

DAVID Y. IGE  
GOVERNOR  
JOSH GREEN M.D.  
LT. GOVERNOR



LINDA CHU TAKAYAMA  
DIRECTOR OF TAXATION

DAMIEN A. EEFANTE  
DEPUTY DIRECTOR

DEPT. COMM. 155

STATE OF HAWAII  
DEPARTMENT OF TAXATION  
P.O. BOX 259  
HONOLULU, HAWAII 96809  
PHONE NO: (808) 587-1540  
FAX NO: (808) 587-1560

December 19, 2018

The Honorable Ronald D. Kouchi,  
President and Members of the Senate  
Thirtieth Legislature  
State of Hawaii  
State Capitol, Room 409  
Honolulu, Hawaii 96813

The Honorable Scott Saiki,  
Speaker and Members of the House  
of Representatives  
Thirtieth Legislature  
State of Hawaii  
State Capitol, Room 431  
Honolulu, Hawaii 96813

Dear President Kouchi, Speaker Saiki, and Members of the Legislature:

For your information and consideration, I am transmitting a copy of the 2017 General Excise and Use Tax Exemptions Claimed by Hawaii Taxpayers Report, as required by Section 231-3.4(a)(4), Hawaii Revised Statutes. In accordance with Section 93-16, Hawaii Revised Statutes, I am also informing you that the report may be viewed electronically at [http://tax.hawaii.gov/stats/a5\\_1annual/](http://tax.hawaii.gov/stats/a5_1annual/).

Sincerely,

A handwritten signature in black ink, appearing to read "Linda Chu Takayama".

LINDA CHU TAKAYAMA  
Director of Taxation

Enclosure

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# **Hawaii General Excise & Use Tax Exemptions**

**Tax Year 2017**

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**DEPARTMENT OF TAXATION  
STATE OF HAWAII**

# STATE OF HAWAII

David Y. Ige, Governor

## DEPARTMENT OF TAXATION

Linda Chu Takayama, Director

Damien A. Elefante, Deputy Director

## TAX RESEARCH & PLANNING

Seth Colby, Tax Research & Planning Officer

Baybars Karacaovali, Economist

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# **Hawaii General Excise & Use Tax Exemptions**

**Tax Year 2017**

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**DEPARTMENT OF TAXATION  
STATE OF HAWAII**

**DECEMBER 2018**

**Prepared by Tax Research and Planning Office**

**WEB SITE: [tax.hawaii.gov](http://tax.hawaii.gov)**



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# 1. INTRODUCTION

This report presents exemptions claimed against the General Excise & Use Tax (GET) for tax (calendar) year 2017. It is the second report of its kind to include data from the Tax Modernization System (TSM) program after last year's report which provided data for the first half of tax (calendar) year 2017. The Department of Taxation ("the Department") reports usually provide data for an entire tax year, but data limitations did not permit the release of a full year of data at the time. Prior to 2017, the Department did not have the capability to conduct a systematic analysis of GET exemptions claimed by taxpayers. Two important things occurred that allowed the Department to collect and process the data required for this report. First, progress on TSM project allowed the Department to collect, process, and organize more taxpayer information related to the GET, including information provided on the Schedule GE where exemption information is provided. Second, the Department adopted a reformatted version of the Schedule GE beginning January 2017 that facilitated the collection of information on exemptions and deductions. The TSM project is not yet complete, yet it is already producing information that allows the Department to create reports like this one that provide useful information regarding economic activity within the State of Hawaii.

Act 94, Session Laws of Hawaii 2015, requires the Department to publish and report on GET exemptions that (1) are tax expenditures at the wholesale rate: (2) are tax expenditures at the retail rate: and (3) may be foregone opportunities to export taxes. This report takes the following approach in meeting the requirements provided by Act 94. First, it identifies the exemptions that are claimed by taxpayers, breaking those exemptions down by tax rate and economic activity. It then provides cost estimates of the tax expenditures that are associated with the exemptions claimed. An explanation on the difference between tax exemptions and tax expenditures are provided later on in the report.

Taxpayer reliance on handwritten forms provides challenges to the production of this report. The exemptions claimed by taxpayers on handwritten forms are especially prone to reporting errors and require meticulous manual corrections. A discussion of how the Department corrected for these errors is presented in the Data Source section (Section 2).

Finally, unlike other reports prepared by the Department, this report goes beyond a mere presentation of data through descriptive statistics and it relies on the determination and categorization of tax expenditures. These decisions are based on a set of debatable assumptions about what constitutes an ideal tax system and what constitutes a tax expenditure as will be discussed in the Tax Expenditures section (Section 4).



## **2. DATA SOURCE**

Data for this report are collected from the Department's GenTax system which is being rolled out as part of the TSM project. The data are from the Schedule GE which is required to be filed along with a taxpayer's periodic GET return (Form G-45). The period for which a taxpayer must submit a form varies. For instance, some taxpayers are required to submit a return every month while others are only required to submit one form per quarter. The Schedule GE reports the amounts and types of GET exemptions claimed.

We extracted 124,895 Schedule GE forms for this study and the items listed in the report are before any subsequent audits but after tax returns were checked for accuracy and manually corrected for reporting errors. In addition, we extracted 1,086,439 Forms G-45 to compute the GET base and liabilities.

The report provides information on all Schedule GE forms submitted with a form G-45 for the filing period between January 1, 2017 and December 31, 2017. The forms include those that were submitted electronically (67,982 forms) and those that were submitted as hard copies (56,913 forms that were handwritten or typed).

We closely inspected the scanned images of hard copy forms through the TSM program and identified various reporting, coding, and scanning errors. In certain cases, there were large differences between the actual and scanned exemption amounts and in others, incorrect exemption codes or business activity classifications were reported. We manually corrected the codes, classifications, and scanning errors in all these cases.

## **3. GENERAL EXCISE & USE TAX EXEMPTIONS**

Hawaii taxpayers claimed 142,555 GET exemptions and deductions for a total amount of \$31.2 billion in tax year 2017. Table 1 lists the dollar amounts and the number of GET exemptions claimed in descending order by exemption amount.

The exemption names are listed preceded by their 3-digit exemptions/deductions (ED) codes and with the corresponding Hawaii Revised Statutes (HRS) section numbers (§ codes) in parentheses. These codes are as indicated on Schedule GE forms and explained in the Department's "General Instructions for filing the General Excise/Use Tax Returns (Rev. 2017)" publication. If the exemption classification is not indicated, cannot be ascertained, or falls outside of the codes listed on the Schedule GE forms, the Department labeled such exemptions claimed as "Unspecified/mislabeled/other" and assigned 99 as their ED code. Finally, to preserve taxpayer confidentiality, the report does not provide the exact number of observations for a given category if there are ten observations or less.

**Table 1**  
**GET Exemptions Claimed for Tax Year 2017**

Exemption	Amount (in \$1,000)	% of Total Amount	Number of Claims	% of Total Claims
130 - Non-profit Organizations (§237-23)	\$5,375,167	17.2%	3,401	2.4%
120 - Foreign Trade Zone Sales (§212-8)	\$4,850,565	15.5%	822	0.6%
148 - Subcontract Deduction (§237-13(3)(B))	\$3,597,950	11.5%	14,082	9.9%
132 - Out of State Sales (§237-29.5(1))	\$2,643,945	8.5%	21,869	15.3%
153 - Wholesale Transactions (§237-29.55)	\$2,148,046	6.9%	5,584	3.9%
113 - Drugs and Prosthetic Devices (§237-24.3(6))	\$1,578,616	5.1%	2,051	1.4%
150 - Taxes Passed On (§§237-24(8), 237-24(9), 237-24(10), 237-24(12))	\$1,375,616	4.4%	48,406	34.0%
141 - Sales to Federal Government and Credit Unions (§237-25(a))	\$1,254,247	4.0%	7,335	5.1%
127 - Maintenance Fees (§§237-24.3(2), 237-24(16))	\$1,252,131	4.0%	7,206	5.1%
100 - Affordable Housing (§§46-15.1, 201H-36 237-29, 238-3(j))	\$1,157,675	3.7%	2,336	1.6%
139 - Real Estate Sales (§237-3(b))	\$1,027,017	3.3%	1,023	0.7%
143 - Service Related to Ship & Aircraft (§237-24.3(3))	\$454,838	1.5%	313	0.2%
112 - Discounts and Returned Merchandise (§237-3(b))	\$442,314	1.4%	3,386	2.4%
115 - Enterprise Zones (§209E-11)	\$434,780	1.4%	784	0.5%
114 - Employee Benefit Plans (§237-24.3(4)).	\$377,787	1.2%	321	0.2%
118 - Federal Preempted Amount (§§237-22, 238-3(a))	\$356,575	1.1%	900	0.6%
119 - Food Stamps and WIC (§237-24.3(5))	\$328,165	1.1%	4,018	2.8%
124 - Intercompany Charges (§237-23.5(a))	\$316,070	1.0%	1,593	1.1%
133 - Out of State Services/Contracting to Foreign Customers (§238-2.3(1)(C))	\$303,849	1.0%	2,518	1.8%
116 - Exported Services (§237-29.53)	\$278,865	0.9%	1,737	1.2%
101 - Air Pollution Control Facilities (§§237-27.5, 238-3(k))	\$208,123	0.7%	385	0.3%
126 - Subleases of Real Property (§237-16.5)	\$194,432	0.6%	3,687	2.6%
144 - Shipbuilding and Ship Repairs (§237-28.1).	\$185,565	0.6%	474	0.3%
109 - Certain Oahu Sales (§237-8.6)	\$181,830	0.6%	924	0.6%
142 - Scientific Contracts (§§237-26, 238-3(j)).	\$172,824	0.6%	780	0.5%
140 - Reimbursement of Payroll Costs (§237-24.7(9))	\$101,472	0.3%	193	0.1%
122 - Hotel Operator/Suboperator (§237-24.7(1))	\$81,956	0.3%	392	0.3%
117 - Federal Cost-Plus Contractors (§237-13(3)(C))	\$64,140	0.2%	170	0.1%
137 - Professional Employer Organizations (§237-24.75(3))	\$54,038	0.2%	253	0.2%
103 - Aircraft Service and Maintenance Facility (§§237-24.9, 238-1)	\$48,393	0.2%	149	0.1%
102 - Aircraft Leasing (§§237-24.3(11), 238-1)	\$45,003	0.1%	58	0.0%
104 - Bad Debts (§237-3(b))	\$43,818	0.1%	1,669	1.2%
108 - Certain Contracts Entered into Before 6/30/2006 (§237-8.6(c))	\$42,085	0.1%	90	0.1%
18E - Income Division for Insurance Agents and Realtors (§237-18(e))	\$38,652	0.1%	185	0.1%
107 - Contracting Activity in an Enterprise Zone (§209E-11)	\$29,209	0.1%	223	0.2%
152 - Wholesale Amusements (§237-4(a)(13))	\$26,153	0.1%	191	0.1%
125 - Labor Organizations (§237-24.3(9))	\$21,548	0.1%	85	0.1%
99 - Unspecified/mislabeled/other	\$19,299	0.1%	418	0.3%
121 - Hawaii Convention Center Operator (§237-24.75(2))	\$17,578	0.1%	34	0.0%
18F - Income Division for Tour Packagers/Travel Agents (§237-18(f))	\$15,843	0.1%	129	0.1%
105 - Certain Convention, Conference and Trade Show (§237-16.8)	\$13,370	0.0%	49	0.0%
129 - Merchants' Association Dues (§237-24.3(8))	\$10,251	0.0%	100	0.1%
154 - Sales Tax Paid Offset (§§237-22(b), 238-3(i))	\$9,723	0.0%	230	0.2%
106 - Common Paymaster Exemption (§237-23.5(b))	\$9,349	0.0%	114	0.1%
145 - Shipping and Handling of Agricultural Commodities (§237-24.3(1))	\$8,427	0.0%	80	0.1%
151 - TRICARE (§237-24(17))	\$7,199	0.0%	225	0.2%
136 - Potable Water (§237-23(a)(7))	\$5,068	0.0%	30	0.0%
131 - Orchard Operator (§237-24.7(4))	\$3,785	0.0%	56	0.0%
138 - Producers (Certain property used) (§238-4)	\$3,745	0.0%	85	0.1%
128 - Mass Transit (§237-24.7(2))	\$3,217	0.0%	24	0.0%

**Table 1 (Cont.)**  
**GET Exemptions Claimed for Tax Year 2017**

<b>Exemption</b>	<b>Amount (in \$1,000)</b>	<b>% of Total Amount</b>	<b>Number of Claims</b>	<b>% of Total Claims</b>
111 - Disability Provisions (§237-24(13))	\$2,217	0.0%	847	0.6%
134 - Patient-Centered Community Care (§237-24(18))	\$2,128	0.0%	78	0.1%
110 - Diplomats and Consular Officials (§§237-24.3(10), 238-1)	\$1,911	0.0%	265	0.2%
135 - Petroleum Refining (§237-27)	\$1,872	0.0%	65	0.0%
147 - Stock Exchange Transactions (§237-24.5)	\$1,579	0.0%	26	0.0%
146 - Small Business Innovation Research Grants (§237-24.7(10))	\$1,576	0.0%	28	0.0%
123 - Insurance Proceeds Received Because of a Natural Disaster (§237-24.7(6))	\$1,511	0.0%	10 or less	n/a
18G - Income Division for Noncommissioned Transient Accommod. (§237-18(g))	\$84	0.0%	58	0.0%
18H - Income Division for Motor Carriers (§237-18(h))	\$34	0.0%	10 or less	n/a
18B - Income Division for Producers and Promoters (§237-18(b))	\$31	0.0%	10 or less	n/a
149 - Sugar Cane Payments to Independent Producers (§237-24(14))	\$2	0.0%	10 or less	n/a
18A - Income Division for Coin Operated Devices (§237-18(a))	\$0	0.0%	10 or less	n/a
<b>TOTAL</b>	<b>\$31,233,257</b>	<b>100.0%</b>	<b>142,555</b>	<b>100.0%</b>

As shown in Table 1, the largest exemptions in terms of the dollar amounts were Non-profit Organizations (\$5.4 billion or 17.2% of total), Foreign Trade Zone Sales (\$4.9 billion or 15.5% of total), Subcontract Deduction (\$3.6 billion or 11.5% of total), Out of State Sales (\$2.6 billion or 8.5% of total), and Wholesale Transactions (\$2.1 billion or 6.9% of total).

The most commonly claimed exemptions were Taxes Passed On (48,406 claims or 34% of total), Out of State Sales (21,869 claims or 15.3% of total), Subcontract Deduction (14,082 claims or 9.9% of total), Sales to Federal Government and Credit Unions (7,335 claims or 5.1% of total), and Maintenance Fees (7,206 claims or 5.1% of total).

A complete list and dollar amounts of exemptions claimed is provided in Appendix Table A-1 grouped by GET rate.

Table 2 shows the dollar amounts and the number of GET exemptions grouped by business activity as indicated on Forms G-45. The largest exemptions in terms of the dollar amounts were in Interest and All Others (\$6.3 billion or 20.3% of total), Wholesaling (\$6.2 billion or 19.9% of total), Retailing (\$6 billion or 19.1% of total), and Contracting (\$4.7 billion or 15.1% of total) categories. The most commonly claimed exemptions were in the Transient Accommodations Rentals (45,756 claims or 32.1% of total), Retailing (33,403 claims or 23.4% of total), Contracting (14,741 claims or 10.3% of total), and Services Including Professional (14,484 claims or 10.2% of total) categories.

**Table 2**  
**GET Exemptions Claimed by Business Activity for Tax Year 2017**

<b>Business Activity</b>	<b>Amount (in \$1,000)</b>	<b>% of Total Amount</b>	<b>Number of Claims</b>	<b>% of Total Claims</b>
<b><u>Wholesale Rate (0.5%)</u></b>				
01. Wholesaling	\$6,224,907	19.9%	11,063	7.8%
02. Manufacturing	\$243,244	0.8%	840	0.6%
03. Producing	\$79,358	0.3%	1,121	0.8%
04. Wholesale Services	\$193,039	0.6%	1,036	0.7%
05. Landed Value of Imports For Resale	\$833,061	2.7%	1,071	0.8%
06. Business Activities of Disabled Persons	\$3,097	0.0%	836	0.6%
<b>07. Wholesale Rate Subtotal</b>	<b>\$7,576,706</b>	<b>24.3%</b>	<b>15,967</b>	<b>11.2%</b>
<b><u>Retail Rate (4.0%)</u></b>				
08. Retailing	\$5,955,739	19.1%	33,403	23.4%
09. Services Including Professional	\$5,005,405	16.0%	14,484	10.2%
10. Contracting	\$4,714,570	15.1%	14,741	10.3%
11. Theater, Amusement and Broadcasting	\$43,337	0.1%	175	0.1%
12. Commissions	\$159,787	0.5%	1,803	1.3%
13. Transient Accommodations Rentals	\$224,851	0.7%	45,756	32.1%
14. Other Rentals	\$1,023,580	3.3%	6,240	4.4%
15. Interest and All Others	\$6,341,497	20.3%	9,478	6.6%
16. Landed Value of Imports For Consumption	\$158,398	0.5%	357	0.3%
<b>17. Retail Rate Subtotal</b>	<b>\$23,627,163</b>	<b>75.6%</b>	<b>126,437</b>	<b>88.7%</b>
<b><u>Insurance Rate (0.15%)</u></b>				
<b>18. Insurance Commissions</b>	<b>\$29,388</b>	<b>0.1%</b>	<b>151</b>	<b>0.1%</b>
<b>GRAND TOTAL</b>	<b>\$31,233,257</b>	<b>100.0%</b>	<b>142,555</b>	<b>100.0%</b>

#### **4. TAX EXPENDITURES**

The prior section of the report focused on GET exemptions. A tax expenditure is not the same as a tax exemption. For purposes of this report, tax expenditures are revenue losses attributable to provisions in the State tax laws which allow a special exclusion, exemption, or deduction from the gross receipts tax. These exemptions (or tax breaks) are deviations from a uniform tax on consumption of Hawaii residents. Tax expenditures are the implied revenue cost of the deviation from a uniform application of the excise and use tax. These exemptions may be viewed as alternatives to other policy instruments, such as spending or regulatory programs.

This report presents GET exemptions that are tax expenditures at the wholesale rate (0.5%) and the retail rate (4.0%), and also presents tax exemptions that are not tax

expenditures but may represent foregone opportunities to export the tax burden. The methodology used in this paper for estimating tax expenditures came from the methodology put forth by Rousslang (2013).<sup>1</sup>

It is important to understand that the decision to label exemptions as tax expenditures at the wholesale or retail rate or not as tax expenditures at all is based on economic parameters and assumptions that are subject to debate. Thus, if the Department's assumptions change, then the distribution of exemptions among the categories may change.

In presenting data on tax exemptions, it is crucial that a clear distinction be made between tax expenditures and revenue estimates. The data presented in this report should not be relied on as an estimate of the amount of revenue that may be realized by repealing an exemption. The reason is that the data presented in this report provide only the amounts of each exemption claimed. An estimate would have to account for the substitution and behavioral effects of repealing an exemption.

Substitution means that if a certain exemption is repealed, a portion of the taxpayers that had been claiming the repealed exemption may be entitled to claim a different exemption for the same activity. As an example, take the enterprise zone exemption. It is possible that taxpayers engaged in business in enterprise zones are exporting the goods and services they sell. Thus, if the enterprise zone exemption were repealed, the taxpayer may instead claim the exported goods and services exemption. This would limit the revenue impact to some amount smaller than the amount claimed under the enterprise zone exemption.

Behavioral factors are the responses of taxpayers affected by the repeal of an exemption. If an exemption is repealed, some taxpayers may cease engaging in formerly exempted activity. In this case, the repeal would not yield the full amount of the tax expenditure, because the gross income previously exempted would no longer be generated.

Additionally, tax expenditures are valued at the tax rate they should be taxed at to achieve the assumed ideal tax system. These assumptions may not agree with the actual tax rates that would apply if an exemption were repealed. For example, each exemption categorized as tax expenditure at the wholesale rate may not qualify for the 0.5% rate under the wholesale rules of section 237-4, Hawaii Revised Statutes.

Table 3 provides a summary of tax expenditures and the corresponding GET exemption amounts, which are then detailed in sections 4.1 through 4.4 below. The report finds that total GET expenditures amounted to \$388 million in tax (calendar) year 2017. Of this amount, current tax laws created \$345 million of tax expenditures (9.9% of total

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<sup>1</sup> Rousslang, Donald (2013), "Tax Expenditures in Paradise," *State Tax Notes*, May 13, pp. 549-558.

GET liability<sup>2</sup>) for final consumption in select industries, primarily for non-profit organizations, drugs and prosthetic devices, and affordable housing (Tax Expenditures at the Retail Rate). The Hawaii tax code granted another \$43 million worth of tax expenditures (1.2% of total GET liability) for business-to-business transactions reducing tax pyramiding effects for specific industries (Tax Expenditures at the Wholesale Rate). In addition, \$212 million (6.1% of total GET liability) was forgone in exemptions that were meant to reduce or eliminate the taxation of exported goods and services (Out of State Sales).

Finally, the total exemptions claimed that can be classified as tax expenditures amounted to \$17.2 billion or 16.5% of the GET base,<sup>3</sup> whereas the total exemption amount for the Out of State Sales category was \$9.5 billion or 9.1% of the GET base (Table 3).

**Table 3**  
**Summary of Tax Expenditures for Tax Year 2017**

	<b>Exemption Amount (in \$1,000)</b>	<b>% of GET Base</b>	<b>Expenditure Amount* (in \$1,000)</b>	<b>% of GET Liability</b>
Tax Expenditures at the Wholesale Rate (0.5%)	\$8,589,928	8.2%	\$42,950	1.2%
Tax Expenditures at the Retail Rate (4.0%)	\$8,633,836	8.3%	\$345,353	9.9%
<b>Subtotal</b>	<b>\$17,223,764</b>	<b>16.5%</b>	<b>\$388,303</b>	<b>11.1%</b>
Out of State Sales**	\$9,506,205	9.1%	\$211,951**	6.1%
Other Exemptions	\$4,260,074	4.1%	\$0	0.0%

\* Tax expenditure estimates are not revenue estimates

\*\* The expenditure amount for Out of State Sales represents forgone taxes, it is not a tax expenditure.

#### **4.1. Tax Expenditures at the Wholesale Rate (0.5%)**

The tax expenditures reported in this section are those that exempt activity that would be taxed at the wholesale rate of GET. These are mostly business-to-business transactions and income splitting among taxpayers. These exemptions are designed to reduce tax pyramiding. Labeling exemptions of business-to-business sales as tax

<sup>2</sup> GET liability is the total taxes due aggregated from Forms G-45.

<sup>3</sup> GET Base is the aggregate taxable income computed from Forms G-45.

expenditures at the 0.5% rate is based on the assumption that all business-to-business sales should be taxed equally.

The results of the analysis suggest that the cost of the tax expenditures that would be subject to the wholesale rate amount to \$43 million in total for tax year 2017 (Table 4).

**Table 4**  
**Tax Expenditures at the Wholesale Rate (0.5%) for Tax Year 2017 (in \$1,000)**

Exemption	Exemption Amount	Expenditure Amount*
101 - Air Pollution Control Facilities (§§237-27.5, 238-3(k))	\$208,123	\$1,041
102 - Aircraft Leasing (§§237-24.3(11), 238-1)	\$45,003	\$225
103 - Aircraft Service and Maintenance Facility (§§237-24.9, 238-1)	\$48,393	\$242
105 - Certain Convention, Conference and Trade Show (§237-16.8)	\$13,370	\$67
106 - Common Paymaster Exemption (§237-23.5(b))	\$9,349	\$47
107 - Contracting Activity in an Enterprise Zone (§209E-11)	\$29,209	\$146
117 - Federal Cost-Plus Contractors (§237-13(3)(C))	\$64,140	\$321
121 - Hawaii Convention Center Operator (§237-24.75(2))	\$17,578	\$88
122 - Hotel Operator/Suboperator (§237-24.7(1))	\$81,956	\$410
124 - Intercompany Charges (§237-23.5(a))	\$316,070	\$1,580
127 - Maintenance Fees (§§237-24.3(2), 237-24(16))	\$1,252,131	\$6,261
129 - Merchants' Association Dues (§237-24.3(8))	\$10,251	\$51
131 - Orchard Operator (§237-24.7(4))	\$3,785	\$19
134 - Patient-Centered Community Care (§237-24(18))	\$2,128	\$11
135 - Petroleum Refining (§237-27)	\$1,872	\$9
138 - Producers (Certain property used) (§238-4)	\$3,745	\$19
143 - Service Related to Ship & Aircraft (§237-24.3(3))	\$454,838	\$2,274
144 - Shipbuilding and Ship Repairs (§237-28.1)	\$185,565	\$928
145 - Shipping and Handling of Agricultural Commodities (§237-24.3(1))	\$8,427	\$42
148 - Subcontract Deduction (§237-13(3)(B))	\$3,597,950	\$17,990
151 - TRICARE (§237-24(17))	\$7,199	\$36
152 - Wholesale Amusements (§237-4(a)(13))	\$26,153	\$131
153 - Wholesale Transactions (§237-29.55)	\$2,148,046	\$10,740
18A - Income Division for Coin Operated Devices (§237-18(a))	\$0	\$0
18B - Income Division for Producers and Promoters (§237-18(b))	\$31	\$0
18E - Income Division for Insurance Agents and Realtors (§237-18(e))	\$38,652	\$193
18F - Income Division for Tour Packagers/Travel Agents (§237-18(f))	\$15,843	\$79
18G - Income Division for Noncommissioned Transient Accommod. (§237-18(g))	\$84	\$0
18H - Income Division for Motor Carriers (§237-18(h))	\$34	\$0
<b>TOTAL</b>	<b>\$8,589,928</b>	<b>\$42,950</b>

\* Tax expenditure estimates are not revenue estimates

## 4.2. Tax Expenditures at the Retail Rate (4.0%)

The tax expenditures reported in this section are those that exempt activity that would ideally be taxed at the retail rate of GET. Unlike tax expenditures at the wholesale rate, these are not business-to-business transactions but transactions between businesses and final consumers or the equivalent thereof.

The total amount of the GET expenditures subject to the 4.0% retail rate was \$345 million in tax year 2017 (Table 5). The largest GET expenditures in dollar amounts were the exemptions for Non-profit Organizations (\$215 million), Drugs and Prosthetic Devices (\$63 million), and Affordable Housing (\$46 million).

**Table 5**  
**Tax Expenditures at the Retail Rate (4.0%) for Tax Year 2017 (in \$1,000)**

<b>Exemption</b>	<b>Exemption Amount</b>	<b>Expenditure Amount*</b>
100 - Affordable Housing (§§46-15.1, 201H-36 237-29, 238-3(j))	\$1,157,675	\$46,307
111 - Disability Provisions (§237-24(13))	\$2,217	\$89
113 - Drugs and Prosthetic Devices (§237-24.3(6))	\$1,578,616	\$63,145
115 - Enterprise Zones (§209E-11)	\$434,780	\$17,391
123 - Insurance Proceeds Received Because of a Natural Disaster (§237-24.7(6))	\$1,511	\$60
125 - Labor Organizations (§237-24.3(9))	\$21,548	\$862
128 - Mass Transit (§237-24.7(2))	\$3,217	\$129
130 - Non-profit Organizations (§237-23)	\$5,375,167	\$215,007
136 - Potable Water (§237-23(a)(7))	\$5,068	\$203
137 - Professional Employer Organizations (§237-24.75(3))	\$54,038	\$2,162
<b>TOTAL</b>	<b>\$8,633,836</b>	<b>\$345,353</b>

\* Tax expenditure estimates are not revenue estimates

## 4.3. Out of State Sales

The following exemptions do not qualify as tax expenditures but are GET exemptions that may represent a lost opportunity to export taxes to nonresidents. These consist of exemptions of exports and exemptions of sales to the federal government. An exemption on exports is not a tax expenditure because it is provided to prevent pyramiding of tax rather than to encourage a certain industry.

The value of the foregone taxes in Out of State Sales in tax year 2017 was \$212 million (Table 6).



**Table 6**  
**Out of State Sales (in \$1,000)**

Exemption	Exemption Amount	Foregone Taxes
110 - Diplomats and Consular Officials (§§237-24.3(10), 238-1)	\$1,911	\$76
116 - Exported Services (§237-29.53)	\$278,865	\$10,648
120 - Foreign Trade Zone Sales (§212-8)	\$4,850,565	\$68,028
132 - Out of State Sales (§237-29.5(1))	\$2,643,945	\$69,785
133 - Out of State Services/Contracting to Foreign Customers (§238-2.3(1)(C))	\$303,849	\$10,481
141 - Sales to Federal Government and Credit Unions (§237-25(a))	\$1,254,247	\$46,380
142 - Scientific Contracts (§§237-26, 238-3(j)).	\$172,824	\$6,553
<b>TOTAL</b>	<b>\$9,506,205</b>	<b>\$211,951</b>

#### 4.4. Other Exemptions

The following exemptions in Table 7 would not be subject to a sales, excise, or other form of consumption tax. This is because the GET is worded so broadly that, without explicit exemptions, it would apply to many sales that are not properly part of a broad-based tax on consumption. For example, the GET contains exemptions for wages of workers, sales of stocks and bonds, bad debts, and sales of land in fee simple. These items are not traditionally included in the base of a sales or excise tax. In the case of food stamps, the federal government does not permit taxation of purchases made with food stamps.

**Table 7**  
**Other Exemptions (in \$1,000)**

Exemption	Exemption Amount	Expenditure Amount*
104 - Bad Debts (§237-3(b))	\$43,818	\$0
112 - Discounts and Returned Merchandise (§237-3(b))	\$442,314	\$0
114 - Employee Benefit Plans (§237-24.3(4)).	\$377,787	\$0
118 - Federal Preempted Amount (§§237-22, 238-3(a))	\$356,575	\$0
119 - Food Stamps and WIC (§237-24.3(5))	\$328,165	\$0
126 - Subleases of Real Property (§237-16.5)	\$194,432	\$0
139 - Real Estate Sales (§237-3(b))	\$1,027,017	\$0
140 - Reimbursement of Payroll Costs (§237-24.7(9))	\$101,472	\$0
146 - Small Business Innovation Research Grants (§237-24.7(10))	\$1,576	\$0
147 - Stock Exchange Transactions (§237-24.5)	\$1,579	\$0

**Table 7 (Cont.)  
Other Exemptions (in \$1,000)**

<b>Exemption</b>	<b>Exemption Amount</b>	<b>Expenditure Amount*</b>
150 - Taxes Passed On (§§237-24(8), 237-24(9), 237-24(10), 237-24(12))	\$1,375,616	\$0
154 - Sales Tax Paid Offset (§§237-22(b), 238-3(i))	\$9,723	\$0
<b>TOTAL</b>	<b>\$4,260,074</b>	<b>\$0</b>

\* Tax expenditure estimates are not revenue estimates



# APPENDIX

**Table A-1  
GET Exemptions Claimed by GET Rate for Tax Year 2017**

<b>Wholesale Rate (0.5%)</b>	<b>Amount (in \$1,000)</b>
100 - Affordable Housing (§§46-15.1, 201H-36 237-29, 238-3(j))	\$20,512
101 - Air Pollution Control Facilities (§§237-27.5, 238-3(k))	\$68,668
103 - Aircraft Service and Maintenance Facility (§§237-24.9, 238-1)	\$1,456
104 - Bad Debts (§237-3(b))	\$1,321
105 - Certain Convention, Conference and Trade Show (§237-16.8)	\$3
106 - Common Paymaster Exemption (§237-23.5(b))	\$974
107 - Contracting Activity in an Enterprise Zone (§209E-11)	\$3,474
108 - Certain Contracts Entered into Before 6/30/2006 (§237-8.6(c))	\$0
109 - Certain Oahu Sales (§237-8.6)	\$14,817
110 - Diplomats and Consular Officials (§§237-24.3(10), 238-1)	\$16
111 - Disability Provisions (§237-24(13))	\$1,857
112 - Discounts and Returned Merchandise (§237-3(b))	\$160,548
113 - Drugs and Prosthetic Devices (§237-24.3(6))	\$19,792
115 - Enterprise Zones (§209E-11)	\$398,051
116 - Exported Services (§237-29.53)	\$14,470
117 - Federal Cost-Plus Contractors (§237-13(3)(C))	\$4,996
118 - Federal Preempted Amount (§§237-22, 238-3(a))	\$51,775
119 - Food Stamps and WIC (§237-24.3(5))	\$74
120 - Foreign Trade Zone Sales (§212-8)	\$3,599,309
122 - Hotel Operator/Suboperator (§237-24.7(1))	\$19,691
123 - Insurance Proceeds Received Because of a Natural Disaster (§237-24.7(6))	\$406
124 - Intercompany Charges (§237-23.5(a))	\$11,471
125 - Labor Organizations (§237-24.3(9))	\$95
126 - Subleases of Real Property (§237-16.5)	\$1,837
127 - Maintenance Fees (§§237-24.3(2), 237-24(16))	\$14,344
128 - Mass Transit (§237-24.7(2))	\$16
130 - Non-profit Organizations (§237-23)	\$26,329
131 - Orchard Operator (§237-24.7(4))	\$403
132 - Out of State Sales (§237-29.5(1))	\$1,024,474
133 - Out of State Services/Contracting to Foreign Customers (§238-2.3(1)(C))	\$47,592
134 - Patient-Centered Community Care (§237-24(18))	\$27
135 - Petroleum Refining (§237-27)	\$105
136 - Potable Water (§237-23(a)(7))	\$66
137 - Professional Employer Organizations (§237-24.75(3))	\$4,825
138 - Producers (Certain property used) (§238-4)	\$2,053
139 - Real Estate Sales (§237-3(b))	\$5

**Table A-1 (Cont.)**  
**GET Exemptions Claimed by GET Rate for Tax Year 2017**

<b>Wholesale Rate (0.5%)</b>	<b>Amount (in \$1,000)</b>
140 - Reimbursement of Payroll Costs (§237-24.7(9))	\$298
141 - Sales to Federal Government and Credit Unions (§237-25(a))	\$108,276
142 - Scientific Contracts (§§237-26, 238-3(j)).	\$10,294
143 - Service Related to Ship & Aircraft (§237-24.3(3))	\$18,769
144 - Shipbuilding and Ship Repairs (§237-28.1).	\$8,575
145 - Shipping and Handling of Agricultural Commodities (§237-24.3(1))	\$8,366
147 - Stock Exchange Transactions (§237-24.5)	\$3
148 - Subcontract Deduction (§237-13(3)(B))	\$4,614
150 - Taxes Passed On (§§237-24(8), 237-24(9), 237-24(10), 237-24(12))	\$338,080
151 - TRICARE (§237-24(17))	\$28
152 - Wholesale Amusements (§237-4(a)(13))	\$2,907
153 - Wholesale Transactions (§237-29.55)	\$1,554,793
154 - Sales Tax Paid Offset (§§237-22(b), 238-3(i))	\$2,556
99 - Unspecified/mislabeled/other	\$3,293
<b>Wholesale Rate Subtotal</b>	<b>\$7,576,706</b>
<hr/>	
<b>Retail Rate (4.0%)</b>	<b>Amount (in \$1,000)</b>
100 - Affordable Housing (§§46-15.1, 201H-36 237-29, 238-3(j))	\$1,137,163
101 - Air Pollution Control Facilities (§§237-27.5, 238-3(k))	\$139,451
102 - Aircraft Leasing (§§237-24.3(11), 238-1)	\$45,003
103 - Aircraft Service and Maintenance Facility (§§237-24.9, 238-1)	\$46,937
104 - Bad Debts (§237-3(b))	\$42,486
105 - Certain Convention, Conference and Trade Show (§237-16.8)	\$13,364
106 - Common Paymaster Exemption (§237-23.5(b))	\$8,376
107 - Contracting Activity in an Enterprise Zone (§209E-11)	\$25,735
108 - Certain Contracts Entered into Before 6/30/2006 (§237-8.6(c))	\$42,085
109 - Certain Oahu Sales (§237-8.6)	\$167,012
110 - Diplomats and Consular Officials (§§237-24.3(10), 238-1)	\$1,894
111 - Disability Provisions (§237-24(13))	\$360
112 - Discounts and Returned Merchandise (§237-3(b))	\$281,765
113 - Drugs and Prosthetic Devices (§237-24.3(6))	\$1,558,824
114 - Employee Benefit Plans (§237-24.3(4)).	\$377,787
115 - Enterprise Zones (§209E-11)	\$36,729
116 - Exported Services (§237-29.53)	\$264,394
117 - Federal Cost-Plus Contractors (§237-13(3)(C))	\$59,143
118 - Federal Preempted Amount (§§237-22, 238-3(a))	\$304,800
119 - Food Stamps and WIC (§237-24.3(5))	\$328,091
120 - Foreign Trade Zone Sales (§212-8)	\$1,250,775

**Table A-1 (Cont.)**  
**GET Exemptions Claimed by GET Rate for Tax Year 2017**

Retail Rate (4.0%)	Amount (in \$1,000)
121 - Hawaii Convention Center Operator (§237-24.75(2))	\$17,578
122 - Hotel Operator/Suboperator (§237-24.7(1))	\$62,264
123 - Insurance Proceeds Received Because of a Natural Disaster (§237-24.7(6))	\$1,104
124 - Intercompany Charges (§237-23.5(a))	\$302,933
125 - Labor Organizations (§237-24.3(9))	\$21,453
126 - Subleases of Real Property (§237-16.5)	\$192,594
127 - Maintenance Fees (§§237-24.3(2), 237-24(16))	\$1,237,786
128 - Mass Transit (§237-24.7(2))	\$3,200
129 - Merchants' Association Dues (§237-24.3(8))	\$10,251
130 - Non-profit Organizations (§237-23)	\$5,348,838
131 - Orchard Operator (§237-24.7(4))	\$3,382
132 - Out of State Sales (§237-29.5(1))	\$1,616,452
133 - Out of State Services/Contracting to Foreign Customers (§238-2.3(1)(C))	\$256,059
134 - Patient-Centered Community Care (§237-24(18))	\$2,101
135 - Petroleum Refining (§237-27)	\$1,767
136 - Potable Water (§237-23(a)(7))	\$5,002
137 - Professional Employer Organizations (§237-24.75(3))	\$49,213
138 - Producers (Certain property used) (§238-4)	\$1,640
139 - Real Estate Sales (§237-3(b))	\$1,027,012
140 - Reimbursement of Payroll Costs (§237-24.7(9))	\$101,175
141 - Sales to Federal Government and Credit Unions (§237-25(a))	\$1,145,971
142 - Scientific Contracts (§§237-26, 238-3(j)).	\$162,530
143 - Service Related to Ship & Aircraft (§237-24.3(3))	\$436,069
144 - Shipbuilding and Ship Repairs (§237-28.1).	\$176,990
145 - Shipping and Handling of Agricultural Commodities (§237-24.3(1))	\$61
146 - Small Business Innovation Research Grants (§237-24.7(10))	\$1,576
147 - Stock Exchange Transactions (§237-24.5)	\$1,577
148 - Subcontract Deduction (§237-13(3)(B))	\$3,593,142
149 - Sugar Cane Payments to Independent Producers (§237-24(14))	\$2
150 - Taxes Passed On (§§237-24(8), 237-24(9), 237-24(10), 237-24(12))	\$1,028,375
151 - TRICARE (§237-24(17))	\$7,171
152 - Wholesale Amusements (§237-4(a)(13))	\$23,246
153 - Wholesale Transactions (§237-29.55)	\$593,253
154 - Sales Tax Paid Offset (§§237-22(b), 238-3(i))	\$7,167
18A - Income Division for Coin Operated Devices (§237-18(a))	\$0
18B - Income Division for Producers and Promoters (§237-18(b))	\$31
18E - Income Division for Insurance Agents and Realtors (§237-18(e))	\$24,066
18F - Income Division for Tour Packagers/Travel Agents (§237-18(f))	\$15,843
18G - Income Division for Noncommissioned Transient Accommod. (§237-18(g))	\$84

**Table A-1 (Cont.)**  
**GET Exemptions Claimed by GET Rate for Tax Year 2017**

<b>Retail Rate (4.0%)</b>	<b>Amount (in \$1,000)</b>
18H - Income Division for Motor Carriers (§237-18(h))	\$34
99 - Unspecified/mislabeled/other	\$15,996
<b>Retail Rate Subtotal</b>	<b>\$23,627,163</b>
<b>Insurance Rate (0.15%)</b>	<b>Amount (in \$1,000)</b>
101 - Air Pollution Control Facilities (§§237-27.5, 238-3(k))	\$5
104 - Bad Debts (§237-3(b))	\$11
105 - Certain Convention, Conference and Trade Show (§237-16.8)	\$3
112 - Discounts and Returned Merchandise (§237-3(b))	\$1
120 - Foreign Trade Zone Sales (§212-8)	\$481
124 - Intercompany Charges (§237-23.5(a))	\$1,666
127 - Maintenance Fees (§§237-24.3(2), 237-24(16))	\$2
132 - Out of State Sales (§237-29.5(1))	\$3,019
133 - Out of State Services/Contracting to Foreign Customers (§238-2.3(1)(C))	\$198
138 - Producers (Certain property used) (§238-4)	\$51
148 - Subcontract Deduction (§237-13(3)(B))	\$194
150 - Taxes Passed On (§§237-24(8), 237-24(9), 237-24(10), 237-24(12))	\$9,161
18E - Income Division for Insurance Agents and Realtors (§237-18(e))	\$14,586
99 - Unspecified/mislabeled/other	\$10
<b>Insurance Rate Subtotal</b>	<b>\$29,388</b>
<b>GRAND TOTAL</b>	<b>\$31,233,257</b>