



TAX FACTS 99-2

Business Tax Incentives

This Tax Facts provides information about some of the tax incentives that are available to businesses in Hawaii as of January 2021.

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For more information, visit the Department of Taxation's website at tax.hawaii.gov

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Income Tax Incentives

1 Capital Goods Excise Tax Credit

The refundable capital goods excise tax credit reimburses businesses for the GET or use tax they pay on the purchase or importation of eligible tangible personal property.

The property must be depreciable property, used in the taxpayer’s business in Hawaii, and subject to the GET or use tax at the rate of 4%. The credit is 4% of the cost of the property.

More information is provided in:

- Tax Information Release (TIR) No. 88-6, “Capital Goods Excise Tax Credit”
- TIR No. 88-8, “Capital Goods Excise Tax Credit Recapture”

- TIR No. 89-4, “The Taxpayer Who Is Entitled To The Capital Goods Excise Tax Credit When The Parties Characterize A Transaction As A Lease Or Sale-leaseback”

- TIR No. 2001-4, “The Definition of ‘Cost’; The Payment of Tax Requirement; and Safe Harbor Guidelines Pertaining to the Capital Goods Excise Tax Credit”

Section 235-110.7, Hawaii Revised Statutes (HRS). Sections 18-235-110.7-01 through 18-235-110.7-22, Hawaii Administrative Rules (HAR).

Attach Form N-312, Capital Goods Excise Tax Credit, to your tax return to claim the credit.

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2 Renewable Energy Technologies Income Tax Credit

Every taxpayer who files an individual or corporate income tax return may claim a credit for an eligible renewable energy technology system (solar or wind-powered energy system) installed and placed in service in Hawaii.

You may claim the credit as refundable or nonrefundable. If you claim the credit as nonrefundable, the credit which exceeds your income tax liability may be used as a credit against your income tax liability in later years until used up.

More information is provided in:

- TIR No. 2007-02, “Relating to the Renewable Energy Technologies Income Tax Credit”
- TIR No. 2010-10, “Common Income Tax & General Excise Tax Issues Associated with the Renewable Energy Technologies Income Tax Credit, HRS §235-12.5”
- TIR No. 2012-01, “Temporary Administrative Rules Relating to the Renewable Energy Technologies Income Tax Credit”
- Department of Taxation Announcement (Announcement) No. 2012-01, “Composite Filing of Forms N-342 and/or N-342A for Taxpayers Claiming the Renewable Energy Technologies Income Tax Credit, HRS § 235-12.5 for 10 or More Systems”

Section 235-12.5, HRS. Sections 18-235-12.5-01 through 18-235-12.5-06, HAR.

Attach Form N-342, Renewable Energy Technologies Income Tax Credit, to your tax return to claim the credit. Form N-342A, Information Statement, must be given to each shareholder, partner, beneficiary, or member, and attached to Form N-342.

3 Tax Credit for Research Activities

Each QHTB may claim a refundable income tax credit for qualified research activities. The credit is equal to the federal credit for increasing research activities provided by Internal Revenue Code (IRC) section 41. However, qualified research expenses do not include research expenses incurred outside Hawaii. To claim this credit, the QHTB must also claim the federal tax credit for the same qualified research activities under IRC section 41. This credit will not be available for taxable years beginning after December 31, 2024.

For taxable years beginning after December 31, 2019, the credit may be claimed for all qualified research expenses incurred in Hawaii without regard to the amount of expenses for previous years (base amount), and the amount of credits certified by the

Department of Business, Economic Development, and Tourism (DBEDT) in any given tax year cannot exceed \$5,000,000.

More information is provided in TIR No. 2013-02, “Department of Taxation Policies Relating to the Hawaii Tax Credit for Research Activities.” *Section 235-110.91, HRS.*

Attach Form N-346, Tax Credit for Research Activities, and Form N-346A, Certified Statement of Research and Development Costs Incurred by a Qualified High Technology Business (QHTB) and Claim of the Tax Credit for Research Activities, to your tax return to claim the credit. Form N-346A must be certified by the DBEDT. More information on the certification is provided in Announcement No. 2021-03, “Department of Business, Economic Development, and Tourism - Certification of the Income Tax Credit for Research Activities.”

4 Enterprise Zone Tax Credit

A qualified business located in an enterprise zone can reduce its state taxes for up to seven years and receive other county benefits by meeting the enterprise zone hiring and gross receipts requirements.

A qualified business which has received certification from DBEDT may claim the enterprise zone tax credit.

Qualified businesses may claim an income tax credit of 80% of the income tax due for the first year. The credit goes down 10% each year for six years. For qualified businesses engaged in the manufacturing of tangible personal property or the producing or processing of agricultural products, the credit will continue for an additional three years at the rate of 20% for each year.

Also, qualified businesses may claim an income tax credit of 80% of unemployment insurance premiums paid for all employees employed in the enterprise zone for the first year. The credit goes down 10% each year for six years. For qualified businesses engaged in the manufacturing of tangible personal property or the producing or processing of agricultural products, the credit will continue for an additional three years at the rate of 20% for each year.

This credit is not refundable and any unused credit may not be carried forward. *Section 209E-10, HRS.*

For GET exemptions for qualified businesses, including construction contractors operating in the enterprise zone, see number 25.

More information is provided on DBEDT’s Hawaii Enterprise Zone webpage at invest.hawaii.gov/business/ez.

Attach Form N-756, Enterprise Zone Tax Credit, to your tax return to claim the credit. Form N-756A, Information Statement, must be given to each partner, shareholder, beneficiary, or member

of an LLC (if the LLC is treated as a partnership), and attached to Form N-756, along with a copy of DBEDT's certification.

5 Credit for Employment of Vocational Rehabilitation Referrals

Businesses that hire new employees who are vocational rehabilitation referrals may claim a credit for the wages paid or accrued for them during their first year of employment.

“Vocational rehabilitation referral” means any individual who is certified by the Department of Human Services (DHS), Vocational Rehabilitation and Services for the Blind Division, in consultation with the Hawaii State Employment Service of the Department of Labor and Industrial Relations (DLIR).

The credit is 20% of the qualified first-year wages paid to the vocational rehabilitation referrals for that year.

The credit which exceeds your income tax liability may be used as a credit against your income tax liability in later years until used up. *Section 235-55.91, HRS.*

Attach Form N-884, Credit for Employment of Vocational Rehabilitation Referrals, to your tax return to claim the credit.

6 Tax Credit for Low-Income Housing

An owner of a residential rental building providing low-income housing may claim a low-income housing credit. Hawaii's credit is equal to 50% of the federal credit. You may claim this credit whether or not you claim the federal credit. The federal credit is claimed on federal Form 8586.

For qualified low-income buildings awarded credits after December 31, 2016, and prior to January 1, 2022, the period over which the credit is claimed is reduced from ten years to five years.

The credit which exceeds your income tax liability may be used as a credit against your income tax liability in later years until used up. *Section 235-110.8, HRS.*

All claims for allocation of the low-income housing credit are filed with the Hawaii Housing Finance and Development Corporation (HHFDC), the State housing credit agency. HHFDC determines the amount of the credit allocation and returns the claim to you. You file this credit allocation form given by the HHFDC with your tax return.

Attach Form N-586, Tax Credit for Low-Income Housing, and a copy of federal Form 8586 to your tax return to claim the credit. In addition, the certificate issued by the HHFDC must be attached to Form N-586.

7 Fuel Tax Credit for Commercial Fishers

A principal operator of a commercial fishing vessel, who files an individual or corporation income tax return for a taxable year, may claim a refundable credit for the fuel taxes paid on the purchase of liquid fuel.

“Commercial fishing vessel” means any water vessel which is used to catch or process fish or transport fish loaded on the high seas.

“Principal operator” means any individual or corporate resident taxpayer who derives at least 51% of the taxpayer's gross annual income from commercial fishing operations.

The credit is equal to the total fuel taxes imposed under section 243-4(a), HRS, and paid by the principal operator for use in operating the fishing vessel for commercial purposes during the taxable year. *Section 235-110.6, HRS. Section 18-235-110.6, HAR.*

Attach Form N-163, Fuel Tax Credit for Commercial Fishers, to your tax return to claim the credit.

8 Motion Picture, Digital Media, and Film Production Income Tax Credit

A taxpayer may claim a refundable income tax credit of (1) 20% of the qualified production costs incurred before January 1, 2026, by a qualified production in the City and County of Honolulu, and (2) 25% of the qualified production costs incurred before January 1, 2026, by a qualified production in the Kauai, Maui, or Hawaii county. The total tax credits claimed per qualified production must not exceed \$15,000,000. For taxable years beginning after December 31, 2018, the total tax credits allowed is limited to \$50,000,000 per year. Certification by DBEDT is required to claim the credit.

More information is provided in:

- TIR No. 2019-01 (Revised), “Proposed Administrative Rules Relating to the Motion Picture, Digital Media, and Film Production Income Tax Credit as amended by Act 143, Session Laws of Hawaii 2017”
- TIR No. 2019-04 (Revised), “Mandatory Verification Review (Agreed Upon Procedures Report) for the Motion Picture, Digital Media, and Film Production Income Tax Credit”
- Hawaii Film Office website at filmoffice.hawaii.gov
Section 235-17, HRS.

Attach Form N-340, Motion Picture, Digital Media, and Film Production Income Tax Credit, to your tax return to claim the credit. In addition, the certificate given by DBEDT must be attached to Form N-340.

9 School Repair and Maintenance Tax Credit

Licensed contractors, pest control operators, professional engineers, architects, surveyors, and landscape architects who are subject to Hawaii's income tax may claim a credit for contributions of in-kind services for the repair and maintenance of public schools. The credit is 10% of the value of the services contributed. Certification by the Department of Education is required to claim the credit.

The credit which exceeds your income tax liability may be used as a credit against your income tax liability in later years until used up. *Section 235-110.2, HRS.*

Attach Form N-330, School Repair and Maintenance Tax Credit, to your tax return to claim the credit.

10 Important Agricultural Land Qualified Agricultural Cost Tax Credit

Each taxpayer who incurs qualified agricultural costs may claim the refundable important agricultural land qualified agricultural cost tax credit for the taxable year. Certification by the Department of Agriculture (DOA) is required to claim the credit. The DOA will stop certifying credits for taxable years beginning after December 31, 2021. *Section 235-110.93, HRS.*

More information is available on DOA's website at hdoa.hawaii.gov.

Attach Form N-344, Important Agricultural Land Qualified Agricultural Cost Tax Credit, to your tax return to claim the credit.

11 Renewable Fuels Production Tax Credit

Each taxpayer who produces renewable fuels may claim the renewable fuels production tax credit for the taxable year. The credit is available for five consecutive years beginning with the first taxable year in which the taxpayer claiming the credit begins producing at least 2.5 billion British thermal units of renewable fuel per year. To qualify as renewable fuels, fuels must be produced from renewable feedstocks, including various agricultural crops and various types of waste. The credit amount is 20 cents per 76,000 British thermal units of renewable fuel sold for distribution in Hawaii, up to a maximum credit amount for any given taxpayer of \$3,000,000 per taxable year. Taxpayers must complete and file an independent, third-party certified statement with DBEDT. The amount of credits certified in any given tax year cannot exceed \$3,000,000. This credit may be claimed for taxable years beginning after December 31, 2016, and will not be available after December 31, 2021.

More information is provided in TIR No. 2018-03, "Renewable Fuels Production Tax Credit, Hawaii Revised Statutes Section 235-110.31."

The credit which exceeds your income tax liability may be used as a credit against your income tax liability in later years until used up. *Section 235-110.31, HRS.*

Attach Form N-352, Renewable Fuels Production Tax Credit, to your tax return to claim the credit.

12 Organic Foods Production Tax Credit

Each qualified taxpayer who incurs qualified expenses associated with the production or handling of organic foods may claim the organic foods production tax credit for the taxable year. To qualify for the credit, a taxpayer must be a producer, handler, or handling operation as defined by federal regulations, must sell agricultural products in adherence to the federal Organic Foods Production Act, must have applied for certification in accordance with the federal Organic Foods Production Act, and must receive gross income from the sale of organically produced agricultural products of no more than \$500,000 in the most recently reported fiscal year. Qualified expenses include application fees, inspection costs, fees related to arranging inspections, and costs for equipment, materials, or supplies necessary for organic certification or production of organic agricultural products. The credit amount is 100% of qualified expenses up to a maximum of \$50,000 per taxpayer.

DOA is responsible for certifying all credit claims and may charge a fee for certification. The amount of credits certified in any given tax year cannot exceed \$2,000,000. This credit may be claimed for taxable years beginning after December 31, 2016, and will not be available after December 31, 2021.

The credit which exceeds your income tax liability may be used as a credit against your income tax liability in later years until used up. *Section 235-110.94, HRS.*

Attach Form N-354, Organic Foods Production Tax Credit, to your tax return to claim the credit.

13 Healthcare Preceptor Income Tax Credit

Each taxpayer who provides volunteer-based supervised clinical training rotations may claim the healthcare preceptor income tax credit for the taxable year. The credit amount is \$1,000 per rotation supervised by the taxpayer, up to a maximum of \$5,000 per taxpayer per year.

DOH is responsible for certifying all credit claims. The amount of credits certified in any given tax year cannot exceed \$1,500,000. This credit may be claimed for taxable years beginning after December 31, 2018.

The credit which exceeds your income tax liability may be used as a credit against your income tax liability in later years until used up. *Section 235-110.25, HRS.*

Attach Form N-358, Healthcare Preceptor Income Tax Credit, to your tax return to claim the credit.

14 Historic Preservation Income Tax Credit

Each taxpayer who rehabilitates a certified historic structure may claim the historic preservation income tax credit for the taxable year. The credit is equal to 30% of the qualified rehabilitation expenditures. The amount of credits in any given tax year cannot exceed \$1,000,000. This credit may be claimed for taxable years beginning after December 31, 2019, and will not be available after December 31, 2024.

The Department of Land and Natural Resources is responsible for certifying all credit claims and may charge a fee for certification.

The credit which exceeds your income tax liability may be used as a credit against your income tax liability in later years until used up, or for a period of 10 years, whichever is earlier. *Section 235-110.97, HRS.*

15 Ship Repair Industry Tax Credit

Each taxpayer may claim a ship repair industry tax credit equal to 30% of the ship repair industry costs paid or incurred to construct and place into service a purpose-built floating drydock at Pearl Harbor for use by the United States Navy. This credit may be claimed for taxable years beginning after December 31, 2021, and will not be available for taxable years beginning after December 31, 2026.

The credit which exceeds your income tax liability may be used as a credit against your income tax liability in later years until used up. *Section 235-110.65, HRS.*

16 Stock Options Income from a QHTB

Income from stock options or stock, including stock issued from stock options or warrants, from a QHTB or from a holding company of a QHTB by an employee, officer, or director of the QHTB, or investor who qualified for the QHTB tax credit, is exempt from income tax. *Section 235-9.5, HRS.*

17 Royalties and Other Income Derived from Patents, Copyrights, and Trade Secrets

Amounts received by an individual or a QHTB as royalties and other income derived from patents, copyrights, and trade secrets

owned by the individual or QHTB, and developed from a QHTB is exempt from income tax. *Section 235-7.3, HRS.*

GET Incentives

18 Sales of Tangible Personal Property Shipped Outside the State

The income from the manufacture, production, or sale of tangible personal property shipped outside the State where it is resold, used, or consumed outside the State, is exempt from the GET.

Form G-61, Export Exemption Certificate for General Excise and Liquor Taxes, must be given to the manufacturer, producer, or seller to claim the GET exemption. This certificate is kept by the manufacturer, producer, or seller.

More information is provided in TIR No. 98-5, "General Excise Tax Exemption for Tangible Personal Property, Including Souvenirs and Gift Items, Shipped out of the State." *Section 237-29.5, HRS.*

19 Sales to the Federal Government

Sales of tangible personal property to the federal government and credit unions are exempt from the GET. This exemption does not apply to federal cost-plus contractors or service providers (even if the service provider separately bills for the tangible personal property). See sections 237-13(2)(E) and 237-13(3)(C), HRS, for treatment of federal cost-plus contractors.

More information is provided in:

- TIR No. 2001-3, "United States Government Credit Cards Issued Under the 'GSA Smart Pay' Program"
- TIR No. 2005-01, "General Excise Tax Exemption For Sales Of Tangible Personal Property To Credit Unions"

Section 237-25(a), HRS.

20 Sales of Tangible Personal Property Imported for Resale at Wholesale

Sales of imported tangible personal property by a licensed taxpayer to another licensed taxpayer, for further resale at wholesale, are exempt from the GET. This exemption applies only to the initial sale of imported tangible property to a licensed taxpayer for further resale at wholesale. It does not apply to subsequent wholesale sales.

To claim this exemption, the purchaser must complete Form G-17, Resale Certificate for Goods, certifying that the purchaser is reselling the imported tangible personal property at wholesale. The seller must keep the completed Form G-17 for their records.

Without this certificate, it is assumed that the sale is not a sale for resale at wholesale.

More information is provided in TIR No. 98-8, “Application of Act 247, Session Laws of Hawaii 1998 (Act 247), Relating to the General Excise Tax Exemption for Tangible Personal Property Imported into the State for Resale at Wholesale.” *Section 237-29.55, HRS.*

21 Exported Contracting or Services

Gross income from contracting, as defined under section 237-6, HRS, or services for use outside the State, are exempt from the GET. The contracting or services must be for resale, consumption, or use outside the State and the gross income from the contracting or services performed would have been subject to the GET at the rate of 4% (plus any applicable county surcharge).

The GET also would not apply to the gross income from contracting or services for a purchaser who resells all of the contracting or services for resale, consumption, or use outside the State.

Form G-61, Export Exemption Certificate for General Excise and Liquor Taxes, must be given to the contractor, service provider, or seller to claim the GET exemption. This certificate is kept by the contractor, service provider, or seller. *Section 237-29.53, HRS. Sections 18-237-29.53-01 through 18-237-29.53-13, HAR.*

22 Intangible Property Used Outside the State

Gross income from the use of intangible property outside the State is exempt from the GET.

Form G-61, Export Exemption Certificate for General Excise and Liquor Taxes, must be given to the licensor or seller to claim the GET exemption. This certificate is kept by the licensor or seller. *Section 237-29.57, HRS.*

23 Affordable Housing Projects

The gross income received by contractors and other businesses for the planning, design, financing, construction, sale, or lease of a qualified low or moderate income housing project in the State is exempt from the GET. For example, the exemption applies to gross income from contracting activity, sales by vendors to contractors of building materials incorporated into the project, management fees received by the managing agents of the project, and rents.

To qualify for the exemption, the general contractor must complete Form G-37, General Excise/Use Tax Exemption for Certified or Approved Housing Projects, for each contractor, supplier, or other entity connected with the project. Form G-37 should be

submitted to the HHFDC for a State project, or to the respective counties for approval. More information on the certifying agencies is provided in Announcement No. 2007-02, “Form G-37, ‘General Excise/Use Tax Exemption for Certified or Approved Housing Projects.’” *Section 237-29, HRS.*

24 Enterprise Zones

The gross proceeds received by a qualified business in the enterprise zone from the:

- (1) manufacture or wholesale of tangible personal property, or the engaging in a service business;
- (2) production of agricultural products, or the processing of agricultural products, all or some of which were grown within an enterprise zone;
- (3) research, development, sale, or production of all types of genetically-engineered medical, agricultural, or maritime biotechnology products; or
- (4) production of electric power from wind energy for sale primarily to a public utility company for resale to the public

are exempt from the GET. However, the retail sales of agricultural businesses other than those engaged in the production of genetically-engineered agricultural products are not exempt from the GET.

Businesses which satisfy all requirements and are certified by DBEDT will qualify for an exemption from the GET for up to seven years. This also includes an exemption on the gross proceeds received by a contractor for construction activity performed for a qualified business within an enterprise zone. Qualified businesses engaged in the manufacturing of tangible personal property or the producing or processing of agricultural products will qualify for an exemption from the GET for up to ten years. *Section 209E-11, HRS.*

For an income tax credit for qualified businesses, see number 4.

25 Foreign Trade Zone Sales

Sales of all products which are categorized as privileged foreign merchandise, nonprivileged foreign merchandise, domestic merchandise, or zone-restricted merchandise, and which are admitted into the foreign trade zone and made directly to any common carrier in interstate or foreign commerce for consumption or use out-of-state by the crew or passengers on the ships or airplanes are exempt from the GET.

The foreign trade zone is considered to be a federal enclave, covered by the foreign commerce clause provisions which protects the exported and imported goods. *Section 212-8, HRS.*

26 Taxes

Amounts received to pay the following taxes are exempt from the GET:

- (1) Fuel taxes collected by distributors. *Section 237-24(8), HRS.*
- (2) Hawaii liquor taxes paid by dealers. *Section 237-24(9), HRS.*
- (3) Hawaii cigarette and tobacco taxes paid by wholesalers or dealers. *Section 237-24(10), HRS.*
- (4) Federal excise taxes imposed on articles sold at retail and collected from purchasers. *Section 237-24(11), HRS.*
- (5) Federal taxes imposed on sugar manufactured in Hawaii. *Section 237-24(12), HRS.*
- (6) Transient accommodations taxes visibly passed on. *Section 237-24.3(7), HRS.*
- (7) Rental motor vehicle, tour vehicle, and car-sharing vehicle surcharge taxes visibly passed on. *Section 237-24.7(3), HRS.*

27 Common Paymaster

When an individual works for two or more related corporations at the same time and is paid by one corporation on behalf of all the corporations, the corporation paying the employee on behalf of all the corporations is called the common paymaster. The common paymaster is reimbursed by the other related corporations for their common employee's wages. The amounts received by the common paymaster from the other related corporations as reimbursement for the common employee's wages are exempt from the GET. *Section 237-23.5(b), HRS.*

28 Related Entities

Amounts received by one related entity to another for legal and accounting services, the use of computer software and hardware, information technology services, database management, and those managerial and administrative services performed by an employee, officer, partner, trustee, sole proprietor, member, or manager in the person's capacity as an employee, officer, partner, trustee, sole proprietor, member, or manager of one of the related entities, including overhead costs attributable to those services, are exempt from the GET. *Section 237-23.5(a), HRS.*

Section 237-24.7(9), HRS, also provides a similar exemption for telecommunication companies.

29 Certain Scientific Contracts with the United States

The gross income earned by a contractor or subcontractor from certain scientific contracts with the federal government are exempt from the GET. The sales of tangible personal property to the contractor or subcontractor also are exempt from the GET. The tangible personal property must be affixed to, become a physical or integral part of the scientific facility, or entirely consumed during the performance of the service required by the contractor or subcontractor.

More information is provided in TIR No. 35-71, "Section 237-26 - Application of the General Excise Tax to Certain 'Scientific Contracts' and 'Tangible Personal Property' Furnished in Connection Therewith." *Section 237-26, HRS.*

30 Small Business Innovation Research Grants

Amounts received as grants awarded by the High Technology Development Corporation under section 206M-15, HRS, that supplement federal small business innovation research phase 1, 2, or 3 awards or contracts are exempt from the GET. *Section 237-24.7(10), HRS.*

31 Transportation and Handling of Agricultural Commodities

Amounts received for loading, unloading and shipping of agricultural commodities between islands in the State from a producer or produce dealer are exempt from the GET. *Section 237-24.3(1), HRS.*

32 Services Related to Ships and Aircraft

Amounts received from the loading or unloading of ships or aircraft; tugboat services including pilotage fees and towage of ships, barges, or vessels in and out of harbors or from one pier to another; and the transportation of pilots or governmental officials to ships, barges or vessels offshore; rigging gear; checking freight and similar services; standby charges; and use of moorings and running mooring lines are exempt from the GET. *Section 237-24.3(3), HRS.*

33 Shipbuilding and Ship Repair Business

Gross income from shipbuilding and ship repairs of surface vessels federally owned or engaged in interstate or international trade are exempt from the GET. *Section 237-28.1, HRS.*

34 Aircraft Service and Maintenance Facility Amounts received from the servicing and maintenance of an aircraft or from the construction of a qualified aircraft service and maintenance facility in the State, are exempt from the GET. *Section 237-24.9, HRS.*

35 Air Pollution Control Facility Gross income from and the tangible personal property used in the construction, reconstruction, erection, operation, use, or maintenance of air pollution control facilities are exempt from the GET. These facilities must be certified by DOH at least once every five years. *Section 237-27.5, HRS.*

36 Sales to Diplomats and Consular Officials Amounts received from foreign diplomats and consular officials who are holding cards given by the U.S. Department of State granting them an exemption from state taxes are exempt from the GET. The tax exemption is not applicable to taxes imposed on telecommunication services, other utilities, or gasoline purchases.

More information is provided in:

- Announcement No. 2011-25, “General Excise Tax and Transient Accommodation Tax Exemptions for Foreign Diplomats and Consular Officials”
- Announcement No. 2013-03, “General excise tax exemption for Foreign Diplomats and Consular Officials as applied to purchases and leases of personal or official motor vehicles”
- Tax Facts 2016-1, “Tax Exemptions for Foreign Diplomats and Consular Officials”

Section 237-24.3(10), HRS.

37 Aircraft Leasing Amounts received as rent for the rental of aircraft or aircraft engines that is used by the lessee for interstate air transportation of passengers and goods are exempt from the GET. *Section 237-24.3(11), HRS.*

38 Hawaii Convention Center Operator Amounts received by the operator of the Hawaii convention center for reimbursement of costs or advances made pursuant to a contract with the Hawaii tourism authority under section 201B-7, HRS, are exempt from the GET. *Section 237-24.75(2), HRS.*

39 Professional Employment Organizations Amounts received by a professional employer organization (PEO) that is registered with DLIR from a client company for amounts that are disbursed by the PEO for employee wages, salaries, payroll taxes, insurance premiums, and benefits, including retirement, vacation, sick leave, health benefits, and similar employment benefits for covered employees at a client company are exempt from the GET. This exemption will not apply to amounts received by a PEO after (1) Notification from the DLIR that the PEO has not fulfilled or maintained the registration requirements, or (2) A determination by the Department that the PEO has failed to pay any tax withholding for covered employees or any federal or state taxes for which the PEO is responsible. *Section 237-24.75(3), HRS.*

40 Patient-Centered Community Care Program

Amounts received by a contractor of the Patient-Centered Community Care program that is established by the United States Department of Veterans Affairs pursuant to Title 38 United States Code Section 8153, as amended, for the actual costs or advancements to third party health care providers pursuant to a contract with the United States are exempt from the GET. *Section 237-24(18), HRS.*

41 Sublease Deduction A deduction is allowed to a taxpayer who leases real property from a lessor under a written lease, and then subleases that same real property to a sublessee under a written lease. The deduction is computed by multiplying the amount of rent paid by the taxpayer to the lessor by 0.875. The deduction cannot exceed the amount of rent received from the sublease of that same real property. The sublease deduction is calculated on Form G-72, Sublease Deduction Worksheet.

To claim this deduction, the lessor must complete Form G-71, General Excise Sublease Deduction Certificate, certifying that the lessor is subject to the GET on the gross proceeds or gross income received from the lessee. The lessee must keep the completed Form G-71 for their records. *Section 237-16.5, HRS. Sections 18-237-16.5-01 through 18-237-16.5-07, HAR.*

42 Subcontract Deduction A contractor (or a developer) may be eligible for a deduction for payments to a subcontractor. To claim the deduction, the contractor must list the subcontractor’s name, the subcontractor’s Hawaii Tax I.D. Number, and the amount of the deduction on Schedule GE (Form G-45/G-49).

More information is available in:

- TIR No. 84-2, “Subcontract Deductions Claimed by General Contractors for Payments Made to Pest Control Operators Under the General Excise Tax Law, Chapter 237, Hawaii Revised Statutes (HRS)”
- Tax Facts 99-3, “General Excise and Use Tax Information for Construction Contractors”
Section 237-13(3)(B), HRS.

43 Wholesale Sale of Services

Generally, the gross income of any service business is taxed at the rate of 4% (plus any applicable county surcharge). However, a service provider may qualify to be taxed at the rate of 0.5% if:

- (1) the benefit of the service passes to the customer of the licensed seller, licensed contractor, or person furnishing transient accommodations as an identifiable element of the service or property sold, the contracting, or the furnishing of transient accommodations;
- (2) the service is not overhead to the licensed seller, licensed contractor, or person furnishing transient accommodations;
- (3) the gross income of the licensed seller is not divided between the licensed seller and another licensed seller, contractor, or person furnishing transient accommodations;
- (4) the gross income of the licensed seller is not subject to a deduction under the GET Law or the Transient Accommodations Tax Law; and
- (5) the resale of the service, tangible personal property, contracting, or transient accommodations is subject to the GET at the rate of 4% (plus any applicable county surcharge).

The following are sales of services at wholesale:

Service-to-service transaction: A service is rendered upon the request of a licensed seller for the purpose of rendering another service in the course of the seller’s service business.

Service-to-goods transaction: A service is rendered upon the request of a licensed seller for the purpose of manufacturing, producing, or preparing tangible personal property to be sold.

Services-to-contracting transaction: A service is rendered upon the request of a licensed contractor as defined in section 237-6, HRS, for the purpose of assisting that licensed contractor.

Services-to-transient accommodations rental transaction: A service is rendered upon the request of a person subject to tax under section 237D-2, HRS, for the purpose of furnishing transient accommodations. *Section 237-4(a)(10), HRS.*

44 Disability Provisions

A taxpayer engaging in any business activity within Hawaii, who has been certified as being blind, deaf, or totally disabled, is allowed an exemption from gross income of up to \$2,000 a year. The remaining gross income is taxed at a rate of 0.5%.

The disability of a person claiming to be totally disabled must be certified in a three step process. First, there must be a medical determination that the person is totally disabled, either physically or mentally. Second, the disability must be permanent. Third, there must be a determination that the permanent and total disability results in the person’s inability to engage in any substantial, gainful business or occupation. It is presumed that a person whose earned income, before exemptions, exceeds \$30,000 per year is engaged in a substantial, gainful business or occupation.

The disability must be certified by a medical practitioner on Form N-172, Claim for Tax Exemption by Person with Impaired Sight or Hearing or by Totally Disabled Person and Physician’s Certification. Form N-172 must be submitted before the filing of the tax return. It does not need to be filed each year.

More information is provided in:

- TIR No. 89-3, “State Tax Benefits Available to Persons with Impaired Sight, Impaired Hearing, or Who are Totally Disabled”
- Announcement No. 2002-6, “Act 110, Session Laws of Hawaii 2002 (Act 110), Relating to Taxation of Persons with Impaired Sight or Hearing or Who are Totally Disabled”

Sections 237-17 and 237-24(13), HRS. Sections 18-235-1.11 through 18-235-1.14, HAR.

Use Tax Incentives

45 Services or Contracting Imported for Resale Outside the State

Services or contracting imported for resale where the contracting or services are for resale, consumption, or use outside the State are exempt from the use tax. *Section 238-1, HRS.*

46 Scientific Use Property

The landed value of property which is affixed to, becomes a physical or integral part of a scientific facility, or is entirely consumed during the performance of a service required by a scientific contract with the United States government, is exempt from the use tax.

More information is provided in TIR No. 35-71, “Section 237-26 – Application of the General Excise Tax to Certain ‘Scientific

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Contracts' and 'Tangible Personal Property' Furnished in Connection Therewith." *Section 238-3(j), HRS.*

47 Aircraft Service and Maintenance Facility

Materials, parts, or tools imported or purchased by a person with a GET license and which are used for aircraft service and maintenance, or for the construction of a qualified aircraft service and maintenance facility, are exempt from the use tax. *Section 238-1, HRS.*

48 Air Pollution Control Facilities

Any tangible personal property used in the construction, reconstruction, erection, operation, use, or maintenance of an air pollution control facility is exempt from the use tax.

These facilities must be certified by DOH at least once every five years. *Section 238-3(k), HRS.*

49 Tangible Personal Property Imported by a Service Provider

A person engaged in a service business, or a person furnishing transient accommodations, who imported or purchased tangible personal property from an unlicensed seller, is subject to the use tax at the rate of 0.5% if the sale of the property would have qualified as a sale at wholesale had the seller of the property been subject to the GET. *Section 238-2(2)(D), HRS.*

Miscellaneous

50 Where can I get copies of the references that were mentioned in this Tax Facts?

Copies of the HRS, HAR, TIRs, Announcements, Tax Facts, and tax forms are available on our website at tax.hawaii.gov. These materials are also available at each district tax office.

Where to Get Forms and Information

Website: tax.hawaii.gov

Telephone: 808-587-4242

Toll-Free: 1-800-222-3229

Telephone for the hearing impaired: 808-587-1418

Toll-Free for the hearing impaired: 1-800-887-8974

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