

JAN 28 2026

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'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5 taxpayers may remain subject to outdated tax enforcement because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;



- (C) The total amount of liability as determined by the terms of the compromise, and the actual payments made thereon with the dates thereof; and
- (D) The reasons for the compromise.

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

Notwithstanding the provisions of any law making 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 SECTION 3. Section 231-33, Hawaii Revised Statutes, is
2 amended to read as follows:

3 **"§231-33 Tax debt due the State; lien.** (a) Within the
4 meaning of this section:

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

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

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

20 (4) An employer or other person who is required by any tax
21 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.



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

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

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

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



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



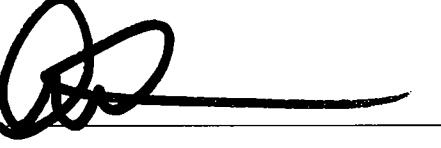
1 and concluding on the date a final decision is issued
2 or the case is withdrawn or dismissed."

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: 



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.

