
A BILL FOR AN ACT

RELATING TO GENERAL EXCISE TAX.

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

1 SECTION 1. The legislature finds that small businesses are
2 a critical foundation of Hawaii's economy, providing employment
3 opportunities, essential goods and services, and contributing to
4 the vitality and character of local communities. Small
5 businesses are disproportionately impacted by Hawaii's high cost
6 of doing business, particularly the cost of leasing commercial
7 real property.

8 The legislature further finds that Hawaii's general excise
9 tax is a broad-based tax that is frequently passed through to
10 small business tenants as an additional cost embedded in
11 commercial rent or common area maintenance charges. This tax
12 burden increases monthly operating expenses for small
13 businesses, reduces cash flow, and limits their ability to hire
14 employees, invest in growth, or remain in operation.

15 The legislature recognizes that commercial rent is a fixed
16 and unavoidable expense for most small businesses, and that
17 relief from general excise tax on rent can provide immediate,



1 predictable, and meaningful financial support. Reducing this
2 tax burden can improve the survivability of small businesses,
3 particularly locally owned enterprises that lack the market
4 power to absorb rising costs.

5 The legislature further finds that providing targeted tax
6 relief to small businesses leasing real property is consistent
7 with the State's economic development goals and supports
8 entrepreneurship, job creation, and long-term economic
9 resilience. Ensuring that tax policy does not
10 disproportionately disadvantage small businesses is essential to
11 maintaining a diverse and competitive local economy.

12 Accordingly, the purpose of this Act is to exempt gross
13 income from real property leases from the general excise tax
14 when the lessee is a small business, in order to reduce
15 operating costs, promote economic stability, and support the
16 continue operation and growth of small businesses throughout the
17 State.

18 SECTION 2. Section 237-24.75, Hawaii Revised Statutes, is
19 amended to read as follows:



1 **"§237-24.75 Additional exemptions.** In addition to the
2 amounts exempt under section 237-24, this chapter shall not
3 apply to:

4 (1) Amounts received as a beverage container deposit
5 collected under chapter 342G, part VIII;

6 (2) Amounts received by the operator of the Hawaii
7 convention center for reimbursement of costs or
8 advances made pursuant to a contract with the Hawaii
9 tourism authority under section 201B-7; [and]

10 (3) Amounts received by a professional employer
11 organization that is registered with the department of
12 labor and industrial relations pursuant to chapter
13 373L, from a client company equal to amounts that are
14 disbursed by the professional employer organization
15 for employee wages, salaries, payroll taxes, insurance
16 premiums, and benefits, including retirement,
17 vacation, sick leave, health benefits, and similar
18 employment benefits with respect to covered employees
19 at a client company; provided that this exemption
20 shall not apply to amounts received by a professional
21 employer organization after:



- (A) Notification from the department of labor and industrial relations that the professional employer organization has not fulfilled or maintained the registration requirements under this chapter; or
- (B) A determination by the department that the professional employer organization has failed to pay any tax withholding for covered employees or any federal or state taxes for which the professional employer organization is responsible[.];

As used in this paragraph, "professional employer organization", "client company", and "covered employee" shall have the meanings provided in section 373L-1[.]; and

16 (4) Amounts received in the business of leasing real
17 property to another, provided that the lessee is a
18 small business.

As used in this paragraph, "small business" means a business that:



- (A) Has gross receipts of \$3,000,000 or less in the aggregate during the preceding taxable year;
- (B) Employs twenty-five or fewer full time equivalent employees in the State;
- (C) Is independently owned and operated and is not a subsidiary, affiliate, or division of another business entity;
- (D) Is not owned or controlled, directly or indirectly, by a person or entity that owns or controls one or more businesses that, in the aggregate, exceed the gross receipts or employee thresholds of this section; and
- (E) Is not a franchisee, licensee, or operator of a business operating under a national or international brand with more than fifty locations globally.

For purposes of this paragraph, gross receipts and employee counts shall be aggregated across all commonly owned or controlled business entities."

20 SECTION 3. Section 237-16.5, Hawaii Revised Statutes, is
21 amended to read as follows:



1 **"§237-16.5 Tax on written real property leases; deduction**

2 **allowed.** (a) This section relates to the leasing of real
3 property by a lessor to a lessee. There is hereby levied, and
4 shall be assessed and collected annually, a privilege tax
5 against persons engaging or continuing within the State in the
6 business of leasing real property to another, equal to four per
7 cent of the gross proceeds or gross income received or derived
8 from the leasing, except as otherwise provided in section 237-
9 24.75; provided that where real property is subleased by a
10 lessee to a sublessee, the lessee, as provided in this section,
11 shall be allowed a deduction from the amount of gross proceeds
12 or gross income received from its sublease of the real property.
13 The deduction shall be in the amount allowed under this section.

14 All deductions under this section and the name and general
15 excise tax number of the lessee's lessor shall be reported on
16 the general excise tax return. Any deduction allowed under this
17 section shall only be allowed with respect to leases and
18 subleases in writing and relating to the same real property.

19 (b) The lessee shall obtain from its lessor a certificate,
20 in the form as the department shall prescribe, certifying that
21 the lessor is subject to tax under this chapter on the gross



1 proceeds or gross income received from the lessee. The absence
2 of the certificate in itself shall give rise to the presumption
3 that the lessee is not allowed the deduction under this section.

4 (c) If various real property or space leased to the lessee
5 have different rental values, then the total monetary gross
6 proceeds or gross income paid to a lessor for all real property
7 or space shall first be allocated to the fair rental value for
8 each real property or space. If the lessee leases less than one
9 hundred per cent of real property or space that was leased from
10 the lessor to a sublessee, then the total monetary gross
11 proceeds or gross income paid by the lessee for that real
12 property or space to its lessor shall be allocated. The
13 percentage of real property or space subleased shall be
14 multiplied by the monetary gross proceeds or gross income paid
15 for the real property or space by the lessee to its lessor. The
16 product of the preceding multiplication shall be deducted from
17 the monetary gross proceeds or gross income received for real
18 property or space by the lessee.

19 Once the allocations are made, the appropriate deduction
20 under subsection (g) shall be made.



13 (e) As used in this section:

14 "Lease" means the rental of real property under an
15 instrument in writing by which one conveys real property for a
16 specified term and for a specified consideration, and includes
17 the written extension or renegotiation of a lease, and any
18 holdover tenancy.

19 "Lessee" means one who holds real property under lease, and
20 includes a sublessee.



1 "Lessor" means one who conveys real property by lease, and
2 includes a sublessor.

3 "Real property or space" means the area actually rented and
4 used by the lessee, and includes common elements as defined in
5 section 514B-3.

6 "Sublease" includes the rental of real property which is
7 held under a lease and is made in a written document by which
8 one conveys real property for a specified term and for a
9 specified consideration. A sublease includes the written
10 extension or renegotiation of a sublease and any holdover
11 tenancy under the written sublease.

12 "Sublessee" means one who holds real property under a
13 sublease.

14 "Sublessor" means one who conveys real property by
15 sublease.

16 (f) This section shall not cause the tax upon a lessor,
17 with respect to any item of the lessor's gross proceeds or gross
18 income, to exceed four per cent.

19 (g) After allocation under subsection (c), if necessary,
20 the deduction under this section shall be allowed from the gross
21 proceeds or gross income of the lessee received from its



1 sublease in an amount calculated by multiplying the gross
2 proceeds or gross income paid by the lessee to its lessor for
3 the lease of the real property by .875.

4 The amount calculated shall be deducted by the lessee from
5 the lessee's total reported gross proceeds or gross income. The
6 deduction allowed by this subsection may be taken by the fiscal
7 and calendar year lessees."

8 SECTION 4. Section 237-30.5, Hawaii Revised Statutes, is
9 amended to read as follows:

10 **"S237-30.5 Collection of rental by third party; filing
11 with department; statement required.** (a) Every person
12 authorized under an agreement by the owner of real property
13 located within this State to collect rent on behalf of the owner
14 shall be subject to this section.

15 (b) Every written rental collection agreement shall have
16 on the first page of the agreement the name, address, social
17 security number, and, if available, the general excise tax
18 number of the owner of the real property being rented, the
19 address of the property being rented, and the following
20 statement that shall be set forth in bold print and in ten-point
21 type size:



1

2 "HAWAII GENERAL EXCISE TAXES MUST BE PAID ON THE GROSS RENTS
3 COLLECTED BY ANY PERSON RENTING REAL PROPERTY IN THE STATE OF
4 HAWAII. A COPY OF THE FIRST PAGE OF THIS AGREEMENT, OR OF
5 FEDERAL INTERNAL REVENUE FORM 1099 STATING THE AMOUNT OF RENTS
6 COLLECTED, SHALL BE FILED WITH THE HAWAII DEPARTMENT OF
7 TAXATION."

8

9 Every person entering an oral rental collection agreement
10 shall furnish the department of taxation the information
11 required under this subsection and shall give the owner of the
12 property a copy of the notice required by this subsection.

13 (c) Every person authorized to collect rent for another
14 person shall file a copy of the first page of the rental
15 collection agreement with the department of taxation within
16 thirty days after entering into the agreement, or shall file a
17 copy of federal Internal Revenue form 1099, the property owner's
18 social security number, and, if available, the general excise
19 tax license number of the owner of the property being rented
20 with the department of taxation at the same time that the forms
21 must be filed with the Internal Revenue Service.



10 (e) Failure to comply with any provision of this section
11 shall be unlawful, except as otherwise exempted by section 237-
12 24.75. The department of taxation may issue a citation to any
13 person who fails to comply with any provision of this section.
14 A citation issued pursuant to this subsection shall include a
15 monetary fine of no more than \$500 per violation. Any fine
16 assessed under this subsection shall be due and payable thirty
17 days after issuance, subject to appeal rights provided under
18 this subsection. Citations may be appealed to the director or
19 the director's designee, and the determination of the director
20 may be appealed to the circuit court pursuant to chapter 91."

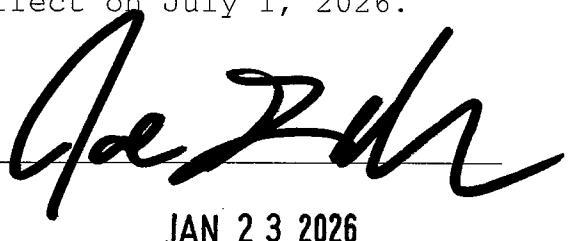


1 SECTION 5. Statutory material to be repealed is bracketed
2 and stricken. New statutory material is underscored.

3 SECTION 6. This Act shall take effect on July 1, 2026.

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INTRODUCED BY:



A handwritten signature in black ink, appearing to read "Joe Zdrh", is written over a horizontal line. Below the signature, the date "JAN 23 2026" is printed in a standard font.



H.B. NO. 2134

Report Title:

GET; Exemption; Small Businesses; Real Property; Lease

Description:

Exempts gross income from real property leases from the general excise tax when the lessee is a small business. Makes conforming amendments.

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