

# A BILL FOR AN ACT

## RELATING TO TAX HAVEN ABUSE.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1 PART I

2 SECTION 1. The legislature finds that the State's tax  
3 revenue showed robust growth, starting in the last quarter of  
4 fiscal year 2020, as Hawaii's economy recovered from the effects  
5 of the COVID-19 pandemic. Although tax collections totaled  
6 \$10,440,000,000 in fiscal year 2023, a relatively marginal  
7 decrease from \$10,460,000 in fiscal year 2022, the legislature  
8 finds that additional sources of state revenue should be  
9 considered.

10 The legislature further finds that corporations use  
11 complicated schemes to shift domestic earnings to subsidiaries  
12 incorporated in offshore tax havens, countries with minimal or  
13 no taxes, in order to reduce their state and federal income tax  
14 liability by billions of dollars in certain cases. A January  
15 2019 report by the Institute on Taxation and Economic Policy and  
16 the United States Public Interest Research Group estimated that  
17 the State is losing \$38,000,000 annually by not updating tax



1 laws to mandate worldwide combined reporting of corporate  
2 income. Worldwide combined reporting is considered the gold  
3 standard for closing tax loopholes, and the report found it  
4 would raise nearly three times more revenue than other options  
5 to address revenue currently lost to tax avoidance.

6 The purpose of this part is to ensure transparency in the  
7 manner in which corporations conduct business in the State by:

8 (1) Changing the manner in which corporate tax is  
9 determined in the State to a more fair and effective  
10 form of calculating corporate tax liability through:  
11 (A) Requiring corporations to include in their income  
12 the income of all foreign subsidiaries to the  
13 State, as is already required by the Internal  
14 Revenue Service; and  
15 (B) Applying the State's apportionment formula to  
16 determine the share of reported profits subject  
17 to the appropriate tax, to be deposited into the  
18 state general fund; and  
19 (2) Requiring corporations to report all profits, losses,  
20 revenues, and inter-company transactions made and all  
21 taxes paid in other states.



1 SECTION 2. Chapter 235, Hawaii Revised Statutes, is  
2 amended by adding two new sections to be appropriately  
3 designated and to read as follows:

4 **"S235-A Corporation income reporting; foreign**

5 **subsidiaries.** (a) Every corporation subject to the tax imposed  
6 under this chapter shall report all income from foreign  
7 subsidiaries by filing a copy of federal Internal Revenue form  
8 5471 with the department of taxation at the same time as such  
9 forms must be filed with the Internal Revenue Service.

10 (b) All income from a corporation's foreign subsidiaries  
11 shall be apportioned as business income pursuant to section 235-  
12 29.

13 (c) The revenues generated from the tax imposed on the  
14 business income apportioned pursuant to subsection (b) shall be  
15 deposited into the general fund for the purposes of funding  
16 critical public services.

17 **S235-B Corporation income; state-by-state reporting . (a)**

18 Every corporation subject to the tax imposed under this chapter  
19 shall submit to the department of taxation a report on all  
20 profits, losses, revenues, and inter-company transactions made  
21 and all taxes paid in other states at the same time as the forms



1 required pursuant to section 235-A must be filed with the  
2 Internal Revenue Service."

## PART II

4 SECTION 3. Chapter 231, Hawaii Revised Statutes, is  
5 amended by adding a new section to be appropriately designated  
6 and to read as follows:

7 "§231- Corporate tax law task force. (a) There is  
8 established within the department of taxation for administrative  
9 purposes a corporate tax law task force to annually review the  
10 State's corporate tax laws and recommend updates to close  
11 corporate tax loopholes.

**12** (b) The task force shall include the following:

13           (1) The director of taxation or the director's designee,  
14           who shall serve as chairperson of the working group;  
15           and

16 (2) The chairperson of the council on revenues or the  
17 chairperson's designee.

18        (c) In addition to the members designated by subsection  
19        (b), the task force may invite any other appropriate person to  
20        join the working group.



1                   (d) Members of the task force shall serve without  
2 compensation.

9                   (2) Review new or amended federal corporate tax laws and  
10                   make recommendations to amend state corporate tax laws  
11                   to align with federal laws.

### PART III

18 SECTION 4. In codifying the new sections added by section  
19 2 of this Act, the revisor of statutes shall substitute  
20 appropriate section numbers for the letters used in designating  
21 the new sections in this Act.



1 SECTION 5. New statutory material is underscored.

2 SECTION 6. This Act shall take effect upon its approval;  
3 provided that section 2 shall take effect on January 1, 2027.

4

INTRODUCED BY: Karl Rhoads



# S.B. NO. 2738

**Report Title:**

Taxation; Corporations; Combined Reporting; State-by-state Reporting; Department of Taxation; Corporate Tax Law Task Force

**Description:**

Part I: Effective 1/1/2027, requires corporations to include in their income the income of all foreign subsidiaries to the State; applies the State's apportionment formula to determine the share of reported profits subject to the appropriate tax, which shall be deposited into the state general fund; and requires corporations to report all profits, losses, revenues, and inter-company transactions made and all taxes paid in other states. Part II: Establishes within DOTAX a Corporate Tax Law Task Force to annually review the State's corporate tax laws and recommend updates to close tax loopholes.

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