

Income/Franchise:

Hawaii: New Law Revises Some Pass-Through Entity-Level Tax Provisions Including Tax Rate

S.B. 2725, signed by gov. 6/19/24. Applicable for taxable years beginning after December 31, 2023, recently signed legislation revises various provisions under Hawaii law allowing qualifying pass-through entities to make an annual election to pay an entity-level state tax (PTET) [see S.B. 1437 (2023) and previously issued Multistate Tax Alert for more details on this PTET]. For instance, the legislation amends the PTET rate applied to the sum of all qualified member's distributive shares and guaranteed payments of Hawaii taxable income to be fixed at 9%, rather than imposed at the highest individual income tax rate under Haw. Rev. Stat. section 235-51. For pass-through entities electing to pay the PTET, the legislation also permits certain "qualified members" entitled to a tax credit to use the credit against the member's net income tax liability in subsequent years until exhausted. Moreover, the legislation adds a definition for "qualified member" as meaning a member of an electing pass-through entity that is an individual, trust, or estate, and simultaneously repeals the definitions for "direct member" and "indirect member." Under the new law, a "member" means:

[URL: https://www.capitol.hawaii.gov/session/measure_indiv.aspx?billtype=SB&billnumber=2725&year=2024](https://www.capitol.hawaii.gov/session/measure_indiv.aspx?billtype=SB&billnumber=2725&year=2024)

[URL: https://www.capitol.hawaii.gov/session/measure_indiv.aspx?billtype=SB&billnumber=1437&year=2023](https://www.capitol.hawaii.gov/session/measure_indiv.aspx?billtype=SB&billnumber=1437&year=2023)

[URL: https://www2.deloitte.com/content/dam/Deloitte/us/Documents/Tax/us-tax-multistate-tax-alert-hawaii-enacts-pass-through-entity-tax-election.pdf](https://www2.deloitte.com/content/dam/Deloitte/us/Documents/Tax/us-tax-multistate-tax-alert-hawaii-enacts-pass-through-entity-tax-election.pdf)

1. A shareholder of an S corporation;
2. A partner in a general partnership, a limited partnership, or a limited liability partnership; or
3. A member of a limited liability company that is treated as a partnership or S corporation for federal income tax purposes.

Please contact us with any questions.

— Ashley Yamada (Honolulu)
Senior Manager
Deloitte Tax LLP
ayamada@deloitte.com

Bryan Yi (Seattle)
Senior Manager
Deloitte Tax LLP
bryi@deloitte.com

Robert Waldow (Minneapolis)
Principal
Deloitte Tax LLP
rwaldow@deloitte.com

Olivia Schulte (Washington, DC)
Senior Manager
Deloitte Tax LLP
oschulte@deloitte.com

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms or their related entities (collectively, the “Deloitte organization”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organization”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte provides industry-leading audit and assurance, tax and legal, consulting, financial advisory, and risk advisory services to nearly 90% of the Fortune Global 500® and thousands of private companies. Our professionals deliver measurable and lasting results that help reinforce public trust in capital markets, enable clients to transform and thrive, and lead the way toward a stronger economy, a more equitable society and a sustainable world. Building on its 175-plus year history, Deloitte spans more than 150 countries and territories. Learn how Deloitte’s approximately 415,000 people worldwide make an impact that matters at www.deloitte.com.