

JAN 25 2006

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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. The legislature finds that, despite optimistic  
2 state revenue projections, the State must continue to find new  
3 and innovative cost-cutting measures to reduce government waste  
4 and provide for the efficient expenditure of state funds.

5           One example of an inefficient expenditure of state funds  
6 concerns the payment of the general excise tax paid by the State  
7 for goods, services, and other contracted projects provided by  
8 private companies. These tax payments would appear to be  
9 circular and of no economic consequence since general excise tax  
10 collections are generally deposited back into the state  
11 treasury. But the cost of the general excise tax not only  
12 increases the cost of doing business and decreases the buying  
13 power of the State, but also affects other state costs as well.

14           For instance, because the state pays the general excise tax  
15 for state capital improvement projects, the payments not only  
16 increase the cost of the capital improvement project itself, but  
17 also increases the cost of the resulting debt service -- which  
18 means that the State is unwittingly increasing the cost of its



1 own debt by paying the four cent general excise tax. In other  
2 words, if a project is estimated at a cost of \$1,000,000 plus  
3 tax, the amount borrowed is \$1,000,000 plus 4.16 per cent  
4 (general excise tax), or \$1,041,600. Thus, instead of borrowing  
5 \$1,000,000 for this project, the State needs to borrow, and pay  
6 back -- \$1,041,600, plus interest costs, which is increased  
7 because of the increased total cost of the project due to the  
8 general excise tax.

9 The general excise tax payment also reduces the capacity of  
10 the State's capital improvement project ceiling, which logically  
11 is reduced by four per cent -- the cost of the general excise  
12 tax.

13 Thus, to maximize efficient state spending, amounts paid by  
14 the State for capital improvement projects as well as amounts  
15 paid for goods and services should be exempted from the general  
16 excise tax. To test the efficacy of this method of reducing  
17 state spending, the scope of the Act is limited to capital  
18 improvement projects and goods and services transactions made by  
19 the department of education.

20 SECTION 2. Section 237-24, Hawaii Revised Statutes, is  
21 amended to read as follows:



1           "**§237-24 Amounts not taxable.** This chapter shall not  
2 apply to the following amounts:

3           (1) Amounts received under life insurance policies and  
4           contracts paid by reason of the death of the insured;

5           (2) Amounts received (other than amounts paid by reason of  
6           death of the insured) under life insurance, endowment,  
7           or annuity contracts, either during the term or at  
8           maturity or upon surrender of the contract;

9           (3) Amounts received under any accident insurance or  
10          health insurance policy or contract or under workers'  
11          compensation acts or employers' liability acts, as  
12          compensation for personal injuries, death, or  
13          sickness, including also the amount of any damages or  
14          other compensation received, whether as a result of  
15          action or by private agreement between the parties on  
16          account of the personal injuries, death, or sickness;

17          (4) The value of all property of every kind and sort  
18          acquired by gift, bequest, or devise, and the value of  
19          all property acquired by descent or inheritance;

20          (5) Amounts received by any person as compensatory damages  
21          for any tort injury to the person, or to the person's  
22          character reputation, or received as compensatory

1 damages for any tort injury to or destruction of  
2 property, whether as the result of action or by  
3 private agreement between the parties (provided that  
4 amounts received as punitive damages for tort injury  
5 or breach of contract injury shall be included in  
6 gross income);

7 (6) Amounts received as salaries or wages for services  
8 rendered by an employee to an employer;

9 (7) Amounts received as alimony and other similar payments  
10 and settlements;

11 (8) Amounts collected by distributors as fuel taxes on  
12 "liquid fuel" imposed by chapter 243, and the amounts  
13 collected by such distributors as a fuel tax imposed  
14 by any Act of the Congress of the United States;

15 (9) Taxes on liquor imposed by chapter 244D on dealers  
16 holding permits under that chapter;

17 (10) The amounts of taxes on cigarettes and tobacco  
18 products imposed by chapter 245 on wholesalers or  
19 dealers holding licenses under that chapter and  
20 selling the products at wholesale;



1           (11) Federal excise taxes imposed on articles sold at  
2                    retail and collected from the purchasers thereof and  
3                    paid to the federal government by the retailer;

4           (12) The amounts of federal taxes under chapter 37 of the  
5                    Internal Revenue Code, or similar federal taxes,  
6                    imposed on sugar manufactured in the State, paid by  
7                    the manufacturer to the federal government;

8           (13) An amount up to, but not in excess of, \$2,000 a year  
9                    of gross income received by any blind, deaf, or  
10                    totally disabled person engaging, or continuing, in  
11                    any business, trade, activity, occupation, or calling  
12                    within the State; a corporation all of whose  
13                    outstanding shares are owned by an individual or  
14                    individuals who are blind, deaf, or totally disabled;  
15                    a general, limited, or limited liability partnership,  
16                    all of whose partners are blind, deaf, or totally  
17                    disabled; or a limited liability company, all of whose  
18                    members are blind, deaf, or totally disabled;

19           (14) Amounts received by a producer of sugarcane from the  
20                    manufacturer to whom the producer sells the sugarcane,  
21                    where:

1 (A) The producer is an independent cane farmer, so  
2 classed by the Secretary of Agriculture under the  
3 Sugar Act of 1948 (61 Stat. 922, Chapter 519) as  
4 the Act may be amended or supplemented;

5 (B) The value or gross proceeds of sale of the sugar,  
6 and other products manufactured from the  
7 sugarcane, is included in the measure of the tax  
8 levied on the manufacturer under section 237-  
9 13(1) or (2);

10 (C) The producer's gross proceeds of sales are  
11 dependent upon the actual value of the products  
12 manufactured therefrom or the average value of  
13 all similar products manufactured by the  
14 manufacturer; and

15 (D) The producer's gross proceeds of sales are  
16 reduced by reason of the tax on the value or sale  
17 of the manufactured products;

18 (15) Money paid by the State or eleemosynary child-placing  
19 organizations to foster parents for their care of  
20 children in foster homes; ~~and~~

21 (16) Amounts received by a cooperative housing corporation  
22 from its shareholders in reimbursement of funds paid



1 by such corporation for lease rental, real property  
2 taxes, and other expenses of operating and maintaining  
3 the cooperative land and improvements; provided that  
4 such a cooperative corporation is a corporation:

5 (A) Having one and only one class of stock  
6 outstanding;

7 (B) Each of the stockholders of which is entitled  
8 solely by reason of the stockholder's ownership  
9 of stock in the corporation, to occupy for  
10 dwelling purposes a house, or an apartment in a  
11 building owned or leased by the corporation; and

12 (C) No stockholder of which is entitled (either  
13 conditionally or unconditionally) to receive any  
14 distribution not out of earnings and profits of  
15 the corporation except in a complete or partial  
16 liquidation of the corporation~~[+]~~; and

17 (17) Amounts paid by the department of education for  
18 capital improvement projects and all of the value or  
19 gross proceeds arising from the sale of goods or  
20 services to the department of education."

21 SECTION 3. Statutory material to be repealed is bracketed  
22 and stricken. New statutory material is underscored.



1 SECTION 4. This Act shall take effect on July 1, 2006, and  
2 shall apply to taxable years beginning after December 31, 2005.

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INTRODUCED BY:

  
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**Report Title:**

General Excise Tax; Education

**SB. NO. 3132**

**Description:**

Exempts transactions involving department of education capital improvement projects and purchases of goods and services from the general excise tax.

