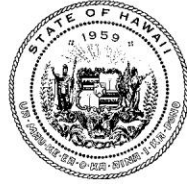


NEIL ABERCROMBIE  
GOVERNOR

SHAN TSUTSUI  
LT. GOVERNOR



STATE OF HAWAII  
**DEPARTMENT OF TAXATION**  
P.O. BOX 259  
HONOLULU, HAWAII 96809  
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FREDERICK D. PABLO  
DIRECTOR OF TAXATION

JOSHUA WISCH  
DEPUTY DIRECTOR

To: The Honorable K. Mark Takai, Chair  
and Members of the House Committee on Veterans, Military & International Affairs &  
Culture and the Arts

To: The Honorable Della Au Belatti, Chair  
and Members of the House Committee on Health

Date: Wednesday, February 12, 2014

Time: 9:25 a.m.

Place: Conference Room 312, State Capitol

From: Frederick D. Pablo, Director  
Department of Taxation

Re: H.B. No. 1772, Relating to the General Excise Tax

The Department of Taxation (Department) appreciates the intent of H.B. 1772 to provide a general excise tax exemption to support health care administrators and provides the following comments for your consideration.

H.B. 1772 provides a General Excise Tax exemption to contractors that are part of the patient-centered community care program under Title 38, United States Code, Section 8153. The exemption would apply to amounts received by such a contractor for the costs or advancements made to third-party health care providers pursuant to a contract with the United States.

The Department recommends the operative language of the exemption be clarified. The bill's purpose clause describes the exemption as for "costs or advancement to third party health care providers" while the bill's operative language refers to "costs or advancement to the contractor." In addition, the Department believes that the United States Code citation may be incorrect. It appears that the intent was to refer to Section 8153 instead of Chapter 8153. The Department suggests the exemption be amended to read as follows:

- (18) Amounts received by a contractor of the patient-centered community care program that is established by the United States Department of Veteran Affairs under title 38 United States Code, section 8153, as amended, for the actual costs or advancement to third party health care providers pursuant to a contract with the United States.

Thank you for the opportunity to provide comments.

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, Exempt patient-centered community care

BILL NUMBER: SB 2350; HB 1772 (Similar)

INTRODUCED BY: SB by Green, Chun Oakland, Ige and 3 Democrats; HB by Takai and Belatti

BRIEF SUMMARY: Amends HRS section 237-24 to provide that amounts received by a contractor of the patient-centered community care program that is established by the U.S. Department of Veterans Affairs under Title 38, U.S. Code chapter 8153, as amended, as costs or advancement to the contractor pursuant to a contract with the U.S., shall be exempt from the general excise tax.

EFFECTIVE DATE: July 1, 2014

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.

The legislature by Act 70, SLH 2009, clarified 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. Inasmuch as the amounts received by a contractor of the patient-centered community care program are reimbursements similar to those under the TRICARE program, the adoption of these measures would appear to be justified.

Digested 2/4/14

**Roxanne Kamalu**

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**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Tuesday, February 04, 2014 10:03 PM  
**To:** vmitestimony  
**Cc:** teresa.parsons@hawaii.edu  
**Subject:** Submitted testimony for HB1772 on Feb 12, 2014 09:25AM

**HB1772**

Submitted on: 2/4/2014

Testimony for VMI/HLT on Feb 12, 2014 09:25AM in Conference Room 312

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Teresa Parsons	Individual	Support	No

Comments: Representatives, I stand in SUPPORT of this measure. Mahalo for the opportunity to submit testimony.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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**Roxanne Kamalu**

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**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Monday, February 10, 2014 11:19 AM  
**To:** vmitestimony  
**Cc:** jlee@cochawaii.org  
**Subject:** Submitted testimony for HB1772 on Feb 12, 2014 09:25AM

**HB1772**

Submitted on: 2/10/2014

Testimony for VMI/HLT on Feb 12, 2014 09:25AM in Conference Room 329

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Sherry Menor-McNamara	Chamber of Commerce Hawaii	Support	Yes

Comments: This testimony is submitted for Chamber of Commerce Hawaii. Charlie Ota will be testifying in person in place of Sherry Menor-McNamara. Thank you.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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**Testimony of  
Gary M. Slovin / R. Brian Tsujimura/ Mihoko E. Ito  
on behalf of  
TriWest Healthcare Alliance**

DATE: February 10, 2014

TO: Representative Mark Takai  
Chair, Committee on Veterans, Military, International Affairs & Culture and  
the Arts

Representative Della Au Belatti  
Chair, Committee on Health

*Submitted Via [VMITestimony@capitol.hawaii.gov](mailto:VMITestimony@capitol.hawaii.gov)*

RE: **H.B. 1772 – Relating to the General Excise Tax**  
**Hearing Date: Wednesday, February 12, 2014 at 9:25 a.m.**  
**Conference Room: 329**

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Dear Chair Takai, Chair Belatti, and Members of the Joint Committees,

I am testifying on behalf of TriWest Healthcare Alliance Inc. ("TriWest"), a Delaware corporation headquartered in Phoenix, Arizona. TriWest **supports** H.B. 1772.

You may recall that TriWest was the third-party administrator of the TRICARE program for many years. During the time that TriWest served as the third-party administrator of the program it developed a high-quality network of healthcare providers for the nation's active duty and retired uniform service members and their families. During that time, around the year 2009, TriWest approached the legislature for an exemption to the general excise tax ("GET") by amending Section 237 – 24 to add a new subsection (17) to clarify the application of the GET with respect to the TRICARE program. The legislature did adopt that exemption and the TRICARE program has been operating under that exemption since 2009. Last year, TriWest lost the TRICARE contract to a successor company, but the TRICARE program continues to operate under that tax exemption. That exemption provided that the excise tax would not apply to monies handled by TriWest under the TRICARE program to make payments to healthcare providers.

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Gary M. Slovin  
R. Brian Tsujimura  
Mihoko E. Ito  
Tiffany N. Yajima  
Jennifer C. Taylor

1099 Alakea Street, Suite 1400  
Honolulu, HI 96813  
(808) 539-0840



As with the TRICARE program, TriWest will pay the general excise tax on the administrative fees that it receives for coordinating access to the services provided under the new program described below.

Recently, the Department of Veterans Affairs (“VA”), under the leadership of Secretary Eric Shinseki, announced a new program to give veterans greater access to quality healthcare. That new initiative is entitled Patient-Centered Community Care (“PCCC”). The VA in announcing this new program described it as an innovative solution to help the VA medical centers provide quality care to veterans efficiently. This program, which has been funded, provides VA medical centers with the ability to purchase care from local community providers for veterans when VA cannot readily provide care for various reasons such as limited capacity or geographic barriers. This will give eligible veterans access to inpatient specialty care, outpatient specialty care, mental health care, and limited emergency care services.

The program provides a regional contracting vehicle to enable the VA to work with local community healthcare providers to give veterans access to high quality care closer to home. It is well-known that our veterans are in great need of accessible quality care. This program is intended to help accomplish that goal.

Despite the fact that TriWest is no longer the TRICARE contractor, it is a company solely dedicated to serving the military and has continued such efforts here in Hawaii and elsewhere. When the VA went out for bid proposals for the new program to select the contractors, TriWest competed for this new program, and I am pleased to inform you that the VA has awarded three of six regional contracts to TriWest. As in the case of the TRICARE program, TriWest will be responsible for setting up medical provider networks in the regions assigned to it. This will include Hawaii. It is hoped that these networks will be fully established by the spring of this year.

Because this program operates similarly to the TRICARE program, TriWest will facilitate reimbursements from the federal government to providers of healthcare services provided to veterans. Therefore, the same issue that arose in the TRICARE program applies here. As was the case with respect to the TRICARE program, these reimbursement monies might conceivably be subject to the GET. Accordingly, the impact of this is that the excise tax would likely exceed by a significant margin the reimbursements TriWest receives from VA. Hence, as we did in the TRICARE program, we ask for your consideration by establishing the same kind of clarifying exemption as provided for the TRICARE program.

As in the case of the TRICARE program, we have met with the Department of Taxation and discussed this issue. The department stated its understanding and general support but, as in the case of TRICARE, did not feel it could issue a written opinion that the excise tax would not apply. Accordingly, we have come to the legislature to clarify that

the reimbursement amounts described above would not be subject to the general excise tax.

Consequently, the purpose of the bill is to make clear that the amounts received by TriWest from the U.S. government as reimbursements for payments made to clinicians and medical facilities providing care to veterans are to be excluded from the imposition of the general excise tax. This clarification will be made by amending Section 237-24 to add a new subsection 18. The requested language is set out in the bill.

Thank you very much for the opportunity to testify.



Hawaii Chapter, MOAA  
P.O. Box 1185  
Kailua, Hawaii 96734-1185

**Testimony of  
Thomas Smyth  
Military Officers Association of America, Hawaii Chapter  
Before the  
Committee on Veterans, Military & International Affairs & Culture and the Arts  
Wednesday, February 12, 2014, 9:25 am, Room 329  
HB 1772 Relating to the General Excise Tax  
Chairs Takai and Au Belatti, Vice Chairs Ito and Morikawa and Committee  
Members**

**Our chapter of 500 retired and currently serving officers of the Uniformed Services strongly supports HB 1772. This important bill would provide an exclusion from the GET for the contractor who operates the new Patient-Centered Community Care program for veterans.**

**We look forward to the opening of this important and much needed care program.**

**More and more of the increasing number of veterans, especially those who have served in the recent ongoing conflicts in the Middle East, are in need of the services we envision being provided by this program.**

**In the same way that nonprofit entities frequently have a GET exclusion, it is only right that this program have the same benefit.**

**Thank you for the opportunity to provide this testimony.**