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# A BILL FOR AN ACT

RELATING TO TAXATION.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. The legislature finds that tax exemptions,  
2 exclusions, and credits require periodic review to determine  
3 their tax expenditures, benefits, and continued merit and  
4 necessity. The legislature further finds that tax expenditures  
5 from the exemptions, exclusions, and credits reduce revenues to  
6 the State. This requires ordinary taxpayers who do not benefit  
7 from the exemptions, exclusions, and credits to compensate for  
8 the reduced revenues. Alternatively, funding for important  
9 state programs must be curtailed. The legislature further finds  
10 that good tax policy requires the equal treatment of similarly-  
11 situated taxpayers for the sake of equity and efficiency. When  
12 certain taxpayers receive special benefits to the detriment of  
13 others, it may generate resentment that leads to the loss of the  
14 general public's confidence in fair treatment by the state  
15 government.

16           However, the legislature also believes that certain tax  
17 exemptions, exclusions, and credits are worthy of continuation



1 for equity, efficiency, and economic and social policy. The  
2 legislature finds that review by the department of taxation  
3 would help the legislature to identify and affirm the  
4 exemptions, exclusions, and credits that represent good public  
5 policy.

6 Accordingly, the purpose of this Act is to require the  
7 department of taxation to periodically review certain tax  
8 exemptions, exclusions, and credits under the general excise and  
9 use taxes, public service company tax, and insurance premium  
10 tax. These taxes are generally imposed on gross income or a  
11 similar measure. The legislature finds that this Act is  
12 necessary to promote tax equity and efficiency, adequacy of  
13 state revenues, public transparency, and confidence in a fair  
14 state government.

15 SECTION 2. Chapter 231, Hawaii Revised Statutes, is  
16 amended by adding eleven new sections to be appropriately  
17 designated and to read as follows:

18 "REVIEW OF TAX EXEMPTIONS, EXCLUSIONS, AND CREDITS  
19 §231-A Review of certain exemptions, exclusions, and  
20 credits under the general excise and use taxes, public service  
21 company tax, and insurance premium tax. (a) The department of



1 taxation shall conduct a review of the tax exemptions,  
2 exclusions, and credits listed in sections 231-B to 231-K.

3 (b) In the review of an exemption, exclusion, or credit,  
4 the department of taxation shall:

5 (1) Determine the amount of tax expenditure for the  
6 exemption, exclusion, or credit for each of the  
7 previous three fiscal years;

8 (2) Estimate the amount of tax expenditure for the  
9 exemption, exclusion, or credit for the current fiscal  
10 year and the next two fiscal years;

11 (3) Determine whether the exemption, exclusion, or credit  
12 has achieved and continues to achieve the purpose for  
13 which it was enacted by the legislature;

14 (4) Determine whether the exemption, exclusion, or credit  
15 is necessary to promote or preserve tax equity or  
16 efficiency;

17 (5) If the exemption, exclusion, or credit was enacted  
18 because of its purported economic or employment  
19 benefit to the State:

20 (A) Determine whether a benefit has resulted, and if  
21 so, quantify to the extent possible the estimated



1 benefit directly attributable to the exemption,  
2 exclusion, or credit; and

3 (B) Comment on whether the benefit, if any, outweighs  
4 the cost of the exemption, exclusion, or credit;  
5 and

6 (6) Estimate the annual cost of the exemption, exclusion,  
7 or credit per low-income resident of the State. For  
8 purposes of this paragraph, a "low-income resident of  
9 the State" means an individual who is a resident of  
10 the State and:

11 (A) Is the only member of a family of one and has an  
12 income of not more than eighty per cent of the  
13 area median income for a family of one; or

14 (B) Is part of a family with an income of not more  
15 than eighty per cent of the area median income  
16 for a family of the same size.

17 The cost shall be estimated by dividing the annual tax  
18 expenditure for the exemption, exclusion, or credit  
19 for each fiscal year under review by the number of  
20 low-income residents of the State in the fiscal year.

21 The estimate determined pursuant to this paragraph is



1 intended to display the effect on low-income residents  
2 of the State if they directly receive, either through  
3 tax reduction or negative tax, the dollars saved by  
4 elimination of the exemption, exclusion, or credit.

5 (c) Based on the review, the department of taxation shall  
6 recommend whether the exemption, exclusion, or credit should be  
7 retained without modification, amended, or repealed.

8 The department of taxation may recommend that an exemption,  
9 exclusion, or credit be removed from review under sections 231-B  
10 through 231-K.

11 §231-B Review for 2018 and every tenth year thereafter.

12 (a) The exemptions and exclusions under the general excise and  
13 use taxes listed in subsection (c) shall be reviewed in 2018 and  
14 every tenth year thereafter.

15 (b) The department of taxation shall submit the findings  
16 and recommendations of the reviews to the legislature and  
17 governor no later than twenty days prior to the convening of the  
18 immediately following regular session.

19 (c) This section shall apply to the following:

20 (1) Section 237-3(b)--Gross receipts from the following:

21 (A) Sales of securities;



- 1           (B) Sales of commodity futures;
- 2           (C) Sales of evidences of indebtedness;
- 3           (D) Fee simple sales of improved or unimproved land;
- 4           (E) Dividends; and
- 5           (F) Sales or transfers of materials and supplies,  
6           interest on loans, and provision of services  
7           among members of an affiliated public service  
8           company group;
- 9           (2) Section 237-13(3)(B)--Gross income of contractors from  
10           subcontractors;
- 11           (3) Section 237-13(3)(C)--Reimbursements to federal cost-  
12           plus contractors;
- 13           (4) Section 237-13(6)(D)(i), (ii), (iii), and (iv)--Gross  
14           receipts of home service providers acting as service  
15           carriers;
- 16           (5) Section 237-24.3(11)--Amounts received from aircraft  
17           and aircraft engine rental or leasing;
- 18           (6) Section 237-24.9--Amounts received from aircraft  
19           servicing and maintenance and aircraft service and  
20           maintenance facility construction;



1       (7) Section 238-1, paragraph (6) of the definition of  
2       "use"--The value of aircraft leases or rental and  
3       acquired or imported aircrafts and aircraft engines;  
4       and

5       (8) Section 238-1, paragraph (8) of the definition of  
6       "use"--The value of material, parts, or tools for  
7       aircraft service and maintenance and aircraft service  
8       and maintenance facility construction.

9       §231-C Review for 2019 and every tenth year thereafter.

10      (a) The exemptions, exclusions, and credits under the general  
11      excise tax listed in subsection (c) shall be reviewed in 2019  
12      and every tenth year thereafter.

13      (b) The department of taxation shall submit the findings  
14      and recommendations of the reviews to the legislature and  
15      governor no later than twenty days prior to the convening of the  
16      immediately following regular session.

17      (c) This section shall apply to the following:

18      (1) Section 237-16.5--Gross income of real property  
19      lessees from sublessees;



- 1        (2) Section 237-16.8--Value or gross income of nonprofit  
2        organizations from conventions, conferences, trade  
3        shows, and display spaces;
- 4        (3) Section 349-10--Proceeds earned from annual senior  
5        citizen's fairs;
- 6        (4) Section 237-23.5--Amounts received from common  
7        payments of related entities;
- 8        (5) Section 237-24(13)--Amounts received by blind, deaf,  
9        or totally disabled persons from their business;
- 10       (6) Section 237-24(14)--Amounts received by independent  
11       cane farmers who are sugarcane producers;
- 12       (7) Section 237-24(15)--Amounts received by foster  
13       parents;
- 14       (8) Section 237-24(16)--Reimbursements to cooperative  
15       housing corporations for operating and maintenance  
16       expenses;
- 17       (9) Section 237-24(17)--Amounts received by TRICARE  
18       managed care support contractors; and
- 19       (10) Section 237-24(18)--Amounts received by patient-  
20       centered community care program contractors.





1       §231-D Review for 2020 and every tenth year thereafter.

2       (a) The exemptions and exclusions under the general excise tax,  
3       public service company tax, or insurance premium tax listed in  
4       subsection (c) shall be reviewed in 2020 and every tenth year  
5       thereafter.

6       (b) The department of taxation shall submit the findings  
7       and recommendations of the reviews to the legislature and  
8       governor no later than twenty days prior to the convening of the  
9       immediately following regular session.

10       (c) This section shall apply to the following:

11       (1) Section 239-2, paragraph (5) of the definition of  
12       "gross income"--Gross income of home service providers  
13       of mobile telecommunications services;

14       (2) Section 239-2, exclusions under the definition of  
15       "gross income"--Dividends paid by one member to  
16       another member of an affiliated public service company  
17       group or gross income from the sale or transfer of  
18       materials and supplies, interest on loans, and  
19       provision of services among members of an affiliated  
20       public service company group;



- 1       (3) Section 237-3(b)--Gross receipts from the sale or  
2       transfer of materials and supplies, interest on loans,  
3       and provision of services among members of an  
4       affiliated public service company group;
- 5       (4) Section 239-5.5--Gross income of utilities from  
6       monthly surcharges;
- 7       (5) Section 239-5.6--Gross income of electric utility  
8       companies from cable surcharges;
- 9       (6) Section 239-6.5--Tax credit for lifeline telephone  
10       service subsidies;
- 11       (7) Section 269-172--Green infrastructure charges received  
12       by electric utilities;
- 13       (8) Section 237-29.7--Gross income or gross proceeds  
14       received by insurance companies;
- 15       (9) Section 431:7-207--Tax credit to facilitate regulatory  
16       oversight;
- 17       (10) Section 432:1-403--Exemption for nonprofit medical  
18       indemnity or hospital service associations or  
19       societies specifically from the general excise tax,  
20       public service company tax, or insurance premium tax;  
21       and



1       (11) Section 432:2-503--Exemption for fraternal benefit  
2               societies specifically from the general excise tax,  
3               public service company tax, or insurance premium tax.

4       §231-E Review for 2021 and every tenth year thereafter.

5       (a) The exemptions or exclusions under the general excise and  
6       use taxes listed in subsection (c) shall be reviewed in 2021 and  
7       every tenth year thereafter.

8       (b) The department of taxation shall submit the findings  
9       and recommendations of the reviews to the legislature and  
10       governor no later than twenty days prior to the convening of the  
11       immediately following regular session.

12       (c) This section shall apply to the following:

13       (1) Section 237-24.3(1)--Amounts received from loading,  
14       transporting, and unloading agricultural commodities  
15       shipped interisland;

16       (2) Section 237-24.3(3)(A)--Amounts received from cargo  
17       loading or unloading;

18       (3) Section 237-24.3(3)(B)--Amounts received from tugboat  
19       and towage services;



- 1       (4) Section 237-24.3(3)(C)--Amounts received from the  
2       transportation of pilots or government officials and  
3       other maritime-related services;
- 4       (5) Section 238-1, paragraph (7) of the definition of  
5       "use"--The value of oceangoing vehicles for  
6       transportation from one point to another in the State;
- 7       (6) Section 238-3(g)--The value of imported intoxicating  
8       liquor and cigarettes and tobacco products for sale to  
9       persons or common carriers in interstate commerce;
- 10       (7) Section 238-3(h)--The value of vessels constructed  
11       under section 189-25, relating to commercial fishing  
12       vessel loans, prior to July 1, 1969; and
- 13       (8) Section 237-28.1--Gross proceeds from shipbuilding and  
14       ship repair.

15       §231-F Review for 2022 and every tenth year thereafter.

16       (a) The exemptions or exclusions under the general excise tax  
17       listed in subsection (c) shall be reviewed in 2022 and every  
18       tenth year thereafter.

19       (b) The department of taxation shall submit the findings  
20       and recommendations of the reviews to the legislature and



1 governor no later than twenty days prior to the convening of the  
2 immediately following regular session.

3 (c) This section shall apply to the following:

4 (1) Section 237-24.3(4)--Amounts received by employment  
5 benefit plans and amounts received by nonprofit  
6 organizations or offices for the administration of  
7 employee benefit plans;

8 (2) Section 237-24.3(5)--Amounts received from food  
9 coupons under the federal food stamp program or  
10 vouchers under the Special Supplemental Foods Program  
11 for Women, Infants and Children;

12 (3) Section 237-24.3(6)--Amounts received from the sale of  
13 prescription drugs or prosthetic devices;

14 (4) Section 237-24.3(8)--Amounts received as dues by  
15 unincorporated merchants associations for advertising  
16 or promotion;

17 (5) Section 237-24.3(9)--Amounts received by labor  
18 organizations from real property leases;

19 (6) Section 237-24.75(2)--Reimbursements to the Hawaii  
20 convention center operator from the Hawaii tourism  
21 authority;



1       (7) Section 237-24.75(3)--Reimbursements to professional  
2       employer organizations from client companies for  
3       employee wages and fringe benefits; and

4       (8) Section 209E-11--Amounts received by qualified  
5       businesses in enterprise zones.

6       §231-G Review for 2023 and every tenth year thereafter.

7       (a) The exemptions or exclusions under the general excise and  
8       use taxes listed in subsection (c) shall be reviewed in 2023 and  
9       every tenth year thereafter.

10       (b) The department of taxation shall submit the findings  
11       and recommendations of the reviews to the legislature and  
12       governor no later than twenty days prior to the convening of the  
13       immediately following regular session.

14       (c) This section shall apply to the following:

15       (1) Section 237-24.3(2)--Reimbursements to associations of  
16       owners of condominium property regimes or nonprofit  
17       homeowners or community associations for common  
18       expenses;

19       (2) Section 237-24.5--Amounts received by exchanges or  
20       exchange members;



- 1       (3) Section 237-25(a)(3)--Gross income received from  
2       tangible personal property sales to state-chartered  
3       credit unions;
- 4       (4) Section 237-24.8--Amounts received by financial  
5       institutions, trust companies, trust departments, or  
6       financial corporations acting as interbank brokers;
- 7       (5) Section 237-26--Gross proceeds of scientific  
8       contractors and subcontractors;
- 9       (6) Section 238-3(j)--The value of property or services  
10       exempted by section 237-26, relating to scientific  
11       contracts; and
- 12       (7) Section 237-27--Amounts received by petroleum product  
13       refiners from other refiners.
- 14       §231-H Review for 2024 and every tenth year thereafter.
- 15       (a) The exemptions or exclusions under the general excise tax  
16       listed in subsection (c) shall be reviewed in 2024 and every  
17       tenth year thereafter.
- 18       (b) The department of taxation shall submit the findings  
19       and recommendations of the reviews to the legislature and  
20       governor no later than twenty days prior to the convening of the  
21       immediately following regular session.



- 1        (c) This section shall apply to the following:
- 2        (1) Section 237-24.7(1)--Amounts received by hotel
- 3        operators and hotel suboperators for employee wages
- 4        and fringe benefits;
- 5        (2) Section 237-24.7(2)--Amounts received by a county
- 6        transportation system operator under a contract with
- 7        the county;
- 8        (3) Section 237-24.7(4)--Amounts received by orchard
- 9        property operators for employee wages and fringe
- 10       benefits;
- 11       (4) Section 237-24.7(6)--Amounts received from insurers
- 12       for damage or loss of inventory of businesses located
- 13       in a natural disaster area;
- 14       (5) Section 237-24.7(7)--Amounts received by community
- 15       organizations, school booster clubs, and nonprofit
- 16       organizations for precinct and other election-related
- 17       activities;
- 18       (6) Section 237-24.7(8)--Interest received by persons
- 19       domiciled outside the State from trust companies
- 20       acting as payment agents or trustees on behalf of





1 issuers or payees of interest-bearing instruments or  
2 obligations;

3 (7) Section 237-24.7(9)--Amounts received by management  
4 companies from related entities engaged in interstate  
5 or foreign common carrier telecommunications services  
6 for employee wages and fringe benefits; and

7 (8) Section 237-24.7(10)--Amounts received from high  
8 technology research and development grants.

9 §231-I Review for 2025 and every tenth year thereafter.

10 (a) The exemptions, exclusions, or credits under the general  
11 excise and use taxes and insurance premium tax listed in  
12 subsection (c) shall be reviewed in 2025 and every tenth year  
13 thereafter.

14 (b) The department of taxation shall submit the findings  
15 and recommendations of the reviews to the legislature and  
16 governor no later than twenty days prior to the convening of the  
17 immediately following regular session.

18 (c) This section shall apply to the following:

19 (1) Section 237-27.5--Gross proceeds from air pollution  
20 control facility construction, reconstruction,  
21 operation, use, maintenance, or furnishing;



- 1        (2) Section 238-3(k)--The value of air pollution control  
2            facilities;
- 3        (3) Section 237-27.6--Amounts received by solid waste  
4            processing, disposal, and electric generating facility  
5            operators under sale and leaseback transactions with  
6            political subdivisions that involve the facilities;
- 7        (4) Section 237-29--Gross income of qualified persons or  
8            firms or nonprofits or limited distribution mortgagors  
9            for certified or approved low-income housing projects;
- 10       (5) Section 238-3(j)--The value of property, services, or  
11           contracting exempted by section 237-29, relating to  
12           certified or approved housing projects;
- 13       (6) Section 431:7-208--Credit for low-income housing;
- 14       (7) Section 46-15.1(a)--Gross income from county low-  
15           income housing projects; and
- 16       (8) Section 346-369--Compensation received by provider  
17           agencies for homeless services or homeless facility  
18           management.
- 19       §231-J Review for 2026 and every tenth year thereafter.
- 20       (a) The exemptions or exclusions under the general excise and



1 use taxes listed in subsection (c) shall be reviewed in 2026 and  
2 every tenth year thereafter.

3 (b) The department of taxation shall submit the findings  
4 and recommendations of the reviews to the legislature and  
5 governor no later than twenty days prior to the convening of the  
6 immediately following regular session.

7 (c) This section shall apply to the following:

8 (1) Section 237-29.5--Value or gross proceeds from  
9 tangible personal property shipped out of State;

10 (2) Section 237-29.53--Value or gross income from  
11 contracting or services performed for use outside the  
12 State;

13 (3) Section 238-1, paragraph (9) of the definition of  
14 "use"--The value of services or contracting imported  
15 for resale, consumption, or use outside the State; and

16 (4) Section 237-29.55--Gross proceeds or gross income from  
17 the sale of tangible personal property imported into  
18 the State for subsequent resale.

19 §231-K Review for 2027 and every tenth year thereafter.

20 (a) The exemptions or exclusions under the general excise tax



1 listed in subsection (c) shall be reviewed in 2027 and every  
2 tenth year thereafter.

3 (b) The department of taxation shall submit the findings  
4 and recommendations of the reviews to the legislature and  
5 governor no later than twenty days prior to the convening of the  
6 immediately following regular session.

7 (c) This section shall apply to the following:

8 (1) Section 237-23(a) (3)--Fraternal benefit societies,  
9 orders, or associations for the payment of benefits to  
10 members;

11 (2) Section 237-23(a) (4)--Corporations, associations,  
12 trusts, or societies:

13 (A) Organized and operated exclusively for religious,  
14 charitable, scientific, or educational purposes;

15 (B) Operating senior citizens housing facilities  
16 qualifying for loans under the United States  
17 Housing Act of 1959, as amended;

18 (C) Operating legal service plans; or

19 (D) Operating or managing homeless facilities or  
20 other programs for the homeless;



1       (3) Section 237-23(a)(5)--Business leagues, chambers of  
2       commerce, boards of trade, civic leagues, agricultural  
3       and horticultural organizations, and organizations  
4       operated exclusively for the benefit of the community  
5       or promotion of social welfare, including legal  
6       service plans;

7       (4) Section 237-23(a)(6)--Hospitals, infirmaries, and  
8       sanitaria;

9       (5) Section 237-23(a)(7)--Tax-exempt potable water  
10       companies serving residential communities lacking  
11       access to public utility water services;

12       (6) Section 237-23(a)(8)--Agricultural cooperative  
13       associations incorporated under state or federal law;

14       (7) Section 237-23(a)(9)--Persons affected with Hansen's  
15       disease and kokuas with respect to business within the  
16       county of Kalawao;

17       (8) Section 237-23(a)(10)--Corporations, companies,  
18       associations, or trusts organized for cemeteries; and

19       (9) Section 237-23(a)(11)--Nonprofit shippers."

20       SECTION 3. In codifying the new sections added by section  
21       2 of this Act, the revisor of statutes shall substitute



1 appropriate section numbers for the letters used in designating  
2 the new sections in this Act.

3 SECTION 4. New statutory material is underscored.

4 SECTION 5. This Act shall take effect on July 1, 2017.



**Report Title:**

Tax Exemptions, Exclusions, and Credits; Department of Taxation Review

**Description:**

Requires the Department of Taxation to periodically review certain exemptions, exclusions, and credits under the general excise and use taxes, public service company tax, and insurance premium tax. (SB2547 HD1)

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

