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SUBJECT: GENERAL EXCISE, Make TRICARE exclusion permanent

BILL NUMBER: SB 933, HD-1

INTRODUCED BY: House Committee on Health

BRIEF SUMMARY: Amends Act 70, SLH 2009, to make permanent the exclusion from the general excise tax of the amounts received by a managed care support coordinator of the TRICARE program for reimbursement of costs or advances made to health care providers pursuant to a contract with the United States for the administration of the program by repealing the December 31, 2013 sunset provision.

EFFECTIVE DATE: July 1, 2050

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. Note well that this exemption does not apply to the fee paid to the third-party administrator which would continue to be subject to the general excise tax as the fee is gross income to the third party administrator.

While 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, the act contained a December 31, 2013 sunset date. The proposed measure would make this general excise tax exclusion permanent.

Some ask why this exemption is necessary. Normally, such reimbursements of amounts expended on behalf of another taxpayer by an intermediary are not subject to tax if there is no additional consideration for the intermediary's service. However, in this case the intermediary is being compensated for the service of processing the claims for reimbursement. Under HRS section 237-20, that additional consideration would taint the entire amount received by the intermediary including that amount paid over to the health care provider. This would mean that the amount of payment to the health care provider would be subject to the general excise tax twice - once when received by the health care provider and then again when received by the intermediary thereby exacerbating the cost of the health care service.

Digested 3/29/13



Date: March 29, 2013

To: Representative Sylvia Luke, Chair
Representative Scott Nishimoto, Vice Chair
Representative Aaron Ling Johanson, Vice Chair

Fr: Karl Kiyokawa, VP UnitedHealthcare Military & Veterans – Hawai'i

Re: **SB933, SD1, HD1 – Relating to the TRICARE Program**

Hearing April 1, 2013, 2:00 pm, CR 308, State Capitol

Good Morning Chair and Committee Members,

I am Karl Kiyokawa, Vice President of Hawaii Market Operations, testifying on behalf of UnitedHealthcare, Military & Veterans Services a unit of UnitedHealth Group. UHC, M&V was recently chosen to be the Managed Care Support contractor serving nearly 2.9 million TRICARE beneficiaries across the Western United States. The first year of operations began today, April 1, 2013.

UnitedHealth Group is a diversified health and well-being company dedicated to helping people live healthier lives and making health care work better. UnitedHealth Group serves more than 75 million people worldwide.

The purpose of SB933 SD1 HD 1 is to make permanent the existing excise tax exclusion for a managed care support contractor of the TRICARE program for the actual cost of advancement to third party health care providers pursuant to the contract. In other words, UnitedHealthcare Military & Veterans will be making payments to healthcare providers on behalf of the Federal Government. We advance these funds only; this is not UnitedHealthcare revenue but a cost pass through to health care providers.

The bill currently calls for an exclusion that would be made permanent, and we believe that the Committee should consider this, for consistency and planning purposes.

I am happy to answer any questions that the Committee might have.