STAND. COM. REP. NO. 122 -24

Honolulu, Hawaii FEB 0 7 , 2024

RE: H.B. No. 1803 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 Consumer Protection & Commerce, to which was referred H.B. No. 1803 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, for purposes of passthrough entity taxation election:

- (1) Reduce the pass-through entity level tax rate; and
- (2) Allow the tax credit to carry forward into subsequent years.

Your Committee received testimony in support of this measure from C&Y CPAs LLC; Accuity LLP; Chamber of Commerce Hawaii; and Kapolei Chamber of Commerce. Your Committee received comments on this measure from the Department of Taxation; Grassroot Institute of Hawaii; and Tax Foundation of Hawaii.

Your Committee finds that, at the federal level, the Tax Cuts and Jobs Act capped the state and local tax (SALT) deduction for individuals at \$10,000 for the 2018-2025 tax years. The limit generally applies to any SALT liability, including tax on income received from a partnership or S corporation. This limit causes



the most hardship in states with higher income tax rates, which includes Hawaii.

Your Committee further finds that in 2020, the Internal Revenue Service announced in Notice 2020-75 that the \$10,000 cap on deductions claimed by pass-through entities would not apply if the state income tax was imposed directly on the entity, instead of the individual members of the entities.

In response, the State enacted Act 50, Session Laws of Hawaii 2023, which allowed entities to elect to be taxed at the entity level. However, Act 50 imposed a high tax rate and prevented the tax credit from carrying forward to subsequent years, which made it difficult for small businesses to benefit from Act 50 as intended. This measure will adjust the pass-through entity taxation election to reduce the burden on small businesses.

Your Committee has amended this measure by:

- (1)Changing the effective date to December 31, 3000, to encourage further discussion; and
- (2) Making a technical, nonsubstantive amendment for the purposes of clarity, consistency, and style.

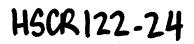
As affirmed by the record of votes of the members of your Committee on Consumer Protection & Commerce that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 1803, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 1803, H.D. 1, and be referred to your Committee on Finance.

> Respectfully submitted on behalf of the members of the Committee on Consumer Protection & Commerce,

for MARK M. NAKASHINA,



State of Hawaii House of Representatives The Thirty-second Legislature



Record of Votes of the Committee on Consumer Protection & Commerce

Bill/Resolution No.: HB1803		nittee Referral:	Date	01-30	-24	
The committee is reconsid	ering its previous deci	ision on the measure.	-			
The recommendation is to:	Pass, unamendPass short forr		ass, with amendments ommit for future publi			
CPC Members		Ayes	Ayes (WR)	Nays	Excused	
1. NAKASHIMA, Mark M. (C)		/		ArAlesware - Sullis		
2 SAVAMA Jackson D						
2. SAYAMA, Jackson D	· (vC)					
3. AMATO, Terez						
					terza zk.	
4. BELATTI, Della Au						
5. HASHEM, Mark J.						
6. HUSSEY-BURDICK,	Natalia					
7. GATES, Cedric Asue	ga					
8. LOWEN, Nicole E.				z si cranicar		
9. ONISHI, Richard H.K						
10. TAM, Adrian K.						
11. PIERICK, Elijah						
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TOTAL (11)		۶			3	
The recommendation is:	e recommendation is: Adopted If joint referral, did not support recommendation.					
Vice Chair's or designee's signature:						
Distribution: Original (White	e) – Committee	Duplicate (Yellow) -	- Chief Clerk's Office		Pink) – HMSO	