

STAND. COM. REP. NO. 2661

Honolulu, Hawaii

FEB 16 2024

RE: S.B. No. 3345
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 S.B. No. 3345 entitled:

"A BILL FOR AN ACT RELATING TO THE ESTATE TAX,"

begs leave to report as follows:

The purpose and intent of this measure is to:

- (1) Conform Hawaii estate tax laws to the operative provisions of the Internal Revenue Code; and
- (2) Establish an estate tax deduction for the value of a closely held business.

Your Committee received testimony in support of this measure from Servco Pacific Inc.; Altres, Inc.; Island Insurance Companies; Stanford Carr Development; ABC Stores; Y.Hata & Company, Limited; Zippy's Restaurants; KTA Super Stores; Grassroot Institute of Hawaii; Tori Richard, Ltd.; HPM Building Supply; Loyalty Enterprises, Ltd.; Finance Enterprises, Ltd.; L&L Hawaiian Barbeque; Foodland Supermarket, Ltd.; Big Island Motors; and one individual.

Your Committee received testimony in opposition to this measure from one individual.



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

Your Committee finds that for many local business owners in Hawaii, the difference between the federal and state estate tax has made estate planning unduly complicated and technical. Your Committee further finds that the Hawaii estate tax exclusion amount, which is currently much lower than the federal amount, has been a burden to many local family businesses that tend to have large portions of their estate values held in non-liquid assets. Your Committee also finds that local family businesses are the bedrock of the Hawaii economy, and that the State should take measures to ensure that an untimely death of a business owner does not lead to the closing of a treasured local establishment. Therefore, this measure would align the state and federal exclusion amounts for estate taxes and establish an estate tax deduction for certain closely held family businesses.

Notwithstanding, your Committee has heard the testimony of the Department of Taxation, recommending that certain definition-related ambiguities in this measure be resolved and for the effective date to be delayed for implementation purposes. Therefore, amendments to this measure are necessary to address these issues.

Accordingly, your Committee has amended this measure by:

- (1) Clarifying that for a decedent's estate to be allowed an estate tax deduction for the value of any qualified family-owned business interest that the decedent held at the time of death, the interest in the closely held business must have been owned by the decedent, not the decedent's qualified heir, and the material participation in the operation of the trade or business to which the interest relates must have been by the decedent, not the decedent's qualified heir;
- (2) Extending the implementation of the measure by one year, from decedents dying or taxable transfers occurring after December 31, 2023, to decedents dying or taxable transfers occurring after December 31, 2024;



- (3) Inserting an effective date of July 1, 2040, to encourage further discussion; and
- (4) 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 S.B. No. 3345, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 3345, 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,



JARETT KEOHOKALO, Chair



The Senate
 Thirty-Second Legislature
 State of Hawai'i

Record of Votes
Committee on Commerce and Consumer Protection
CPN

Bill / Resolution No.:*	Committee Referral:	Date:
SB 3345	CPN, WDM	2/14/24

The Committee is reconsidering its previous decision on this measure.
 If so, then the previous decision was to: _____

The Recommendation is:

Pass, unamended 2312
 Pass, with amendments 2311
 Hold 2310
 Recommit 2313

Members	Aye	Aye (WR)	Nay	Excused
KEOHOKALOLE, Jarrett (C)	✓			
FUKUNAGA, Carol (VC)	✓			
MCKELVEY, Angus L.K.	✓			
RICHARDS, III, Herbert M. "Tim"	✓			
AWA, Brenton	✓			
TOTAL	5			

Recommendation: Adopted Not Adopted

Chair's or Designee's Signature:


Distribution: Original Yellow Pink Goldenrod
 File with Committee Report Clerk's Office Drafting Agency Committee File Copy

*Only one measure per Record of Votes