Tax Considerations when Selling Estate in Hawaii

**Please consult with your tax accountant for specific information that may pertain to your individual situation.*

Conveyance Tax

A conveyance tax is a tax assessed when the property title is transferred from one party to another. Also sometimes referred to as a transfer tax, a conveyance tax may be imposed on either an individual or an entity. Unless the entity is exempt, the tax is paid at the time the property is conveyed to the buyer, through escrow and paid to the State of Hawai'i. The Seller is responsible for this cost as well .

The rates are subject to change, and vary based upon price and the residency of the buyer. Contact us for a preliminary list of closing costs for your property and the amount that you can realize from the sale of your property.

The following are taxes or withholding for Sellers at closing if applicable:

Hawaii Real Property Tax Act (HARPTA)

Hawaii Revised Statutes 235-68, seeks to ensure that non-residents of Hawaii- individual and entities report and pay applicable capital gains tax when they sell Hawaii real property interests. HARPTA law requires the buyer to withhold a 7.25% (subject to change) of the sales price unless an exemption applies. The seller must then submit their request for any refunds or credit from the State of Hawaii when reporting the sale to the State.

The Foreign Investment Real Property Tax Act (FIRPTA)

Codified in Internal Revenue Code (IRC) 1445, seeks to ensure that foreign persons - individuals and entities - report and pay applicable capital gains tax when they sell United States real property interests. FIPRTA law requires the buyer to withhold 15% (Subject to change) of the sales price unless a lower percentage or exception (s) apply.

What are Capital Gains Taxes?

In general, any profit you make from selling a piece of real estate is subject to federal capital gains tax, although the sale of a personal home is a big exception in most cases.

Married couples may take a $500K exemption and singles may take $250K for properties that are claimed as their primary residence.

When a real estate sale produces a taxable capital gain for an investment property or other inherited property, the tax rate you pay depends on two factors: how long you have owned the property and your income tax bracket.

Short- and Long-Term Gains

If you own a piece of property for a year or less any taxable gain after all legal expenses are deducted, is classified as a short-term capital gain. As of 2019 the Federal taxes are up to 37%. If you own the property for more than a year, it's considered to be long-term gain. Long-term gains are taxed at significantly lower rates, or up to 20% on the adjusted gain.

What is a 1031 Deferred Exchange?

A 1031 Exchange is a federal tax code designation that allows property investors to sell one property and buy another without losing money to capital gain tax in the process. In order to qualify for a 1031, an investor must follow the specific rules and timelines set forth in the 1030 law. This is an excellent opportunity for investors to defer tax capital gains taxes while building a portfolio of investments. Keep in mind that the tax is deferred and will be due upon the final disposal of the properties or when an exchanged property is less than the value of the relinquished property. Please consult with your tax professionals to see how your particular situation can benefit. We can offer suggestions on how to move forward by helping you identify replacement properties and guiding you along the way forward with a comprehensive checklist and guidelines for a successful exchange and closing.

https://www.irs.gov/businesses/small-businesses-self-employed/like-kind-exchanges-real-estate-tax-tips