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# SENATE CONCURRENT RESOLUTION

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*REQUESTING THE DEPARTMENT OF TAXATION TO CONDUCT A REVIEW OF  
Hawaii's General Excise Tax Pyramiding Relief Act.*

WHEREAS, in Act 71, Session Laws of Hawaii 1999 (Act 71), the Legislature recognized that pyramiding of the general excise tax (GET) caused an undo burden on businesses, and so phased out the four per cent GET on business-to-business services; and

WHEREAS, as of January 1, 2006, the tax was decreased to 0.5 per cent; and

WHEREAS, Act 71 does not extend to tax due on warranty reimbursements from the manufacturer of a product; and

WHEREAS, as a result, Hawaii automobile dealers are required to pay a 4.712 per cent general excise tax on what customers consider a "free" repair under their new car's warranty coverage; and

WHEREAS, when consumers in Hawaii pay for a new vehicle, the payment covers the warranty protection coverage, which manufacturers provide on new vehicles for a specified period or miles driven; and

WHEREAS, the dealer, by law, pays the GET to the State, and passes the tax along to the consumer in the negotiated final price of the new car; and

WHEREAS, the warranty is part of the product so that the customer has, in effect paid the GET on the car, which includes the service of warranty protection coverage; and

WHEREAS, other states, recognizing that warranty payments to dealers to cover a manufacturer's warranty, include payments for parts and labor, and that these payments should either be excluded from requirements for tax, or taxed at the wholesale rate; and

WHEREAS, clarification of Act 71 (known as the General Excise Tax Pyramiding Relief Act), is needed to provide the necessary language to achieve the same approach that all other states have taken to the matter; now, therefore,

BE IT RESOLVED by the Senate of the Twenty-fourth Legislature of the State of Hawaii, Regular Session of 2007, the House of Representatives concurring, that the Department of Taxation (Department) is requested to conduct a review Hawaii's General Excise Tax Pyramiding Relief Act; and

BE IT FURTHER RESOLVED in its review, the Department shall consider clarifying language to make clear that the GET is not due on business-to-business services that fulfill a warranty obligation to the manufacturer; and

BE IT FURTHER RESOLVED that the Department shall also include information from other states, such as California and Washington, which have clarified their laws so as to eliminate payment of similar taxes on warranty reimbursements or reduce them to wholesale rates; and

BE IT FURTHER RESOLVED that the Department shall report to the Legislature no later than twenty days prior to the Regular Session of 2008 on the results of its review, any recommendations for legislation, and the fiscal impact of any legislation; and

BE IT FURTHER RESOLVED that a certified copy of this Concurrent Resolution be transmitted to the Director of Taxation.