



TAX FACTS

From the
State of Hawaii, Department of Taxation

December, 1997

STARTING A BUSINESS -- LICENSES AND TAXES

97-3

Are you thinking about starting a business? Do you know which licenses and permits you will need and which taxes you must pay if you start a business in Hawaii? Each year, over 30,000 new businesses are formed. However, many owners of these new businesses are individuals who do not have the funds to hire a professional accountant to help them set up their businesses. They do not know what is required to establish their new enterprises. The following are questions which are commonly asked by new entrepreneurs about the requirements for individuals starting a business in Hawaii. (NOTE: The legal aspects are beyond the scope of this publication).

1. I want to start my own business. What should I do first?

You must decide on the type of business entity you will set up - a sole proprietorship, partnership, limited liability partnership, corporation, S-Corporation, or limited liability company.

2. What is a sole proprietorship?

A sole proprietorship is an unincorporated business owned and managed by a single individual. It is the simplest form of business organization. The sole proprietor runs the risks of business to the extent of all of the proprietor's assets, whether used in the business or used personally.

3. What is a partnership?

A partnership is a legal relationship existing between 2 or more persons who contractually join together to carry on a trade or business. For income tax purposes, the term "partnership" includes a syndicate, group, pool, joint venture or other unincorporated organization that is carrying on a business. Each partner contributes money, property, labor or skill, and expects to share in the profit or loss of the business. Partnerships include limited liability partnerships (LLPs). Although treated as a pass-thru entity for income tax purposes, a partnership remains taxable for general excise tax purposes.

4. What is a corporation?

A corporation is a legal entity created under the laws of a state to carry on a business. The corporation may have one or more shareholders. The liability of the owners is limited to the investment in the corporation. Corporations are separate taxable entities for both the corporate income tax and the general excise tax. Special tax rules apply in the case of limited liability companies.

5. What is an S Corporation?

An S Corporation is a version of a closely-held corporation which enjoys special status under the income tax laws provided that the eligibility requirements are satisfied. The S Corporation remains a taxable entity under the general excise tax.

THE REMAINDER OF THIS PUBLICATION ADDRESSES SOLE PROPRIETORSHIPS ONLY.

6. Now that I've decided to operate my business as a sole proprietorship, what is the next step?

You should find out if you are required to obtain a license or permit for your business and also what your tax responsibilities will be.

The State Department of Taxation (DOTAX) issues a general excise tax license to those planning to start a business in Hawaii. Businesses, with the exception of sole proprietors not using a trade name, should register and pay filing fees with the State Department of Commerce and Consumer Affairs (DCCA). The DCCA also determines if there are certain requirements and standards to practice your trade or profession. Some licenses also are required by the Department of Health.

Each county issues licenses to specific types of businesses and occupations. These are valid only within the county and are not transferable. Information on the county license requirements are available at the Finance Department in each county.

A sole proprietor who has no employees may use a social security number as a business taxpayer number with the Internal Revenue Service (IRS). All other businesses should acquire a Federal Employer Identification Number (FEIN) which is issued by the IRS.

7. I need to apply for a general excise tax license. What is the general excise tax?

The general excise tax is a tax imposed on income from most types of business activities in the State of Hawaii. This tax is often called a gross income tax because the tax is computed based on the business' total gross receipts derived from doing any business in Hawaii and not on the business' net profit. It includes any cost passed on to the customer and represented to be the general excise tax. The general excise tax, unlike a sales tax found in most other states, is levied on the seller but is commonly passed on to the customer.

8. What percent of my gross income will I have to pay in general excise tax?

You will have to pay either 0.15%, ½ of 1%, or 4%, depending on the kind of business activity that generated the income. The 0.15% tax rate is imposed on commissions from insurance sales. Generally, the tax rate is ½ of 1% if the income is from a business activity such as wholesaling, producing, or manufacturing. Most other income from activities such as retailing, services, and contracting, are taxed at the 4% rate. Individuals who are certified blind, deaf, or totally disabled, or their corporations if they own 100% of the shares, will be taxed at the rate of ½ of 1% on income normally taxed at the 4% rate.

9. Can I open a business account at my bank with the general excise ID number?

To establish a bank account for your business, banks usually will require that you have your general excise tax license, social security number or FEIN if you have employees, and the DCCA registration document for your trade name.

10. What do I need to do in order to register for the general excise tax?

You must complete Form GEW-TA-RV-3, "Application for General Excise, Use, Employer's Withholding, Transient Accommodations, and Rental Motor Vehicle and Tour Vehicle ID Number". Submit the original to the DOTAX and make a copy for your records. There is a one-time \$20 fee that must be paid at the time application is made.

Effective February 1, 1998, Form GEW-TA-RV-3 will be replaced by a new form, BB-1, "State of Hawaii Basic Business Application". This combined application form will allow you to register for various State tax and employer licenses and permits. Submit the 2 completed NCR (no carbon required) forms to DOTAX and make a copy for your records. If forms are from the DOTAX's Forms by FAX or website, please make a copy for your records - the telephone number and website address are listed at the end of this publication.

11. After sending in my license application form and fee, what will I receive from the Department of Taxation?

In 3 to 4 weeks after sending in your application, you will receive your general excise license certificate which shows that you have properly registered to pay the general excise tax. This certificate must be displayed at the place of business. You will receive your general excise tax forms booklet several weeks after you receive your general excise tax license certificate.

12. Is there a way I can get my license sooner?

Yes. If the completed application form and your fee are brought in person to the DOTAX, an identification number will be assigned to you.

13. I plan to use a trade name for my business. How do I inform the DOTAX?

On the license application, enter your trade name in the box where it asks for the "Doing business as (DBA) name". If you already have a license and you want to add your trade name to your license, you will need to complete Form GEW-TA-RV-5.

14. Can I have more than one trade name?

Yes. If you will be using more than one "DBA", complete Form G-50, "General Excise Branch License Maintenance Form", for each additional trade name. There is no additional charge. All "DBA"s will be registered under one identification number but each "DBA" will have its own branch license certificate.

15. Will you check your records to ensure that no one else is using my trade name?

No. It is your responsibility to ensure that you are not using a name which is already in use, or so close to one in use that the public would be confused by the two names.

16. Should I register my trade name with the Department of Commerce and Consumer Affairs (DCCA)?

Registration of a trade name with DCCA does not grant ownership of the trade name. The advantage of registering, however, is that notice is given to all others that rights are being claimed to use the name. The second advantage is that the registration process may identify if another person is claiming the right to use that name. It can help avoid legal disputes which may be expensive and disruptive to business.

For further information, contact the Business Registration Division of DCCA and request a copy of "Hawaii's Business Regulations, A Summary".

17. There are other taxes listed on the application. I'm not familiar with these taxes. What is the use tax?

The **use tax** is a tax imposed on the landed value of tangible personal property imported or purchased from an out-of-state seller for use or further sale in Hawaii. The term "use" is broadly applied and includes the keeping of goods in Hawaii for resale to customers, lease or rent to others, personal or business use, consumption, etc. The landed value of imported tangible personal property is the fair and reasonable cash value of the property when it arrives in Hawaii. It includes the sales price, shipping and handling fees, insurance costs, customs duty, etc. It does not include sales tax paid in another state.

No use tax is imposed if the property is imported for sale at the wholesale level. The use tax is levied at the rate of $\frac{1}{2}$ of 1% on the landed value of imported tangible personal property which will be: 1) sold at the retail level, 2) leased or rented, 3) incorporated by a manufacturer into a finished or saleable product in such form that it remains perceptible to the senses and which subsequently is sold at the retail level, or 4) incorporated by a contractor into a finished work or product in such a form that it remains perceptible to the senses. The use tax is imposed at the rate of 4% on all other tangible personal property imported into Hawaii (i.e., property imported into Hawaii for your own use or for consumption).

18. If I have a business and I purchase office supplies from another state to be used in my business, do I have to pay the use tax?

Yes. The use tax will be 4% of the landed value of the office supplies because you will be using the supplies for your own use.

19. If I am a retailer and I import my products from another state or country to sell it to my customers in Hawaii, how much use tax will I have to pay?

The use tax will be $\frac{1}{2}$ of 1% on the landed value of imported tangible personal property because you will be reselling the products at the retail level.

20. What is the withholding tax?

The **withholding tax** is a requirement to withhold state income tax from employees. Under the income tax law, employers are required to withhold Hawaii state income tax from their employees' wages earned in Hawaii and to remit the amounts withheld to the DOTAX. Failure to do so will incur personal liability on behalf of the employer.

21. What is unemployment insurance?

This is a tax, administered by the Department of Labor and Industrial Relations (DLIR), on wages paid by employing units with 1 or more employees, with certain exclusions. Collections are deposited into an unemployment insurance (UI) trust fund to pay temporary benefits to eligible jobless workers.

22. I need to hire a person to work for me. What are my

responsibilities as a new employer in Hawaii?

As a new employer in Hawaii, you have the responsibility to pay employment taxes. You will be responsible for withholding state income tax and federal income/payroll taxes from your employee's wages. Employers must obtain a state and federal employer identification number for tax withholding purposes. The State employer's identification number is obtained by completing Form BB-1. (See question 23 for information on registering as an employer).

You will have to register with the DLIR to provide unemployment insurance coverage for your workers. In addition, the DLIR will provide you with information regarding compliance with Hawaii labor laws in the worker's compensation, temporary disability insurance, prepaid health care and wage and hour programs.

23. What do I need to do in order to register as an employer?

If you are applying for general excise, employer's withholding, and unemployment insurance at the same time, you must complete the combined Form BB-1, "State of Hawaii Basic Business Application" beginning February 1, 1998. There is no fee for acquiring an employer's withholding ID number or for registering with DLIR for unemployment insurance coverage.

24. I already have a general excise tax license and now want to hire someone. What should I do?

If you already have a general excise tax license and now need to add the withholding tax and/or unemployment insurance, your original application must be amended. Do NOT send in a new application for another identification number. The same number will apply.

25. Will I receive a booklet of withholding tax forms like the general excise tax booklet?

Yes. You should receive your booklet of forms approximately 4 weeks after sending in your application. In addition, a copy of "Booklet A: Employer's Tax Guide," and a supply of Forms HW-4, "Employer's Withholding Exemption and Status Certificate" will also be mailed to you.

If applicable, the Unemployment Insurance Division of the DLIR will issue a post registration packet.

26. Can I use the state withholding ID number for withholding federal income taxes?

No. The federal government has its own employer's ID number (FEIN). For information on your federal withholding tax requirements, call your local IRS center at 1-800-829-1040.

27. How can I get more information regarding the

withholding of state income tax?

Detailed information on state withholding tax is found in "Booklet A, Employer's Tax Guide", which you can order by calling 587-7572 or from the DOTAX website.

28. What is the transient accommodations tax?

The **transient accommodations tax**, commonly called the "TAT", is a tax imposed on certain rental activity in the State of Hawaii. Like the general excise tax, it is a tax levied on gross income. However, it is imposed only on gross rental income derived from the furnishing of accommodations occupied by a transient for less than 180 consecutive days. The tax rate is 6%.

29. What is the rental motor vehicle and tour vehicle surcharge tax?

The **rental motor vehicle surcharge tax** is \$2 for each day that a rental motor vehicle is rented or leased. The tax is levied on the lessor. The **tour vehicle surcharge tax** is \$65 per month for each tour vehicle in the 25+ passenger seat category and \$15 per month for each tour vehicle in the 8 to 25 passenger seat category. The tax is levied on the tour vehicle operator.

30. How can I get more information on these taxes?

The Department of Taxation has published materials on these taxes including the following brochures: "An Introduction to the General Excise Tax," "An Introduction to the Use Tax," "An Introduction to Withholding State Income Tax by Employers," and "An Introduction to Transient Accommodations Tax." The brochures are available at all district tax offices as well as at the DOTAX's website address. The street addresses and website are listed at the end of this publication.

31. When I was an employee, my employer withheld taxes from my wages. Now that I'm self-employed, do I withhold the same type of taxes from my wages?

No. An employee earns wages that is subject to withholding. As a self-employed individual, you do not earn wages, therefore, you would not withhold state or federal income tax for yourself. However, you may have to pay income tax on the income your business earns by making estimated income tax payments.

32. What is estimated income tax?

Estimated income tax is a method used to pay tax on income that is not subject to withholding. This includes income from self-employment. Nevertheless, an employee may have to pay estimated tax if the amount of income tax being withheld from his/her salary or other income is not sufficient. It is used to pay income tax as reported on the income tax return.

33. How will I know if I need to pay estimated income

tax?

As the owner or sole proprietor of a business, you will generate a profit or loss from your business activity. If your income is greater than your expenses, you will have a net profit. You may have to pay estimated tax on your net profit. For State income tax, use the worksheet that comes with Form N-1, "Declaration of Estimated Income Tax for Individuals" to see if you must pay estimated tax and, if so, to figure out the amount.

34. How do I pay the estimated tax?

The Form N-1 has 4 payment vouchers and the due dates are April 20th, June 20th, September 20th, and January 20th.

35. Since I'm paying the general excise tax on my business activity's gross income, do I still have to file an income tax return?

Yes. The general excise tax is not the state income tax. These are 2 entirely different taxes. The general excise tax is a tax on your gross income from your business activity in Hawaii; the income tax is a tax on all of your income that is not exempt from tax, minus allowable deductions. Sometimes the income tax is referred to as "net income tax."

36. What form do I have to file to report my income tax?

File Form N-11 or N-12 if you are a resident of Hawaii and you are a sole proprietorship; file Form N-15 if you are a part-year resident or a nonresident of Hawaii.

37. When is the income tax return due?

The Forms N-11, N-12, and N-15 are normally due on April 20th because sole proprietorships usually file on a calendar year basis (January 1 to December 31). If your business is operating on a fiscal year basis (Example: July 1 to June 30), then the income tax return will be due on the 20th day of the fourth month following the end of your tax year (Example: If your fiscal year ends on June 30, then your income tax return is due on October 20th).

38. It is time consuming to call or visit the various agencies to find out the requirements to start a business. Isn't there one place that I can go to take care of my business and employer responsibilities?

On Oahu, the Department of Business, Economic Development & Tourism (DBEDT) has a one-stop shop for new business proprietors. It is called the Business Action Center (BAC). This service represents a cooperative effort among state agencies such as DBEDT, DLIR, and DOTAX, as well as with the IRS. Sole proprietors can obtain their state and federal ID numbers and fill out forms for business start-up, including registration for a general excise tax license, business and trade names, and as an employer. While at the BAC, new business owners can also learn about services including counseling and workshops, alternative financing

programs, and government procurement processes. The addresses and telephone numbers of these various agencies are listed at the end of this publication.

39. Where can I get additional information and assistance on how to start a business?

The DOTAX has quarterly workshops and sends out a publication, "Hawaii Tax News", on a quarterly basis as well. If interested to attend the workshops or receive the "Hawaii Tax News", write to Taxpayer Services Branch at P.O. Box 259, Honolulu, HI 96809 and give your name, address, telephone and fax number.

The Leeward Community College on Oahu sponsors a 2-day Small Business Tax Workshop. Representatives from the IRS, the DOTAX, and the DLIR participate in these workshops, offered 4 times a year. DOTAX also offers workshops throughout the year.

The DBEDT has a variety of business assistance services. They range from counseling, business loans,

marketing assistance, to permit and license applications. DBEDT publishes several excellent publications: "Starting a Business in Hawaii," "Hawaii's Business Regulations; a Summary," and "Checklist for Employers in Hawaii." These publications list a variety of business programs specifically designed to help small businesses.

The State Department of Agriculture offers services to people starting an agricultural business.

The U.S. Small Business Administration (SBA) issues a variety of management publications designed to help small businesses. The U. S. Department of Commerce offers a wide range of services to manufacturers and distributors interested in selling goods or services to foreign countries.

There also are nongovernment agencies that can help you: Chamber of Commerce of Hawaii, Small Business Hawaii, Hawaii Business League, Work Hawaii, Kauai Business Assistance Corporation (KBAC), and others.

The following publications are available from the Department of Taxation:

"An Introduction to the General Excise Tax"

"An Introduction to the Use Tax"

"An Introduction to the Transient Accommodations Tax"

"An Intro to Withholding State Income Tax by Employers"

"Information on the Rental of Residential Real Property"

"An Introduction to the Tax Clearance Procedure"

"Hawaii Taxpayer Bill of Rights"

Tax Facts 95-1: "All About the Hawaii Use Tax"

Tax Facts 95-2: "The New One-Page Return: Form N-11"

Tax Facts 96-1: "General Excise vs. Sales Tax"

Tax Facts 96-2: "Transient Accommodations Tax"

Tax Facts 96-3: "Tax Clearances Now Needed by Businesses Entering into State & County Contracts"

Tax Facts 97-1: "Contracting and the General Excise & Use Taxes"

Tax Facts 97-2: "Income Tax Issues for Nonresident Members of the U.S. Armed Services"

Tax Facts 97-3: "Starting a Business - Licenses and Taxes"

Tax Facts 97-4: "Revised Form N-15: Nonresident and Part-Year Resident Return"

STATE DISTRICT TAX OFFICE ADDRESSES & TELEPHONE NUMBERS

Website (Forms & Information)
<http://www.hawaii.gov/tax/tax.html>

Forms by Mail/FAX
808-587-7572
Toll-Free: 1-800-222-7572

CD-ROM (Forms & Info)
Nominal Cost (Limited Supply)

Recorded Tax Updates
808-587-1234 and press 7700

Oahu District Tax Office
830 Punchbowl Street
P. O. Box 3559
Honolulu, HI 96811-3559

Maui District Tax Office
54 South High Street
P. O. Box 913
Wailuku, HI 96793-0913

Hawaii District Tax Office
75 Aupuni Street
P. O. Box 1377
Hilo, HI 96721-1377

Kauai District Tax Office
3060 Eiwa Street
P. O. Box 1688
Lihue, HI 96766-5688

Tax Information
Telephone No.: 808-587-4242
Jan.-April 20: 808-587-6515
Toll-Free: 1-800-222-3229

Telephone No.: 808-984-8500

Telephone No.: 808-974-6321

Telephone No.: 808-274-3456

OTHER AGENCIES' ADDRESSES & TELEPHONE NUMBERS

**State Dept of Business,
Economic Development,
and Tourism (DBEDT)**
Business Action Center
1130 N, Nimitz Hwy, A-254
Honolulu, HI 96817

State Dept of Health
Sanitation Branch
1250 Punchbowl Street
Honolulu, HI 96813

**City & County of
Honolulu
Finance Department**
Licensing Division

**Internal Revenue Service
(IRS)**
300 Ala Moana Blvd. #1002
Honolulu, HI 96813

Telephone: (808) 586-2545

Telephone: (808) 586-8000

Telephone: (808) 532-7700

Telephone: 1-800-829-1040

State Dept of Labor and Industrial Relations (DLIR)
830 Punchbowl Street
Honolulu, HI 96813

State Dept of Commerce and Consumer Affairs (DCCA)
1010 Richards Street
Honolulu, HI 96813

Unemployment Division
Telephone: (808) 586-8914

Temporary Disability Ins
Telephone: (808) 586-9188

Business Registration Div
Telephone: (808) 586-2727

Professional & Vocational
Licensing Division
Telephone: (808) 586-3000

Worker's Compensation
Telephone: (808) 586-9161

Pre-paid Health Care
Telephone: (808) 586-9191

Some of the information contained in this Tax Facts were obtained from publications issued by:

The Dept. of Business, Economic Development, and Tourism:
"Starting a Business in Hawaii"
"Hawaii's Business Regulations; a Summary", and
"Checklist for Employers in Hawaii"

The Internal Revenue Service:
Publication 334, "Tax Guide for Small Businesses"

Tax Facts is a publication of the Department of Taxation on tax subjects of current interest and is not intended to be a complete statement of the law. Subsequent developments in the law (legislation, rules, cases, etc.) should be consulted.

FOR MORE INFORMATION CONTACT: TAXPAYER SERVICES (808) 587-4242