

STAND. COM. REP. NO.

809

Honolulu, Hawaii

**MAR 03 2023**

RE: S.B. No. 1437  
S.D. 1

Honorable Ronald D. Kouchi  
President of the Senate  
Thirty-Second State Legislature  
Regular Session of 2023  
State of Hawaii

Sir:

Your Committee on Ways and Means, to which was referred S.B. No. 1437 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 authorize certain pass-through entities to elect to pay Hawaii income tax at the entity level.

Your Committee received testimony in support of this measure from the General Contractors Association of Hawaii, Goodfellow Bros. Inc., Maui Brewing Co., Maui Chamber of Commerce, Pas De Deux Hawaii, and Trilogy Corporation.

Your Committee received comments on this measure from the Department of Taxation; Grassroot Institute of Hawaii; Pacific Rim Land, Inc; and Tax Foundation of Hawaii.

Your Committee finds that the federal Tax Cuts and Jobs Act of 2017 capped the state and local tax deduction for individuals at \$10,000 for the 2018-2025 taxable years, which deprived individual taxpayers of significant federal tax benefits. Your Committee also finds that, in response, several states have enacted laws to authorize certain pass-through entities to elect to pay state income tax at the entity level, thus bypassing the \$10,000 cap amount. Your Committee believes that this measure



will help Hawaii's small businesses by allowing taxpayers to deduct Hawaii state income taxes paid on their federal income tax returns.

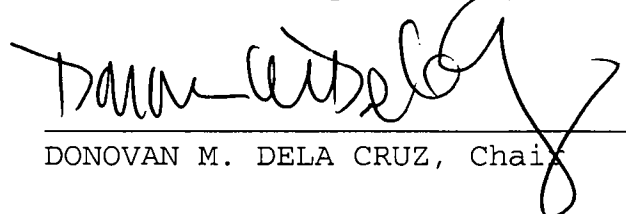
Your Committee notes the Department of Taxation's concern that the measure will require significant tax form and system changes and its request that the measure take effect no earlier than January 1, 2025.

Your Committee has amended this measure by:

- (1) Providing that the credit provided by the measure to a member of an electing pass-through entity for the member's pro rata share of taxes paid to another state shall be refundable;
- (2) Adding a Ramseyer clause to denote statutory amendments;
- (3) Changing the effective date to July 1, 2050, to facilitate further discussion on the measure; and
- (4) Making technical nonsubstantive amendments for purposes of clarity, consistency, and style.

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. 1437, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 1437, 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,



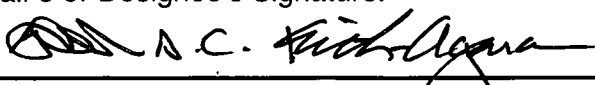
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DONOVAN M. DELA CRUZ, Chair



The Senate  
 Thirty-Second Legislature  
 State of Hawai'i

**Record of Votes**  
**Committee on Ways and Means**  
**WAM**

Bill / Resolution No.:* <b>SB1437</b>	Committee Referral: <b>WAM</b>	Date: <b>2/27/23</b>		
<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 type="checkbox"/> Pass, unamended 2312 <input checked="" 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			
KEITH-AGARAN, Gilbert S.C. (VC)	X			
AQUINO, Henry J.C.	X			
DECOITE, Lynn	X			
INOUYE, Lorraine R.	X			
KANUHA, Dru Mamo	X			
KIDANI, Michelle N.				X
KIM, Donna Mercado	X			
LEE, Chris	X			
MORIWAKI, Sharon Y.	X			
SHIMABUKURO, Maile S.L.	X			
WAKAI, Glenn	X			
FEVELLA, Kurt	X			
<b>TOTAL</b>	<b>12</b>			<b>1</b>
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: 				
<b>Distribution:</b> Original    Yellow    Pink    Goldenrod File with Committee Report    Clerk's Office    Drafting Agency    Committee File Copy				

\*Only one measure per Record of Votes