

Honolulu, Hawaii

APR 26 2024

RE: S.B. No. 2725
H.D. 1
C.D. 1

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

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

Sirs:

Your Committee on Conference on the disagreeing vote of the Senate to the amendments proposed by the House of Representatives in S.B. No. 2725, H.D. 1, entitled:

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

having met, and after full and free discussion, has agreed to recommend and does recommend to the respective Houses the final passage of this bill in an amended form.

The purpose of this measure is to reduce the pass-through entity level tax rate and allow the pass-through entity tax credit to be carried forward to subsequent years.

Your Committee on Conference 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 assist 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 had been eliminated by 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, thus 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 member's income tax liability. Your Committee on Conference 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 on Conference has amended this measure by:

- (1) Reverting it to the original version of the measure, which:
 - (A) 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
 - (B) Allows certain qualified members who are entitled to a tax credit to use the credit against the member's net income tax liability in subsequent years until exhausted;
- (2) Amending the pass-through entity level tax rate to be the sum of all qualified member's distributive shares and guaranteed payments of Hawaii taxable income, as calculated under chapter 235, Hawaii Revised Statutes, multiplied by nine percent; and
- (3) Making technical nonsubstantive amendments for purposes of clarity, consistency, and style.

As affirmed by the record of votes of the managers of your Committee on Conference that is attached to this report, your Committee on Conference is in accord with the intent and purpose of S.B. No. 2725, H.D. 1, as amended herein, and recommends that it pass Final Reading in the form attached hereto as S.B. No. 2725, H.D. 1, C.D. 1.



Respectfully submitted on behalf
of the managers:

ON THE PART OF THE HOUSE



LISA KITAGAWA
Chair

ON THE PART OF THE SENATE



SHARON MORIWAKI
Chair



Record of Votes of a
Conference Committee

Bill / Concurrent Resolution No.: SB 2725, HD 1	Date/Time: 4/25/24 / 1:02 PM
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The recommendation of the House and Senate managers is to pass with amendments (CD).

The Committee is reconsidering its previous decision.

<input type="checkbox"/> The recommendation of the Senate Manager(s) is to AGREE to the House amendments made to the Senate Measure	<input type="checkbox"/> The recommendation of the House Manager(s) is to AGREE to the Senate amendments made to the House Measure.
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Senate Managers	A	WR	N	E	House Managers	A	WR	N	E
MORIWAKI, Sharon Y., Chr.	X				KITAGAWA, Lisa, Chr.	X			
WAKAI, Glenn	X				CHUN, Cory M.	X			
FEVELLA, Kurt	X				GARRETT, Andrew Takuya	X			
					ALCOS III, David	X			
TOTAL	3	0	0	0	TOTAL	4	0	0	0

A = Aye WR = Aye with Reservations N = Nay E = Excused

Senate Recommendation is: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted	House Recommendation is: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted
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Senate Lead Chair's or Designee's Signature: 	House Lead Chair's or Designee's Signature:
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