



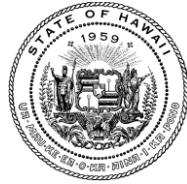
SB 2169

Measure Title: RELATING TO FOOD AND MEDICAL SERVICES.
Report Title: General Excise Tax; Food and Medical Services
Description: Provides an exemption for food and medical services from the general excise tax.

Companion:
Package: None
Current Referral: HMS, WAM
Introducer(s): SLOM

NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



FREDERICK D. PABLO
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STATE OF HAWAII
DEPARTMENT OF TAXATION

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To: The Honorable Suzanne Chun Oakland, Chair
and Members of the Senate Committee on Human Services

Date: Thursday, February 06, 2014

Time: 1:45 p.m.

Place: Conference Room 016, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: S.B. No. 2169, Relating to Food and Medical Services

The Department of Taxation (Department) appreciates the intent of S.B. 2169 to exempt food and medical services from the general excise tax (GET) and provides the following comments for the Committee's consideration.

S.B. 2169 exempts food for home consumption, prepared meals for certain citizens, and medical services.

First, the Department notes the bill would actually create eight new general excise tax exemptions. This is because there are eight separate categories through which food and medical services can be exempted in the bill.

Second, the Department suggests "home consumption" as used in subsection (b)(1) be defined. As written this measure does not contain a definition of this term. With an exemption of this type, the determination of whether a sale is exempt may rest on the definition of this term. In addition, the Department does not have the expertise or resources to determine specifically which "food" would be exempted by subsection (b)(1).

Third, subsection (b)(2) should be clarified. Subsection (b)(2) exempts seeds and plants for use in gardens, but it is not clear from the language of this provision who qualifies as a "eligible household." The Department notes that, as used in this subsection, "personal consumption" seems to preclude the exemption if the food is consumed by anyone other than a household member.

Fourth, as a general matter, amounts received by non-profit organizations that operate senior living facilities for meals and medical care are generally exempt from GET; for these

facilities the exemptions proposed are unnecessary. The Department notes that in most cases, if not all, an organization that can qualify for non-profit tax status will do so as soon as possible because of the substantial tax benefits, both at the federal and state levels.

Fifth, the term "unable adequately to prepare all of their meals" should be clarified. As noted earlier, non-profit organizations providing social welfare services such as delivery of meals to seniors are likely already exempt from the GET.

Thank you for the opportunity to provide comments.

TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, Exempt retail sale of certain food and medical services

BILL NUMBER: SB 2169

INTRODUCED BY: Slom

BRIEF SUMMARY: Adds a new section to HRS chapter 237 to exempt from the general excise tax the gross proceeds arising from the sale of food and medical services in the state. Delineates what foods shall not be taxable and specifies that the exemption shall not apply to prepared food except for those prepared meals provided under a state nutrition program for the elderly or where provided by a nonprofit organization to seniors.

EFFECTIVE DATE: Tax years beginning after December 31, 2014

STAFF COMMENTS: This measure proposes to provide relief from the imposition of the general excise tax on the retail sale of food and medical services. Although the imposition of the 4% tax on food and medical services may be an irritant, it is an irritant that holds elected officials accountable. It reminds the voting public that puts up the money, that elected officials like to spend. Because it is so broad based, it is paid by all taxpayers, lending stability to tax collections. Since food purchases are a large part of the general excise tax base and therefore the collections, elimination of the tax on food cannot be accomplished without a concurrent reduction in spending.

Although the 4% general excise tax is added to every retail sale of goods and services, it is mistakenly referred to as a sales tax since it is commonly shown separately. It should be remembered that it is a tax collected from persons selling all types of goods or services for the privilege of doing business in the state. To single out one type of business for such a broad tax preference is discriminatory. Should lawmakers not find concurrent reductions in spending, there is no doubt that the rates of other taxes, or for that matter the rate imposed on other general excise taxpayers, will have to increase. Should an increase in the general excise tax rate be necessary, it is more than likely that the higher cost of the tax will be passed on to all consumers including grocers who will embed the cost of the higher tax rate in the shelf price of the food products they sell.

This measure would seriously erode the excise tax base, resulting in a substantial loss of tax revenues, and severs accountability for raising revenues from this tax source. If the exemptions are enacted, will the lost revenues be made up by increasing the rates of other taxes or will the rate on other taxable purchases be increased or will government spending be reduced? Because a large segment of household purchases would then be exempt, just how concerned will those taxpayers be about how tax dollars are spent?

If tax relief is the goal of this measure, then an across-the-board reduction in the general excise tax rate would be far more beneficial than an exemption aimed solely at food purchases. A reduction in the general excise tax rate to 3.5% would have the same revenue impact as the exemption of food purchases.

On the other hand, it would have a salutary effect for all businesses in the state. The cost savings touted by proponents would not only benefit grocers, but all businesses, thereby improving the overall business climate rather than just giving away a tax break to grocers.

Then there is an issue about defining what kinds of food sales are taxable. As written, alcoholic beverages, tobacco, "hot foods or hot food products" are not exempt. Do we distinguish between a salad, a warm spinach salad and hot saimin? Other states have had interminable difficulties trying to define taxable versus exempt food.

Finally, lawmakers should consider the stability that the tax on food lends to general excise tax collections. Because food is not a discretionary expense, food purchases tend to even out the peaks and valleys that would result if food were exempt. As proponents of the food exemption point out, food is one purchase that is not discretionary, thus sales of food products will always be a stabilizer of retail activity and therefore general excise tax collections.

While the measure also proposes a general excise tax exemption for medical services, it should be noted that while the cost of the tax is an element in the cost of medical care, it is not by any means the major cost which contributes to the rising cost of health care. For example, costly government regulations and malpractice insurance have often been cited in the rising cost of medical care. Thus, while medical care in toto is expensive, the 4% tax on the amounts received by such medical professionals and facilities is not one of the primary factors behind these costs. It should be remembered that all services, products, and equipment purchased and used by such medical facilities and professionals are subject to the 4% tax, the cost of which still has to be passed on to their patients.

What the proposal does is grant a preference to businesses that provide such care at the expense of all other businesses in the state. If the intent is to alleviate the cost of the tax for being ill, then the tax relief should be focused on the patient and his or her ability to afford the additional impost of the tax on such services or devices.

Digested 2/5/14



February 6, 2014
1:45 PM
Conference Room 016

To: Senate Committee on Human Services
Senator Suzanne Chun Oakland, Chair
Senator Josh Green, Vice Chair

From: Grassroot Institute of Hawaii
President Keli'i Akina, Ph.D.

RE: SB2169 RELATING TO FOOD AND MEDICAL SERVICES
In Support

Dear Chair and Committee Members:

The Grassroot Institute of Hawaii would like to offer its support of SB2169, which would provide an exemption from the general excise tax for food and medical services.

It has been a goal of this body and of the Grassroot Institute to relieve the burden that the high cost of living in Hawaii places on the working men and women of our state. With the average Hawaii family of four paying more than \$1000 dollars per month on groceries—nearly double the national average—this bill represents real and immediate relief for thousands of Hawaii citizens. It is estimated that, if passed, this bill will save the average working family in our state approximately \$450 per year. For many families, that \$450 is the safety net needed to overcome an unexpected expense, such as a car repair or a way to pay the bills during a difficult phase of employment.

Moreover, this bill accomplishes the goal of helping working families in a much more immediate and effective way than tax credits or other programs. It is well known that sales taxes on food, groceries, and medical services represent a larger share of income to lower and moderate working class citizens. This bill will go directly to reducing that financial strain. Furthermore, it is to be expected that the money saved will be put back in to the Hawaii economy, helping our businesses as well.

This bill is narrowly drawn to affect only food consumed at home (and in certain charitable settings), and by passing it, Hawaii would join the 32 other states that also exempt food from sales taxes. Other efforts to make a real difference in helping Hawaii's working families, such as tax credits or an increase in the minimum wage, will have scattershot results at best. This is one of the few proposals before the legislature this year that promises to have a direct, fair, and widespread effect on the well-being of Hawaii's citizens.

Grassroot Institute of Hawaii looks for free market solutions that would strengthen our state's economy while remaining responsive to the needs of our citizens. It is our opinion that SB2169 fits these goals admirably by reducing a tax that creates a disproportionate burden on the low-income and working families of our state.

Thank you for the opportunity to submit our testimony.

Sincerely,

Keli'i Akina, Ph.D.

President, Grassroot Institute of Hawaii



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Stanley Brown, ConAgra Foods - Chairperson
John Schilf, RSM Hawaii - Vice Chair
Derek Kurisu, KTA Superstores - Treasurer
Lisa DeCoito, Aloha Petroleum - Secretary
Lauren Zirbel, Executive Director

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TO:
SENATE COMMITTEE ON HUMAN SERVICES
Senator Suzanne Oakland, Chair
Senator Josh Green, Vice Chair

FROM: HAWAII FOOD INDUSTRY ASSOCIATION
Lauren Zirbel, Executive Director

DATE: February 6, 2014
TIME: 1:45pm
PLACE: Conference Room 16

RE: SB2169

Position: Strong Support

The Hawaii Food Industry Association is comprised of two hundred member companies representing retailers, suppliers, producers and distributors of food and beverage related products in the State of Hawaii.

Here in Hawaii we pay as much as 40% more for food than on the mainland. In spite of that we are not among the 36 states that don't tax groceries and we are not among the seven additional states that have a lower tax rate for groceries. Exempting groceries from the GET makes sense for Hawaii. Bringing down the cost of food is something that is a benefit to everyone, and it is of the greatest benefit to lower and moderate income families which spend a larger proportion of their income on groceries. This is a simple and efficient way to get benefits directly to families.

Exempting groceries from the GET can also be a benefit to the state. The purchase of food for home consumption is a shrinking sector of the economy. In 1960 the average US family spent 17 cents of each consumption dollar on food; in 1995 the average family spent only 8 cents of each dollar on food to eat at home. This means that including groceries in the state's tax base can actually contribute to a long-term decline in tax revenue.

In 2013 there was a surplus in the general fund of \$844 million. This bill would help ensure that rather than being spent on taxes the government doesn't need, that money stays in our economy, in our businesses, and in the hands of the citizens of our state.

Exempting groceries from the GET is the right decision for Hawaii and this is the right time to make this decision.

Please vote yes on this measure.

Thank you for the opportunity to testify.



HAWAII MEDICAL ASSOCIATION

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Phone (808) 536-7702 Fax (808) 528-2376 www.hmaonline.net

DATE: Thursday, February 06, 2014
TIME: 1:45 PM
PLACE: Conference Room 016

TO: COMMITTEE ON HUMAN SERVICES
Senator Suzanne Chun Oakland, Chair
Senator Josh Green, Vice Chair

FROM: Hawaii Medical Association
Dr. Walton Shim, MD, President
Dr. Linda Rasmussen, MD, Legislative Co-Chair
Dr. Ron Keinitz, DO, Legislative Co-Chair
Dr. Christopher Flanders, DO, Executive Director
Lauren Zirbel, Community and Government Relations

RE: SB 2169 RELATING TO FOOD AND MEDICAL SERVICES

Position: Strong Support.

The HMA commends the introducers of this bill.

As you already know, Hawaii is one of the only states that taxes medical services. The most important reason to pass this bill is that reducing the cost of medical services will enhance access to care. Few things are more essential than proper medical care. Reducing costs to patients will enable more people to receive the care they need.

As an added benefit, this legislation will help to encourage more providers to practice in Hawaii. This bill will help to make Hawaii a more viable place to practice medicine. This is a serious problem that Hawaii is struggling to address. We anticipate based on studies conducted on physician workforce that Hawaii will face a 50% shortage of physicians in the next decade. Hawaii desperately needs this bill to attract young health care providers and prevent existing health care providers from leaving the state.

Thank you for hearing this bill and for the opportunity to provide testimony.

Officers

*President - Walton Shim, MD President-Elect – Robert Sloan
Secretary - Thomas Kosasa, MD Immediate Past President – Stephen Kemble, MD
Treasurer – Brandon Lee, MD Executive Director – Christopher Flanders, DO*



HPCA

HAWAII PRIMARY CARE ASSOCIATION

Senate Committee on Human Services

The Hon. Suzanne Chun Oakland, Chair

The Hon. Josh Green, Vice Chair

Testimony in Support of Senate Bill 2169

Relating to Food and Medical Services

Submitted by Robert Hirokawa, Chief Executive Officer

February 6, 2014, 1:45 pm, Room 016

The Hawaii Primary Care Association (HPCA), which represents the federally qualified community health centers in Hawaii, supports Senate Bill 2169, providing an exemption for food and medical services from the general excise tax.

The HPCA is a staunch believer in the social determinants of health, those economic and social conditions that influence an individual and a community's health status. These conditions serve as risk factors endemic to a person's living and working environment, rather than their behavioral or genetic histories. Factors such as income, education, access to recreation and healthy foods, housing, and employment, can and do have measurable impacts on a person and a community, both in health and financial outcomes.

A key component of the social determinant is the expansion of healthy eating habits and the expansion of access to care. For these reasons, we strongly support this measure and thank you for the opportunity to testify.



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SB 2169, Relating to Food and Medical Services
Senate HMS Committee – Thursday, February 06, 2014

1:45 pm - Room 16

Written Testimony by: Dexter Yamada

Position: Support

Chair Chun Oakland and Members of the Senate HMS Committee:

I am Dexter Yamada, President of KYD, Inc. dba: K. Yamada Distributors. KYD, Inc. is a local family run business that originated in the 1940's as a florist and florist supply distributor, and in 1958, evolved into a packaging company. Today, KYD, Inc and its sister company, Hawaii Foam Products, LLC, employ about 100 employees and contribute to Hawaii's economy through taxes and payroll based on \$35 million annual revenue. Our companies manufacture packaging materials such as food-grade EPS (Expanded Polystyrene) food containers, and distribute a variety of supplies, to include compostable containers, for food processors, food establishments, supermarkets, hotels hospitals and other institutions.

We support this measure because an exemption from the general excise tax for food and medical services will provide the citizens more spending money for other things. Merchants will benefit from this additional spending which will help to improve Hawaii's economy.

Thank you for the opportunity to testify.



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