

STAND. COM. REP. NO. **2965**

Honolulu, Hawaii

MAR 06 2026

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

Honorable Ronald D. Kouchi
President of the Senate
Thirty-Third State Legislature
Regular Session of 2026
State of Hawaii

Sir:

Your Committee on Ways and Means, to which was referred S.B. No. 3125 entitled:

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

begs leave to report as follows:

The purpose and intent of this measure is to amend the income tax law.

More specifically, this measure:

- (1) Repeals future adjustments to the standard deduction and income tax brackets;
- (2) Amends the child and dependent care tax credit by:
 - (A) Increasing the applicable percentage of the employment-related expenses for which the child and dependent care tax credit may be claimed;
 - (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" for purposes of the child and dependent care tax credit as adjusted



gross income as defined by the Internal Revenue Code of 1986, as amended; and

- (3) Extends the repeal date for amendments made by Act 163, Session Laws of Hawaii 2023 to the child and dependent care tax credit, earned income tax credit, and food/excise tax credit from December 31, 2027, to December 31, 2032.

Prior to a public hearing on this measure, your Committee made available for public review a Proposed S.D. 1 of this measure. The Proposed S.D. 1 amends the measure by:

- (1) Deleting the language repealing future adjustments to the standard deduction and income tax brackets;
- (2) Adding provisions to repeal income tax rates for certain tax brackets under section 235-51, Hawaii Revised Statutes;
- (3) Changing to an unspecified amount the applicable percentage of the employment-related expenses for which the child and dependent care tax credit may be claimed;
- (4) Changing the repeal date for amendments made by Act 163, Session Laws of Hawaii 2023, to the child and dependent care tax credit, earned income tax credit, and food/excise tax credit from December 31, 2027, to an unspecified date;
- (5) Adding provisions to repeal on January 1, 2029, 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; and
- (6) Changing the effective date to July 1, 2050, to facilitate further discussion on the measure.



Your Committee received testimony in support of this measure from the Office of the Governor, Hawaii Children's Action Network Speaks!, Hawaii Public Health Institute, and one individual.

Your Committee received testimony in opposition to this measure from Alaska Airlines and Hawaiian Airlines; Alternate Energy Inc.; Chamber of Commerce Hawaii; Energy Advisors, LLC; Grassroot Institute of Hawaii; Hawaii Solar Energy Association; Indivisible Hawaii; Matson Navigation Company, Inc.; Par Hawaii; Photonworks Engineering; Pono Pacific; RevoluSun; and numerous individuals.

Your Committee received comments on this measure from the Department of Taxation; Creative Industries Division of the Department of Business, Economic Development, and Tourism; Hawaii Green Infrastructure Authority; Hawaii State Energy Office; Hawaii Appleseed Center for Law and Economic Justice; Makai Ocean Engineering; and Tax Foundation of Hawaii.

Your Committee finds that the financial picture of the State has changed drastically from 2024. However, the need for real and immediate tax relief for Hawaii's working families has not diminished, but rather has increased due to federal funding changes, uncertainty in federal policies, and the resulting diminished economic growth. Your Committee further finds that there is a shared responsibility to ensure that the State's financial future is secure, stable, and able to deliver core services to Hawaii's residents and make strategic investments to diversify and grow our economy. Without thoughtful and targeted pivots, the State is at risk of running a deficit by fiscal years 2030 and 2031.

Your Committee believes that preserving the standard deduction increases and tax bracket adjustments for joint filers making less than \$350,000, heads of household making less than \$262,500, and individual filers making less than \$175,000 ensures that Hawaii's working families will see money put directly back into their paychecks through lower withholdings every pay period. Your Committee additionally believes that this immediate infusion of financial resources can further stimulate the economy by providing working families with the funding to support our local small businesses, provide resources for educational opportunities, and provide a financial cushion for unexpected emergencies.



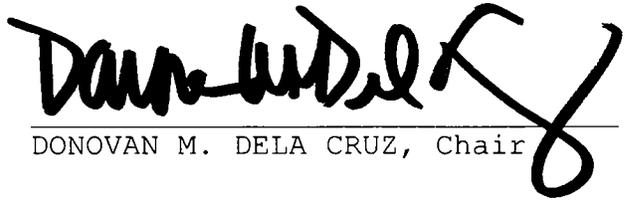
Your Committee further finds that long-standing business tax credits must be reevaluated as part of the State's financial health. Providing tax credits to businesses with no review of efficacy distorts the market and, without reform, risks the tax relief for Hawaii's working families. Your Committee finds that the burden of balancing the State's financial future cannot rest solely on the backs of individual taxpayers, but must be shared across public and private sectors.

Your Committee believes that the approach towards income tax reform within the Proposed S.D. 1 will help stabilize the financial future of both the State and its working families. The Proposed S.D. 1, along with other common-sense actions, such as reducing long-term vacancies within state government, reducing duplicative and overlapping program costs, and making strategic investments to grow Hawaii's economy, provide the roadmap to safely navigating the economic uncertainty the State and its residents face.

Your Committee has amended this measure by adopting the Proposed S.D. 1 and further amending the Proposed S.D. 1 by adding provisions to amend income tax rates for certain tax brackets under section 235-51, Hawaii Revised Statutes, as recommended in testimony from the Department of Taxation.

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

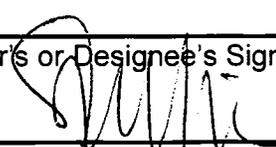
Respectfully submitted on
behalf of the members of the
Committee on Ways and Means,


DONOVAN M. DELA CRUZ, Chair



The Senate
Thirty-Third Legislature
State of Hawai'i

Record of Votes
Committee on Ways and Means
WAM

Bill / Resolution No.:* SB3129	Committee Referral: WAM	Date: 03/05/2026		
<input type="checkbox"/> The Committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
DELA CRUZ, Donovan M. (C)	X			
MORIWAKI, Sharon Y. (VC)	X			
DECOITE, Lynn	X			
ELEFANTE, Brandon J.C.	X			
HASHIMOTO, Troy N.	X			
INOUYE, Lorraine R.	X			
KANUHA, Dru Mamo	X			
KIDANI, Michelle N.	X			
KIM, Donna Mercado	X			
LEE, Chris	X			
RICHARDS, III, Herbert M. "Tim"	X			
WAKAI, Glenn	X			
FEVELLA, Kurt	X			
TOTAL	13	0	0	0
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: 				
Distribution: Original Yellow Pink File with Committee Report Committee Drafting Agency				

*Only one measure per Record of Votes