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**TESTIMONY OF  
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

**TESTIMONY ON THE FOLLOWING MEASURE:**

H.B. No. 1729, Relating to Taxation

**BEFORE THE:**

House Committee on Housing

**DATE:** Wednesday, February 18, 2026

**TIME:** 10:00 a.m.

**LOCATION:** State Capitol, Room 430

Chair Evslin, Vice-Chair Miyake, and Members of the Committee:

The Department of Taxation (DOTAX) offers the following comments regarding H.B. 1729 for your consideration.

H.B. 1729 amends section 235-2.4(j), Hawaii Revised Statutes (HRS), to eliminate the home mortgage interest deduction for second homes by decoupling Hawaii'i from Internal Revenue Code sections 163(h)(5)(A)(i)(II) and 163(h)(5)(A)(ii)(II). These provisions include a second residence in addition to the taxpayer's principal residence in the definition of "qualified residence" for purposes of the home mortgage interest deduction.

The bill is effective upon approval and applies to taxable years beginning after December 31, 2025.

DOTAX can implement these changes with the currently proposed effective date.

Thank you for the opportunity to provide comments on this measure.

# TAX FOUNDATION OF HAWAII

735 Bishop Street, Suite 417

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Disallows Home Mortgage Interest Deduction for Second Homes

BILL NUMBER: HB 1729

INTRODUCED BY: EVSLIN, AMATO, BELATTI, GRANDINETTI, ILAGAN, KILA, LOWEN, MARTEN, MATAYOSHI, MORIKAWA, PERRUSO, REYES ODA, SAYAMA, TARNAS, TODD

EXECUTIVE SUMMARY: Disallows the home mortgage interest deduction for second homes under state income tax law.

SYNOPSIS: Amends section 235-2.4(j), HRS, to exclude the following as a “qualified residence” for purposes of mortgage interest deduction.

IRC section 163(h)(4)(A)(i)(II) definition of qualified residence for home mortgage interest deduction, and

IRC section 163(h)(4)(A)(ii)(II) (treatment of home mortgage interest deduction for married individuals filing separately)

EFFECTIVE DATE: Taxable years beginning after December 31, 2025.

STAFF COMMENTS: Section 235-3(a), HRS, explains that it is the intent of the Income Tax Law, “in addition to the essential purpose of raising revenue, to conform the income tax law of the State as closely as may be with the Internal Revenue Code in order to simplify the filing of returns and minimize the taxpayer’s burdens in complying with the income tax law. The rules and regulations, forms and procedures adopted and established under this chapter shall conform as nearly as possible, and unless there is good reason to the contrary, to the rules and regulations, forms and procedures adopted and established under the Internal Revenue Code.”

This bill proposes to decouple from the Internal Revenue Code in disallowing a deduction allowable for federal purposes. The issue before this body is whether the incremental revenue raised by doing so justifies the added compliance costs and complexity.

As an example of this complexity, consider that Hawaii requires certain deduction limits including the so-called Pease limitation that was formerly in IRC section 68. Former IRC section 68 reduces itemized deductions by 3% of the excess of the taxpayer’s AGI over the threshold, up to 80% of the amount of itemized deductions otherwise allowable. For Hawaii income tax purposes, HRS section 235-2.4(c) provides that the threshold is \$166,800 for all taxpayers except married taxpayers filing separately, for which it is \$83,400. For higher income taxpayers, against whom this provision is probably directed, the Pease limitation will be considerable. Such taxpayers will probably be claiming other itemized deductions as well, so there will be issues arising as to which deductions were limited by the Pease limitation and to

Re: HB 1729

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what extent. Further, it is highly uncertain whether there would be significant revenue gain from this provision because the mortgage interest deduction may be reduced or denied because of the Pease limitation.

Digested: 2/11/2026

February 18, 2026

**The Honorable Luke A. Evslin, Chair**

House Committee on Housing

State Capitol, Conference Room 430 & Videoconference

**RE: House Bill 1729, Relating to Taxation**

**HEARING: Wednesday, February 18, 2026, at 10:00 a.m.**

Aloha Chair Evslin, Vice Chair Miyake, and Members of the Committee:

My name is Lyndsey Garcia, Director of Advocacy, testifying on behalf of the Hawai'i Association of REALTORS® ("HAR"), the voice of real estate in Hawaii and its over 10,000 members. HAR **opposes** House Bill 1729, which eliminates the home mortgage interest deduction for second homes under Hawaii income tax law. Requires reports to the Legislature.

The Mortgage Interest Deduction (MID) on state and federal income taxes was introduced along with the income tax itself in 1913. The MID allows homeowners who itemize deductions on their taxes to deduct mortgage interest attributable to primary residence and second-home debt, and interest paid on home equity debt. For home mortgage interest, one can deduct interest paid up to \$750,000 of home mortgage debt (or \$1 million of debt for mortgages taken out before December 16, 2017.)

The Mortgage Interest Deduction (MID) encourages the dream of homeownership and provides financial security through owning a home. The deduction helps homebuyers make their mortgage payments more affordable and is vital to the health and stability of housing markets.

In today's real estate environment, more Hawaii homeowners are purchasing second homes for elderly parents or adult children who would otherwise be unable to afford a home. As such, HAR believes that the MID for second homes is an important tool for individuals to use in retirement planning or to support their families amid Hawaii's high cost of living and housing. Because individuals who can afford to purchase homes without a mortgage would not be affected by these changes, the impacts of this measure would be felt primarily by homeowners who rely on mortgage financing.

Additionally, it is uncertain whether there would be a significant revenue gain from this measure and it may not be worth the complexity and uncertainty to decouple the mortgage interest deduction for second homes in Hawaii from the Internal Revenue Code.

Mahalo for the opportunity to provide testimony on this measure.

February 18, 2026

TO: Chair Evslin and Members of the House Housing Committee  
RE: HB 1729, Relating to Taxation

Dear Chair Evslin and Committee Members,

Housing Hawai'i's Future is a nonprofit dedicated to creating opportunities for Hawai'i's next generation by ending the workforce housing shortage.

**We support House Bill 1729.** This bill would disallow the home mortgage interest deduction for second homes.

The state home mortgage interest deduction functions as a tax expenditure. When applied to second homes, it subsidizes the cost of properties that are not a primary residence. In a supply-constrained market such as ours, this can exacerbate competition between local residents seeking a primary home and higher-income households purchasing secondary residences.

Disallowing the deduction for second homes would better align state tax policy with Hawai'i's housing priorities while generating additional funds that could be reinvested into programs that expand housing supply or improve affordability for residents.

**Let's advance HB1729.**

Thank you,



Lee Wang  
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Housing Hawai'i's Future  
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Perry Arrasmith  
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**HB-1729**

Submitted on: 2/12/2026 10:09:23 PM

Testimony for HSG on 2/18/2026 10:00:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Testify</b>
Johnnie-Mae L. Perry	Individual	Support	Written Testimony Only

Comments:

I, Johnnie-Mae L. Perry, Support

1729 HB RELATING TO TAXATION.