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## A BILL FOR AN ACT

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RELATING TO THE INDIVIDUAL HOUSING ACCOUNT PROGRAM.

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

1       SECTION 1. The legislature finds that the affordable  
2 housing crisis continues to be one of the State's most  
3 significant and challenging social problems and is a critical  
4 issue for many Hawaii residents. As the cost of housing  
5 continues to rise, the State must assist residents in finding  
6 methods of increasing the availability of homeownership. Saving  
7 for a down-payment on a home loan continues to be a barrier for  
8 many Hawaii residents with few programs available to assist in  
9 this endeavor.

10       Contributions to the first-time home buyer savings account  
11 will reduce taxable income. This incentivizes first time home  
12 ownership through saving for a down payment and closing costs.  
13 Accordingly, the purpose of this Act is to update the Individual  
14 Housing Accounts statute by increasing the contribution levels  
15 and maximum account levels to reflect current housing prices  
16 more accurately.



SECTION 2. Section 235-5.5, Hawaii Revised Statutes, is amended to read as follows:

**"§235-5.5 Individual housing accounts.** (a) There shall be allowed as a deduction from gross income the amount, not to exceed [~~\$5,000~~] \$20,000, paid in cash during the taxable year by an individual taxpayer to an individual housing account established for the individual's benefit to provide funding for the purchase of the individual's first principal residence. A deduction not to exceed [~~\$10,000~~] \$40,000 shall be allowed for a married couple filing a joint return. No deduction shall be allowed on any amounts distributed less than three hundred sixty-five days from the date on which a contribution is made to the account. Any deduction claimed for a previous taxable year for amounts distributed less than three hundred sixty-five days from the date on which a contribution was made shall be disallowed and the amount deducted shall be included in the previous taxable year's gross income and the tax reassessed. The interest paid or accrued within the taxable year on the account shall not be included in the individual's gross income. For purposes of this section, the term "first principal residence" means a residential property purchased with the



1 payment or distribution from the individual housing account  
2 which shall be owned and occupied as the only home by an  
3 individual who did not have any interest in, individually, or  
4 whose spouse did not have any interest in, if the individual is  
5 married, a residential property within the last five years of  
6 opening the individual housing account.

7 In the case of a married couple filing separate returns,  
8 the sum of the deductions allowable to each of them for the  
9 taxable year shall not exceed [~~\$5,000~~] \$20,000, or [~~\$10,000~~]  
10 \$40,000 for a joint return, for amounts paid in cash, excluding  
11 interest paid or accrued thereon.

12 The amounts paid in cash allowable as a deduction under  
13 this section to an individual for all taxable years shall not  
14 exceed [~~\$25,000~~] \$200,000, excluding interest paid or accrued.

15 In the case of married individuals having separate individual  
16 housing accounts, the sum of the separate accounts and the  
17 deduction under this section shall not exceed [~~\$25,000~~]  
18 \$200,000, excluding interest paid or accrued thereon.

19 (b) For purposes of this section, the term "individual  
20 housing account" means a trust created or organized in Hawaii  
21 for the exclusive benefit of an individual, or, in the case of a



1 married individual, for the exclusive benefit of the individual  
2 and spouse jointly, but only if the written governing instrument  
3 creating the trust meets the following requirements:

4 (1) Contributions shall not be accepted for the taxable  
5 year in excess of [~~\$5,000~~] \$20,000 (or [~~\$10,000~~]  
6 \$40,000 in the case of a joint return) or in excess of  
7 [~~\$25,000~~] \$200,000 for all taxable years, exclusive of  
8 interest paid or accrued;

9 (2) The trustee is a bank, a savings and loan association,  
10 a credit union, or a depository financial services  
11 loan company, chartered, licensed, or supervised under  
12 federal or state law, whose accounts are insured by  
13 the Federal Deposit Insurance Corporation, the  
14 National Credit Union Administration, or any agency of  
15 [~~this~~] the State or any federal agency established for  
16 the purpose of insuring accounts in these financial  
17 institutions. The financial institution [~~must~~] shall  
18 actively make residential real estate mortgage loans  
19 in Hawaii;

20 (3) The assets of the trust shall be invested only in  
21 fully insured savings or time deposits. Funds held in



1 the trust may be commingled for purposes of  
2 investment, but individual records shall be maintained  
3 by the trustee for each individual housing account  
4 holder that show all transactions in detail;

5 (4) The entire interest of an individual or married couple  
6 for whose benefit the trust is maintained shall be  
7 distributed to the individual or couple not later than  
8 one hundred twenty months after the date on which the  
9 first contribution is made to the trust;

10 (5) Except as provided in subsection (g), the trustee  
11 shall not distribute the funds in the account unless  
12 the trustee:

13 (A) Verifies that the money is to be used for the  
14 purchase of a first principal residence located  
15 in Hawaii, and provides that the instrument of  
16 payment is payable to the mortgagor, construction  
17 contractor, or other vendor of the property  
18 purchased; or

19 (B) Withholds an amount equal to ten per cent of the  
20 amount withdrawn from the account and remits this  
21 amount to the director within ten days after the



1 date of the withdrawal. The amount withheld  
2 shall be applied to the liability of the taxpayer  
3 under subsections (c) and (e); and

4 (6) If any amounts are distributed before the expiration  
5 of three hundred sixty-five days from the date on  
6 which a contribution is made to the account, the  
7 trustee shall ~~se~~ notify in writing the taxpayer and  
8 the director. If the trustee makes the verification  
9 required in paragraph (5) (A), then the department  
10 shall disallow the deduction under subsection (a) and  
11 subsections (c), (e), and (f) shall not apply to that  
12 amount. If the trustee withholds an amount under  
13 paragraph (5) (B), then the department shall disallow  
14 the deduction under subsection (a) and subsection (e)  
15 shall apply, but subsection (c) shall not apply.

16 (c) Any contributions paid or distributed out of an  
17 individual housing account shall be included in gross income by  
18 the individual for whose benefit the account was established for  
19 the taxable year in which the payment or distribution is  
20 received, unless the amount is used exclusively in connection



1 with the purchase of the first principal residence in Hawaii for  
2 the individual for whose benefit the account was established.

3 (d) The transfer of an individual's interest in an  
4 individual housing account to a spouse under a dissolution of  
5 marriage decree or under a written instrument incident to a  
6 dissolution of marriage shall not be considered a taxable  
7 transfer made by the individual, and the interest, at the time  
8 of the transfer, shall be treated as part of an individual  
9 housing account of the transferee, and not of the transferor.

10 After the transfer, the account shall be treated, for purposes  
11 of this section, as maintained for the benefit of the  
12 transferee.

13 (e) If a distribution from an individual housing account  
14 to an individual for whose benefit the account was established  
15 is made and not used in connection with the purchase of the  
16 first principal residence in Hawaii for the individual, the tax  
17 liability of the individual under this chapter for the taxable  
18 year in which the distribution is received shall be increased by  
19 an amount equal to ten per cent of the amount of the  
20 distribution which is includable in the individual's gross  
21 income for the taxable year.



1        If, during any taxable year, the individual uses the  
2        account or any portion thereof as security for a loan, the  
3        portion so used shall be treated as if it had been distributed  
4        to that individual.

5        (f) If the individual for whose benefit the individual  
6        housing account was established purchases a residential property  
7        in Hawaii with the distribution from the individual housing  
8        account[+]

9        ~~(1) Before January 1, 1990, and if the individual sells in~~  
10        ~~any manner or method or by use of any instrument~~  
11        ~~conveying or transferring the residential property,~~  
12        ~~the gross income of the individual under this chapter~~  
13        ~~for the taxable year in which the residential property~~  
14        ~~is sold, conveyed, or transferred, whichever is~~  
15        ~~applicable, shall include an amount equal to the~~  
16        ~~amount of the distribution from the individual housing~~  
17        ~~account, and in addition, the gross income of the~~  
18        ~~individual shall be increased by an amount equal to~~  
19        ~~ten per cent of the total distribution from the~~  
20        ~~individual housing account; or~~



1       ~~(2) After December 31, 1989,~~]the individual shall report  
2       one-tenth of the total distribution from the  
3       individual housing account used to purchase the  
4       residential property as gross income in the taxable  
5       year in which the distribution is completed and in  
6       each taxable year thereafter until all of the  
7       distribution has been included in the individual's  
8       gross income at the end of the tenth taxable year  
9       after the purchase of the residential property. If  
10      the individual sells in any manner or method or by use  
11      of any instrument conveying or transferring the  
12      residential property, the gross income of the  
13      individual under this chapter for the taxable year in  
14      which the residential property is sold, conveyed, or  
15      transferred, whichever is applicable, shall include an  
16      amount equal to the amount of the distribution from  
17      the individual housing account not previously reported  
18      as gross income, and in addition, the tax liability of  
19      the individual shall be increased by an amount equal  
20      to ten per cent of the total distribution from the  
21      individual housing account. If the individual sells



1           the residential property in any manner as provided in  
2           this ~~[paragraph]~~ subsection after all of the  
3           distribution has been included in the individual's  
4           gross income at the end of the tenth taxable year  
5           after the purchase of the residential property, the  
6           tax liability of the individual shall not be increased  
7           by an amount equal to ten per cent of the total  
8           distribution from the individual housing account.

9   ~~[An individual who purchased a residential property in Hawaii~~  
10 ~~with the distribution from an individual housing account before~~  
11 ~~January 1, 1990, who is subject to paragraph (1) may elect to~~  
12 ~~report as provided in paragraph (2). The election shall be made~~  
13 ~~before January 1, 1991. If the individual makes the election,~~  
14 ~~the individual shall report one-tenth of the total distribution~~  
15 ~~from the individual housing account as gross income in the~~  
16 ~~taxable year in which the election occurs and in each taxable~~  
17 ~~year thereafter until all of the distribution has been included~~  
18 ~~in gross income as provided by paragraph (2). If the individual~~  
19 ~~making the election sells the residential property in any manner~~  
20 ~~as provided in paragraph (2), then the individual shall include~~  
21 ~~as income the amount of the distribution not previously reported~~



~~as income and increase the individual's tax liability as provided in the second sentence of paragraph (2), except when the third sentence of paragraph (2) applies.~~

~~In the alternative, any individual subject to paragraph (2) who established the individual housing account before January 1, 1990, may elect within one year after the date of purchase, to be subject to paragraph (1).]~~

(g) No tax liability shall be imposed under this section if:

(1) The payment or distribution is attributable to the individual dying or becoming totally disabled; or

(2) Residential property subject to subsection (f) is transferred by will or by operation of law or sold due to the death or total disability of an individual or individual's spouse,

subject to the following:

An individual shall not be considered to be totally disabled unless proof is furnished of the total disability [~~in the form and manner as the director may require~~].

Upon the death of an individual for whose benefit an individual housing account has been established, the funds in



1 the account shall be payable to the estate of the individual;  
2 provided that if the account was held jointly by the decedent  
3 and a spouse of the decedent, the account shall terminate and be  
4 paid to the surviving spouse; or, if the surviving spouse [se]  
5 elects, the spouse may continue the account as an individual  
6 housing account. Upon the total disability of an individual for  
7 whose benefit an individual housing account has been  
8 established, the individual or the individual's authorized  
9 representative may elect to continue the account or terminate  
10 the account and be paid the assets; provided that if the account  
11 was held jointly by a totally disabled person and a spouse of  
12 that person, then the spouse or an authorized representative may  
13 elect to continue the account or terminate the account and be  
14 paid the assets.

15 (h) If the individual for whose benefit the individual  
16 housing account was established subsequently marries a person  
17 who has or has had any interest in residential property, the  
18 individual's housing account shall be terminated, the funds  
19 therein shall be distributed to the individual, and the amount  
20 of the funds shall be includable in the individual's gross  
21 income for the taxable year in which such marriage took place;



1 provided that the tax liability defined under subsection (f)  
2 shall not be imposed.

3 (i) The trustee of an individual housing account shall  
4 make reports regarding the account to the director and to the  
5 individual for whom the account is maintained with respect to  
6 contributions, distributions, and other matters as the director  
7 may require under rules. The reports shall be filed at a time  
8 and in a manner as may be required by rules adopted under  
9 chapter 91. A person who fails to file a required report shall  
10 be subject to a penalty of \$10 to be paid to the director for  
11 each instance of failure to file."

12 SECTION 3. Statutory material to be repealed is bracketed  
13 and stricken. New statutory material is underscored.

14 SECTION 4. This Act, upon its approval, shall apply to  
15 taxable years beginning after December 31, 2026.

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INTRODUCED BY:

*Jan M. Shimizu*  
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H.B. NO. 1756

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JAN 21 2026



# H.B. NO. 1756

**Report Title:**

Individual Housing Account Program; Pre-Tax Savings; Minority  
Caucus Package

**Description:**

Updates the Individual Housing Account statute to reflect the  
current cost of housing down-payments more accurately.

*The summary description of legislation appearing on this page is for informational purposes only and is  
not legislation or evidence of legislative intent.*

