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# A BILL FOR AN ACT

RELATING TO TAXES.

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

1           SECTION 1. The legislature finds that the fiscal integrity  
2 of the State of Hawaii depends upon a tax system in which  
3 entities benefiting from the State's infrastructure, workforce,  
4 and economic stability contribute equitably to its support. The  
5 legislature further finds that statutory gaps and evolving  
6 business practices may result in unintended fiscal leakage,  
7 whereby revenue generated within the State is not fully captured  
8 for public purposes.

9           The legislature finds that rental motor vehicle lessors are  
10 currently subject to the wholesale general excise tax rate of  
11 0.5 per cent on vehicle acquisitions, a rate substantially lower  
12 than the retail rate paid by residents. This classification has  
13 historically been premised on the treatment of such vehicles as  
14 inventory for lease and subsequent resale. However, testimony  
15 and public industry statements indicate that major rental  
16 operators may rely heavily on accelerated depreciation and asset  
17 turnover models, and that a significant portion of vehicles are



1 resold outside the State. When vehicles are not resold in  
2 Hawaii, the State does not capture general excise tax revenue on  
3 the downstream retail transaction, resulting in materially  
4 different tax outcomes compared to other in-state retail  
5 transactions.

6 The legislature further finds that inequities may also  
7 arise in the government contracting sector where out-of-state  
8 contractors performing work in Hawaii fail to properly register  
9 and remit general excise taxes as required by law. An analysis  
10 of federal contract awards in the first half of 2021 indicated  
11 that approximately thirty-five per cent of contracts, totaling  
12 approximately \$55,000,000, were awarded to entities not  
13 registered to do business in the State. Noncompliance in this  
14 sector undermines fair competition and disadvantages local  
15 contractors who meet their tax obligations.

16 The legislature determines that there is a direct and  
17 rational policy connection between closing identified tax gaps  
18 and the public expenditures authorized by this Act. Ensuring  
19 proper registration and enforcement within the department of  
20 taxation promotes equity among contractors and safeguards state  
21 revenue.



1           The legislature further finds that the tourism-dependent  
2 rental motor vehicle industry operates within and benefits from  
3 Hawaii's stable economic and civic environment. The maintenance  
4 of that stability depends upon essential public institutions,  
5 including public education. During the COVID-19 pandemic,  
6 public school teachers continued to provide instructional  
7 services under hazardous and uncertain conditions, enabling the  
8 workforce to remain engaged and supporting the broader economic  
9 recovery. The recovery of the visitor industry, including  
10 rental motor vehicle operations, occurred within this stabilized  
11 environment.

12           Accordingly, the purpose of this Act is to:

- 13           (1) Modify the tax treatment applicable to rental motor  
14           vehicles to ensure equitable capture of general excise  
15           tax revenue where vehicles are not resold within the  
16           State;
- 17           (2) Appropriate funds to establish enforcement capacity  
18           within the department of taxation to improve  
19           compliance among out-of-state federal contractors; and
- 20           (3) Deposit additional captured revenues into a special  
21           fund to address teacher hazard pay obligations.



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

4 "Lessor" has the same meaning as in section 251-1.  
5 "Rental motor vehicle" has the same meaning as in section  
6 251-1."

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

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

12 (1) Sales to a licensed retail merchant, jobber, or other  
13 licensed seller for purposes of resale; provided that  
14 a sale for purpose of resale shall not include the  
15 sale of a motor vehicle to a lessor of rental motor  
16 vehicles for use as a rental motor vehicle; provided  
17 further that:

18 (A) Beginning on July 1, 2026, and ending on June 30,  
19 2030, the revenue generated for the sale of a  
20 motor vehicle to a lessor of rental motor  
21 vehicles for use as a rental motor vehicle in



1                   accordance with paragraph (1) shall be deposited  
 2                   into the teacher temporary hazard pay special  
 3                   fund established pursuant to Act \_\_\_\_\_, Session  
 4                   Laws of Hawaii 2026; and

5                   (B) Beginning on July 1, 2030, and thereafter, the  
 6                   revenue generated for the sale of a motor vehicle  
 7                   to a lessor of rental motor vehicles for use as a  
 8                   rental motor vehicle in accordance with paragraph  
 9                   (1) shall be deposited into the general fund;

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



- 1           (3) Sales to a licensed producer or cooperative  
2           association of materials or commodities that are to be  
3           incorporated by the producer or by the cooperative  
4           association into a finished or saleable product that  
5           is to be sold and not otherwise used by the producer  
6           or cooperative association, including specifically  
7           materials or commodities expended as essential to the  
8           planting, growth, nurturing, and production of  
9           commodities that are sold by the producer or by the  
10          cooperative association;
- 11          (4) Sales to a licensed contractor, of materials or  
12          commodities that are to be incorporated by the  
13          contractor into the finished work or project required  
14          by the contract and that will remain in such finished  
15          work or project in such form as to be perceptible to  
16          the senses;
- 17          (5) Sales to a licensed producer, or to a cooperative  
18          association described in section [‡]237-23(a)(8) [‡]  
19          for sale to a licensed producer, or to a licensed  
20          person operating a feed lot, of poultry or animal  
21          feed, hatching eggs, semen, replacement stock,



1 breeding services for the purpose of raising or  
2 producing animal or poultry products for disposition  
3 as described in section 237-5 or for incorporation  
4 into a manufactured product as described in paragraph  
5 (2) or for the purpose of breeding, hatching, milking,  
6 or egg laying other than for the customer's own  
7 consumption of the meat, poultry, eggs, or milk so  
8 produced; provided that in the case of a feed lot  
9 operator, only the segregated cost of the feed  
10 furnished by the feed lot operator as part of the feed  
11 lot operator's service to a licensed producer of  
12 poultry or animals to be butchered or to a cooperative  
13 association described in section [†]237-23(a)(8)[†] of  
14 such licensed producers shall be deemed to be a sale  
15 at wholesale; [and] provided further that any amount  
16 derived from the furnishing of feed lot services,  
17 other than the segregated cost of feed, shall be  
18 deemed taxable at the service business rate. This  
19 paragraph shall not apply to the sale of feed for  
20 poultry or animals to be used for hauling,  
21 transportation, or sports purposes;



- 1           (6) Sales to a licensed producer, or to a cooperative  
2           association described in section [‡]237-23(a)(8)[‡]  
3           for sale to the producer, of seed or seedstock for  
4           producing agricultural and aquacultural products, or  
5           bait for catching fish (including the catching of bait  
6           for catching fish), which agricultural and  
7           aquacultural products or fish are to be disposed of as  
8           described in section 237-5 or to be incorporated in a  
9           manufactured product as described in paragraph (2);
- 10          (7) Sales to a licensed producer, or to a cooperative  
11          association described in section [‡]237-23(a)(8)[‡]  
12          for sale to such producer[‡], of polypropylene shade  
13          cloth; of polyfilm; of polyethylene film; of cartons  
14          and such other containers, wrappers, and sacks, and  
15          binders to be used for packaging eggs, vegetables,  
16          fruits, and other agricultural and aquacultural  
17          products; of seedlings and cuttings for producing  
18          nursery plants or aquacultural products; or of chick  
19          containers; [~~which~~] provided that such cartons and  
20          such other containers, wrappers, and sacks, binders,  
21          seedlings, cuttings, and containers are to be used as



1 described in section 237-5, or to be incorporated in a  
2 manufactured product as described in paragraph (2);  
3 (8) Sales of tangible personal property where:  
4 (A) Tangible personal property is sold upon the order  
5 or request of a licensed seller for the purpose  
6 of rendering a service in the course of the  
7 person's service business or calling, or upon the  
8 order or request of a person subject to tax under  
9 section 237D-2 for the purpose of furnishing  
10 transient accommodations;  
11 (B) The tangible personal property becomes or is used  
12 as an identifiable element of the service  
13 rendered; and  
14 (C) The cost of the tangible personal property does  
15 not constitute overhead to the licensed seller;  
16 (9) Sales to a licensed leasing company of capital goods  
17 that have a depreciable life, are purchased by the  
18 leasing company for lease to its customers, and are  
19 thereafter leased as a service to others; provided  
20 that this paragraph shall not apply to the sale of a



1 motor vehicle to a lessor of rental motor vehicles for  
2 use as a rental motor vehicle; provided further that;

3 (A) Beginning on July 1, 2026, and ending on June 30,  
4 2030, the revenue generated for the sale of a  
5 motor vehicle to a lessor of rental motor  
6 vehicles for use as a rental motor vehicle in  
7 accordance with paragraph (9) shall be deposited  
8 into the teacher temporary hazard pay special  
9 fund established pursuant to Act , Session  
10 Laws of Hawaii 2026; and

11 (B) Beginning on July 1, 2030, and thereafter, the  
12 revenue generated for the sale of a motor vehicle  
13 to a lessor of rental motor vehicles for use as a  
14 rental motor vehicle in accordance with paragraph  
15 (9) shall be deposited into the general fund;

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

18 (A) Either:

19 (i) In the context of a service-to-service  
20 transaction, a service is rendered upon the  
21 order or request of a licensed seller for



1 the purpose of rendering another service in  
 2 the course of the seller's service business  
 3 or calling, including a dealer's furnishing  
 4 of goods or services to the purchaser of  
 5 tangible personal property to fulfill a  
 6 warranty obligation of the manufacturer of  
 7 the property;

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

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

19 (iv) In the context of a services-to-transient  
 20 accommodations rental transaction, a service  
 21 is rendered upon the order or request of a



1 person subject to tax under section 237D-2  
2 for the purpose of furnishing transient  
3 accommodations;

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

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

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

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



- 1 (F) The resale of the service, tangible personal  
2 property, contracting, or transient  
3 accommodations is subject to the tax imposed  
4 under this chapter at the highest tax rate[-];
- 5 (11) Sales to a licensed retail merchant, jobber, or other  
6 licensed seller of bulk condiments or prepackaged  
7 single-serving packets of condiments that are provided  
8 to customers by the licensed retail merchant, jobber,  
9 or other licensed seller;
- 10 (12) Sales to a licensed retail merchant, jobber, or other  
11 licensed seller of tangible personal property that  
12 will be incorporated or processed by the licensed  
13 retail merchant, jobber, or other licensed seller into  
14 a finished or saleable product during the course of  
15 its preparation for market (including disposable,  
16 nonreturnable containers, packages, or wrappers, in  
17 which the product is contained and that are generally  
18 known and most commonly used to contain food or  
19 beverage for transfer or delivery), and which finished  
20 or saleable product is to be sold and not otherwise



1 used by the licensed retail merchant, jobber, or other  
2 licensed seller;

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

6 (A) Either:

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

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

18 (iii) In the context of an amusement-to-amusement  
19 transaction, an amusement is rendered upon  
20 the order or request of a licensed seller  
21 for the purpose of rendering another



- 1                   amusement in the course of the person's  
2                   amusement business;
- 3           (B) The benefit of the amusement passes to the  
4           customer of the licensed seller as an  
5           identifiable element of the other service,  
6           tangible personal property to be sold, or  
7           amusement;
- 8           (C) The cost of the amusement does not constitute  
9           overhead to the licensed seller;
- 10          (D) The gross income of the licensed seller is not  
11          divided between the licensed seller and another  
12          licensed seller, person furnishing transient  
13          accommodations, or person rendering an amusement  
14          for imposition of the tax under chapter 237;
- 15          (E) The gross income of the licensed seller is not  
16          subject to a deduction under this chapter; and
- 17          (F) The resale of the service, tangible personal  
18          property, or amusement is subject to the tax  
19          imposed under this chapter at the highest rate.



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

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

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

15 "Lessor" has the same meaning as in section 251-1.

16 "Rental motor vehicle" has the same meaning as in section  
17 251-1."

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

20 **"§238-2 Imposition of tax on tangible personal property;**  
21 **exemptions.** There is hereby levied an excise tax on the use in



1 [~~this~~] the State of tangible personal property [~~which~~] that is  
2 imported by a taxpayer in [~~this~~] the State whether owned,  
3 purchased from an unlicensed seller, or however acquired for use  
4 in [~~this~~] the State. The tax imposed by this chapter shall  
5 accrue when the property is acquired by the importer or  
6 purchaser and becomes subject to the taxing jurisdiction of the  
7 State. The rates of the tax hereby imposed and the exemptions  
8 thereof are as follows:

9 (1) If the importer or purchaser is licensed under chapter  
10 237 and is:

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

13 (B) A manufacturer importing or purchasing material  
14 or commodities which are to be incorporated by  
15 the manufacturer into a finished or saleable  
16 product (including the container or package in  
17 which the product is contained) wherein it will  
18 remain in such form as to be perceptible to the  
19 senses, and which finished or saleable product is  
20 to be sold in such manner as to result in a  
21 further tax on the activity of the manufacturer



1           as the manufacturer or as a wholesaler, and not  
2           as a retailer,  
3           there shall be no tax; provided that if the  
4           wholesaler, jobber, or manufacturer is also engaged in  
5           business as a retailer (so classed under chapter 237),  
6           paragraph (2) shall apply to the wholesaler, jobber,  
7           or manufacturer, but the director of taxation shall  
8           refund to the wholesaler, jobber, or manufacturer, in  
9           the manner provided under section 231-23(c) such  
10          amount of tax as the wholesaler, jobber, or  
11          manufacturer shall, to the satisfaction of the  
12          director, establish to have been paid by the  
13          wholesaler, jobber, or manufacturer to the director  
14          with respect to property which has been used by the  
15          wholesaler, jobber, or manufacturer for the purposes  
16          stated in this paragraph;

17          (2) If the importer or purchaser is licensed under chapter  
18          237 and is:

19                  (A) A retailer or other person importing or  
20                  purchasing for purposes of sale or resale, not  
21                  exempted by paragraph (1); provided that the



1           importation or purchase for purposes of sale or  
2           resale shall not include the importation or  
3           purchase of a motor vehicle by a lessor of rental  
4           motor vehicles for use as a rental motor vehicle;  
5           provided further that:

6           (i) Beginning on July 1, 2026, and ending on  
7           June 30, 2030, the tax imposed on a retailer  
8           or other person importing or purchasing a  
9           motor vehicle by a lessor of rental motor  
10           vehicles for use as a rental motor vehicle  
11           in accordance with paragraph (2) (A) shall be  
12           deposited into the teacher temporary hazard  
13           pay special fund established pursuant to  
14           Act \_\_\_\_\_, Session Laws of Hawaii 2026; and

15           (ii) Beginning on July 1, 2030, and thereafter,  
16           the tax imposed on a retailer or other  
17           person importing or purchasing a motor  
18           vehicle by a lessor of rental motor vehicles  
19           for use as a rental motor vehicle in  
20           accordance with paragraph (2) (A) shall be  
21           deposited into the general fund;



- 1 (B) A manufacturer importing or purchasing material
- 2 or commodities [~~which~~] that are to be
- 3 incorporated by the manufacturer into a finished
- 4 or saleable product (including the container or
- 5 package in which the product is contained)
- 6 wherein it will remain in such form as to be
- 7 perceptible to the senses, and which finished or
- 8 saleable product is to be sold at retail in
- 9 [~~this~~] the State, in such manner as to result in
- 10 a further tax on the activity of the manufacturer
- 11 in selling such products at retail;
- 12 (C) A contractor importing or purchasing material or
- 13 commodities [~~which~~] that are to be incorporated
- 14 by the contractor into the finished work or
- 15 project required by the contract and [~~which~~] that
- 16 will remain in such finished work or project in
- 17 such form as to be perceptible to the senses;
- 18 (D) A person engaged in a service business or calling
- 19 as defined in section 237-7, or a person
- 20 furnishing transient accommodations subject to
- 21 the tax imposed by section 237D-2, in which the



1 import or purchase of tangible personal property  
2 would have qualified as a sale at wholesale as  
3 defined in section 237-4(a) (8) had the seller of  
4 the property been subject to the tax in chapter  
5 237; or

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

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



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

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

8 SECTION 6. (a) There is established in the state treasury  
9 the teacher temporary hazard pay special fund, into which shall  
10 be deposited the additional revenues generated by:

11 (1) Excluding the sale of a motor vehicle to a lessor of  
12 rental motor vehicles for use as a rental motor  
13 vehicle as a sale at wholesale, pursuant to the  
14 amendments made to section 237-4(a), Hawaii Revised  
15 Statutes, by this Act; and

16 (2) Imposing the maximum allowable excise tax on the use  
17 of tangible personal property in the State for the  
18 importation or purchase of a motor vehicle by a less  
19 of rental motor vehicles for use as a rental motor  
20 vehicle, pursuant to the amendments made to section  
21 238-2, Hawaii Revised Statutes, by this Act.



1 (b) Notwithstanding any law to the contrary, for fiscal  
2 years 2026-2027, 2027-2028, 2028-2029, and 2029-2030, the  
3 additional revenues generated, as described in subsection (a),  
4 shall be deposited into the teacher temporary hazard pay special  
5 fund. On July 1, 2030, the teacher temporary hazard pay special  
6 fund shall be abolished, and any unencumbered remaining balances  
7 shall lapse to the credit of the general fund. Thereafter, all  
8 revenues generated by this Act shall be deposited into the  
9 general fund.

10 (c) Moneys in the teacher temporary hazard pay special  
11 fund shall be used to pay a temporary hazard pay bonus to each  
12 eligible member of bargaining unit 5 in the total amount of  
13 \$20,000 per employee. The bonus shall be distributed in four  
14 equal installments of \$5,000, to be paid as follows:

15 (1) The first installment of \$5,000 shall be paid no later  
16 than June 30, 2027;

17 (2) The second installment of \$5,000 shall be paid no  
18 later than June 30, 2028;

19 (3) The third installment of \$5,000 shall be paid no later  
20 than June 30, 2029; and



1 (4) The fourth installment of \$5,000 shall be paid no  
2 later than June 30, 2030.

3 (d) To be eligible for temporary hazard pay bonus funds  
4 from the teacher temporary hazard pay special fund, a state  
5 officer or employee shall have been employed as a member of  
6 bargaining unit (5) between March 4, 2020, and March 25, 2022.

7 (e) Except as to administrative expenditures, and except  
8 as otherwise provided by law, expenditures from the teacher  
9 temporary hazard pay special fund administered by the department  
10 of education may be made by the department without appropriation  
11 or allotment of the legislature.

12 SECTION 7. Statutory material to be repealed is bracketed  
13 and stricken. New statutory material is underscored.

14 SECTION 8. This Act shall take effect on July 1, 3000;  
15 provided that on July 1, 2030, this Act shall be repealed and  
16 sections 237-4(a) and 238-2, Hawaii Revised Statutes, shall be  
17 reenacted in the form in which it read on the day before the  
18 effective date of this Act.



**Report Title:**

General Excise Tax; Use Tax; Rental Motor Vehicles; Teacher  
Temporary Hazard Pay Special Fund

**Description:**

Excludes the sale of a motor vehicle to a lessor of rental motor vehicles for use as a rental motor vehicle as a sale at wholesale. Imposes the maximum allowable excise tax on the use of tangible personal property in the State for the importation or purchase of a motor vehicle by a lessor of rental motor vehicles for use as a rental motor vehicle. Establishes a Teacher Temporary Hazard Pay Special Fund to pay a temporary hazard pay bonus to certain eligible teachers. Beginning 7/1/2026 until 7/1/2030, deposits the additional tax revenue generated by this Act into the Teacher Temporary Hazard Pay Special Fund. Effective 7/1/3000. Sunsets 7/1/2030. (HD1)

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

