

Honolulu, Hawaii

APR 09 , 2026

RE: S.B. No. 3125
S.D. 1
H.D. 1

Honorable Nadine K. Nakamura
Speaker, House of Representatives
Thirty-Third State Legislature
Regular Session of 2026
State of Hawaii

Madame:

Your Committee on Finance, to which was referred S.B. No. 3125, S.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO INCOME TAX,"

begs leave to report as follows:

The purpose of this measure is to:

- (1) Repeal certain future adjustments to income tax brackets;
- (2) Change income tax rates;
- (3) Temporarily amend the Household and Dependent Care Services Tax Credit by:
 - (A) Changing the applicable percentage of the employment-related expenses for which the credit may be claimed to an unspecified percentage, with a minimum of fifteen percent;
 - (B) Providing for a disallowance period when there is a final administrative or judicial decision finding that the claim was due to fraud or disallowing the credit; and



- (C) Defining "adjusted gross income";
- (4) Amend the sunset date for enhancements made by Act 163, Session Laws of Hawaii 2023, to the Household and Dependent Care Services Tax Credit, Earned Income Tax Credit, and Food/Excise Tax Credit; and
- (5) Beginning January 1, 2029, repealing the Renewable Energy Technologies Income Tax Credit, Capital Goods Excise Tax Credit, High Technology Business Investment Tax Credit, Renewable Fuels Production Tax Credit, Technology Infrastructure Renovation Tax Credit, Ship Repair Industry Tax Credit, and Tax Credit for Research Activities.

Your Committee received testimony in support of this measure from Hawai'i Children's Action Network Speaks!; Hawai'i Public Health Institute; Democratic Party of Hawai'i Education Caucus; Imua Alliance; Catholic Charities Hawai'i; Hawaii Appleseed Center for Law and Economic Justice; Indivisible Hawai'i; American Civil Liberties Union of Hawai'i; and numerous individuals. Your Committee received testimony in opposition to this measure from the Chamber of Commerce Hawaii; CTIA; Matson Navigation Company, Inc.; Hawai'i Renewable Fuels Coalition; Par Hawaii; Charter Communications; Pono Pacific; Park Hotels & Resorts Inc.; Hawaii Solar Energy Association; and one individual. Your Committee received comments on this measure from the Office of the Governor; Department of Budget and Finance; Department of Taxation; Creative Industries Division of the Department of Business, Economic Development, and Tourism; Hawaii State Energy Office; Hawai'i Green Infrastructure Authority; Tax Foundation of Hawaii; Hawaii Gas; and Grassroot Institute of Hawaii.

Your Committee finds that the income tax relief measures slated for implementation under Act 46, Session Laws of Hawaii 2024, would provide considerable advantages to a broad spectrum of taxpayers but may also result in substantial and recurring decreases in general fund revenues during a period of escalating fiscal strain and uncertainty. To preserve the State's long-term fiscal integrity, this measure proposes the repeal of certain portions of the scheduled income tax relief. In its place, this measure targets tax relief aimed at low- and moderate-income families through enhancements to the Household and Dependent Care



Services Tax Credit and extended enhancements to the Earned Income Tax Credit and the Food/Excise Tax Credit.

Your Committee has amended this measure by:


- (1) Adding an income tax bracket and increasing the income tax rates for the three highest income tax brackets by one percentage point each for taxable years beginning after December 31, 2026;
- (2) Increasing a taxpayer's applicable percentage of employment-related expenses that is used to calculate the Household and Dependent Care Services Tax Credit and increasing income eligibility thresholds for the credit;
- (3) Specifying a sunset date of December 31, 2032, for enhancements made by Act 163, Session Laws of Hawaii 2023, to the Household and Dependent Care Services Tax Credit, Earned Income Tax Credit, and Food/Excise Tax Credit;
- (4) Removing language that would have repealed the Renewable Energy Technologies Income Tax Credit, Capital Goods Excise Tax Credit, High Technology Business Investment Tax Credit, Renewable Fuels Production Tax Credit, Technology Infrastructure Renovation Tax Credit, Ship Repair Industry Tax Credit, and Tax Credit for Research Activities;
- (5) Amending the Renewable Energy Technologies Income Tax Credit by:
 - (A) For taxable years beginning after December 31, 2026, limiting claims for certain solar energy systems that are not third-party financed systems and installed and placed in service on a single-family residential property to taxpayers below certain income thresholds;
 - (B) Removing certain credit cap amounts for solar energy systems that are not third-party financed systems; and



- (C) Increasing the maximum adjusted gross income an individual taxpayer must be below in order to be eligible for refundable credits and limiting credit refundability to systems that are not third-party financed systems;
- (6) Changing the effective date to July 1, 3000, to encourage further discussion; and
- (7) Making technical, nonsubstantive amendments for the purposes of clarity, consistency, and style.

As affirmed by the record of votes of the members of your Committee on Finance that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 3125, S.D. 1, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 3125, S.D. 1, H.D. 1, and be placed on the calendar for Third Reading.

Respectfully submitted on
behalf of the members of the
Committee on Finance,



CHRIS TODD, Chair



