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## A BILL FOR AN ACT

RELATING TO THE GENERAL EXCISE TAX.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. The general excise tax exemption for scientific  
2 contracts with the United States was intended to allow local  
3 contractors to compete with out-of-state entities for scientific  
4 contracts with federal facilities. However, the legislature  
5 finds that over ninety-eight per cent of these contracts are  
6 currently held by out-of-state entities that pay no tax pursuant  
7 to this provision. Further, the exemption has created a large  
8 administrative burden for the department of taxation, resulting  
9 in ten per cent of its audit staff being used to evaluate claims  
10 for this exemption.

11           SECTION 2. Section 237-26, Hawaii Revised Statutes, is  
12 amended to read as follows:

13           "**§237-26 Exemption of certain scientific contracts with**  
14 **the United States.** (a) Any provision of law to the contrary  
15 notwithstanding, there shall be exempted from the measure of the  
16 taxes imposed by chapter 237, [~~all of the~~] gross proceeds  
17 [~~derived by a contractor or subcontractor arising from the~~  
18 ~~performance of any scientific work as defined in subsection (b),~~



1 ~~under a contract or subcontract entered into with the United~~  
2 ~~States (including any agency or instrumentality thereof but not~~  
3 ~~including national banks), and all of the gross proceeds derived~~  
4 ~~from the sale of tangible personal property by a seller of such~~  
5 ~~tangible personal property to such contractor or subcontractor;~~  
6 ~~provided the exemption herein shall apply only to such tangible~~  
7 ~~personal property which is to be affixed to, or to become a~~  
8 ~~physical, integral part of the scientific facility, or which is~~  
9 ~~to be entirely consumed during the performance of the service~~  
10 ~~required by the contract or subcontract.] received under a~~  
11 ~~contract or subcontract entered into with the United States~~  
12 ~~(including any agency or instrumentality thereof but not~~  
13 ~~including national banks) in an amount equal to "qualified~~  
14 ~~research expenses for the taxable year over the base amount",~~  
15 ~~"basic research payments determined under Internal Revenue Code~~  
16 ~~section 41(e)(1)(A)", and "amounts paid or incurred by the~~  
17 ~~taxpayer in carrying on any trade or business of the taxpayer~~  
18 ~~during the taxable year (including as contributions) to an~~  
19 ~~energy research consortium for energy research". Gross proceeds~~  
20 ~~exempted under this section shall not exceed the amount properly~~  
21 ~~claimed and allowable under section 41 of the Internal Revenue~~  
22 ~~Code for the same taxable period.~~



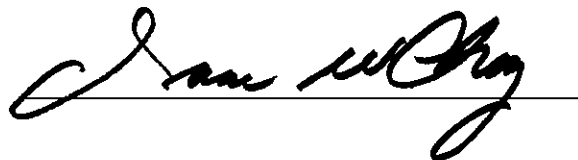
1           (b) For purposes of this section, [~~"scientific work" is~~  
2 ~~work involving primarily the research and development for, or~~  
3 ~~the design, manufacture, instrumentation, installation,~~  
4 ~~maintenance, or operation of aerospace, agricultural,~~  
5 ~~astronomical, biomedical, electronic, geophysical,~~  
6 ~~oceanographic, test range, or other scientific facilities.~~  
7 ~~Maintenance or operation, for purposes of this section, shall~~  
8 ~~include housekeeping functions in providing certain~~  
9 ~~nonscientific logistic and support services.] "qualified  
10 research expenses for the taxable year over the base amount",  
11 "basic research payments determined under Internal Revenue Code  
12 section 41(e)(1)(A)", and "amounts paid or incurred by the  
13 taxpayer in carrying on any trade or business of the taxpayer  
14 during the taxable year (including as contributions) to an  
15 energy research consortium for energy research" shall have the  
16 same meaning as under section 41 of the Internal Revenue Code  
17 and its judicial and administrative interpretations."~~

18           SECTION 3. Statutory material to be repealed is bracketed  
19 and stricken. New statutory material is underscored.

20           SECTION 4. This Act shall take effect on January 1, 2014.

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INTRODUCED BY:




**Report Title:**

General Excise Tax; Exemption for Certain Scientific Contracts with the United States

**Description:**

Narrows the scope of gross proceeds to which the general excise tax exemption for certain scientific contracts with the United States applies.

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