
HOUSE CONCURRENT RESOLUTION

REQUESTING THE DEPARTMENT OF TAXATION TO STUDY WHETHER LEASES
BETWEEN RELATED ENTITIES IN THE CAR RENTAL INDUSTRY SHOULD
BE SUBJECT TO HAWAII'S GENERAL EXCISE TAX.

1 WHEREAS, the car rental business is an integral and
2 necessary part of the tourism industry in Hawaii; and
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4 WHEREAS, car rental agencies lease their vehicles at retail
5 rates to the public and pay the general tax on the rental
6 revenues from these transactions for the State; and
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8 WHEREAS, the car rental industry often involves payments
9 between related entities that are subject to the general excise
10 tax; and
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12 WHEREAS, the current general excise tax law exempts many
13 intercompany transactions from the general excise tax, including
14 charges for the use of capital as specified in section 237-
15 23.5(a), Hawaii Revised Statutes; and
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17 WHEREAS, some car rental companies use special purpose
18 financing entities, which they own, that issue asset-backed debt
19 instruments that are secured by the rental vehicles, which are
20 then leased to the related operating car rental agencies; and
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22 WHEREAS, the revenues from these leases are used to pay the
23 debt service required of those instruments; and
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25 WHEREAS, section 237-23.5, Hawaii Revised Statutes, exempts
26 from the general excise tax the flow of revenues between related
27 entities for the use of capital; and
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29 WHEREAS, the Department of Taxation however, currently
30 collects an additional excise tax on the lease revenues from the
31 car rental agency paid to the special purpose financing entity



1 even though the agency and the special purpose financing entity
2 are owned by the same company; and
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4 WHEREAS, a finding that the leases used in the financing of
5 the acquisition and replacement of car rental vehicles between
6 related entities should be exempt from the excise tax would not
7 exempt car rental agencies from collecting and paying the
8 general excise tax on the revenues generated from the renting of
9 vehicles to the public; and
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11 WHEREAS, in general, other states do not impose sales, use,
12 and excise taxes on intercompany lease payments; now, therefore,
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14 BE IT RESOLVED by the House of Representatives of the
15 Twenty-fourth Legislature of the State of Hawaii, Regular
16 Session of 2007, the Senate concurring, that the Department of
17 Taxation is requested to conduct a study on whether the lease
18 between related entities in the car rental industry for the
19 acquisition and replacement of vehicles under section 237-23.5,
20 Hawaii Revised Statutes, are:
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- 22 (1) Used solely for the purpose of acquiring and replacing
23 car rental vehicles;
- 24
- 25 (2) Transactions among related entities as currently
26 defined; and
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- 28 (3) Transactions similar to intercompany car rental
29 company leasing transactions that are exempt from
30 sales, use, and excise taxes in other states; and
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32 BE IT FURTHER RESOLVED that if the answers to (1), (2), and
33 (3) are in the affirmative, the Department of Taxation is
34 requested to apply the exemption provided by section 237-23.5,
35 Hawaii Revised Statutes, to revenues generated by intercompany
36 car rental acquisitions and replacements if car rental agencies
37 lease vehicles from special purpose financing entities and both
38 are related entities; and
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40 BE IT FURTHER RESOLVED that the Department of Taxation is
41 requested to submit a report of its findings and
42 recommendations, including suggested legislation, to the
43 Legislature not later than twenty days before the convening of
44 the Regular Session of 2008; and



