
A BILL FOR AN ACT

RELATING TO TAXATION.

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

1 SECTION 1. The legislature finds that a healthy inter-
2 island airline industry is vital to the State's economy.
3 Hawaii's inter-island airlines continue to face severe financial
4 challenges. Fuel costs in particular have skyrocketed and grown
5 volatile in recent years. In fact, for most airlines, the cost
6 of fuel has surpassed labor as the leading operating cost.

7 Airline fuel that is purchased in a foreign-trade zone and
8 used by airlines traveling out of the State of Hawaii is exempt
9 from general excise and use taxes, however, airlines on
10 intrastate flights are not exempt. To the extent that these
11 general excise and use taxes apply to intrastate flights, they
12 only exacerbate the economic problems that are faced by airlines
13 operating within Hawaii.

14 The legislature finds that the effect of providing common
15 carriers with an exemption from general excise and use taxes for
16 fuel purchased from a foreign trade zone and used for inter-



1 island flights would be to create a level playing field for all
2 airlines.

3 The purpose of this Act is to exempt common carriers that
4 fly inter-island routes from up to \$3,800,000 of general excise
5 and use taxes on fuel purchased for inter-island transportation.

6 SECTION 2. Section 237-24.75, Hawaii Revised Statutes, is
7 amended to read as follows:

8 **"§237-24.75 Additional exemptions.** In addition to the
9 amounts exempt under section 237-24, this chapter shall not
10 apply to:

- 11 (1) Amounts received as a beverage container deposit
12 collected under chapter 342G, part VIII;
- 13 (2) Amounts received by the operator of the Hawaii
14 convention center for reimbursement of costs or
15 advances made pursuant to a contract with the Hawaii
16 tourism authority under section 201B-7[~~+~~and~~+~~];
- 17 [~~+~~](3) Amounts received[+] by a professional employment
18 organization from a client company equal to amounts
19 that are disbursed by the professional employment
20 organization for employee wages, salaries, payroll
21 taxes, insurance premiums, and benefits, including
22 retirement, vacation, sick leave, health benefits, and



1 similar employment benefits with respect to assigned
2 employees at a client company; provided that this
3 exemption shall not apply to a professional employment
4 organization upon failure of the professional
5 employment organization to collect, account for, and
6 pay over any income tax withholding for assigned
7 employees or any federal or state taxes for which the
8 professional employment organization is responsible.

9 As used in this paragraph, "professional employment
10 organization", "client company", and "assigned
11 employee" shall have the meanings provided in section
12 373K-1[-]; and

- 13 (4) Amounts aggregating not more than \$95,000,000 received
14 annually from sales of aviation fuel, as defined in
15 section 243-1, categorized as privileged foreign
16 merchandise, non-privileged foreign merchandise,
17 domestic merchandise, or zone-restricted merchandise,
18 that is admitted into a foreign-trade zone under
19 chapter 212 and is made directly to or is used by a
20 common carrier for consumption or use in air
21 transportation between islands in the State."



1 SECTION 3. Section 238-3, Hawaii Revised Statutes, is
2 amended by amending subsection (g) to read as follows:

3 "(g) The tax imposed by this chapter shall not apply to
4 [any]:

5 (1) Any intoxicating liquor as defined in chapter 244D and
6 cigarettes and tobacco products as defined in chapter
7 245, imported into the State and sold to any person or
8 common carrier in interstate commerce, whether ocean-
9 going or air, for consumption out-of-state by the
10 person, crew, or passengers on the shipper's vessels
11 or airplanes[-]; and

12 (2) Purchases aggregating not more than \$95,000,000
13 annually of aviation fuel, as defined in section
14 243-1, categorized as privileged foreign merchandise,
15 non-privileged foreign merchandise, domestic
16 merchandise, or zone-restricted merchandise, that is
17 admitted into a foreign-trade zone under chapter 212
18 and is made directly to or is used by a common carrier
19 for consumption or use in air transportation between
20 islands in the State."

21 SECTION 4. (a) There is established a joint legislative
22 study group to review and track the effects of this Act on the



1 inter-island airline industry, including the profitability and
2 sustainability of the airlines and cost of travel and shipping
3 to residents. The study group shall also examine the loss of
4 revenue to the State.

5 (b) The study group shall be exempt from chapter 92,
6 Hawaii Revised Statutes.

7 (c) The members of the study group shall be appointed by
8 the president of the senate and the speaker of the house of
9 representatives. The chairs of the senate committee on
10 transportation and international affairs, or similar committee,
11 and the house committee on transportation, or similar committee,
12 shall serve as co-chairs of the study group. Members of the
13 group shall also include:

14 (1) The director of transportation or the director's
15 designee;

16 (2) The director of taxation or the director's designee;
17 and

18 (3) One representative from each airline providing inter-
19 island service.

20 (d) Members of the study group shall receive no additional
21 compensation for their services.



1 (e) The study group shall be established by November 5,
2 2008, and shall cease to exist on November 2, 2010.

3 (f) The study group shall submit findings, including a
4 recommendation concerning the extension of this Act or to make
5 this Act permanent, to the legislature not later than twenty
6 days prior to the convening of the regular session of 2011.

7 SECTION 5. This Act shall not be construed to imply that
8 any law in effect prior to the effective date of this Act is
9 inconsistent with this Act.

10 SECTION 6. Statutory material to be repealed is bracketed
11 and stricken. New statutory material is underscored.

12 SECTION 7. This Act shall take effect on July 1, 2008, and
13 shall be repealed on December 31, 2010; provided that sections
14 237-24.75 and 238-3, Hawaii Revised Statutes, are reenacted in
15 the form in which they read on the day before the effective date
16 of this Act.

17

INTRODUCED BY:

[Handwritten signatures]

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Report Title:

General Excise and Use Taxes; Intrastate Aviation; Exemption

Description:

Provides an exemption for common carriers from general excise and use taxes on fuel used for intrastate air travel.

