
HOUSE RESOLUTION

REQUESTING THE DEPARTMENT OF TAXATION TO STUDY WHETHER LEASES
BETWEEN RELATED ENTITIES IN THE CAR RENTAL INDUSTRY SHOULD
BE SUBJECT TO HAWAII'S GENERAL EXCISE TAX.

1 WHEREAS, the car rental business is an integral and
2 necessary part of the tourism industry in Hawaii; and
3

4 WHEREAS, car rental agencies lease their vehicles at retail
5 rates to the public and pay the general tax on the rental
6 revenues from these transactions for the State; and
7

8 WHEREAS, the car rental industry often involves payments
9 between related entities that are subject to the general excise
10 tax; and
11

12 WHEREAS, the current general excise tax law exempts many
13 intercompany transactions from the general excise tax, including
14 charges for the use of capital as specified in section 237-
15 23.5(a), Hawaii Revised Statutes; and
16

17 WHEREAS, some car rental companies use special purpose
18 financing entities, which they own, that issue asset-backed debt
19 instruments that are secured by the rental vehicles, which are
20 then leased to the related operating car rental agencies; and
21

22 WHEREAS, the revenues from these leases are used to pay the
23 debt service required of those instruments; and
24

25 WHEREAS, section 237-23.5, Hawaii Revised Statutes, exempts
26 from the general excise tax the flow of revenues between related
27 entities for the use of capital; and
28

29 WHEREAS, the Department of Taxation however, currently
30 collects an additional excise tax on the lease revenues from the
31 car rental agency paid to the special purpose financing entity
32 even though the agency and the special purpose financing entity
33 are owned by the same company; and
34



1 WHEREAS, a finding that the leases used in the financing of
2 the acquisition and replacement of car rental vehicles between
3 related entities should be exempt from the excise tax would not
4 exempt car rental agencies from collecting and paying the
5 general excise tax on the revenues generated from the renting of
6 vehicles to the public; and

7
8 WHEREAS, in general, other states do not impose sales, use,
9 and excise taxes on intercompany lease payments; now, therefore,

10
11 BE IT RESOLVED by the House of Representatives of the
12 Twenty-fourth Legislature of the State of Hawaii, Regular
13 Session of 2007, that the Department of Taxation is requested to
14 conduct a study on whether the lease between related entities in
15 the car rental industry for the acquisition and replacement of
16 vehicles under section 237-23.5, Hawaii Revised Statutes, are:

- 17
18 (1) Used solely for the purpose of acquiring and replacing
19 car rental vehicles;
20
21 (2) Transactions among related entities as currently
22 defined; and
23
24 (3) Transactions similar to intercompany car rental
25 company leasing transactions that are exempt from
26 sales, use, and excise taxes in other states; and
27

28 BE IT FURTHER RESOLVED that if the answers to (1), (2), and
29 (3) are in the affirmative, the Department of Taxation is
30 requested to apply the exemption provided by section 237-23.5,
31 Hawaii Revised Statutes, to revenues generated by intercompany
32 car rental acquisitions and replacements if car rental agencies
33 lease vehicles from special purpose financing entities and both
34 are related entities; and
35

36 BE IT FURTHER RESOLVED that the Department of Taxation is
37 requested to submit a report of its findings and
38 recommendations, including suggested legislation, to the
39 Legislature not later than twenty days before the convening of
40 the Regular Session of 2008; and



1 BE IT FURTHER RESOLVED that certified copies of this
2 Resolution be transmitted to the Governor and the Director of
3 Taxation.
4
5
6

OFFERED BY: _____

Dw L

MAR 14 2007

