



Testimony to the House Committee on Consumer Protection & Commerce
Representative Aaron Ling Johanson, Chair
Representative Lisa Kitagawa, Vice Chair
Friday, February 11, 2022, 2:00 p.m.
Via videoconference

HB 1960, Relating to Nonprofit Organizations

Dear Chair Johanson, Vice Chair Kitagawa, and members of the Committee on Consumer Protection and Commerce:

On behalf of the Hawai'i Alliance of Nonprofit Organizations (HANO), I would like to thank you for hearing **HB 1960**. We testify in **strong support** of this bill.

HANO is a statewide, sector-wide professional association of nonprofits. Our mission is to unite and strengthen the nonprofit sector as a collective force to improve the quality of life in Hawai'i. Our member organizations provide essential services to every community in the state.

Hawaii's nonprofit sector plays a critical role in the social and economic well-being of our residents. Whether it is addressing homelessness, preserving our culture or environment, providing healthcare or education, or promoting arts and culture, Hawaii's nonprofits provide services, goods and resources to meet often neglected community needs.

The purpose of his bill is to align the State general excise tax (GET) law with the federal income tax code by exempting from the GET any income generated by a nonprofit for any "unrelated trade or business" as defined by the IRS. This change would simplify and improve a nonprofit's accounting of income, and, more importantly, would exempt fundraising income (that meet the unrelated business income standard) from GET.

Nonprofits must raise funds to carry out its mission and programs. Conducting fundraising events is one critical, mission-related way to raise needed unrestricted operating funds. Events like bake sales, golf tournaments, and dinners are held for this purpose. While the federal government recognizes that such income is not a regularly carried out business and does NOT impose tax on income generated from these events, nonprofits ARE required to pay State GET on this income which in turn reduces the funds raised.

HANO believes income generated by fundraising events should be treated the same as donations as they are essentially both donations but in different forms. Because GET is not paid on

donations, if someone donates \$1000 to a nonprofit, no GET applies. But if that same donor gives \$1000 for a fundraiser dinner, the nonprofit has to pay \$47 in GET. While there may be a distinction between the two for GET purposes, there is no difference from the perspective of the donors and nonprofits. Nonprofits should be encouraged to generate income from fundraising events but the GET disincentivizes them to do so.

Most importantly, the GET paid on fundraising events takes away funds that would be spent on the nonprofit's mission and services. If passed, the GET savings that would result from this bill would go directly towards these missions as testimony from nonprofits describe.

Furthermore, because nonprofits pay GET on the gross income of fundraising events, they are taxed twice: once when the goods and services are bought for the event and then again on the income received for the event.

Finally, HANO takes note of the Department of Budget and Finance comments regarding compliance with the American Rescue Plan Act in its testimony to the Committee on Economic Development. HANO conducted a detailed analysis of the projected GET annual revenue loss from this bill which amounted to approximately \$1.5 million based on 2017/2018 IRS 990 forms of the top 800 Hawaii 501(c)(3) organizations as determined by annual revenues.

HANO strongly urges this Committee to pass this bill.

Thank you for the opportunity to testify.

Mahalo,

Lisa Maruyama
President and CEO