
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.

17 Sections 9672(1) (relating to tax treatment of targeted
18 EIDL advances) and 9673(1) (relating to tax treatment of

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1 restaurant revitalization grants) of Public Law 117-2 shall be
2 operative for purposes of this chapter. No amount received
3 under section 9601 (relating to 2021 recovery rebates to
4 individuals) of Public Law 117-2 shall be included in gross
5 income for purposes of this chapter.

6 Sections 276(b)(1) (relating to subsequent paycheck
7 protection program loans), 277 (relating to emergency financial
8 aid grants), 278(b)(1) (relating to emergency EIDL grants and
9 targeted EIDL advances), 278(c)(1) (relating to subsidy for
10 certain loan payments), and 278(d)(1) (relating to grants for
11 shuttered venue operators) of Division N of Public Law 116-260
12 shall be operative for purposes of this chapter. Sections 213
13 (relating to modification of limitations on charitable
14 contributions) and 214 (relating to temporary special rules for
15 health and dependent care flexible spending arrangements) of
16 Division EE of Public Law 116-260 shall be operative for
17 purposes of this chapter. Sections 301, 302, and 304 (relating
18 to disaster tax relief) of Division EE of Public Law 116-260
19 shall be operative for purposes of this chapter. No amount
20 received under section 272 (relating to additional 2020 recovery
21 rebates for individuals) of Division N of Public Law 116-260
22 shall be included in gross income for purposes of this chapter.

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

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

12 Prior law shall continue to be used to determine:

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

16 (2) Gross income, adjusted gross income, ordinary income
17 and loss, and taxable income for a taxable year to
18 which prior law applies.

19 (b) The following Internal Revenue Code subchapters, parts
20 of subchapters, sections, subsections, and parts of subsections
21 shall not be operative for the purposes of this chapter, unless
22 otherwise provided:

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- 1 (1) Subchapter A (sections 1 to 59A) (with respect to
2 determination of tax liability), except section
3 1(h) (2) (relating to net capital gain reduced by the
4 amount taken into account as investment income),
5 except sections 2(a), 2(b), and 2(c) (with respect to
6 the definition of "surviving spouse" and "head of
7 household"), except section 41 (with respect to the
8 credit for increasing research activities), except
9 section 42 (with respect to low-income housing
10 credit), except sections 47 and 48, as amended, as of
11 December 31, 1984 (with respect to certain depreciable
12 tangible personal property), and except section
13 48(d) (3), as amended, as of February 17, 2009 (with
14 respect to the treatment of United States Department
15 of Treasury grants made under section 1603 of the
16 American Recovery and Reinvestment Tax Act of 2009).
17 For treatment, see sections 235-110.91, 235-110.7, and
18 235-110.8;
- 19 (2) Section 78 (with respect to dividends received from
20 certain foreign corporations by domestic corporations
21 choosing foreign tax credit);

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- 1 (3) Section 86 (with respect to social security and tier 1
2 railroad retirement benefits);
- 3 (4) Section 91 (with respect to certain foreign branch
4 losses transferred to specified 10-percent owned
5 foreign corporations);
- 6 (5) Section 103 (with respect to interest on state and
7 local bonds). For treatment, see section 235-7(b);
- 8 (6) Section 114 (with respect to extraterritorial income).
9 For treatment, any transaction as specified in the
10 transitional rule for 2005 and 2006 as specified in
11 the American Jobs Creation Act of 2004 section 101(d)
12 and any transaction that has occurred pursuant to a
13 binding contract as specified in the American Jobs
14 Creation Act of 2004 section 101(f) are inoperative;
- 15 (7) Section 120 (with respect to amounts received under
16 qualified group legal services plans). For treatment,
17 see section 235-7(a)(9) to (11);
- 18 (8) Section 122 (with respect to certain reduced uniformed
19 services retirement pay). For treatment, see section
20 235-7(a)(3);

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- 1 (9) Section 135 (with respect to income from United States
2 savings bonds used to pay higher education tuition and
3 fees). For treatment, see section 235-7(a)(1);
- 4 (10) Section 139C (with respect to COBRA premium
5 assistance);
- 6 (11) Section 139K (with respect to scholarships for
7 qualified elementary or secondary education expenses
8 of eligible students);
- 9 (12) Section 139L (with respect to interest on loans
10 secured by rural or agricultural real property);
- 11 ~~(11)~~ (13) Subchapter B (sections 141 to 150) (with respect
12 to tax exemption requirements for state and local
13 bonds);
- 14 ~~(12)~~ (14) Section 151 (with respect to allowance of
15 deductions for personal exemptions). For treatment,
16 see section 235-54;
- 17 (15) Section 174A (with respect to domestic research or
18 experimental expenditures);
- 19 ~~(13)~~ (16) Section 179B (with respect to expensing of
20 capital costs incurred in complying with Environmental
21 Protection Agency sulphur regulations);

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- 1 ~~[(14)]~~ (17) Section 181 (with respect to special rules for
2 certain film and television productions);
- 3 ~~[(15)]~~ (18) Section 196 (with respect to deduction for
4 certain unused investment credits);
- 5 ~~[(16)]~~ (19) Section 199 (with respect to the U.S. production
6 activities deduction);
- 7 ~~[(17)]~~ (20) Section 199A (with respect to qualified business
8 income);
- 9 ~~[(18)]~~ (21) Section 222 (with respect to qualified tuition
10 and related expenses);
- 11 (22) Section 225 (with respect to qualified overtime
12 compensation);
- 13 ~~[(19)]~~ (23) Sections 241 to 247 (with respect to special
14 deductions for corporations). For treatment, see
15 section 235-7(c);
- 16 ~~[(20)]~~ (24) Section 250 (with respect to foreign-derived
17 intangible income and global intangible low-taxed
18 income);
- 19 ~~[(21)]~~ (25) Section 267A (with respect to certain related
20 party amounts paid or accrued in hybrid transactions
21 or with hybrid entities);

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1 ~~[(29)]~~ (33) Section 642(a) and (b) (with respect to special
2 rules for credits and deductions applicable to
3 trusts). For treatment, see sections 235-54(b) and
4 235-55;

5 ~~[(30)]~~ (34) Section 646 (with respect to tax treatment of
6 electing Alaska Native settlement trusts);

7 ~~[(31)]~~ (35) Section 668 (with respect to interest charge on
8 accumulation distributions from foreign trusts);

9 ~~[(32)]~~ (36) Subchapter L (sections 801 to 848) (with respect
10 to insurance companies). For treatment, see sections
11 431:7-202 and 431:7-204;

12 ~~[(33)]~~ (37) Section 853 (with respect to foreign tax credit
13 allowed to shareholders). For treatment, see section
14 235-55;

15 ~~[(34)]~~ (38) Section 853A (with respect to credits from tax
16 credit bonds allowed to shareholders);

17 ~~[(35)]~~ (39) Subchapter N (sections 861 to 999) (with respect
18 to tax based on income from sources within or without
19 the United States), except sections 985 to 989 (with
20 respect to foreign currency transactions). For
21 treatment, see sections 235-4, 235-5, and 235-7(b),
22 and 235-55;

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- 1 [~~36~~] (40) Section 1042(g) (with respect to sales of stock
2 in agricultural refiners and processors to eligible
3 farm cooperatives);
- 4 [~~37~~] (41) Section 1055 (with respect to redeemable ground
5 rents);
- 6 [~~38~~] (42) Section 1057 (with respect to election to treat
7 transfer to foreign trust, etc., as taxable exchange);
- 8 (43) Section 1062 (with respect to gain from the sale or
9 exchange of qualified farmland property to qualified
10 farmers);
- 11 [~~39~~] (44) Sections 1291 to 1298 (with respect to treatment
12 of passive foreign investment companies);
- 13 [~~40~~] (45) Subchapter Q (sections 1311 to 1351) (with
14 respect to readjustment of tax between years and
15 special limitations), except for section 1341 (with
16 respect to computation of tax where taxpayer restores
17 substantial amount held under claim of right);
- 18 [~~41~~] (46) Subchapter R (sections 1352 to 1359) (with
19 respect to election to determine corporate tax on
20 certain international shipping activities using per
21 ton rate);

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- 1 [~~42~~] (47) Subchapter U (sections 1391 to 1397F) (with
2 respect to designation and treatment of empowerment
3 zones, enterprise communities, and rural development
4 investment areas). For treatment, see chapter 209E;
5 [~~43~~] (48) Subchapter W (sections 1400 to 1400C) (with
6 respect to District of Columbia enterprise zone);
7 [~~44~~] (49) Section 1400O (with respect to education tax
8 benefits);
9 [~~45~~] (50) Section 1400P (with respect to housing tax
10 benefits);
11 [~~46~~] (51) Section 1400R (with respect to employment
12 relief);
13 [~~47~~] (52) Section 1400T (with respect to special rules for
14 mortgage revenue bonds);
15 [~~48~~] (53) Section 1400U-1 (with respect to allocation of
16 recovery zone bonds);
17 [~~49~~] (54) Section 1400U-2 (with respect to recovery zone
18 economic development bonds); and
19 [~~50~~] (55) Section 1400U-3 (with respect to recovery zone
20 facility bonds)."

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

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1 **"§235-2.4 Operation of certain Internal Revenue Code**
2 **provisions; sections 63 to 530.** (a) Section 63 (with respect
3 to taxable income defined) of the Internal Revenue Code shall be
4 operative for the purposes of this chapter, subject to the
5 following:

6 (1) Section 63(c)(1)(B) (relating to the additional
7 standard deduction), [~~63(e)(1)(C) (relating to the~~
8 ~~real property tax deduction), 63(e)(1)(D) (relating to~~
9 ~~the disaster loss deduction), 63(e)(1)(E) (relating to~~
10 ~~the motor vehicle sales tax deduction),~~] 63(c)(4)
11 (relating to inflation adjustments), 63(c)(7)
12 [~~(defining the real property tax deduction), 63(e)(8)~~
13 ~~(defining the disaster loss deduction), 63(e)(9)~~
14 ~~(defining the motor vehicle sales tax deduction),~~]
15 (relating to special rules for taxable years beginning
16 after 2017), and 63(f) (relating to additional amounts
17 for the aged or blind) of the Internal Revenue Code
18 shall not be operative for purposes of this chapter;
19 (2) Section 63(c)(2) (relating to the basic standard
20 deduction) of the Internal Revenue Code shall be
21 operative, except that the standard deduction amounts
22 provided therein shall instead mean:

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- 1 (A) \$4,400 in the case of:
- 2 (i) A joint return as provided by section 235-
- 3 93; or
- 4 (ii) A surviving spouse (as defined in section
- 5 2(a) of the Internal Revenue Code);
- 6 (B) \$3,212 in the case of a head of household (as
- 7 defined in section 2(b) of the Internal Revenue
- 8 Code);
- 9 (C) \$2,200 in the case of an individual who is not
- 10 married and who is not a surviving spouse or head
- 11 of household;
- 12 (D) \$2,200 in the case of a married individual filing
- 13 a separate return;
- 14 (E) For taxable years beginning after December 31,
- 15 2023:
- 16 (i) \$8,800 in the case of a joint return as
- 17 provided by section 235-93 or a surviving
- 18 spouse (as defined in section 2(a) of the
- 19 Internal Revenue Code);
- 20 (ii) \$6,424 in the case of a head of household
- 21 (as defined in section 2(b) of the Internal
- 22 Revenue Code);

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- 1 (iii) \$4,400 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) \$4,400 in the case of a married individual
5 filing a separate return;
- 6 (F) For taxable years beginning after December 31,
7 2025:
- 8 (i) \$16,000 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) \$12,000 in the case of a head of household
13 (as defined in section 2(b) of the Internal
14 Revenue Code);
- 15 (iii) \$8,000 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) \$8,000 in the case of a married individual
19 filing a separate return;
- 20 (G) For taxable years beginning after December 31,
21 2027:

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- 1 (i) \$18,000 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) \$13,500 in the case of a head of household
6 (as defined in section 2(b) of the Internal
7 Revenue Code);
- 8 (iii) \$9,000 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) \$9,000 in the case of a married individual
12 filing a separate return;
- 13 (H) For taxable years beginning after December 31,
14 2029:
- 15 (i) \$20,000 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) \$15,000 in the case of a head of household
20 (as defined in section 2(b) of the Internal
21 Revenue Code);

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- 1 (iii) \$10,000 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) \$10,000 in the case of a married individual
5 filing a separate return; and
6 (I) For taxable years beginning after December 31,
7 2030:
8 (i) \$24,000 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) \$18,000 in the case of a head of household
13 (as defined in section 2(b) of the Internal
14 Revenue Code);
15 (iii) \$12,000 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) \$12,000 in the case of a married individual
19 filing a separate return;
20 (3) Section 63(c)(5) (limiting the basic standard
21 deduction in the case of certain dependents) of the
22 Internal Revenue Code shall be operative, except that

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1 the limitation shall be the greater of \$500 or the
2 individual's earned income; and

3 (4) The standard deduction amount for nonresidents shall
4 be calculated pursuant to section 235-5.

5 ~~[(b) Section 67 (with respect to the 2-percent floor on~~
6 ~~miscellaneous itemized deductions) of the Internal Revenue Code~~
7 ~~shall be operative for purposes of this chapter, except that the~~
8 ~~suspension in section 67(g) shall not be operative for purposes~~
9 ~~of this chapter.~~

10 ~~(e)]~~ (b) Section 68 (with respect to the overall
11 limitation on itemized deductions) of the Internal Revenue Code
12 shall be operative; provided that the [+

13 ~~(1) Thresholds]~~ thresholds shall be those that were
14 operative for federal tax year 2009 [~~+~~ and

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

17 ~~[(d)]~~ (c) Section 72 (with respect to annuities; certain
18 proceeds of endowment and life insurance contracts) of the
19 Internal Revenue Code shall be operative for purposes of this
20 chapter and be interpreted with due regard to section 235-7(a),
21 except that the ten per cent additional tax on early

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1 distributions from retirement plans in section 72(t) shall not
2 be operative for purposes of this chapter.

3 ~~[(e)]~~ (d) Section 85 (with respect to unemployment
4 compensation) of the Internal Revenue Code shall be operative
5 for purposes of this chapter, except that section 85(c) shall
6 not be operative for purposes of this chapter.

7 ~~[(f)]~~ (e) Section 108 (with respect to income from
8 discharge of indebtedness) of the Internal Revenue Code shall be
9 operative for purposes of this chapter, except that section
10 108(i) (relating to deferral and ratable inclusion of income
11 arising from business indebtedness discharged by the
12 reacquisition of a debt instrument) shall not be operative for
13 purposes of this chapter.

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

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

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

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

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

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

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

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

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

2 [~~and~~]

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

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

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

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

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

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

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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;

21 [~~(3)~~] ~~Section 165(h) (5) (relating to the limitation on the~~
22 ~~deductibility of personal casualty losses that are not~~

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1 ~~attributable to federally declared disasters) shall~~
2 ~~not be operative for purposes of this chapter,~~] and
3 [~~(4)~~] (3) Section 165 as operative for this chapter shall
4 also apply to losses sustained from the sale of stocks
5 or other interests issued through the exercise of the
6 stock options or warrants granted by a qualified high
7 technology business as defined in section 235-7.3.
8 [~~(m)~~] (1) Section 168 (with respect to the accelerated
9 cost recovery system) of the Internal Revenue Code shall be
10 operative for purposes of this chapter, except that sections
11 168(j) (relating to property on Indian reservations), 168(k)
12 (relating to the special allowance for certain property acquired
13 during the period specified therein), [~~and~~] 168(m) (relating to
14 the special allowance for certain reuse and recycling property),
15 and 168(n) (relating to the special allowance for qualified
16 production property) of the Internal Revenue Code shall not be
17 operative for purposes of this chapter.
18 [~~(n)~~] (m) Section 172 (with respect to net operating loss
19 deductions) of the Internal Revenue Code shall be operative for
20 purposes of this chapter in the form that it existed as of
21 December 31, 2019, and as further provided in section 235-7(d).

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

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

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

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

15 (3) The following shall not be operative for purposes of
16 this chapter:

17 (A) Defining section 179 property to include computer
18 software in section 179(d)(1);

19 (B) Inflation adjustments in section [~~179(b)(5)~~];
20 179(b)(6); and

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

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

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

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

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

17 (s) Section 220 (with respect to medical savings accounts)
18 of the Internal Revenue Code shall be operative for the purpose
19 of this chapter, but only with respect to medical services
20 accounts that have been approved by the Secretary of the
21 Treasury of the United States.

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

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

13 ~~(v)]~~ (u) Section 280E (with respect to expenditures in
14 connection with the illegal sale of drugs) of the Internal
15 Revenue Code shall be operative for the purposes of this
16 chapter, except that section 280E shall not be operative with
17 respect to the production and sale of medical cannabis and
18 manufactured cannabis products by dispensaries licensed under
19 chapter 329D and their subcontractors, as defined in section
20 329D-1.

21 ~~(w)]~~ (v) Section 382 (with respect to limitation on net
22 operating loss carryforwards and certain built-in losses

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1 following ownership change) of the Internal Revenue Code shall
2 be operative for the purposes of this chapter, except that
3 section 382(n) shall not be operative for purposes of this
4 chapter.

5 [~~x~~] (w) Section 408A (with respect to Roth Individual
6 Retirement Accounts) of the Internal Revenue Code shall be
7 operative for the purposes of this chapter, except that section
8 408A(d) (3) (A) (iii) shall not be operative for purposes of this
9 chapter. For the purposes of determining the aggregate amount
10 of contributions to a Roth Individual Retirement Account or
11 qualified rollover contribution to a Roth Individual Retirement
12 Account from an individual retirement plan other than a Roth
13 Individual Retirement Account, adjusted gross income as used in
14 section 408A as operative for this chapter means federal
15 adjusted gross income.

16 [~~y~~] (x) In administering the provisions of sections 410
17 to 417 (with respect to special rules relating to pensions,
18 profit sharing, stock bonus plans, etc.), sections 418 to 418E
19 (with respect to special rules for multiemployer plans), and
20 sections 419 and 419A (with respect to treatment of welfare
21 benefit funds) of the Internal Revenue Code, the department of
22 taxation shall adopt rules under chapter 91 relating to the

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1 specific requirements under those sections and to other
2 administrative requirements under those sections as may be
3 necessary for the efficient administration of sections 410 to
4 419A.

5 In administering sections 401 to 419A (with respect to
6 deferred compensation) of the Internal Revenue Code, Public Law
7 93-406, section 1017(i), shall be operative for the purposes of
8 this chapter.

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

16 [~~z~~] (y) In administering section 403 (with respect to
17 taxation of employee annuities) of the Internal Revenue Code,
18 any funds that represent pre-tax employee deferrals or
19 contributions that are distributed from the annuity and used
20 solely to obtain retirement credits under the state employees'
21 retirement system shall not be treated as a rollover for
22 purposes of section 403(b)(8)(A) of the Internal Revenue Code,

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1 and those funds shall be subject to income tax under this
2 chapter.

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

8 ~~[(bb)]~~ (aa) In administering section 457 (with respect to
9 compensation plans of state and local governments and tax-exempt
10 organizations) of the Internal Revenue Code, any funds that
11 represent pre-tax employee deferrals or contributions that are
12 distributed from the deferred compensation plan and used solely
13 to obtain retirement credits under the state employees'
14 retirement system shall not be treated as a rollover for
15 purposes of section 457(e) (16) (A) of the Internal Revenue Code
16 and those funds shall be subject to income tax under this
17 chapter.

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

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

7 ~~(ee)~~ (cc) Section 469 (with respect to passive
8 activities and credits limited) of the Internal Revenue Code
9 shall be operative for the purposes of this chapter. For the
10 purpose of computing the offset for rental real estate
11 activities for state income tax purposes, adjusted gross income
12 as used in section 469 as operative for this chapter means
13 federal adjusted gross income.

14 ~~(ff)~~ (dd) Sections 512 to 514 (with respect to taxation
15 of business income of certain exempt organizations) of the
16 Internal Revenue Code shall be operative for the purposes of
17 this chapter as provided in this subsection.

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

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

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

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

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

11 [~~(gg)~~] (ee) Section 521 (with respect to cooperatives) and
12 subchapter T (sections 1381 to 1388, with respect to
13 cooperatives and their patrons) of the Internal Revenue Code
14 shall be operative for the purposes of this chapter as to any
15 cooperative fully meeting the requirements of section 421-23,
16 except that Internal Revenue Code section 521 cooperatives need
17 not be organized in Hawaii.

18 [~~(hh)~~] (ff) Sections 527 (with respect to political
19 organizations) and 528 (with respect to certain homeowners
20 associations) of the Internal Revenue Code shall be operative
21 for the purposes of this chapter and the taxes imposed in each

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1 section are hereby imposed by this chapter at the rates
2 determined under section 235-71.

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

7 [~~(jj)~~] (hh) Section 529A (with respect to qualified ABLE
8 programs) shall be operative for the purposes of this chapter,
9 except that section 529A(c) (3) (with respect to additional tax
10 for distributions not used for disability expenses) shall not be
11 operative.

12 [~~(kk)~~] (ii) Section 530 (with respect to Coverdell
13 education savings accounts) of the Internal Revenue Code shall
14 be operative for the purposes of this chapter. For the purpose
15 of determining the maximum amount that a contributor could make
16 to an education individual retirement account for state income
17 tax purposes, modified adjusted gross income as used in section
18 530 as operative for this chapter means federal modified
19 adjusted gross income as defined in section 530."

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

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

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

9 "**§236E-3 Conformance to the Internal Revenue Code; general**
10 **application.** For all decedents dying, or transfers occurring,
11 after December 31, ~~[2024,]~~ 2025, as used in this chapter,
12 "Internal Revenue Code" means subtitle B of the federal Internal
13 Revenue Code of 1986, as amended as of December 31, ~~[2024,]~~
14 2025, as it applies to the determination of gross estate,
15 adjusted gross estate, federal taxable estate, and generation-
16 skipping transfers, except those provisions of the Internal
17 Revenue Code and federal public laws that, pursuant to this
18 chapter, do not apply or are otherwise limited in application."

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

21 SECTION 7. This Act shall take effect upon its approval;
22 provided that:

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- 1 (1) Sections 2, 3, and 4 shall apply to taxable years
2 beginning after December 31, 2025; and
3 (2) Section 5 shall apply to decedents dying or taxable
4 transfers occurring after December 31, 2025.

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INTRODUCED BY: 
BY REQUEST

S.B. NO. 3149

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.

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

JUSTIFICATION SHEET

DEPARTMENT: Taxation

TITLE: A BILL FOR AN ACT RELATING TO CONFORMITY TO THE INTERNAL REVENUE CODE.

PURPOSE: To amend Hawaii's income and estate and generation-skipping transfer tax laws to conform to changes made to the Internal Revenue Code in calendar year 2025.

MEANS: Amend sections 235-2.3, 235-2.4, 235-2.45(e), and 236E-3, Hawaii Revised Statutes (HRS).

JUSTIFICATION: Sections 235-2.5(c) and 236E-4(c), HRS, mandate that the Department submit to each regular session of the Legislature a bill that amends Hawaii's income and estate and generation-skipping transfer tax laws to conform to changes in the Internal Revenue Code (IRC).

This bill amends section 235-2.3(a) and section 236E-3, HRS, by changing the date as of which Hawaii adopts the IRC to December 31, 2025. These changes adopt income and estate and generation-skipping transfer tax law changes made in the 2025 calendar year.

The bill also amends section 235-2.3(b), HRS, to make sections 139K, 139L, 174A, 225, and 1062 of the IRC inoperative under chapter 235, HRS. Additionally, the bill amends section 235-2.4, HRS, to delete references to repealed IRC provisions; conforming Hawaii law to sections 67, 165(h)(5), 274, and 461 of the IRC; making sections 163(h)(4), 164(b)(7), 168(n), and 179(e) of the IRC inoperative; and making section 174 of the IRC operative in the form in effective as of December 31, 2024. The bill also amends section 235-2.45(e), HRS, to make section 1202 of the IRC operative as it existed on December 31, 2024, subject to specified exceptions.

Impact on the public: Conforming to amended provisions of the Internal Revenue Code will minimize taxpayers' burdens in complying with Hawaii's income and estate and generation-skipping transfer tax laws and simplify their filing of returns.

Impact on the department and other agencies: Conforming Hawaii's income and estate and generation-skipping transfer tax laws to those of the Internal Revenue Code will increase consistency between the state and federal jurisdictions.

GENERAL FUND: Estimated revenue loss of \$2.38 million in fiscal year (FY) 2027 and \$2.48 million in FY 2028, and estimated revenue gain of \$7.16 million in FY 2029, \$19.68 million in FY 2030, \$15.77 million in FY 31, and \$17.96 million in FY 2032.

OTHER FUNDS: None.

PPBS PROGRAM DESIGNATION: None.

OTHER AFFECTED AGENCIES: None.

EFFECTIVE DATE: Upon approval; income tax changes shall apply to taxable years beginning after December 31, 2025, and estate and generation-skipping transfer tax changes shall apply to decedents dying or taxable transfers occurring after December 31, 2025.