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# A BILL FOR AN ACT

GENERAL EXCISE TAX; EXEMPTION FOR RELATED ENTITIES.

**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           "Indirect ownership" means the same as in section 267 of  
10 the Internal Revenue Code of 1986, as amended.

11           "Related entities" means:

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

16           (2) A controlled group of corporations within the meaning  
17           of section 1563 (with respect to definitions and  
18           special rules) of the federal Internal Revenue Code of



1 1986, as amended;

2 (3) Those entities connected, through either direct or  
3 indirect ownership of at least eighty per cent of the  
4 total value and at least eighty per cent of the total  
5 voting power of each such entity (or combination  
6 thereof), including partnerships, associations,  
7 trusts, S corporations, nonprofit corporations,  
8 limited liability partnerships, or limited liability  
9 companies; and

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

13 whether or not the entity is located within or without the State  
14 or licensed under this chapter.

15 "Services" means legal and accounting services, the use of  
16 computer software and hardware, information technology services,  
17 database management, and those managerial and administrative  
18 services performed by an employee, officer, partner, trustee,  
19 sole proprietor, member, or manager in the person's capacity as  
20 an employee, officer, partner, trustee, sole proprietor, member,  
21 or manager of one of the related entities and shall include  
22 overhead costs attributable to those services."



1 SECTION 2. New statutory material is underscored.

2 SECTION 3. This Act shall apply to gross income or gross  
3 proceeds received after June 30, 2006.

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INTRODUCED BY: 

SB204

**Report Title:**

General Excise Tax; Exemption For Related Entities

**Description:**

Clarifies that the definition of related entities includes entities related indirectly as well as directly.

