
A BILL FOR AN ACT

RELATING TO TAX HAVEN ABUSE.

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

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

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



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

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

7 (1) Changing the manner in which corporate tax is
8 determined in the State to a more fair and effective
9 form of calculating corporate tax liability through:

10 (A) Requiring corporations to include in their income
11 the income of all foreign subsidiaries to the
12 State, as is already required by the Internal
13 Revenue Service; and

14 (B) Applying the State's apportionment formula to
15 determine the share of reported profits subject
16 to the appropriate tax, to be deposited into the
17 state general fund;

18 (2) Requiring corporations to report all profits, losses,
19 revenues, and inter-company transactions made and all
20 taxes paid in other states; and

21 (3) Establishing penalties for violations.



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 **"§235-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
8 Service form 5471 with the department of taxation at the same
9 time as such forms must be filed with the Internal Revenue
10 Service.

11 (b) Notwithstanding any law to the contrary, all income
12 from a corporation's foreign subsidiaries shall be apportioned
13 as business income pursuant to section 235-29.

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

18 (d) Any violation of this section shall be subject to
19 penalties established under chapter 231.

20 **§235-B Corporation income; state-by-state reporting.** (a)
21 Every corporation subject to the tax imposed under this chapter



1 shall submit to the department of taxation a report on all
2 profits, losses, revenues, and inter-company transactions made
3 and all taxes paid in other states at the same time as the forms
4 required pursuant to section 235-A must be filed with the
5 Internal Revenue Service.

6 (b) Any violation of this section shall be subject to
7 penalties established under chapter 231."

8 SECTION 3. In codifying the new sections added by section
9 2 of this Act, the revisor of statutes shall substitute
10 appropriate section numbers for the letters used in designating
11 the new sections in this Act.

12 SECTION 4. New statutory material is underscored.

13 SECTION 5. This Act shall take effect on July 1, 2050;
14 provided that section 2 shall apply to taxable years beginning
15 after December 31, 2027.



Report Title:

Department of Taxation; Taxation; Corporations; Combined Reporting; State-by-State Reporting; Penalties

Description:

Effective 1/1/2028, 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. Establishes penalties for violations. Effective 7/1/2050.
(SD1)

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