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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 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. Governor  
9 Green's administration has proposed delaying some of these  
10 income tax cuts to address the State's budget deficit.

11           The legislature further finds that the rental car industry  
12 pays wholesale tax rates on fleet purchases in the State and  
13 then depreciates fleet assets to lower its taxes payable on  
14 income. At the American Car Rental Association (ACRA) annual  
15 conference in 2025, the chairman of ACRA told attendees: "The  
16 nice thing about full expensing is if I happen to have \$65,000  
17 of taxable profit in that year, I get to fully expense \$65,000



1 of depreciation [on a car]." At the same event, the treasurer  
2 of ACRA told attendees: "When I'm teaching my franchisees, I  
3 tell them they're not really a rental car business. Rental cars  
4 are just a cash flow game that we play to generate [revenue] and  
5 then make them used cars by depreciating it for 10-, 12-, 24-  
6 months." The legislature finds that asset depreciation tax laws  
7 are intended to be used for value-generating assets, not to  
8 deliver tax savings on short-term inventories.

9 The legislature further finds that the federal government  
10 awards contracts for work performed within the State to  
11 businesses that may not be registered to do business in Hawaii  
12 and, as a result, may not be remitting the general excise tax as  
13 required under state law. In some instances, this has a  
14 multiplier effect of also reducing income taxes due to imported  
15 laborers who are not paying state income tax.

16 Accordingly, the purpose of this Act is to increase state  
17 revenues without imposing major financial impacts on residents  
18 by:

19 (1) Applying the retail or higher general excise tax or  
20 use tax rate to purchases or imports of new motor  
21 vehicles by rental car companies; and



1 (2) Establishing a position within the department of  
2 taxation to identify, monitor, and collect the general  
3 excise tax from contractors awarded federal contracts  
4 for work performed in the State.

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

8 "Lessor of rental motor vehicles" has the same meaning as  
9 "lessor" as defined in section 251-1.

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

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

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

17 (1) Sales to a licensed retail merchant, jobber, or other  
18 licensed seller for purposes of resale; provided that  
19 a sale for purposes of resale does not include the  
20 sale of a motor vehicle to a lessor of rental motor  
21 vehicles for use as a rental motor vehicle;



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



- 1 (4) Sales to a licensed contractor, of materials or  
2 commodities that are to be incorporated by the  
3 contractor into the finished work or project required  
4 by the contract and that will remain in [~~such~~] the  
5 finished work or project in [~~such~~] a form as to be  
6 perceptible to the senses;
- 7 (5) Sales to a licensed producer, or to a cooperative  
8 association described in section [~~+~~]237-23(a)(8)[~~+~~]  
9 for sale to a licensed producer, or to a licensed  
10 person operating a feed lot, of poultry or animal  
11 feed, hatching eggs, semen, replacement stock,  
12 breeding services for the purpose of raising or  
13 producing animal or poultry products for disposition  
14 as described in section 237-5 or for incorporation  
15 into a manufactured product as described in paragraph  
16 (2) or for the purpose of breeding, hatching, milking,  
17 or egg laying other than for the customer's own  
18 consumption of the meat, poultry, eggs, or milk so  
19 produced; provided that in the case of a feed lot  
20 operator, only the segregated cost of the feed  
21 furnished by the feed lot operator as part of the feed



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

12 (6) Sales to a licensed producer, or to a cooperative  
13 association described in section [‡]237-23(a) (8) [‡]  
14 for sale to the producer, of seed or seedstock for  
15 producing agricultural and aquacultural products, or  
16 bait for catching fish (including the catching of bait  
17 for catching fish), which agricultural and  
18 aquacultural products or fish are to be disposed of as  
19 described in section 237-5 or to be incorporated in a  
20 manufactured product as described in paragraph (2);



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



1 section 237D-2 for the purpose of furnishing  
2 transient accommodations;

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

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

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

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

17 (A) Either:

18 (i) In the context of a service-to-service  
19 transaction, a service is rendered upon the  
20 order or request of a licensed seller for  
21 the purpose of rendering another service in



1 the course of the seller's service business  
2 or calling, including a dealer's furnishing  
3 of goods or services to the purchaser of  
4 tangible personal property to fulfill a  
5 warranty obligation of the manufacturer of  
6 the property;

7 (ii) In the context of a service-to-tangible  
8 personal property transaction, a service is  
9 rendered upon the order or request of a  
10 licensed seller for the purpose of  
11 manufacturing, producing, or preparing  
12 tangible personal property to be sold;

13 (iii) In the context of a services-to-contracting  
14 transaction, a service is rendered upon the  
15 order or request of a licensed contractor as  
16 defined in section 237-6 for the purpose of  
17 assisting that licensed contractor; or

18 (iv) In the context of a services-to-transient  
19 accommodations rental transaction, a service  
20 is rendered upon the order or request of a  
21 person subject to tax under section 237D-2



- 1                   for the purpose of furnishing transient  
2                   accommodations;
- 3           (B)   The benefit of the service passes to the customer  
4                   of the licensed seller, licensed contractor, or  
5                   person furnishing transient accommodations as an  
6                   identifiable element of the other service or  
7                   property to be sold, the contracting, or the  
8                   furnishing of transient accommodations;
- 9           (C)   The cost of the service does not constitute  
10                   overhead to the licensed seller, licensed  
11                   contractor, or person furnishing transient  
12                   accommodations;
- 13           (D)   The gross income of the licensed seller is not  
14                   divided between the licensed seller and another  
15                   licensed seller, contractor, or person furnishing  
16                   transient accommodations for imposition of the  
17                   tax under this chapter;
- 18           (E)   The gross income of the licensed seller is not  
19                   subject to a deduction under this chapter or  
20                   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 defined in section 251-1.

17       "Rental motor vehicle" has the same meaning as defined in  
18 section 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 State of tangible personal property [~~which~~] that is  
4   imported by a taxpayer in this State whether owned, purchased  
5   from an unlicensed seller, or however acquired for use in this  
6   State.   The tax imposed by this chapter shall accrue when the  
7   property is acquired by the importer or purchaser and becomes  
8   subject to the taxing jurisdiction of the State.   The rates of  
9   the tax hereby imposed and the exemptions thereof are as  
10 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~~] that are to be  
17                    incorporated by the manufacturer into a finished  
18                    or saleable product (including the container or  
19                    package in which the product is contained)  
20                    wherein it will remain in [~~such~~] a form as to be  
21                    perceptible to the senses, and which finished or



1           saleable product is to be sold in [~~such~~] a manner  
2           as to result in a further tax on the activity of  
3           the manufacturer as the manufacturer or as a  
4           wholesaler, and not 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~~] the  
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~~] that has been used by  
17          the wholesaler, jobber, or manufacturer for the  
18          purposes 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~~] a form as to be  
15 perceptible to the senses, and which finished or  
16 saleable product is to be sold at retail in this  
17 State, in [~~such~~] a manner as to result in a  
18 further tax on the activity of the manufacturer  
19 in selling [~~such~~] the 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~~ the finished work or  
4 project in ~~such~~ a form as to be perceptible to  
5 the senses;

6 (D) A person engaged in a service business or calling  
7 as defined in section 237-7, or a person  
8 furnishing transient accommodations subject to  
9 the tax imposed by section 237D-2, in which the  
10 import or purchase of tangible personal property  
11 would have qualified as a sale at wholesale as  
12 defined in section 237-4(a)(8) had the seller of  
13 the property been subject to the tax in chapter  
14 237; or

15 (E) A publisher of magazines or similar printed  
16 materials containing advertisements, when the  
17 publisher is under contract with the advertisers  
18 to distribute a minimum number of magazines or  
19 similar printed materials to the public or  
20 defined segment of the public, whether or not  
21 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~~] the  
9           property; 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 to  
20 establish one full-time equivalent (1.0 FTE) tax inspector  
21 position within 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. Statutory material to be repealed is bracketed  
4 and stricken. New statutory material is underscored.

5           SECTION 8. This Act shall take effect on July 1, 2050;  
6 provided that sections 2, 3, 4, and 5 shall take effect on  
7 January 1, 2027.



# S.B. NO. 2784 S.D. 1

**Report Title:**

DOTAX; General Excise Tax; Use Tax; Rental Motor Vehicles;  
Position; Appropriation

**Description:**

For taxable years beginning after 12/31/2026, 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 to establish a position in the Department of Taxation. Effective 7/1/2050. (SD1)

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