
A BILL FOR AN ACT

RELATING TO TAXATION.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature finds that the State faces
2 sustained pressure on housing affordability and availability.
3 Tax preferences that subsidize the acquisition or carrying costs
4 of second homes can increase demand for properties that are not
5 used as a taxpayer's principal residence. The mortgage interest
6 deduction for second homes provides such a preference by
7 reducing the after-tax cost of owning a second home, even when
8 that home is used only intermittently for personal purposes.

9 The legislature further finds that this preference does not
10 advance the core public purposes of the State's income tax
11 system, such as equity, efficiency, and simplicity, and may work
12 at cross-purposes with the State's housing goals by encouraging
13 the retention or purchase of homes that are not primary
14 residences. Eliminating the deduction for interest attributable
15 to indebtedness secured by a second home will better align the
16 State's tax code with the State's housing policy objectives,
17 narrow a nonessential tax expenditure, and allow resources to be



1 redirected by the legislature toward higher-priority needs,
2 including housing production and infrastructure that support new
3 homes.

4 Accordingly, the purpose of this Act is to amend the state
5 income tax law to disallow the mortgage interest deduction for
6 second homes, as defined by reference to the federal Internal
7 Revenue Code and as further specified in this Act.

8 SECTION 2. Section 235-2.4, Hawaii Revised Statutes, is
9 amended by amending subsection (j) to read as follows:

10 "(j) Section 163 (with respect to interest) of the
11 Internal Revenue Code shall be operative for the purposes of
12 this chapter, except that the following provisions shall not be
13 operative for the purposes of this chapter:

14 (1) Section 163(d)(4)(B) (defining net investment income
15 to exclude dividends);

16 (2) Section 163(e)(5)(F) (suspension of applicable high-
17 yield discount obligation (AHYDO) rules);

18 (3) Section 163(h)(3)(F) (limiting mortgage interest);
19 [and]

20 (4) Section 163(h)(5)(A)(i)(II) (definition of qualified
21 residence for home mortgage interest deduction);



1 (5) Section 163(h)(5)(A)(ii)(II) (treatment of home
2 mortgage interest deduction for married individuals
3 filing separately); and
4 [+4] (6) Section 163(i)(1) as it applies to debt
5 instruments issued after January 1, 2010 (defining
6 AHYDO)."

7 SECTION 3. Statutory material to be repealed is bracketed
8 and stricken. New statutory material is underscored.

9 SECTION 4. This Act, upon its approval, shall apply to
10 taxable years beginning after December 31, 2025.

11

INTRODUCED BY:

ZNC.

JAN 20 2026



H.B. NO. 1729

Report Title:

Second Home Mortgage Interest Deduction; Income Tax

Description:

Disallows the home mortgage interest deduction for second homes under state income tax law.

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