HOUSE OF REPRESENTATIVES
THIRTY-THIRD LEGISLATURE, 2026
STATE OF HAWAII

H.B. NO. 2586

A BILL FOR AN ACT

RELATING TO TAXATION.

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

SECTION 1. The legislature finds that the State is facing a potential financial crisis due to federal policies related to tariffs and entitlement programs. The University of Hawaii Economic Research Organization has projected a mild recession in 2026, indicating a likely decline in state revenues.

The legislature further finds that income tax cuts approved in 2024 are expected to result in more than $7,000,000,000 in lost state revenue over the next six fiscal years. The legislature also finds that the federal government awards contracts for work performed within the State to businesses that may not be registered to do business in Hawaii and, as a result, may not be remitting the general excise tax as required under state law. In some instances, this has a multiplier effect of also reducing income taxes due to imported laborers who are not paying state income tax.

Accordingly, the purpose of this Act is to increase state revenues without imposing major financial impacts on residents by:

(1) Applying the retail or higher general excise tax or use tax rate to purchases or imports of new motor vehicles by rental car companies;

(2) Funding a position within the department of taxation to identify, monitor, and collect the general excise tax from contractors awarded federal contracts for work performed in the State; and

(3) Appropriating funds to the department of Hawaiian home lands to address the beneficiary waiting list.

SECTION 2. Section 237-1, Hawaii Revised Statutes, is amended by adding two new definitions to be appropriately inserted and to read as follows:

""Lessor of rental motor vehicles" has the same meaning as "lessor" as defined in section 251-1.

"Rental motor vehicle" has the same meaning as in section 251-1."

SECTION 3. Section 237-4, Hawaii Revised Statutes, is amended by amending subsection (a) to read as follows:

"(a) "Wholesaler" or "jobber" applies only to a person making sales at wholesale. Only the following are sales at wholesale:

(1) Sales to a licensed retail merchant, jobber, or other licensed seller for purposes of resale; provided that a sale for purposes of resale does not include the sale of a motor vehicle to a lessor of rental motor vehicles for use as a rental motor vehicle;

(2) Sales to a licensed manufacturer of materials or commodities that are to be incorporated by the manufacturer into a finished or saleable product (including the container or package in which the product is contained) during the course of its preservation, manufacture, or processing, including preparation for market, and that will remain in such finished or saleable product in such form as to be perceptible to the senses, which finished or saleable product is to be sold and not otherwise used by the manufacturer;

(3) Sales to a licensed producer or cooperative association of materials or commodities that are to be

incorporated by the producer or by the cooperative association into a finished or saleable product that is to be sold and not otherwise used by the producer or cooperative association, including specifically materials or commodities expended as essential to the planting, growth, nurturing, and production of commodities that are sold by the producer or by the cooperative association;

(4) Sales to a licensed contractor, of materials or commodities that are to be incorporated by the contractor into the finished work or project required by the contract and that will remain in such finished work or project in such form as to be perceptible to the senses;

(5) Sales to a licensed producer, or to a cooperative association described in section [237-23(a)(8)] for sale to a licensed producer, or to a licensed person operating a feed lot, of poultry or animal feed, hatching eggs, semen, replacement stock, breeding services for the purpose of raising or producing animal or poultry products for disposition as

described in section 237-5 or for incorporation into a manufactured product as described in paragraph (2) or for the purpose of breeding, hatching, milking, or egg laying other than for the customer's own consumption of the meat, poultry, eggs, or milk so produced; provided that in the case of a feed lot operator, only the segregated cost of the feed furnished by the feed lot operator as part of the feed lot operator's service to a licensed producer of poultry or animals to be butchered or to a cooperative association described in section [237-23(a)(8)] of such licensed producers shall be deemed to be a sale at wholesale; and provided further that any amount derived from the furnishing of feed lot services, other than the segregated cost of feed, shall be deemed taxable at the service business rate. This paragraph shall not apply to the sale of feed for poultry or animals to be used for hauling, transportation, or sports purposes;

(6) Sales to a licensed producer, or to a cooperative association described in section [237-23(a)(8)] for sale to the producer, of seed or seedstock for

producing agricultural and aquacultural products, or bait for catching fish (including the catching of bait for catching fish), which agricultural and aquacultural products or fish are to be disposed of as described in section 237-5 or to be incorporated in a manufactured product as described in paragraph (2);

(7) Sales to a licensed producer, or to a cooperative association described in section [237-23(a)(8)] for sale to such producer; of polypropylene shade cloth; of polyfilm; of polyethylene film; of cartons and such other containers, wrappers, and sacks, and binders to be used for packaging eggs, vegetables, fruits, and other agricultural and aquacultural products; of seedlings and cuttings for producing nursery plants or aquacultural products; or of chick containers; which cartons and such other containers, wrappers, and sacks, binders, seedlings, cuttings, and containers are to be used as described in section 237-5, or to be incorporated in a manufactured product as described in paragraph (2);

(8) Sales of tangible personal property where:

(A) Tangible personal property is sold upon the order or request of a licensed seller for the purpose of rendering a service in the course of the person's service business or calling, or upon the order or request of a person subject to tax under section 237D-2 for the purpose of furnishing transient accommodations;

(B) The tangible personal property becomes or is used as an identifiable element of the service rendered; and

(C) The cost of the tangible personal property does not constitute overhead to the licensed seller;

(9) Sales to a licensed leasing company of capital goods that have a depreciable life, are purchased by the leasing company for lease to its customers, and are thereafter leased as a service to others; <u>provided that this paragraph shall not apply to the sale of a motor vehicle to a lessor of rental motor vehicles for use as a rental motor vehicle;</u>

(10) Sales of services to a licensed seller engaging in a business or calling whenever:

(A) Either:

(i) In the context of a service-to-service transaction, a service is rendered upon the order or request of a licensed seller for the purpose of rendering another service in the course of the seller's service business or calling, including a dealer's furnishing of goods or services to the purchaser of tangible personal property to fulfill a warranty obligation of the manufacturer of the property;

(ii) In the context of a service-to-tangible personal property transaction, a service is rendered upon the order or request of a licensed seller for the purpose of manufacturing, producing, or preparing tangible personal property to be sold;

(iii) In the context of a services-to-contracting transaction, a service is rendered upon the order or request of a licensed contractor as defined in section 237-6 for the purpose of assisting that licensed contractor; or

(iv) In the context of a services-to-transient accommodations rental transaction, a service is rendered upon the order or request of a person subject to tax under section 237D-2 for the purpose of furnishing transient accommodations;

(B) The benefit of the service passes to the customer of the licensed seller, licensed contractor, or person furnishing transient accommodations as an identifiable element of the other service or property to be sold, the contracting, or the furnishing of transient accommodations;

(C) The cost of the service does not constitute overhead to the licensed seller, licensed contractor, or person furnishing transient accommodations;

(D) The gross income of the licensed seller is not divided between the licensed seller and another licensed seller, contractor, or person furnishing transient accommodations for imposition of the tax under this chapter;

(E) The gross income of the licensed seller is not subject to a deduction under this chapter or chapter 237D; and

(F) The resale of the service, tangible personal property, contracting, or transient accommodations is subject to the tax imposed under this chapter at the highest tax rate.

(11) Sales to a licensed retail merchant, jobber, or other licensed seller of bulk condiments or prepackaged single-serving packets of condiments that are provided to customers by the licensed retail merchant, jobber, or other licensed seller;

(12) Sales to a licensed retail merchant, jobber, or other licensed seller of tangible personal property that will be incorporated or processed by the licensed retail merchant, jobber, or other licensed seller into a finished or saleable product during the course of its preparation for market (including disposable, nonreturnable containers, packages, or wrappers, in

which the product is contained and that are generally known and most commonly used to contain food or beverage for transfer or delivery), and which finished or saleable product is to be sold and not otherwise used by the licensed retail merchant, jobber, or other licensed seller;

(13) Sales of amusements subject to taxation under section 237-13(4) to a licensed seller engaging in a business or calling whenever:

(A) Either:

(i) In the context of an amusement-to-service transaction, an amusement is rendered upon the order or request of a licensed seller for the purpose of rendering another service in the course of the seller's service business or calling;

(ii) In the context of an amusement-to-tangible personal property transaction, an amusement is rendered upon the order or request of a licensed seller for the purpose of selling tangible personal property; or

(iii) In the context of an amusement-to-amusement transaction, an amusement is rendered upon the order or request of a licensed seller for the purpose of rendering another amusement in the course of the person's amusement business;

(B) The benefit of the amusement passes to the customer of the licensed seller as an identifiable element of the other service, tangible personal property to be sold, or amusement;

(C) The cost of the amusement does not constitute overhead to the licensed seller;

(D) The gross income of the licensed seller is not divided between the licensed seller and another licensed seller, person furnishing transient accommodations, or person rendering an amusement for imposition of the tax under chapter 237;

(E) The gross income of the licensed seller is not subject to a deduction under this chapter; and

(F) The resale of the service, tangible personal property, or amusement is subject to the tax imposed under this chapter at the highest rate.

As used in this paragraph, "amusement" means entertainment provided as part of a show for which there is an admission charge; and

(14) Sales by a printer to a publisher of magazines or similar printed materials containing advertisements, when the publisher is under contract with the advertisers to distribute a minimum number of magazines or similar printed materials to the public or defined segment of the public, whether or not there is a charge to the persons who actually receive the magazines or similar printed materials."

SECTION 4. Section 238-1, Hawaii Revised Statutes, is amended by adding two new definitions to be appropriately inserted and to read as follows:

""Lessor of rental motor vehicles" has the same meaning as "lessor" as defined in section 251-1.

"Rental motor vehicle" has the same meaning as in section 251-1."

SECTION 5. Section 238-2, Hawaii Revised Statutes, is amended to read as follows:

"**§238-2 Imposition of tax on tangible personal property; exemptions.** There is hereby levied an excise tax on the use in this State of tangible personal property which is imported by a taxpayer in this State whether owned, purchased from an unlicensed seller, or however acquired for use in this State. The tax imposed by this chapter shall accrue when the property is acquired by the importer or purchaser and becomes subject to the taxing jurisdiction of the State. The rates of the tax hereby imposed and the exemptions thereof are as follows:

(1) If the importer or purchaser is licensed under chapter 237 and is:

(A) A wholesaler or jobber importing or purchasing for purposes of sale or resale; or

(B) A manufacturer importing or purchasing material or commodities which are to be incorporated by the manufacturer into a finished or saleable product (including the container or package in which the product is contained) wherein it will remain in such form as to be perceptible to the senses, and which finished or saleable product is to be sold in such manner as to result in a further tax on the activity of the manufacturer as the manufacturer or as a wholesaler, and not as a retailer,

there shall be no tax; provided that if the wholesaler, jobber, or manufacturer is also engaged in business as a retailer (so classed under chapter 237), paragraph (2) shall apply to the wholesaler, jobber, or manufacturer, but the director of taxation shall refund to the wholesaler, jobber, or manufacturer, in the manner provided under section 231-23(c) such amount of tax as the wholesaler, jobber, or manufacturer shall, to the satisfaction of the director, establish to have been paid by the wholesaler, jobber, or manufacturer to the director with respect to property which has been used by the wholesaler, jobber, or manufacturer for the purposes stated in this paragraph;

(2) If the importer or purchaser is licensed under chapter 237 and is:

(A) A retailer or other person importing or purchasing for purposes of sale or resale, not exempted by paragraph (1); <u>provided that importing or purchasing for purposes of sale or resale does not include the importing or purchasing of a motor vehicle by a lessor of rental motor vehicles for use as a rental motor vehicle;</u>

(B) A manufacturer importing or purchasing material or commodities which are to be incorporated by the manufacturer into a finished or saleable product (including the container or package in which the product is contained) wherein it will remain in such form as to be perceptible to the senses, and which finished or saleable product is to be sold at retail in this State, in such manner as to result in a further tax on the activity of the manufacturer in selling such products at retail;

(C) A contractor importing or purchasing material or commodities which are to be incorporated by the contractor into the finished work or project required by the contract and which will remain in such finished work or project in such form as to be perceptible to the senses;

(D) A person engaged in a service business or calling as defined in section 237-7, or a person furnishing transient accommodations subject to the tax imposed by section 237D-2, in which the import or purchase of tangible personal property would have qualified as a sale at wholesale as defined in section 237-4(a)(8) had the seller of the property been subject to the tax in chapter 237; or

(E) A publisher of magazines or similar printed materials containing advertisements, when the publisher is under contract with the advertisers to distribute a minimum number of magazines or similar printed materials to the public or defined segment of the public, whether or not there is a charge to the persons who actually receive the magazines or similar printed materials,

the tax shall be one-half of one per cent of the purchase price of the property, if the purchase and sale are consummated in Hawaii; or, if there is no purchase price applicable thereto, or if the purchase or sale is consummated outside of Hawaii, then one-half of one per cent of the value of such property; and

(3) In all other cases, four per cent of the value of the property.

For purposes of this section, tangible personal property is property that is imported by the taxpayer for use in this State, notwithstanding the fact that title to the property, or the risk of loss to the property, passes to the purchaser of the property at a location outside this State."

SECTION 6. There is appropriated out of the general revenues of the State of Hawaii the sum of $ or so much thereof as may be necessary for fiscal year 2026-2027 for one full-time equivalent (1.0 FTE) tax inspector position within the department of taxation.

The sum appropriated shall be expended by the department of taxation for the purposes of this Act.

SECTION 7. There is appropriated out of the general revenues of the State of Hawaii the sum of $ or so much thereof as may be necessary for fiscal year 2026-2027 for the department of Hawaiian home lands for:

(1) The development of lots or units;

(2) The purchase of available land or units;

(3) The provision of funding for an applicant on the waiting list or a qualified relative of the applicant similar to the qualified relative of a lessee as referenced in section 208(5) of the Hawaiian Homes Commission Act of 1920, as amended, who does not own a principal residence to purchase;

(4) The provision of a mortgage or rental subsidy to the applicant on the waiting list for the applicant's principal residence in the State; and

(5) Other services as necessary to address the waiting list.

The sum appropriated shall be expended by the department of Hawaiian home lands for the purposes of this Act.

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SECTION 8. New statutory material is underscored.

SECTION 9. This Act shall take effect on July 1, 2026.

INTRODUCED BY: ______________________

JAN 28 2026

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Report Title:
DOTAX; DHHL; General Excise Tax; Use Tax; Rental Motor Vehicles; Appropriation

Description:
Applies the retail or higher general excise tax or use tax rate to purchases or imports of new motor vehicles by rental car companies. Appropriates funds for a position in the Department of Taxation. Appropriates funds to the Department of Hawaiian Home Lands to address the beneficiary waiting list.

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