

JAN 21 2026

A BILL FOR AN ACT

RELATING TO THE GENERAL EXCISE TAX.

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

1 PART I

2 SECTION 1. The legislature finds that the cost of living
3 in the State is among the highest in the nation, with many
4 residents struggling to afford basic necessities such as food
5 and medication. According to a survey conducted for the Hawaii
6 Foodbank, thirty-two per cent of households in the State were
7 food insecure in 2024, of which two-thirds were experiencing
8 very low food security.

9 The legislature further finds that the State does not
10 exempt groceries or nonprescription drugs from the general
11 excise tax, nor does it apply a reduced rate to those items.
12 Hawaii is one of only four states in the nation that tax
13 groceries at their full sales or general excise tax rate,
14 whereas most other states exempt groceries or impose a reduced
15 tax rate, thereby improving affordability and stimulating local
16 economies.



1 The legislature also finds that sales taxes on necessities,
2 such as groceries and nonprescription drugs, are regressive in
3 nature because they impose a disproportionate burden on low- and
4 moderate-income households who must allocate a larger share of
5 their income to these essential goods compared to higher-income
6 households.

7 The legislature additionally finds that the State's
8 refundable food/excise tax credit provides only modest relief in
9 practice. Under existing law, which limits eligibility to
10 households with an adjusted gross income below \$60,000 for
11 non-single filers or \$40,000 for single filers, the tax credit
12 ranges from \$220 at the lowest income levels to \$0 at the
13 highest income levels, which is then multiplied by the number of
14 exemptions claimed. For many low- and moderate-income
15 households, the resulting tax credit may be relatively small.
16 Furthermore, many asset limited, income constrained, employed
17 (ALICE) households--households earning above the federal poverty
18 level but still unable to afford basic living costs--do not
19 qualify for the tax credit at all, despite facing significant
20 cost-of-living pressures in the State.



1 The legislature further finds that taxes on groceries
2 exacerbate food insecurity. Research indicates that a one
3 percentage point increase in grocery tax rates is associated
4 with an estimated 0.84 per cent increase in food insecurity
5 among low-income households. Applying this estimate to the
6 State's current 4.712 per cent general excise tax rate
7 (including county surcharges and maximum business pass-on rates)
8 suggests an approximate 3.96 per cent increase in food
9 insecurity attributable to grocery taxation.

10 The legislature also finds that eliminating the general
11 excise tax on groceries for preparation and consumption at home
12 will primarily benefit the State's low- and moderate-income
13 households rather than visitors, because residents purchase most
14 of their food for such purpose, whereas visitors incur the vast
15 majority of their food expenditures on meals prepared and
16 consumed away from home.

17 The legislature finds that several states have repealed
18 their taxes on groceries through a phased approach to improve
19 access to essential goods while maintaining long-term fiscal
20 stability. For example, Kansas enacted a phased repeal of the
21 state sales and use tax on food, food ingredients, and certain



1 prepared food beginning in 2022, culminating in the elimination
2 of the state tax on those items as of January 1, 2025. Georgia
3 also adopted a phased approach to exempting food for off-
4 premises consumption, applicable to most grocery items, from the
5 state sales tax, reaching a zero per cent tax rate on October 1,
6 1998.

7 With respect to fiscal feasibility, the legislature finds
8 that the State's general fund revenues and reserves are
9 sufficient to support a phased elimination of the general excise
10 tax on groceries beginning on January 1, 2027. According to the
11 United States Department of Agriculture Economic Research
12 Service's Food Expenditure Series, food purchased for
13 consumption at home in Hawaii totaled approximately \$4.6 billion
14 in 2024, excluding taxes and tips. Applying the State's current
15 general excise tax rate of four per cent--excluding county
16 surcharges and maximum business pass-on rates--to this amount
17 indicates that a state-level grocery tax exemption would reduce
18 state revenues by approximately \$184 million annually. On the
19 budgetary side, according to the State's Annual Comprehensive
20 Financial Report for fiscal year 2024, which compares changes in
21 the State's net position to fiscal year 2023, general excise tax



1 revenues declined from \$11.080 billion to \$10.413 billion while
2 total government-wide expenses increased from \$15.190 billion to
3 \$17.634 billion. Nevertheless, the State realized a \$1.267
4 billion increase in net position for the fiscal year.
5 Furthermore, the governor's executive budget and the council on
6 revenue's general fund tax revenue forecasts project steady
7 surpluses and growing balances in the years following a brief
8 shortfall in fiscal year 2026. Taken together, these data
9 reflect the State's overall fiscal capacity and demonstrate
10 that, with prudent budgeting, the State can absorb a gradual and
11 targeted general excise tax exemption on certain essential
12 goods.

13 Furthermore, the legislature acknowledges that food
14 security is a matter of statewide concern that directly affects
15 the general welfare of the people of Hawaii and the State's
16 long-term economic and social well-being.

17 Accordingly, the purpose of this Act is to provide
18 immediate and ongoing point-of-sale relief on groceries and
19 nonprescription drugs, reduce food insecurity, and improve
20 affordability while maintaining the State's fiscal stability by:



- 1 (1) Implementing a phased repeal of the state general
- 2 excise tax on the sale of groceries and
- 3 nonprescription drugs in the State; and
- 4 (2) Prohibiting counties from establishing county
- 5 surcharges on the state general excise tax on gross
- 6 income or gross proceeds from the sale of groceries
- 7 and nonprescription drugs in the State.

PART II

9 SECTION 2. Section 237-13, Hawaii Revised Statutes, is
10 amended to read as follows:

11 **”§237-13 Imposition of tax.** There is hereby levied and
12 shall be assessed and collected annually privilege taxes against
13 persons on account of their business and other activities in the
14 State measured by the application of rates against values of
15 products, gross proceeds of sales, or gross income, whichever is
16 specified, as follows:

17 (1) Tax on manufacturers.



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

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

16 (2) Tax on business of selling tangible personal property;
17 producing. Except as provided in paragraphs (9) and
18 (10):

19 (A) Upon every person engaging or continuing in the
20 business of selling any tangible personal
21 property whatsoever, there is likewise hereby



1 levied, and shall be assessed and collected, a
2 tax equivalent to four per cent of the gross
3 proceeds of sales of the business; provided that,
4 in the case of a wholesaler, the tax shall be
5 equal to one-half of one per cent of the gross
6 proceeds of sales of the business; and provided
7 further that insofar as the sale of tangible
8 personal property is a wholesale sale under
9 section 237-4(a)(8), the tax shall be one-half of
10 one per cent of the gross proceeds. Upon every
11 person engaging or continuing within this State
12 in the business of a producer, the tax shall be
13 equal to one-half of one per cent of the gross
14 proceeds of sales of the business, or the value
15 of the products, for sale.

16 (B) Gross proceeds of sales of tangible property in
17 interstate and foreign commerce shall constitute
18 a part of the measure of the tax imposed on
19 persons in the business of selling tangible
20 personal property, to the extent, under the
21 conditions, and in accordance with the provisions



1 of the Constitution of the United States and the
2 Acts of the Congress of the United States which
3 may be now in force or may be hereafter adopted,
4 and whenever there occurs in the State an
5 activity to which, under the Constitution and
6 Acts of Congress, there may be attributed gross
7 proceeds of sales, the gross proceeds shall be so
8 attributed.

9 (C) No manufacturer or producer, engaged in such
10 business in the State and selling the
11 manufacturer's or producer's products for
12 delivery outside of the State (for example,
13 consigned to a mainland purchaser via common
14 carrier f.o.b. Honolulu), shall be required to
15 pay the tax imposed in this chapter for the
16 privilege of so selling the products, and the
17 value or gross proceeds of sales of the products
18 shall be included only in determining the measure
19 of the tax imposed upon the manufacturer or
20 producer.



1 (D) A manufacturer or producer, engaged in such
2 business in the State, shall pay the tax imposed
3 in this chapter for the privilege of selling its
4 products in the State, and the value or gross
5 proceeds of sales of the products, thus subjected
6 to tax, may be deducted insofar as duplicated as
7 to the same products by the measure of the tax
8 upon the manufacturer or producer for the
9 privilege of manufacturing or producing in the
10 State; provided that no producer of agricultural
11 products who sells the products to a purchaser
12 who will process the products outside the State
13 shall be required to pay the tax imposed in this
14 chapter for the privilege of producing or selling
15 those products.

16 (E) A taxpayer selling to a federal cost-plus
17 contractor may make the election provided for by
18 paragraph (3)(C), and in that case the tax shall
19 be computed pursuant to the election,
20 notwithstanding this paragraph or paragraph (1)
21 to the contrary.



1 (F) The department, by rule, may require that a
2 seller take from the purchaser of tangible
3 personal property a certificate, in a form
4 prescribed by the department, certifying that the
5 sale is a sale at wholesale; provided that:
6 (i) Any purchaser who furnishes a certificate
7 shall be obligated to pay to the seller,
8 upon demand, the amount of the additional
9 tax that is imposed upon the seller whenever
10 the sale in fact is not at wholesale; and
11 (ii) The absence of a certificate in itself shall
12 give rise to the presumption that the sale
13 is not at wholesale unless the sales of the
14 business are exclusively at wholesale.

15 (3) Tax upon contractors.

20 (B) In computing the tax levied under this paragraph,
21 there shall be deducted from the gross income of



1 the taxpayer so much thereof as has been included
2 in the measure of the tax levied under
3 subparagraph (A), on another taxpayer who is a
4 contractor, as defined in section 237-6; provided
5 that any person claiming a deduction under this
6 paragraph shall be required to show in the
7 person's return the name and general excise
8 number of the person paying the tax on the amount
9 deducted by the person.

10 (C) In computing the tax levied under this paragraph
11 against any federal cost-plus contractor, there
12 shall be excluded from the gross income of the
13 contractor so much thereof as fulfills the
14 following requirements:

15 (i) The gross income exempted shall constitute
16 reimbursement of costs incurred for
17 materials, plant, or equipment purchased
18 from a taxpayer licensed under this chapter,
19 not exceeding the gross proceeds of sale of
20 the taxpayer on account of the transaction;
21 and



8 (D) A person who, as a business or as a part of a
9 business in which the person is engaged, erects,
10 constructs, or improves any building or
11 structure, of any kind or description, or makes,
12 constructs, or improves any road, street,
13 sidewalk, sewer, or water system, or other
14 improvements on land held by the person (whether
15 held as a leasehold, fee simple, or otherwise),
16 upon the sale or other disposition of the land or
17 improvements, even if the work was not done
18 pursuant to a contract, shall be liable to the
19 same tax as if engaged in the business of
20 contracting, unless the person shows that at the
21 time the person was engaged in making the



1 improvements the person intended, and for the
2 period of at least one year after completion of
3 the building, structure, or other improvements
4 the person continued to intend to hold and not
5 sell or otherwise dispose of the land or
6 improvements. The tax in respect of the
7 improvements shall be measured by the amount of
8 the proceeds of the sale or other disposition
9 that is attributable to the erection,
10 construction, or improvement of such building or
11 structure, or the making, constructing, or
12 improving of the road, street, sidewalk, sewer,
13 or water system, or other improvements. The
14 measure of tax in respect of the improvements
15 shall not exceed the amount which would have been
16 taxable had the work been performed by another,
17 subject as in other cases to the deductions
18 allowed by subparagraph (B). Upon the election
19 of the taxpayer, this paragraph may be applied
20 notwithstanding that the improvements were not
21 made by the taxpayer, or were not made as a



1 business or as a part of a business, or were made
2 with the intention of holding the same. However,
3 this paragraph shall not apply in respect of any
4 proceeds that constitute or are in the nature of
5 rent, which shall be taxable under paragraph (9);
6 provided that insofar as the business of renting
7 or leasing real property under a lease is taxed
8 under section 237-16.5, the tax shall be levied
9 by section 237-16.5.

10 (4) Tax upon theaters, amusements, radio broadcasting
11 stations, etc.



3 (B) The department may require that the person
4 rendering an amusement at wholesale take from the
5 licensed seller a certificate, in a form
6 prescribed by the department, certifying that the
7 sale is a sale at wholesale; provided that:

14 (ii) The absence of a certificate in itself shall
15 give rise to the presumption that the sale
16 is not at wholesale unless the person
17 rendering the sale is exclusively rendering
18 the amusement at wholesale.

19 (5) Tax upon sales representatives, etc. Upon every
20 person classified as a representative or purchasing
21 agent under section 237-1, engaging or continuing



1 within the State in the business of performing
2 services for another, other than as an employee, there
3 is likewise hereby levied and shall be assessed and
4 collected a tax equal to four per cent of the
5 commissions and other compensation attributable to the
6 services so rendered by the person.

7 (6) Tax on service business.

8 (A) Upon every person engaging or continuing within
9 the State in any service business or calling
10 including professional services not otherwise
11 specifically taxed under this chapter, there is
12 likewise hereby levied and shall be assessed and
13 collected a tax equal to four per cent of the
14 gross income of the business, and in the case of
15 a wholesaler under section 237-4(a)(10), the tax
16 shall be equal to one-half of one per cent of the
17 gross income of the business.

18 (B) The department may require that the person
19 rendering a service at wholesale take from the
20 licensed seller a certificate, in a form



9 (ii) The absence of a certificate in itself shall
10 give rise to the presumption that the sale
11 is not at wholesale unless the person
12 rendering the sale is exclusively rendering
13 services at wholesale.

14 (C) Where any person is engaged in the business of
15 selling interstate or foreign common carrier
16 telecommunication services within and without the
17 State, other than as a home service provider, the
18 tax shall be imposed on that portion of gross
19 income received by a person from service which is
20 originated or terminated in this State and is
21 charged to a telephone number, customer, or



1 account in this State notwithstanding any other
2 state law (except for the exemption under section
3 237-23(a)(1)) to the contrary. If, under the
4 Constitution and laws of the United States, the
5 entire gross income as determined under this
6 paragraph of a business selling interstate or
7 foreign common carrier telecommunication services
8 cannot be included in the measure of the tax, the
9 gross income shall be apportioned as provided in
10 section 237-21; provided that the apportionment
11 factor and formula shall be the same for all
12 persons providing those services in the State.

13 (D) Where any person is engaged in the business of a
14 home service provider, the tax shall be imposed
15 on the gross income received or derived from
16 providing interstate or foreign mobile
17 telecommunications services to a customer with a
18 place of primary use in this State when the
19 services originate in one state and terminate in
20 another state, territory, or foreign country;
21 provided that all charges for mobile



1 telecommunications services which are billed by
2 or for the home service provider are deemed to be
3 provided by the home service provider at the
4 customer's place of primary use, regardless of
5 where the mobile telecommunications originate,
6 terminate, or pass through; provided further that
7 the income from charges specifically derived from
8 interstate or foreign mobile telecommunications
9 services, as determined by books and records that
10 are kept in the regular course of business by the
11 home service provider in accordance with section
12 239-24, shall be apportioned under any
13 apportionment factor or formula adopted under
14 subparagraph (C). Gross income shall not
15 include:
16 (i) Gross receipts from mobile
17 telecommunications services provided to a
18 customer with a place of primary use outside
19 this State;



1 (ii) Gross receipts from mobile
2 telecommunications services that are subject
3 to the tax imposed by chapter 239;

4 (iii) Gross receipts from mobile
5 telecommunications services taxed under
6 section 237-13.8; and

7 (iv) Gross receipts of a home service provider
8 acting as a serving carrier providing mobile
9 telecommunications services to another home
10 service provider's customer.

11 For the purposes of this paragraph, "charges for
12 mobile telecommunications services", "customer",
13 "home service provider", "mobile
14 telecommunications services", "place of primary
15 use", and "serving carrier" have the same meaning
16 as in section 239-22.

17 (7) Tax on insurance producers. Upon every person engaged
18 as a licensed producer pursuant to chapter 431, there
19 is hereby levied and shall be assessed and collected a
20 tax equal to 0.15 per cent of the commissions due to
21 that activity.



1 (8) Tax on receipts of sugar benefit payments. Upon the
2 amounts received from the United States government by
3 any producer of sugar (or the producer's legal
4 representative or heirs), as defined under and by
5 virtue of the Sugar Act of 1948, as amended, or other
6 Acts of the Congress of the United States relating
7 thereto, there is hereby levied a tax of one-half of
8 one per cent of the gross amount received; provided
9 that the tax levied hereunder on any amount so
10 received and actually disbursed to another by a
11 producer in the form of a benefit payment shall be
12 paid by the person or persons to whom the amount is
13 actually disbursed, and the producer actually making a
14 benefit payment to another shall be entitled to claim
15 on the producer's return a deduction from the gross
16 amount taxable hereunder in the sum of the amount so
17 disbursed. The amounts taxed under this paragraph
18 shall not be taxable under any other paragraph,
19 subsection, or section of this chapter.

20 (9) Tax on businesses selling groceries in the State.



1 (A) Upon every person engaging or continuing in the
2 business of selling any groceries in the State,
3 there is likewise hereby levied, and shall be
4 assessed and collected, a tax equivalent to the
5 following percentages of the gross proceeds of
6 sales of the business:

7 (i) 4.0 per cent until December 31, 2026;
8 (ii) 3.5 per cent for the period beginning on
9 January 1, 2027, to December 31, 2027;
10 (iii) 3.0 per cent for the period beginning on
11 January 1, 2028, to December 31, 2028;
12 (iv) 2.5 per cent for the period beginning on
13 January 1, 2029, to December 31, 2029;
14 (v) 2.0 per cent for the period beginning on
15 January 1, 2030, to December 31, 2030;
16 (vi) 1.5 per cent for the period beginning on
17 January 1, 2031, to December 31, 2031;
18 (vii) 1.0 per cent for the period beginning on
19 January 1, 2032, to December 31, 2032;
20 (viii) 0.5 per cent for the period beginning on
21 January 1, 2033, to December 31, 2033; and



9 (ii) One-half of one per cent of the gross

10 proceeds, insofar as the sale of groceries
11 is a wholesale sale under section

12 257-4(a)(6),



1 beginning on January 1, 2028, and thereafter,
2 this chapter shall no longer apply.

3 (F) The department, by rule, may require that a
4 seller take from the purchaser of nonprescription
5 drugs, a certificate certifying that the sale is
6 a sale at wholesale pursuant to paragraph (2) (F).

7 For the purposes of this paragraph:

8 "Groceries" means any food or food product for
9 home consumption except alcoholic beverages, tobacco,
10 and hot foods or hot food products prepared for
11 immediate consumption.

12 "Food" or "food product" means any substance,
13 whether in liquid, concentrated, solid, frozen, dried,
14 or dehydrated form, that is sold for ingestion or
15 chewing by humans and is consumed for its taste or
16 nutritional value.

17 (10) Tax on businesses selling nonprescription drugs in the
18 State.

19 (A) Upon every person engaging or continuing in the
20 business of selling any nonprescription drugs in
21 the State, there is likewise hereby levied, and



1 shall be assessed and collected, a tax equivalent
2 to the following percentages of the gross
3 proceeds of sales of the business:

4 (i) 4.0 per cent until December 31, 2026;
5 (ii) 3.5 per cent for the period beginning on
6 January 1, 2027, to December 31, 2027;
7 (iii) 3.0 per cent for the period beginning on
8 January 1, 2028, to December 31, 2028;
9 (iv) 2.5 per cent for the period beginning on
10 January 1, 2029, to December 31, 2029;
11 (v) 2.0 per cent for the period beginning on
12 January 1, 2030, to December 31, 2030;
13 (vi) 1.5 per cent for the period beginning on
14 January 1, 2031, to December 31, 2031;
15 (vii) 1.0 per cent for the period beginning on
16 January 1, 2032, to December 31, 2032;
17 (viii) 0.5 per cent for the period beginning on
18 January 1, 2033, to December 31, 2033; and
19 (ix) For the period beginning on January 1, 2034,
20 and thereafter, this chapter shall no longer
21 apply.



1 (B) Upon every person engaging or continuing in the
2 business of selling any nonprescription drugs in
3 the State as a wholesaler, the tax shall be equal
4 to:
5 (i) One-half of one per cent of the gross
6 proceeds of sales of the business; or
7 (ii) One-half of one per cent of the gross
8 proceeds, insofar as the sale of groceries
9 is a wholesale sale under section
10 237-4(a)(8);
11 provided that beginning on January 1, 2028, and
12 thereafter, this chapter shall no longer apply.
13 (C) Upon every person engaging or continuing within
14 this State in the business of a manufacturer or
15 producer of nonprescription drugs, the tax shall
16 be equal to one-half of one per cent of the gross
17 proceeds of sales of the business, or the value
18 of the products, for sale in the State; provided
19 that beginning on January 1, 2028, and
20 thereafter, this chapter shall no longer apply.



1 (F) The department, by rule, may require that a
2 seller take from the purchaser of nonprescription
3 drugs, a certificate certifying that the sale is
4 a sale at wholesale pursuant to paragraph (2) (F).

5 For the purposes of this paragraph,
6 "nonprescription drug" has the same meaning as defined
7 in section 328-1.

8 [+9+] (11) Tax on other business. Upon every person
9 engaging or continuing within the State in any
10 business, trade, activity, occupation, or calling not
11 included in the preceding paragraphs or any other
12 provisions of this chapter, there is likewise hereby
13 levied and shall be assessed and collected, a tax
14 equal to four per cent of the gross income thereof.

15 In addition, the rate prescribed by this paragraph
16 shall apply to a business taxable under one or more of
17 the preceding paragraphs or other provisions of this
18 chapter, as to any gross income thereof not taxed
19 thereunder as gross income or gross proceeds of sales
20 or by taxing an equivalent value of products, unless
21 specifically exempted."



1

PART III

2 SECTION 3. Section 237-8.6, Hawaii Revised Statutes, is
3 amended by amending subsection (d) to read as follows:

4 "(d) No county surcharge on state tax shall be established

5 on any:

6 (1) Gross income or gross proceeds taxable under this
7 chapter at the one-half per cent tax rate;

8 (2) Gross income or gross proceeds taxable under this
9 chapter at the 0.15 per cent tax rate; [or]

10 (3) Transactions, amounts, persons, gross income, or gross
11 proceeds exempt from tax under this chapter[or]; or

12 (4) Gross income or gross proceeds taxable under section
13 237-13(9) or (10)."

14 PART IV

15 SECTION 4. Statutory material to be repealed is bracketed
16 and stricken. New statutory material is underscored.

17 SECTION 5. This Act shall take effect on January 1, 2027;
18 provided that section 3 of this Act shall be repealed upon the
19 repeal of section 237-8.6, Hawaii Revised Statutes, on



1 December 31, 2030, pursuant to section 6 of Act 1, Special
2 Session Laws of Hawaii 2017.

3

INTRODUCED BY:

Mike Gabbard



S.B. NO. 2104

Report Title:

GET; Groceries; Nonprescription Drugs; Phased Repeal; County Surcharge; Prohibition

Description:

Implements a phased repeal of the state general excise tax on the sale of groceries and nonprescription drugs in the State. Prohibits counties from establishing county surcharges on the state general excise tax on gross income or gross proceeds from the sale of groceries and nonprescription drugs in the State. Prohibition on county surcharges to be repealed on 12/31/2030.

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

