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HOUSE COMMITTEE ON HEALTH

TESTIMONY REGARDING HB2759 RELATING TO GENERAL EXCISE TAX

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: FEBRUARY 4, 2008

TIME: 9:30AM

ROOM: 329

*****WRITTEN TESTIMONY ONLY*****

This legislation extends the General Excise Tax (GET) exemption currently allowed for nonprofit hospitals to include for-profit hospitals.

The Department of Taxation (Department) takes **no position** on this legislation, other than its current drafting will have the vast unintended impact of exempting currently taxable activities of a hospital from the GET.

Under the current structure of the GET, an entity that is nonprofit, such as a hospital, is only exempt to the narrow extent of its charitable purpose. For example, a hospital is not taxed on the services of providing immediate healthcare, such as surgery proceeds. **However a nonprofit hospital is subject to GET on all unrelated business income.** An example of activities subject to GET taxable activity carried out by a nonprofit hospital would be parking fees; sales of food in a cafeteria; gift shop sales; certain fundraising; and other activities that derive revenue from activities other than purely hospital services.

This legislation will effectively exempt ALL nonprofit hospital activity from the GET, regardless of whether the activity is related to its exempt purpose. **The reasoning behind any exemption from the GET is because it accommodates the charitable pursuits—not the profit pursuits. This bill will eliminate this logic for all hospitals, public or private.** This legislation will impact all hospitals in Hawaii with currently taxable GET activity, which could theoretically be all hospitals in the state.

As stated, any hospital in the State stands to benefit from this legislation on currently taxable goods or services provided outside the hospital's charitable purpose. **Therefore, this legislation will result in a revenue loss of approximately \$6.3 million per year.**

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Testimony of Daniel Paul de Gracia, II, MA
Concerned Citizen

In Support Of:

H.B. NO. 2759, RELATING TO THE GENERAL EXCISE TAX.
House Committee On Health
Monday, February 4, 2008, 9:30 AM
Hawaii State Capitol, Room 329

Chair Green and Members of the Committee:

The purpose of this measure is to extend the general excise tax exemption for non-profit hospitals, infirmaries, and sanitararia to for-profit hospitals, infirmaries, and sanitararia.

I strongly support H.B. 2759 and urge the members of the committee to pass this bill. Thank you for this opportunity to testify.

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