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## A BILL FOR AN ACT

RELATING TO THE GENERAL EXCISE TAX.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. The legislature finds that the cost of living  
2 in Hawaii is extremely high and many residents are struggling to  
3 pay for food, medication, housing, and other necessities. Many  
4 Hawaii residents, including vulnerable populations, suffer from  
5 food insecurity. A recent 2021 study by the University of  
6 Hawaii at Manoa stated that forty-eight per cent of Hawaii  
7 families with children are experiencing food insecurity. A 2021  
8 Cornell study indicates that taxes on food correlate to food  
9 insecurity. The study, co-authored by Harry Kaiser, the Gellert  
10 Family Professor at the Cornell Charles H. Dyson School of  
11 Applied Economics and Management, finds that even a slight  
12 grocery tax rate increase could be problematic for many. "An  
13 increase of 1 per cent to 4 per cent may sound small, but after  
14 several trips to the grocery store, the extra costs can create  
15 serious burdens for the lowest-income families", Kaiser said.  
16 The study found that even the slightest increase in tax rate  
17 correlated to an increased likelihood of food insecurity.



1           The legislature further finds that thirty-two states, plus  
2 the District of Columbia, currently exempt most foods purchased  
3 for consumption at home from the state sales tax. Of those  
4 states that tax groceries, many do so at a reduced rate. Taxing  
5 the sales of groceries is generally considered regressive and  
6 disproportionately hurts working families because they spend a  
7 higher percentage of their income on food. Hawaii's tax on  
8 groceries negatively affects not only the amount of food that  
9 Hawaii families can afford, but also the quality and diversity  
10 of their food choices.

11           According to the United States Department of Agriculture, a  
12 Hawaii family on a thrifty food plan spends \$1,794.60 per month  
13 on food. This family would pay over \$800 a year in state taxes  
14 on those groceries. The thrifty food plan represents those on a  
15 limited budget. Even if this family is eligible for a food tax  
16 rebate, they would likely get back less than half of those state  
17 taxes paid on groceries.

18           The legislature further finds that inflation, high cost of  
19 living, the COVID-19 pandemic, and food insecurity negatively  
20 impact our State's resiliency and disaster preparedness. For  
21 many families, it is not economically feasible to purchase and



# H.B. NO. 1135

1 store the recommended two-week supply of emergency food and  
2 essentials.

3       The legislature further finds that taxing food not only  
4 hurts Hawaii consumers but also makes Hawaii a much less  
5 desirable place to start a food-related business. Exempting  
6 certain groceries from the general excise tax would make  
7 Hawaii's food supply chain more equitable and can help the State  
8 meet the goal of increasing the availability of locally grown  
9 and manufactured food.

10       The legislature further finds that the department of  
11 taxation verbally testified on a previously considered bill  
12 wholly exempting the sale of groceries eligible under the  
13 supplemental nutrition assistance program or special  
14 supplemental nutrition program for women, infants, and children  
15 would cost the State about \$230,000,000 per year. By proceeding  
16 with a one per cent reduction on grocery taxes each year as  
17 described in this Act, the economic impact on the state budget  
18 would be lessened, allowing the State time to develop  
19 appropriate offsets.

20       The legislature has already recognized that certain items  
21 should be exempt from the general excise tax, as evidenced by



# H.B. NO. 1135

1 the prescription drug exemption. Lowering the tax rate on  
2 groceries and nonprescription drugs, and eventually exempting  
3 them from the general excise tax, will have an immediate  
4 positive impact on Hawaii's cost of living by lowering the cost  
5 of these necessary items. This will provide relief and help to  
6 many families that have been impacted negatively by the COVID-19  
7 pandemic and allow them to put more food on the table and better  
8 maintain the health of their families. In addition, the money  
9 saved by Hawaii consumers in taxes can continue to circulate in  
10 the economy, helping businesses and generating revenue for the  
11 State.

12 Accordingly, the purpose of this Act is to:

- 13 (1) Establish a general excise tax reduction and eventual  
14 exemption for the sale of groceries that are eligible  
15 for purchase under the supplemental nutrition  
16 assistance program or special supplemental nutrition  
17 program for women, infants, and children; and  
18 (2) Establish a general excise tax reduction and eventual  
19 exemption for the sale of nonprescription drugs.



1 SECTION 2. Chapter 237, Hawaii Revised Statutes, is  
2 amended by adding two new sections to be appropriately  
3 designated and to read as follows:

4 "§237- Reduced rate; exemption; supplemental nutrition  
5 assistance program-eligible groceries. (a) Notwithstanding  
6 section 237-13, there is hereby levied and shall be assessed and  
7 collected a tax equivalent to:

8 (1) In calendar year 2024, three per cent;

9 (2) In calendar year 2025, two per cent; and

10 (3) In calendar year 2026, one per cent,

11 of the gross proceeds or income received from the sale of all  
12 groceries eligible for purchase under the supplemental nutrition  
13 assistance program and special supplemental nutrition program  
14 for women, infants, and children within the State, regardless of  
15 the means of purchase and the eligibility of the purchaser for  
16 supplemental nutrition assistance program or special  
17 supplemental nutrition program for women, infants, and children  
18 benefits.

19 (b) Beginning January 1, 2027, there shall be exempted  
20 from, and excluded from the measure of, the taxes imposed by  
21 this chapter all of the gross proceeds or income received from



1 the sale of all groceries eligible for purchase under the  
2 supplemental nutrition assistance program and special  
3 supplemental nutrition program for women, infants, and children  
4 within the State, regardless of the means of purchase and the  
5 eligibility of the purchaser for supplemental nutrition  
6 assistance program or special supplemental nutrition program for  
7 women, infants, and children benefits.

8 (c) For the purposes of this section:

9 "Food" or "food product" means substances, whether in  
10 liquid, concentrated, solid, frozen, dried, or dehydrated form,  
11 that are sold for ingestion or chewing by humans and are  
12 consumed for their taste or nutritional value.

13 "Groceries" means any food or food product for home  
14 consumption. "Groceries" may be further defined by the  
15 department by rule through the enumeration of items in rules or  
16 tax informational release; provided that the department shall  
17 consult with the federal Food and Nutrition Service of the  
18 United States Department of Agriculture in further defining the  
19 term "groceries" for purposes of the supplemental nutrition  
20 assistance program and special supplemental nutrition program  
21 for women, infants, and children.



1           §237-       Reduced rate; exemption; nonprescription drugs.

2   (a) Notwithstanding section 237-13, there is hereby levied and  
3 shall be assessed and collected a tax equivalent to:

4           (1) In calendar year 2024, three per cent;

5           (2) In calendar year 2025, two per cent; and

6           (3) In calendar year 2026, one per cent,

7 of the gross proceeds or income received from the sale of  
8 nonprescription drugs.

9           (b) Beginning January 1, 2027, there shall be exempted  
10 from, and excluded from the measure of, the taxes imposed by  
11 this chapter all of the gross proceeds or income received from  
12 the sale of nonprescription drugs.

13           (c) For the purposes of this section:

14           "Drug" means:

15           (1) Articles recognized in the official United States  
16           Pharmacopoeia, official United States Pharmacopoeia  
17           Dispensing Information, official Homeopathic  
18           Pharmacopoeia of the United States, or official  
19           National Formulary, or any supplement to any of these  
20           publications;



# H.B. NO. 1135

- 1        (2) Articles intended for use in the diagnosis, cure,
- 2                mitigation, treatment, or prevention of disease in
- 3                humans;
- 4        (3) Articles, other than food or clothing, intended to
- 5                affect the structure or any function of the body of
- 6                humans; or
- 7        (4) Articles intended for use as a component of any
- 8                article specified in paragraph (1), (2), or (3);
- 9                provided that the term "drug" does not include devices
- 10               or their components, parts or accessories, cosmetics,
- 11               or liquor as defined in section 281-1.

12        "Nonprescription drug" means any packaged, bottled, or  
 13 nonbulk chemical, drug, or medicine that may be lawfully sold  
 14 without a practitioner's order."

15        SECTION 3. New statutory material is underscored.

16        SECTION 4. This Act shall take effect on July 1, 2023.

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INTRODUCED BY: *Chisatitgaur*  
 JAN 24 2023





# H.B. NO. 1135

**Report Title:**

General Excise Tax; SNAP; WIC; Groceries; Nonprescription Drugs; Exemption

**Description:**

Reduces, then later exempts, the tax collected on the sale of groceries that are eligible under the supplemental nutrition assistance program or special supplemental nutrition program for women, infants, and children, regardless of the means of purchase and the program eligibility of the purchaser. Reduces, then later exempts, the tax collected for the sale of nonprescription drugs.

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