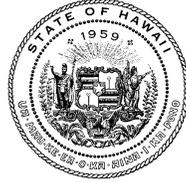


DAVID Y. IGE
GOVERNOR

JOSH GREEN, M.D.
LT. GOVERNOR



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December 17, 2020

The Honorable Ronald D. Kouchi,
President and Members of the Senate
Thirty-First State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

The Honorable Scott K. Saiki, Speaker
and Members of the House of
Representatives
Thirty-First State Legislature
State Capitol, Room 431
Honolulu, HI 96813

Dear President Kouchi, Speaker Saiki, and Members of the Legislature:

For your information and consideration, I am transmitting an electronic copy of the Report on General Excise and Use Tax Exemptions for Tax Year 2019, as required by Section 231-3.4(a)(4), Hawaii Revised Statutes.

In accordance with Section 93-16, Hawaii Revised Statutes, I am also informing you that the report may be viewed electronically at https://tax.hawaii.gov/stats/a5_1annual/.

Sincerely,

A handwritten signature in cursive script that reads "Isaac W. Choy".

Isaac W. Choy
Director of Taxation

Enclosures

Hawaii General Excise & Use Tax Exemptions

Tax Year 2019

(January 1, 2019 – December 31, 2019)

DEPARTMENT OF TAXATION

STATE OF HAWAII

DECEMBER 2020

STATE OF HAWAII

David Y. Ige, Governor

DEPARTMENT OF TAXATION

Isaac W. Choy, Director

TAX RESEARCH & PLANNING

Seth Colby, Tax Research & Planning Officer

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Table of Contents

	Pages
1. INTRODUCTION.....	1
2. DATA SOURCE AND METHODOLOGY.....	1
3. GENERAL EXCISE & USE TAX EXEMPTIONS.....	2
4. TAX EXPENDITURES	5
4.1. Tax Expenditures at the Wholesale Rate (0.5%).....	7
4.2. Tax Expenditures at the Retail Rate (4.0%).....	8
4. 3. Out of State Sales.....	9
4.4. Other Exemptions.....	10
APPENDIX	
Table A-1 GET Exemptions by GET Rate.....	11

1. INTRODUCTION

This report presents exemptions claimed against the General Excise & Use Tax (GET) for tax (calendar) year 2019. Act 94, Session Laws of Hawaii 2015 requires the Department of Taxation (DOTAX) to publish and report on GET exemptions that (1) are tax expenditures at the wholesale rate; (2) are tax expenditures at the retail rate; and (3) may be foregone opportunities to export taxes. This report takes the following approach to meet requirements provided by Act 94. First, in Section 3, it identifies the exemptions that are claimed by taxpayers, breaking those exemptions down by tax rate and business activity. Second, in Section 4, it provides a detailed explanation about the difference between tax exemptions and tax expenditures and presents estimates of the tax expenditures that are associated with the exemptions claimed.

Unlike other reports prepared by DOTAX, this report relies on the determination and categorization of tax expenditures which requires certain assumptions as will be discussed in Section 4. This report applies the retail rate of 4.0% for exemptions that apply to final sales, the wholesale rate of 0.5% for exemptions that apply to business-to-business transactions, and 0.0% for exemptions that eliminate the double taxation of exported products or that eliminate the taxation of certain purchases by federal and foreign governments which cannot be taxed.

2. DATA SOURCE AND METHODOLOGY

The main data are from the "General Excise/Use Tax Schedule of Exemptions and Deductions" (Schedule GE) which is required to be filed along with a taxpayer's periodic (Form G-45) and annual (Form G-49) GET returns. The Schedule GE reports the amounts and types of GET exemptions claimed. The period for which a taxpayer must submit a Form G-45 varies. Taxpayers are required to submit a periodic return (Form G-45) every month if they will pay more than \$4,000 in GET every year while taxpayers who will pay \$4,000 (\$2,000) or less in GET per year may file quarterly (semiannually). In addition, taxpayers must submit Form G-49, the annual return and reconciliation, which is a summary of taxpayers' activity for the entire year.

The report provides information on all Schedules GE submitted with a Form G-49 for the tax year 2019. If a Form G-49 was not submitted by a taxpayer, the periodic returns (Forms G-45) of the taxpayer for the filing period between January 1, 2019 and December 31, 2019 were aggregated to obtain the GET exemptions data.

The data on GET exemptions are before any adjustments that may potentially be made by subsequent audits when the data were queried on September 8, 2020 via the GenTax program of DOTAX's Tax System Modernization (TSM) project. However, they

include the earlier adjustments the Department made on the annual returns (Forms G-49) and/or periodic returns (Forms G-45) when processing them. Therefore, GET exemptions claimed on Schedules GE disallowed by the Department are not included in the data set for this study as well.

3. GENERAL EXCISE & USE TAX EXEMPTIONS

26,281 GET taxpayers (11% of total) claimed 29,941 GET exemptions and deductions for a total amount of \$36.3 billion in tax year 2019. Table 1 lists the dollar amounts and the number of GET exemptions claimed in descending order by exemption amount.

The exemption names are preceded by their 3-digit exemption/deduction (ED) codes and with the corresponding Hawaii Revised Statutes (HRS) section numbers (§ codes) in parentheses. These codes are as indicated on Schedule GE forms and explained in DOTAX's "General Instructions for Filing the General Excise/Use Tax Returns (Rev. 2019)" publication. If the exemption classification is not indicated, cannot be ascertained, or falls outside of the codes listed on the Schedule GE forms, the exemptions are labeled as "Unspecified/mislabeled/other" and assigned 999 as their ED code.

The number of claims does not translate into the unique number of taxpayers as some may claim more than one exemption or claim an exemption for different business activities.

To prevent readers from identifying, directly or indirectly, a particular taxpayer, the Department of Taxation does not disclose tabulations containing data for 5 or less returns at the state level, 10 or less returns below the state level, or individual returns that represent a large percentage of the tabulation. Additional tabulations may be suppressed in statistical tables that would allow the reader to infer the quantities of the tabulations which were originally suppressed.

As shown in Table 1, the largest exemptions in terms of the dollar amounts were Foreign Trade Zone Sales (\$6.2 billion or 17.1% of total), Non-profit Organizations (\$6 billion or 16.5% of total), Subcontract Deduction (\$3.7 billion or 10.2% of total), Taxes Passed On (\$3.2 billion or 8.9% of total), and Out of State Sales (\$3 billion or 8.4% of total). The most commonly claimed exemptions were Taxes Passed On (8,617 claims or 28.8% of total), Out of State Sales (5,767 claims or 19.3% of total), Subcontract Deduction (2,250 claims or 7.5% of total), Maintenance Fees (2,135 claims or 7.1% of total), and Wholesale Transactions (1,198 claims or 4% of total).

Table 1
GET Exemptions Claimed for Tax Year 2019

Exemption	Amount (in \$1,000)	% of Total Amount	Number of Claims	% of Total Claims
120 - Foreign Trade Zone Sales (§212-8)	\$6,198,928	17.1%	132	0.4%
130 - Non-profit Organizations (§237-23)	\$5,984,545	16.5%	970	3.2%
148 - Subcontract Deduction (§237-13(3)(B))	\$3,714,604	10.2%	2,250	7.5%
150 - Taxes Passed On (§§237-24(8), 237-24(9), 237-24(10), 237-24(12))	\$3,220,566	8.9%	8,617	28.8%
132 - Out of State Sales (§237-29.5(1))	\$3,040,605	8.4%	5,767	19.3%
113 - Drugs and Prosthetic Devices (§237-24.3(6))	\$2,074,100	5.7%	300	1.0%
153 - Wholesale Transactions (§237-29.55)	\$2,023,645	5.6%	1,198	4.0%
141 - Sales to Federal Government and Credit Unions (§237-25(a))	\$1,477,796	4.1%	1,181	3.9%
127 - Maintenance Fees (§§237-24.3(2), 237-24(16))	\$1,420,749	3.9%	2,135	7.1%
100 - Affordable Housing (§§46-15.1, 201H-36 237-29, 238-3(j))	\$1,351,546	3.7%	606	2.0%
143 - Service Related to Ship & Aircraft (§237-24.3(3))	\$603,236	1.7%	48	0.2%
112 - Discounts and Returned Merchandise (§237-3(b))	\$535,946	1.5%	600	2.0%
115 - Enterprise Zones (§209E-11)	\$458,581	1.3%	129	0.4%
114 - Employee Benefit Plans (§237-24.3(4))	\$395,321	1.1%	59	0.2%
139 - Real Estate Sales (§237-3(b))	\$388,191	1.1%	265	0.9%
119 - Food Stamps and WIC (§237-24.3(5))	\$366,558	1.0%	411	1.4%
124 - Intercompany Charges (§237-23.5(a))	\$347,003	1.0%	320	1.1%
116 - Exported Services (§237-29.53)	\$327,407	0.9%	468	1.6%
118 - Federal Preempted Amount (§§237-22, 238-3(a))	\$309,374	0.9%	138	0.5%
142 - Scientific Contracts (§§237-26, 238-3(j)).	\$271,925	0.7%	149	0.5%
144 - Shipbuilding and Ship Repairs (§237-28.1).	\$266,019	0.7%	74	0.2%
133 - Out of State Services/Contracting to Foreign Customers (§238-2.3(1)(C))	\$183,921	0.5%	1,184	4.0%
126 - Subleases of Real Property (§237-16.5)	\$175,531	0.5%	546	1.8%
157 - Wholesale, Imported for Resale at (§237-8.6(c))	\$160,886	0.4%	176	0.6%
122 - Hotel Operator/Suboperator (§237-24.7(1))	\$129,162	0.4%	56	0.2%
101 - Air Pollution Control Facilities (§§237-27.5, 238-3(k))	\$102,603	0.3%	79	0.3%
140 - Reimbursement of Payroll Costs (§237-24.7(9))	\$101,793	0.3%	50	0.2%
117 - Federal Cost-Plus Contractors (§237-13(3)(C))	\$95,033	0.3%	55	0.2%
137 - Professional Employer Organizations (§237-24.75(3))	\$72,433	0.2%	42	0.1%
999 - Unspecified/mislabeled/other	\$66,966	0.2%	68	0.2%
108 - Oahu - Certain Contracts Entered into Before 6/30/2006 (§237-8.6(c))	\$63,925	0.2%	11	0.0%
125 - Labor Organizations (§237-24.3(9))	\$47,295	0.1%	22	0.1%
104 - Bad Debts (§237-3(b))	\$42,388	0.1%	399	1.3%
103 - Aircraft Service and Maintenance Facility (§§237-24.9, 238-1)	\$39,072	0.1%	21	0.1%
102 - Aircraft Leasing (§§237-24.3(11), 238-1)	\$35,696	0.1%	14	0.0%
109 - No Nexus Sales (§237-8.6)	\$27,543	0.1%	88	0.3%
129 - Merchants' Association Dues (§237-24.3(8))	\$17,864	0.0%	30	0.1%
107 - Contracting Activity in an Enterprise Zone (§209E-11)	\$17,559	0.0%	63	0.2%
105 - Certain Convention, Conference and Trade Show (§237-16.8)	\$17,500	0.0%	24	0.1%
121 - Hawaii Convention Center Operator (§237-24.75(2))	\$17,206	0.0%	6	0.0%
154 - Sales Tax Paid Offset (§§237-22(b), 238-3(i))	\$11,953	0.0%	138	0.5%
152 - Wholesale Amusements (§237-4(a)(13))	\$10,893	0.0%	34	0.1%
106 - Common Paymaster Exemption (§237-23.5(b))	*	*	*	*
138 - Producers (Certain property used) (§238-4)	\$7,779	0.0%	20	0.1%
136 - Potable Water (§237-23(a)(7))	\$6,345	0.0%	10	0.0%
128 - Mass Transit (§237-24.7(2))	\$4,868	0.0%	9	0.0%
110 - Diplomats and Consular Officials (§§237-24.3(10), 238-1)	*	*	*	*
131 - Orchard Operator (§237-24.7(4))	\$2,970	0.0%	15	0.1%
147 - Stock Exchange Transactions (§237-24.5)	*	*	*	*

* Data were suppressed to avoid potential disclosure of confidential taxpayer information.

**Table 1 (Cont.)
GET Exemptions Claimed for Tax Year 2019**

Exemption	Amount (in \$1,000)	% of Total Amount	Number of Claims	% of Total Claims
111 - Disability Provisions (§237-24(13))	\$1,892	0.0%	772	2.6%
146 - Small Business Innovation Research Grants (§237-24.7(10))	\$1,876	0.0%	9	0.0%
135 - Petroleum Refining (§237-27)	\$1,271	0.0%	15	0.1%
123 - Insurance Proceeds Received Because of a Natural Disaster (§237-24.7(6))	\$1,087	0.0%	12	0.0%
145 - Shipping and Handling of Agricultural Commodities (§237-24.3(1))	\$911	0.0%	12	0.0%
156 - Exported Intangibles (§237-29.57)	*	*	*	*
155 - Kauai and Hawaii - Certain Contracts Entered into Before 6/30/18 (§237-8.6(c))	\$447	0.0%	9	0.0%
134 - Patient-Centered Community Care (§237-24(18))	*	*	*	*
149 - Sugar Cane Payments to Independent Producers (§237-24(14))	*	*	*	*
151 - TRICARE (§237-24(17))	\$0	0.0%	0	0.0%
TOTAL	\$36,260,304	100.0%	29,941	100.0%

* Data were suppressed to avoid potential disclosure of confidential taxpayer information.

**Table 2
GET Exemptions Claimed by Business Activity for Tax Year 2019**

Business Activity	Amount (in \$1,000)	% of Total Amount	Number of Claims	% of Total Claims
<u>Wholesale Rate (0.5%)</u>				
01. Wholesaling	\$7,927,503	21.9%	2,096	7.0%
02. Manufacturing	\$205,020	0.6%	141	0.5%
03. Producing	\$79,140	0.2%	97	0.3%
04. Wholesale Services	\$58,266	0.2%	183	0.6%
05. Landed Value of Imports for Resale	\$632,617	1.7%	164	0.5%
06. Business Activities of Disabled Persons	\$2,258	0.0%	759	2.5%
07. Wholesale Rate Subtotal	\$8,904,804	24.6%	3,440	11.5%
<u>Retail Rate (4.0%)</u>				
08. Retailing	\$7,169,321	19.8%	6,918	23.1%
09. Services Including Professional	\$5,730,536	15.8%	3,565	11.9%
10. Contracting	\$4,921,371	13.6%	2,996	10.0%
11. Theater, Amusement and Broadcasting	\$34,830	0.1%	43	0.1%
12. Commissions	\$156,700	0.4%	422	1.4%
13. Transient Accommodations Rentals	\$216,398	0.6%	8,283	27.7%
14. Other Rentals	\$1,092,207	3.0%	1,378	4.6%
15. Interest and All Others	\$7,957,744	21.9%	2,752	9.2%
16. Landed Value of Imports for Consumption	\$42,504	0.1%	102	0.3%
17. Retail Rate Subtotal	\$27,321,610	75.3%	26,459	88.4%
<u>Insurance Rate (0.15%)</u>				
18. Insurance Commissions	\$33,890	0.1%	42	0.1%
GRAND TOTAL	\$36,260,304	100.0%	29,941	100.0%

Table 2 shows the dollar amounts of GET exemptions grouped by business activity as indicated on Forms G-49 (and if not available, on Forms G-45). The largest exemptions in terms of the dollar amounts were in Interest and All Others (\$8 billion or 21.9% of total), Wholesaling (\$7.9 billion or 21.9% of total), Retailing (\$7.2 billion or 19.8% of total), and Services Including Professional (\$5.7 billion or 15.8% of total) categories.

The most commonly claimed exemptions were in the Transient Accommodations Rentals (8,283 claims or 27.7% of total), Retailing (6,918 claims or 23.1% of total), Services Including Professional (3,565 claims or 11.9% of total), and Contracting (2,996 claims or 10% of total) categories.

Finally, a complete list and dollar amounts of exemptions claimed are provided in Appendix Table A-1 grouped by GET rate.

4. TAX EXPENDITURES

The prior section of the report focused on GET exemptions. A tax expenditure is not the same as a tax exemption. For purposes of this report, tax expenditures are revenue losses attributable to provisions in the State tax laws which allow a special exclusion, exemption, or deduction from the gross receipts tax. These exemptions (or tax breaks) are deviations from a uniform tax on consumption of Hawaii residents. Tax expenditures are the implied revenue cost of the deviation from a uniform application of the excise and use tax. These exemptions may be viewed as alternatives to other policy instruments, such as spending or regulatory programs.

This report presents GET exemptions that are tax expenditures at the wholesale rate (0.5%) and the retail rate (4.0%), and also presents tax exemptions that are not tax expenditures but may represent foregone opportunities to export the tax burden. The approach utilized in this paper for estimating tax expenditures came from the methodology put forth by Rousslang (2013).¹

It is important to understand that the decision to label GET exemptions as tax expenditures at the wholesale or retail rate or not as tax expenditures at all is based on economic parameters and assumptions. Thus, if DOTAX's assumptions change, then the distribution of exemptions among the categories may change.

In presenting data on tax exemptions, it is also crucial that a clear distinction be made between tax expenditures and revenue estimates. The data presented in this report provides only the amounts of each exemption claimed and should not be relied on as an estimate of the amount of revenue that may be realized by repealing an exemption. A

¹ Rousslang, Donald (2013), "Tax Expenditures in Paradise," *State Tax Notes*, May 13, pp. 549-558.

revenue estimate would have to account for the substitution and behavioral effects of repealing an exemption.

Substitution means that if a certain exemption is repealed, a portion of the taxpayers that had been claiming the repealed exemption may be entitled to claim a different exemption for the same activity. As an example, a taxpayer claiming the enterprise zone exemption may also be exporting the goods and services they sell. Thus, if the enterprise zone exemption were repealed, the taxpayer may instead claim the exported goods and services exemption. This would limit the revenue impact to some amount smaller than the amount claimed under the enterprise zone exemption.

Behavioral factors are the responses of taxpayers affected by the repeal of an exemption. If an exemption is repealed, some taxpayers may cease engaging in formerly exempted activity or reduce the frequency of the activity. In this case, the repeal would not yield the full amount of the tax expenditure, because the gross income previously exempted would no longer be generated.

The calculation of tax expenditures requires certain assumptions regarding the appropriate tax rate if the exemption were to be discontinued. This report applies the wholesale rate of 0.5% for exemptions that apply to business-to-business transactions (Section 4.1), the retail rate of 4.0% for exemptions that apply to final sales (Section 4.2), and 0.0% for exemptions that eliminate the double taxation of exported products or that eliminate the taxation of certain purchases by federal and foreign governments which cannot be taxed (Section 4.3). Other exemptions involving certain activities not traditionally included in the base of a sales or excise tax on consumption are not considered as tax expenditures (Section 4.4).

Table 3 provides a summary of tax expenditures and the corresponding GET exemption amounts, which are then detailed in sections 4.1 through 4.4 below. The report finds that total GET expenditures amounted to \$440.6 million in tax (calendar) year 2019. Of this amount, \$397.2 million of tax expenditures (11.3% of total GET liability²) occurred at the retail rate of 4.0% for final consumption in select industries, primarily for non-profit organizations, drugs and prosthetic devices, and affordable housing (Tax Expenditures at the Retail Rate).

² Total GET liability is the total taxes due (excluding county surcharge taxes) aggregated from GET returns (Forms G-49/G-45).

Table 3
Summary of Tax Expenditures for Tax Year 2019

	Exemption Amount (in \$1,000)	% of Total Gross Receipts	Expenditure Amount* (in \$1,000)	% of Total GET Liability
Tax Expenditures at the Wholesale Rate (0.5%)	\$8,685,051	5.8%	\$43,425	1.2%
Tax Expenditures at the Retail Rate (4.0%)	\$9,930,260	6.6%	\$397,210	11.3%
Tax Expenditures Subtotal	\$18,615,311	12.5%	\$440,636	12.5%
Out of State Sales**	\$11,504,531	7.7%	\$240,519	6.8%
Other Exemptions	\$5,981,581	4.0%	\$0	0.0%

* Tax expenditure estimates are not revenue estimates

** The expenditure amount for Out of State Sales represents forgone taxes, it is not a tax expenditure.

The Hawaii tax code granted another \$43.4 million worth of tax expenditures (1.2% of total GET liability) for business-to-business transactions reducing tax pyramiding effects for specific industries (Tax Expenditures at the Wholesale Rate). In addition, \$240.5 million (6.8% of total GET liability) was forgone in exemptions that were meant to reduce or eliminate the taxation of exported goods and services (Out of State Sales).

Finally, the total exemptions claimed that can be classified as tax expenditures amounted to \$18.6 billion or 12.5% of total gross receipts,³ whereas the total exemption amount for the Out of State Sales category and Other Exemptions was \$17.5 billion or 11.7% of total gross receipts (Table 3).

4.1. Tax Expenditures at the Wholesale Rate (0.5%)

The tax expenditures reported in this section provide exemptions for activities that are mostly business-to-business transactions. These exemptions are designed to reduce tax pyramiding.

The results of the analysis suggest that the cost of the tax expenditures that would be subject to the wholesale rate amounted to \$43.4 million in total for tax year 2019 (please see Table 4 on the next page). The largest GET expenditures at the wholesale rate were the exemptions for Subcontract Deduction (\$18.6 million), Wholesale Transactions (\$10.1 million), and Maintenance Fees (\$7.1 million).

³ Total gross receipts refer to the aggregate gross proceeds or income computed from GET returns.

Table 4
Tax Expenditures at the Wholesale Rate (0.5%) for Tax Year 2019 (in \$1,000)

Exemption	Exemption Amount	Expenditure Amount*
101 - Air Pollution Control Facilities (§§237-27.5, 238-3(k))	\$102,603	\$513
102 - Aircraft Leasing (§§237-24.3(11), 238-1)	\$35,696	\$178
103 - Aircraft Service and Maintenance Facility (§§237-24.9, 238-1)	\$39,072	\$195
105 - Certain Convention, Conference and Trade Show (§237-16.8)	\$17,500	\$87
107 - Contracting Activity in an Enterprise Zone (§209E-11)	\$17,559	\$88
117 - Federal Cost-Plus Contractors (§237-13(3)(C))	\$95,033	\$475
121 - Hawaii Convention Center Operator (§237-24.75(2))	\$17,206	\$86
122 - Hotel Operator/Suboperator (§237-24.7(1))	\$129,162	\$646
127 - Maintenance Fees (§§237-24.3(2), 237-24(16))	\$1,420,749	\$7,104
129 - Merchants' Association Dues (§237-24.3(8))	\$17,864	\$89
131 - Orchard Operator (§237-24.7(4))	\$2,970	\$15
134 - Patient-Centered Community Care (§237-24(18))	**	**
135 - Petroleum Refining (§237-27)	\$1,271	\$6
138 - Producers (Certain property used) (§238-4)	\$7,779	\$39
143 - Service Related to Ship & Aircraft (§237-24.3(3))	\$603,236	\$3,016
144 - Shipbuilding and Ship Repairs (§237-28.1).	\$266,019	\$1,330
145 - Shipping and Handling of Agricultural Commodities (§237-24.3(1))	\$911	\$5
148 - Subcontract Deduction (§237-13(3)(B))	\$3,714,604	\$18,573
149 - Sugar Cane Payments to Independent Producers (§237-24(14))	**	**
151 - TRICARE (§237-24(17))	\$0	\$0
152 - Wholesale Amusements (§237-4(a)(13))	\$10,893	\$54
153 - Wholesale Transactions (§237-29.55)	\$2,023,645	\$10,118
157 - Wholesale, Imported for Resale at (§237-8.6(c))	\$160,886	\$804
TOTAL	\$8,685,051	\$43,425

* Tax expenditure estimates are not revenue estimates

** Data were suppressed to avoid potential disclosure of confidential taxpayer information.

4.2. Tax Expenditures at the Retail Rate (4.0%)

The tax expenditures reported in this section provide exemptions for activities that are transactions between businesses and final consumers or the equivalent thereof.

The total amount of the GET expenditures subject to the 4.0% retail rate was \$397.2 million in tax year 2019 (Table 5). The largest GET expenditures at the retail rate were the exemptions for Non-profit Organizations (\$239.4 million), Drugs and Prosthetic Devices (\$83 million), and Affordable Housing (\$54.1 million).

Table 5
Tax Expenditures at the Retail Rate (4.0%) for Tax Year 2019 (in \$1,000)

Exemption	Exemption Amount	Expenditure Amount*
100 - Affordable Housing (§§46-15.1, 201H-36 237-29, 238-3(j))	\$1,351,546	\$54,062
111 - Disability Provisions (§237-24(13))	\$1,892	\$76
113 - Drugs and Prosthetic Devices (§237-24.3(6))	\$2,074,100	\$82,964
115 - Enterprise Zones (§209E-11)	\$458,581	\$18,343
123 - Insurance Proceeds Received Because of a Natural Disaster (§237-24.7(6))	\$1,087	\$43
125 - Labor Organizations (§237-24.3(9))	\$47,295	\$1,892
128 - Mass Transit (§237-24.7(2))	\$4,868	\$195
130 - Non-profit Organizations (§237-23)	\$5,984,545	\$239,382
136 - Potable Water (§237-23(a)(7))	\$6,345	\$254
TOTAL	\$9,930,260	\$397,210

* Tax expenditure estimates are not revenue estimates

4.3. Out of State Sales

The exemptions listed in Table 6 do not qualify as tax expenditures but are GET exemptions that may represent a lost opportunity to export taxes to nonresidents. These consist of exemptions of exports and exemptions of sales to the federal government. An exemption on exports is not a tax expenditure because it is provided to prevent pyramiding of tax rather than to encourage a certain industry. The value of the foregone taxes in Out of State Sales in tax year 2019 was \$240.5 million (Table 6).

Table 6
Out of State Sales for Tax Year 2019 (in \$1,000)

Exemption	Exemption Amount	Foregone Taxes
110 - Diplomats and Consular Officials (§§237-24.3(10), 238-1)	*	*
116 - Exported Services (§237-29.53)	\$327,407	\$12,639
120 - Foreign Trade Zone Sales (§212-8)	\$6,198,928	\$72,950
132 - Out of State Sales (§237-29.5(1))	\$3,040,605	\$83,455
133 - Out of State Services/Contracting to Foreign Customers (§238-2.3(1)(C))	\$183,921	\$6,505
141 - Sales to Federal Government and Credit Unions (§237-25(a))	\$1,477,796	\$54,205
142 - Scientific Contracts (§§237-26, 238-3(j)).	\$271,925	\$10,607
156 - Exported Intangibles (§237-29.57)	*	*
TOTAL	\$11,504,531	\$240,519

* Data were suppressed to avoid potential disclosure of confidential taxpayer information.

4.4. Other Exemptions

The following exemptions in Table 7 would not be subject to a sales, excise, or other form of consumption tax. This is because the GET is worded so broadly that, without explicit exemptions, it would apply to many sales that are not properly part of a broad-based tax on consumption. For example, the GET contains exemptions for wages of workers, sales of stocks and bonds, bad debts, and sales of land in fee simple. These items are not traditionally included in the base of a sales or excise tax. In the case of food stamps, the federal government does not permit taxation of purchases made with food stamps.

Table 7
Other Exemptions for Tax Year 2019 (in \$1,000)

Exemption	Exemption Amount	Expenditure Amount*
104 - Bad Debts (§237-3(b))	\$42,388	\$0
106 - Common Paymaster Exemption (§237-23.5(b))	**	\$0
112 - Discounts and Returned Merchandise (§237-3(b))	\$535,946	\$0
114 - Employee Benefit Plans (§237-24.3(4))	\$395,321	\$0
118 - Federal Preempted Amount (§§237-22, 238-3(a))	\$309,374	\$0
119 - Food Stamps and WIC (§237-24.3(5))	\$366,558	\$0
124 - Intercompany Charges (§237-23.5(a))	\$347,003	\$0
126 - Subleases of Real Property (§237-16.5)	\$175,531	\$0
137 - Professional Employer Organizations (§237-24.75(3))	\$72,433	\$0
139 - Real Estate Sales (§237-3(b))	\$388,191	\$0
140 - Reimbursement of Payroll Costs (§237-24.7(9))	\$101,793	\$0
146 - Small Business Innovation Research Grants (§237-24.7(10))	\$1,876	\$0
147 - Stock Exchange Transactions (§237-24.5)	**	\$0
150 - Taxes Passed On (§§237-24(8), 237-24(9), 237-24(10), 237-24(12))	\$3,220,566	\$0
154 - Sales Tax Paid Offset (§§237-22(b), 238-3(i))	\$11,953	\$0
TOTAL	\$5,981,581	\$0

* Tax expenditure estimates are not revenue estimates

** Data were suppressed to avoid potential disclosure of confidential taxpayer information.

APPENDIX

Table A-1

GET Exemptions Claimed by GET Rate for Tax Year 2019 (in \$1,000)

Exemption Name	Wholesale Rate (0.5%)	Retail Rate (4%)	Insur. Rate (0.15%)	TOTAL
100 - Affordable Housing (§§46-15.1, 201H-36 237-29, 238-3(j))	\$24,439	\$1,327,107	\$0	\$1,351,546
101 - Air Pollution Control Facilities (§§237-27.5, 238-3(k))	\$72,793	\$29,811	\$0	\$102,603
102 - Aircraft Leasing (§§237-24.3(11), 238-1)	\$504	\$35,192	\$0	\$35,696
103 - Aircraft Service and Maintenance Facility (§§237-24.9, 238-1)	\$0	\$39,071	\$0	\$39,072
104 - Bad Debts (§237-3(b))	\$2,463	\$39,919	\$6	\$42,388
105 - Certain Convention, Conference and Trade Show (§237-16.8)	\$2	\$17,498	\$0	\$17,500
106 - Common Paymaster Exemption (§237-23.5(b))	*	*	*	*
107 - Contracting Activity in an Enterprise Zone (§209E-11)	\$6,992	\$10,567	\$0	\$17,559
108 - Oahu - Certain Contracts Entered into Before 6/30/2006 (§237-8.6(c))	\$0	\$63,925	\$0	\$63,925
109 - No Nexus Sales (§237-8.6)	\$987	\$26,556	\$0	\$27,543
110 - Diplomats and Consular Officials (§§237-24.3(10), 238-1)	*	*	*	*
111 - Disability Provisions (§237-24(13))	\$1,634	\$259	\$0	\$1,892
112 - Discounts and Returned Merchandise (§237-3(b))	\$188,886	\$347,057	\$3	\$535,946
113 - Drugs and Prosthetic Devices (§237-24.3(6))	\$45,841	\$2,028,259	\$0	\$2,074,100
114 - Employee Benefit Plans (§237-24.3(4))	\$0	\$395,321	\$0	\$395,321
115 - Enterprise Zones (§209E-11)	\$408,439	\$50,143	\$0	\$458,581
116 - Exported Services (§237-29.53)	\$13,056	\$314,352	\$0	\$327,407
117 - Federal Cost-Plus Contractors (§237-13(3)(C))	\$4,692	\$90,341	\$0	\$95,033
118 - Federal Preempted Amount (§§237-22, 238-3(a))	\$11,461	\$297,913	\$0	\$309,374
119 - Food Stamps and WIC (§237-24.3(5))	\$3	\$366,555	\$0	\$366,558
120 - Foreign Trade Zone Sales (§212-8)	\$5,000,191	\$1,198,737	\$0	\$6,198,928
121 - Hawaii Convention Center Operator (§237-24.75(2))	\$0	\$17,206	\$0	\$17,206
122 - Hotel Operator/Suboperator (§237-24.7(1))	\$7,462	\$121,700	\$0	\$129,162
123 - Insurance Proceeds Received Because of a Natural Disaster (§237-24.7(6))	\$0	\$1,074	\$13	\$1,087
124 - Intercompany Charges (§237-23.5(a))	\$19,328	\$327,594	\$81	\$347,003
125 - Labor Organizations (§237-24.3(9))	\$0	\$47,295	\$0	\$47,295
126 - Subleases of Real Property (§237-16.5)	\$31	\$175,500	\$0	\$175,531
127 - Maintenance Fees (§§237-24.3(2), 237-24(16))	\$54	\$1,420,692	\$3	\$1,420,749
128 - Mass Transit (§237-24.7(2))	\$6	\$4,862	\$0	\$4,868
129 - Merchants' Association Dues (§237-24.3(8))	\$0	\$17,864	\$0	\$17,864
130 - Non-profit Organizations (§237-23)	\$2,693	\$5,981,852	\$0	\$5,984,545
131 - Orchard Operator (§237-24.7(4))	\$39	\$2,931	\$0	\$2,970
132 - Out of State Sales (§237-29.5(1))	\$1,083,900	\$1,950,648	\$6,057	\$3,040,605
133 - Out of State Services/Contracting to Foreign Customers (§238-2.3(1)(C))	\$24,277	\$159,583	\$61	\$183,921

* Data were suppressed to avoid potential disclosure of confidential taxpayer information.

Table A-1 (Cont.)
GET Exemptions Claimed by GET Rate for Tax Year 2019 (in \$1,000)

Exemption Name	Wholesale Rate (0.5%)	Retail Rate (4%)	Insur. Rate (0.15%)	TOTAL
134 - Patient-Centered Community Care (§237-24(18))	*	*	*	*
135 - Petroleum Refining (§237-27)	\$111	\$1,160	\$0	\$1,271
136 - Potable Water (§237-23(a)(7))	\$13	\$6,333	\$0	\$6,345
137 - Professional Employer Organizations (§237-24.75(3))	\$26	\$72,407	\$0	\$72,433
138 - Producers (Certain property used) (§238-4)	\$4,226	\$3,528	\$24	\$7,779
139 - Real Estate Sales (§237-3(b))	\$0	\$388,191	\$0	\$388,191
140 - Reimbursement of Payroll Costs (§237-24.7(9))	\$21	\$101,670	\$102	\$101,793
141 - Sales to Federal Government and Credit Unions (§237-25(a))	\$140,194	\$1,337,602	\$0	\$1,477,796
142 - Scientific Contracts (§§237-26, 238-3(j)).	\$7,729	\$264,197	\$0	\$271,925
143 - Service Related to Ship & Aircraft (§237-24.3(3))	\$10,207	\$593,029	\$0	\$603,236
144 - Shipbuilding and Ship Repairs (§237-28.1).	\$2,473	\$263,546	\$0	\$266,019
145 - Shipping and Handling of Agricultural Commodities (§237-24.3(1))	\$21	\$890	\$0	\$911
146 - Small Business Innovation Research Grants (§237-24.7(10))	\$257	\$1,619	\$0	\$1,876
147 - Stock Exchange Transactions (§237-24.5)	*	*	*	*
148 - Subcontract Deduction (§237-13(3)(B))	\$0	\$3,714,604	\$0	\$3,714,604
149 - Sugar Cane Payments to Independent Producers (§237-24(14))	*	*	*	*
150 - Taxes Passed On (§§237-24(8), 237-24(9), 237-24(10), 237-24(12))	\$372,844	\$2,820,191	\$27,530	\$3,220,566
151 - TRICARE (§237-24(17))	\$0	\$0	\$0	\$0
152 - Wholesale Amusements (§237-4(a)(13))	\$364	\$10,529	\$0	\$10,893
153 - Wholesale Transactions (§237-29.55)	\$1,305,325	\$718,320	\$0	\$2,023,645
154 - Sales Tax Paid Offset (§§237-22(b), 238-3(i))	\$1,005	\$10,948	\$0	\$11,953
155 - Kauai and Hawaii - Certain Contracts Entered into Before 6/30/18 (§237-8.6(c))	\$7	\$440	\$0	\$447
156 - Exported Intangibles (§237-29.57)	*	*	*	*
157 - Wholesale, Imported for Resale at (§237-8.6(c))	\$139,152	\$21,734	\$0	\$160,886
999 - Unspecified/mislabeled/other	\$90	\$66,866	\$10	\$66,966
GRAND TOTAL	\$8,904,804	\$27,321,610	\$33,890	\$36,260,304

* Data were suppressed to avoid potential disclosure of confidential taxpayer information.