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**TESTIMONY OF  
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

**TESTIMONY ON THE FOLLOWING MEASURE:**

H.B. No. 1688, H.D.1, Relating to a General Excise Tax Exemption for Aircraft Maintenance

**BEFORE THE:**

House Committee on Finance

**DATE:** Thursday, March 5, 2026

**TIME:** 2:00 p.m.

**LOCATION:** State Capitol, Room 308

Chair Todd, Vice-Chair Takenouchi, and Members of the Committee:

The Department of Taxation (DOTAX) offers the following comments regarding H.B. 1688, H.D.1, for your consideration.

H.B. 1688, H.D.1, amends section 237-24.9, Hawaii Revised Statutes, to expand the general excise tax exemption for aircraft service and maintenance facilities to include purchases by an air carrier, as defined by the Federal Aviation Act of 1958, for material, parts, or tools when purchased for aircraft service and maintenance, or for the construction of an aircraft service and maintenance facility.

The bill has a defective effective date of July 1, 3000.

DOTAX recommends that the effective date of the bill be amended to January 1, 2027 to allow sufficient time for form and instruction changes, and notification to taxpayers.

Additionally, DOTAX notes that the revenue estimate for this bill is indeterminate.

Thank you for the opportunity to provide comments on this measure.

**Testimony to the House Committee on Finance  
Representative Chris Todd, Chair  
Representative Jenna Takenouchi, Vice Chair**

**Thursday, March 5, 2026, at 2:00PM  
Conference Room 308 & Videoconference**

**RE: HB1688 HD1 Relating to a General Excise Tax Exemption for Aircraft Maintenance**

Aloha e Chair Todd, Vice Chair Takenouchi, and Members of the Committee:

Aloha e Chair Dela Cruz, Vice Chair Moriwaki, and Members of the Committee:

My name is Sherry Menor, President and CEO of the Chamber of Commerce Hawaii ("The Chamber"). The Chamber supports House Bill 1688 House Draft 1 (HB1688 HD1), which provides a general excise tax exemption for the sale of material, parts, or tools used for aircraft service and maintenance or for the construction of an aircraft service and maintenance facility.

HB1688 HD1 aligns with our 2030 Blueprint for Hawaii: An Economic Action Plan, specifically under the policy pillar for Small Business. This bill promotes the amendment of the tax disparity for general excise tax exemption between those selling aircraft parts out of state and those selling parts in state. As it stands, under the current 2025 Hawai'i Intermediate Court of Appeals decision, parts sourced from suppliers out of state are given more favorable tax treatment those selling those identical parts in state. Such interpretation stifles local business growth and diversification, by encouraging airlines--one of Hawaii's major economic drivers--to make these parts purchases out of state. Exclusion of local suppliers works in opposition to the intent of its original legislation, which was to allow for improved economic feasibility of aircraft maintenance and servicing in Hawaii.

This bill does not create a new tax exemption. Rather, it makes explicit the inclusion of necessary parts to conduct GET exempt aircraft maintenance and servicing. This inclusion will lend towards a more equitable environment for local aircraft parts suppliers, allowing local business to more fairly compete with national suppliers.

For these reasons, the Chamber respectfully asks to pass House Bill 1688 House Draft 1. Thank you for the opportunity to testify.

The Chamber of Commerce Hawaii is the state's leading business advocacy organization, dedicated to improving Hawaii's economy and securing Hawaii's future for growth and opportunity. Our mission is to foster a vibrant economic climate. As such, we support initiatives and policies that align with the 2030 Blueprint for Hawaii that create opportunities to strengthen overall competitiveness, improve the quantity and skills of available workforce, diversify the economy, and build greater local wealth.

# TAX FOUNDATION OF HAWAII

735 Bishop Street, Suite 417

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SUBJECT: GENERAL EXCISE, Extend Aircraft Service and Maintenance Exemption to Parts Sales

BILL NUMBER: HB 1688 HD1

INTRODUCED BY: TRN

EXECUTIVE SUMMARY: Provides a general excise tax exemption for the sale of material, parts, or tools used for aircraft service and maintenance or for the construction of an aircraft service and maintenance facility.

SYNOPSIS: Amends sec 237-24.9, HRS, to add a GET exemption from the sales of material, parts, or tools to an air carrier, as defined by the Federal Aviation Act of 1958, if they are purchased for aircraft service and maintenance or for the construction of an aircraft service and maintenance facility.”

EFFECTIVE DATE: July 1, 3000.

STAFF COMMENTS: The proposed GET exemption is intended to address the disparity of intent between the general excise tax and use tax provisions for aircraft materials and parts used for aircraft service and maintenance.

Back in 1997, Continental Airlines was considering building a \$24 million jet maintenance hangar close to the Honolulu International Airport. To lure the project away from Guam and Saipan, our lawmakers at the time offered incentives, which included this GET exemption (1997 Hawaii Session Laws Act 107, Sec 3). The exemption applied to servicing and maintenance of aircraft, or from the construction of an aircraft service and maintenance facility. “Aircraft,” as used in the exemption statute, was and still is restricted to aircraft with two or more jet engines.

HRS sec 237-24.9, enacted by 1997 Session Law Act 107 Sec 3, concurrently enacted a use tax exemption for material, parts, or tools imported or purchased by a person licensed under chapter 237 which are used for aircraft service and maintenance, or the construction of an aircraft service and maintenance facility, as those terms are defined in section 237. This concurrent enactment of a use tax exemption was consistent with the Legislators’ intent at the time to lure the building and operation of aircraft maintenance hangers in Honolulu.

Since the 1997 enactment of the HRS sec 237-24.9 general excise and HRS sec 238-1(8) use tax exemptions, sales tax nexus has expanded the reach of taxability and has blurred the operation and intent of these exemptions. This disparity was addressed by the Hawaii Intermediate Court of Appeals in a November 2025 decision.

This bill would clarify the 1997 Legislature’s intent to support and encourage aircraft maintenance and servicing activity in Hawaii.

Re: HB 1688 HD1  
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Disclosure: Tom Yamachika, President of the Foundation, represents Hawaiian Airlines in ongoing litigation that led to the Intermediate Court of Appeals opinion referred to above.

Digested: 3/3/2026



Testimony of  
**ALASKA AIRLINES and HAWAIIAN AIRLINES**

Before the House Committee on  
**Finance**

**Thursday, March 5, 2026**  
**2:00 P.M.**  
**Hawai'i State Capitol, Room 308**

In consideration of  
**HOUSE BILL 1688 H.D. 1**  
**RELATING TO GENERAL EXCISE TAX EXEMPTION FOR AIRCRAFT MAINTENANCE**

The Honorable Chris Todd, Chair  
The Honorable Jenna Takenouchi, Vice Chair  
Members of the Committee on Finance

**Re: Testimony in Support of H.B. 1688, H.D. 1, Relating To General Excise Tax Exemption For Aircraft Maintenance**

Chair Todd, Vice-Chair Takenouchi and members of the committee,

On behalf of Alaska Airlines and Hawaiian Airlines, we respectfully submit testimony in strong support of H.B. 1688, H.D. 1, which clarifies the General Excise Tax treatment of aircraft parts, materials, and tools used for aircraft servicing and maintenance in Hawai'i.

In November 2025, the Hawai'i Intermediate Court of Appeals issued a decision interpreting existing statute to subject locally purchased aircraft parts to the General Excise Tax, despite a long-standing exemption in HRS section 237-24.9 intended to support aircraft servicing and maintenance. While the court acknowledged that this interpretation creates a tax disparity that disadvantages local business and employers, it also made clear that it believes that resolving this issue is a matter for the Legislature. H.B. 1688, H.D. 1 appropriately responds to that directive by providing necessary statutory clarification.

Under the current interpretation of Hawai'i tax law, aircraft parts purchased outside the State and imported into Hawai'i are not subject to the use tax, while identical parts purchased in, or delivered to, Hawai'i are subject to the General Excise Tax. This creates a clear loophole that allows out-of-state purchases to receive more favorable tax treatment than local purchases. That outcome is inconsistent with the original purpose of Hawai'i's

use tax, which was designed to prevent precisely this type of disparity and to ensure tax neutrality between in-state and out-of-state transactions.

This loophole creates an unintended incentive to purchase aircraft parts outside Hawai'i, even when qualified local vendors are available. Over time, it distorts purchasing decisions, places Hawai'i-based suppliers at a competitive disadvantage, and undermines the State's interest in maintaining a strong and resilient aviation ecosystem. Closing this loophole is necessary to restore fairness and consistency in the State's tax policy, and to support the state's goals of supporting Hawai'i's economic and employment health.

H.B. 1688, H.D. 1 does not create a new tax exemption. Instead, it clarifies and reaffirms existing legislative intent by explicitly stating that aircraft parts, materials, and tools used for aircraft servicing and maintenance, or for the construction of aircraft service and maintenance facilities, are exempt from the General Excise Tax when purchased by air carriers. This clarification restores parity between local and out-of-state purchases and aligns the General Excise Tax with the complementary use tax framework.

By restoring consistent tax treatment, H.B. 1688, H.D. 1 ensures that Hawai'i-based purchasers and suppliers are not disadvantaged solely due to tax policy. It promotes fair competition, supports local businesses and jobs, and provides predictability for airlines and other qualifying aviation entities operating in Hawai'i. It also helps Hawai'i remain competitive with other states that explicitly exempt aircraft parts from sales or excise taxes to attract and retain aircraft maintenance activity.

As Hawai'i's hometown carrier, Hawaiian Airlines operates in a cost-sensitive and highly regulated aviation environment where predictability and fairness in tax policy matter. Alaska Airlines and Hawaiian Airlines believe that H.B. 1688, H.D. 1 closes an unintended loophole, restores tax parity, and ensures that Hawai'i's tax policy supports safe, reliable air service and a strong local aviation industry.

For these reasons, we respectfully urge the Committee to pass H.B. 1688, H.D. 1

Mahalo for the opportunity to provide testimony.