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## HOUSE COMMITTEE ON PUBLIC SAFETY & MILITARY CONCERNS

### TESTIMONY REGARDING SB 2155 SD 1 RELATING TO GENERAL EXCISE TAX

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

**DATE: MARCH 13, 2008**

**TIME: 8:30AM**

**ROOM: 309**

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This legislation provides a general excise tax exemption for managed care support contractors of the TRICARE program that is established under 10 United States Code chapter 55.

This measure was re-referred to this Committee after the Committees on Health and Intergovernmental & Military Affairs deferred the measure.

The Committee on Economic Development & Taxation passed this measure with amendments.

The Committee on Ways & Means passed this measure unamended.

The Senate passed this measure on third reading.

The Department of Taxation has **no comments** on this legislation other than citing this bill's revenue impact, which was not factored into the Executive Budget or any of its fiscal priorities this session.

This legislation will result in a revenue loss of approximately \$3.6 million for FY 2009 and thereafter. The Department estimated the annual reimbursements of costs or advances to be \$90.3 million.

# HMSA



An Independent Licensee of the Blue Cross and Blue Shield Association

March 13, 2008

The Honorable Cindy Evans, Chair  
The Honorable Sharon Har, Vice Chair

House Committee on Public Safety and Military Affairs

**Re: SB 2155 SD1 – Relating to General Excise Taxation**

Dear Chair Evans, Vice Chair Har and Members of the Committee:

The Hawaii Medical Service Association (HMSA) appreciates the opportunity to testify in support of SB 2155 SD1 which would exempt from the general excise tax amounts received by managed care support contractors as reimbursements of costs or advances made pursuant to a contract for the administration of the federal TriCare program.

This measure would clarify that any amounts received by a managed care support contractor for reimbursements of costs made by the contractor, made pursuant to the contract with the federal government for the administration of the TriCare program, are exempt from the Hawaii General Excise Tax. It seems, at this time, it is unclear as to whether or not TriCare reimbursements are indeed subject to the GET.

SB 2155 SD1 would clear up any confusion on this issue and bring Hawaii in line with every other state in the U.S. (except Texas), that has put this exemption into law. This exemption will truly support the continued availability and strength of the TriCare program and ensure that it is able to provide coverage to the approximately 150,000 current and former military personnel and their family members who reside in Hawaii.

Thank you for the opportunity to provide testimony on SB 2155 SD1.

Sincerely,

Jennifer Diesman  
Assistant Vice President  
Government Relations

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March 13, 2008

TO: Honorable Cindy Evans  
Chair, House Committee on Public Safety & Military Affairs  
Hawaii State Capitol, Room 425  
Via Email: [PSMtestimony@capitol.hawaii.gov](mailto:PSMtestimony@capitol.hawaii.gov)

FROM: Chris Pablo

RE: **S.B. 2155 SD1– Relating to General Excise Tax  
Hearing on Thursday, March 13, 2008 at 8:30 am**

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Dear Chair Evans and Members of the Committee on Public Safety & Military Affairs:

I am Chris Pablo testifying on behalf of TriWest Healthcare Alliance Inc. (“TriWest”), a Delaware corporation headquartered in Phoenix, Arizona. **TriWest supports SB 2155 SD1.**

TriWest is one of several regional third-party administrators or fiscal intermediaries of a cost-effective, high quality network of health care providers for the nation's active and retired uniformed service members and their families, under a federal government program known as “TRICARE” and formerly known as “CHAMPUS.”

**What is TRICARE?** The Federal Government has established a managed health care program for members of the uniformed services and certain dependents. It was created in the early 1990s to supplement the existing military health care delivery system and provide health care services for active duty military personnel, military retirees, and their families (collectively, the “Beneficiaries”) by utilizing civilian health care providers.

In Hawaii, the Beneficiaries have access to the military health care facilities, such as the Tripler Army Medical Center and to health care clinics on military bases through the state. In addition, the Beneficiaries have access to medical services through the network of community health care providers that has been created by TriWest.

TRICARE receives its funding as part of the annual defense appropriations budget. It is administered by the TRICARE Management Activity (“TMA”), which is part of the United States Department of Defense (“DoD”), Office of the Assistant Secretary of Defense (Health Affairs).

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**What is TriWest?** In the health care industry, TriWest's business would be characterized as a "third-party administrator." TriWest, known as a "managed care support contractor" in the applicable Federal laws and regulations, is a disbursing agent for the Federal Government in the western states, including Hawaii. Its job is to receive claims and invoices from health care providers, and then pay those claims according to the amounts and guidelines set by the Government ("reimbursement"). The Government then reimburses TriWest for the amounts paid, and also pays TriWest an **administrative fee** for its services. This is best illustrated in the attached PowerPoint slide.

TriWest pays Hawaii General Excise Tax on the amounts it receives from TRICARE as compensation for its services as *managed care contractor*, but it does not pay tax on the reimbursement amounts. In prior discussion with representatives of the Department of Taxation, there was some concern that the reimbursement amounts might be taxable. If they are taxable, the costs for health care of uniformed service members would increase significantly. TriWest is asking the Department of Taxation for formal clarification of this issue, and is concurrently asking the Legislature for similar relief.

**What is the purpose of SB 2155 SD1?** The purpose of SB 2155 SD1 is to make clear that the amounts received by TriWest from TRICARE as "reimbursements" are exempt from the imposition of the General Excise Tax by amending Section 237-24.75 by adding a new subsection (3). The proposed subsection (3) will read, as follows:

"Amounts received by a managed care support contractor of the TRICARE program that is established under 10 United States Code chapter 55, *as amended*, for reimbursement of costs or advances made pursuant to a contract with the United States; and"

**Amendment to effective requested**

TriWest requests that the effective date be made **retroactive to January 1, 2005** because if the effective date is "upon adoption", all reimbursements received after January 1, 2005 to the date of adoption would still be subject to the possibility of being assessed the general excise tax.

We thank you for the opportunity to testify in support of SB 2155 SD1.

# *Will the State of Hawaii lose revenue if SB 2155 or HB 2306 becomes law?*

- **No!**

- GET taxes have never been paid for “reimbursements” received by a “managed care support contractor” by TriWest and predecessor contractors
- Managed care support contractors have never been assessed GET on reimbursements
- Don’t know nor can we explain how Dept. of Taxation arrived at \$3.6 million/yr revenue loss
  - Dept. of Taxation estimated annual reimbursements of \$90.3 million/yr=\$3.6 million GET @4% (see SSCR2375/SB 2155 SD1)
  - Note: TriWest’s annual “reimbursements” received from TRICARE are approximately \$30 million/yr.



US Department of Defense  
Military Health System



**REIMBURSEMENT**

*For Medical Services  
Provided to  
Hawaii-based TRICARE beneficiaries*

*\$30 million/year*

**ADMINISTRATIVE FEES**

*\$3.5 million/year  
\$157,500 in GE Taxes/yr*

**HB 2306**

**SB 2155**

**Propose to**

**Amend §237-24.75**

**to address the  
"pass through"  
of**

**reimbursements**



*aka "TPA"  
Third-party Administrator*

*Managed care support contractor*

**Network Health Care Providers**

*Medical services & supplies*



**Soldiers, Sailors, Airmen, Dependents, Retirees**

*Beneficiaries*

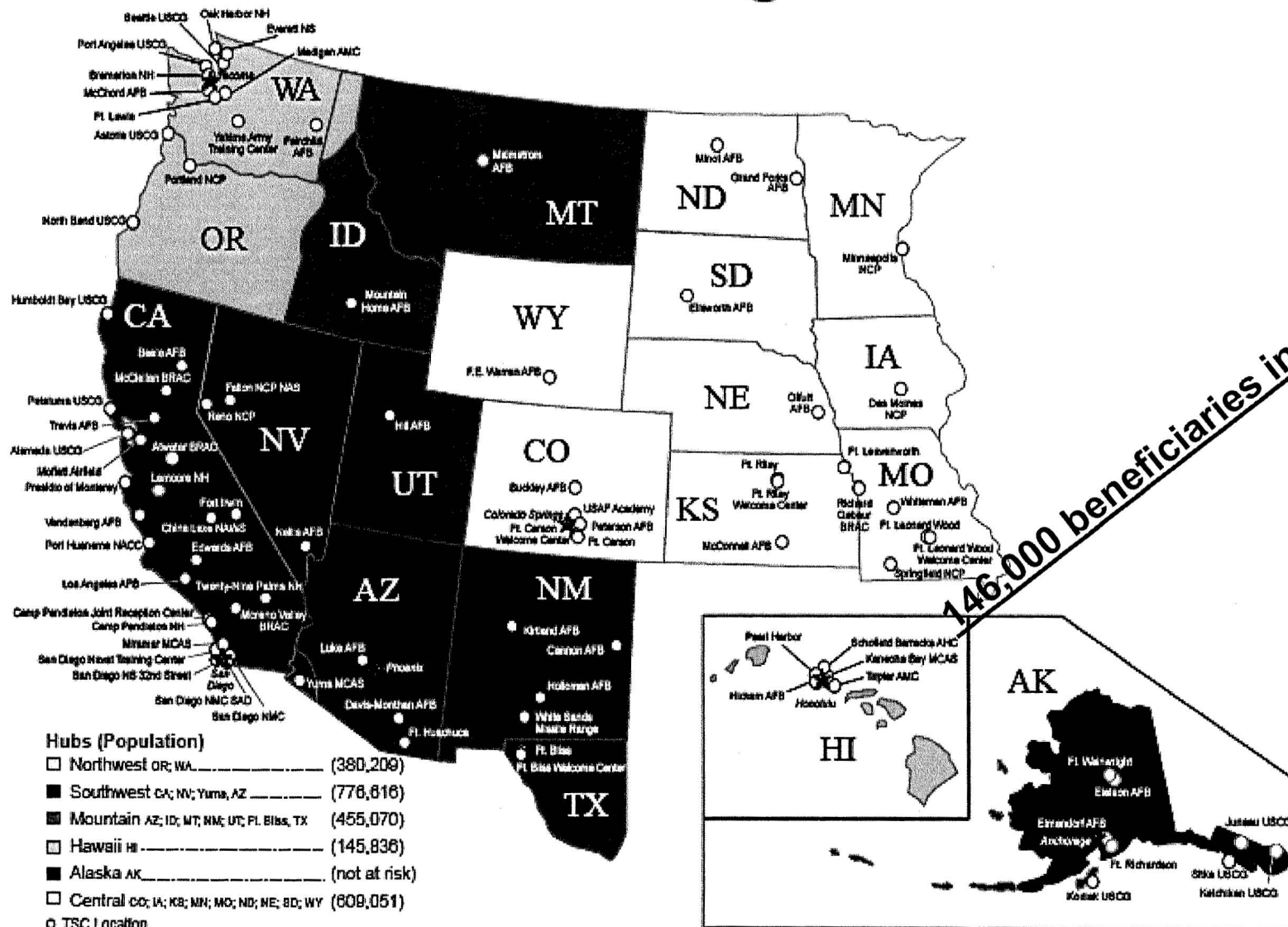
# *Who's who?*

## *What it is and What it's not*



- Federal government program fka CHAMPUS nka TRICARE
- U.S. Dept. of Defense (DoD) health care entitlement program for “beneficiaries”:
  - Active duty, guard and reserve
  - Military retirees
  - Dependents and survivors
- Optimizes delivery at military treatment facilities by supplementing access to civilian health care networks
- Funding from the DoD budget
- NOT an insurance plan, but rather a health care entitlement earned by military members for their service to our country
- Privately held, Phoenix-based corporation
- Contractor with DoD – *managed care support contractor* [10 USC Chapter 55]
- “Third-party administrator” (TPA) or “fiscal intermediary”
- Contracts with private-sector health care providers to serve “beneficiaries”
- Administers 21-state TRICARE West Region
  - Hawaii: serves 146,000 *beneficiaries*
- Monitored by TRICARE Management Authority, a department within DoD
- NOT an insurance company
- NOT a health care provider

# TRICARE West Region Overview



The TRICARE West Region includes the 21 states identified above and a section of western Texas, including El Paso and the area surrounding Fort Bliss. Exceptions: The Rock Island Arsenal area of Iowa, and certain ZIP codes in St. Louis, MO.



# *Does TriWest pay general excise taxes?*

- **Yes!**
- **\$157,500 per year in general excise tax** is paid to the State of Hawaii on gross receipts of \$3.5 million
- Taxable gross receipts of \$3.5 million per year are paid by TRICARE to TriWest for various Administrative fees:
  - Clinical Support Fee
  - Disease Management Program Fees
  - Enrollment Fees received from “beneficiaries”
  - Claims processing fees
  - Underwriting Fee
- SB 2155 and HB 2306 do not affect nor change this!

## *What's the purpose for SB 2155 and HB 2306?*

- In prior discussions with representatives of the Department of Taxation—they expressed some concern that the ***reimbursements*** might be taxable
- Consequences if taxable:
  - Costs for health care of military ***beneficiaries*** would significantly increase
  - Can't pass on GET expense to TRICARE/DoD, i.e., the federal government

## *What will SB 3155 and HB 2306 accomplish?*

- Clarifies that “**reimbursements**” from TRICARE to TriWest to pay TRICARE-authorized civilian health care providers (i.e., hospitals, clinics, individual physicians, and other health care providers) for medical services provided to TRICARE **beneficiaries** are exempt from the general excise tax

## *How?*

- By adding a new category of specific transactions to the “additional exemptions” section of Chapter 237 (§237-24.75)
  - The new subsection (3) will only apply to amounts received by a *managed care support contractor* of the TRICARE program . . . for *reimbursement* of costs or advances made to *health care providers* pursuant to a contract with the United States