

Honolulu, Hawaii

APR 05 , 2024

RE: S.B. No. 2725
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 Finance, 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 of this measure is to:

- (1) Limit the tax base for pass-through entity taxation to an electing pass-through entity's qualified individual, trust, and estate members; and
- (2) Allow qualified individual, trust, and estate members to carry forward the pass-through entity tax credit to subsequent years until exhausted.

Your Committee received testimony in support of this measure from the Hawai'i Restaurant Association; Chamber of Commerce Hawaii; and Retail Merchants of Hawaii. Your Committee received comments on this measure from the Department of Taxation; Accuity LLP; Grassroot Institute of Hawaii; and Tax Foundation of Hawaii.

Your Committee finds that federal law caps the state and local tax (SALT) deduction for individuals at \$10,000 for the 2018-2025 tax years. Your Committee further finds that the Internal Revenue Service announced that the \$10,000 cap on SALT



deductions claimed by pass-through entities would not apply if the state income tax is imposed directly on the entity. In response, the State enacted Act 50, Session Laws of Hawaii 2023 (Act 50), to allow entities to elect to be taxed at the entity level and claim a credit if certain of their members had income subject to the tax. However, Act 50 imposed the maximum individual tax rate and prevented the tax credit from being refunded or carried forward to subsequent years, which made it difficult for small businesses to benefit from Act 50 and created administrative difficulties for the Department of Taxation in implementing the credit for pass-through entities that have members that are also pass-through entities.

Your Committee finds that H.B. No. 1803, H.D. 1 (Regular Session of 2024), was previously passed by the House. Your Committee further finds that this measure is preferable to assist small businesses in benefitting from Act 50 as originally intended.

Your Committee has amended this measure by:

- (1) Deleting its contents and inserting the contents of H.B. No. 1803, H.D. 1, a measure that reduces the pass-through entity level tax rate and allows the pass-through entity tax credit to be carried forward to subsequent years;
- (2) Changing the effective date to July 1, 3000, to encourage further discussion; and
- (3) 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 Finance that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 2725, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 2725, H.D. 1, and be placed on the calendar for Third Reading.



Respectfully submitted on
behalf of the members of the
Committee on Finance,



KYLE T. YAMASHITA, Chair



