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# A BILL FOR AN ACT

RELATING TO TAXATION.

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

1       SECTION 1. The legislature finds that the cost of living  
2 in the State is among the highest in the nation, with many  
3 residents struggling to afford basic necessities, such as food  
4 and medication. According to the Hawaii Foodbank, nearly thirty  
5 per cent of households were food insecure in 2023, including  
6 nineteen per cent experiencing very low food security. Unlike  
7 most states, Hawaii continues to fully tax groceries and  
8 nonprescription drugs. Just ten states in the nation impose a  
9 tax on groceries, while only Hawaii, Mississippi, and South  
10 Dakota continue to tax groceries at the full, regular rate.  
11 Nearly all other states exempt these necessities or tax them at  
12 a reduced rate.

13       The legislature further finds that taxes on food are  
14 regressive, because low- and middle-income families spend a  
15 larger share of their income on necessities. The state  
16 refundable food/excise tax credit provides limited relief in  
17 practice. At the highest income bracket that qualifies for the



1 credit at \$50,000 to \$60,000 of adjusted gross income for a  
2 family of four—the credit amounts to \$70 per exemption, or about  
3 \$280 annually for a four-person household. Many ALICE (asset  
4 limited, income constrained, employed) households need roughly  
5 \$110,000 annually for a family of four to meet basic needs and  
6 do not qualify at all because eligibility for the credit phases  
7 out well below ALICE income levels. In addition, a significant  
8 portion of low-income households do not file state income tax  
9 returns, resulting in many eligible residents receiving no  
10 credit, even though the food/excise tax credit is refundable.

11 Research shows that taxing groceries worsens food  
12 insecurity. A 2021 study conducted by Cornell University  
13 researchers found that each one percentage point increase in  
14 grocery taxation is associated with a 0.84 per cent increase in  
15 the probability of food insecurity among low-income households,  
16 demonstrating that grocery taxes meaningfully worsen food  
17 hardship. Applying that estimate to Hawaii's general excise tax  
18 rate of 4.5 per cent indicates that the tax contributes to  
19 roughly a 3.78 percentage-point increase in food insecurity.

20 The legislature also finds that United States Department of  
21 Agriculture food expenditure data show that in 2023, Hawaii



1 residents spent an estimated \$5,510,000,000 on food-at-home  
2 purchases, such as groceries. Visitors to Hawaii, by contrast,  
3 spend the overwhelming majority of their food dollars on  
4 restaurants, hotels, and other food-away-from-home  
5 establishments. Although federal data do not directly separate  
6 food purchases by residents and tourists, Hawaii's high share of  
7 restaurant and hotel food sales, combined with well-established  
8 tourism spending patterns, indicates that nearly all grocery  
9 purchases are made by resident households, particularly low- and  
10 middle-income families.

11 The legislature additionally finds that applying the  
12 general excise tax to groceries meaningfully increases the cost  
13 of basic necessities for Hawaii families. Using the 2023 food-  
14 at-home figure of \$5,510,000,000, the estimated general excise  
15 tax burden on groceries is approximately \$220,000,000 to  
16 \$250,000,000 annually. The legislature believes that exempting  
17 essential groceries from the tax base will directly reduce  
18 household food costs, particularly for low- and moderate-income  
19 residents, while reducing the tax burden on necessities more  
20 fairly.

21 Accordingly, the purpose of this Act is to:



(1) Beginning January 1, 2027, establish a yearly reduction in the general excise tax rate on groceries and nonprescription drugs on a tiered schedule until January 1, 2034, when a full general excise tax exemption will begin;

(2) Beginning January 1, 2028, provide a general excise tax exemption on the wholesale sale of groceries and nonprescription drugs of groceries and nonprescription drugs; and

(3) Beginning January 1, 2027, prohibit the counties from imposing a county surcharge on groceries and nonprescription drugs.

SECTION 2. Chapter 237, Hawaii Revised Statutes, is amended by adding a new section to be appropriately designated and to read as follows:

**"§237- Groceries; nonprescription drugs; reduced rates.**

(a) Notwithstanding any provision of law to the contrary, except in the case of a wholesaler under section 237-13(2) (A), beginning January 1, 2027, there is hereby levied and shall be assessed and collected a tax on the gross proceeds or gross



income received from the sale of groceries and nonprescription  
drugs at the following rates:

(1) Beginning January 1, 2027: 3.5 per cent;

(2) Beginning January 1, 2028: 3.0 per cent;

(3) Beginning January 1, 2029: 2.5 per cent;

(4) Beginning January 1, 2030: 2.0 per cent;

(5) Beginning January 1, 2031: 1.5 per cent;

(6) Beginning January 1, 2032: 1.0 per cent; and

(7) Beginning January 1, 2033: 0.5 per cent.

(b) Notwithstanding any provision of law to the contrary,  
beginning January 1, 2034, and thereafter, there shall be  
exempted from, and excluded from the measure of, the taxes  
imposed by this chapter all of the gross proceeds or gross  
income received from the sale of groceries and nonprescription  
drugs."

SECTION 3. Section 237-1, Hawaii Revised Statutes, is  
amended by adding three new definitions to be appropriately  
inserted and to read as follows:

"Groceries" means substances, whether in liquid,  
concentrated, solid, frozen, dried, or dehydrated form, that are  
sold for ingestion or chewing by humans and are consumed for



their taste or nutritional value, including any food or food product for home consumption. "Groceries" does not include alcoholic beverages, tobacco, and hot foods or hot food products prepared for immediate consumption.

"Nonprescription drug" has the same meaning as in section 328-1.

"Wholesale transaction" means a sale of groceries or nonprescription drugs for resale, including transactions between manufacturers, distributors, and retailers."

SECTION 4. Section 237-13, Hawaii Revised Statutes, is amended to read as follows:

**"§237-13 Imposition of tax.** There is hereby levied and shall be assessed and collected annually privilege taxes against persons on account of their business and other activities in the State measured by the application of rates against values of products, gross proceeds of sales, or gross income, whichever is specified, as follows:

(1) Tax on manufacturers.

(A) Upon every person engaging or continuing within the State in the business of manufacturing, including compounding, canning, preserving,



1           packing, printing, publishing, milling,  
2           processing, refining, or preparing for sale,  
3           profit, or commercial use, either directly or  
4           through the activity of others, in whole or in  
5           part, any article or articles, substance or  
6           substances, commodity or commodities, the amount  
7           of the tax to be equal to the value of the  
8           articles, substances, or commodities,  
9           manufactured, compounded, canned, preserved,  
10          packed, printed, milled, processed, refined, or  
11          prepared for sale, as shown by the gross proceeds  
12          derived from the sale thereof by the manufacturer  
13          or person compounding, preparing, or printing  
14          them, multiplied by one-half of one per cent.

15          (B)   The measure of the tax on manufacturers is the  
16                value of the entire product for sale.

17          (2)   Tax on business of selling tangible personal property;  
18                producing.

19          (A)   Upon every person engaging or continuing in the  
20                business of selling any tangible personal  
21                property whatsoever, there is likewise hereby



1           levied, and shall be assessed and collected, a  
2           tax equivalent to four per cent of the gross  
3           proceeds of sales of the business; provided that,  
4           in the case of a wholesaler~~[, the]~~:

5           (i)   The tax shall be equal to one-half of one  
6                   per cent of the gross proceeds of sales of  
7                   the business; ~~[and provided further that~~  
8                   ~~insofar]~~

9           (ii)   Beginning January 1, 2028, the gross  
10                   proceeds or gross income arising from the  
11                   wholesale sale of groceries or  
12                   nonprescription drugs shall be exempt from  
13                   the tax imposed by this subparagraph; and

14           (iii)   Insofar as the sale of tangible personal  
15                   property is a wholesale sale under section  
16                   237-4(a)(8), the tax shall be one-half of  
17                   one per cent of the gross proceeds.

18           Upon every person engaging or continuing within  
19           this State in the business of a producer, the tax  
20           shall be equal to one-half of one per cent of the



1 gross proceeds of sales of the business, or the  
2 value of the products, for sale.

3 (B) Gross proceeds of sales of tangible property in  
4 interstate and foreign commerce shall constitute  
5 a part of the measure of the tax imposed on  
6 persons in the business of selling tangible  
7 personal property, to the extent, under the  
8 conditions, and in accordance with the provisions  
9 of the Constitution of the United States and the  
10 Acts of the Congress of the United States which  
11 may be now in force or may be hereafter adopted,  
12 and whenever there occurs in the State an  
13 activity to which, under the Constitution and  
14 Acts of Congress, there may be attributed gross  
15 proceeds of sales, the gross proceeds shall be so  
16 attributed.

17 (C) No manufacturer or producer, engaged in such  
18 business in the State and selling the  
19 manufacturer's or producer's products for  
20 delivery outside of the State (for example,  
21 consigned to a mainland purchaser via common



1 carrier f.o.b. Honolulu), shall be required to  
2 pay the tax imposed in this chapter for the  
3 privilege of so selling the products, and the  
4 value or gross proceeds of sales of the products  
5 shall be included only in determining the measure  
6 of the tax imposed upon the manufacturer or  
7 producer.

8 (D) A manufacturer or producer, engaged in such  
9 business in the State, shall pay the tax imposed  
10 in this chapter for the privilege of selling its  
11 products in the State, and the value or gross  
12 proceeds of sales of the products, thus subjected  
13 to tax, may be deducted insofar as duplicated as  
14 to the same products by the measure of the tax  
15 upon the manufacturer or producer for the  
16 privilege of manufacturing or producing in the  
17 State; provided that no producer of agricultural  
18 products who sells the products to a purchaser  
19 who will process the products outside the State  
20 shall be required to pay the tax imposed in this



1 chapter for the privilege of producing or selling  
2 those products.

3 (E) A taxpayer selling to a federal cost-plus  
4 contractor may make the election provided for by  
5 paragraph (3) (C), and in that case the tax shall  
6 be computed pursuant to the election,  
7 notwithstanding this paragraph or paragraph (1)  
8 to the contrary.

9 (F) The department, by rule, may require that a  
10 seller take from the purchaser of tangible  
11 personal property a certificate, in a form  
12 prescribed by the department, certifying that the  
13 sale is a sale at wholesale; provided that:

14 (i) Any purchaser who furnishes a certificate  
15 shall be obligated to pay to the seller,  
16 upon demand, the amount of the additional  
17 tax that is imposed upon the seller whenever  
18 the sale in fact is not at wholesale; and

19 (ii) The absence of a certificate in itself shall  
20 give rise to the presumption that the sale



1 is not at wholesale unless the sales of the  
2 business are exclusively at wholesale.

3 (3) Tax upon contractors.

4 (A) Upon every person engaging or continuing within  
5 the State in the business of contracting, the tax  
6 shall be equal to four per cent of the gross  
7 income of the business.

8 (B) In computing the tax levied under this paragraph,  
9 there shall be deducted from the gross income of  
10 the taxpayer so much thereof as has been included  
11 in the measure of the tax levied under  
12 subparagraph (A), on another taxpayer who is a  
13 contractor, as defined in section 237-6; provided  
14 that any person claiming a deduction under this  
15 paragraph shall be required to show in the  
16 person's return the name and general excise  
17 number of the person paying the tax on the amount  
18 deducted by the person.

19 (C) In computing the tax levied under this paragraph  
20 against any federal cost-plus contractor, there  
21 shall be excluded from the gross income of the



1 contractor so much thereof as fulfills the  
2 following requirements:

3 (i) The gross income exempted shall constitute  
4 reimbursement of costs incurred for  
5 materials, plant, or equipment purchased  
6 from a taxpayer licensed under this chapter,  
7 not exceeding the gross proceeds of sale of  
8 the taxpayer on account of the transaction;  
9 and

10 (ii) The taxpayer making the sale shall have  
11 certified to the department that the  
12 taxpayer is taxable with respect to the  
13 gross proceeds of the sale, and that the  
14 taxpayer elects to have the tax on gross  
15 income computed the same as upon a sale to  
16 the state government.

17 (D) A person who, as a business or as a part of a  
18 business in which the person is engaged, erects,  
19 constructs, or improves any building or  
20 structure, of any kind or description, or makes,  
21 constructs, or improves any road, street,



1 sidewalk, sewer, or water system, or other  
2 improvements on land held by the person (whether  
3 held as a leasehold, fee simple, or otherwise),  
4 upon the sale or other disposition of the land or  
5 improvements, even if the work was not done  
6 pursuant to a contract, shall be liable to the  
7 same tax as if engaged in the business of  
8 contracting, unless the person shows that at the  
9 time the person was engaged in making the  
10 improvements the person intended, and for the  
11 period of at least one year after completion of  
12 the building, structure, or other improvements  
13 the person continued to intend to hold and not  
14 sell or otherwise dispose of the land or  
15 improvements. The tax in respect of the  
16 improvements shall be measured by the amount of  
17 the proceeds of the sale or other disposition  
18 that is attributable to the erection,  
19 construction, or improvement of such building or  
20 structure, or the making, constructing, or  
21 improving of the road, street, sidewalk, sewer,



1 or water system, or other improvements. The  
2 measure of tax in respect of the improvements  
3 shall not exceed the amount which would have been  
4 taxable had the work been performed by another,  
5 subject as in other cases to the deductions  
6 allowed by subparagraph (B). Upon the election  
7 of the taxpayer, this paragraph may be applied  
8 notwithstanding that the improvements were not  
9 made by the taxpayer, or were not made as a  
10 business or as a part of a business, or were made  
11 with the intention of holding the same. However,  
12 this paragraph shall not apply in respect of any  
13 proceeds that constitute or are in the nature of  
14 rent, which shall be taxable under paragraph (9);  
15 provided that insofar as the business of renting  
16 or leasing real property under a lease is taxed  
17 under section 237-16.5, the tax shall be levied  
18 by section 237-16.5.

19 (4) Tax upon theaters, amusements, radio broadcasting  
20 stations, etc.



1           (A) Upon every person engaging or continuing within  
2           the State in the business of operating a theater,  
3           opera house, moving picture show, vaudeville,  
4           amusement park, dance hall, skating rink, radio  
5           broadcasting station, or any other place at which  
6           amusements are offered to the public, the tax  
7           shall be equal to four per cent of the gross  
8           income of the business, and in the case of a sale  
9           of an amusement at wholesale under section 237-  
10          4(a) (13), the tax shall be one-half of one per  
11          cent of the gross income.

12          (B) The department may require that the person  
13          rendering an amusement at wholesale take from the  
14          licensed seller a certificate, in a form  
15          prescribed by the department, certifying that the  
16          sale is a sale at wholesale; provided that:

17          (i) Any licensed seller who furnishes a  
18          certificate shall be obligated to pay to the  
19          person rendering the amusement, upon demand,  
20          the amount of additional tax that is imposed



1                   upon the seller whenever the sale is not at  
2                   wholesale; and

3           (ii) The absence of a certificate in itself shall  
4           give rise to the presumption that the sale  
5           is not at wholesale unless the person  
6           rendering the sale is exclusively rendering  
7           the amusement at wholesale.

8       (5) Tax upon sales representatives, etc. Upon every  
9       person classified as a representative or purchasing  
10      agent under section 237-1, engaging or continuing  
11      within the State in the business of performing  
12      services for another, other than as an employee, there  
13      is likewise hereby levied and shall be assessed and  
14      collected a tax equal to four per cent of the  
15      commissions and other compensation attributable to the  
16      services so rendered by the person.

17      (6) Tax on service business.

18           (A) Upon every person engaging or continuing within  
19           the State in any service business or calling  
20           including professional services not otherwise  
21           specifically taxed under this chapter, there is



1 likewise hereby levied and shall be assessed and  
2 collected a tax equal to four per cent of the  
3 gross income of the business, and in the case of  
4 a wholesaler under section 237-4(a)(10), the tax  
5 shall be equal to one-half of one per cent of the  
6 gross income of the business.

7 (B) The department may require that the person  
8 rendering a service at wholesale take from the  
9 licensed seller a certificate, in a form  
10 prescribed by the department, certifying that the  
11 sale is a sale at wholesale; provided that:

12 (i) Any licensed seller who furnishes a  
13 certificate shall be obligated to pay to the  
14 person rendering the service, upon demand,  
15 the amount of additional tax that is imposed  
16 upon the seller whenever the sale is not at  
17 wholesale; and

18 (ii) The absence of a certificate in itself shall  
19 give rise to the presumption that the sale  
20 is not at wholesale unless the person



1 rendering the sale is exclusively rendering  
2 services at wholesale.

3 (C) Where any person is engaged in the business of  
4 selling interstate or foreign common carrier  
5 telecommunication services within and without the  
6 State, other than as a home service provider, the  
7 tax shall be imposed on that portion of gross  
8 income received by a person from service which is  
9 originated or terminated in this State and is  
10 charged to a telephone number, customer, or  
11 account in this State notwithstanding any other  
12 state law (except for the exemption under section  
13 237-23(a)(1)) to the contrary. If, under the  
14 Constitution and laws of the United States, the  
15 entire gross income as determined under this  
16 paragraph of a business selling interstate or  
17 foreign common carrier telecommunication services  
18 cannot be included in the measure of the tax, the  
19 gross income shall be apportioned as provided in  
20 section 237-21; provided that the apportionment



1 factor and formula shall be the same for all  
2 persons providing those services in the State.

3 (D) Where any person is engaged in the business of a  
4 home service provider, the tax shall be imposed  
5 on the gross income received or derived from  
6 providing interstate or foreign mobile  
7 telecommunications services to a customer with a  
8 place of primary use in this State when the  
9 services originate in one state and terminate in  
10 another state, territory, or foreign country;  
11 provided that all charges for mobile  
12 telecommunications services which are billed by  
13 or for the home service provider are deemed to be  
14 provided by the home service provider at the  
15 customer's place of primary use, regardless of  
16 where the mobile telecommunications originate,  
17 terminate, or pass through; provided further that  
18 the income from charges specifically derived from  
19 interstate or foreign mobile telecommunications  
20 services, as determined by books and records that  
21 are kept in the regular course of business by the



1 home service provider in accordance with section  
2 239-24, shall be apportioned under any  
3 apportionment factor or formula adopted under  
4 subparagraph (C). Gross income shall not  
5 include:

6 (i) Gross receipts from mobile  
7 telecommunications services provided to a  
8 customer with a place of primary use outside  
9 this State;

10 (ii) Gross receipts from mobile  
11 telecommunications services that are subject  
12 to the tax imposed by chapter 239;

13 (iii) Gross receipts from mobile  
14 telecommunications services taxed under  
15 section 237-13.8; and

16 (iv) Gross receipts of a home service provider  
17 acting as a serving carrier providing mobile  
18 telecommunications services to another home  
19 service provider's customer.

20 For the purposes of this paragraph, "charges for  
21 mobile telecommunications services", "customer",



1 "home service provider", "mobile  
2 telecommunications services", "place of primary  
3 use", and "serving carrier" have the same meaning  
4 as in section 239-22.

5 (7) Tax on insurance producers. Upon every person engaged  
6 as a licensed producer pursuant to chapter 431, there  
7 is hereby levied and shall be assessed and collected a  
8 tax equal to 0.15 per cent of the commissions due to  
9 that activity.

10 (8) Tax on receipts of sugar benefit payments. Upon the  
11 amounts received from the United States government by  
12 any producer of sugar (or the producer's legal  
13 representative or heirs), as defined under and by  
14 virtue of the Sugar Act of 1948, as amended, or other  
15 Acts of the Congress of the United States relating  
16 thereto, there is hereby levied a tax of one-half of  
17 one per cent of the gross amount received; provided  
18 that the tax levied hereunder on any amount so  
19 received and actually disbursed to another by a  
20 producer in the form of a benefit payment shall be  
21 paid by the person or persons to whom the amount is



1 actually disbursed, and the producer actually making a  
2 benefit payment to another shall be entitled to claim  
3 on the producer's return a deduction from the gross  
4 amount taxable hereunder in the sum of the amount so  
5 disbursed. The amounts taxed under this paragraph  
6 shall not be taxable under any other paragraph,  
7 subsection, or section of this chapter.

8 (9) Tax on other business. Upon every person engaging or  
9 continuing within the State in any business, trade,  
10 activity, occupation, or calling not included in the  
11 preceding paragraphs or any other provisions of this  
12 chapter, there is likewise hereby levied and shall be  
13 assessed and collected, a tax equal to four per cent  
14 of the gross income thereof. In addition, the rate  
15 prescribed by this paragraph shall apply to a business  
16 taxable under one or more of the preceding paragraphs  
17 or other provisions of this chapter, as to any gross  
18 income thereof not taxed thereunder as gross income or  
19 gross proceeds of sales or by taxing an equivalent  
20 value of products, unless specifically exempted."



SECTION 5. Section 237-8.6, Hawaii Revised Statutes, is amended by amending subsection (a) to read as follows:

"(a) The county surcharge on state tax, upon the adoption of county ordinances and in accordance with the requirements of section 46-16.8, shall be levied, assessed, and collected as provided in this section on all gross proceeds and gross income taxable under this chapter. No county shall ~~[set]~~:

(1) Set the surcharge on state tax at a rate greater than one-half per cent of all gross proceeds and gross income taxable under this chapter~~[-]~~; and

(2) Beginning January 1, 2027, impose a surcharge on gross proceeds or gross income arising from the sale of groceries or nonprescription drugs or wholesale transactions involving groceries or nonprescription drugs.

All provisions of this chapter shall apply to the county surcharge on state tax. With respect to the surcharge, the director of taxation shall have all the rights and powers provided under this chapter. In addition, the director of taxation shall have the exclusive rights and power to determine the county or counties in which a person is engaged in business

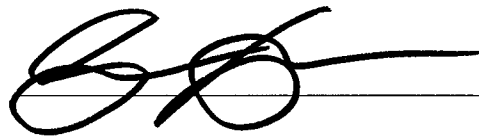


1 and, in the case of a person engaged in business in more than  
2 one county, the director shall determine, through apportionment  
3 or other means, that portion of the surcharge on state tax  
4 attributable to business conducted in each county."

5 SECTION 6. Statutory material to be repealed is bracketed  
6 and stricken. New statutory material is underscored.

7 SECTION 7. This Act shall take effect on July 1, 2026.  
8

INTRODUCED BY:

A handwritten signature in black ink, consisting of a large, stylized 'B' followed by a horizontal line and a circular flourish.

JAN 16 2026



# H.B. NO. 1611

**Report Title:**

General Excise Tax; Groceries; Nonprescription Drugs; Reduced Rate; Exemptions; Wholesale; County Surcharge

**Description:**

Beginning 1/1/2027, establishes a yearly reduction in the general excise tax rate on groceries and nonprescription drugs on a tiered schedule, until 1/1/2034 and thereafter, when a full general excise tax exemption applies. Beginning 1/1/2028, provides a general excise tax exemption on the wholesale sale of groceries and nonprescription drugs. Beginning 1/1/2027, prohibits the counties from imposing a county surcharge on groceries and nonprescription drugs.

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

