

STAND. COM. REP. NO. 167

Honolulu, Hawaii

FEB 08 , 2023

RE: H.B. No. 1362  
H.D. 1

Honorable Scott K. Saiki  
Speaker, House of Representatives  
Thirty-Second State Legislature  
Regular Session of 2023  
State of Hawaii

Sir:

Your Committee on Economic Development, to which was referred H.B. No. 1362 entitled:

"A BILL FOR AN ACT RELATING TO PASS-THROUGH ENTITY TAXATION,"

begs leave to report as follows:

The purpose of this measure is to allow certain entities to elect to pay Hawaii income tax at the entity level through pass-through entities.

Your Committee received testimony in support of this measure from the Ocean Tourism Coalition; Pacific Rim Land, Inc.; Trilogy Corporation dba Trilogy Excursions; General Contractors Association of Hawaii; Dowling Company, Inc.; Maui Chamber of Commerce; and four individuals. Your Committee received comments on this measure from the Department of Taxation, Grassroot Institute of Hawaii, and Tax Foundation of Hawaii.

Your Committee finds that in 2017, the federal government, through the Tax Cuts and Jobs Act, capped the deduction of state and local income taxes to \$10,000 per year. Your Committee further finds that in 2020, the Internal Revenue Service announced in Notice 2020-75 that the \$10,000 cap on deductions claimed by pass-through entities would not apply if the state tax was paid by the entity itself, instead of the individual members of the entities. Currently, twenty-eight states have enacted legislation

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to allow pass-through entities to pay state taxes directly and take full advantage of the federal deduction. This measure will align Hawaii with the majority of other states that already permit similar elections by pass-through entities to pay state income taxes and will help Hawaii's small businesses receive a higher deduction on their federal income tax returns.

Your Committee has amended this measure by:

- (1) Changing its effective date to June 30, 3000, to encourage further discussion; and
- (2) Making technical, nonsubstantive amendments for the purposes of clarity, consistency, and style.

As affirmed by the record of votes of the members of your Committee on Economic Development that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 1362, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 1362, H.D. 1, and be referred to your Committee on Finance.

Respectfully submitted on  
behalf of the members of the  
Committee on Economic  
Development,



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DANIEL HOLT, Chair



State of Hawaii  
House of Representatives  
The Thirty-second Legislature

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**Record of Votes of the Committee on Economic Development**

<b>Bill/Resolution No.:</b> <span style="font-size: 24pt; font-weight: bold;">HB1362</span>	<b>Committee Referral:</b> <span style="font-size: 24pt; font-weight: bold;">ECD, FIN</span>	<b>Date:</b> <span style="font-size: 24pt; font-weight: bold;">2/3/2023</span>
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The committee is reconsidering its previous decision on the measure.

**The recommendation is to:**     Pass, unamended (as is)     Pass, with amendments (HD)     Hold  
 Pass short form bill with HD to recommit for future public hearing (recommit)

ECD Members	Ayes	Ayes (WR)	Nays	Excused
<b>1. HOLT, Daniel (C)</b>	✓			
<b>2. LAMOSAO, Rachele F. (VC)</b>	✓			
<b>3. HUSSEY-BURDICK, Natalia</b>				✓
<b>4. KONG, Sam Satoru</b>	✓			
<b>5. NAKAMURA, Nadine K.</b>	✓			
<b>6. QUINLAN, Sean</b>	✓			
<b>7. PIERICK, Elijah</b>	✓			
<b>TOTAL (7)</b>	6			1

**The recommendation is:**     Adopted     Not Adopted  
 If joint referral, \_\_\_\_\_ did not support recommendation.  
committee acronym(s)

**Vice Chair's or designee's signature:** \_\_\_\_\_

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