

**Testimony to the House Committee on Veterans, Military Affairs and  
International Affairs, and Culture and Arts  
Wednesday, March 13, 2013  
8:30 AM  
Conference Room 312**

**RE: SENATE BILL NO. 933, SD1, RELATING TO THE TRICARE PROGRAM**

**Chair Takai, Vice Chair Ito, and members of the committee:**

My name is Charles Ota and I am the Vice President for Military Affairs at The Chamber of Commerce of Hawaii (The Chamber). I am here to state The Chamber's **support of Senate Bill No. 933, SD1**, Relating to The TRICARE Program.

The measure proposes to extend the general excise tax exclusion for amounts received by a managed care support contractor of the TRICARE program for the actual cost or advancement to third party health care providers pursuant to a contract with the United States.

The Chamber's Military Affairs Council (MAC) serves as the liaison for the State in matters relating to the U.S. military and provides oversight for the State's 14.7 billion dollar defense industry.

The proposal recognizes that managed care support contracts are awarded by the United States to extend congressionally mandated health care services to eligible military members, their families, and veterans, and should not be subject to payment of the state GET.

We recommend that the bill be approved.

Thank you very much for the opportunity to testify.



Date: March 11, 2013

To: Representative K. Mark Takai, Chair  
Representative Ken Ito, Vice Chair  
Members of the Committee on Veterans, Military, & International Affairs, &  
Culture and the Arts

Fr: Karl Kiyokawa, Vice President of Hawaii Market Operations,  
UnitedHealthcare Military & Veterans

Re: **SB 933, SD1 – Relating to the TRICARE Program**  
Hearing: March 13, 2013, 8:30 am, Conference Room 312

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 is anticipated to begin 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. Through its businesses, UnitedHealth Group serves more than 75 million people worldwide.

The purpose of SB 933 is to extend 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 health care 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 sunset on December 31, 2015, however, we believe that the Committee should consider, for consistency and planning purposes, making the exclusion permanent.

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

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, Extend TRICARE exclusion

BILL NUMBER: SB 933, SD-1

INTRODUCED BY: Senate Committee on Ways and Means

BRIEF SUMMARY: Amends Act 70, SLH 2009, to extend 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 from December 31, 2013 to December 31, 2015.

EFFECTIVE DATE: July 1, 2010

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. While the proposed measure would extend this provision for another two years until December 31, 2015, it is questionable why this exclusion is not made permanent.

It should be noted that a similar bill was approved by the 2012 legislature but was vetoed by the governor who cited that an effort was underway to review all exemptions from the general excise tax and that since the sunset date did not occur until the end of 2013, this exemption, along with those which were temporarily suspended, "should undergo a fair and comprehensive review at the same time." Unless the department of taxation is forthcoming with a review of the suspended exemptions, this measure should be extended, if not made permanent.

Digested 3/11/13