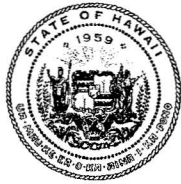


LATE

LINDA LINGLE
GOVERNOR
JAMES R. AIONA, JR.
LT. GOVERNOR



KURT KAWAFUCHI
DIRECTOR OF TAXATION
SANDRA L. YAHIRO
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STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
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HOUSE COMMITTEE ON HEALTH
TESTIMONY REGARDING SB ⁴²⁷~~472~~
RELATING TO GENERAL EXCISE TAX

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: MARCH 17, 2009
TIME: 8:30AM
ROOM: 329

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.

The Department of Taxation (Department) has no comments on this legislation other than citing that this exemption was not factored into the Executive Budget or any of its fiscal priorities this session.

The Department is precluded from providing a specific revenue impact because of the limited taxpayer population that the Department utilizes to arrive at its revenue estimates. The Department suggests that the Committee determine the revenue loss of any proposed tax relief by discussing the matter directly with taxpayers that will benefit from the measure.

HMSA

LATE



An Independent Licensee of the Blue Cross and Blue Shield Association

March 17, 2009

The Honorable Ryan Yamane, Chair
The Honorable Scott Nishimoto, Vice Chair

House Committee on Health

Re: SB 427 – Relating to General Excise Taxation

Dear Chair Yamane, Vice Chair Nishimoto and Members of the Committee:

The Hawaii Medical Service Association (HMSA) appreciates the opportunity to testify in support of SB 427.

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 (GET).

SB 427 would bring Hawaii in line with every other state in the U.S. (except Texas). This exemption will truly support the continued availability and strength of the TriCare program and ensure that HMSA is able to continue providing coverage to the approximately 150,000 current and former military personnel and their family members who reside in Hawaii.

Sincerely,

A handwritten signature in black ink, appearing to read "JD", with a long horizontal flourish extending to the right.

Jennifer Diesman
Assistant Vice President
Government Relations

TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, Exempt reimbursements for TRICARE program

BILL NUMBER: SB 427; HB 702 (Identical)

INTRODUCED BY: SB by Ige, Baker, Chun Oakland, Green, Ihara and 4 Democrats; HB by Yamane, M. Lee, Nishimoto, Tsuji, Yamashita and 4 Democrats

BRIEF SUMMARY: Amends HRS section 237-24.75 to clarify that amounts received by a managed care support coordinator of the TRICARE program established under the 10 United States Code chapter 55 for reimbursement of costs or advances made to health care providers pursuant to a contract with the United States shall be exempt from general excise taxation.

EFFECTIVE DATE: July 1, 2009

STAFF COMMENTS: The TRICARE program was established by the U.S. Department of Defense (DOD) as the managed care component of the Military Health Care system to augment the health care services provided to DOD personnel at military treatment facilities. TRICARE contracts with third-party administrators (managed care support contractors) to establish and maintain networks of TRICARE-authorized civilian health care providers. These managed care support contractors make advances to health care providers for the services they provide to TRICARE beneficiaries and are reimbursed by the DOD for the amounts of such advances.

This measure clarifies that amounts received by the managed care support coordinators as reimbursements from the DOD for advances they made on behalf of the DOD for TRICARE program purposes are not taxable under Hawaii's general excise tax law.

While an understanding of HRS section 237-20 which delineates the cost reimbursement provision under the general excise tax law appears to dictate that such reimbursements are not taxable unless the person making the advance receives additional monetary consideration for the services provided, the adoption of this measure may be unnecessary.

On the other hand, if the third party administrator receives a fee for handling these reimbursements, then it runs into the ban that HRS 237-20 imposes where the fee taints the entire amount received from the DOD. Hawaii law has already set precedent, providing that amounts received as reimbursements for wages, salaries and benefits of hotel workers paid by a hotel operator on behalf of the hotel owner are exempt as are reimbursements made on behalf of the city for the operations of the city's bus system by a third-party operator even though additional consideration is received in both cases. It should be noted that the fee paid to the third party administrator would continue to be subject to the general excise tax as the fee is gross income to the third party administrator.

Digested 1/28/09