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

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



1 models, and that a significant portion of vehicles are resold  
2 outside the State. When vehicles are not resold within Hawaii,  
3 the State does not capture general excise tax revenue on the  
4 downstream retail transaction, resulting in materially different  
5 tax outcomes compared to other in-state retail 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 compliant  
15 in-state contractors.

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.  
19 Establishing enforcement capacity within the department of  
20 taxation to improve compliance among out-of-state contractors



1 promotes equity, protects state revenue, and supports lawful  
2 competition.

3       The legislature further finds that the rental motor vehicle  
4 industry operates within and derives substantial benefit from  
5 the Hawaii brand, including access to public infrastructure,  
6 scenic resources, and culturally significant sites that attract  
7 visitors. The beneficiaries of the Hawaiian Homes Commission  
8 Act, 1920, are native Hawaiians, whose relationship to the land  
9 and culture forms a foundational element of Hawaii's identity  
10 and visitor economy. The legislature therefore finds a rational  
11 nexus between revenue generated from the tourism-dependent  
12 rental motor vehicle industry and investment in the department  
13 of Hawaiian home lands to support beneficiary housing and reduce  
14 the waitlist.

15       Accordingly, the purpose of this Act is to:

16       (1) Modify the tax treatment applicable to rental motor  
17           vehicles to ensure equitable capture of general excise  
18           tax revenue where vehicles are not resold within the  
19           State;



- 1           (2) Appropriate funds to establish enforcement capacity  
2           within the department of taxation to improve  
3           compliance among out-of-state federal contractors; and  
4           (3) Deposit revenue generated from this modification into  
5           the Hawaiian home administration account to address  
6           the beneficiary waitlist.

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

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

12           "Rental motor vehicle" has the same meaning as in section  
13           251-1."

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

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

- 19           (1) Sales to a licensed retail merchant, jobber, or other  
20           licensed seller for purposes of resale; provided that  
21           a sale for purposes of resale does not include the



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



1 commodities that are sold by the producer or by the  
2 cooperative association;

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

9 (5) Sales to a licensed producer, or to a cooperative  
10 association described in section [‡]237-23(a)(8)[‡]  
11 for sale to a licensed producer, or to a licensed  
12 person operating a feed lot, of poultry or animal  
13 feed, hatching eggs, semen, replacement stock,  
14 breeding services for the purpose of raising or  
15 producing animal or poultry products for disposition  
16 as described in section 237-5 or for incorporation  
17 into a manufactured product as described in paragraph  
18 (2) or for the purpose of breeding, hatching, milking,  
19 or egg laying other than for the customer's own  
20 consumption of the meat, poultry, eggs, or milk so  
21 produced; provided that in the case of a feed lot



1 operator, only the segregated cost of the feed  
2 furnished by the feed lot operator as part of the feed  
3 lot operator's service to a licensed producer of  
4 poultry or animals to be butchered or to a cooperative  
5 association described in section [‡]237-23(a)(8)[‡] of  
6 such licensed producers shall be deemed to be a sale  
7 at wholesale; ~~and~~ provided further that any amount  
8 derived from the furnishing of feed lot services,  
9 other than the segregated cost of feed, shall be  
10 deemed taxable at the service business rate. This  
11 paragraph shall not apply to the sale of feed for  
12 poultry or animals to be used for hauling,  
13 transportation, or sports purposes;

14 (6) Sales to a licensed producer, or to a cooperative  
15 association described in section [‡]237-23(a)(8)[‡]  
16 for sale to the producer, of seed or seedstock for  
17 producing agricultural and aquacultural products, or  
18 bait for catching fish (including the catching of bait  
19 for catching fish), which agricultural and  
20 aquacultural products or fish are to be disposed of as



1 described in section 237-5 or to be incorporated in a  
 2 manufactured product as described in paragraph (2);  
 3 (7) Sales to a licensed producer, or to a cooperative  
 4 association described in section [+]237-23(a) (8) [+]  
 5 for sale to such producer[+], of polypropylene shade  
 6 cloth; of polyfilm; of polyethylene film; of cartons  
 7 and such other containers, wrappers, and sacks, and  
 8 binders to be used for packaging eggs, vegetables,  
 9 fruits, and other agricultural and aquacultural  
 10 products; of seedlings and cuttings for producing  
 11 nursery plants or aquacultural products; or of chick  
 12 containers; [~~which~~] provided that such cartons and  
 13 such other containers, wrappers, and sacks, binders,  
 14 seedlings, cuttings, and containers are to be used as  
 15 described in section 237-5, or to be incorporated in a  
 16 manufactured product as described in paragraph (2);  
 17 (8) Sales of tangible personal property where:  
 18 (A) Tangible personal property is sold upon the order  
 19 or request of a licensed seller for the purpose  
 20 of rendering a service in the course of the  
 21 person's service business or calling, or upon the



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

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

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

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

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

17 "Rental motor vehicle" has the same meaning as in section  
18 251-1."

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



1           "§238-2   **Imposition of tax on tangible personal property;**  
2   **exemptions.**   There is hereby levied an excise tax on the use in  
3   [~~this~~] the State of tangible personal property [~~which~~] that is  
4   imported by a taxpayer in [~~this~~] the State whether owned,  
5   purchased from an unlicensed seller, or however acquired for use  
6   in [~~this~~] the State.   The tax imposed by this chapter shall  
7   accrue when the property is acquired by the importer or  
8   purchaser and becomes subject to the taxing jurisdiction of the  
9   State.   The rates of the tax hereby imposed and the exemptions  
10   thereof are as follows:

- 11           (1)   If the importer or purchaser is licensed under chapter  
12                237 and is:
- 13                (A)   A wholesaler or jobber importing or purchasing  
14                       for purposes of sale or resale; or
- 15                (B)   A manufacturer importing or purchasing material  
16                       or commodities which are to be incorporated by  
17                       the manufacturer into a finished or saleable  
18                       product (including the container or package in  
19                       which the product is contained) wherein it will  
20                       remain in such form as to be perceptible to the  
21                       senses, and which finished or saleable product is



1           to be sold in such manner as to result in a  
2           further tax on the activity of the manufacturer  
3           as the manufacturer or as a wholesaler, and not  
4           as a retailer,  
5           there shall be no tax; provided that if the  
6           wholesaler, jobber, or manufacturer is also engaged in  
7           business as a retailer (so classed under chapter 237),  
8           paragraph (2) shall apply to the wholesaler, jobber,  
9           or manufacturer, but the director of taxation shall  
10          refund to the wholesaler, jobber, or manufacturer, in  
11          the manner provided under section 231-23(c) such  
12          amount of tax as the wholesaler, jobber, or  
13          manufacturer shall, to the satisfaction of the  
14          director, establish to have been paid by the  
15          wholesaler, jobber, or manufacturer to the director  
16          with respect to property which has been used by the  
17          wholesaler, jobber, or manufacturer for the purposes  
18          stated in this paragraph;  
19          (2) If the importer or purchaser is licensed under chapter  
20          237 and is:



- 1 (A) A retailer or other person importing or  
2 purchasing for purposes of sale or resale, not  
3 exempted by paragraph (1); provided that  
4 importing or purchasing for purposes of sale or  
5 resale does not include the importing or  
6 purchasing of a motor vehicle by a lessor of  
7 rental motor vehicles for use as a rental motor  
8 vehicle;
- 9 (B) A manufacturer importing or purchasing material  
10 or commodities [~~which~~] that are to be  
11 incorporated by the manufacturer into a finished  
12 or saleable product (including the container or  
13 package in which the product is contained)  
14 wherein it will remain in such form as to be  
15 perceptible to the senses, and which finished or  
16 saleable product is to be sold at retail in  
17 [~~this~~] the State, in such manner as to result in  
18 a further tax on the activity of the manufacturer  
19 in selling such products at retail;
- 20 (C) A contractor importing or purchasing material or  
21 commodities [~~which~~] that are to be incorporated



1 by the contractor into the finished work or  
 2 project required by the contract and [~~which~~] that  
 3 will remain in such finished work or project in  
 4 such form as to be perceptible to the senses;

5 (D) A person engaged in a service business or calling  
 6 as defined in section 237-7, or a person  
 7 furnishing transient accommodations subject to  
 8 the tax imposed by section 237D-2, in which the  
 9 import or purchase of tangible personal property  
 10 would have qualified as a sale at wholesale as  
 11 defined in section 237-4(a) (8) had the seller of  
 12 the property been subject to the tax in chapter  
 13 237; or

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



1           receive the magazines or similar printed  
 2           materials,  
 3           the tax shall be one-half of one per cent of the  
 4           purchase price of the property, if the purchase and  
 5           sale are consummated in Hawaii; or, if there is no  
 6           purchase price applicable thereto, or if the purchase  
 7           or sale is consummated outside of Hawaii, then one-  
 8           half of one per cent of the value of such property;  
 9           and

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

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

17         SECTION 6. There is appropriated out of the general  
 18         revenues of the State of Hawaii the sum of \$                 or so  
 19         much thereof as may be necessary for fiscal year 2026-2027 for  
 20         one full-time equivalent (1.0 FTE) tax inspector position within  
 21         the department of taxation to identify, monitor, and collect the



1 general excise tax from contractors awarded federal contracts  
2 for work performed in the State.

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

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

- 9 (1) The development of lots or units;
- 10 (2) The purchase of available land or units;
- 11 (3) The provision of funding for an applicant on the  
12 waiting list or a qualified relative of the applicant  
13 similar to the qualified relative of a lessee as  
14 referenced in section 208(5) of the Hawaiian Homes  
15 Commission Act of 1920, as amended, who does not own a  
16 principal residence to purchase;
- 17 (4) The provision of a mortgage or rental subsidy to the  
18 applicant on the waiting list for the applicant's  
19 principal residence in the State; and
- 20 (5) Other services as necessary to address the waiting  
21 list.



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

3           SECTION 8. Statutory material to be repealed is bracketed  
4 and stricken. New statutory material is underscored.

5           SECTION 9. This Act shall take effect on July 1, 3000.



**Report Title:**

DOTAX; DHHL; General Excise Tax; Use Tax; Rental Motor Vehicles;  
Position; 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. Effective 7/1/3000. (HD1)

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