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GENERAL EXCISE TAX AND USE TAX

By Ed Ikuma

The general excise tax (GET) and the use tax are assessed by the State on businesses. The GET and use tax are very important to the Legislature because they are major sources of revenue that ultimately fund many on-going and new programs. This memo will attempt to explain what the GET and use tax are and their importance to the State.

Q1: What is the GET?

A1: The GET is a tax on the privilege of doing business in the State and is assessed on the gross (before tax) income earned by businesses in Hawaii. Generally, the tax is four percent of gross income which includes cash or gross receipts derived from the sale of tangible personal property. Gross income also includes receipts from the sale of services, contracting, commissions, interest, lease or rental activities, etc.

Q2: What is the use tax?

A2: The use tax is meant to complement the GET. Because sellers in Hawaii must pay the GET, it puts them at a price disadvantage with out-of-state businesses not subject to this tax. The use tax equalizes this situation by requiring that those persons acquiring goods (i.e. cars, clothes, jewelry, computers, equipment, etc.) from out-of-state sellers pay a tax at the same rate that an in-state seller would have paid in GET if the sale had occurred in Hawaii. The use tax is one-half of one percent for those who import goods for resale at retail in Hawaii, and four percent for all other uses.

Q3: Is the GET a sales tax?

A3: No, a sales tax (which is common in most states) is a one-time tax imposed on consumers who purchase goods (not services) at retail. Sellers (businesses) are required to charge and collect a sales tax from consumers, usually a percentage of the retail sales price of an item, and pay the sales tax collected to the state or locality imposing the tax on behalf of the consumer. The GET, however, is assessed not only on sellers of goods, but also sellers of services as well. Also, the GET is collected not only at the retail level but also at the wholesale level. (The tax at the wholesale level is generally one-half of one percent of gross income.) Like the sales tax, the seller in a GET situation is required to pay the GET but is allowed to pass the tax on to the consumer.

Q4: What does "pyramiding" mean?

A4: "Pyramiding" refers to a feature of the GET that allows collection of the tax every time a product or service changes hands. For example, if a landlord rents a rental unit to a tenant, the landlord must pay a GET of four percent on the rent collected. But if that same tenant sublets the rental unit to a sub-tenant, both the original landlord and tenant must pay a GET of four percent – even though only one rental unit is rented. Thus, the more the rental unit is sublet, the more GET is collected – creating a pyramiding effect.

Pyramiding not only raises the cost of doing business in the State; it raises the cost of living for everyone.

Q5: Has anything been done to reduce or eliminate the pyramiding effect of the GET?

A5: Yes, in the past few years, the Legislature has passed several laws to reduce the pyramiding effect of the GET. Thus, in the above rental unit example, the original tenant is allowed a GET deduction equal to the gross income received from the rental unit multiplied by a rate that increases annually until 2004.

Q6: How important are the GET and use tax to the State of Hawaii?

A6: The GET and use tax are very important to the State of Hawaii. According to the Department of Taxation, the GET and use tax accounted for $1.6 billion in tax collections for the calendar year ending December 31, 2001. This is almost one-half of the $3.6 billion in total tax revenues collected by the State in the same period.

Q7: Can the Legislature increase the revenues collected from the GET and use tax?

A7: Yes, the GET and use tax are set forth in the statutes. Thus, the Legislature has the power to raise the rates, lower the rates, amend, or repeal the tax laws. The Legislature can also amend, add to, or repeal any exemption to the GET and use tax laws.

Q8: Can the counties impose a GET or use tax?

A8: No, not without legislative authorization. Although the counties do not presently have this authority, in the past, the Legislature has authorized an increase in the GET and use tax to build a fixed guideway mass transit system for the City and County of Honolulu. Since a mass transit was never built, the authorized increase in the GET never took effect.