THE SENATE
THIRTY-THIRD LEGISLATURE, 2026
STATE OF HAWAII

S.R. NO. 166

MAR 16 2026

SENATE RESOLUTION

REQUESTING THE DEPARTMENT OF TAXATION TO CONDUCT A COMPREHENSIVE ANALYSIS OF CORPORATE INCOME REPORTING STRUCTURES, INCLUDING THE TREATMENT OF FOREIGN SUBSIDIARY INCOME, TO INFORM LONG-TERM FISCAL PLANNING.

WHEREAS, the State relies on corporate income tax revenue to support essential public services, including public education, healthcare, infrastructure, environmental protection, and public safety; and

WHEREAS, most state corporate income tax systems, including Hawaii's, begin with federal taxable income and apply state-level adjustments and apportionment formulas to determine state tax liability; and

WHEREAS, states vary in their approach to corporate income reporting, including separate entity reporting, water's-edge combined reporting, and worldwide combined reporting, each of which may have differing implications for revenue stability, administrative complexity, and economic competitiveness; and

WHEREAS, corporations operating across multiple jurisdictions may structure income through affiliated entities, including foreign subsidiaries, consistent with federal and state law, and the treatment of such income may affect the size, composition, and predictability of the state corporate tax base; and

WHEREAS, careful, data-driven analysis of corporate income reporting practices can assist the State in evaluating long-term fiscal sustainability and revenue forecasting accuracy without predetermining statutory changes; now, therefore,

BE IT RESOLVED by the Senate of the Thirty-third Legislature of the State of Hawaii, Regular Session of 2026, that the Department of Taxation is requested to conduct a comprehensive analysis of corporate income reporting practices, including the treatment of foreign subsidiary income; and

BE IT FURTHER RESOLVED that the Department of Taxation is requested to include in its analysis, to the extent practicable and consistent with taxpayer confidentiality protections:

(1) An estimate of corporate income tax revenue attributable to corporations with foreign subsidiary structures;

(2) An evaluation of potential revenue impacts under alternative corporate income reporting models, including separate entity reporting, water's-edge combined reporting, and worldwide combined reporting;

(3) An assessment of how alternative definitions of the corporate tax base would interact with Hawaii's current apportionment methodology;

(4) Administrative feasibility considerations, compliance costs, and enforcement implications associated with alternative reporting structures;

(5) A comparison of approaches taken by other states and any publicly available information regarding fiscal or economic outcomes; and

(6) Identification of any data limitations, modeling assumptions, or implementation challenges; and

BE IT FURTHER RESOLVED that the Department of Taxation is requested to submit a report of its findings and analysis to the Legislature no later than twenty days prior to the convening of the Regular Session of 2027; and

BE IT FURTHER RESOLVED that certified copies of this Resolution be transmitted to the Governor, Director of Taxation, Director of Budget and Finance, and Chairperson of the Council on Revenues.

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OFFERED BY: Karl Rhoads