: Pass-Through Entity (PTE) Tax Add-Back

Act 58 (House Bill 1146, H.D. 1, S.D. 1) amends section 235-51.5, HRS, relating to the PTE tax. Act 58 requires all qualified members claiming a credit for PTE tax to adjust their taxable income by adding the qualified member's share of taxes paid by the electing PTE. Act 58 became effective on May 15, 2025, and applies to taxable years beginning after December 31, 2024.

Act 68: Tax Liens

Act 68 (House Bill 1173, H.D. 1, S.D. 1, C.D. 1) amends section 231-33, HRS, to require DOTAX to state the assessment date on certificates of tax lien. Act 68 also requires DOTAX to issue a certificate of discharge when the tax liability upon which a lien is based has been satisfied or has become unenforceable under sections 235-111, 237-40, 237D-9, 238-7, 243-14, 247-6.5, or 251-8, HRS. Act 68 is effective on January 1, 2027.

Act 90: Definition of Draft Beer

Act 90 (House Bill 1370, H.D. 1, S.D. 1, C.D. 1) amends the definition of "draft beer" in section 244D-1, HRS, which is defined as beer in an individual container of seven gallons or more, to mean beer in an individual container of five gallons or more. Act 90 is effective on January 1, 2026.

Act 95: Cigarette Tax Increase

Act 95 (House Bill 441, H.D. 2, S.D. 2, C.D. 1) amends section 245-3(a), HRS, by increasing the cigarette tax from 16 cents to 18 cents for each cigarette or little cigar sold, used or possessed by a wholesaler or dealer on and after January 1, 2026. Act 95 also amends the allocation of cigarette tax revenues in section 245-3, HRS. Act 95 is effective on December 31, 2025, with the cigarette tax increase taking effect on January 1, 2026.

Act 96: Transient Accommodations Tax Increase and Imposition on Cruise Ships

Act 96 (Senate Bill 1396, S.D. 3, H.D. 3, C.D. 2) increases the transient accommodations tax (TAT) from 10.25 percent to 11 percent for the period beginning on January 1, 2026, until December 31, 2030. Act 96 also imposes the TAT at the 11 percent rate on cruise ship operators' gross rental proceeds derived from cruise fares, prorated by the ratio of days docked in any port in the State to the total number of days of the voyage. Act 96 is effective on January 1, 2026.

Act 118: Suspension of Statue of Limitation on Collections During Appeal

Act 118 (Senate Bill 1469, S.D. 2, H.D. 2, C.D. 1) amends sections 235-111, 237-40, 237D-9, 238-7, 243-14, 247-6.5, and 251-8, HRS, to suspend the statute of limitations on

collections during the period an assessment is pending on appeal before the Taxation Board of Review or Tax Appeal Court, beginning on the date the notice of appeal is filed and concluding on the date a final decision is issued or the case is withdrawn or dismissed. Act 118 became effective on May 29, 2025, and applies to all assessments, including those on appeal before the effective date of Act 118.

Act 123: Conformity with the Internal Revenue Code

Act 123 (Senate Bill 1464, H.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, 2024. Act 123 also updates section 236E-3, HRS, to conform to operative sections of subtitle B of the IRC, as amended as of December 31, 2024. Act 123 became effective on May 29, 2025, and applies to taxable years beginning after December 31, 2024, and to decedents dying or taxable transfers occurring after December 31, 2024.

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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