
A BILL FOR AN ACT

RELATING TO TAXATION.

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

1 PART I

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

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



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

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

17 The legislature determines that there is a direct and
18 rational policy connection between closing identified tax gaps
19 and the public expenditures authorized by this Act.
20 Establishing enforcement capacity within the department of
21 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 and require the revenues collected to be
20 deposited into the Hawaiian home lands special fund;



- 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) Establish the Hawaiian home lands special fund to
5 address the beneficiary waitlist.

PART II

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; provided
 3 further that the revenue generated for the sale of a
 4 motor vehicle to a lessor of rental motor vehicles for
 5 use as a rental motor vehicle in accordance with
 6 paragraph (1) shall be deposited into the Hawaiian
 7 home lands special fund established under section
 8 36- ;

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; provided further that
- 21 that the revenue generated for the sale of a motor



1 vehicle to a lessor of rental motor vehicles for use
2 as a rental motor vehicle in accordance with paragraph
3 (9) shall be deposited into the Hawaiian home lands
4 special fund established under section 36- ;

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

7 (A) Either:

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

18 (ii) In the context of a service-to-tangible
19 personal property transaction, a service is
20 rendered upon the order or request of a
21 licensed seller for the purpose of



- 1 manufacturing, producing, or preparing
2 tangible personal property to be sold;
- 3 (iii) In the context of a services-to-contracting
4 transaction, a service is rendered upon the
5 order or request of a licensed contractor as
6 defined in section 237-6 for the purpose of
7 assisting that licensed contractor; or
- 8 (iv) In the context of a services-to-transient
9 accommodations rental transaction, a service
10 is rendered upon the order or request of a
11 person subject to tax under section 237D-2
12 for the purpose of furnishing transient
13 accommodations;
- 14 (B) The benefit of the service passes to the customer
15 of the licensed seller, licensed contractor, or
16 person furnishing transient accommodations as an
17 identifiable element of the other service or
18 property to be sold, the contracting, or the
19 furnishing of transient accommodations;
- 20 (C) The cost of the service does not constitute
21 overhead to the licensed seller, licensed



- 1 contractor, or person furnishing transient
2 accommodations;
- 3 (D) The gross income of the licensed seller is not
4 divided between the licensed seller and another
5 licensed seller, contractor, or person furnishing
6 transient accommodations for imposition of the
7 tax under this chapter;
- 8 (E) The gross income of the licensed seller is not
9 subject to a deduction under this chapter or
10 chapter 237D; and
- 11 (F) The resale of the service, tangible personal
12 property, contracting, or transient
13 accommodations is subject to the tax imposed
14 under this chapter at the highest tax rate~~[-]~~;
- 15 (11) Sales to a licensed retail merchant, jobber, or other
16 licensed seller of bulk condiments or prepackaged
17 single-serving packets of condiments that are provided
18 to customers by the licensed retail merchant, jobber,
19 or other licensed seller;
- 20 (12) Sales to a licensed retail merchant, jobber, or other
21 licensed seller of tangible personal property that



1 will be incorporated or processed by the licensed
2 retail merchant, jobber, or other licensed seller into
3 a finished or saleable product during the course of
4 its preparation for market (including disposable,
5 nonreturnable containers, packages, or wrappers, in
6 which the product is contained and that are generally
7 known and most commonly used to contain food or
8 beverage for transfer or delivery), and which finished
9 or saleable product is to be sold and not otherwise
10 used by the licensed retail merchant, jobber, or other
11 licensed seller;

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

15 (A) Either:

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



- 1 (ii) In the context of an amusement-to-tangible
2 personal property transaction, an amusement
3 is rendered upon the order or request of a
4 licensed seller for the purpose of selling
5 tangible personal property; or
- 6 (iii) In the context of an amusement-to-amusement
7 transaction, an amusement is rendered upon
8 the order or request of a licensed seller
9 for the purpose of rendering another
10 amusement in the course of the person's
11 amusement business;
- 12 (B) The benefit of the amusement passes to the
13 customer of the licensed seller as an
14 identifiable element of the other service,
15 tangible personal property to be sold, or
16 amusement;
- 17 (C) The cost of the amusement does not constitute
18 overhead to the licensed seller;
- 19 (D) The gross income of the licensed seller is not
20 divided between the licensed seller and another
21 licensed seller, person furnishing transient



1 accommodations, or person rendering an amusement
2 for imposition of the tax under chapter 237;

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

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

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

11 (14) Sales by a printer to a publisher of magazines or
12 similar printed materials containing advertisements,
13 when the publisher is under contract with the
14 advertisers to distribute a minimum number of
15 magazines or similar printed materials to the public
16 or defined segment of the public, regardless of
17 whether [~~or not~~] there is a charge to the persons who
18 actually receive the magazines or similar printed
19 materials."



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

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

6 "Rental motor vehicle" has the same meaning as in section
7 251-1."

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

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

20 (1) If the importer or purchaser is licensed under chapter
21 237 and is:



1 (A) A wholesaler or jobber importing or purchasing
2 for purposes of sale or resale; or
3 (B) A manufacturer importing or purchasing material
4 or commodities [~~which~~] that are to be
5 incorporated by the manufacturer into a finished
6 or saleable product (including the container or
7 package in which the product is contained)
8 wherein it will remain in such form as to be
9 perceptible to the senses, and which finished or
10 saleable product is to be sold in such manner as
11 to result in a further tax on the activity of the
12 manufacturer as the manufacturer or as a
13 wholesaler, and not as a retailer,
14 there shall be no tax; provided that if the
15 wholesaler, jobber, or manufacturer is also engaged in
16 business as a retailer (so classed under chapter 237),
17 paragraph (2) shall apply to the wholesaler, jobber,
18 or manufacturer, but the director of taxation shall
19 refund to the wholesaler, jobber, or manufacturer, in
20 the manner provided under section 231-23(c) such
21 amount of tax as the wholesaler, jobber, or



1 manufacturer shall, to the satisfaction of the
2 director, establish to have been paid by the
3 wholesaler, jobber, or manufacturer to the director
4 with respect to property [~~which~~] that has been used by
5 the wholesaler, jobber, or manufacturer for the
6 purposes stated in this paragraph;

7 (2) If the importer or purchaser is licensed under chapter
8 237 and is:

9 (A) A retailer or other person importing or
10 purchasing for purposes of sale or resale, not
11 exempted by paragraph (1); provided that
12 importing or purchasing for purposes of sale or
13 resale does not include the importing or
14 purchasing of a motor vehicle by a lessor of
15 rental motor vehicles for use as a rental motor
16 vehicle; provided further that tax imposed on a
17 retailer or other person importing or purchasing
18 a motor vehicle by a lessor of rental motor
19 vehicles for use as a rental motor vehicle in
20 accordance with paragraph (2) (A) shall be



1 deposited into the Hawaiian home lands special
2 fund established under section 36- ;

3 (B) A manufacturer importing or purchasing material
4 or commodities [~~which~~] that are to be
5 incorporated by the manufacturer into a finished
6 or saleable product (including the container or
7 package in which the product is contained)
8 wherein it will remain in such form as to be
9 perceptible to the senses, and which finished or
10 saleable product is to be sold at retail in
11 [~~this~~] the State, in such manner as to result in
12 a further tax on the activity of the manufacturer
13 in selling such products at retail;

14 (C) A contractor importing or purchasing material or
15 commodities [~~which~~] that are to be incorporated
16 by the contractor into the finished work or
17 project required by the contract and [~~which~~] that
18 will remain in such finished work or project in
19 such form as to be perceptible to the senses;

20 (D) A person engaged in a service business or calling
21 as defined in section 237-7, or a person



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

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

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



1 half of one per cent of the value of such property;

2 and

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

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

10 PART III

11 SECTION 6. Chapter 36, Hawaii Revised Statutes, is amended
12 by adding a new section to be appropriately designated and to
13 read as follows:

14 "§36- Hawaiian home lands special fund. (a) There is
15 established in the state treasury the Hawaiian home lands
16 special fund to be administered by the department of Hawaiian
17 home lands, into which shall be deposited all revenues from:

18 (1) Excluding the sale of a motor vehicle to a lessor of
19 rental motor vehicles for use as a rental motor
20 vehicle as a sale at wholesale, pursuant to section
21 237-4(a); and



1 SECTION 7. There is appropriated out of the general
 2 revenues of the State of Hawaii the sum of \$ or so
 3 much thereof as may be necessary for fiscal year 2026-2027 for
 4 one full-time equivalent (1.0 FTE) tax inspector position within
 5 the department of taxation to identify, monitor, and collect the
 6 general excise tax from contractors awarded federal contracts
 7 for work performed in the State.

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

10 SECTION 8. There is appropriated out of the Hawaiian home
 11 lands special fund the sum of \$ or so much thereof as
 12 may be necessary for fiscal year 2026-2027 for the purposes of
 13 the special fund.

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

16 SECTION 9. Statutory material to be repealed is bracketed
 17 and stricken. New statutory material is underscored.

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



Report Title:

DOTAX; DHHL; General Excise Tax; Use Tax; Rental Motor Vehicles;
Position; Hawaiian Home Lands Special Fund; 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 and requires the revenue to be deposited into the Hawaiian Home Lands Special Fund. Establishes the Hawaiian Home Lands Special Fund. Appropriates funds for a position in the Department of Taxation. Appropriates funds out of the Hawaiian Home Lands Special Fund. Effective 7/1/3000. (HD2)

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

