



# TAX FACTS 2022-1

## General Excise and Use Tax Information for Manufacturers and Producers

This Tax Facts answers basic questions about how the general excise tax (GET) and use tax applies to manufacturers and producers. The GET is a privilege tax imposed on business activity in the State of Hawaii. If you are engaging in business in Hawaii you are required to have a GET license. The GET on manufacturers and producers is only applied when a manufacturer or producer does not sell the product in Hawaii, but exports the product for further processing or manufacturing outside the State.

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### General Information

#### 1 Who is a manufacturer?

Every person engaging or continuing within the State in the business of manufacturing, including compounding, canning, preserving, packing, printing, publishing, milling, processing, refining, or preparing for sale, profit, or commercial use, either directly or through the activity of others, in whole or in part, any article or articles, substance or substances, commodity or commodities, the amount of the tax to be equal to the value of the articles, substances, or commodities, manufactured, compounded, canned, preserved, packed, printed, milled, processed, refined, or prepared, for sale, as shown by the gross proceeds derived from the sale thereof by the manufacturer or person compounding, preparing, or printing them.

#### 2 Who is a producer?

Any person engaged in the business of raising and producing agricultural products in their natural state, or in producing natural resource products, or engaged in the business of fishing or aquaculture, for sale, or for shipment or transportation out of the State, of the agricultural or aquaculture products in their natural or processed state, or butchered and dressed, or the natural resource products, or fish.

As used in this section “agricultural products” include floricultural, horticultural, viticultural, forestry, nut, coffee, dairy, livestock, poultry, bee, animal, and any other farm, agronomic, or plantation products.

#### 3 What licenses do I need to operate in Hawaii?

You will need to obtain a GET license from the Department of Taxation (Department) at [hitax.hawaii.gov](http://hitax.hawaii.gov) by submitting Form BB-1. If you have or will have employees you will need to obtain a withholding license from the Department as well as register with the Department of Labor and Industrial Relations (DLIR) for unemployment insurance at [labor.hawaii.gov/ui](http://labor.hawaii.gov/ui). You may also need other state or county permits or licenses. Please check with the Department of Commerce and Consumer Affairs (DCCA) at [cca.hawaii.gov/breg/](http://cca.hawaii.gov/breg/) and also check with the county (Hawaii, Kauai, Maui, and Honolulu) where you plan to do business for its requirements.

### Who Must Pay

#### 4 What GET rate is a manufacturer and/or producer subject to?

A manufacturer/producer is subject to one-half of one percent GET on the value of the entire product or the gross proceeds of sales for the privilege of manufacturing/producing in Hawaii when a product is shipped out of Hawaii for further processing by the manufacturer or producer.

#### 5 Is the manufacturer/producer subject to GET for selling the products at wholesale or retail?

Yes. If the manufacturer/producer sells their product at wholesale or retail, they are subject to GET at the 0.5% or 4% (plus any applicable county surcharge) rate, respectively. If the product is

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sold at wholesale or retail, the manufacturer/producer is NOT also subject to GET for manufacturing/producing the product in Hawaii.

## 6 Is my manufacturing/producing income subject to the county surcharge?

Income that is taxed at the 0.5% rate is not subject to the county surcharge. If a retail sale is made in Hawaii and the sale is located in a county that adopted a county surcharge, the income will be subject to 4.5% GET, which includes the 0.5% county surcharge.

### Materials and Services Rate

## 7 Are sales of materials and supplies to me considered wholesale transactions or retail transactions?

Sales of materials or commodities that are to be incorporated by the manufacturer into a finished or saleable product (including the container or package in which the product is contained) during the course of its preservation, manufacture, or processing, including preparation for market, and that will remain in such finished or saleable product in such form as to be perceptible to the senses, which finished or saleable product is to be sold and not otherwise used by the manufacturer, are considered wholesale transactions taxed at the rate of 0.5%. If you are making wholesale purchases, provide your supplier with the applicable resale certificate (Form G-17).

Sales to a licensed producer or cooperative association of materials or commodities that are to be incorporated by the producer or by the cooperative association into a finished or saleable product that is to be sold and not otherwise used by the producer or cooperative association, including specifically materials or commodities expended as essential to the planting, growth, nurturing, and production of commodities that are sold by the producer, are considered wholesale transactions taxed at the rate of 0.5%. Provide your supplier with the applicable resale certificate (Form G-17).

Sales to a licensed producer, or to a cooperative association described in section 237-23(a)(8), Hawaii Revised Statutes (HRS), for sale to a licensed producer, or to a licensed person operating a feed lot, of poultry or animal feed, hatching eggs, semen, replacement stock, breeding services for the purpose of raising or producing animal or poultry products for disposition as described in section 237-5, HRS, or for incorporation into a manufactured product or for the purpose of breeding, hatching, milking, or egg laying other than for the customer's own consumption of the meat, poultry, eggs, or milk so produced; provided that in the case of a feed lot operator, only the segregated cost of the feed furnished by the feed lot operator as part of the feed lot operator's service to a licensed producer of poultry or animals to be butchered or to a cooperative

association described in section 237-23(a)(8), HRS, of such licensed producers shall be deemed to be a sale at wholesale; and provided further that any amount derived from the furnishing of feed lot services, other than the segregated cost of feed, shall be deemed taxable at the service business rate. This paragraph shall not apply to the sale of feed for poultry or animals to be used for hauling, transportation, or sports purposes.

Sales to a licensed producer, or to a cooperative association described in section 237-23(a)(8), HRS, for sale to the producer, of seed or seedstock for producing agricultural and aquacultural products, or bait for catching fish (including the catching of bait for catching fish), which agricultural and aquacultural products or fish are to be disposed of as described in section 237-5, HRS, or to be incorporated in a manufactured product, are considered wholesale transactions taxed at the rate of 0.5%. Provide your supplier with the applicable resale certificate (Form G-17).

Sales to a licensed producer, or to a cooperative association described in section 237-23(a)(8), HRS, for sale to such producer; of polypropylene shade cloth; of polyfilm; of polyethylene film; of cartons and such other containers, wrappers, and sacks, and binders to be used for packaging eggs, vegetables, fruits, and other agricultural and aquacultural products; of seedlings and cuttings for producing nursery plants or aquacultural products; or of chick containers; which cartons and such other containers, wrappers, and sacks, binders, seedlings, cuttings, and containers are to be used as described in section 237-5, HRS, or to be incorporated in a manufactured product, are considered wholesale transactions taxed at the rate of 0.5%. Provide your supplier with the applicable resale certificate (Form G-17).

All other sales, such as sales of equipment, are retail transactions taxed at the rate of 4% (plus the county surcharge if applicable).

### Deductions and Exemptions

## 8 Can I deduct the cost of materials?

No. The cost of materials cannot be deducted from gross income subject to the GET.

## 9 Are there any exemptions a manufacturer/producer can take on their GET returns?

If the manufacturer/producer sells the product to be shipped outside of the State where the product is resold, consumed, or used outside the State, the exported sales exemption allowed under section 237-29.5(a)(1), HRS, may be claimed. Complete Form G-61, Export Exemption Certificate, and retain it for your records. This would be a retail sale since the product is sold for sale or use outside of Hawaii and does not qualify as a wholesale sale.

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## Filing Your Returns

### 10 What tax returns must I file with the Department of Taxation?

The business must file a Hawaii income tax return to report the income and expenses for the year. In addition, the business must file periodic GET returns (Form G-45) and the annual return and reconciliation (Form G-49). See the specific form instructions for more information.

## Use Tax Information

### 11 When does the use tax apply and what are the rates?

The use tax is imposed on tangible personal property, services, or contracting imported for use in Hawaii and acquired from a seller located outside of the State who is not subject to the GET. The use tax is based on the landed value of the property, services, or contracting when they are brought into the State. The landed value is the value of the item at the time it arrives in Hawaii and includes the sales price of the item, shipping and handling fees, insurance costs, and customs duty fees.

The use tax is 0.5% on the value of goods, such as materials, which will be incorporated into a finished work or project in such a form that they remain perceptible to the senses.

The use tax is 4% (plus the county surcharge if applicable) on the value of goods, such as tools and equipment, which will be used but not incorporated into a finished work or project.

If the imported services become identifiable elements of the finished work under the contract, the use tax is 0.5% of the value of the imported services.

In all other cases, the value of the imported services is subject to the use tax at the rate of 4% (plus the county surcharge if applicable).

### 12 If I import used equipment I bought from a mainland manufacturer, for use in Hawaii, is it subject to the use tax?

Yes. However, you may exclude or apportion the value of imported property, services, or contracting for use tax purposes when an exclusion or apportionment of gross receipts would be allowed under the GET law in the case of a similar local transaction.

Example 1: A mainland manufacturer sells equipment which was previously used in the mainland manufacturer's business to a Hawaii manufacturer. The mainland manufacturer does not sell manufacturing equipment in their normal business operations. The Hawaii manufacturer is exempt from the use tax upon importation of the equipment because the sale would have qualified as a casual sale under section 237-2, HRS, and is not reported on the GET returns. The Hawaii manufacturer should keep documentation to support this claim should the Hawaii manufacturer be requested to produce documentation.

## Other Information

### 13 Do I need to keep records?

Yes. Keep records of your income and expenses. If you have any employees, you must also keep employment records. Your records will help you to prepare your tax returns. Your records must be able to support what you report on your tax returns. Your deductions will be disallowed if your records are not sufficient to support your deductions. It is recommended that you keep the records for at least six years.

### 14 Where can I find more information on GET and use tax?

The Department has published two brochures:

- “An Introduction to the General Excise Tax”
- “An Introduction to the Use Tax”

These publications are available on our website at [tax.hawaii.gov](http://tax.hawaii.gov).