

DAVID Y. IGE  
GOVERNOR

JOSH GREEN, M.D.  
LT. GOVERNOR



ISAAC W. CHOY  
DIRECTOR OF TAXATION

**DEPT. COMM. NO. 147**

STATE OF HAWAII  
**DEPARTMENT OF TAXATION**  
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December 16, 2021

The Honorable Ronald D. Kouchi,  
President and Members of the Senate  
Thirty First State Legislature  
State Capitol, Room 409  
Honolulu, HI 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 2020, 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/](https://tax.hawaii.gov/stats/a5_1annual/).

Sincerely,

A handwritten signature in black ink, appearing to read "Isaac W. Choy".

Isaac W. Choy  
Director of Taxation

Enclosure

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# **Hawaii General Excise & Use Tax Exemptions**

**Tax Year 2020**

**(January 1, 2020 – December 31, 2020)**

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**DEPARTMENT OF TAXATION**

**STATE OF HAWAII**

**DECEMBER 2021**

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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## 1. INTRODUCTION

Hawaii's General Excise Tax (GET) is imposed on a taxpayer's gross income (or gross receipts) for the privilege of conducting business in the State of Hawaii. "Gross income" is the total business income before any business expenses, and it includes any cost passed on to customers, such as the GET, as well. GET is a tax on income from almost all business activities unlike a sales tax which is only on the retail sales of tangible goods. Business activities subject to GET include wholesaling, retailing, farming, services, construction contracting, rental of personal or real property, business interest income, and royalties among others. The state GET rates are 0.15% on commissions from insurance sales; 0.5% on wholesaling activities in which a business sells goods or services to another business for resale; and 4.0% on all other activities for which all counties except Maui add a surcharge of 0.5%. The Use Tax complements the GET by imposing tax on tangible personal property, services and contracting that are imported into Hawaii.

This report presents exemptions claimed against the GET for tax (calendar) year 2020. 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. In calculating GET expenditures, this report utilizes 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.

This report provides information on all Schedules GE submitted with Forms G-49 for the tax year 2020. 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, 2020 and December 31, 2020 were aggregated to obtain the pertinent GET exemptions data.

The data presented on GET exemptions are before any adjustments made by subsequent audits when the data were queried on July 26, 2021 via the GenTax software program. The information presented does include adjustments the Department made when processing the annual and periodic returns (Forms G-49/G-45). Therefore, GET exemptions claimed on Schedules GE disallowed by the Department are not included in the data set for this study.

To maintain taxpayer confidentiality, the Department does not disclose tabulations containing data for five or fewer returns at the state level, ten or fewer returns below the state level and when an individual return represents a large percentage in a tabulation.

## **3. GENERAL EXCISE & USE TAX EXEMPTIONS**

In 2020, 25,597 taxpayers representing 11% of the total number of Hawaii General Excise and Use Tax (GET) filers claimed 29,772 GET exemptions.

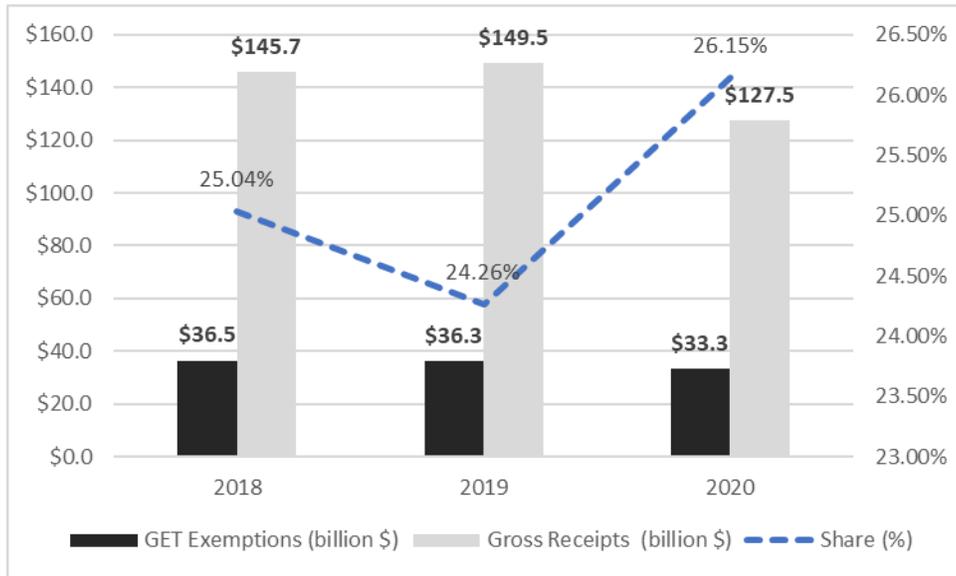
Taxpayers claimed \$33.3 billion in exemptions from their gross receipts, and hence 26.1% of the gross receipts were exempted from the GET in 2020.<sup>1</sup>

Figure 1 presents the amounts (in billions of dollars) of GET exemptions and gross receipts as well as GET exemptions to gross receipts ratios (%) for tax years 2018 through 2020.

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<sup>1</sup> Total gross receipts refer to the aggregate gross proceeds or income computed from GET returns.

**Figure 1**  
**GET Exemptions and Gross Receipts (billion \$) for Tax Years 2018 through 2020**



GET exemptions in 2020 were 8.4% below the 2019 level. However, this was in line with the fact that the gross receipts subject to GET also declined (by 14.7%) due to the negative economic impact of the COVID-19 pandemic starting in 2020.

Table 1 on the next page lists the dollar amounts and the number of GET exemptions claimed by exemption amount, in descending order. 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. 2020)" publication. If an exemption classification is not indicated, cannot be ascertained, or falls outside of the codes listed on 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 the same exemption but for different business activities.

**Table 1**  
**GET Exemptions Claimed for Tax Year 2020**

<b>Exemption</b>	<b>Amount (in \$1,000)</b>	<b>% of Total Amount</b>	<b>Number of Claims</b>	<b>% of Total Claims</b>
130 - Non-profit Organizations (§237-23)	\$6,264,907	18.8%	985	3.3%
148 - Subcontract Deduction (§237-13(3)(B))	\$3,785,161	11.4%	2,196	7.4%
120 - Foreign Trade Zone Sales (§212-8)	\$3,774,304	11.3%	135	0.5%
150 - Taxes Passed On (§§237-24(8), 237-24(9), 237-24(10), 237-24(12))	\$3,211,083	9.6%	8,431	28.3%
132 - Out of State Sales (§237-29.5(1))	\$2,701,349	8.1%	5,996	20.1%
113 - Drugs and Prosthetic Devices (§237-24.3(6))	\$1,818,196	5.5%	311	1.0%
153 - Wholesale Transactions (§237-29.55)	\$1,743,449	5.2%	1,210	4.1%
127 - Maintenance Fees (§§237-24.3(2), 237-24(16))	\$1,480,657	4.4%	2,129	7.2%
141 - Sales to Federal Government and Credit Unions (§237-25(a))	\$1,416,248	4.2%	1,155	3.9%
100 - Affordable Housing (§§46-15.1, 201H-36 237-29, 238-3(j))	\$1,371,231	4.1%	623	2.1%
143 - Service Related to Ship & Aircraft (§237-24.3(3))	\$626,438	1.9%	50	0.2%
112 - Discounts and Returned Merchandise (§237-3(b))	\$517,469	1.6%	648	2.2%
119 - Food Stamps and WIC (§237-24.3(5))	\$499,320	1.5%	392	1.3%
116 - Exported Services (§237-29.53)	\$429,589	1.3%	501	1.7%
115 - Enterprise Zones (§209E-11)	\$412,342	1.2%	129	0.4%
114 - Employee Benefit Plans (§237-24.3(4))	\$356,437	1.1%	57	0.2%
144 - Shipbuilding and Ship Repairs (§237-28.1).	\$319,666	1.0%	64	0.2%
124 - Intercompany Charges (§237-23.5(a))	\$310,551	0.9%	286	1.0%
142 - Scientific Contracts (§§237-26, 238-3(j)).	\$286,555	0.9%	143	0.5%
139 - Real Estate Sales (§237-3(b))	\$276,261	0.8%	252	0.8%
118 - Federal Preempted Amount (§§237-22, 238-3(a))	\$236,467	0.7%	128	0.4%
157 - Wholesale, Imported for Resale at (§237-8.6(c))	\$196,368	0.6%	475	1.6%
133 - Out of State Services/Contracting to Foreign Customers (§238-2.3(1)(C))	\$183,305	0.5%	998	3.4%
137 - Professional Employer Organizations (§237-24.75(3))	\$181,867	0.5%	43	0.1%
117 - Federal Cost-Plus Contractors (§237-13(3)(C))	\$177,467	0.5%	53	0.2%
126 - Subleases of Real Property (§237-16.5)	\$141,439	0.4%	517	1.7%
122 - Hotel Operator/Suboperator (§237-24.7(1))	\$98,696	0.3%	53	0.2%
140 - Reimbursement of Payroll Costs (§237-24.7(9))	\$89,630	0.3%	50	0.2%
104 - Bad Debts (§237-3(b))	\$62,608	0.2%	380	1.3%
107 - Contracting Activity in an Enterprise Zone (§209E-11)	\$59,353	0.2%	58	0.2%
101 - Air Pollution Control Facilities (§§237-27.5, 238-3(k))	\$57,383	0.2%	65	0.2%
102 - Aircraft Leasing (§§237-24.3(11), 238-1)	\$49,001	0.1%	17	0.1%
125 - Labor Organizations (§237-24.3(9))	\$47,535	0.1%	23	0.1%
103 - Aircraft Service and Maintenance Facility (§§237-24.9, 238-1)	\$22,260	0.1%	20	0.1%
109 - No Nexus Sales (§237-8.6)	\$20,544	0.1%	100	0.3%
121 - Hawaii Convention Center Operator (§237-24.75(2))	*	*	*	*
154 - Sales Tax Paid Offset (§§237-22(b), 238-3(i))	\$17,024	0.1%	133	0.4%
129 - Merchants' Association Dues (§237-24.3(8))	\$12,696	0.0%	24	0.1%
106 - Common Paymaster Exemption (§237-23.5(b))	\$9,843	0.0%	17	0.1%
128 - Mass Transit (§237-24.7(2))	\$8,412	0.0%	12	0.0%
152 - Wholesale Amusements (§237-4(a)(13))	\$7,198	0.0%	17	0.1%
105 - Certain Convention, Conference and Trade Show (§237-16.8)	\$6,674	0.0%	14	0.0%
138 - Producers (Certain property used) (§238-4)	\$6,623	0.0%	14	0.0%
131 - Orchard Operator (§237-24.7(4))	\$5,911	0.0%	10	0.0%
156 - Exported Intangibles (§237-29.57)	*	*	*	*
136 - Potable Water (§237-23(a)(7))	\$5,640	0.0%	12	0.0%
110 - Diplomats and Consular Officials (§§237-24.3(10), 238-1)	*	*	*	*
146 - Small Business Innovation Research Grants (§237-24.7(10))	*	*	*	*
135 - Petroleum Refining (§237-27)	\$1,745	0.0%	14	0.0%

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

**Table 1 (Cont.)**  
**GET Exemptions Claimed for Tax Year 2020**

Exemption	Amount (in \$1,000)	% of Total Amount	Number of Claims	% of Total Claims
111 - Disability Provisions (§237-24(13))	\$1,540	0.0%	658	2.2%
108 - Oahu - Certain Contracts Entered into Before 6/30/2006 (§237-8.6(c))	\$1,335	0.0%	22	0.1%
145 - Shipping and Handling of Agricultural Commodities (§237-24.3(1))	\$1,050	0.0%	18	0.1%
999 - Unspecified/mislabeled/other	\$1,033	0.0%	21	0.1%
123 - Insurance Proceeds Received Because of a Natural Disaster (§237-24.7(6))	\$537	0.0%	8	0.0%
134 - Patient-Centered Community Care (§237-24(18))	*	*	*	*
155 - Kauai and Hawaii - Certain Contracts Entered into Before 6/30/18 (§237-8.6(c))	\$405	0.0%	5	0.0%
147 - Stock Exchange Transactions (§237-24.5)	*	*	*	*
149 - Sugar Cane Payments to Independent Producers (§237-24(14))	\$0	0.0%	0	0.0%
151 - TRICARE (§237-24(17))	\$0	0.0%	0	0.0%
<b>TOTAL</b>	<b>\$33,346,452</b>	<b>100.0%</b>	<b>29,772</b>	<b>100.0%</b>

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

As shown in Table 1, in 2020, the largest exemptions in terms of dollar amounts were for

- 1. Non-profit Organizations** (\$6.3 billion or 18.8% of total);
- 2. Subcontract Deduction** (\$3.8 billion or 11.4% of total);
- 3. Foreign Trade Zone Sales** (\$3.8 billion or 11.3% of total);
- 4. Taxes Passed On** (\$3.2 billion or 9.6% of total); and
- 5. Out of State Sales** (\$2.7 billion or 8.1% of total).

The details for the top five GET exemptions (in terms of dollar amounts) are as follows:

1. *Non-profit Organizations (§237-23)*: This exemption applies to amounts received by certain non-profit fraternal, religious, charitable, scientific, educational, community or social welfare groups and hospitals, infirmaries and sanitarium organizations. However, all fundraising activities are taxable and must be reported.
2. *Subcontract Deduction (§237-13(3)(B))*: This deduction is for a prime contractor (or a developer) in the amount of payments made to a subcontractor or a specialty contractor. The subcontractor's name, the subcontractor's Hawaii Tax I.D. No., and the amount of deduction must be provided since the subcontractor is liable for GET on this amount.
3. *Foreign Trade Zone Sales (§212-8)*: Sales of privileged foreign merchandise, nonprivileged foreign merchandise, domestic merchandise, or zone-restricted merchandise which are admitted into a foreign-trade zone and made directly to

any common carrier in interstate or foreign commerce for consumption out-of-state are exempt, provided that the sale takes place entirely within the zone.

4. *Taxes Passed On* (§§237-24(8), 237-24(9), 237-24(10), 237-24(12)): The amounts received to pay the following taxes are exempt:
  - a. Fuel taxes collected by distributors;
  - b. Hawaii liquor taxes collected by dealers;
  - c. Hawaii cigarette and tobacco taxes paid by wholesalers;
  - d. Transient accommodations taxes visibly passed on;
  - e. Rental motor vehicle, tour vehicle & car-sharing vehicle surcharge taxes visibly passed on;
  - f. Federal excise taxes imposed on articles sold at retail and collected from purchasers; and
  - g. Federal taxes imposed on sugar manufactured in Hawaii.
5. *Out of State Sales* (§237-29.5(1)): The value or gross proceeds received by a manufacturer, producer, or seller of tangible personal property shipped to a point outside of the State where it is resold or otherwise consumed or used outside the State are exempt, provided the purchaser furnishes Form G-61 certifying as such to the manufacturer, producer, or seller.

As shown in Table 1, the most-commonly-claimed exemptions were for

1. **Taxes Passed On** (8,431 claims or 28.3% of total);
2. **Out of State Sales** (5,996 claims or 20.1% of total);
3. **Subcontract Deduction** (2,196 claims or 7.4% of total);
4. **Maintenance Fees** (2,129 claims or 7.2% of total); and
5. **Wholesale Transactions** (1,210 claims or 4.1% of total).

The top three most-commonly-claimed exemptions have been described above, the remaining two are as follows:

- *Maintenance Fees* (§§237-24.3(2), 237-24(16)): Amounts received by the manager, submanager, or board of directors of: (1) an association of a condominium property; (2) a nonprofit homeowners or community association; or (3) a qualifying cooperative housing corporation; in reimbursement of sums paid for common expenses such as maintenance fees are exempt.

- *Wholesale Transactions (§237-29.55)*: Amounts received from the sales of tangible personal property imported into the State by a licensed taxpayer to another licensed taxpayer for further resale at wholesale are exempt, provided the customer furnishes Form G-17 certifying as such to the seller.

Although the top five exemptions remained the same as in 2019, Foreign Trade Zone Sales moved from number one spot in 2019 to number three in 2020, potentially due to the reduction in economic activity pertaining to the Foreign Trade Zone during the initial year of the COVID-19 pandemic.

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).

**Table 2**  
**GET Exemptions Claimed by Business Activity for Tax Year 2020**

<b>Business Activity</b>	<b>Amount (in \$1,000)</b>	<b>% of Total Amount</b>	<b>Number of Claims</b>	<b>% of Total Claims</b>
<b><u>Wholesale Rate (0.5%)</u></b>				
01. Wholesaling	\$5,657,706	17.0%	2,186	7.3%
02. Manufacturing	\$270,680	0.8%	137	0.5%
03. Producing	\$73,287	0.2%	96	0.3%
04. Wholesale Services	\$49,351	0.1%	175	0.6%
05. Landed Value of Imports for Resale	\$553,821	1.7%	140	0.5%
06. Business Activities of Disabled Persons	\$2,278	0.0%	641	2.2%
<b>07. Wholesale Rate Subtotal</b>	<b>\$6,607,123</b>	<b>19.8%</b>	<b>3,375</b>	<b>11.3%</b>
<b><u>Retail Rate (4.0%)</u></b>				
08. Retailing	\$6,392,904	19.2%	7,372	24.8%
09. Services Including Professional	\$6,099,864	18.3%	3,366	11.3%
10. Contracting	\$5,112,268	15.3%	2,933	9.9%
11. Theater, Amusement and Broadcasting	\$9,480	0.0%	32	0.1%
12. Commissions	\$127,414	0.4%	412	1.4%
13. Transient Accommodations Rentals	\$69,951	0.2%	8,083	27.1%
14. Other Rentals	\$1,082,475	3.2%	1,433	4.8%
15. Interest and All Others	\$7,761,729	23.3%	2,628	8.8%
16. Landed Value of Imports for Consumption	\$68,193	0.2%	98	0.3%
<b>17. Retail Rate Subtotal</b>	<b>\$26,724,277</b>	<b>80.1%</b>	<b>26,357</b>	<b>88.5%</b>
<b><u>Insurance Rate (0.15%)</u></b>				
<b>18. Insurance Commissions</b>	<b>\$15,052</b>	<b>0.0%</b>	<b>40</b>	<b>0.1%</b>
<b>GRAND TOTAL</b>	<b>\$33,346,452</b>	<b>100.0%</b>	<b>29,772</b>	<b>100.0%</b>

In 2020, the largest five exemptions in terms of the dollar amounts were in:

1. **Interest and All Others** (\$7.8 billion or 23.3% of total);
2. **Retailing** (\$6.4 billion or 19.2% of total);
3. **Services Including Professional** (\$6.1 billion or 18.3% of total);
4. **Wholesaling** (\$5.7 billion or 17.0% of total); and
5. **Contracting** (\$5.1 billion or 15.3% of total) categories.

The Interest and All Others business activity tops the list mainly because it contains the high-exemption items of Non-profit Organizations and Taxes Passed On.

For the Retailing business activity, the top exemptions are in Drugs and Prosthetic Devices followed by Sales to Federal Government and Credit Unions.

For the Services Including Professional business activity, Non-profit Organizations exemption comprises the biggest portion.

The highest exemption in Wholesaling business activity is for Foreign Trade Zone Sales. The Subcontract Deduction is the primary exemption under Contracting.

As shown in Table 2, the most-commonly-claimed exemptions in 2020 were in the Transient Accommodations Rentals (8,083 claims or 27.1% of total), Retailing (7,372 claims or 24.8% of total), Services Including Professional (3,366 claims or 11.3% of total) and Contracting (2,933 claims or 9.9% of total) business activities just like in 2019. The most numerous exemptions in each business activity were: (1) Taxes Passed On exemption in Transient Accommodations Rentals; (2) Out of State Sales exemption in Retailing; (3) Out of State Services/Contracting to Foreign Customers exemption in Services Including Professional; and (4) Subcontract Deduction exemption in Contracting.

A complete list and dollar amounts of exemptions claimed in 2020 are provided in Appendix Table A-1 grouped by GET rate.

## 4. TAX EXPENDITURES

Tax expenditures are distinct from tax exemptions. Tax expenditures are revenue losses associated with an exemption. They are the implied revenue cost of the deviation from applying the excise and use tax on all consumers in Hawaii without any exemptions. Exempting portions of the tax base has a fiscal cost and results in an indirect type of government spending—the tax expenditure.

Tax exemptions shrink the tax base which means that those who are not exempted must pay higher taxes after an exemption is put in place to collect the same amount of revenue. This makes the tax less efficient from an economic standpoint, and frequently makes it less equitable as well. However, tax exemptions are utilized because they are viewed as alternatives to other policy instruments, such as government spending or regulatory programs.

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 revenue impact estimate would have to account for the potential substitutional and behavioral effects of repealing an exemption.<sup>2</sup>

The decision on how to classify GET exemptions as tax expenditures at the wholesale rate, retail rate, or not 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. The approach utilized in this paper for estimating tax expenditures comes from the methodology put forth by Rousslang (2013).<sup>3</sup>

The calculation of tax expenditures requires certain assumptions regarding the appropriate tax rate if the exemption were to be discontinued. To calculate the tax expenditures, this report applies the wholesale rate of 0.5% for exemptions that apply to business-to-business transactions (Section 4.2), the retail rate of 4.0% for exemptions that apply to final sales (Section 4.3), and 0.0% for exemptions that eliminate the double taxation of exported products or that eliminate the taxation of certain purchases by

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<sup>2</sup> 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.

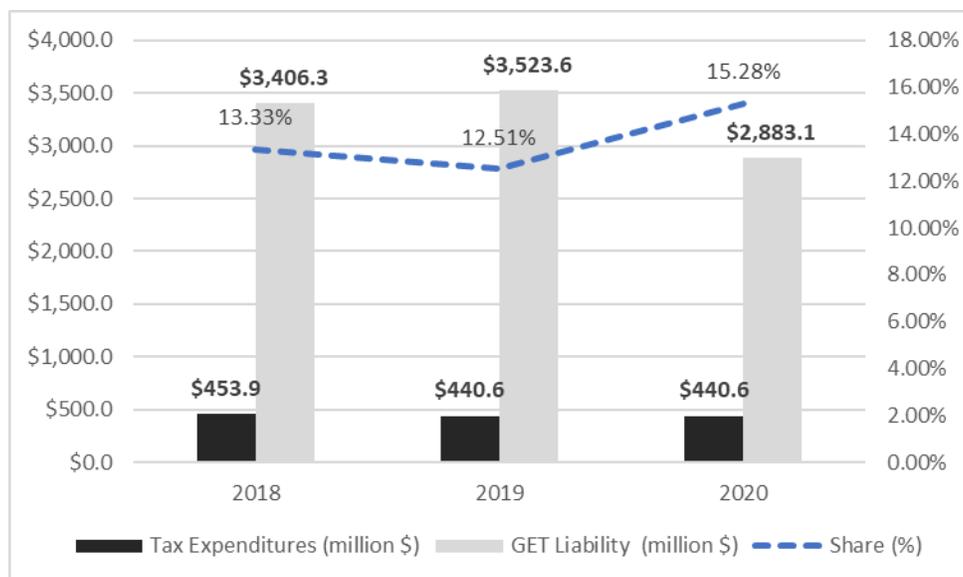
<sup>3</sup> Rousslang, Donald (2013), "Tax Expenditures in Paradise," *State Tax Notes*, May 13, pp. 549-558.

federal and foreign governments which cannot be taxed (Section 4.4). 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 4.5).

#### 4.1. General Excise Tax Expenditures Overview

Figure 2 presents the amounts (in millions of dollars) of GET liability and expenditures as well as GET expenditures to liability ratios (%) for tax years 2018 through 2020.<sup>4</sup>

**Figure 2**  
**GET Expenditures and Liability (million \$) for Tax Years 2018 through 2020**



This report finds that total GET expenditures amounted to \$440.6 million in 2020. The GET expenditures remained steady despite the 18.2% decline in total GET liability in 2020 as compared with 2019.

Table 3 on the next page provides a summary of GET exemption amounts and the corresponding tax expenditures for the categories detailed in sections 4.2 through 4.5 below.

<sup>4</sup> 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 2020**

	<b>Exemption Amount (in \$1,000)</b>	<b>% of Total Gross Receipts</b>	<b>Expenditure Amount* (in \$1,000)</b>	<b>% of Total GET Liability</b>
Tax Expenditures at the Wholesale Rate (0.5%)	\$8,676,130	6.8%	\$43,381	1.5%
Tax Expenditures at the Retail Rate (4.0%)	\$9,930,339	7.8%	\$397,214	13.8%
<b>Tax Expenditures Subtotal</b>	<b>\$18,606,470</b>	<b>14.6%</b>	<b>\$440,594</b>	<b>15.3%</b>
Out of State Sales**	\$8,802,270	6.9%	\$201,377	7.0%
Other Exemptions	\$5,937,712	4.7%	\$0	0.0%
<b>Grand Total</b>	<b>\$33,346,452</b>	<b>26.1%</b>		

\* Tax expenditure estimates are not revenue estimates.

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

In 2020, \$397.2 million of tax expenditures 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). Putting this magnitude in perspective, tax expenditures at the retail rate represent 13.8% of the total general excise and use tax liability of Hawaii taxpayers.

Another \$43.4 million worth of tax expenditures (1.5% of total GET liability) emanated from business-to-business transactions reducing tax pyramiding effects for specific industries (Tax Expenditures at the Wholesale Rate). In addition, \$201.4 million (7.0% 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).

The total exemptions claimed that can be classified as tax expenditures at the wholesale or retail rate amounted to \$18.6 billion which represents 14.6% of total gross receipts of Hawaii taxpayers. The total exemption amount for the Out of State Sales and Other Exemptions categories was \$14.7 billion or 11.6% of total gross receipts.

#### **4.2. Tax Expenditures at the Wholesale Rate (0.5%)**

Tax expenditures at the wholesale rate were \$43.4 million in total for tax year 2020 (Table 4). To calculate tax expenditures, this report applies the wholesale rate of 0.5% to exemptions that target business-to-business transactions. These exemptions are designed to reduce tax pyramiding which means the application of GET on the same goods or services multiple times by the time they reach the final consumer.

**Table 4**  
**Tax Expenditures at the Wholesale Rate (0.5%) for Tax Year 2020 (in \$1,000)**

Exemption	Exemption Amount	Expenditure Amount*
101 - Air Pollution Control Facilities (§§237-27.5, 238-3(k))	\$57,383	\$287
102 - Aircraft Leasing (§§237-24.3(11), 238-1)	\$49,001	\$245
103 - Aircraft Service and Maintenance Facility (§§237-24.9, 238-1)	\$22,260	\$111
105 - Certain Convention, Conference and Trade Show (§237-16.8)	\$6,674	\$33
107 - Contracting Activity in an Enterprise Zone (§209E-11)	\$59,353	\$297
117 - Federal Cost-Plus Contractors (§237-13(3)(C))	\$177,467	\$887
121 - Hawaii Convention Center Operator (§237-24.75(2))	**	**
122 - Hotel Operator/Suboperator (§237-24.7(1))	\$98,696	\$493
127 - Maintenance Fees (§§237-24.3(2), 237-24(16))	\$1,480,657	\$7,403
129 - Merchants' Association Dues (§237-24.3(8))	\$12,696	\$63
131 - Orchard Operator (§237-24.7(4))	\$5,911	\$30
134 - Patient-Centered Community Care (§237-24(18))	**	**
135 - Petroleum Refining (§237-27)	\$1,745	\$9
138 - Producers (Certain property used) (§238-4)	\$6,623	\$33
143 - Service Related to Ship & Aircraft (§237-24.3(3))	\$626,438	\$3,132
144 - Shipbuilding and Ship Repairs (§237-28.1).	\$319,666	\$1,598
145 - Shipping and Handling of Agricultural Commodities (§237-24.3(1))	\$1,050	\$5
148 - Subcontract Deduction (§237-13(3)(B))	\$3,785,161	\$18,926
149 - Sugar Cane Payments to Independent Producers (§237-24(14))	\$0	\$0
151 - TRICARE (§237-24(17))	\$0	\$0
152 - Wholesale Amusements (§237-4(a)(13))	\$7,198	\$36
153 - Wholesale Transactions (§237-29.55)	\$1,743,449	\$8,717
157 - Wholesale, Imported for Resale at (§237-8.6(c))	\$196,368	\$982
<b>TOTAL</b>	<b>\$8,676,130</b>	<b>\$43,381</b>

\* Tax expenditure estimates are not revenue estimates.

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

The largest GET expenditures at the wholesale rate were due to the exemptions for Subcontract Deduction (\$18.9 million), Wholesale Transactions (\$8.7 million), and Maintenance Fees (\$7.4 million).

### 4.3. Tax Expenditures at the Retail Rate (4.0%)

The total amount of the GET expenditures subject to the 4.0% retail rate was \$397.2 million in tax year 2020 (Table 5). The tax expenditures reported in this section provide

exemptions for activities that are transactions between businesses and final consumers or the equivalent thereof.

**Table 5**  
**Tax Expenditures at the Retail Rate (4.0%) for Tax Year 2020 (in \$1,000)**

Exemption	Exemption Amount	Expenditure Amount*
100 - Affordable Housing (§§46-15.1, 201H-36 237-29, 238-3(j))	\$1,371,231	\$54,849
111 - Disability Provisions (§237-24(13))	\$1,540	\$62
113 - Drugs and Prosthetic Devices (§237-24.3(6))	\$1,818,196	\$72,728
115 - Enterprise Zones (§209E-11)	\$412,342	\$16,494
123 - Insurance Proceeds Received Because of a Natural Disaster (§237-24.7(6))	\$537	\$21
125 - Labor Organizations (§237-24.3(9))	\$47,535	\$1,901
128 - Mass Transit (§237-24.7(2))	\$8,412	\$336
130 - Non-profit Organizations (§237-23)	\$6,264,907	\$250,596
136 - Potable Water (§237-23(a)(7))	\$5,640	\$226
<b>TOTAL</b>	<b>\$9,930,339</b>	<b>\$397,214</b>

\* Tax expenditure estimates are not revenue estimates.

The largest GET expenditures at the retail rate were due to the exemptions for Non-profit Organizations (\$250.6 million), Drugs and Prosthetic Devices (\$72.7 million), and Affordable Housing (\$54.9 million).

#### 4.4. 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 not a deviation from a uniform tax on consumption of residents and it is provided to prevent pyramiding of taxes such that the exports of residents are taxed only once, that is when they are realized as imports from nonresidents.

The value of the total foregone GE taxes in “Out of State Sales” was \$201.4 million in tax year 2020.

**Table 6**  
**Out of State Sales for Tax Year 2020 (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)	\$429,589	\$16,456
120 - Foreign Trade Zone Sales (§212-8)	\$3,774,304	\$38,674
132 - Out of State Sales (§237-29.5(1))	\$2,701,349	\$75,383
133 - Out of State Services/Contracting to Foreign Customers (§238-2.3(1)(C))	\$183,305	\$6,965
141 - Sales to Federal Government and Credit Unions (§237-25(a))	\$1,416,248	\$52,352
142 - Scientific Contracts (§§237-26, 238-3(j)).	\$286,555	\$11,110
156 - Exported Intangibles (§237-29.57)	*	*
<b>TOTAL</b>	<b>\$8,802,270</b>	<b>\$201,377</b>

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

#### 4.5. Other Exemptions

**Table 7**  
**Other Exemptions for Tax Year 2020 (in \$1,000)**

Exemption	Exemption Amount	Expenditure Amount*
104 - Bad Debts (§237-3(b))	\$62,608	\$0
106 - Common Paymaster Exemption (§237-23.5(b))	\$9,843	\$0
112 - Discounts and Returned Merchandise (§237-3(b))	\$517,469	\$0
114 - Employee Benefit Plans (§237-24.3(4))	\$356,437	\$0
118 - Federal Preempted Amount (§§237-22, 238-3(a))	\$236,467	\$0
119 - Food Stamps and WIC (§237-24.3(5))	\$499,320	\$0
124 - Intercompany Charges (§237-23.5(a))	\$310,551	\$0
126 - Subleases of Real Property (§237-16.5)	\$141,439	\$0
137 - Professional Employer Organizations (§237-24.75(3))	\$181,867	\$0
139 - Real Estate Sales (§237-3(b))	\$276,261	\$0
140 - Reimbursement of Payroll Costs (§237-24.7(9))	\$89,630	\$0
146 - Small Business Innovation Research Grants (§237-24.7(10))	**	\$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))	\$3,211,083	\$0
154 - Sales Tax Paid Offset (§§237-22(b), 238-3(i))	\$17,024	\$0
Misclassified/unspecified	\$23,316	\$0
<b>TOTAL</b>	<b>\$5,937,712</b>	<b>\$0</b>

\* Tax expenditure estimates are not revenue estimates.

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

The exemptions listed 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.

# APPENDIX

Table A-1

## GET Exemptions Claimed by GET Rate for Tax Year 2020 (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))	\$24,227	\$1,347,004	\$0	\$1,371,231
101 - Air Pollution Control Facilities (§§237-27.5, 238-3(k))	\$16,586	\$40,797	\$0	\$57,383
102 - Aircraft Leasing (§§237-24.3(11), 238-1)	\$349	\$48,651	\$0	\$49,001
103 - Aircraft Service and Maintenance Facility (§§237-24.9, 238-1)	\$218	\$22,042	\$0	\$22,260
104 - Bad Debts (§237-3(b))	\$3,660	\$58,927	\$22	\$62,608
105 - Certain Convention, Conference and Trade Show (§237-16.8)	\$0	\$6,673	\$0	\$6,674
106 - Common Paymaster Exemption (§237-23.5(b))	\$78	\$9,766	\$0	\$9,843
107 - Contracting Activity in an Enterprise Zone (§209E-11)	\$30,499	\$28,854	\$0	\$59,353
108 - Oahu - Certain Contracts Entered into Before 6/30/2006 (§237-8.6(c))	\$0	\$1,335	\$0	\$1,335
109 - No Nexus Sales (§237-8.6)	\$1,920	\$18,624	\$0	\$20,544
110 - Diplomats and Consular Officials (§§237-24.3(10), 238-1)	*	*	*	*
111 - Disability Provisions (§237-24(13))	\$1,270	\$270	\$1	\$1,540
112 - Discounts and Returned Merchandise (§237-3(b))	\$173,856	\$343,609	\$4	\$517,469
113 - Drugs and Prosthetic Devices (§237-24.3(6))	\$54,818	\$1,763,378	\$0	\$1,818,196
114 - Employee Benefit Plans (§237-24.3(4))	\$0	\$356,437	\$0	\$356,437
115 - Enterprise Zones (§209E-11)	\$363,115	\$49,227	\$0	\$412,342
116 - Exported Services (§237-29.53)	\$20,678	\$408,809	\$102	\$429,589
117 - Federal Cost-Plus Contractors (§237-13(3)(C))	\$6,477	\$170,990	\$0	\$177,467
118 - Federal Preempted Amount (§§237-22, 238-3(a))	\$7,612	\$228,847	\$7	\$236,467
119 - Food Stamps and WIC (§237-24.3(5))	\$0	\$499,320	\$0	\$499,320
120 - Foreign Trade Zone Sales (§212-8)	\$3,208,519	\$565,785	\$0	\$3,774,304
121 - Hawaii Convention Center Operator (§237-24.75(2))	*	*	*	*
122 - Hotel Operator/Suboperator (§237-24.7(1))	\$4,608	\$94,088	\$0	\$98,696
123 - Insur. Proceeds Received Because of a Natural Disaster (§237-24.7(6))	\$108	\$430	\$0	\$537
124 - Intercompany Charges (§237-23.5(a))	\$7,813	\$302,716	\$21	\$310,551
125 - Labor Organizations (§237-24.3(9))	\$0	\$47,535	\$0	\$47,535
126 - Subleases of Real Property (§237-16.5)	\$7	\$141,432	\$0	\$141,439
127 - Maintenance Fees (§§237-24.3(2), 237-24(16))	\$8	\$1,480,649	\$0	\$1,480,657
128 - Mass Transit (§237-24.7(2))	\$2,828	\$5,584	\$0	\$8,412
129 - Merchants' Association Dues (§237-24.3(8))	\$0	\$12,696	\$0	\$12,696
130 - Non-profit Organizations (§237-23)	\$723	\$6,264,183	\$0	\$6,264,907
131 - Orchard Operator (§237-24.7(4))	\$272	\$5,640	\$0	\$5,911
132 - Out of State Sales (§237-29.5(1))	\$927,576	\$1,768,425	\$5,348	\$2,701,349
133 - Out of State Services/Contracting to Foreign Customers (§238-2.3(1)(C))	\$10,337	\$172,838	\$129	\$183,305

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

**Table A-1 (Cont.)**  
**GET Exemptions Claimed by GET Rate for Tax Year 2020 (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)	\$100	\$1,645	\$0	\$1,745
136 - Potable Water (§237-23(a)(7))	\$16	\$5,624	\$0	\$5,640
137 - Professional Employer Organizations (§237-24.75(3))	\$17	\$181,850	\$0	\$181,867
138 - Producers (Certain property used) (§238-4)	\$4,735	\$1,755	\$133	\$6,623
139 - Real Estate Sales (§237-3(b))	\$2	\$276,259	\$0	\$276,261
140 - Reimbursement of Payroll Costs (§237-24.7(9))	\$18	\$89,525	\$87	\$89,630
141 - Sales to Federal Government and Credit Unions (§237-25(a))	\$122,796	\$1,293,446	\$6	\$1,416,248
142 - Scientific Contracts (§§237-26, 238-3(j)).	\$10,065	\$276,489	\$0	\$286,555
143 - Service Related to Ship & Aircraft (§237-24.3(3))	\$9,584	\$616,854	\$0	\$626,438
144 - Shipbuilding and Ship Repairs (§237-28.1).	\$6,070	\$313,595	\$0	\$319,666
145 - Shipping and Handling of Agricultural Commodities (§237-24.3(1))	\$12	\$1,038	\$0	\$1,050
146 - Small Business Innovation Research Grants (§237-24.7(10))	*	*	*	*
147 - Stock Exchange Transactions (§237-24.5)	*	*	*	*
148 - Subcontract Deduction (§237-13(3)(B))	\$0	\$3,785,161	\$0	\$3,785,161
149 - Sugar Cane Payments to Independent Producers (§237-24(14))	\$0	\$0	\$0	\$0
150 - Taxes Passed On (§§237-24(8), 237-24(9), 237-24(10), 237-24(12))	\$308,698	\$2,893,194	\$9,192	\$3,211,083
151 - TRICARE (§237-24(17))	\$0	\$0	\$0	\$0
152 - Wholesale Amusements (§237-4(a)(13))	\$1,118	\$6,080	\$0	\$7,198
153 - Wholesale Transactions (§237-29.55)	\$1,124,874	\$618,574	\$0	\$1,743,449
154 - Sales Tax Paid Offset (§§237-22(b), 238-3(i))	\$961	\$16,063	\$0	\$17,024
155 - Kauai and Hawaii - Certain Contracts Entered into Before 6/30/18 (§237-8.6(c))	\$0	\$405	\$0	\$405
156 - Exported Intangibles (§237-29.57)	*	*	*	*
157 - Wholesale, Imported for Resale at (§237-8.6(c))	\$149,855	\$46,513	\$0	\$196,368
999 - Unspecified/mislabeled/other	\$31	\$1,002	\$0	\$1,033
<b>GRAND TOTAL</b>	<b>\$6,607,123</b>	<b>\$26,724,277</b>	<b>\$15,052</b>	<b>\$33,346,452</b>

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