

STAND. COM. REP. NO.

3218

Honolulu, Hawaii

MAR 22 2024

RE: H.B. No. 1803
H.D. 1
S.D. 1

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

Sir:

Your Committee on Commerce and Consumer Protection, to which was referred H.B. No. 1803, H.D. 1, 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 reduce the pass-through entity level tax rate and allow the pass-through entity tax credit to be carried forward to subsequent years, for taxable years beginning after December 31, 2023.

Your Committee received testimony in support of this measure from the Retail Merchants of Hawaii; Hawai'i Restaurant Association; Grassroot Institute of Hawaii; Zippy's Restaurants; Pacific Rim Land, Inc.; Accuity LLP; Chamber of Commerce Hawaii; and one individual.

Your Committee received comments on this measure from the Department of Taxation and Tax Foundation of Hawaii.

Your Committee finds that Act 50, Session Laws of Hawaii 2023 (Act 50), was enacted to help Hawaii's small businesses by allowing certain pass-through entities to elect to pay Hawaii state income taxes at the entity level and deduct those state income taxes paid on their federal income tax returns. Previously, certain changes to the federal tax code in 2017 had



eliminated these deductions from federal taxable income, depriving many Hawaii taxpayers of significant federal tax benefits. However, your Committee finds that despite the ambition of Act 50, the high pass-through entity level tax rate imposed on electing pass-through entities and the inability to carry forward the tax credit have made it difficult for many small business owners to truly benefit as intended. Therefore, this measure makes necessary adjustments to the Pass-through Entity Taxation Election law established by Act 50 to help reduce the tax burdens imposed on small business owners.

Your Committee has amended this measure by:

- (1) Inserting an effective date of July 1, 2040, to encourage further discussion; and
- (2) Making technical, nonsubstantive amendments for the purposes of clarity and consistency.

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

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



JARRETT KEOHOKALOLE, Chair



