
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 State is facing
2 a potential financial crisis due to federal policies related to
3 tariffs and entitlement programs. The university of Hawaii
4 Economic Research Organization has projected a mild recession in
5 2026, indicating a likely decline in state revenues.

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



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

4 (1) Applying the retail or higher general excise tax or
5 use tax rate to purchases or imports of new motor
6 vehicles by rental car companies; and
7 (2) Funding a position within the department of taxation
8 to identify, monitor, and collect the general excise
9 tax from contractors awarded federal contracts for
10 work performed in the State.

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

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

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

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



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

4 (1) Sales to a licensed retail merchant, jobber, or other
5 licensed seller for purposes of resale; provided that
6 a sale for purposes of resale does not include the
7 sale of a motor vehicle to a lessor of rental motor
8 vehicles for use as a rental motor vehicle;
9 (2) Sales to a licensed manufacturer of materials or
10 commodities that are to be incorporated by the
11 manufacturer into a finished or saleable product
12 (including the container or package in which the
13 product is contained) during the course of its
14 preservation, manufacture, or processing, including
15 preparation for market, and that will remain in such
16 finished or saleable product in such form as to be
17 perceptible to the senses, which finished or saleable
18 product is to be sold and not otherwise used by the
19 manufacturer;
20 (3) Sales to a licensed producer or cooperative
21 association of materials or commodities that are to be



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

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

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



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

20 (6) Sales to a licensed producer, or to a cooperative
21 association described in section [+]237-23(a)(8)[+]



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



1 (8) Sales of tangible personal property where:

2 (A) Tangible personal property is sold upon the order

3 or request of a licensed seller for the purpose

4 of rendering a service in the course of the

5 person's service business or calling, or upon the

6 order or request of a person subject to tax under

7 section 237D-2 for the purpose of furnishing

8 transient accommodations;

9 (B) The tangible personal property becomes or is used

10 as an identifiable element of the service

11 rendered; and

12 (C) The cost of the tangible personal property does

13 not constitute overhead to the licensed seller;

14 (9) Sales to a licensed leasing company of capital goods

15 that have a depreciable life, are purchased by the

16 leasing company for lease to its customers, and are

17 thereafter leased as a service to others; provided

18 that this paragraph shall not apply to the sale of a

19 motor vehicle to a lessor of rental motor vehicles for

20 use as a rental motor vehicle;



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

3 (A) Either:

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

14 (ii) In the context of a service-to-tangible
15 personal property transaction, a service is
16 rendered upon the order or request of a
17 licensed seller for the purpose of
18 manufacturing, producing, or preparing
19 tangible personal property to be sold;
20 (iii) In the context of a services-to-contracting
21 transaction, a service is rendered upon the



1 order or request of a licensed contractor as
2 defined in section 237-6 for the purpose of
3 assisting that licensed contractor; or

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

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

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

20 (D) The gross income of the licensed seller is not
21 divided between the licensed seller and another



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

7 (F) The resale of the service, tangible personal
8 property, contracting, or transient
9 accommodations is subject to the tax imposed

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

16 (12) Sales to a licensed retail merchant, jobber, or other
17 licensed seller of tangible personal property that
18 will be incorporated or processed by the licensed
19 retail merchant, jobber, or other licensed seller into
20 a finished or saleable product during the course of
21 its preparation for market (including disposable,



1 nonreturnable containers, packages, or wrappers, in
2 which the product is contained and that are generally
3 known and most commonly used to contain food or
4 beverage for transfer or delivery), and which finished
5 or saleable product is to be sold and not otherwise
6 used by the licensed retail merchant, jobber, or other
7 licensed seller;

8 (13) Sales of amusements subject to taxation under section
9 237-13(4) to a licensed seller engaging in a business
10 or calling whenever:

11 (A) Either:

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

18 (ii) In the context of an amusement-to-tangible
19 personal property transaction, an amusement
20 is rendered upon the order or request of a





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

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

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

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

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



1 "Rental motor vehicle" has the same meaning as in section
2 251-1."

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

5 **"§238-2 Imposition of tax on tangible personal property;**
6 **exemptions.** There is hereby levied an excise tax on the use in
7 [this] the State of tangible personal property [which] that is
8 imported by a taxpayer in [this] the State whether owned,
9 purchased from an unlicensed seller, or however acquired for use
10 in [this] the State. The tax imposed by this chapter shall
11 accrue when the property is acquired by the importer or
12 purchaser and becomes subject to the taxing jurisdiction of the
13 State. The rates of the tax hereby imposed and the exemptions
14 thereof are as follows:

15 (1) If the importer or purchaser is licensed under chapter
16 237 and is:
17 (A) A wholesaler or jobber importing or purchasing
18 for purposes of sale or resale; or
19 (B) A manufacturer importing or purchasing material
20 or commodities which are to be incorporated by
21 the manufacturer into a finished or saleable



1 product (including the container or package in
2 which the product is contained) wherein it will
3 remain in such form as to be perceptible to the
4 senses, and which finished or saleable product is
5 to be sold in such manner as to result in a
6 further tax on the activity of the manufacturer
7 as the manufacturer or as a wholesaler, and not
8 as a retailer,
9 there shall be no tax; provided that if the
10 wholesaler, jobber, or manufacturer is also engaged in
11 business as a retailer (so classed under chapter 237),
12 paragraph (2) shall apply to the wholesaler, jobber,
13 or manufacturer, but the director of taxation shall
14 refund to the wholesaler, jobber, or manufacturer, in
15 the manner provided under section 231-23(c) such
16 amount of tax as the wholesaler, jobber, or
17 manufacturer shall, to the satisfaction of the
18 director, establish to have been paid by the
19 wholesaler, jobber, or manufacturer to the director
20 with respect to property which has been used by the



1 wholesaler, jobber, or manufacturer for the purposes
2 stated in this paragraph;

3 (2) If the importer or purchaser is licensed under chapter
4 237 and is:

5 (A) A retailer or other person importing or
6 purchasing for purposes of sale or resale, not
7 exempted by paragraph (1); provided that
8 importing or purchasing for purposes of sale or
9 resale does not include the importing or
10 purchasing of a motor vehicle by a lessor of
11 rental motor vehicles for use as a rental motor
12 vehicle;

13 (B) A manufacturer importing or purchasing material
14 or commodities [~~which~~] that are to be
15 incorporated by the manufacturer into a finished
16 or saleable product (including the container or
17 package in which the product is contained)
18 wherein it will remain in such form as to be
19 perceptible to the senses, and which finished or
20 saleable product is to be sold at retail in
21 [~~this~~] the State, in such manner as to result in



1 a further tax on the activity of the manufacturer

2 in selling such products at retail;

3 (C) A contractor importing or purchasing material or

4 commodities ~~which~~ that are to be incorporated

5 by the contractor into the finished work or

6 project required by the contract and ~~which~~ that

7 will remain in such finished work or project in

8 such form as to be perceptible to the senses;

9 (D) A person engaged in a service business or calling

10 as defined in section 237-7, or a person

11 furnishing transient accommodations subject to

12 the tax imposed by section 237D-2, in which the

13 import or purchase of tangible personal property

14 would have qualified as a sale at wholesale as

15 defined in section 237-4(a)(8) had the seller of

16 the property been subject to the tax in chapter

17 237; or

18 (E) A publisher of magazines or similar printed

19 materials containing advertisements, when the

20 publisher is under contract with the advertisers

21 to distribute a minimum number of magazines or



1 similar printed materials to the public or
2 defined segment of the public, whether or not
3 there is a charge to the persons who actually
4 receive the magazines or similar printed
5 materials,

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

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

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

20 SECTION 6. There is appropriated out of the general
21 revenues of the State of Hawaii the sum of \$ or so



1 much thereof as may be necessary for fiscal year 2026-2027 for
2 one full-time equivalent (1.0 FTE) tax inspector position within
3 the department of taxation to identify, monitor, and collect the
4 general excise tax from contractors awarded federal contracts
5 for work performed in the State.

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

8 SECTION 7. Statutory material to be repealed is bracketed
9 and stricken. New statutory material is underscored.

10 SECTION 8. This Act shall take effect on July 1, 3000.



Report Title:

DOTAX; 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. Effective 7/1/3000. (HD1)

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