

STAND. COM. REP. NO.

1501

Honolulu, Hawaii

MAR 24 , 2023

RE: S.B. No. 1437  
S.D. 1  
H.D. 1

Honorable Scott K. Saiki  
Speaker, House of Representatives  
Thirty-Second State Legislature  
Regular Session of 2023  
State of Hawaii

Sir:

Your Committee on Economic Development, to which was referred S.B. No. 1437, S.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO PASS-THROUGH ENTITY TAXATION,"

begs leave to report as follows:

The purpose of this measure is to allow certain entities to elect to pay Hawaii income tax at the entity level through pass-through entities.

Your Committee received testimony in support of this measure from Pacific Rim Land, Inc.; Craft 'Ohana; Pas de Deux Hawai'i; Ocean Tourism Coalition; and Kapolei Chamber of Commerce. Your Committee received comments on this measure from the Department of Taxation, Tax Foundation of Hawaii, and Grassroot Institute of Hawaii.

Your Committee finds that in 2017, the federal government capped the deduction of state and local income taxes to \$10,000 per year through the Tax Cuts and Jobs Act. Your Committee further finds that in 2020, the Internal Revenue Service announced in Notice 2020-75 that the \$10,000 cap on deductions claimed by pass-through entities would not apply if the state income tax was imposed directly on the entity, instead of the individual members of the entities. Your Committee notes that, currently, thirty

2023-2831 SB1437 HD1 HSCR HMSO



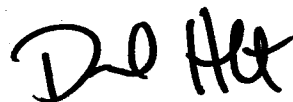
states have enacted legislation to allow pass-through entities to take full advantage of the federal deduction by allowing the entities to pay state taxes directly. This measure will help Hawaii's small businesses receive a higher deduction on their federal income tax returns by aligning Hawaii with the majority of other states that already permit similar elections by pass-through entities to pay state income taxes.

Your Committee has amended this measure by:

- (1) Changing the effective date to June 30, 3000, to encourage further discussion; and
- (2) Making technical, nonsubstantive amendments for the purposes of clarity, consistency, and style.

As affirmed by the record of votes of the members of your Committee on Economic Development that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 1437, S.D. 1, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 1437, S.D. 1, H.D. 1, and be referred to your Committee on Finance.

Respectfully submitted on  
behalf of the members of the  
Committee on Economic  
Development,



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DANIEL HOLT, Chair



