



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809-0259

May 15, 1991

TAX INFORMATION RELEASE NO. 91-4

RE: Hawaii Tax Obligations of Nonprofit Organizations

This tax information release is intended to provide taxpayers with information regarding the Hawaii tax obligations of nonprofit organizations.

Organizations organized under the Hawaii not-for-profit statute (chapter 415B, Hawaii Revised Statutes) do not automatically qualify for exemption from Hawaii's income tax and general excise tax.

Hawaii has adopted the federal provisions of Internal Revenue Code (IRC) section 501, except for IRC section 501(c)(12), (15), and (16). IRC section 501(a) provides an exemption from federal income taxes to organizations described in IRC sections 501(c), 501(d), and 401(a). Organizations organized and operated exclusively for religious, charitable, scientific, or educational purposes as described in IRC section 501(c)(3), are usually required to submit an application to the Internal Revenue Service (IRS) to request recognition of exemption from federal income taxes. If the IRS issues a determination letter granting the organization exemption from federal income taxes, the organization is also exempt from Hawaii income taxes. The effective date for the exemption from Hawaii income taxes is the same as the effective date for federal purposes. Certain organizations are not required to file an application for recognition of exemption with the IRS and, therefore, will not receive a determination letter recognizing federal tax exemption. In these cases, the organization is exempt from Hawaii income taxes if it meets the requirements of the IRC section under which it is claiming to be exempt.

The nonprofit organization will be subject to Hawaii income tax on any unrelated business taxable income under section 235-2.4(f), Hawaii Revised Statutes. Form N-70NP, Exempt Organization Business Income Tax Return, should be filed for each taxable year that the organization has gross income of \$1,000 or more included in computing unrelated business taxable income.

In order to obtain an exemption from the payment of general excise taxes, the nonprofit organization must file Form G-6, Application for Exemption from the Payment of General Excise Taxes with the Hawaii Department of Taxation. A one-time \$20 registration fee must be paid with Form G-6. The approval for exemption from the payment of general excise taxes does not apply to the gross income derived from any activity the primary purpose of which is to produce income even though such income is to

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be used for or in furtherance of the exempt purposes or activities of the organization. Consequently, gross income received from the conduct of any fundraising activity is subject to the general excise tax. For information concerning the effective date of applications for exemption from the payment of general excise taxes, please refer to Tax Information Release No. 89-13, Application for Exemption from the Payment of General Excise Taxes for Nonprofit Organizations.

A nonprofit organization should request nonprofit treatment under Hawaii's Income Tax and General Excise Tax Laws at the earliest possible date in order to prevent taxation of otherwise nontaxable income.


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Director of Taxation