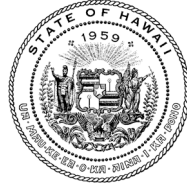


**JOSH GREEN M.D.**  
GOVERNOR

**SYLVIA LUKE**  
LT. GOVERNOR



STATE OF HAWAII  
**DEPARTMENT OF TAXATION**

Ka 'Oihana 'Auhau

P.O. BOX 259

HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1540

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**GARY S. SUGANUMA**  
DIRECTOR

**KRISTEN M.R. SAKAMOTO**  
DEPUTY DIRECTOR

**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:**

Senate Committee on Transportation

**DATE:** Tuesday, March 24, 2026

**TIME:** 3:02 p.m.

**LOCATION:** State Capitol, Room 229

Chair Inouye, Vice-Chair Elefante, 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.

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

# TAX FOUNDATION OF HAWAII

735 Bishop Street, Suite 417

Honolulu, Hawaii 96813 Tel. 536-4587

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  
Page 2

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 Senate Committee on  
**Transportation**

**Tuesday, March 24, 2026**  
**3:02 P.M.**  
**Hawai'i State Capitol, Room 229**

In consideration of  
**HOUSE BILL 1688, HD1**  
**RELATING TO GENERAL EXCISE TAX EXEMPTION FOR AIRCRAFT MAINTENANCE**

The Honorable Lorraine Inouye, Chair  
The Honorable Brandon Elefante, Vice Chair  
Members of the Committee on Transportation

**Re: Testimony in Support of H.B. 1688, HD1, Relating To A General Excise Tax Exemption For Aircraft Maintenance**

Chair Inouye, Vice-Chair Elefante and members of the committee,

On behalf of Alaska Airlines and Hawaiian Airlines, we respectfully submit testimony **in strong support** of H.B. 1688, HD1 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, HD1 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, HD1 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, HD1 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, HD1 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, HD1.**

Mahalo for the opportunity to provide testimony.



March 20, 2026

Senator Lorraine Inouye, Chair  
Senator Brandon Elefante, Vice Chair  
Senate Committee on Transportation  
Hawaii State Legislature

**Support for HB1688 HD1 – Aircraft Maintenance GET Clarification**

Dear Chair Inouye, Vice Chair Elefante and Members of the Senate Committee on Transportation,

On behalf of the Kohala Coast Resort Association, thank you for the opportunity to share our **support of HB1688 HD1** which clarifies the General Excise Tax treatment of aircraft parts, materials, and tools used for aircraft servicing and maintenance in Hawai‘i.

This measure is a necessary response to a 2025 Hawai‘i Intermediate Court of Appeals decision that unintentionally created a tax disparity between aircraft parts purchased locally and those purchased out of state. Under the current interpretation, identical parts purchased outside Hawai‘i receive more favorable tax treatment than those purchased from Hawai‘i-based vendors.

This outcome undermines local businesses, distorts purchasing decisions, and conflicts with the original intent of Hawai‘i’s tax framework, which was designed to maintain parity between in-state and out-of-state transactions.

HB1688 HD1 does **not** create a new tax exemption. Instead, it clarifies and reaffirms long-standing legislative intent by restoring consistent tax treatment for aircraft parts used in maintenance and servicing. This clarification supports local suppliers, strengthens Hawai‘i’s aviation maintenance ecosystem, and provides predictability for companies operating in the State.

Aviation is a cost-sensitive and safety-critical industry. Fair and consistent tax policy plays an important role in ensuring reliable air service, supporting local jobs, and keeping Hawai‘i competitive with other states that explicitly exempt aircraft maintenance materials from similar taxes.

For these reasons, I respectfully urge the Committee to pass HB1688 HD1.

Mahalo for the opportunity to submit testimony.

Sincerely,

A handwritten signature in black ink that reads "Stephanie P. Donoho". The signature is written in a cursive, flowing style.

Stephanie Donoho, Administrative Director  
Kohala Coast Resort Association

**Testimony to the Senate Committee on Transportation  
Senator Lorraine R. Inouye, Chair  
Senator Brandon J.C. Elefante, Vice Chair**

**Tuesday, March 24, 2026, at 3:02PM  
Conference Room 325 & Videoconference**

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

Aloha e Chair Inouye, Vice Chair Elefante, 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.

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A BILL FOR AN ACT

**LATE**

RELATING TO A GENERAL EXCISE TAX EXEMPTION FOR AIRCRAFT  
MAINTENANCE.

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

1           SECTION 1. The legislature finds that many states,  
2 including Arizona, California, Colorado, Connecticut, Florida,  
3 Georgia, Iowa, Kansas, Massachusetts, Minnesota, New York, North  
4 Carolina, Ohio, Pennsylvania, Texas, and Wisconsin, explicitly  
5 exempt aircraft parts from their sales tax if sold to an air  
6 carrier. In Hawaii, there is an exemption in the general excise  
7 tax law for aircraft servicing and maintenance. However, the  
8 Hawaii Intermediate Court of Appeals has recently decided that  
9 the exemption language does not exempt from the general excise  
10 tax the sale of parts to an air carrier, even though the  
11 complementary use tax law explicitly exempts from the use tax  
12 imports of these parts from an out-of-state seller.

13           To correct this imbalance, recognize the critical  
14 importance of the airline industry to the State, and ensure  
15 competitiveness with other states in attracting and maintaining  
16 aircraft maintenance jobs and facilities, the purpose of this



1 Act is to provide a general excise tax exemption for the sale of  
2 material, parts, or tools that are used for aircraft service and  
3 maintenance or for the construction of an aircraft service and  
4 maintenance facility.

5 SECTION 2. Section 237-24.9, Hawaii Revised Statutes, is  
6 amended by amending its title and subsection (a) to read as  
7 follows:

8 "§237-24.9 Aircraft service [and], maintenance  
9 facility[-], and sale of related materials. (a) This chapter  
10 shall not apply to amounts received from the servicing and  
11 maintenance of aircraft [~~or~~], from the construction of an  
12 aircraft service and maintenance facility in the State[-], or  
13 from the sale of material, parts, or tools to an air carrier, as  
14 defined by the Federal Aviation Act of 1958, if they are  
15 purchased for aircraft service and maintenance or for the  
16 construction of an aircraft service and maintenance facility."

17 SECTION 3. Statutory material to be repealed is bracketed  
18 and stricken. New statutory material is underscored.

19 SECTION 4. This Act shall take effect on July 1, 3000.



**Report Title:**

Taxation; General Excise Tax; Aircraft Service and Maintenance

**Description:**

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. Effective 7/1/3000. (HD1)

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



**HB-1688-HD-1**

Submitted on: 3/21/2026 10:06:28 AM

Testimony for TRS on 3/24/2026 3:02:00 PM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Testify</b>
Johnnie-Mae L. Perry	Individual	Comments	Written Testimony Only

Comments:

I, Johnnie-Mae L. Perry, Comment regarding GET credit, fundings and appropriates funds.

IRAN WAR IS COSTING TAXPAYERS 1BILLION \$ A DAY!! LEGISLATURES MUST BE FISCAL REPOSNSIBLE THIS SESSION REGARDING MEASURES SEEKING FUND/TAX CREDIT...

1688 HB RELATING TO A GENERAL EXCISE TAX EXEMPTION FOR AIRCRAFT MAINTENANCE

SENATE  
THE THIRTY-THIRD LEGISLATURE  
REGULAR SESSION OF 2026

COMMITTEE ON TRANSPORTATION

Senator Lorraine R. Inouye, Chair  
Senator Brandon J.C. Elefante, Vice Chair

HEARING

DATE: March 24, 2026  
TIME: 3:02 PM  
PLACE: VIA VIDEOCONFERENCE  
Conference Room 229

Public commentor: Ted Metrose (independent) Position: **In Opposition**

HB1688 - HD1

Synopsis

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.

Specific Amendment

More specifically HB1688-HD1 proposes that Section 237-24.9, of Hawaii Revised Statutes (HRS) be amended to read as follows:

“\$237-24.9 Aircraft service ~~and~~, maintenance facility ~~[-]~~, and sale of related materials.

(a) This chapter shall not apply to amounts received from the servicing and maintenance of aircraft ~~[-]~~, from the construction of an aircraft service and maintenance facility in the State~~[-]~~, or from the sale 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.”

#### Background and Case Summary (serving as catalyst for proposed legislation, HB1688)

Hawaiian Airlines, Inc. v. Department of Taxation, SCWC-22-0000349, Supreme Court of the State of Hawai‘i; CAAP-22-0000349, Intermediate Court of Appeals of the State of Hawai‘i; Case No. 1 CTX 21-0000493, Tax Appeal Court, State of Hawai‘i. Taxpayer alleged it paid under protest GET assessed against The Boeing Company in accordance with a contract and filed the complaint under § 40-35, HRS. Taxpayer claimed that the amounts in question are exempt under section 237-24.9, HRS. The tax appeal court granted the Department’s motion to dismiss the case for lack of subject matter jurisdiction. Taxpayer appealed to the Intermediate Court of Appeals, which affirmed the tax appeal court’s final judgment. Taxpayer filed an application for writ of certiorari to the Hawai‘i Supreme Court which was granted. Oral argument at the Hawai‘i Supreme Court took place on August 22, 2024.

#### Key Points of the Court’s Recent (2025) Ruling

- The exemption under [Hawaii Revised Statutes \(HRS\) Section 237-24.9](#) applies solely to amounts received from servicing and maintaining aircraft, not to sales of tangible personal property.
- Sales of aircraft parts are subject to the GET under HRS Section 237-13(2), which taxes sales of tangible personal property.
- Hawaiian’s payment of the GET on behalf of Boeing did not entitle it to a refund, as the tax liability rests with the seller.
- The court rejected Hawaiian’s argument that the exemption should apply because the parts are necessary components of aircraft maintenance, emphasizing that the legislature’s intent controls.
- The court held that the Use Tax exemption for imported materials used in aircraft servicing does not require a parallel exemption under GET, and the tax structure doesn’t violate the Commerce Clause.
- Policy concerns raised by Hawaiian about penalizing local sellers and encouraging relocation of maintenance facilities were deemed legislative matters outside the court’s role.

#### Implications of the Court’s Decision

This decision underscores the importance of distinguishing between taxable sales of tangible property and exempt service activities under Hawaii’s tax laws.

Businesses purchasing aircraft parts should be aware that such purchases are subject to the GET, and exemptions for maintenance services do not extend to the sale of parts.

## Commentary and Opposition

Whereas the court's decision has been called into question by Hawaiian and Alaska Airlines, the legislature has been given a real opportunity to reconsider the merits of the general excise (GE) tax exemption on goods, materials and parts which are sold to the airlines, particularly in light of increasing demands for tax revenues. As highlighted above the original exemption was limited to servicing and maintaining aircraft, while this bill substantially expands the exemption to parts and materials in the service of aircraft, seemingly giving comprehensive exemption for the entire aviation industry and perhaps all state-owned and privately owned airports.

For 2023 DOTAX reported that tax exemptions under section 237-24.9 totaled 65.3 million dollars, of which more than 90% was on retail sales. DOTAX testified on HB1688 that it cannot estimate the additional GE tax revenue exemption resulting from expanding the exemption to include parts, materials, and maintenance facilities, many of which are not airline-owned.

Based on the retail excise tax rate of 4.712% which includes the county retail surcharge tax, the State is already losing/forgoing \$2.83 million dollars per year in GE tax revenues based on \$59.7 million in retail sales claimed as exempt in CY 2023. Given the substantial expansion that has been proposed by this bill, it is not unreasonable to think tax exemption could be 10 times higher in the future.

Given that original justification for the tax bill has large passed and there is further consolidation in the industry there is no longer justification to retain much less extend the tax credits as proposed. Aircraft parts and service and facilities are for the most part already located in the Hawaii marketplace and Hawaii has every reason to tax those parts and facilities because the whole of government services that are expended to support the airline industry in Hawaii. This is a rich tax base which should not be denied based on competition from other states.

The proposed amendment should not be adopted, and the legislature should consider eliminating the existing exemption.