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December 22, 2023

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

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

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

For your information and consideration, the Department of Taxation (Department) hereby transmits a copy of the Department's 2022 Hawai'i General Excise & Use Tax Exemptions Report, as required by Section 231-3.4, Hawai'i Revised Statutes (HRS).

In accordance with section 93-16, HRS, the Department also informs you that the report may be viewed electronically at: https://tax.hawaii.gov/stats/a5_1annual/

If you have any questions or concerns, please feel free to contact me at (808) 587-1540.

Sincerely,

A handwritten signature in blue ink, appearing to read "Gary S. Suganuma".

Gary S. Suganuma
Director of Taxation

Enclosure

Hawaii General Excise & Use Tax Exemptions

Tax Year 2022

(January 1, 2022 – December 31, 2022)

DEPARTMENT OF TAXATION

STATE OF HAWAII

DECEMBER 2023

STATE OF HAWAII

Josh Green, M.D., Governor

DEPARTMENT OF TAXATION

Gary S. Sukanuma, Director

Kristen M.R. Sakamoto, Deputy 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 deduction of 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 added a surcharge of 0.5% in 2022. 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 2022. 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, Section 3 identifies the exemptions claimed by tax rate and business activity. Second, Section 4 explains the difference between tax exemptions and tax expenditures and presents estimates of tax expenditures by exemption.

Unlike other reports prepared by DOTAX, this report relies on the determination and categorization of tax expenditures that requires assumptions. 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 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 must 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). All

taxpayers must also 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 2022. 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, 2022 and December 31, 2022 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 September 7, 2023. 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, or when an individual return represents a large percentage in a tabulation.

3. GENERAL EXCISE & USE TAX EXEMPTIONS

In 2022, 29,080 taxpayers, 12.1% of the total number of Hawaii General Excise and Use Tax (GET) filers, claimed 33,290 GET exemptions. These taxpayers claimed \$32.6 billion in exemptions from their gross receipts. As a result, 20% of their gross receipts were exempted from the GET in 2022.¹

Table 1 lists the dollar amounts and the numbers of GET exemptions claimed (sorted 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. 2022)" publication.

Table 1
GET Exemptions Claimed for Tax Year 2022

Exemption	Amount (in \$1,000)	% of Total Amount	Number of Claims	% of Total Claims
130 - Non-profit Organizations (§237-23)	\$7,090,760	21.7%	1,003	3.0%
148 - Subcontract Deduction (§237-13(3)(B))	\$4,178,251	12.8%	2,222	6.7%
132 - Out of State Sales (§237-29.5(1))	\$3,478,473	10.7%	8,110	24.4%
157 - Imported for Resale at Wholesale (§238-2(1),238-2.3(a)(1)(A))	\$2,156,472	6.6%	115	0.3%
113 - Drugs and Prosthetic Devices (§237-24.3(6))	\$1,842,604	5.6%	268	0.8%
127 - Maintenance Fees (§§237-24.3(2), 237-24(16))	\$1,708,132	5.2%	2,341	7.0%

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

Table 1 (Cont.)
GET Exemptions Claimed for Tax Year 2022

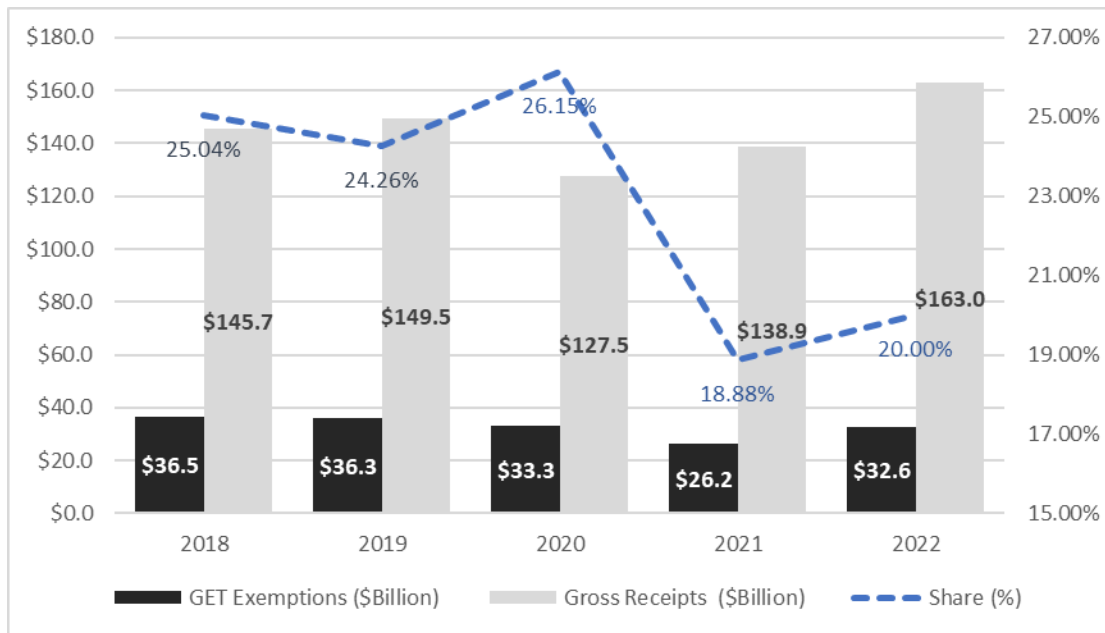
Exemption	Amount (in \$1,000)	% of Total Amount	Number of Claims	% of Total Claims
153 - Wholesale Transactions (§237-29.55)	\$1,560,994	4.8%	1,059	3.2%
150 - Taxes Passed On (§§237-24(8), 237-24(9), 237-24(10), 237-24(12))	\$1,188,720	3.6%	10,552	31.7%
100 - Affordable Housing (§§46-15.1, 201H-36 237-29, 238-3(j))	\$1,128,634	3.5%	536	1.6%
119 - Food Stamps and WIC (§237-24.3(5))	\$1,016,107	3.1%	390	1.2%
141 - Sales to Federal Government and Credit Unions (§237-25(a))	\$834,982	2.6%	845	2.5%
120 - Foreign Trade Zone Sales (§212-8)	\$803,075	2.5%	33	0.1%
143 - Service Related to Ship & Aircraft (§237-24.3(3))	\$797,403	2.4%	41	0.1%
116 - Exported Services (§237-29.53)	\$689,412	2.1%	1,283	3.9%
112 - Discounts and Returned Merchandise (§237-3(b))	\$613,513	1.9%	966	2.9%
118 - Federal Preempted Amount (§§237-22, 238-3(a))	\$584,478	1.8%	197	0.6%
124 - Intercompany Charges (§237-23.5(a))	\$363,352	1.1%	261	0.8%
114 - Employee Benefit Plans (§237-24.3(4))	\$332,397	1.0%	33	0.1%
137 - Professional Employer Organizations (§237-24.75(3))	\$251,451	0.8%	63	0.2%
115 - Enterprise Zones (§209E-11)	\$241,034	0.7%	124	0.4%
144 - Shipbuilding and Ship Repairs (§237-28.1).	\$233,563	0.7%	76	0.2%
142 - Scientific Contracts (§§237-26, 238-3(j)).	\$211,014	0.6%	152	0.5%
139 - Real Estate Sales (§237-3(b))	\$202,840	0.6%	60	0.2%
122 - Hotel Operator/Suboperator (§237-24.7(1))	\$171,933	0.5%	18	0.1%
126 - Subleases of Real Property (§237-16.5)	\$165,498	0.5%	548	1.6%
154 - Sales Tax Paid Offset (§§237-22(b), 238-3(i))	\$129,376	0.4%	448	1.3%
135 - Petroleum Refining (§237-27)	\$94,147	0.3%	7	0.0%
101 - Air Pollution Control Facilities (§§237-27.5, 238-3(k))	\$93,471	0.3%	53	0.2%
140 - Reimbursement of Payroll Costs (§237-24.7(9))	\$89,973	0.3%	49	0.1%
104 - Bad Debts (§237-3(b))	\$72,514	0.2%	410	1.2%
145 - Shipping and Handling of Agricultural Commodities (§237-24.3(1))	\$54,217	0.2%	8	0.0%
102 - Aircraft Leasing (§§237-24.3(11), 238-1)	*	*	*	*
117 - Federal Cost-Plus Contractors (§237-13(3)(C))	\$38,743	0.1%	74	0.2%
103 - Aircraft Service and Maintenance Facility (§§237-24.9, 238-1)	\$36,321	0.1%	39	0.1%
152 - Wholesale Amusements (§237-4(a)(13))	\$33,952	0.1%	8	0.0%
121 - Hawaii Convention Center Operator (§237-24.75(2))	\$22,184	0.1%	9	0.0%
107 - Contracting Activity in an Enterprise Zone (§209E-11)	\$13,817	0.0%	25	0.1%
146 - Small Business Innovation Research Grants (§237-24.7(10))	\$7,262	0.0%	12	0.0%
138 - Producers (Certain property used) (§238-4)	*	*	*	*
129 - Merchants' Association Dues (§237-24.3(8))	\$6,864	0.0%	8	0.0%
136 - Potable Water (§237-23(a)(7))	\$6,598	0.0%	8	0.0%
133 - Out of State Services/Contracting to Foreign Customers (§238-2.3(1)(C))	\$5,593	0.0%	16	0.0%
156 - Exported Intangibles (§237-29.57)	\$4,681	0.0%	12	0.0%
147 - Stock Exchange Transactions (§237-24.5)	\$3,214	0.0%	9	0.0%
110 - Diplomats and Consular Officials (§§237-24.3(10), 238-1)	\$2,793	0.0%	60	0.2%
131 - Orchard Operator (§237-24.7(4))	*	*	*	*
111 - Disability Provisions (§237-24(13))	\$1,331	0.0%	641	1.9%
106 - Common Paymaster Exemption (§237-23.5(b))	\$846	0.0%	23	0.1%
134 - Patient-Centered Community Care (§237-24(18))	\$600	0.0%	20	0.1%
128 - Mass Transit (§237-24.7(2))	\$539	0.0%	7	0.0%
123 - Insurance Proceeds Received Because of a Natural Disaster (§237-24.7(6))	\$407	0.0%	11	0.0%
125 - Labor Organizations (§237-24.3(9))	\$298	0.0%	15	0.0%
105 - Certain Convention, Conference and Trade Show (§237-16.8)	\$136	0.0%	6	0.0%
149 - Sugar Cane Payments to Independent Producers (§237-24(14))	*	*	*	*
151 - TRICARE (§237-24(17))	\$0	0.0%	0	0.0%
TOTAL	\$32,614,047	100.0%	33,290	100.0%

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

The number of claims (33,290 in 2022) does not translate into the unique number of taxpayers (29,080 in 2022), as some may claim more than one exemption or claim the same exemption but for different business activities.

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 2022.

Figure 1
GET Exemptions and Gross Receipts (\$Billion) for Tax Years 2018 through 2022



In 2022, the gross receipts increased by 17.4% (or \$24.1 billion), and the amount of GET exemptions increased by 24.4% (or \$6.4 billion), compared to 2021. As a result, the share of GET exemptions in total gross receipts rose from 18.9% in 2021 to 20.0% in 2022.

While the level of gross receipts was higher in 2022 compared to the 2018-2020 period, the level of GET exemptions in 2022 was still lower than 2018-2020. Therefore, the share of GET exemptions in total gross receipts declined from their 24-26% level in 2018 through 2020 to 18.9% in 2021 and 20% in 2022.

Although there may be fluctuations in the exemptions claimed from year to year, two developments played a role in the significant decline of GET exemption claims starting in 2021. First, on September 29, 2021, the Department published Tax Information Release (TIR) No. 2021-07, which clarified the GET Exemption for *Foreign Trade Zone*

(FTZ) Sales (ED Code 120).² Following the tax announcement, the GET exemptions claimed for *FTZ Sales (ED 120)* declined by 95.5% from \$3.77 billion in 2020 to \$170.7 million in 2021. In 2022, GET exemptions for FTZ Sales were up to \$803 million, which was still about 79% below the 2020 level. In 2019, GET Exemption for FTZ sales was the top GET exemption category with \$6.2 billion in claims and it had historically been one of the top four exemptions claimed since GET Exemptions reports started being prepared in Tax Year 2017.

Second, the Department implemented an automatic adjustment in its computer system (effective 2021) that restricted the types of business activities for which certain GET exemptions could be claimed.³ For example, the GET Exemption for *Non-profit Organizations (ED Code 130)* cannot be under “Wholesaling” business activity because it is to be used by Nonprofit Organizations to exempt from GET the amounts that are considered exempt nonprofit income. Other taxpayers would be misusing this exemption if they claimed it under “Wholesaling” thinking that sales to nonprofits are exempt, which would be incorrect. Similarly, GET Exemptions for *Real Estate Sales (ED Code 139)* and *Sales to the Federal Government and Credit Unions (ED Code 141)* are not allowed for “Wholesaling” business activity. The adjustments made by the Department when processing the annual and periodic returns and any adjustments due to audits resolved by September 7, 2023 are reflected in this report.

As shown in Table 1, in 2022, the largest exemptions in terms of dollar amounts were for

1. **Non-profit Organizations** (\$7.1 billion or 21.7% of total);
2. **Subcontract Deduction** (\$4.2 billion or 12.8% of total);
3. **Out of State Sales** (\$3.5 billion or 10.7% of total);
4. **Imported for Resale at Wholesale** (\$2.2 billion or 6.6% of total); and
5. **Drugs and Prosthetic Devices** (\$1.8 billion or 5.6% of total).

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

- *Non-profit Organizations (ED Code 130)*: This exemption applies to amounts received by certain non-profit fraternal, religious, charitable, scientific, educational, community or social welfare groups and hospitals, infirmaries and

² According to this GET exemption, 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.

³ An Excel Workbook listing the GET Exemptions allowed by Activity Code (as of October 3, 2023) is available on the DOTAX website at: https://files.hawaii.gov/tax/geninfo/info/EDvsAct2023_11-06-23.xlsx

sanitaria organizations. However, all fundraising activities are taxable and must be reported.

- *Subcontract Deduction (ED Code 148)*: 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.
- *Out of State Sales (ED Code 132)*: 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.
- *Imported for Resale at Wholesale (Use Tax Only – Not for GE) (ED Code 157)*: An importer or purchaser who is licensed under chapter 237 and is either importing or purchasing tangible personal property for the purpose of sale or resale, or engaged in a service business or calling in which the imported or purchased services or contracting become identifiable elements, excluding overhead, of the services rendered by the importer or purchaser, and the gross income of the importer or purchaser is subject to the tax imposed under chapter 237 on services at the rate of 0.5%. The value of the tangible personal property or services imported for subsequent resale at wholesale are exempt.
- *Drugs and Prosthetic Devices (ED Code 113)*: Sales to individuals by a hospital, infirmary, medical clinic, health care facility, pharmacy, or practitioner licensed to administer drugs or prosthetic devices are exempt.

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

1. **Taxes Passed On** (10,552 claims or 31.7% of total);
2. **Out of State Sales** (8,110 claims or 24.4% of total);
3. **Maintenance Fees** (2,341 claims or 7.0% of total);
4. **Subcontract Deduction** (2,222 claims or 6.7% of total); and
5. **Exported Services** (1,283 claims or 3.9% of total).

Two of the most commonly claimed exemptions have been described above, the remaining three are as follows:

- *Taxes Passed On (ED Code 150)*: The amounts received to pay the following taxes are exempt: (1) Fuel taxes collected by distributors; (2) Hawaii liquor taxes collected by dealers; (3) Hawaii cigarette and tobacco taxes paid by wholesalers; (4) Transient accommodations taxes visibly passed on; (5) Rental motor vehicle,

tour vehicle & car-sharing vehicle surcharge taxes visibly passed on; (6) Federal excise taxes imposed on articles sold at retail and collected from purchasers; and (7) Federal taxes imposed on sugar manufactured in Hawaii.

- *Maintenance Fees (ED Code 127)*: 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.
- *Exported Services (ED Code 116)*: The value or gross proceeds received by a contractor, service provider, or seller from the sale of contracting or services to a customer for resale, consumption, or use outside of the State are exempt, provided the customer furnishes Form G-61 certifying as such to the contractor, service provider, or seller.

Table 2
GET Exemptions Claimed by Business Activity for Tax Year 2022

Business Activity	Amount (in \$1,000)	% of Total Amount	Number of Claims	% of Total Claims
<u>Wholesale Rate (0.5%)</u>				
01. Wholesaling	\$3,539,442	10.9%	2,462	7.4%
02. Manufacturing	\$117,224	0.4%	66	0.2%
03. Producing	\$19,644	0.1%	23	0.1%
04. Wholesale Services	\$70,283	0.2%	175	0.5%
05. Landed Value of Imports for Resale	\$2,170,841	6.7%	152	0.5%
06. Business Activities of Disabled Persons	\$1,637	0.0%	654	2.0%
07. Wholesale Rate Subtotal	\$5,919,071	18.1%	3,532	10.6%
<u>Retail Rate (4.0%)</u>				
08. Retailing	\$7,474,202	22.9%	8,989	27.0%
09. Services Including Professional	\$6,796,972	20.8%	3,593	10.8%
10. Contracting	\$5,290,939	16.2%	2,831	8.5%
11. Theater, Amusement and Broadcasting	\$40,790	0.1%	41	0.1%
12. Commissions	\$45,546	0.1%	173	0.5%
13. Transient Accommodations Rentals	\$256,137	0.8%	10,076	30.3%
14. Other Rentals	\$1,069,383	3.3%	1,269	3.8%
15. Interest and All Others	\$5,665,659	17.4%	2,685	8.1%
16. Landed Value of Imports for Consumption	\$52,431	0.2%	78	0.2%
17. Retail Rate Subtotal	\$26,692,060	81.8%	29,735	89.3%
<u>Insurance Rate (0.15%)</u>				
18. Insurance Commissions	\$2,916	0.0%	23	0.1%
GRAND TOTAL	\$32,614,047	100.0%	33,290	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).

In 2022, the largest five exemptions in terms of the dollar amounts were in:

1. **Retailing** (\$7.47 billion or 22.9% of total);
2. **Services Including Professional** (\$6.80 billion or 20.8% of total);
3. **Interest and All Others** (\$5.67 billion or 17.4% of total);
4. **Contracting** (\$5.29 billion or 16.2% of total); and
5. **Wholesaling** (\$3.54 billion or 10.9% of total) business activity categories.

The “Retailing” business activity contains the high-exemption items of *Drugs and Prosthetic Devices (ED Code 113)* and *Out of State Sales (ED Code 132)*.

For the “Services Including Professional” business activity *Non-profit Organizations (ED Code 130)* is the highest exemption item followed by *Out of State Sales (ED Code 132)*.

For the “Interest and All Others” business activity, *Non-profit Organizations (ED Code 130)* exemption comprises the biggest portion followed by *Maintenance Fees (ED Code 127)*.

Subcontract Deduction (ED Code 148) is the primary exemption under “Contracting” and the highest exemption in “Wholesaling” business activity is for *Wholesale Transactions (ED Code 153)*.

As shown in Table 2, the most commonly claimed exemptions in 2022 were in the “Transient Accommodations Rentals” (10,076 claims or 30.3% of total), “Retailing” (8,989 claims or 27.0% of total), “Services Including Professional” (3,593 claims or 10.8% of total) and “Contracting” (2,831 claims or 8.5% of total) business activities just like in 2019 through 2021. The most numerous exemptions in each business activity were: (1) *Taxes Passed On (ED Code 150)* exemption in “Transient Accommodations Rentals”; (2) *Out of State Sales (ED Code 132)* exemption in “Retailing” and “Services Including Professional”; and (4) *Subcontract Deduction (ED Code 148)* exemption in “Contracting”.

A complete list with dollar amounts of exemptions claimed in 2022 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 tax revenue. This makes the tax less efficient and potentially less equitable. 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 provide 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 must account for the potential substitutional and behavioral effects of repealing an exemption.⁴

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).⁵

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

⁴ 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.

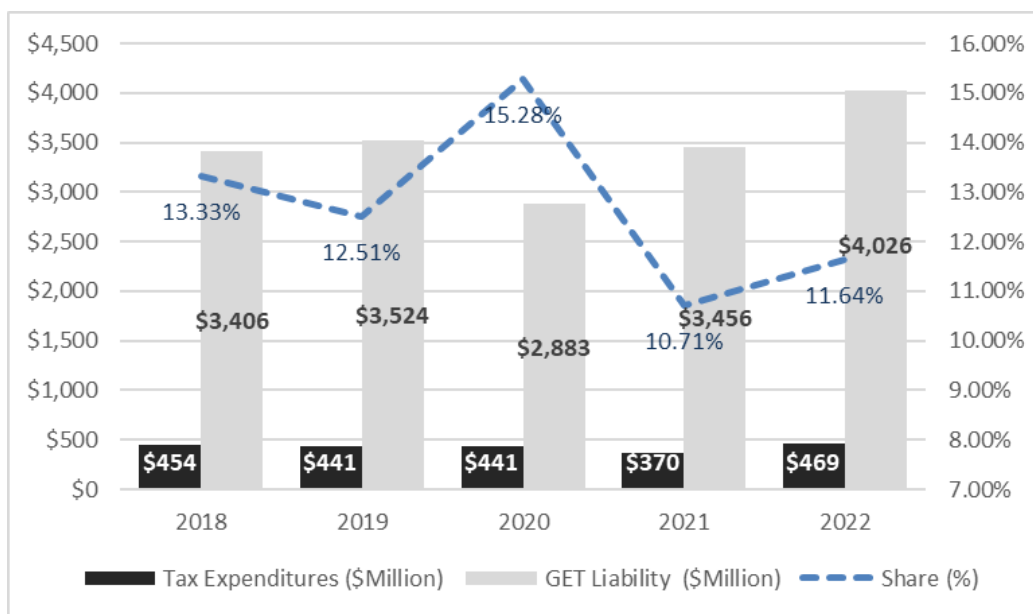
⁵ Rousslang, Donald (2013), "Tax Expenditures in Paradise," *State Tax Notes*, May 13, pp. 549-558.

exemptions involving certain activities not traditionally included in the base of a sales or excise tax on consumption are not considered 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 2022.⁶

Figure 2
GET Expenditures and Liability (\$Million) for Tax Years 2018 through 2022



This report finds that total GET expenditures amounted to \$469 million in 2022. The GET expenditures increased by 26.7% and the total GET liability increased by 16.5% in 2022 compared to 2021. As a result, the ratio of GET expenditures to GET liabilities rose from 10.7% in 2021 to 11.6% in 2022.

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

⁶ 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 2022

	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%)	\$11,250,276	6.9%	\$56,251	1.4%
Tax Expenditures at the Retail Rate (4.0%)	\$10,312,206	6.3%	\$412,488	10.2%
Tax Expenditures Subtotal	\$21,562,482	13.2%	\$468,740	11.6%
Out of State Sales**	\$6,030,023	3.7%	\$202,912	5.0%
Other Exemptions	\$5,021,542	3.1%	\$0	0.0%
Grand Total	\$32,614,047	20.0%		

* Tax expenditure estimates are not revenue estimates.

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

In 2022, \$412.5 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 10.2% of the total general excise and use tax liability of Hawaii taxpayers.

Another \$56.3 million worth of tax expenditures (1.4% of total GET liability) emanated from business-to-business transactions reducing tax pyramiding effects for specific industries (Tax Expenditures at the Wholesale Rate). An additional \$202.9 million (5.0% 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).

In 2022, the total exemptions claimed that can be classified as tax expenditures at the wholesale or retail rate amounted to \$21.6 billion or 13.2% of total gross receipts. The total exemption amount for the Out of State Sales and Other Exemptions categories was \$11.1 billion or 6.8% of total gross receipts.

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

Tax expenditures at the wholesale rate were \$56.3 million in total for tax year 2022 (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 2022 (in \$1,000)

Exemption	Exemption Amount	Expenditure Amount*
101 - Air Pollution Control Facilities (§§237-27.5, 238-3(k))	\$93,471	\$467
102 - Aircraft Leasing (§§237-24.3(11), 238-1)	**	**
103 - Aircraft Service and Maintenance Facility (§§237-24.9, 238-1)	\$36,321	\$182
105 - Certain Convention, Conference and Trade Show (§237-16.8)	\$136	\$1
107 - Contracting Activity in an Enterprise Zone (§209E-11)	\$13,817	\$69
117 - Federal Cost-Plus Contractors (§237-13(3)(C))	\$38,743	\$194
121 - Hawaii Convention Center Operator (§237-24.75(2))	\$22,184	\$111
122 - Hotel Operator/Suboperator (§237-24.7(1))	\$171,933	\$860
127 - Maintenance Fees (§§237-24.3(2), 237-24(16))	\$1,708,132	\$8,541
129 - Merchants' Association Dues (§237-24.3(8))	\$6,864	\$34
131 - Orchard Operator (§237-24.7(4))	**	**
134 - Patient-Centered Community Care (§237-24(18))	\$600	\$3
135 - Petroleum Refining (§237-27)	\$94,147	\$471
138 - Producers (Certain property used) (§238-4)	**	**
143 - Service Related to Ship & Aircraft (§237-24.3(3))	\$797,403	\$3,987
144 - Shipbuilding and Ship Repairs (§237-28.1).	\$233,563	\$1,168
145 - Shipping and Handling of Agricultural Commodities (§237-24.3(1))	\$54,217	\$271
148 - Subcontract Deduction (§237-13(3)(B))	\$4,178,251	\$20,891
149 - Sugar Cane Payments to Independent Producers (§237-24(14))	**	**
151 - TRICARE (§237-24(17))	\$0	\$0
152 - Wholesale Amusements (§237-4(a)(13))	\$33,952	\$170
153 - Wholesale Transactions (§237-29.55)	\$1,560,994	\$7,805
157 - Imported for Resale at Wholesale (§238-2(1),238-2.3(a)(1)(A))	\$2,156,472	\$10,782
TOTAL	\$11,250,276	\$56,251

* 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* (\$20.9 million) and *Imported for Resale at Wholesale* (\$10.8 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 \$412.5 million in tax year 2022 (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 2022 (in \$1,000)

Exemption	Exemption Amount	Expenditure Amount*
100 - Affordable Housing (§§46-15.1, 201H-36 237-29, 238-3(j))	\$1,128,634	\$45,145
111 - Disability Provisions (§237-24(13))	\$1,331	\$53
113 - Drugs and Prosthetic Devices (§237-24.3(6))	\$1,842,604	\$73,704
115 - Enterprise Zones (§209E-11)	\$241,034	\$9,641
123 - Insurance Proceeds Received Because of a Natural Disaster (§237-24.7(6))	\$407	\$16
125 - Labor Organizations (§237-24.3(9))	\$298	\$12
128 - Mass Transit (§237-24.7(2))	\$539	\$22
130 - Non-profit Organizations (§237-23)	\$7,090,760	\$283,630
136 - Potable Water (§237-23(a)(7))	\$6,598	\$264
TOTAL	\$10,312,206	\$412,488

* Tax expenditure estimates are not revenue estimates.

The largest GET expenditures at the retail rate were due to the exemptions for *Non-profit Organizations* (\$283.6 million), *Drugs and Prosthetic Devices* (\$73.7 million), and *Affordable Housing* (\$45.1 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.

Table 6
Out of State Sales for Tax Year 2022 (in \$1,000)

Exemption	Exemption Amount	Foregone Taxes
110 - Diplomats and Consular Officials (§§237-24.3(10), 238-1)	\$2,793	\$112
116 - Exported Services (§237-29.53)	\$689,412	\$26,204
120 - Foreign Trade Zone Sales (§212-8)	\$803,075	\$32,123
132 - Out of State Sales (§237-29.5(1))	\$3,478,473	\$102,968
133 - Out of State Services/Contracting to Foreign Customers (§238-2.3(1)(C))	\$5,593	\$120
141 - Sales to Federal Government and Credit Unions (§237-25(a))	\$834,982	\$33,399
142 - Scientific Contracts (§§237-26, 238-3(j)).	\$211,014	\$7,799
156 - Exported Intangibles (§237-29.57)	\$4,681	\$187
TOTAL	\$6,030,023	\$202,912

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 \$202.9 million in tax year 2022.

4.5. Other Exemptions

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 fee simple land. 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 2022 (in \$1,000)

Exemption	Exemption Amount	Expenditure Amount*
104 - Bad Debts (§237-3(b))	\$72,514	\$0
106 - Common Paymaster Exemption (§237-23.5(b))	\$846	\$0
112 - Discounts and Returned Merchandise (§237-3(b))	\$613,513	\$0
114 - Employee Benefit Plans (§237-24.3(4))	\$332,397	\$0
118 - Federal Preempted Amount (§§237-22, 238-3(a))	\$584,478	\$0
119 - Food Stamps and WIC (§237-24.3(5))	\$1,016,107	\$0
124 - Intercompany Charges (§237-23.5(a))	\$363,352	\$0
126 - Subleases of Real Property (§237-16.5)	\$165,498	\$0
137 - Professional Employer Organizations (§237-24.75(3))	\$251,451	\$0
139 - Real Estate Sales (§237-3(b))	\$202,840	\$0
140 - Reimbursement of Payroll Costs (§237-24.7(9))	\$89,973	\$0
146 - Small Business Innovation Research Grants (§237-24.7(10))	\$7,262	\$0
147 - Stock Exchange Transactions (§237-24.5)	\$3,214	\$0
150 - Taxes Passed On (§§237-24(8), 237-24(9), 237-24(10), 237-24(12))	\$1,188,720	\$0
154 - Sales Tax Paid Offset (§§237-22(b), 238-3(i))	\$129,376	\$0
TOTAL	\$5,021,542	\$0

* Tax expenditure estimates are not revenue estimates.

APPENDIX

Table A-1

GET Exemptions Claimed by GET Rate for Tax Year 2022 (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))	\$19,058	\$1,109,576	\$0	\$1,128,634
101 - Air Pollution Control Facilities (§§237-27.5, 238-3(k))	\$0	\$93,471	\$0	\$93,471
102 - Aircraft Leasing (§§237-24.3(11), 238-1)	*	*	*	*
103 - Aircraft Service and Maintenance Facility (§§237-24.9, 238-1)	\$2,861	\$33,460	\$0	\$36,321
104 - Bad Debts (§237-3(b))	\$4,226	\$68,288	\$0	\$72,514
105 - Certain Convention, Conference and Trade Show (§237-16.8)	\$0	\$136	\$0	\$136
106 - Common Paymaster Exemption (§237-23.5(b))	\$0	\$846	\$0	\$846
107 - Contracting Activity in an Enterprise Zone (§209E-11)	\$0	\$13,817	\$0	\$13,817
110 - Diplomats and Consular Officials (§§237-24.3(10), 238-1)	\$2	\$2,791	\$0	\$2,793
111 - Disability Provisions (§237-24(13))	\$1,331	\$0	\$0	\$1,331
112 - Discounts and Returned Merchandise (§237-3(b))	\$199,484	\$414,029	\$0	\$613,513
113 - Drugs and Prosthetic Devices (§237-24.3(6))	\$0	\$1,842,604	\$0	\$1,842,604
114 - Employee Benefit Plans (§237-24.3(4))	\$0	\$332,397	\$0	\$332,397
115 - Enterprise Zones (§209E-11)	\$213,669	\$27,365	\$0	\$241,034
116 - Exported Services (§237-29.53)	\$39,210	\$650,202	\$0	\$689,412
117 - Federal Cost-Plus Contractors (§237-13(3)(C))	\$14,365	\$24,378	\$0	\$38,743
118 - Federal Preempted Amount (§§237-22, 238-3(a))	\$112,266	\$469,295	\$2,916	\$584,478
119 - Food Stamps and WIC (§237-24.3(5))	\$0	\$1,016,107	\$0	\$1,016,107
120 - Foreign Trade Zone Sales (§212-8)	\$0	\$803,075	\$0	\$803,075
121 - Hawaii Convention Center Operator (§237-24.75(2))	\$0	\$22,184	\$0	\$22,184
122 - Hotel Operator/Suboperator (§237-24.7(1))	\$0	\$171,933	\$0	\$171,933
123 - Insurance Proceeds Received b/c of a Natural Disaster (§237-24.7(6))	\$230	\$177	\$0	\$407
124 - Intercompany Charges (§237-23.5(a))	\$0	\$363,352	\$0	\$363,352
125 - Labor Organizations (§237-24.3(9))	\$0	\$298	\$0	\$298
126 - Subleases of Real Property (§237-16.5)	\$0	\$165,498	\$0	\$165,498
127 - Maintenance Fees (§§237-24.3(2), 237-24(16))	\$0	\$1,708,132	\$0	\$1,708,132
128 - Mass Transit (§237-24.7(2))	\$0	\$539	\$0	\$539
129 - Merchants' Association Dues (§237-24.3(8))	\$0	\$6,864	\$0	\$6,864
130 - Non-profit Organizations (§237-23)	\$901	\$7,089,860	\$0	\$7,090,760
131 - Orchard Operator (§237-24.7(4))	*	*	*	*
132 - Out of State Sales (§237-29.5(1))	\$1,033,461	\$2,445,013	\$0	\$3,478,473
133 - Out of State Services/Contracting to Foreign Customers (§238-2.3(1)(C))	\$2,965	\$2,628	\$0	\$5,593
134 - Patient-Centered Community Care (§237-24(18))	\$0	\$600	\$0	\$600
135 - Petroleum Refining (§237-27)	\$94,147	\$0	\$0	\$94,147

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

Table A-1 (Cont.)
GET Exemptions Claimed by GET Rate for Tax Year 2022 (in \$1,000)

Exemption Name	Wholesale Rate (0.5%)	Retail Rate (4%)	Insur. Rate (0.15%)	TOTAL
136 - Potable Water (§237-23(a)(7))	\$18	\$6,580	\$0	\$6,598
137 - Professional Employer Organizations (§237-24.75(3))	\$868	\$250,583	\$0	\$251,451
138 - Producers (Certain property used) (§238-4)	*	*	*	*
139 - Real Estate Sales (§237-3(b))	\$0	\$202,840	\$0	\$202,840
140 - Reimbursement of Payroll Costs (§237-24.7(9))	\$0	\$89,973	\$0	\$89,973
141 - Sales to Federal Government and Credit Unions (§237-25(a))	\$0	\$834,982	\$0	\$834,982
142 - Scientific Contracts (§§237-26, 238-3(j)).	\$18,332	\$192,682	\$0	\$211,014
143 - Service Related to Ship & Aircraft (§237-24.3(3))	\$12,664	\$784,738	\$0	\$797,403
144 - Shipbuilding and Ship Repairs (§237-28.1).	\$9,966	\$223,597	\$0	\$233,563
145 - Shipping and Handling of Agricultural Commodities (§237-24.3(1))	\$3	\$54,214	\$0	\$54,217
146 - Small Business Innovation Research Grants (§237-24.7(10))	\$0	\$7,262	\$0	\$7,262
147 - Stock Exchange Transactions (§237-24.5)	\$0	\$3,214	\$0	\$3,214
148 - Subcontract Deduction (§237-13(3)(B))	\$46	\$4,178,205	\$0	\$4,178,251
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))	\$406,031	\$782,689	\$0	\$1,188,720
151 - TRICARE (§237-24(17))	\$0	\$0	\$0	\$0
152 - Wholesale Amusements (§237-4(a)(13))	\$0	\$33,952	\$0	\$33,952
153 - Wholesale Transactions (§237-29.55)	\$1,560,994	\$0	\$0	\$1,560,994
154 - Sales Tax Paid Offset (§§237-22(b), 238-3(i))	\$9,710	\$119,665	\$0	\$129,376
156 - Exported Intangibles (§237-29.57)	\$0	\$4,681	\$0	\$4,681
157 - Imported for Resale at Wholesale (§238-2(1),238-2.3(a)(1)(A))	\$2,156,472	\$0	\$0	\$2,156,472
GRAND TOTAL	\$5,919,071	\$26,692,060	\$2,916	\$32,614,047

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