

JAN 25 2023

A BILL FOR AN ACT

RELATING TO 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 too many residents are
3 struggling to pay for housing, food, and medication. According
4 to data from the Missouri Economic Research and Information
5 Center, Hawaii had the highest cost of living in 2019. Coupled
6 with the high cost of living, persistent inflation following the
7 coronavirus disease 2019 (COVID-19) pandemic has further
8 exacerbated the problem of residents being unable to afford
9 necessities like groceries. The legislature further finds that
10 thirty-two states, plus the District of Columbia, currently
11 exempt most foods purchased for consumption at home from the
12 state sales tax. Grocery sales tax is often considered
13 regressive and disproportionately hurts working families and may
14 affect the quality, diversity, and even the amount of food they
15 can afford to put on the table, especially during times of
16 economic crisis.



1 The legislature also finds that the COVID-19 pandemic led
2 to approximately two hundred fifty thousand workers in Hawaii
3 losing their jobs, leaving all those families to suffer
4 financially. Exempting groceries and nonprescription drugs from
5 the general excise tax will help many families and allow them to
6 put food on the table and maintain the health of their families.
7 In addition, workers and their families who may save money on
8 groceries and nonprescription drug purchases will be able to
9 spend that money elsewhere in the economy, thus allowing the
10 money to continue to circulate, which will help many businesses
11 and continue to generate revenue for the State.

12 The Hawaii department of taxation verbally scored this
13 measure during a hearing of Senate Bill No. 608 (2022) on
14 February 10, 2021 as costing an average of \$230,000,000 per
15 year. The legislature needs to have more information about
16 how this estimate was gathered and a more formal scoring of this
17 measure to estimate the projected fiscal impact to develop an
18 appropriate offset in the form of reducing expenditures or
19 generating additional income from new revenue sources.
20 Considering that a recent 2021 study shows that taxing groceries
21 correlates with increases in food insecurity, this is a priority



1 issue. The study found that taxing groceries on average at 4.2
2 per cent increases the probability of low-income household food
3 insecurity by 3.3 per cent.

4 A new study co-authored by Harry Kaiser, the Gellert Family
5 Professor at the Charles H. Dyson School of Applied Economics
6 and Management, finds that even a slight grocery tax-rate
7 increase could be problematic for many stating, "an increase of
8 one per cent to four per cent may sound small, but after several
9 trips to the grocery store, the extra costs can create serious
10 burdens for the lowest-income families. We found that even the
11 slightest increase in tax rate correlated to an increased
12 likelihood of food insecurity. Grocery taxes that rose by just
13 one percentage point led to a higher risk of hunger in
14 households".

15 Yuqing Zheng, associate professor of agricultural economics
16 at the University of Kentucky and former research associate
17 under Kaiser at Cornell and Jason Zhao, Master of Science co-
18 authored *Putting Grocery Food Taxes on the Table: Evidence for*
19 *Food Security Policy-Makers*, which was recently published in the
20 *Food Policy* journal. The study focused on sales taxes on foods
21 at retail outlets such as grocery and convenience stores but not



1 at restaurants. Time and time again, research shows that taxing
2 groceries is one of the worst policies state governments can
3 enact to erode food security and resilience, hurt working
4 families, and increase poverty. Given woes of the current
5 economy, it is time for elected officials to develop a workable
6 roadmap for weaning government off this regressive tax policy.

7 Hawaii has a long way to go in improving food insecurity
8 and resilience in the State. Removing the general excise tax
9 from food and medicine is a step that the State can take today
10 that will substantially and positively impact the State's food
11 insecurity and resilience crisis. Currently, thirteen states
12 impose levies on groceries. Seven states tax groceries at the
13 level of the ordinary tax rate including Alabama, Mississippi,
14 South Dakota, Hawaii, Idaho, Kansas and Oklahoma. The other six
15 states, Arkansas, Illinois, Missouri, Tennessee, Utah, and
16 Virginia, tax groceries at reduced rates. Taxing food not only
17 hurts those living paycheck to paycheck, but it also erodes
18 savings and investment opportunities for the middle class and
19 makes Hawaii a much less desirable place to start a food-related
20 business. If Hawaii is to meet its goals of increasing the
21 availability of locally grown and manufactured food, it must



1 show that it prioritizes making the food supply chain resilient
2 with its budget.

3 Hawaii is the most remote location in the world
4 geographically, which puts it at a huge disadvantage when
5 addressing concerns of food resilience. A resilient food system
6 can withstand and recover from disruptions in a way that ensures
7 a sufficient supply of acceptable and accessible food for all.
8 The State has a lot of work to do to ensure that this becomes a
9 reality. With government estimates that Hawaii has a three-day
10 food supply in the likely event of our ports being shuttered
11 from a natural disaster, the State should expect legislators to
12 act with extreme urgency to support the State's local food
13 supply chain's resilience.

14 The purpose of this Act is to:

- 15 (1) Exempt general excise tax for the sale of groceries
16 that are eligible under the Supplemental Nutrition
17 Assistance Program or Special Supplemental Nutrition
18 Program for Women, Infants, and Children; and
19 (2) Exempt general excise tax for the sale of
20 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- Exemption for eligible groceries. (a) There
5 shall be exempted from, and excluded from the measure of, the
6 taxes imposed by this chapter all of the gross proceeds or
7 income received from the sale of all groceries eligible for
8 purchase under the federal Supplemental Nutrition Assistance
9 Program and Special Supplemental Nutrition Program for Women,
10 Infants, and Children within the State, regardless of the means
11 of purchase and the eligibility of the purchaser for
12 Supplemental Nutrition Assistance Program or Special
13 Supplemental Nutrition Program for Women, Infants, and Children
14 benefits.

15 (b) For the purposes of this section:

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

20 "Groceries" means any food or food product for home
21 consumption. "Groceries" may be further defined by the



1 department by rule through the enumeration of items in rules or
2 tax informational release; provided that the department shall
3 consult with the federal Food and Nutrition Service of the
4 United States Department of Agriculture in further defining the
5 term "groceries" for purposes of the Supplemental Nutrition
6 Assistance Program and Special Supplemental Nutrition Program
7 for Women, Infants, and Children.

8 §237- Exemption for nonprescription drugs. (a) There
9 shall be exempted from, and excluded from the measure of, the
10 taxes imposed by this chapter all of the gross proceeds or
11 income received from the sale of nonprescription drugs.

12 (b) For the purposes of this section:

13 "Drug" means:

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



S.B. NO. 1555

Report Title:

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

Description:

Exempts the sale of groceries that are eligible under the Supplemental Nutrition Assistance Program or Special Supplemental Nutrition Program for Women, Infants, and Children and the sale of nonprescription drugs from the general excise tax.

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