

STAND. COM. REP. NO. **238** -24

Honolulu, Hawaii

FEB 12, 2024

RE: H.B. No. 1620
H.D. 1

Honorable Scott K. Saiki
Speaker, House of Representatives
Thirty-Second State Legislature
Regular Session of 2024
State of Hawaii

Sir:

Your Committee on Economic Development, to which was referred H.B. No. 1620 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 reduce the pass-through entity level tax rate and allow the nonrefundable tax credit to carry forward into subsequent years.

Your Committee received testimony in support of this measure from Accuity LLP; Island Film Group; Grassroot Institute of Hawaii; Chamber of Commerce Hawaii; and one individual. Your Committee received comments on this measure from the Department of Taxation and Tax Foundation of Hawaii.

Your Committee finds that Act 50, Session Laws of Hawaii 2023 (Act 50), allows certain pass-through entities to elect to pay income taxes at the entity level. Act 50 was intended to help Hawaii's small businesses by allowing taxpayers to deduct Hawaii state income taxes paid on their federal income tax returns. These deductions from federal taxable income were eliminated through changes to the federal tax code in 2017, which deprived Hawaii taxpayers of significant federal tax benefits.

2024-1297 HB1620 HD1 HSCR HMSO



Your Committee further finds that under Act 50, the entity level tax is calculated by applying the eleven percent rate to the income to be distributed. The high tax rate and inability to carry the credit forward makes it difficult for many small businesses to benefit from Act 50. This measure will allow more small businesses to take advantage of the benefits that Act 50 intended to provide.

Your Committee has amended this measure by:

- (1) Changing the effective date to July 1, 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 H.B. No. 1620, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 1620, H.D. 1, and be referred to your Committee on Finance.

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



DANIEL HOLT, Chair



