
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 per cent 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 does not directly
6 separate food purchases by residents and tourists, Hawaii's high
7 share of restaurant and hotel food sales, combined with well-
8 established tourism spending patterns, indicates that nearly all
9 grocery purchases are made by resident households, particularly
10 low- and 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 (1) Beginning January 1, 2027, establish a yearly
- 2 reduction in the general excise tax rate on groceries
- 3 and nonprescription drugs on a tiered schedule until
- 4 January 1, 2034, when a full general excise tax
- 5 exemption will begin;
- 6 (2) Beginning January 1, 2027, prohibit the counties from
- 7 imposing a county surcharge on groceries and
- 8 nonprescription drugs; and
- 9 (3) Beginning January 1, 2028, provide a general excise
- 10 tax exemption on the wholesale sale of groceries and
- 11 nonprescription drugs.

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

15 "**S237- Groceries; nonprescription drugs; reduced rates.**

16 (a) Notwithstanding any provision of law to the contrary,
17 except in the case of a wholesaler under section 237-13(2)(A),
18 beginning January 1, 2027, there is hereby levied and shall be
19 assessed and collected a tax on the gross proceeds or gross
20 income received from the sale of groceries and nonprescription
21 drugs at the following rates:



1 (1) Beginning January 1, 2027: 3.5 per cent;
2 (2) Beginning January 1, 2028: 3.0 per cent;
3 (3) Beginning January 1, 2029: 2.5 per cent;
4 (4) Beginning January 1, 2030: 2.0 per cent;
5 (5) Beginning January 1, 2031: 1.5 per cent;
6 (6) Beginning January 1, 2032: 1.0 per cent; and
7 (7) Beginning January 1, 2033: 0.5 per cent.
8 (b) Notwithstanding any provision of law to the contrary,
9 beginning January 1, 2034, and thereafter, there shall be
10 exempted from, and excluded from the measure of, the taxes
11 imposed by this chapter all of the gross proceeds or gross
12 income received from the sale of groceries and nonprescription
13 drugs."

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

17 ""Groceries" means substances, whether in liquid,
18 concentrated, solid, frozen, dried, or dehydrated form, that are
19 sold for ingestion or chewing by humans and are consumed for
20 their taste or nutritional value, including any food or food
21 product for home consumption. "Groceries" does not include



1 alcoholic beverages, tobacco, and hot foods or hot food products
2 prepared for immediate consumption.

3 "Nonprescription drug" has the same meaning as in section
4 328-1.

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

8 SECTION 4. Section 237-8.6, Hawaii Revised Statutes, is
9 amended by amending subsection (a) to read as follows:

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

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

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



1 All provisions of this chapter shall apply to the county
2 surcharge on state tax. With respect to the surcharge, the
3 director of taxation shall have all the rights and powers
4 provided under this chapter. In addition, the director of
5 taxation shall have the exclusive rights and power to determine
6 the county or counties in which a person is engaged in business
7 and, in the case of a person engaged in business in more than
8 one county, the director shall determine, through apportionment
9 or other means, that portion of the surcharge on state tax
10 attributable to business conducted in each county."

11 SECTION 5. Section 237-13, Hawaii Revised Statutes, is
12 amended to read as follows:

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

19 (1) Tax on manufacturers.

20 (A) Upon every person engaging or continuing within
21 the State in the business of manufacturing,



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

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

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

20 (A) Upon every person engaging or continuing in the
21 business of selling any tangible personal



1 property whatsoever, there is likewise hereby
2 levied, and shall be assessed and collected, a
3 tax equivalent to four per cent of the gross
4 proceeds of sales of the business; provided that,
5 in the case of a wholesaler[~~, the~~]:
6 (i) The tax shall be equal to one-half of one
7 per cent of the gross proceeds of sales of
8 the business; [and provided further that
9 insofar]
10 (ii) Beginning January 1, 2028, the gross
11 proceeds or gross income arising from the
12 wholesale sale of groceries or
13 nonprescription drugs shall be exempt from
14 the tax imposed by this subparagraph; and
15 (iii) Insofar as the sale of tangible personal
16 property is a wholesale sale under section
17 237-4(a)(8), the tax shall be one-half of
18 one per cent of the gross proceeds.
19 Upon every person engaging or continuing within
20 this State in the business of a producer, the tax
21 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.

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



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.



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.

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



- 1** SECTION 6. Statutory material to be repealed is bracketed
- 2** and stricken. New statutory material is underscored.
- 3** SECTION 7. This Act shall take effect on July 1, 3000.



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, when a full general excise tax exemption applies. Beginning 1/1/2027, prohibits the counties from imposing a county surcharge on groceries and nonprescription drugs. Beginning 1/1/2028, provides a general excise tax exemption on the wholesale sale of groceries and nonprescription drugs. Effective 7/1/3000. (HD1)

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