HOUSE COMMITTEE ON FINANCE

STATE OF HAWAI`I
HOUSE OF REPRESENTATIVES

HB 2306 HD1: RELATING TO INCOME TAX

Primary Introducer:
Representative Nakamura, B.R.
Governor's Package

Current Referral:
FIN

Published for:
Third Reading

Fiscal Note Version:
Fiscal Note Version 1

Bill Status:
Passed Second Reading as amended in HD1; placed on the calendar for Third Reading

Date Published: March 9, 2026

Fiscal Note Status:
Updated as amended in HD1

Overview:
H.B. No. 2306, H.D. 1, proposes a structural realignment of the Hawaii Income Tax code designed to fortify the State's long-term fiscal stabilization while providing targeted relief to specific demographic cohorts. This measure repeals scheduled adjustments to income tax brackets for taxable years beginning after December 31, 2026, and concurrently increases the marginal tax rates for the three highest income tax brackets by one percentage point each.

The proposal further enhances the Household and Dependent Care Services Tax Credit by transitioning to a tiered applicable percentage of employment-related expenses. Additionally, the measure extends the sunset provisions for the Earned Income Tax Credit (EITC)—maintained at 40% of the federal credit amount—the Refundable Food/Excise Tax Credit, and the Household and Dependent Care Services Tax Credit as previously established under Act 163, Session Laws of Hawaii (SLH) 2023.

Appropriations:
This measure does not contain any appropriations.

Assumptions & Methodology:
The projected fiscal impact is derived from revised statutory tax rate tables across all filing statuses. Calculations for the household and dependent care services tax credit utilize a tiered table of applicable percentages indexed to the taxpayer's adjusted gross income (AGI).The methodology assumes total taxpayer compliance with revised filing requirements and the application of new statutory thresholds. The combined revenue impact of tax credits and tax bracket adjustments are calculated by the Department of Taxation based off these assumptions.

Agency Impact:
The Department of Taxation (DOTAX) will incur a significant operational impact. Implementation requires the comprehensive amendment of tax forms, instructional materials, and electronic filing systems to reflect the revised tax brackets and credit tiers. The Director of Taxation is authorized to exercise rulemaking authority under Chapter 91, Hawaii Revised Statutes (HRS), to execute the provisions of this Act.

Economic Impact:
While the tax relief scheduled under Act 46 (SLH 2024) offered broad benefits, it posed a risk of substantial and recurring reductions in general fund revenues. Amidst mounting fiscal pressures, this measure prioritizes fiscal sustainability by repealing those broad reductions in favor of tailored relief for low- and moderate-income households. This policy shift is intended to mitigate revenue volatility and protect the State's solvency without eliminating progressivity in the tax code.

Policy Impact:
This measure effectuates the following amendments to the Hawaii Revised Statutes (HRS):

- Section 235-51: Amended to terminate future bracket adjustments and increase the three highest marginal rates for taxable years beginning after December 31, 2026.
- Section 235-55.6: Amended to increase the applicable percentage of employment-related expenses for household and dependent care. Notably, this section establishes a ten-year disallowance period for claims subsequently found to be fraudulent.
- Act 163, SLH 2023: Amended to extend the sunset date to December 31, 2032, for the EITC (set at 40% of the federal amount), the Food/Excise Tax Credit, and the Household and Dependent Care Services Tax Credit.

Revenue Sources:
This measure does not establish a new revenue source; however, it significantly modifies the existing personal income tax structure. These modifications are projected to increase general fund revenues of the state relative to the current post-2026 statutory baseline to prevent recurring deficits.

Six Year Fiscal Implications:
For taxable years beginning after December 31, 2026, the marginal tax rates for the top three brackets in each filing category will increase to 10%, 11%, and 12%, respectively.

Income Tax Bracket Adjustments:

Joint Filers:	Over $550,000 but not over $650,000	$39,244.00 plus ~~9.00%~~ **10.00%** of excess over $550,000
	Over $650,000 but not over $800,000	$48,244.00 plus ~~10.00%~~ **11.00%** of excess over $650,000
	Over $800,000	$63,244.00 plus ~~11.00%~~ **12.00%** of excess over $800,000.

Heads of Household:	Over $412,500 but not over $487,500	$29,433.00 plus ~~9.00%~~ **10.00%** of excess over $412,500
	Over $487,500 but not over $600,000	$36,183.00 plus ~~10.00%~~ **11.00%** of excess over $487,500
	Over $600,000	$47,433.00 plus ~~11.00%~~ **12.00%** of excess over $600,000.
Other Individuals:	Over $275,000 but not over $325,000	$19,622.00 plus ~~9.00%~~ **10.00%** of excess over $275,000
	Over $325,000 but not over $400,000	$24,122.00 plus ~~10.00%~~ **11.00%** of excess over $325,000
	Over $400,000	$31,622.00 plus ~~11.00%~~ **12.00%** of excess over $400,000.

Household and Dependent Care Services Tax Credit Parameters:

- **Applicable Percentage:** A tiered scale starting at 50% for AGI ≤ $80,000, decreasing to 5% for AGI > $160,000.
- **Expense Limits:** Creditable expenses are capped at $10,000 for one qualifying individual and $20,000 for two or more qualifying individuals.
- **Fraud Prevention:** A ten-year disallowance period is mandated for any final administrative or judicial finding of a fraudulent claim.

The measure also establishes a ten-year disallowance period for fraudulent claims and a two-year period for disallowed claims. The sunset date for amendments made by Act 163, SLH 2023, is extended from December 31, 2027, to December 31, 2032.

Operating Revenue Impact:

Estimated Total Revenue Impact ($ Millions)

Revenue Category	**FY2028**	**FY2029**	**FY2030**	**FY2031**	**FY2032**
Income Bracket Freeze & Top 3 Rate Increase (Act 46 SD increases remain intact)	343.7	352.8	644.3	657.3	660.1
Tax Credit Expansion: Child and Dependent Care	-13.2	-23.7	-24.9	-25.7	-26.4
Tax Credit Extension: Act 163 Earned Income Tax Credit (40% of Federal)	-42.9	-43.8	-44.8	-45.8	-46.8
Tax Credit Extension: Act 163 Refundable Food/Excise Tax Credit	-51.7	-49.9	-48.2	-46.6	-45.0
NET REVENUE IMPACT	**235.8**	**235.3**	**526.3**	**539.2**	**541.8**

Note: The substantial increase in net revenue impact observed between FY2029 (526.3M) is attributable to the full implementation and first full-year realization of the income tax bracket freeze and marginal rate increases as previous Act 46 relief provisions are fully supplanted by this Act's provisions.

Capital Expenditure Impact:
There is no capital expenditure impact. The measure does not require investment in facilities, specialized equipment, or new technological infrastructure beyond existing departmental facilities.

Fiscal Implications After 6 Years:
Though the measure currently has a defective effective date of July 1, 3000, if the measure is to be effectuated as written to apply to taxable years beginning after December 31 of 2026; a statutory reversion is scheduled for December 31, 2032. At that time, this Act shall be repealed and sections 235-55.6(c), 235-55.75(a), and 235-55.85(b) of the HRS will be reenacted as they existed prior to the effective dates of this Act and Act 163 (SLH 2023). This results in a comprehensive sunset and reenactment, to which tax brackets and credit structures revert back to their prior forms.