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# A BILL FOR AN ACT

RELATING TO THE GENERAL EXCISE TAX EXEMPTIONS.

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

1           SECTION 1. The legislature finds that the findings of the  
2 annual report from the Hawaii physician workforce assessment  
3 project submitted to the 2020 legislature determined that there  
4 is a serious twenty-four per cent physician shortage in the  
5 State. The neighbor island shortage is more severe, measuring  
6 forty-four per cent in Hawaii county, thirty-six per cent in  
7 Maui county, and thirty-two per cent in Kauai county. The  
8 federal government has also validated the shortage by  
9 designating Hawaii, Maui, and Kauai counties as health  
10 professional shortage areas. Additionally, Hawaii's  
11 congressional delegation has written to the Centers for Medicare  
12 and Medicaid Services, recognizing the risk to our most  
13 vulnerable communities. Moreover, the legislature recognizes  
14 that the physician shortage will worsen unless mitigating steps  
15 are taken immediately.

16           The legislature further finds that the general excise tax  
17 and related county surcharges are levied on Hawaii businesses on



1 the sale of goods and services. The general excise tax applies  
2 to medical services provided by group and private practice  
3 physicians, making Hawaii the only state taxing medical services  
4 in this way. The general excise tax and related county  
5 surcharges are applied to the gross receipts of Hawaii medical  
6 practices without regard to the high costs of providing medical  
7 services in a high cost state. Community physicians are often  
8 operating small businesses with narrow profit margins, and  
9 medicare, medicaid, and private insurer payments for medical  
10 services are well below national levels. The general excise tax  
11 and related county surcharges make medical practices unviable,  
12 resulting in practice closures and challenges in recruiting and  
13 retaining new or younger physicians.

14 The legislature also finds that the general excise tax and  
15 related county surcharges are highly regressive forms of  
16 taxation and disproportionately and adversely affect low-income  
17 and middle class families struggling to cope with the State's  
18 high cost of living. Currently, physicians who receive  
19 medicare, medicaid, and tricare payments are subject to the  
20 general excise tax, although they may recoup this cost from  
21 patients as a way to recover the expense. However, most



1 physicians do not currently pass along this cost to patients,  
2 but this practice may soon have to change.

3       The legislature further finds that while hospitals and  
4 their employed physicians are exempt from the general excise tax  
5 and related county surcharges, many Hawaii hospitals continue to  
6 operate at a loss. If the general excise tax were imposed on  
7 hospitals, it would result in nearly all hospitals having  
8 negative margins, essentially taxing the institutions out of  
9 business and significantly impairing patient access to health  
10 care. Therefore, in order to safeguard patient access to care,  
11 medical services performed within group and private practice  
12 should be exempt from the general excise tax and related county  
13 surcharges.

14       The purpose of this Act is to help reduce the impact of the  
15 general excise tax on the shortage of physicians by exempting  
16 all gross proceeds from medical services by physicians from the  
17 general excise tax.

18       SECTION 2. Chapter 237, Hawaii Revised Statutes, is  
19 amended by adding a new section to be appropriately designated  
20 and to read as follows:



1        "§237-        Exemption for medical services by physicians.

2        (a) There shall be exempted from, and excluded from the measure  
3 of, the taxes imposed by this chapter, on all of the gross  
4 proceeds arising from medical services provided by physicians.

5        (b) As used in this section, "medical services" provided  
6 by physicians includes those services provided within hospitals,  
7 medical clinics, and private medical practices that are  
8 performed by licensed practitioners that are rendered under  
9 chapter 453."

10        SECTION 3. New statutory material is underscored.

11        SECTION 4. This Act, upon its approval, shall apply to  
12 taxable years beginning after December 31, 2019.

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INTRODUCED BY: *[Signature]*  
*[Signature]*  
*[Signature]*  
*[Signature]*  
*[Signature]*

# S.B. NO. 2327

**Report Title:**

General Excise Tax; Exemption; Medical Services

**Description:**

Provides a general excise tax exemption for medical services after December 31, 2019.

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

