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## A BILL FOR AN ACT

RELATING TO GENERAL EXCISE TAX.

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

1           SECTION 1. Section 237-23.5, Hawaii Revised Statutes, is  
2 amended by amending subsection (a) to read as follows:

3           "(a) This chapter shall not apply to amounts received,  
4 charged, or attributable to services furnished by one related  
5 entity to another related entity or to imputed or stated  
6 interest attributable to loans, advances, or use of capital  
7 between related entities.

8           As used in this subsection:

9           "Related entities" means:

10          (1) An affiliated group of corporations within the meaning  
11             of section 1504 (with respect to affiliated group  
12             defined) of the federal Internal Revenue Code of 1986,  
13             as amended;

14          (2) A controlled group of corporations within the meaning  
15             of section 1563 (with respect to definitions and  
16             special rules) of the federal Internal Revenue Code of  
17             1986, as amended;

18          (3) Those entities connected, either directly or



1           indirectly, through ownership of at least eighty per  
2           cent of the total value and at least eighty per cent  
3           of the total voting power of each such entity (or  
4           combination thereof), including partnerships,  
5           associations, trusts, S corporations, nonprofit  
6           corporations, limited liability partnerships, or  
7           limited liability companies[~~;~~ and]. For the purpose  
8           of this section, the phrase "indirect ownership" has  
9           the same meaning as that phrase is defined under  
10          section 267 of the federal Internal Revenue Code,  
11          1986, as amended; and

12          (4) Any group or combination of the entities described in  
13          paragraph (3) constituting a unitary business for  
14          income tax purposes;

15          whether or not the entity is located within or without the State  
16          or licensed under this chapter.

17          "Services" means legal and accounting services, the use of  
18          computer software and hardware, information technology services,  
19          database management, and those managerial and administrative  
20          services performed by an employee, officer, partner, trustee,  
21          sole proprietor, member, or manager in the person's capacity as  
22          an employee, officer, partner, trustee, sole proprietor, member,



1 or manager of one of the related entities and shall include  
2 overhead costs attributable to those services."

3 SECTION 2. Statutory material to be repealed is bracketed  
4 and stricken. New statutory material is underscored.

5 SECTION 3. This Act, upon its approval, shall apply to  
6 taxable years beginning after December 31, 2005.

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INTRODUCED BY:

Calvin K. Boy

JAN 24 2006



**Report Title:**

General Excise Tax

**Description:**

Clarifies the general excise tax exemption for connected entities to include entities that are either "directly or indirectly" connected through ownership. Also provides a definition of "indirect ownership".

