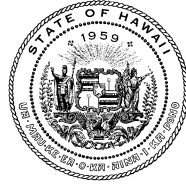


**DAVID Y. IGE**  
GOVERNOR  
**JOSH GREEN M.D.**  
LT. GOVERNOR



STATE OF HAWAII  
**DEPARTMENT OF TAXATION**  
P.O. BOX 259  
HONOLULU, HAWAII 96809  
Phone: (808) 587-1540 / Fax: (808) 587-1560  
Email: Tax.Directors.Office@hawaii.gov

**RONA M. SUZUKI**  
DIRECTOR OF TAXATION  
**DAMIEN A. ELEFANTE**  
DEPUTY DIRECTOR

To: The Honorable Sylvia Luke, Chair;  
The Honorable Ty J.K. Cullen, Vice Chair;  
and Members of the House Committee on Finance

From: Rona M. Suzuki, Director  
Department of Taxation

**Re: H.B. 1969, Relating to the Corporate Dividends Received Deduction**

Date: Wednesday, February 5, 2020

Time: 2:00 P.M.

Place: Conference Room 308, State Capitol

The Department of Taxation (Department) supports H.B. 1969 and provides the following comments.

H.B. 1969 amends section 235-7(c), Hawaii Revised Statutes (HRS), to remove unconstitutional limitations on the dividends received deduction. Current law limits the dividends received deduction based on whether the dividend is received from a Hawaii corporation or whether it is received from a foreign corporation; both of these limitations are unconstitutional. The bill becomes effective upon approval and applies to taxable years beginning after December 31, 2019.

This bill matches the Department's current policy regarding the dividends received deduction. The Department has acknowledged that portions of section 235-7, HRS, are unconstitutional and instructed taxpayers to ignore the unconstitutional provisions when filing and paying Hawaii income tax.<sup>1</sup>

The Department will be able to administer the provisions of this bill with its current effective date.

Thank you for the opportunity to testify in support of H.B. 1969.

---

<sup>1</sup> See Department of Taxation Announcement 98-5 and Tax Information Release No. 99-2.

# TAX FOUNDATION OF HAWAII

---

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

---

SUBJECT: INCOME TAX, Corporate Dividends

BILL NUMBER: SB 2058

INTRODUCED BY: DELA CRUZ, KEITH-AGARAN, KIDANI, Shimabukuro

EXECUTIVE SUMMARY: Eliminates unconstitutional provisions as recognized by the department of taxation. No substantive change.

SYNOPSIS: Amends section 235-7, HRS, to eliminate provisions that were recognized as unconstitutional by the Department of Taxation in Announcement 98-5 and Tax Information Release 98-2

EFFECTIVE DATE: Taxable years beginning after 12/31/2019.

STAFF COMMENTS: This bill was drafted by the Tax Foundation of Hawaii to eliminate statutory provisions that were previously recognized by the Department of Taxation as unconstitutional, and thereby to conform the statutory language to the law as administered by the Department. No substantive change to the law was intended.

Digested 1/27/2020