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# Nonprofit Financial Seminar
# State Tax Update

August 6, 2026

Presented by Chris Cassidy, Tax Director

KMHLLP

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# Tax-exempt does not mean tax-free

### GET
Exempt and taxable revenue streams

### Payroll
Employee deductions and withholding

### UBI
Taxable subsidiaries and state adjustments

### Giving
Fundraising and planned gifts

### Projects
Housing, energy, and tax incentives

### Estate
Hawai‘i’s threshold and charitable bequests

# Four questions to answer today

**01** What changed before 2026 but matters now?

**02** Which 2026 acts matter most to nonprofits?

**03** Where does Hawai‘i follow, or reject, OBBBA?

**04** What should your organization do next?

# Changes Already Affecting 2026

# “Old News” (Effective 1/1/2026)

## General Excise Tax Exemption for Healthcare

- General Excise Tax (GET) Exemption for Healthcare – Act 47 (2024)
- Provides a GET exemption for amounts received by medical providers for health care goods or services provided to patients under **<u>Medicare, Medicaid, or TRICARE</u>**.
  - Effective January 1, 2026
  - Tax Information Release (TIR) 2025-02 – August 1, 2025
    - Purpose: to provide guidance on the GET exemption
      - Eligible taxpayers
      - Scope of exemption
      - Clarifies that patient deductibles, co-payments, and coinsurance qualify as exempt


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# Healthcare providers may be overpaying GET

## Act 47 (2024) is effective now

1 **Identify**
Medicare, Medicaid, TRICARE receipts

2 **Separate**
Taxable and exempt revenue in billing systems

3 **Report**
Gross receipts on Forms G-45 and G-49

4 **Claim**
Schedule GE exemption and retain support


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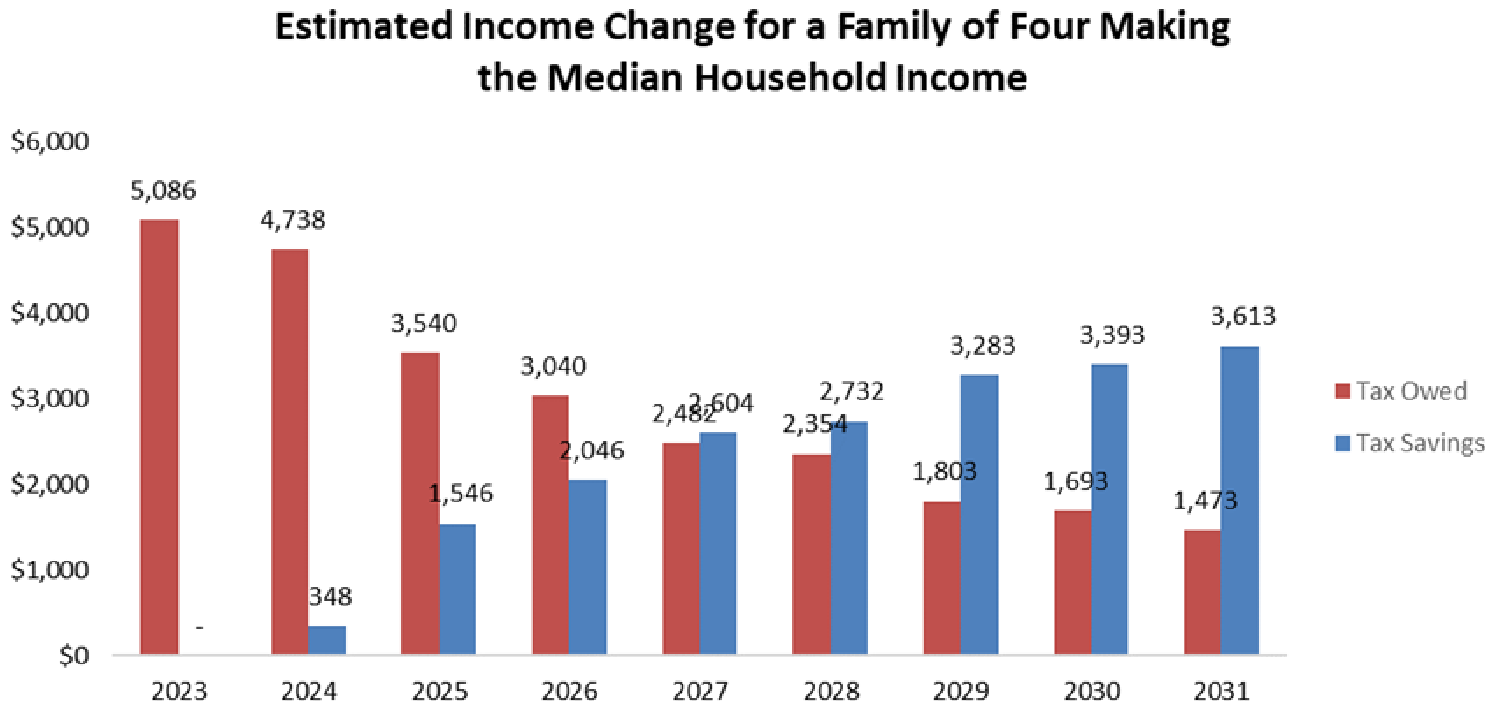
# "Old News" – Update from Act 24 in 2026

## Individual Income Tax Relief – Standard Deductions & Brackets

- Act 46 (2024) & Act 24 (2026) – Hawaii income tax relief package with 2026 revisions.
- Adjusts the brackets for rate changes scheduled for 2027 and later.
- Standard deduction increases continue through 2031.
- Tax relief generally preserved for taxpayers below $350,000 (MFJ).
- New 13% top individual tax rate for income over $1 million (MFJ).
- Future bracket changes modified for higher-income taxpayers.




*Department of Taxation – "Estimating the Impacts of Hawai'i's 2024 Tax Cut Bill" (Tax Research Insights)

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# The 2026 Legislative Session

# Highlights of 2026 Hawaii Tax Legislation

| Bill | Passed | Description |
|---|---|---|
| SB 3125 / Act 24 | May 21, 2026 | **Omnibus Income Tax:** Adjusts Hawaii brackets for rate changes in the coming years and adds a new tax rate for $1M+ taxpayers. Limits renewable energy technologies credit and imposes a cap while phasing out various credits in the upcoming years like CGETC, TIRTC, QHTB, and R&D. |
| HB 2329 / Act 35 | May 26, 2026 | **Conformity with the Internal Revenue** Code: Updates Hawaii's conformity to the Internal Revenue Code through December 31, 2025. The legislation adopts certain recent federal tax changes, including provisions related to tips and charitable deductions, while continuing to decouple from selected federal provisions. |
| SB 2881 / Act 118 | June 8, 2026 | **Hawaii Withholding on Distributions:** Allows taxpayers receiving Form 1099-R distributions (e.g., pensions, IRAs, and annuities) to elect Hawaii income tax withholding beginning with tax years after December 31, 2026. |
| Act 185 | July 6, 2026 | **Movie/TV Production credit:** Expands and extends Hawaii's film tax credit by increasing credit benefits, raising production caps, allowing streaming productions to qualify, and extending the credit through 2038. |

# Highlights of 2026 Hawaii Tax Legislation

| Bill | Passed | Description |
|---|---|---|
| Act 182 | July 6, 2026 | **Expansion of Enterprise Zone Benefits:** Broadens eligible business activities within Hawaii's Enterprise Zone Program, allowing more businesses to qualify for state tax incentives and benefits. |
| HB1920 / Act 205 | July 8, 2026 | **Low Income Housing Tax Credit:** Allows Hawaii low-income housing tax credits to be sold, assigned, or transferred, improving project financing and increasing access to affordable housing development capital. |
| SB 2552 / Act 217 | July 8, 2026 | **Individual Housing Accounts:** Helps first-time homebuyers accumulate funds for home purchases by allowing a tax benefit. Increases maximum annual deductions to 20k or 40k and increases the cap on lifetime contributions from 25k to 200k. |
| HB 2385 / Act 215 | July 8, 2026 | **GET on Affordable Housing Development in Hawaii:** Transfers responsibility for approving certain affordable housing GET exemptions to HHFDC, streamlining administration and supporting housing development. |

# Federal change ≠ Hawai‘i change

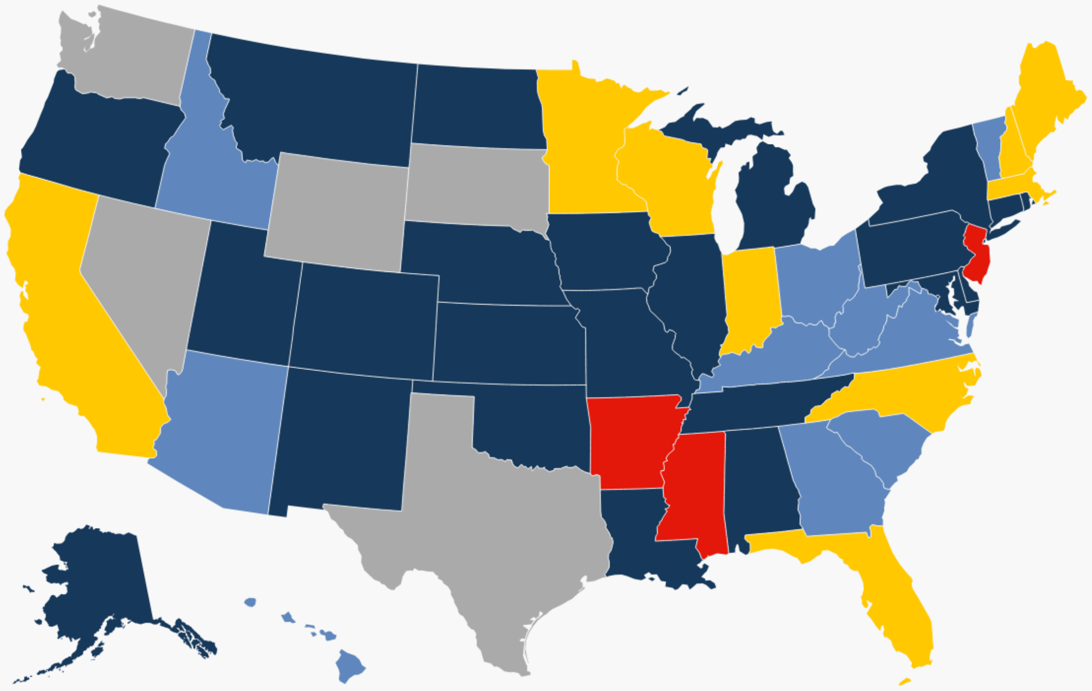
## Act 35: static, selective conformity

1. FEDERAL LAW CHANGED
2. DOES HAWAI‘I FOLLOW?
3. YES / NO / MODIFIED

IRC reference date: December 31, 2025

# State Conformity to the Internal Revenue Code

*Individual and Corporate Income Tax Conformity Status*



Rolling Static - Current Static - Lagged Selective No Income Tax

Note: Static conformity is considered "current" if presently aligned to 12/31/2024 or 1/1/2025. For states with CITs but not PITs, CIT conformity is indicated. Massachusetts has rolling conformity for its corporate income tax but lagged static conformity for its individual income tax. Mississippi and New Jersey have selective conformity but incorporate many corporate tax provisions on a rolling basis.
Source: State statutes; Tax Foundation research.

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# Act 35 gives payroll a mixed answer

| | | |
|---|---|---|
| **Qualified tips** | YES | State deduction may apply; wage and tip reporting continues |
| **Qualified overtime** | NO | Federal deduction does not reduce Hawai‘i taxable income |
| **Charitable contributions** | YES | Non-itemizer deduction plus individual and corporate floors |

# Charitable giving moves to the front line

### Non-itemizers

**$1,000 / $2,000**

Qualifying cash gifts

Broaden everyday-donor messaging

### Individual itemizers

**0.5% floor**

Contribution base

Avoid promising a benefit on every gift

### Corporations

**1% floor**

Taxable income

Discuss timing and gift aggregation

**60% of AGI limit for qualifying cash gifts remains**

# One Big Beautiful Bill Act (OBBBA) - Hawaii Conformity - Business

| Provision | OBBBA | Hawaii Conformity |
|---|---|---|
| Bonus Depreciation | • 100% for property acquired beginning 1/20/25<br>• Made permanent | • Not adopted<br>• No conformity to bonus depreciation |
| Section 179 Depreciation | • Maximum expense increased to $2.5 million<br>• Phaseout threshold begins at $3,050,000 for property placed in service after 2024 | • Not adopted<br>• $25,000 maximum expense and phaseout threshold begins at $200,000 |
| Research and Development (Section 174) | • US R&D: Immediate expensing made permanent; ability to deduct 2022-2024<br>• Foreign R&D: Remains at 15 years | • Not adopted  |

# One Big Beautiful Bill Act (OBBBA) - Hawaii Conformity - Business

| Provision | OBBBA | Hawaii Conformity |
|---|---|---|
| Deduction for Qualified Business Income | • Makes deduction permanent at 20% rate<br>• Increased phase-in thresholds | • Not adopted |
| Employee retention tax credit (ERTC) | • Limits Q3 and Q4 2021 ERTC refunds to claims filed by 1/31/24<br>• Enhances and expands penalties<br>• Extends SOL on assessment to 6 years for Q3/Q4 2021 claims | • Incorporated via IRC conformity as of 2024<br>• Expanded penalties and SOL assessment are new; however, Hawaii recognizes federal claim deadline rules |
| Qualified Opportunity Zones | • Renews and designates new zones beginning 1/1/27<br>• Modifies eligibility, definitions and requirements | • Adopted – basis step up and capital gain deferral<br>• Only for Hawaii OZs |

# One Big Beautiful Bill Act (OBBBA) - Hawaii Conformity - Business

| Provision | OBBBA | Hawaii Conformity |
|---|---|---|
| Wind and solar investment and production credits | • Terminates credits for wind and solar facilities placed in service after 12/31/27 (with exceptions)<br>• New rules to begin construction by 7/4/26 | • Not applicable – Hawaii's solar tax credit is governed by state law<br>• However, major changes were enacted under Act 24 |
| Form 1099 reporting threshold | • Increases to $2,000 (up from $600) in 2026<br>• Indexed annually for inflation | • Not part of TCJA but Hawaii conforms to the IRC as of 2025<br>• Separate Hawaii filing not generally required |
| Form 1099-K reporting threshold | • Increases reporting threshold to $20,000 and 200 transactions/year | • Not part of TCJA but Hawaii conforms to the IRC as of 2025<br>• Separate Hawaii filing not generally required |
| Entertainment, Amusement, and Recreation | • Disallowance of deductions for entertainment, amusement, and recreation under IRC 274 | • Conforms to the disallowance of deductions for these items that Hawaii previously decoupled from |

# One Big Beautiful Bill Act (OBBBA) - Hawaii Conformity – Employers/Individuals

| Provision | OBBBA | Hawaii Conformity |
|---|---|---|
| Tip income and overtime pay | • Creates deduction up to $25,000<br>• Phases out for income exceeding $300,000 MFJ/ $150,000 S<br>• 2025-2028 | • Conforms to no tax on tips up to $25,000<br>• No conformity to the no tax on overtime |
| State and local taxes (SALT) & Itemized Deductions | • Increases up to $40,400 for 2026-2029; phases down > $500,000<br>• Disallowance of misc itemized | • No conformity to SALT limitation<br>• Conforms to disallowance of misc itemized deductions |
| Charitable contributions | • Creates a 0.5% of AGI floor for itemizers and permanently extends 60% of AGI limit<br>• Non-itemizers to deduct up to $2,000 | • Conforms to charitable contribution deduction for non-itemizers with the 0.5% AGI floor |

# Federal estate tax recedes; Hawai‘i does not

**FEDERAL — 2026**

**$15M**

**HAWAI‘I**

**$5.49M**

A donor may have no federal estate-tax exposure and still face Hawai‘i estate tax—keeping charitable bequests relevant.

| 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% |

# Practical Compliance Checklist for Nonprofits

## New for 2026 - 2027

- GET Exemption (Act 47 – Effective January 1, 2026)
  - Identify Medicare/Medicaid/TRICARE revenues – including reimbursements, co-pays, coinsurance and deductibles
  - Determine which services and provider types are newly exempt
  - Adjust billing/accounting system to track GET-exempt vs taxable revenue separately
  - Review TIR 2025-02 and monitor for additional DOTAX guidance on claiming the exemption, if any

# Practical Compliance Checklist for Nonprofits

## New for 2026 - 2027 - Continued

- Hawaii Conformity to Federal Tax Law
  - Review Hawaii's enacted 2026 conformity legislation (Act 35) and identify federal-state differences affecting your organization.
  - Do not apply federal deductions (overtime, bonus depreciation, car loan interest) to state returns unless explicitly adopted
- Estate and Planned Giving Outreach
  - Educate development teams on Hawaii’s continued $5.49 million estate tax exemption
  - Consider promoting charitable bequests as part of an overall Hawaii estate tax savings plan
  - Update planned giving materials to reflect permanent federal exemption increase and Hawaii’s static threshold

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# Thank You

Questions?

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