

JAN 20 2023

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# A BILL FOR AN ACT

RELATING TO TAX HAVEN ABUSE.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. The legislature finds that corporations use  
2 complicated schemes to shift domestic earnings to subsidiaries  
3 incorporated in offshore tax havens, countries with minimal or  
4 no taxes, in order to reduce their state and federal income tax  
5 liability by billions of dollars in certain cases. A January  
6 2019 report by the Institute on Taxation and Economic Policy and  
7 the United States Public Interest Research Group estimated that  
8 the State is losing \$38,000,000 annually by not updating tax  
9 laws to mandate worldwide combined reporting of corporate  
10 income. Worldwide combined reporting is considered the gold  
11 standard for closing tax loopholes, and the report found it  
12 would raise nearly three times more revenue than other options  
13 to address revenue currently lost to tax avoidance.

14           The purpose of this Act is to change the manner in which  
15 corporate tax is determined in the State to a more fair and  
16 effective form of calculating corporate tax liability by:



1           (1) Requiring corporations to include the income of all  
2           foreign subsidiaries to the State, as already required  
3           by the Internal Revenue Service; and

4           (2) Applying the State's apportionment formula to  
5           determine the share of reported profits subject to the  
6           appropriate tax.

7           SECTION 2. Chapter 235, Hawaii Revised Statutes, is  
8           amended by adding a new section to be appropriately designated  
9           and to read as follows:

10           "§235-       Corporation income reporting for all foreign  
11 subsidiaries. (a) Every corporation subject to the tax imposed  
12 under this chapter shall report all income from foreign  
13 subsidiaries by filing a copy of federal Internal Revenue form  
14 5471 with the department of taxation at the same time as such  
15 forms must be filed with the Internal Revenue Service.

16           (b) All income from a corporation's subsidiaries shall be  
17 apportioned as business income pursuant to section 235-29."

18           SECTION 3. New statutory material is underscored.

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S.B. NO. 986

1 SECTION 4. This Act shall take effect on January 1, 2023.

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INTRODUCED BY: \_\_\_\_\_

*Kel Nhad*



# S.B. NO. 986

**Report Title:**

Taxation; Corporations; Combined Reporting

**Description:**

Requires corporations to include the income of all foreign subsidiaries to the State. Applies the State's apportionment formula to determine the share of reported profits subject to the appropriate tax. Effective 1/1/2023.

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

