

Income/Franchise:

Hawaii Department of Taxation Updates Guidance on Elective Pass-Through Entity Tax to Reflect New Law

Tax Information Release No. 2024-01, Haw. Dept. of Tax. (8/15/24). The Hawaii Department of Taxation issued a new tax information release which provides updated guidance effective for taxable years beginning after December 31, 2023, involving entities (“PTEs”) that may elect pass-through entity taxation (*i.e.*, the “PTET”). Notable changes reflect new law [see S.B. 2725 (Act 50), signed by gov. 6/19/24, and *State Tax Matters*, Issue 2024-26 for more details on this new law] that incorporates a fixed 9% PTET rate, and permits certain excess PTET credits to be carried forward until exhausted. Additionally, S.B. 2725 amended the PTET base by imposing the tax on the sum of distributive shares and guaranteed payments of all “qualified members.” A “qualified member” is now defined to include a member of an electing PTE that is an individual, trust, or estate. In this respect, PTE partners and are no longer qualified members for tax years beginning after December 31, 2023. According to the release, for tax year 2024, electing PTEs will *not* be penalized for failing to make the first two estimated payments or making unequal payments due to the recent changes in the PTET rate. The release also provides notice of “proposed temporary administrative rules” relating to the PTET and its accompanying credit. Please contact us with any questions.

URL: <https://files.hawaii.gov/tax/legal/tir/tir24-01.pdf>

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

URL: https://dhub.deloitte.com/Newsletters/Tax/2024/STM/240628_5.html

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