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DEPUTY DIRECTOR

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

TESTIMONY ON THE FOLLOWING MEASURE:

H.B. No. 2148, Relating to the Estate and Generating-Skipping Transfer Tax

BEFORE THE:

House Committee on Finance

DATE: Tuesday, March 3, 2026

TIME: 10:00 a.m.

LOCATION: State Capitol, Room 308

Chair Todd, Vice-Chair Takenouchi, and Members of the Committee:

The Department of Taxation (DOTAX) offers the following comments regarding H.B. 2148 for your consideration.

Section 1 of H.B. 2148 adds a new section to chapter 236E, Hawaii Revised Statutes (HRS), relating to the estate and generation-skipping transfer tax, imposing a 3 percent surcharge on property transfers where the fair market value exceeds the transferee's basis by \$2 million dollars or more. This surcharge would not apply to bona fide farms and small businesses that remain in operation under a transferee who is a relative, provided the property is not sold for two years after the transfer. An estate must report to DOTAX the fair market value of any transferred property within 30 days of the transfer date.

For purposes of this section, the bill defines the term "relative" to be the same as defined under section 651C-1, HRS, i.e., an individual related to the decedent or the decedent's spouse within the third degree as determined by common law, including adoptive relationships.

Section 2 of the bill amends section 236E-6(a)(1), HRS, which allows an exclusion to the estate and generation-skipping tax equal to the federal applicable

exclusion amount, by limiting the federal exclusion amount to estates that include an owner-occupied residence or bona fide farm. Alternatively, the bill allows an exclusion of \$3 million, indexed annually for inflation, for estates that do not include an owner-occupied residence or bona fide farm. Section 236E-6(a)(2), HRS, which allows an exclusion equal to the unified credit, reduced by the cumulative taxable gifts a decedent has made during their lifetime, and section 236E-(a)(3), HRS, which allows an exclusion equal to the unified credit amount that appears on the decedent's federal estate tax return, remain unamended.

The measure has an effective date of July 1, 2026, and applies to decedents dying or taxable transfers occurring after December 31, 2025.

First, DOTAX recommends amending section 1 of the bill to specify the tax base upon which the surcharge shall be applied. As currently drafted, the bill states that the surcharge is equal to 3 percent, but does not specify whether the 3 percent shall be applied to the fair market value of the property, or the fair market value of the property less \$2 million, or some other amount.

Second, to avoid ambiguity, DOTAX recommends amending section 2 of the bill by adding definitions for "bona fide farm" and "small business."

Third, if the intent of the bill is to limit the exclusion to \$3 million for all estates that do not include an owner-occupied residence or bona fide farm, DOTAX recommends amending section 236E-6(a), HRS, in section 2 of the bill as follows:

- (a) An exclusion from a Hawaii taxable estate shall be allowed to the estate of every decedent against the tax imposed by section 236E-8. For the purpose of this section, the applicable exclusion amount is equal to:
- (1) The federal applicable exclusion amount;
 - (2) The exemption equivalent of the unified credit reduced by the amount of taxable gifts made by the decedent that reduces the amount of the federal applicable exclusion amount; or
 - (3) The exemption equivalent of the unified credit on the decedent's federal estate tax return,

as set forth for the decedent in chapter 11 of the Internal Revenue Code as amended as of December 21, 2017, as if the decedent died on December 31, 2017, and as further adjusted pursuant to subsection (b) [-]; provided that the applicable exclusion amount for an estate that does not include an owner-occupied

residence or bona fide farm shall be \$3,000,000, which shall be adjusted annually to match changes in the Consumer Price Index in the Honolulu area as reported by the United States Bureau of Labor Statistics, and as further adjusted pursuant to subsection (b).

Fourth, DOTAX requests that the effective date of the bill be amended to apply to decedents dying or taxable transfers occurring after December 31, 2026 to provide sufficient time to make necessary form, instruction, and system changes.

Finally, DOTAX notes that the revenue estimate for this bill is indeterminate.

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



Rep. Chris Todd, Chair
Rep. Jenna Takenouchi, Vice Chair
Committee on Finance

Tuesday, March 3, 2026
10:00AM Conference Room 308

RE: HB2148 Estate and Generation-Skipping Transfer Tax - Support

Dear Chair Todd, Vice Chair Takenouchi, and Members of the Committee,

On behalf of the Chamber of Sustainable Commerce, we strongly support HB2148 to establish a surcharge on unrealized gains and adjust the estate and generation-skipping transfer tax exclusion. The Chamber of Sustainable Commerce represents more than 580 small businesses, entrepreneurs, creatives, and sole proprietors across Hawai'i committed to a triple bottom line: people, planet and prosperity.

When someone dies, assets like real estate, stocks, or businesses may have grown significantly in value over time. Those increases in value are called unrealized capital gains – meaning the gain hasn't been taxed yet because the asset wasn't sold. This bill adds a 3% surcharge when the difference between the asset's fair market value and its original purchase basis is \$2 million or more, and the asset is being transferred through an estate. It applies only to very large accumulated gains, not ordinary inheritances.

In addition, estates above \$3 million (if they don't include a primary home or farm) would become subject to estate tax sooner than under current law. Family homes and working farms are specifically protected.

In short, this bill targets very large, untaxed gains and very high-value estates, while carving out protections for family homes and working farms. Thus, HB2148 is a common-sense reform that helps make Hawai'i's tax system fairer and more sustainable. Hawai'i's current tax structure allows significant breaks for wealth accumulated through investments and

Hawaii Legislative Council Members

Joell Edwards
Wainiha Country Market
Hanalei

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Island Naturals
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Hawaii Taro Farm
Wailuku

Maile Meyer
Honolulu

Tina Wildberger
Kihei Ice
Kihei

L. Malu Shizue Miki
Abundant Life Natural Foods
Hilo

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Sustainable Commerce
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property transfers – benefits that overwhelmingly flow to the wealthiest households. Closing preferential treatment for capital wealth and unrealized gains helps ensure that those with the most ability to pay contribute appropriately to the shared services that support our economy and communities.

HB2148 responsibly reforms how certain high-value transfers are taxed without increasing rates on wages or ordinary income. It preserves essential public funding and places Hawai'i on a more equitable path where tax burden more closely reflects ability to pay.

We respectfully urge your support. Thank you.

TAX FOUNDATION OF HAWAII

735 Bishop Street, Suite 417

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: ESTATE, Enact Unrealized Gain Surcharge, Lower Applicable Exclusion Amount for Certain Transfers

BILL NUMBER: HB 2148, SB 2469

INTRODUCED BY: HB by PERRUSO, AMATO, BELATTI, GRANDINETTI, IWAMOTO, KAPELA, MARTEN, TEMPLO; SB by RHOADS, San Buenaventura

EXECUTIVE SUMMARY: Establishes an unrealized gains surcharge on certain property transfers subject to the estate and generation-skipping transfer tax. Except for certain types of properties within estates, lowers the applicable exclusion amount allowed.

SYNOPSIS: Adds a new section to chapter 236E, HRS, to impose a new unrealized gains surcharge equal to three per cent shall be imposed on any property transferred to a transferee in which the assessed fair market value of the transferred property exceeds the transferee's basis in an amount of \$2,000,000 or more.

Requires an estate to report to the department the fair market value of any transferred property within thirty days of the transfer date.

Exempts bona fide farms and small businesses that stay in operation with a transferee who is a relative of the transferor; provided that any transferee that sells the property within two years shall be subject to this surcharge.

Defines "relative" the same as in section 651C-1, HRS.

Amends section 236E-6, HRS, to provide that the applicable exclusion amount is the federal applicable exclusion amount (as it existed on December 21, 2017) only for estates that include an owner-occupied residence or a bona fide farm. Other estates receive an applicable exclusion amount of \$3 million, which shall be adjusted annually per the Consumer Price Index in the Honolulu area.

EFFECTIVE DATE: July 1, 2026, and shall apply to decedents dying or taxable transfers occurring after December 31, 2025.

STAFF COMMENTS: **Unrealized Gains Surcharge:** One fundamental question we have is what the 3% is applied to. Is it the amount of unrealized gains? Is it the entire value of the property?

The bill requires the estate to report the value of the transferred property. That is easy enough. But what about the unrealized gain? The beneficiaries of the estate, especially if they are of a different generation from the decedent, may know little or nothing about what the value of the property was when the decedent bought it. The decedent might have known, but is no longer alive to tell the tale.

In addition, the exemption language in the bill seems to have many holes like a Swiss cheese. The estate is exempt from the tax when a farm or small business (these need to be defined) stays in operation (for how long?) with a transferee who is a relative of the transferor. Does this mean the inheriting relative needs to run the farm or business, or may the relative be the janitor? The exemption is revoked when the transferee “sells” the property within two years. Does that include, for example, a transfer to a foreclosing lender with a mortgage on the property that hasn’t been paid? Or what about a transfer to a government agency exercising eminent domain power, where the transferee has no choice but to transfer the property?

Applicable Exclusion Amount: The federal estate and gift tax system presently has a very high threshold before kicking in. In 2017, the threshold was \$5.49 million, which meant that if unexcluded lifetime gifts plus the value of the taxable estate at a decedent’s death did not total \$5.49 million or more, there would be no federal estate tax. Excluded transfers, such as a transfer between husband and wife of any amount or gifts under a small threshold amount (\$10,000 indexed for inflation), did not count against the \$5.49 million at all. Between 2017 and the present, the Tax Cuts and Jobs Act increased the exclusion amount substantially, to \$11.58 million for tax year 2020.

Hawaii law generally conforms to the mechanics of the federal estate tax system, except that Hawaii has no gift tax. In addition, perhaps because of revenue concerns, Hawaii law froze the exclusion amount at the 2017 level of \$5.49 million. Thus, if a decedent dies with an estate worth \$10 million, the estate would not pay federal estate tax because it is under the \$11.58 million threshold, but the estate would pay Hawaii estate tax because it is over the \$5.49 million Hawaii threshold.

This bill proposes to lower the \$5.49 million to \$3 million for certain estates. That would have the effect of increasing the number of decedents’ estates exposed to Hawaii estate tax, and could well have the effect of motivating folks who are of advanced age and advanced means to hop on a plane. The State’s population already has been declining. Accelerating the shrinkage of the tax base is not a good thing for those who need to ensure that the governments’ budgetary ends meet.

Digested: 3/1/2026

HB-2148

Submitted on: 2/28/2026 11:00:23 AM

Testimony for FIN on 3/3/2026 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Abbra Green	The Libertarian Party of Hawaii	Oppose	Written Testimony Only

Comments:

This bill imposes a tax on unrealized capital gains, wealth that has not been sold or received as cash. That represents a direct assault on private property rights. No one should be forced to pay taxes on theoretical paper gains that may never materialize.

It also slashes the estate tax exclusion amount, accelerating government seizure of family wealth that was already taxed once or multiple times during life. This destroys intergenerational wealth-building and punishes saving and investment.

Libertarians reject wealth taxation in principle: you own what you earn, and the government has no legitimate claim to unrealized or already-taxed assets. Oppose SB2469 & HB2148.

HB-2148

Submitted on: 3/1/2026 8:13:05 AM

Testimony for FIN on 3/3/2026 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Brad Nicolai	JN Group	Oppose	Written Testimony Only

Comments:

Hawai'i State Legislature

House Committee on Finance

As a locally owned and operated business serving kama'aina since 1961 for all their transportation needs as an automotive, motorcycle, utility vehicle dealer, we **strongly oppose HB2148**.

This bill would put us in a position to having to sell our business to a mainland or publically traded automotive group to fund this tax by my children.

We continue to support other local businesses in other industries, but they too are fleeing due to the high cost of operating here in Hawaii. This measure just pushes everyone over the edge.

This will unfortunately change the landscape of what is truly the fabric of what makes Hawai'i special, as more of the next generation will migrate to the mainland, leaving us served by mainland or public companies who do not reinvest in communities with their capital, people, and malama for Hawai'i.

Mahalo,

Brad Nicolai, President

JN Group, Inc



March 3, 2026

Hawai'i State Legislature
House Committee on Finance

Re: HB 2148, Relating to the Estate and Generation-Skipping Transfer Tax

Aloha Chair Todd, Vice Chair Takenouchi and members of the committee,

On behalf of the Hawai'i Automobile Dealers Association (HADA), we respectfully submit testimony in opposition to HB2148, which establishes an unrealized gains surcharge on certain property transfers subject to the estate and generation-skipping transfer tax and lowers the applicable exclusion amount.

While we understand the State's interest in revenue generation, this measure would have significant unintended consequences for family-owned businesses and closely held enterprises, including automobile dealerships, that form the backbone of Hawai'i's economy. Many of these businesses are asset-rich but cash-poor. Imposing an unrealized gains surcharge, particularly on illiquid assets such as commercial property or ownership interests in closely held corporations, creates a tax obligation without a corresponding liquidity event. Heirs may be forced to sell business assets, real property, or even the business itself to satisfy the tax liability. This undermines intergenerational business continuity and threatens local ownership.

Additionally, lowering the applicable exclusion amount would disproportionately impact small and mid-sized businesses in Hawai'i, where real estate values alone can push estates above proposed thresholds. Unlike large mainland corporations with diversified holdings and access to sophisticated estate planning tools, many local business owners rely on their business and property as their primary retirement and legacy assets. This measure risks accelerating the outmigration of capital and discouraging long-term investment in Hawai'i.

Hawai'i already faces high costs of doing business, workforce challenges, and competitive pressures. Adding further estate-related tax burdens sends a troubling signal to entrepreneurs and small business owners considering whether to start, expand, or maintain operations here. Policies that create uncertainty around succession planning make it harder for the next generation to continue operating locally owned businesses.

Please defer this measure.

The Hawai'i Automobile Dealers Association is the voice of 71 new car dealerships across the islands, accounting for over 4,000 direct jobs, \$6 billion total sales and more than \$250 million in general excise taxes paid.

To: House Committee on Finance
Re: **HB2148 – Relating to the Estate and Generation-Skipping Transfer Tax**
Hawai'i State Capitol & Via Videoconference
March 3, 2026, 10:00 AM

Dear Chair Todd, Vice Chair Takenouchi, and Committee Members,

On behalf of Hawai'i Children's Action Network Speaks!, I am writing in **SUPPORT of HB2148**. This bill establishes an unrealized gains surcharge on certain property transfers subject to the estate and generation-skipping transfer tax. It also lowers the applicable exclusion amount allowed, except for certain types of properties within estates.

Hawai'i has an outsized concentration of extreme wealth, relative to the size of our population. While we have 0.4 percent of the nationwide population, we have 0.7 percent of the households with wealth over \$30 million, ranking Hawai'i seventh in the nation for extreme wealth.¹

The estate tax is intended to slow down the concentration of wealth at the top, by taxing multimillion dollar estates when they are passed on to heirs. However **decades of rapidly appreciating real estate have allowed some large estates accumulate millions of dollars in untaxed gains**.

This bill creates a **targeted surcharge on large estates with over \$2 million in unrealized gains**. Unrealized gains are increases in the value of property or assets that the owner hasn't sold yet — the value has grown on paper but hasn't been cashed out.

This bill does not impact the vast majority of local families. Instead, it asks those transferring huge amounts of accumulated wealth to their heirs to contribute slightly more to the public systems that make their wealth possible.

When the federal estate tax exemption was where Hawai'i's is now, only the richest 2 in 1,000 estates were taxed.² So few wealthy people have to pay the estate tax now because the amount that is exempt is more than 8 times larger than it was in 2001.³

In addition, the estate tax is applied only to the amounts **above** the exemption level. For example, a couple passing \$10 million to their heirs pays zero estate tax. If their estate is worth \$12 million, they pay only \$100,000 in estate tax, for an effective tax rate of less than one percent (0.83 percent). In other words, the wealthiest among us can easily afford to pay more.

Mahalo for the opportunity to provide this testimony. Please pass this bill.

Sincerely,

Nicole Woo
Director of Research and Economic Policy

¹ <https://itep.org/the-geographic-distribution-of-extreme-wealth-in-the-u-s/>

² <https://www.irs.gov/statistics/soi-tax-stats-historical-table-17>

³ https://en.wikipedia.org/wiki/Estate_tax_in_the_United_States

March 3, 2026, 10 a.m.
Hawaii State Capitol
Conference Room 308 and Videoconference

To: House Committee on Finance
Rep. Chris Todd, Chair
Rep. Jenna Takenouchi, Vice Chair

From: Grassroot Institute of Hawaii
Ted Kefalas, Director of Strategic Campaigns

RE: TESTIMONY OPPOSING HB2148 — RELATING TO THE ESTATE AND GENERATION-SKIPPING TRANSFER TAX

Aloha chair, vice chair and other committee members,

The Grassroot Institute of Hawaii **opposes** [HB2148](#), which would decrease the estate tax exclusion from \$5.49 million to \$3 million for estates that do not include an owner-occupied property or a bona fide farm.

The bill would also impose a 3% surcharge on property in which the transferee's basis exceeds \$2 million, although transfers of small businesses and bona fide farms to family members who intend to continue operating the business or farm would be exempt from this surcharge.

It is important to note that only 12 states have estate taxes. And among those that do, Hawaii is already tied with Washington state for having the highest estate tax rates — with both states topping out at 20% for certain estate values.¹

Research has shown that the estate tax can lower business investment and harm job creation.² So in essence, both of these tax code changes would make Hawaii a less attractive state in which to do business.

¹ Andrey Yushkov, "[Does Your State Have an Estate or Inheritance Tax?](#)" Tax Foundation, Oct. 10, 2023.

² Pavel A. Yakovlev and Antony Davies, "[How does the estate tax affect the number of firms?](#)" Journal of Entrepreneurship and Public Policy, April 14, 2014; and Donald Bruce and John Deskins, "[Can state tax policies be used to promote entrepreneurial activity?](#)" Small Business Economics, Feb. 19, 2010.

The estate tax is especially unfair to family businesses, farms and ranches, since C corporations are legal entities that cannot die and thus do not have to pay the estate tax.

Making matters worse, Hawaii’s estate tax threshold is also relatively low — \$5.49 million per individual versus \$15 million at the federal level.³ And once the threshold is exceeded, Hawaii’s rates kick in at anywhere from 10% to 20%, depending on the value of the estate, as the table below shows.⁴

Estate value	Marginal rate
\$5,490,000 – \$6,490,000	10%
\$6,490,000 – \$7,490,000	11%
\$7,490,000 – \$8,490,000	12%
\$8,490,000 – \$9,490,000	13%
\$9,490,000 – \$10,490,000	14%
\$10,490,000 – \$15,490,000	15.70%
Over \$15,490,000	20%

Because land values are so high in Hawaii, many businesses fortunate enough to own their own building are easily close to the \$5.49 million threshold by simply existing — regardless of whether they are turning a profit or have large cash reserves.

Decreasing the threshold to \$3 million would make the tax apply to many more small businesses, which would hurt their chances of continuing to exist. For context, a 10% tax bill on a \$4 million set of properties would result in a tax bill of \$100,000, after the \$3 million exemption has been taken into account. How many small businesses have \$100,000 cash on hand to cover this tax bill?

Hawaii should instead look to increase the current \$5.49 million threshold, which has not been changed since 2017. At least updating it to inflation would give Hawaii’s business owners and residents a bit more of a break.

Thank you for the opportunity to testify.

Ted Kefalas
Director of Strategic Campaigns
Grassroot Institute of Hawaii

³ [“IRS releases tax inflation adjustments for tax year 2026, including amendments from the One, Big, Beautiful Bill,”](#) Internal Revenue Service, Oct. 9, 2025.

⁴ [“Hawaii Estate Tax Explained,”](#) Valur Library, updated Nov. 3, 2025.

HB-2148

Submitted on: 2/27/2026 3:58:34 PM

Testimony for FIN on 3/3/2026 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Dorinda Ohelo	Individual	Oppose	Written Testimony Only

Comments:

I profoundly OPPOSE this bill.

HB-2148

Submitted on: 2/27/2026 10:10:38 PM

Testimony for FIN on 3/3/2026 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Cheryl Rzonca	Individual	Oppose	Written Testimony Only

Comments:

I oppose HB2148. Finding more ways to tax us should not be the agenda of people we elect. This tax would encourage more people to leave the state. An inheritance is meant to help those, family, left after their loved one passes but the state is there with their hands out to take what was meant to be a blessing. Shame on those voting for this bill.

HB-2148

Submitted on: 2/28/2026 12:18:56 PM

Testimony for FIN on 3/3/2026 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Michael A. Cobb Jr	Individual	Oppose	Written Testimony Only

Comments:

I oppose this bill do not tax unrealized gains at all. These are just paper gains not real at this point. This is the start of taking any estate property that is inherited.