

STAND. COM. REP. NO.

547

Honolulu, Hawaii

FEB 14 2025

RE: S.B. No. 1465
S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Thirty-Third State Legislature
Regular Session of 2025
State of Hawaii

Sir:

Your Committee on Ways and Means, to which was referred S.B. No. 1465 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 require, for taxable years beginning after December 31, 2024, qualified members of an electing pass-through entity to adjust their taxable income by adding back their share of taxes paid by the electing pass-through entity.

Your Committee received testimony in support of this measure from the Department of Taxation.

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

Your Committee recognizes that current state taxation law allows partnerships and S corporations to elect to pay state income taxes at the entity level, with a corresponding tax credit available to qualified members of the electing pass-through entity equal to their pro rata share of the entity taxes paid. The tax and related tax credit were intended to allow these entities to take advantage of federal income tax deductions with no revenue impact to the State. Your Committee also recognizes, however, that taxpayers claiming the state tax credit currently receive a



double benefit, which results in a revenue loss for the State. Specifically, qualified members of a pass-through entity receive both:

- (1) A tax credit equal to their share of pass-through entity taxes paid by their corresponding pass-through entities; and
- (2) A reduction of their taxable income from the pass-through entities,

because pass-through entity tax payments may be deducted at the entity level as business expenses.

Accordingly, your Committee finds merit in eliminating this double benefit, which may be accomplished by requiring qualified members of pass-through entities to add to their taxable incomes their share of pass-through entity taxes paid.

Your Committee has amended this measure by changing the effective date to July 1, 2050, to facilitate further discussion on the measure.

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. 1465, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 1465, S.D. 1, 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-Third Legislature
State of Hawai'i

Record of Votes
Committee on Ways and Means
WAM

Bill / Resolution No.:* <div style="font-size: 1.2em; font-family: cursive;">SB1465</div>	Committee Referral: <div style="font-size: 1.2em; font-family: cursive;">WAM</div>	Date: <div style="font-size: 1.2em; font-family: cursive;">2-12-25</div>		
<input type="checkbox"/> The Committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="text-align: center;"><input type="checkbox"/> Pass, unamended 2312</div> <div style="text-align: center;"><input checked="" type="checkbox"/> Pass, with amendments 2311</div> <div style="text-align: center;"><input type="checkbox"/> Hold 2310</div> <div style="text-align: center;"><input type="checkbox"/> Recommit 2313</div> </div>				
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			
ELEFANTE, Brandon J.C.	X			
HASHIMOTO, Troy N.	X			
INOUE, Lorraine R.	X			
KANUHA, Dru Mamo	X			
KIDANI, Michelle N.	X			
KIM, Donna Mercado	X			
LEE, Chris	X			
WAKAI, Glenn	X			
FEVELLA, Kurt	X			
TOTAL	13	0	0	0
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature:				
<div style="display: flex; justify-content: space-between; font-size: 0.8em;"> <div>Distribution: Original File with Committee Report</div> <div>Yellow Clerk's Office</div> <div>Pink Drafting Agency</div> <div>Goldenrod Committee File Copy</div> </div>				

*Only one measure per Record of Votes