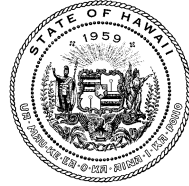


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TAX INFORMATION RELEASE NO. 2024-03

RE: Application of General Excise Tax to Discounted Sales Receipts

This Tax Information Release (TIR) provides guidance on the assessment of the general excise tax (GET) on discounted sales. This TIR responds to multiple inquiries as to whether a seller is subject to GET on the full price of a discounted item and, if so, whether that seller may “pass on” GET owed on the full price to a customer who pays a discounted price.

Sellers’ GET Liabilities on Discounted Sales

A seller is subject to GET on the full price of a discounted item in certain instances. Pursuant to section 237-3, Hawaii Revised Statutes (HRS), whether a seller may subtract the value of the discount for the purpose of calculating the assessed tax depends on whether the seller will be reimbursed by a third-party for the discount. More specifically, HRS §237-3(a) provides that “gross income” for GET purposes means gross receipts without deduction for any discount paid on the transaction. Therefore, if the transaction includes a discount paid by a third-party to the seller, such as a reimbursement to the seller by a manufacturer on the full face-value of a manufacturer’s coupon, then GET is assessed on the full sales price notwithstanding the discount.

Example 1: Acme Mart sells an \$8.00 case of water. A customer purchases a case of water and redeems a \$3.00 manufacturer’s coupon, resulting in a discounted price of \$5.00. GET is assessed on the full \$8.00 price because Acme Mart realizes \$8.00 in value from the \$5.00 customer payment and the \$3.00 manufacturer’s coupon discount paid by a third-party.

HRS §237-3(b) then provides that “gross income” for GET purposes shall not be construed to include “cash discounts allowed and taken on sales.” Therefore, if a sales transaction includes a discount for which the seller will receive no reimbursement, such as a discount from a store coupon or simple price reduction, then GET is assessed only on the actual proceeds received from the customer. With respect to retail sales transactions, HRS §237-3(a) and (b) impose GET on the actual total amount realized by the seller on the transaction – no more, and no less.

Example 2: Acme Mart sells a case of water normally priced at \$8.00 for \$5.00. A customer purchases a case of water at the discounted sale price of \$5.00. GET is assessed on the discounted \$5.00 price because Acme Mart only realizes \$5.00 from the sale.

“Passing On” GET for Discounted Sales

The “passing on” of GET from sellers to customers is a strictly contractual matter, where the customer implicitly agrees as a condition of their purchase price to also pay any GET that the seller owes to the State on the transaction. If discounts are applied for reimbursable coupons, then a seller must calculate GET based on the full price. For customers, this means that GET “passed on” may be greater than if the GET were solely calculated on the customer’s actual payment to the seller. Concerns regarding excessive amounts of GET being “passed on” to a customer are a consumer protection issue for determination by the Office of Consumer Protection.

If you have any questions about this TIR, please contact the Rules Office at 808-587-1530, or via email at Tax.Rules.Office@hawaii.gov.

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