

JAN 28 2026

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# A BILL FOR AN ACT

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RELATING TO TAXATION.

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

1           SECTION 1. The legislature finds that the State's cost of  
2 living is exacerbated when taxpayers face avoidable, long-  
3 running tax burdens that can unnecessarily strip household  
4 resources and home equity. The legislature further finds that  
5 taxpayers may remain subject to outdated tax enforcement because  
6 tax liens may continue to encumber real property even after the  
7 intended fifteen-year collection limitation, taxpayers may be  
8 audited for non-filed returns over very long periods when  
9 records are no longer reasonably available, and the State's  
10 offer in compromise program is underutilized, leaving  
11 financially distressed taxpayers trapped in liabilities that  
12 continue to grow with interest.

13           Accordingly, the purpose of this Act is to improve  
14 affordability by aligning tax administration with reasonable  
15 limitation periods, ensuring tax liens do not linger beyond  
16 enforceability, limiting excessively old non-filer audit  
17 lookback periods, and requiring meaningful consideration of



1 offers in compromise so that uncollectible or hardship cases can  
2 be resolved efficiently.

3 SECTION 2. Section 231-3, Hawaii Revised Statutes, is  
4 amended to read as follows:

5 **"§231-3 Department, general duties and powers.** The  
6 department of taxation shall have the following duties and  
7 powers, in addition to any others prescribed or granted by this  
8 chapter:

9 (1) Assessment: To make any assessment by law required to  
10 be made by the department;

11 (2) Collections: To be responsible for the collection of  
12 all taxes imposed under title 14, except those which  
13 by law are to be collected by county treasurers, and  
14 for such other duties as are provided by law;

15 (3) Construction of revenue laws: To construe the tax and  
16 revenue laws, the administration of which is within  
17 the scope of the department's duties, whenever  
18 requested by any officer acting under those laws, or  
19 by an interested person;

20 (4) Enforcement of penalties: To see that penalties are  
21 enforced when prescribed by any tax or revenue law of



1 the State (the administration of which is within the  
2 scope of the department's duties) for disobedience or  
3 evading of its provisions, and to see that complaint  
4 is made against persons violating any such law; in the  
5 execution of these powers and duties the department  
6 may call upon the attorney general or any of the  
7 attorney general's deputies, including the county  
8 attorneys or public prosecutors, whose duties it shall  
9 be to assist in the institution and conduct of all  
10 proceedings or prosecutions for penalties and  
11 forfeitures, liabilities, and punishments for  
12 violation of the laws administered by the department;

13 (5) Forms: To prescribe forms to be used in or in  
14 connection with any assessment, including forms to be  
15 used in the making of returns by taxpayers or in any  
16 other proceedings connected with the assessment, and  
17 to change the same from time to time as deemed  
18 necessary;

19 (6) Inspection, examination of records: To inspect and  
20 examine the records of all public officers without  
21 charge, and to examine the books and papers of account



1 of any person for the purpose of enabling the  
2 department to obtain all information that could in any  
3 manner aid the department in discharging its duties  
4 under any tax law;

5 (7) Recommendations for legislation: To recommend to the  
6 governor any amendments, changes, or modifications of  
7 the laws as may seem proper or necessary to remedy  
8 injustice or irregularity in taxation or to facilitate  
9 the assessment of taxes;

10 (8) Report to governor: To report to the governor  
11 annually, and at such other times and in such manner  
12 as the governor may require, concerning the acts and  
13 doings and the administration of the department, and  
14 any other matters of information concerning taxation  
15 as may be deemed of general interest;

16 (9) Rules: To adopt such rules as the department may deem  
17 proper effectually to carry out the purposes for which  
18 the department is constituted and to regulate matters  
19 of procedure by or before the department;

20 (10) Compromises: With the approval of the governor, to  
21 compromise any claim where the tax exceeds \$50,000



1 (exclusive of penalties and interest) arising under  
2 any tax law the administration of which is within the  
3 scope of the department's duties, and to compromise  
4 any tax claim where the tax is \$50,000 or less  
5 (exclusive of penalties and interest) without seeking  
6 the approval of the governor; provided that the  
7 director shall have the discretion to seek the  
8 approval of the governor to compromise any tax claim  
9 where the director deems it appropriate; and in each  
10 case the department shall post each proposed  
11 compromise, as set forth in subparagraphs (A) to (D),  
12 on the department's internet website for five calendar  
13 days before the director signs the compromise, and  
14 there shall be placed on file in the department's  
15 office a statement of:

16 (A) The name of the taxpayer and the amount and type  
17 of tax assessed, or proposed to be assessed;

18 (B) The amount of penalties and interest imposed or  
19 which could have been imposed by law with respect  
20 to the amount of tax assessed, as computed by the  
21 department;



1 (C) The total amount of liability as determined by  
2 the terms of the compromise, and the actual  
3 payments made thereon with the dates thereof; and

4 (D) The reasons for the compromise.

5 The department shall accept, evaluate, and make a  
6 written determination on an offer in compromise  
7 submitted in accordance with State law without  
8 categorically refusing to consider an offer solely  
9 because the tax exceeds \$50,000. For an offer in  
10 compromise requiring the governor's approval, the  
11 department shall transmit the offer and the  
12 department's written recommendation to the governor  
13 within thirty calendar days after the offer is deemed  
14 complete by the department. The department shall  
15 provide the taxpayer written notice of acceptance,  
16 denial, or other disposition within one hundred eighty  
17 calendar days after the offer is deemed complete by  
18 the department, unless the taxpayer agrees in writing  
19 to an extension.

20 Notwithstanding the provisions of any law making  
21 unlawful the disclosure of tax returns or return



1 information, statements on file and included in the  
2 department's internet website in respect of  
3 compromises shall be open to public inspection;

4 (11) Retroactivity of rulings: To prescribe the extent, if  
5 any, to which any ruling, rule, or construction of the  
6 tax laws, of general application, shall be applied  
7 without retroactive effect;

8 (12) Remission of delinquency penalties and interest:  
9 Except in cases of fraud or wilful violation of the  
10 laws or wilful refusal to make a return setting forth  
11 the information required by law (but inclusion in a  
12 return of a claim of nonliability for the tax shall  
13 not be deemed a refusal to make a return), the  
14 department may remit any amount of penalties or  
15 interest added, under any law administered by the  
16 department, to any tax that is delinquent, in a case  
17 of excusable failure to file a return or pay a tax  
18 within the time required by law, or in a case of  
19 uncollectibility of the whole amount due; and in that  
20 case there shall be placed on file in the department's  
21 office a statement showing the name of the person



1 receiving the remission, the principal amount of the  
2 tax, and the year or period involved;

3 (13) Closing agreements: To enter into an agreement in  
4 writing with any taxpayer or other person relating to  
5 the liability of the taxpayer or other person, under  
6 any law the administration of which is within the  
7 scope of the department's duties, in respect of any  
8 taxable period, or in respect of one or more separate  
9 items affecting the liability for any taxable period;  
10 the agreement, signed by or on behalf of the taxpayer  
11 or other person concerned, and by or on behalf of the  
12 department, shall be final and conclusive, and except  
13 upon a showing of fraud or malfeasance, or  
14 misrepresentation of a material fact:

15 (A) The matters agreed upon shall not be reopened,  
16 and the agreement shall not be modified, by any  
17 officer or employee of the State; and

18 (B) In any suit, action, or proceeding, the  
19 agreement, or any determination, assessment,  
20 collection, payment, refund, or credit made in



1                   accordance therewith, shall not be annulled,  
2                   modified, set aside, or disregarded;

3       (14) Other powers and duties: In addition to the powers  
4           and duties contained in this chapter, the powers and  
5           duties contained in other chapters of the law under  
6           title 14 administered by the department for levying,  
7           assessing, collecting, receiving, and enforcing  
8           payments of the tax imposed thereunder, and otherwise  
9           relating thereto, shall be severally and respectively  
10          conferred, granted, practiced, and exercised for  
11          levying, assessing, collecting, receiving, and  
12          enforcing payment of the taxes imposed under the  
13          authority of those chapters as far as the provisions  
14          are consistent with the express provisions of those  
15          chapters, as fully and effectually to all intents and  
16          purposes as if the same powers and authorities were  
17          repeated in those chapters, with reference to those  
18          taxes, and all of the provisions shall be applied,  
19          construed, deemed, and taken to refer to the taxes  
20          imposed under the authority of those chapters, in like  
21          manner."



SECTION 3. Section 231-33, Hawaii Revised Statutes, is amended to read as follows:

**"§231-33 Tax debt due the State; lien.** (a) Within the meaning of this section:

(1) The terms "mortgagee", "pledgee", and "purchaser" do not include any person to whom property or an interest in property is conveyed (A) as security for or in satisfaction of an antecedent or pre-existing debt of a debtor who is insolvent within the meaning of the Bankruptcy Act, or (B) as trustee, assignee, or agent for the benefit of one or more creditors, other than mortgage bondholders.

(2) The term "motor vehicle" means any self-propelled vehicle to be operated on the public highways.

(3) The interest of a party, if required to be recorded or entered of record in any public office in order to be valid against subsequent purchasers, does not arise prior to the time of such recording or entry of record.

(4) An employer or other person who is required by any tax law to withhold tax at the source, or to collect a



1 tax, and who is made liable for the tax if the  
2 employer or other person does not fulfill the  
3 employer's or other person's duties in that regard,  
4 shall be deemed a person liable for the tax.

5 (5) The term "real property" includes leasehold or other  
6 interest in real property and also any personal  
7 property sold or mortgaged with real property if  
8 affixed to the real property and described in the  
9 instrument of sale or mortgage.

10 (b) Any state tax that is due and unpaid is a debt due the  
11 State and constitutes a lien in favor of the State upon all  
12 property and rights to property, whether real or personal,  
13 belonging to any person liable for the tax. The lien for the  
14 tax, including penalties and interest thereon, arises at the  
15 time the tax is assessed, or at the time a return thereof is  
16 filed, or at the time of filing by the department of taxation of  
17 the certificate provided for by subsection (f) whichever first  
18 occurs. From and after the time the lien arises it is a  
19 paramount lien upon the property and rights to property against  
20 all parties, whether their interest arose before or after that  
21 time, except as otherwise provided in this section.



(c) The lien imposed by subsection (b) is not valid as against:

(1) A mortgagee or purchaser of real property, or the lien of a judgment creditor upon real property, whose interest arose prior to the recording by the department of the certificate provided for by subsection (f); or

(2) A mortgagee or purchaser of a motor vehicle who becomes the legal owner or owner at a time when the tax lien and encumbrance record provided for by section 286-46 does not show the lien.

(d) As to tangible personal property, possession of which is held by a person liable for tax for the purpose of sale to the public in the ordinary course of the person's business, the lien imposed by subsection (b) is extinguished as to any such property sold in the ordinary course of the business by or under the direction of the person to any purchaser for valuable consideration. As to securities, negotiable instruments, and money, the lien imposed by subsection (b):

(1) Is extinguished as to such property upon passage of title to a person without notice or knowledge of the



1           existence of the lien, for an adequate and full  
2           consideration in money or money's worth; and

3           (2) Is not valid as against a mortgagee or pledgee for an  
4           adequate and full consideration in money or money's  
5           worth, who is located outside the State and takes  
6           possession of the property, if at the time of taking  
7           possession of the property the mortgagee or pledgee is  
8           without notice or knowledge of the existence of the  
9           lien. The mere recording or filing of the certificate  
10          provided for by subsection (f) does not constitute  
11          notice for the purposes of this subsection.

12          (e) Subject to the provisions of this subsection, the lien  
13          imposed by subsection (b) is not valid as against a mortgagee,  
14          pledgee, or purchaser who gives notice to the department on a  
15          form prescribed by it of the mortgage, pledge, or purchase made  
16          or about to be made, with a description of the property  
17          encumbered or conveyed or proposed to be encumbered or conveyed  
18          thereby, and whose interest in the property arises prior to the  
19          recording or filing by the department of the certificate  
20          provided for by subsection (f) or within ten days after the  
21          filing. If the notice is given the lien imposed by subsection



1 (b) is valid against the party giving the notice, as to any  
2 taxes set forth in a certificate filed as provided in subsection  
3 (f) within the period of fifteen days after the notice. The  
4 department may waive all or any part of the period herein  
5 allowed.

6 (f) The department may record in the bureau of conveyances  
7 at Honolulu, or in respect of a lien on a motor vehicle, file  
8 with the county director of finance, a certificate setting forth  
9 the amount of taxes due and unpaid, which have been returned,  
10 assessed, or as to which a notice of proposed assessment has  
11 issued. The certificate shall identify the taxpayer, the  
12 taxpayer's last known address, the tax or taxes involved, and  
13 the date on which the liability for the tax or taxes was  
14 assessed. The recording or filing of the certificate has the  
15 effect set forth in this section, but nothing in this section  
16 shall be deemed to require that a certificate recorded or filed  
17 by the department must include the amount of any penalty or  
18 interest, in order to protect the lien therefor. The  
19 certificate, if recorded or filed with the county director of  
20 finance, shall be entered of record as provided by law.  
21 Recordation of the certificate in the bureau of conveyances



1 shall be deemed, at such time, for all purposes and without any  
2 further action, to procure a lien on land registered in the land  
3 court under chapter 501. Any cost incurred in the filing of the  
4 certificate shall be a part of the lien for the tax therein set  
5 forth.

6 (g) The department may issue a certificate of discharge of  
7 any part of the property subject to the lien imposed by this  
8 section, upon payment in partial satisfaction of such lien, of  
9 an amount not less than the value as determined by the  
10 department of the lien on the part to be so discharged, or if  
11 the department determines that the lien on the part to be  
12 discharged has no value. The department shall issue a  
13 certificate of discharge as to any liability that has been  
14 satisfied or that has become unenforceable under section  
15 235-111, 237-40, 237D-9, 238-7, 243-14, 247-6.5, or 251-8. Any  
16 discharge so issued shall be conclusive evidence of the  
17 discharge of the lien as therein provided.

18 (h) The lien imposed by subsection (b) may be foreclosed  
19 in a court proceeding or by distraint under section 231-25.

20 (i) This section shall not apply to a tax levied by a  
21 chapter that contains a specific provision for a lien for the



1 tax levied by the chapter, any provision in this section to the  
2 contrary notwithstanding.

3 (j) If a lien imposed by subsection (b) is properly  
4 recorded as authorized under subsection (f), and three hundred  
5 sixty-five days have elapsed from the date of recording with no  
6 response or action by the taxpayer against whom the lien was  
7 recorded, the director may apply to the circuit court to have  
8 the lien converted into a civil judgment. The circuit court  
9 shall issue a civil judgment for an amount equivalent to the  
10 value of the lien. If a lien is converted to a civil judgment  
11 under this subsection, interest under section 231-39(b)(4) shall  
12 cease to accrue after the period to collect the unpaid amount  
13 has expired under the applicable statute of limitations or  
14 agreement.

15 (k) Notwithstanding any other law to the contrary, any  
16 lien arising under this section shall not be enforceable after  
17 the underlying tax liability becomes unenforceable by reason of  
18 lapse of time under the applicable statute of limitations for  
19 collection. Upon the expiration of the period for lawful  
20 collection of the underlying tax liability, the lien shall be  
21 deemed released by operation of law, and the department shall



1 record, as applicable, a certificate of release of lien no later  
2 than thirty days after the expiration date. The department  
3 shall ensure that any notice of state tax lien filed or recorded  
4 pursuant to this section identifies a self-release date that is  
5 not later than the last date on which lawful collection may  
6 occur."

7 SECTION 4. Section 235-111, Hawaii Revised Statutes, is  
8 amended by amending subsection (c) to read as follows:

9 "(c) Exceptions; fraudulent return or no return. In the  
10 case of a false or fraudulent return with intent to evade tax or  
11 liability, or of a failure to file return, the tax or liability  
12 may be assessed or levied at any time; provided that the burden  
13 of proof with respect to the issues of falsity or fraud and  
14 intent to evade tax shall be upon the State[-]; provided further  
15 that, except in the case of a false or fraudulent return or with  
16 intent to evade tax, the tax shall be assessed, or a proceeding  
17 in a court of competent jurisdiction to collect the tax shall be  
18 commenced, without assessment, no later than six years after the  
19 date prescribed for filing the return."

20 SECTION 5. Section 237-40, Hawaii Revised Statutes, is  
21 amended by amending subsection (a) to read as follows:



1       "(a) General rule. The amount of excise taxes imposed by  
2 this chapter shall be assessed or levied within three years  
3 after the annual return was filed, or within three years of the  
4 due date prescribed for the filing of the return, whichever is  
5 later, and no proceeding in court without assessment for the  
6 collection of any of the taxes shall be begun after the  
7 expiration of the period. Where the assessment of the tax  
8 imposed by this chapter has been made within the period of  
9 limitation applicable thereto, the tax may be collected by levy  
10 or by a proceeding in court under chapter 231; provided that the  
11 levy is made or the proceeding was ~~begun~~ commenced within  
12 fifteen years after the assessment of the tax~~[-]~~; provided  
13 further that, in the case of failure to file an annual return,  
14 except in the case of a false or fraudulent return or with  
15 intent to evade tax, the tax shall be assessed or levied, and  
16 any proceeding in a court of competent jurisdiction without  
17 assessment for the collection of any of the taxes shall be  
18 commenced no later than six years after the due date prescribed  
19 for the filing of the return. For any tax that has been  
20 assessed before July 1, 2009, the levy or proceeding shall be  
21 barred after June 30, 2024.



1       Notwithstanding any other provision to the contrary in this  
2 section, the limitation on collection after assessment in this  
3 section shall be suspended for the period:

4       (1) The taxpayer agrees to suspend the period;

5       (2) The assets of the taxpayer are in control or custody  
6 of a court in any proceeding before any court of the  
7 United States or any state, and for six months  
8 thereafter;

9       (3) An offer in compromise under section 231-3(10) is  
10 pending;

11       (4) During which the taxpayer is outside the State if the  
12 period of absence is for a continuous period of at  
13 least six months; provided that if at the time of the  
14 taxpayer's return to the State the period of  
15 limitations on collection after assessment would  
16 expire before the expiration of six months from the  
17 date of the taxpayer's return, the period shall not  
18 expire before the expiration of the six months; and

19       (5) An appeal of the assessment is pending before the  
20 taxation board of review or the tax appeal court,  
21 beginning on the date the notice of appeal is filed



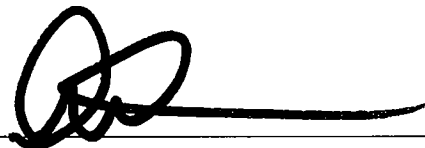
1 and concluding on the date a final decision is issued  
2 or the case is withdrawn or dismissed."

3 SECTION 6. This Act does not affect rights and duties that  
4 matured, penalties that were incurred, and proceedings that were  
5 begun before its effective date.

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

8 SECTION 8. This Act shall take effect on January 1, 2027,  
9 and shall apply to taxable years beginning after December 31,  
10 2026.

11  
INTRODUCED BY: \_\_\_\_\_

A handwritten signature in black ink, consisting of a large, stylized 'Q' or 'O' followed by a horizontal line and a small flourish.

# S.B. NO. 3172

**Report Title:**

DoTAX;; Income Tax; General Excise Tax; Offers In Compromise;  
Liens; Collections; Proceedings; Statute of Limitations

**Description:**

Requires the Department of Taxation to accept, evaluate and make determinations on offers in compromise under certain conditions, including for offers requiring the Governor's approval. Amends the income tax and general excise tax statute of limitation periods for collection or commencement of proceedings to six years, except in cases of false or fraudulent returns, or intent to evade tax. Effective 1/1/2027.

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

