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STATE OF HAWAII
DEPARTMENT OF TAXATION

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DEPUTY DIRECTOR

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

TESTIMONY ON THE FOLLOWING MEASURE:

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

BEFORE THE:

House Committee on Transportation

DATE: Thursday, February 12, 2026

TIME: 8:30 a.m.

LOCATION: State Capitol, Room 430

Chair Kila, Vice-Chair Miyake, and Members of the Committee:

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

H.B. 1688 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 of material, parts, or tools when purchased for aircraft service and maintenance, or for the construction of an aircraft service and maintenance facility. The bill is effective July 1, 2026.

To reduce any ambiguity to taxpayers and to assist in administering the exemption, DOTAX recommends that the bill be amended to specify whether any limits apply to air carriers in order to qualify for the exemption, such as Federal Aviation Licensing, air carrier size (number of seats), number of aircraft (that are used in the State), intrastate air carriers, minimum number of employees, and the like.

Also, DOTAX recommends that the effective date 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.



Testimony of
ALASKA AIRLINES and HAWAIIAN AIRLINES

Before the House Committee on
Transportation

Thursday, February 12, 2026
8:30 A.M.
Hawai'i State Capitol, Room 430

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

The Honorable Darius Kila, Chair
The Honorable Tyson Miyake, Vice Chair
Members of the Committee on Transportation

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

Chair Kila, Vice-Chair Miyake and members of the committee,

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

Mahalo for the opportunity to provide testimony.



February 10, 2026

Representative Darius Kila, Chair
Representative Tyson Miyake, Vice Chair
House Committee on Transportation
Hawaii State Legislature

Support for HB1688 – Aircraft Maintenance GET Clarification

Dear Chair Kila, Vice Chair Miyake and Members of the House Committee on Transportation,

On behalf of the Kohala Coast Resort Association, thank you for the opportunity to share our **support of HB1688** 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.

SB2399 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.

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



COMMITTEE ON TRANSPORTATION

Rep. Darius K. Kila, Chair

Rep. Tyson K. Miyake, Vice Chair

Date: Thursday, February 12th @8:30 am
Supports HB1688

Aloha Chair Kila and Vice Chair Miyake, and committee members,

My name is Antoinette Davis, and I have had the honor of serving as Executive Director of the Activities and Attractions Association of Hawai'i (A3H), a nonprofit 501(c)(6) trade organization, since 1997.

A3H supports HB1688 as it provides a general excise tax exemption for the sale of materials, parts, and tools used in aircraft service and maintenance, as well as for the construction of aircraft service and maintenance facilities.

Any financial relief that helps sustain these critical services is greatly appreciated.

Mahalo for your time, consideration, and the opportunity to testify.

Toni

Toni Marie Davis
Executive Director
Activities & Attractions Association of Hawaii, Inc.
Statewide 501 (c) (6) not-for-profit Trade Association
PO Box 598, Makawao, Hawaii 96768
(808)871-7947

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

INTRODUCED BY: KILA, ILAGAN, TAM

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 tool to an air carrier if they are purchased for aircraft service and maintenance or for the construction of an aircraft service and maintenance facility.”

EFFECTIVE DATE: July 1, 2026

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

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. Mr. Yamachika did not prepare this testimony for the Foundation.

Digested: 2/11/2026