

STAND. COM. REP. NO.

2845

Honolulu, Hawaii

MAR 01 2024

RE: S.B. No. 2725

Honorable Ronald D. Kouchi
President of the Senate
Thirty-Second State Legislature
Regular Session of 2024
State of Hawaii

Sir:

Your Committee on Ways and Means, to which was referred S.B. No. 2725 entitled:

"A BILL FOR AN ACT RELATING TO PASS-THROUGH ENTITY TAXATION,"
begs leave to report as follows:

The purpose and intent of this measure is to reduce the income tax burden on small businesses.

More specifically, this measure:

- (1) Adds a definition for "qualified member" and repeals the definitions for "direct member" and "indirect member", as used in the State's pass-through entity taxation election law; and
- (2) Allows certain qualified members entitled to a tax credit to use the credit against the member's net income tax liability in subsequent years until exhausted.

Your Committee received testimony in support of this measure from the Department of Taxation; Accuity, LLP; Chamber of Commerce Hawaii; Grassroot Institute of Hawaii; and Hawaii Restaurant Association.


Your Committee received comments on this measure from the Tax Foundation of Hawaii.



Your Committee finds that Act 50, Session Laws of Hawaii 2023, allowed certain pass-through entities to elect to pay Hawaii income tax at the entity level. Act 50 was enacted 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. Under Act 50, the entity level tax is calculated by applying the highest individual income tax rate to the taxable income to be distributed, entitling qualified pass-through entity members to receive a nonrefundable income tax credit that cannot be carried forward to a subsequent year if the credit exceeds the tax liability. Your Committee further finds that, due to the inability to carry forward the tax credit, many members remain unable to benefit from Act 50 as intended. Your Committee believes that this measure will help small businesses reduce their income tax burden while concomitantly reducing the administrative burden on the Department of Taxation.

As affirmed by the record of votes of the members of your Committee on Ways and Means that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 2725 and recommends that it pass Second Reading and be placed on the calendar for Third Reading.


Respectfully submitted on
behalf of the members of the
Committee on Ways and Means,


DONOVAN M. DELA CRUZ, Chair



The Senate
Thirty-Second Legislature
State of Hawai'i

Record of Votes
Committee on Ways and Means
WAM

Bill / Resolution No.:* SB2725	Committee Referral: WAM	Date: 2/28/2024		
<input type="checkbox"/> The Committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input checked="" type="checkbox"/> Pass, unamended 2312 <input type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
DELA CRUZ, Donovan M. (C)	X			
MORIWAKI, Sharon Y. (VC)	X			
AQUINO, Henry J.C.	X			
DECOITE, Lynn	X			
HASHIMOTO, Troy N.	X			
INOUE, Lorraine R.	X			
KANUHA, Dru Mamo	X			
KIDANI, Michelle N.	X			
KIM, Donna Mercado	X			
LEE, Chris	X			
SHIMABUKURO, Maile S.L.				X
WAKAI, Glenn	X			
FEVELLA, Kurt	X			
TOTAL	12			1
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: 				
Distribution: Original Yellow Pink Goldenrod File with Committee Report Clerk's Office Drafting Agency Committee File Copy				

*Only one measure per Record of Votes