

JAN 23 2026

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 measure is to increase
2 State revenues without imposing major financial impacts on
3 residents 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 defined 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)] for
17 sale to a licensed producer, or to a licensed person
18 operating a feed lot, of poultry or animal feed,
19 hatching eggs, semen, replacement stock, breeding
20 services for the purpose of raising or producing
21 animal or poultry products for disposition as



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

19 (6) Sales to a licensed producer, or to a cooperative
20 association described in section [237-23(a)(8)] for
21 sale to the producer, of seed or seedstock for



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



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



- 1 (A) Either:
 - 2 (i) In the context of a service-to-service
 - 3 transaction, a service is rendered upon the
 - 4 order or request of a licensed seller for
 - 5 the purpose of rendering another service in
 - 6 the course of the seller's service business
 - 7 or calling, including a dealer's furnishing
 - 8 of goods or services to the purchaser of
 - 9 tangible personal property to fulfill a
 - 10 warranty obligation of the manufacturer of
 - 11 the property;
 - 12 (ii) In the context of a service-to-tangible
 - 13 personal property transaction, a service is
 - 14 rendered upon the order or request of a
 - 15 licensed seller for the purpose of
 - 16 manufacturing, producing, or preparing
 - 17 tangible personal property to be sold;
 - 18 (iii) In the context of a services-to-contracting
 - 19 transaction, a service is rendered upon the
 - 20 order or request of a licensed contractor as



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



- 1 transient accommodations for imposition of the
2 tax under this chapter;
- 3 (E) The gross income of the licensed seller is not
4 subject to a deduction under this chapter or
5 chapter 237D; and
- 6 (F) The resale of the service, tangible personal
7 property, contracting, or transient
8 accommodations is subject to the tax imposed
9 under this chapter at the highest tax rate.
- 10 (11) Sales to a licensed retail merchant, jobber, or other
11 licensed seller of bulk condiments or prepackaged
12 single-serving packets of condiments that are provided
13 to customers by the licensed retail merchant, jobber,
14 or other licensed seller;
- 15 (12) Sales to a licensed retail merchant, jobber, or other
16 licensed seller of tangible personal property that
17 will be incorporated or processed by the licensed
18 retail merchant, jobber, or other licensed seller into
19 a finished or saleable product during the course of
20 its preparation for market (including disposable,
21 nonreturnable containers, packages, or wrappers, in



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

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

10 (A) Either:

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

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



- 1 (iii) In the context of an amusement-to-amusement
- 2 transaction, an amusement is rendered upon
- 3 the order or request of a licensed seller
- 4 for the purpose of rendering another
- 5 amusement in the course of the person's
- 6 amusement business;

- 7 (B) The benefit of the amusement passes to the
- 8 customer of the licensed seller as an
- 9 identifiable element of the other service,
- 10 tangible personal property to be sold, or
- 11 amusement;

- 12 (C) The cost of the amusement does not constitute
- 13 overhead to the licensed seller;

- 14 (D) The gross income of the licensed seller is not
- 15 divided between the licensed seller and another
- 16 licensed seller, person furnishing transient
- 17 accommodations, or person rendering an amusement
- 18 for imposition of the tax under chapter 237;

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



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

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

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

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

18 "Lessor of a rental motor vehicle" has the same meaning as
19 "lessor" as defined in section 251-1.

20 "Rental motor vehicle" has the same meaning as defined in
21 section 251-1."



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

3 **"§238-2 Imposition of tax on tangible personal property;**

4 **exemptions.** There is hereby levied an excise tax on the use in
5 this State of tangible personal property which is imported by a
6 taxpayer in this State whether owned, purchased from an
7 unlicensed seller, or however acquired for use in this State.

8 The tax imposed by this chapter shall accrue when the property
9 is acquired by the importer or purchaser and becomes subject to
10 the taxing jurisdiction of the State. The rates of the tax
11 hereby imposed and the exemptions thereof are as follows:

12 (1) If the importer or purchaser is licensed under chapter
13 237 and is:

14 (A) A wholesaler or jobber importing or purchasing
15 for purposes of sale or resale; or

16 (B) A manufacturer importing or purchasing material
17 or commodities which are to be incorporated by
18 the manufacturer into a finished or saleable
19 product (including the container or package in
20 which the product is contained) wherein it will
21 remain in such form as to be perceptible to the



1 senses, and which finished or saleable product is
2 to be sold in such manner as to result in a
3 further tax on the activity of the manufacturer
4 as the manufacturer or as a wholesaler, and not
5 as a retailer,

6 there shall be no tax; provided that if the
7 wholesaler, jobber, or manufacturer is also engaged in
8 business as a retailer (so classed under chapter 237),
9 paragraph (2) shall apply to the wholesaler, jobber,
10 or manufacturer, but the director of taxation shall
11 refund to the wholesaler, jobber, or manufacturer, in
12 the manner provided under section 231-23(c) such
13 amount of tax as the wholesaler, jobber, or
14 manufacturer shall, to the satisfaction of the
15 director, establish to have been paid by the
16 wholesaler, jobber, or manufacturer to the director
17 with respect to property which has been used by the
18 wholesaler, jobber, or manufacturer for the purposes
19 stated in this paragraph;

20 (2) If the importer or purchaser is licensed under chapter
21 237 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 are to be incorporated by
11 the manufacturer into a finished or saleable
12 product (including the container or package in
13 which the product is contained) wherein it will
14 remain in such form as to be perceptible to the
15 senses, and which finished or saleable product is
16 to be sold at retail in this State, in such
17 manner as to result in a further tax on the
18 activity of the manufacturer in selling such
19 products at retail;

20 (C) A contractor importing or purchasing material or
21 commodities which are to be incorporated by the



1 contractor into the finished work or project
2 required by the contract and which will remain in
3 such finished work or project in such form as to
4 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 State,
14 notwithstanding the fact that title to the property, or the risk
15 of loss to the property, passes to the purchaser of the property
16 at a location outside this 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.



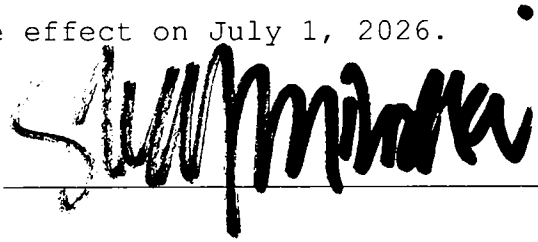
1 The sum appropriated shall be expended by the department of
2 taxation for the purposes of this Act.

3 SECTION 7. New statutory material is underscored.

4 SECTION 8. This Act shall take effect on July 1, 2026.

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INTRODUCED BY:

A handwritten signature in black ink, appearing to read "Stephen Mink", is written over a horizontal line. The signature is stylized and somewhat cursive.



S.B. NO. 2594

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.

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