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# A BILL FOR AN ACT

RELATING TO CONFORMITY TO THE INTERNAL REVENUE CODE.

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

1           SECTION 1. The purpose of this Act is to conform Hawaii  
2 income and estate and generation-skipping transfer tax laws to  
3 the Internal Revenue Code.

4           SECTION 2. Section 235-2.3, Hawaii Revised Statutes, is  
5 amended to read as follows:

6           "**§235-2.3 Conformance to the federal Internal Revenue**  
7 **Code; general application.** (a) For all taxable years beginning  
8 after December 31, [~~2024~~] 2025, as used in this chapter, except  
9 as provided in this section and sections 235-2.35, 235-2.4, and  
10 235-2.45, "Internal Revenue Code" means subtitle A, chapter 1,  
11 of the federal Internal Revenue Code of 1986, as amended as of  
12 December 31, [~~2024~~] 2025, as it applies to the determination of  
13 gross income, adjusted gross income, ordinary income and loss,  
14 and taxable income, except those provisions of the Internal  
15 Revenue Code which, pursuant to this chapter, do not apply or  
16 are otherwise limited in application.



1           Sections 9672(1) (relating to tax treatment of targeted  
2 EIDL advances) and 9673(1) (relating to tax treatment of  
3 restaurant revitalization grants) of Public Law 117-2 shall be  
4 operative for purposes of this chapter. No amount received  
5 under section 9601 (relating to 2021 recovery rebates to  
6 individuals) of Public Law 117-2 shall be included in gross  
7 income for purposes of this chapter.

8           Sections 276(b)(1) (relating to subsequent paycheck  
9 protection program loans), 277 (relating to emergency financial  
10 aid grants), 278(b)(1) (relating to emergency EIDL grants and  
11 targeted EIDL advances), 278(c)(1) (relating to subsidy for  
12 certain loan payments), and 278(d)(1) (relating to grants for  
13 shuttered venue operators) of Division N of Public Law 116-260  
14 shall be operative for purposes of this chapter. Sections 213  
15 (relating to modification of limitations on charitable  
16 contributions) and 214 (relating to temporary special rules for  
17 health and dependent care flexible spending arrangements) of  
18 Division EE of Public Law 116-260 shall be operative for  
19 purposes of this chapter. Sections 301, 302, and 304 (relating  
20 to disaster tax relief) of Division EE of Public Law 116-260  
21 shall be operative for purposes of this chapter. No amount



1 received under section 272 (relating to additional 2020 recovery  
2 rebates for individuals) of Division N of Public Law 116-260  
3 shall be included in gross income for purposes of this chapter.

4 Sections 1106(i) (relating to exclusion of loan forgiveness  
5 from gross income), 2202(b) (relating to loans from retirement  
6 plans), and 2205 (relating to charitable contributions) of  
7 Public Law 116-136 shall be operative for purposes of this  
8 chapter. No amount received under section 2201 (relating to  
9 recovery rebates) of Public Law 116-136 shall be included in  
10 gross income for purposes of this chapter.

11 Section 2202(a) (relating to tax-favored withdrawals from  
12 retirement plans) of Public Law 116-136 shall be operative for  
13 purposes of this chapter and shall apply to taxable years  
14 beginning after December 31, 2019.

15 Prior law shall continue to be used to determine:

16 (1) The basis of property, if a taxpayer first determined  
17 the basis of property in a taxable year to which prior  
18 law applies; and

19 (2) Gross income, adjusted gross income, ordinary income  
20 and loss, and taxable income for a taxable year to  
21 which prior law applies.



1 (b) The following Internal Revenue Code subchapters, parts  
2 of subchapters, sections, subsections, and parts of subsections  
3 shall not be operative for the purposes of this chapter, unless  
4 otherwise provided:

5 (1) Subchapter A (sections 1 to 59A) (with respect to  
6 determination of tax liability), except section  
7 1(h)(2) (relating to net capital gain reduced by the  
8 amount taken into account as investment income),  
9 except sections 2(a), 2(b), and 2(c) (with respect to  
10 the definition of "surviving spouse" and "head of  
11 household"), except section 41 (with respect to the  
12 credit for increasing research activities), except  
13 section 42 (with respect to low-income housing  
14 credit), except sections 47 and 48, as amended, as of  
15 December 31, 1984 (with respect to certain depreciable  
16 tangible personal property), and except section  
17 48(d)(3), as amended, as of February 17, 2009 (with  
18 respect to the treatment of United States Department  
19 of Treasury grants made under section 1603 of the  
20 American Recovery and Reinvestment Tax Act of 2009).



- 1 For treatment, see sections 235-110.91, 235-110.7, and  
2 235-110.8;
- 3 (2) Section 78 (with respect to dividends received from  
4 certain foreign corporations by domestic corporations  
5 choosing foreign tax credit);
- 6 (3) Section 86 (with respect to social security and tier 1  
7 railroad retirement benefits);
- 8 (4) Section 91 (with respect to certain foreign branch  
9 losses transferred to specified 10-percent owned  
10 foreign corporations);
- 11 (5) Section 103 (with respect to interest on state and  
12 local bonds). For treatment, see section 235-7(b);
- 13 (6) Section 114 (with respect to extraterritorial income).  
14 For treatment, any transaction as specified in the  
15 transitional rule for 2005 and 2006 as specified in  
16 the American Jobs Creation Act of 2004 section 101(d)  
17 and any transaction that has occurred pursuant to a  
18 binding contract as specified in the American Jobs  
19 Creation Act of 2004 section 101(f) are inoperative;



- 1           (7) Section 120 (with respect to amounts received under  
2           qualified group legal services plans). For treatment,  
3           see section 235-7(a)(9) to (11);
- 4           (8) Section 122 (with respect to certain reduced uniformed  
5           services retirement pay). For treatment, see section  
6           235-7(a)(3);
- 7           (9) Section 135 (with respect to income from United States  
8           savings bonds used to pay higher education tuition and  
9           fees). For treatment, see section 235-7(a)(1);
- 10          (10) Section 139C (with respect to COBRA premium  
11          assistance);
- 12          (11) Section 139K (with respect to scholarships for  
13          qualified elementary or secondary education expenses  
14          of eligible students);
- 15          (12) Section 139L (with respect to interest on loans  
16          secured by rural or agricultural real property);
- 17          ~~[(11)]~~ (13) Subchapter B (sections 141 to 150) (with respect  
18          to tax exemption requirements for state and local  
19          bonds);



- 1        [~~(12)~~] (14) Section 151 (with respect to allowance of  
2        deductions for personal exemptions). For treatment,  
3        see section 235-54;
- 4        (15) Section 174A (with respect to domestic research or  
5        experimental expenditures);
- 6        [~~(13)~~] (16) Section 179B (with respect to expensing of  
7        capital costs incurred in complying with Environmental  
8        Protection Agency sulphur regulations);
- 9        [~~(14)~~] (17) Section 181 (with respect to special rules for  
10        certain film and television productions);
- 11       [~~(15)~~] (18) Section 196 (with respect to deduction for  
12        certain unused investment credits);
- 13       [~~(16)~~] (19) Section 199 (with respect to the U.S. production  
14        activities deduction);
- 15       [~~(17)~~] (20) Section 199A (with respect to qualified business  
16        income);
- 17       [~~(18)~~] (21) Section 222 (with respect to qualified tuition  
18        and related expenses);
- 19        (22) Section 225 (with respect to qualified overtime  
20        compensation);



1       ~~[(19)]~~ (23) Sections 241 to 247 (with respect to special  
2               deductions for corporations). For treatment, see  
3               section 235-7(c);

4       ~~[(20)]~~ (24) Section 250 (with respect to foreign-derived  
5               intangible income and global intangible low-taxed  
6               income);

7       ~~[(21)]~~ (25) Section 267A (with respect to certain related  
8               party amounts paid or accrued in hybrid transactions  
9               or with hybrid entities);

10       ~~[(22)]~~ (26) Section 280C (with respect to certain expenses  
11               for which credits are allowable). For treatment, see  
12               section 235-110.91;

13       ~~[(23)]~~ (27) Section 291 (with respect to special rules  
14               relating to corporate preference items);

15       ~~[(24)]~~ (28) Section 367 (with respect to foreign  
16               corporations);

17       ~~[(25)]~~ (29) Section 501(c)(12), (15), (16) (with respect to  
18               exempt organizations); except that section 501(c)(12)  
19               shall be operative for companies that provide potable  
20               water to residential communities that lack any access  
21               to public utility water services;







- 1       ~~[(39)]~~ (44) Sections 1291 to 1298 (with respect to treatment  
2                   of passive foreign investment companies);
- 3       ~~[(40)]~~ (45) Subchapter Q (sections 1311 to 1351) (with  
4                   respect to readjustment of tax between years and  
5                   special limitations), except for section 1341 (with  
6                   respect to computation of tax where taxpayer restores  
7                   substantial amount held under claim of right);
- 8       ~~[(41)]~~ (46) Subchapter R (sections 1352 to 1359) (with  
9                   respect to election to determine corporate tax on  
10                  certain international shipping activities using per  
11                  ton rate);
- 12       ~~[(42)]~~ (47) Subchapter U (sections 1391 to 1397F) (with  
13                  respect to designation and treatment of empowerment  
14                  zones, enterprise communities, and rural development  
15                  investment areas). For treatment, see chapter 209E;
- 16       ~~[(43)]~~ (48) Subchapter W (sections 1400 to 1400C) (with  
17                  respect to District of Columbia enterprise zone);
- 18       ~~[(44)]~~ (49) Section 14000 (with respect to education tax  
19                  benefits);
- 20       ~~[(45)]~~ (50) Section 1400P (with respect to housing tax  
21                  benefits);



- 1        [~~46~~] (51) Section 1400R (with respect to employment  
2                    relief);
- 3        [~~47~~] (52) Section 1400T (with respect to special rules for  
4                    mortgage revenue bonds);
- 5        [~~48~~] (53) Section 1400U-1 (with respect to allocation of  
6                    recovery zone bonds);
- 7        [~~49~~] (54) Section 1400U-2 (with respect to recovery zone  
8                    economic development bonds); and
- 9        [~~50~~] (55) Section 1400U-3 (with respect to recovery zone  
10                   facility bonds)."

11            SECTION 3. Section 235-2.4, Hawaii Revised Statutes, is  
12 amended to read as follows:

13            "**§235-2.4 Operation of certain Internal Revenue Code**  
14 **provisions; sections 63 to 530.** (a) Section 63 (with respect  
15 to taxable income defined) of the Internal Revenue Code shall be  
16 operative for the purposes of this chapter, subject to the  
17 following:

- 18            (1) Section 63(c)(1)(B) (relating to the additional  
19                    standard deduction), [~~63(e)(1)(C)~~] (~~relating to the~~  
20                    ~~real property tax deduction~~), [~~63(e)(1)(D)~~] (~~relating to~~  
21                    ~~the disaster loss deduction~~), [~~63(e)(1)(E)~~] (~~relating to~~



1 ~~the motor vehicle sales tax deduction),]~~ 63(c)(4)  
2 (relating to inflation adjustments), 63(c)(7)  
3 [~~(defining the real property tax deduction), 63(c)(8)~~  
4 ~~(defining the disaster loss deduction), 63(c)(9)~~  
5 ~~(defining the motor vehicle sales tax deduction),]~~  
6 (relating to special rules for taxable years beginning  
7 after 2017), and 63(f) (relating to additional amounts  
8 for the aged or blind) of the Internal Revenue Code  
9 shall not be operative for purposes of this chapter;  
10 (2) Section 63(c)(2) (relating to the basic standard  
11 deduction) of the Internal Revenue Code shall be  
12 operative, except that the standard deduction amounts  
13 provided therein shall instead mean:  
14 (A) \$4,400 in the case of:  
15 (i) A joint return as provided by section  
16 235-93; or  
17 (ii) A surviving spouse (as defined in  
18 section 2(a) of the Internal Revenue Code);  
19 (B) \$3,212 in the case of a head of household (as  
20 defined in section 2(b) of the Internal Revenue  
21 Code);



- 1 (C) \$2,200 in the case of an individual who is not
- 2 married and who is not a surviving spouse or head
- 3 of household;
- 4 (D) \$2,200 in the case of a married individual filing
- 5 a separate return;
- 6 (E) For taxable years beginning after December 31,
- 7 2023:
- 8 (i) \$8,800 in the case of a joint return as
- 9 provided by section 235-93 or a surviving
- 10 spouse (as defined in section 2(a) of the
- 11 Internal Revenue Code);
- 12 (ii) \$6,424 in the case of a head of household
- 13 (as defined in section 2(b) of the Internal
- 14 Revenue Code);
- 15 (iii) \$4,400 in the case of an individual who is
- 16 not married and who is not a surviving
- 17 spouse or head of household; or
- 18 (iv) \$4,400 in the case of a married individual
- 19 filing a separate return;
- 20 (F) For taxable years beginning after December 31,
- 21 2025:

- 1 (i) \$16,000 in the case of a joint return as  
2 provided by section 235-93 or a surviving  
3 spouse (as defined in section 2(a) of the  
4 Internal Revenue Code);
- 5 (ii) \$12,000 in the case of a head of household  
6 (as defined in section 2(b) of the Internal  
7 Revenue Code);
- 8 (iii) \$8,000 in the case of an individual who is  
9 not married and who is not a surviving  
10 spouse or head of household; or
- 11 (iv) \$8,000 in the case of a married individual  
12 filing a separate return;
- 13 (G) For taxable years beginning after December 31,  
14 2027:
- 15 (i) \$18,000 in the case of a joint return as  
16 provided by section 235-93 or a surviving  
17 spouse (as defined in section 2(a) of the  
18 Internal Revenue Code);
- 19 (ii) \$13,500 in the case of a head of household  
20 (as defined in section 2(b) of the Internal  
21 Revenue Code);



- 1 (iii) \$9,000 in the case of an individual who is
- 2 not married and who is not a surviving
- 3 spouse or head of household; or
- 4 (iv) \$9,000 in the case of a married individual
- 5 filing a separate return;
- 6 (H) For taxable years beginning after December 31,
- 7 2029:
- 8 (i) \$20,000 in the case of a joint return as
- 9 provided by section 235-93 or a surviving
- 10 spouse (as defined in section 2(a) of the
- 11 Internal Revenue Code);
- 12 (ii) \$15,000 in the case of a head of household
- 13 (as defined in section 2(b) of the Internal
- 14 Revenue Code);
- 15 (iii) \$10,000 in the case of an individual who is
- 16 not married and who is not a surviving
- 17 spouse or head of household; or
- 18 (iv) \$10,000 in the case of a married individual
- 19 filing a separate return; and
- 20 (I) For taxable years beginning after December 31,
- 21 2030:



- 1 (i) \$24,000 in the case of a joint return as  
2 provided by section 235-93 or a surviving  
3 spouse (as defined in section 2(a) of the  
4 Internal Revenue Code);
- 5 (ii) \$18,000 in the case of a head of household  
6 (as defined in section 2(b) of the Internal  
7 Revenue Code);
- 8 (iii) \$12,000 in the case of an individual who is  
9 not married and who is not a surviving  
10 spouse or head of household; or
- 11 (iv) \$12,000 in the case of a married individual  
12 filing a separate return;
- 13 (3) Section 63(c)(5) (limiting the basic standard  
14 deduction in the case of certain dependents) of the  
15 Internal Revenue Code shall be operative, except that  
16 the limitation shall be the greater of \$500 or the  
17 individual's earned income; and
- 18 (4) The standard deduction amount for nonresidents shall  
19 be calculated pursuant to section 235-5.
- 20 ~~[(b) Section 67 (with respect to the 2-percent floor on~~  
21 ~~miscellaneous itemized deductions) of the Internal Revenue Code~~



1 ~~shall be operative for purposes of this chapter, except that the~~  
2 ~~suspension in section 67(g) shall not be operative for purposes~~  
3 ~~of this chapter.~~

4 ~~(e)]~~ (b) Section 68 (with respect to the overall  
5 limitation on itemized deductions) of the Internal Revenue Code  
6 shall be operative~~[+]~~ in the form that it existed as of  
7 December 31, 2024; provided that the~~[+]~~

8 ~~(1) Thresholds]~~ thresholds shall be those that were  
9 operative for federal tax year 2009~~[-; and~~

10 ~~(2) Suspension in section 68(f) shall not be operative for~~  
11 ~~purposes of this chapter].~~

12 ~~[-(d)]~~ (c) Section 72 (with respect to annuities; certain  
13 proceeds of endowment and life insurance contracts) of the  
14 Internal Revenue Code shall be operative for purposes of this  
15 chapter and be interpreted with due regard to section 235-7(a),  
16 except that the ten per cent additional tax on early  
17 distributions from retirement plans in section 72(t) shall not  
18 be operative for purposes of this chapter.

19 ~~[-(e)]~~ (d) Section 85 (with respect to unemployment  
20 compensation) of the Internal Revenue Code shall be operative



1 for purposes of this chapter, except that section 85(c) shall  
2 not be operative for purposes of this chapter.

3 ~~[(f)]~~ (e) Section 108 (with respect to income from  
4 discharge of indebtedness) of the Internal Revenue Code shall be  
5 operative for purposes of this chapter, except that  
6 section 108(i) (relating to deferral and ratable inclusion of  
7 income arising from business indebtedness discharged by the  
8 reacquisition of a debt instrument) shall not be operative for  
9 purposes of this chapter.

10 ~~[(g)]~~ (f) Section 121 (with respect to exclusion of gain  
11 from sale of principal residence) of the Internal Revenue Code  
12 shall be operative for purposes of this chapter, except that for  
13 the election under section 121(f), a reference to section 1034  
14 treatment means a reference to section 235-2.4(n) in effect for  
15 taxable year 1997.

16 ~~[(h)]~~ (g) Section 132 (with respect to certain fringe  
17 benefits) of the Internal Revenue Code shall be operative for  
18 purposes of this chapter, except that:

19 (1) The ~~[suspensions]~~ suspension in section ~~[132(f)(8)-~~  
20 ~~and]~~ 132(g)(2) shall not be operative for purposes of  
21 this chapter; and



1           (2) Section 132(n) shall not apply to United States  
2           Department of Defense Homeowners Assistance Program  
3           payments authorized by the American Recovery and  
4           Reinvestment Act of 2009.

5           [~~(i)~~] (h) Section 162 (with respect to trade or business  
6 expenses) of the Internal Revenue Code shall be operative for  
7 the purposes of this chapter, except that sections 162(f)(2),  
8 (3), and (4) (all of which relate to exceptions to the general  
9 rule, established in section 162(f)(1), that no deduction is  
10 allowed for the payment of fines or penalties) shall not be  
11 operative for purposes of this chapter.

12           [~~(j)~~] (i) Section 163 (with respect to interest) of the  
13 Internal Revenue Code shall be operative for the purposes of  
14 this chapter, except that the following provisions shall not be  
15 operative for the purposes of this chapter:

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

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

20           (3) Section 163(h)(3)(F) (limiting mortgage interest);

21           [and]



1       (4) Section 163(h)(4) (qualified passenger vehicle loan  
2       interest); and

3       ~~[(4)]~~ (5) Section 163(i)(1) as it applies to debt  
4       instruments issued after January 1, 2010 (defining  
5       AHYDO).

6       ~~[(k)]~~ (j) Section 164 (with respect to taxes) of the  
7       Internal Revenue Code shall be operative for the purposes of  
8       this chapter, except that:

9       (1) Section 164(b)(6)(B) (limiting the deduction for state  
10       and local taxes) and (b)(7) (with respect to  
11       applicable limitation amount) shall not be operative  
12       for the purposes of this chapter;

13       (2) The deductions under section 164(a)(3) and (b)(5)  
14       shall not be operative for corporate taxpayers and  
15       shall be operative only for the following individual  
16       taxpayers:

17       (A) A taxpayer filing a single return or a married  
18       person filing separately with a federal adjusted  
19       gross income of less than \$100,000;



1 (B) A taxpayer filing as a head of household with a  
2 federal adjusted gross income of less than  
3 \$150,000; and

4 (C) A taxpayer filing a joint return or as a  
5 surviving spouse with a federal adjusted gross  
6 income of less than \$200,000; and

7 (3) Section 164(a)(3) shall not be operative for any  
8 amounts for which the credit under section 235-55 has  
9 been claimed.

10 [~~(1)~~] (k) Section 165 (with respect to losses) of the  
11 Internal Revenue Code shall be operative for purposes of this  
12 chapter, except that:

13 (1) The amount prescribed by section 165(h)(1) (relating  
14 to the limitation per casualty) of the Internal  
15 Revenue Code shall be a \$100 limitation per casualty;

16 (2) Section 165(h)(3)(A) and (B) (both of which relate to  
17 special rules for personal casualty gains and losses  
18 in federally declared disasters) of the Internal  
19 Revenue Code shall not be operative for the purposes  
20 of this chapter;



1       ~~[-(3) Section 165(h)(5) (relating to the limitation on the~~  
2       ~~deductibility of personal casualty losses that are not~~  
3       ~~attributable to federally declared disasters) shall~~  
4       ~~not be operative for purposes of this chapter;]~~ and  
5       ~~[-(4)]~~ (3) Section 165 as operative for this chapter shall  
6       also apply to losses sustained from the sale of stocks  
7       or other interests issued through the exercise of the  
8       stock options or warrants granted by a qualified high  
9       technology business as defined in section 235-7.3.

10       ~~[-(m)]~~ (1) Section 168 (with respect to the accelerated  
11       cost recovery system) of the Internal Revenue Code shall be  
12       operative for purposes of this chapter, except that sections  
13       168(j) (relating to property on Indian reservations), 168(k)  
14       (relating to the special allowance for certain property acquired  
15       during the period specified therein), ~~[and]~~ 168(m) (relating to  
16       the special allowance for certain reuse and recycling property),  
17       and 168(n) (relating to the special allowance for qualified  
18       production property) of the Internal Revenue Code shall not be  
19       operative for purposes of this chapter.

20       ~~[-(n)]~~ (m) Section 172 (with respect to net operating loss  
21       deductions) of the Internal Revenue Code shall be operative for



1 purposes of this chapter in the form that it existed as of  
2 December 31, 2019, and as further provided in section 235-7(d).

3 (n) Section 174 (with respect to amortization of research  
4 and experimental expenditures) of the Internal Revenue Code  
5 shall be operative for purposes of this chapter in the form that  
6 it existed as of December 31, 2024.

7 (o) Section 179 (with respect to the election to expense  
8 certain depreciable business assets) of the Internal Revenue  
9 Code shall be operative for purposes of this chapter, except as  
10 provided in this subsection:

11 (1) The aggregate cost provided in section 179(b)(1),  
12 which may be taken into account under section 179(a)  
13 for any taxable year, shall not exceed \$25,000;

14 (2) The amount at which the reduction in limitation  
15 provided in section 179(b)(2) begins shall exceed  
16 \$200,000 for any taxable year; and

17 (3) The following shall not be operative for purposes of  
18 this chapter:

19 (A) Defining section 179 property to include computer  
20 software in section 179(d)(1);



1 (B) Inflation adjustments in section [~~179(b)(5);~~]  
2 179(b)(6); and

3 (C) Irrevocable election in section 179(c)(2) [~~and~~

4 ~~(D) Special rules for qualified disaster assistance~~  
5 ~~property in section 179(e)].~~

6 (p) Section 198A (with respect to the expensing of  
7 qualified disaster assistances expenses) of the Internal Revenue  
8 Code shall not be operative for purposes of this chapter.

9 (q) Section 217 (with respect to moving expenses) of the  
10 Internal Revenue Code shall be operative for purposes of this  
11 chapter, except that the suspension in section 217(k) shall not  
12 be operative for purposes of this chapter.

13 (r) Section 219 (with respect to retirement savings) of  
14 the Internal Revenue Code shall be operative for the purpose of  
15 this chapter. For the purpose of computing the limitation on  
16 the deduction for active participants in certain pension plans  
17 for state income tax purposes, adjusted gross income as used in  
18 section 219 as operative for this chapter means federal adjusted  
19 gross income.

20 (s) Section 220 (with respect to medical savings accounts)  
21 of the Internal Revenue Code shall be operative for the purpose



1 of this chapter, but only with respect to medical services  
2 accounts that have been approved by the Secretary of the  
3 Treasury of the United States.

4 (t) Section 265 (with respect to expenses and interest  
5 relating to tax-exempt income) of the Internal Revenue Code  
6 shall be operative for purposes of this chapter; except that  
7 section 265(b) (3) (G) and (7) shall not be operative and  
8 section 265 shall not apply to expenses for royalties and other  
9 income derived from any patents, copyrights, and trade secrets  
10 by an individual or a qualified high technology business as  
11 defined in section 235-7.3. These expenses shall be deductible.

12 ~~[(u) Section 274 (with respect to the disallowance of~~  
13 ~~certain entertainment, etc., expenses) of the Internal Revenue~~  
14 ~~Code shall be operative for this chapter in the form that it~~  
15 ~~existed as of December 21, 2017.~~

16 ~~(v)]~~ (u) Section 280E (with respect to expenditures in  
17 connection with the illegal sale of drugs) of the Internal  
18 Revenue Code shall be operative for the purposes of this  
19 chapter, except that section 280E shall not be operative with  
20 respect to the production and sale of medical cannabis and  
21 manufactured cannabis products by dispensaries licensed under



1 chapter 329D and their subcontractors, as defined in  
2 section 329D-1.

3 ~~[(w)]~~ (v) Section 382 (with respect to limitation on net  
4 operating loss carryforwards and certain built-in losses  
5 following ownership change) of the Internal Revenue Code shall  
6 be operative for the purposes of this chapter, except that  
7 section 382(n) shall not be operative for purposes of this  
8 chapter.

9 ~~[(\*)]~~ (w) Section 408A (with respect to Roth Individual  
10 Retirement Accounts) of the Internal Revenue Code shall be  
11 operative for the purposes of this chapter, except that section  
12 408A(d) (3) (A) (iii) shall not be operative for purposes of this  
13 chapter. For the purposes of determining the aggregate amount  
14 of contributions to a Roth Individual Retirement Account or  
15 qualified rollover contribution to a Roth Individual Retirement  
16 Account from an individual retirement plan other than a Roth  
17 Individual Retirement Account, adjusted gross income as used in  
18 section 408A as operative for this chapter means federal  
19 adjusted gross income.

20 ~~[(y)]~~ (x) In administering the provisions of sections 410  
21 to 417 (with respect to special rules relating to pensions,



1 profit sharing, stock bonus plans, etc.), sections 418 to 418E  
2 (with respect to special rules for multiemployer plans), and  
3 sections 419 and 419A (with respect to treatment of welfare  
4 benefit funds) of the Internal Revenue Code, the department of  
5 taxation shall adopt rules under chapter 91 relating to the  
6 specific requirements under those sections and to other  
7 administrative requirements under those sections as may be  
8 necessary for the efficient administration of sections 410  
9 to 419A.

10 In administering sections 401 to 419A (with respect to  
11 deferred compensation) of the Internal Revenue Code, Public Law  
12 93-406, section 1017(i), shall be operative for the purposes of  
13 this chapter.

14 In administering section 402 (with respect to the  
15 taxability of beneficiary of employees' trust) of the Internal  
16 Revenue Code, the tax imposed on lump sum distributions by  
17 section 402(e) of the Internal Revenue Code shall be operative  
18 for the purposes of this chapter and the tax imposed therein is  
19 hereby imposed by this chapter at the rate determined under this  
20 chapter.



1           ~~[(z)]~~ (y) In administering section 403 (with respect to  
2 taxation of employee annuities) of the Internal Revenue Code,  
3 any funds that represent pre-tax employee deferrals or  
4 contributions that are distributed from the annuity and used  
5 solely to obtain retirement credits under the state employees'  
6 retirement system shall not be treated as a rollover for  
7 purposes of section 403(b)(8)(A) of the Internal Revenue Code,  
8 and those funds shall be subject to income tax under this  
9 chapter.

10           ~~[(aa)]~~ (z) Section 451 (which provides general rules for  
11 taxable year of inclusion) of the Internal Revenue Code shall be  
12 operative, except that section 451(k)(3) and (6), as it relates  
13 to a qualified electric utility, shall not be operative for  
14 purposes of this chapter.

15           ~~[(bb)]~~ (aa) In administering section 457 (with respect to  
16 compensation plans of state and local governments and tax-exempt  
17 organizations) of the Internal Revenue Code, any funds that  
18 represent pre-tax employee deferrals or contributions that are  
19 distributed from the deferred compensation plan and used solely  
20 to obtain retirement credits under the state employees'  
21 retirement system shall not be treated as a rollover for



1 purposes of section 457(e)(16)(A) of the Internal Revenue Code  
2 and those funds shall be subject to income tax under this  
3 chapter.

4 ~~[(cc) Section 461 (with respect to the general rule for~~  
5 ~~taxable year of deduction) of the Internal Revenue Code, shall~~  
6 ~~be operative for purposes of this chapter in the form that it~~  
7 ~~existed as of December 31, 2019.~~

8 ~~(dd)]~~ (bb) Section 468B (with respect to special rules for  
9 designated settlement funds) of the Internal Revenue Code shall  
10 be operative for the purposes of this chapter and the tax  
11 imposed therein is hereby imposed by this chapter at a rate  
12 equal to the maximum rate in effect for the taxable year imposed  
13 on estates and trusts under section 235-51.

14 ~~[(ee)]~~ (cc) Section 469 (with respect to passive  
15 activities and credits limited) of the Internal Revenue Code  
16 shall be operative for the purposes of this chapter. For the  
17 purpose of computing the offset for rental real estate  
18 activities for state income tax purposes, adjusted gross income  
19 as used in section 469 as operative for this chapter means  
20 federal adjusted gross income.



1           [~~(ff)~~] (dd) Sections 512 to 514 (with respect to taxation  
2 of business income of certain exempt organizations) of the  
3 Internal Revenue Code shall be operative for the purposes of  
4 this chapter as provided in this subsection.

5           "Unrelated business taxable income" means the same as in  
6 the Internal Revenue Code, except that:

7           (1) In the computation of unrelated business taxable  
8 income, sections 235-3 to 235-5, and 235-7 (except  
9 subsection (c)), shall apply;

10          (2) In the determination of the net operating loss  
11 deduction there shall not be taken into account any  
12 amount of income or deduction that is excluded in  
13 computing the unrelated business taxable income; and

14          (3) Unrelated business taxable income shall not include  
15 any income from a legal service plan.

16          For a person described in section 401 or 501 of the  
17 Internal Revenue Code, as modified by section 235-2.3, the tax  
18 imposed by section 235-51 or 235-71 shall be imposed upon the  
19 person's unrelated business taxable income.

20          [~~(gg)~~] (ee) Section 521 (with respect to cooperatives) and  
21 subchapter T (sections 1381 to 1388, with respect to



1 cooperatives and their patrons) of the Internal Revenue Code  
2 shall be operative for the purposes of this chapter as to any  
3 cooperative fully meeting the requirements of section 421-23,  
4 except that Internal Revenue Code section 521 cooperatives need  
5 not be organized in Hawaii.

6 ~~[(hh)]~~ (ff) Sections 527 (with respect to political  
7 organizations) and 528 (with respect to certain homeowners  
8 associations) of the Internal Revenue Code shall be operative  
9 for the purposes of this chapter and the taxes imposed in each  
10 section are hereby imposed by this chapter at the rates  
11 determined under section 235-71.

12 ~~[(ii)]~~ (gg) Section 529 (with respect to qualified tuition  
13 programs) shall be operative for the purposes of this chapter,  
14 except that sections 529(c)(6), 529(c)(7), and 529(e)(3)(A)(iii)  
15 shall not be operative.

16 ~~[(jj)]~~ (hh) Section 529A (with respect to qualified ABLE  
17 programs) shall be operative for the purposes of this chapter,  
18 except that section 529A(c)(3) (with respect to additional tax  
19 for distributions not used for disability expenses) shall not be  
20 operative.



1           ~~[(k)]~~ (ii) Section 530 (with respect to Coverdell  
2 education savings accounts) of the Internal Revenue Code shall  
3 be operative for the purposes of this chapter. For the purpose  
4 of determining the maximum amount that a contributor could make  
5 to an education individual retirement account for state income  
6 tax purposes, modified adjusted gross income as used in  
7 section 530 as operative for this chapter means federal modified  
8 adjusted gross income as defined in section 530."

9           SECTION 4. Section 235-2.45, Hawaii Revised Statutes, is  
10 amended by amending subsection (e) to read as follows:

11           "(e) Section 1202 (with respect to partial exclusion for  
12 gain from certain small business stock) of the Internal Revenue  
13 Code shall be operative for purposes of this chapter~~[7]~~ in the  
14 form that it existed as of December 31, 2024, except that  
15 section 1202(a)(3) and (4) shall not be operative for purposes  
16 of this chapter."

17           SECTION 5. Section 236E-3, Hawaii Revised Statutes, is  
18 amended to read as follows:

19           "**§236E-3 Conformance to the Internal Revenue Code; general**  
20 **application.** For all decedents dying, or transfers occurring,  
21 after December 31, ~~[2024,]~~ 2025, as used in this chapter,



1 "Internal Revenue Code" means subtitle B of the federal Internal  
2 Revenue Code of 1986, as amended as of December 31, [~~2024,~~  
3 2025, as it applies to the determination of gross estate,  
4 adjusted gross estate, federal taxable estate, and  
5 generation-skipping transfers, except those provisions of the  
6 Internal Revenue Code and federal public laws that, pursuant to  
7 this chapter, do not apply or are otherwise limited in  
8 application."

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

11 SECTION 7. This Act shall take effect upon its approval;  
12 provided that:

13 (1) Sections 2, 3, and 4 shall apply to taxable years  
14 beginning after December 31, 2025; and

15 (2) Section 5 shall apply to decedents dying or taxable  
16 transfers occurring after December 31, 2025.



**Report Title:**

Conformity to the Internal Revenue Code for 2025; Income Tax;  
Estate and Generation-Skipping Transfer Tax

**Description:**

Conforms Hawaii income and estate and generation-skipping  
transfer tax laws to the Internal Revenue Code of 1986, as  
amended as of December 31, 2025. (CD1)

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

