

DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



ISAAC W. CHOY
DIRECTOR OF TAXATION

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

To: The Honorable Sylvia Luke, Chair;
The Honorable Kyle T. Yamashita, Vice Chair;
and Members of the House Committee on Finance

From: Isaac W. Choy, Director
Department of Taxation

Date: Monday, February 28, 2022
Time: 11:00 A.M.
Place: Via Video Conference, State Capitol

Re: H.B. 2414, Relating to General Excise Tax Exemptions

The Department of Taxation (Department) appreciates the intent of H.B. 2414 and offers the following comments for your consideration.

H.B. 2414 adds a new section to chapter 237, Hawaii Revised Statutes (HRS), exempting “all gross proceeds or income arising from the manufacture, production, packaging, and sale of diapers within the state.” The measure further specifies that “diapers” are defined to include both washable and disposable absorbent garments worn by infants and toddlers. The measure takes effect on July 1, 2022.

The Department respectfully requests that any changes to the GET be made effective on January 1, 2023. This delay will avoid mid-year changes to taxation while also providing sufficient time to make the necessary form and computer system modifications.

Thank you for the opportunity to provide testimony on this measure.

DAVID Y. IGE
GOVERNOR



CATHY BETTS
DIRECTOR

JOSEPH CAMPOS II
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES

P. O. Box 339
Honolulu, Hawaii 96809-0339

February 27, 2022

TO: The Honorable Representative Sylvia Luke, Chair
House Committee on Finance

FROM: Cathy Betts, Director

SUBJECT: **HB 2414 – RELATING TO GENERAL EXCISE TAX EXEMPTIONS.**

Hearing: February 28, 2022, 11:00 a.m.
Via videoconference, State Capitol

DEPARTMENT'S POSITION: The Department of Human Services (DHS) supports this measure, defers to the Department of Taxation, and provides comments.

PURPOSE: The purpose of this bill is to establish a general excise tax exemption for the gross proceeds or income from the manufacture, production, packaging, and sale of diapers.

Recent media reports state that consumer prices in Honolulu have gone up from 6.0% to 7.5%. A general excise tax exemption on diapers will provide some financial relief to families with young children, especially low-income families whose wages are not keeping up with inflation.

While the Department does not suggest an amendment that may delay the passage of this measure, DHS comments that the current draft only applies to diapers for infants and toddlers and is silent about a similar exemption for adults who may also require diapers. While Medicaid covers incontinence supplies when determined to be medically necessary, fixed-income adults who do not have Medicaid or do not have the determination that the supplies are medically necessary must pay out of pocket for their incontinence supplies.

Thank you for the opportunity to provide testimony for this measure.

DAVID Y. IGE
GOVERNOR



CRAIG K. HIRAI
DIRECTOR

GLORIA CHANG
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
HONOLULU, HAWAII 96810-0150

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

WRITTEN ONLY
TESTIMONY BY CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 2414

February 28, 2022
11:00 a.m.
Room 308 and Videoconference

RELATING TO GENERAL EXCISE TAX EXEMPTIONS

The Department of Budget and Finance (B&F) offers comments on this bill.

House Bill No. 2414 adds a new section to Chapter 237, HRS, to establish a general excise tax exemption for the gross proceeds or income from the manufacturing, production, packaging, and sale of diapers.

B&F notes that the federal American Rescue Plan (ARP) Act restricts states from using ARP Coronavirus State Fiscal Recovery Funds (CSFRF) to directly or indirectly offset a reduction in net tax revenue resulting from a change in law, regulation, or administrative interpretation beginning on March 3, 2021, through the last day of the fiscal year in which the CSFRF have been spent. If a state cuts taxes during this period, it must demonstrate how it paid for the tax cuts from sources other than the CSFRF, such as:

- By enacting policies to raise other sources of revenue;
- By cutting spending; or
- Through higher revenue due to economic growth.

If the CSFRF provided have been used to offset tax cuts, the amount used for this purpose must be repaid to the U.S. Treasury.

The U.S. Department of Treasury has issued rules governing how this restriction is to be administered. B&F will be working with the money committees of the Legislature to ensure that the State of Hawai'i complies with this ARP restriction.

Thank you for your consideration of our comments.



Hawaii
Children's Action Network Speaks!
 Building a unified voice for Hawaii's children

Hawai'i Children's Action Network Speaks! is a nonpartisan 501c4 nonprofit committed to advocating for children and their families. Our core issues are safety, health, and education.

To: House Committee on Finance

Re: **HB 2414 - Relating to General Excise Tax Exemptions**
 Hawai'i State Capitol, Via Videoconference, Conference Room 308
 February 28, 2022, 11:00 AM

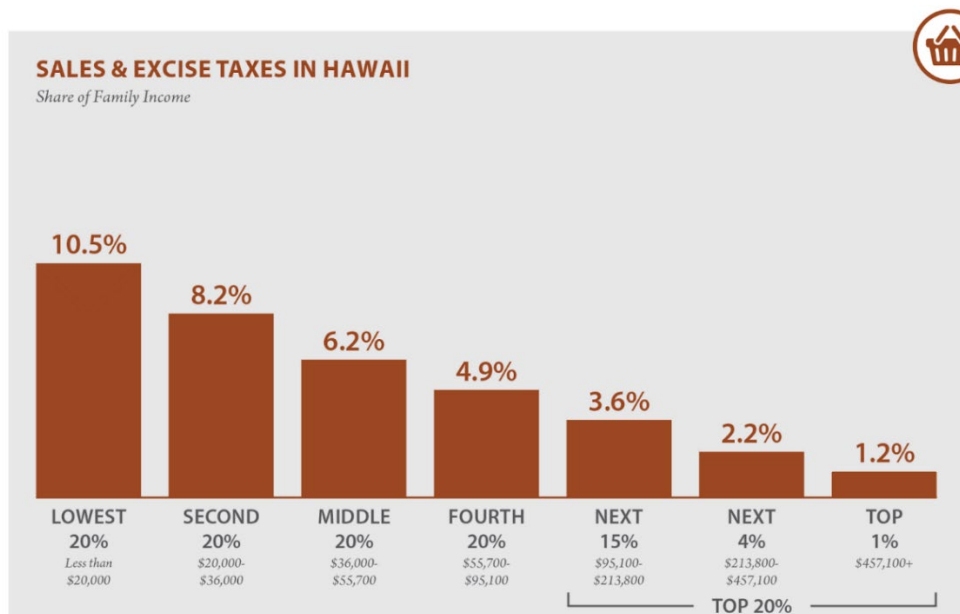
Dear Chair Luke, Vice Chair Yamashita, and committee members,

On behalf of Hawai'i Children's Action Network Speaks!, I am writing in SUPPORT of HB 2414, relating to general excise tax exemptions. This bill would establish a general excise tax exemption for the gross proceeds or income from the manufacture, production, packaging, and sale of diapers.

Hawai'i's tax system is upside down. Families who earn less than \$20,000 per year pay 15 percent of their income in state and local taxes, while those who make over \$450,000 pay only about 9 percent. In fact, our state saddles our low-income families with the second-heaviest state and local tax burden in the nation.¹

The main reason that low-income families pay more than those at the top is the General Excise Tax (GET), which is applied to nearly all goods and services in Hawai'i. It hits our low-income and working-class families harder because they spend almost all of their earnings on items and services that are taxed by the GET.

That means that Hawai'i families who earn less than \$20,000 per year pay almost nine times as much of their income (10.5 percent) in the GET than those who make over \$450,000 (1.2 percent).²



¹ Institute on Taxation and Economic Policy, <https://itep.org/whopays/hawaii/>

² Institute on Taxation and Economic Policy, <https://itep.org/whopays/hawaii/>



Diapers are a major expense for Hawaii families with small children. Diapers are essential to babies' and toddlers' health, and they each require at least 50 diaper changes per week, or 200 diaper changes per month. But one in three families struggle to afford clean diapers for their children, according to the National Diaper Bank Network.³

The regressive nature of the GET makes it difficult for many families to afford basic life necessities, such as diapers. And while several states that exempt diapers from sales or excise tax, Hawaii does not.⁴ Hawaii should follow these states by exempting diapers and menstrual products from the GET.

Mahalo for the opportunity to provide this testimony. Please help alleviate the tax burden on local families by exempting diapers from the GET, by passing this bill.

Thank you,

Nicole Woo
Director of Research and Economic Policy

³ National Diaper Bank Network, <https://nationaldiaperbanknetwork.org/state-issues/>

⁴ National Diaper Bank Network, <https://nationaldiaperbanknetwork.org/state-issues/>



February 26, 2022

To: Representative Sylvia Luke, Representative Kyle T. Yamashita and Members of the House Committee on Finance.

Re: **HB – Relating to General Excise Tax Exemptions; Diapers**

Aloha Representative Sylvia Luke, Representative Kyle T. Yamashita and Members of the House Committee on Finance

My name is Jessica Histo, and I am the founder and president of the Hawai'i Diaper Bank, the state's first nonprofit organization dedicated to providing diapers, wipes and other basic essentials to low-income families with young children. I am writing in support of **HB 2414, establishing a general excise tax exemption for the gross proceeds or income from the manufacture, production, packaging, and sale of diapers.**

One out of every three families struggle with diaper need (the inability to provide a sufficient supply of diapers to keep their child clean, dry, and healthy). Unlike many other necessities, there is currently no governmental assistance for purchasing diapers. As a result, the average low-income family spends about **\$1,000/year on diapers**, a substantial portion of their annual income. To make ends meet, some families report “stretching” the time between diaper changes. This can and often does lead to diaper rash, skin breakdown and other painful infections. Aside from the obvious health issues that are implicated when there is not an adequate supply of diapers for a child, almost **three in five parents who experience diaper need report missing work or school** because they do not have enough diapers to drop their children off at childcare. Therefore, lack of diapers not only prevents children from accessing early educational, it also prevents their parents from returning to the work force, thereby reinforcing the cycle of diaper need. **HB2414 would aid our fight against diaper need for those already working hard to make their families economically stable by eliminating barriers to employment and/or education.** It would also greatly benefit the families that we are not yet serving.

I appreciate the opportunity to provide testimony for a second time in support of HB2414. Since our founding, Hawai'i Diaper Bank has distributed more than 1 million donations to families like the M.L Ohana, who until recently, were living out of their car. In addition to providing diapers, wipes, and other essentials, we connected the family to partner organizations who assisted with housing, employment, and health care services. A sufficient diaper supply provides immediate relief to families who are struggling to provide the basics for their children and allows parents to tackle other issues like paying rent and utilities, getting food on the table, and supporting the healthy development of their children. I respectfully request your support of HB2414 so that the families we serve, who fight every day to keep their children safe and healthy, have a chance to succeed.

Mahalo Nui Loa,

Jessica Histo
Founder and President



jessica@hawaiidiaperbank.org
(808)-385-1167

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, Exemption for Diaper Manufacturing

BILL NUMBER: HB 2414

INTRODUCED BY: KITAGAWA, BRANCO, ELI, GATES, HASHIMOTO, ICHIYAMA, ILAGAN, JOHANSON, KAPELA, MATAYOSHI, MATSUMOTO, MORIKAWA, NISHIMOTO, PERRUSO, WILDBERGER

EXECUTIVE SUMMARY: Establishes a general excise tax exemption for the gross proceeds or income from the manufacture, production, packaging, and sale of diapers.

SYNOPSIS: Adds a new section to chapter 237, HRS, that would exempt the gross proceeds or income arising from the manufacture, production, packaging, and sale of diapers within the State.

Defines “diaper” as an absorbent garment that: (1) Is washable or disposable that may be worn by an infant or toddler who is not toilet-trained; and (2) If disposable: (A) Does not use any latex or common allergens; and (B) Meets or exceeds the quality standards for diapers commercially available through retail sale in the following categories: (i) Absorbency (with acceptable rates for first and second wetting); (ii) Waterproof outer cover; (iii) Flexible leg openings; and (iv) Refastening closures.

EFFECTIVE DATE: July 1, 2022.

STAFF COMMENTS: The use of the tax system to provide financial assistance in the form of preferential tax treatment under the general excise tax is an inefficient use of the tax system. This preferential treatment proposed in this measure amounts to nothing more than a subsidy as there is no obvious undue burden of taxes. If this measure is enacted, it will provide one industry with preferential treatment. That is bad tax policy.

It should be remembered that giving tax breaks to one select group of taxpayers comes at the expense of all other taxpayers. Rather than singling out a particular area for tax relief, concurrent efforts must be made to improve Hawaii’s business climate to enhance the economic prospects for all businesses.

If lawmakers want to subsidize this specific industry, then an appropriation of funds is far more accountable as taxpayers will then know who is to receive the subsidy, how much is being spent and then they can judge whether or not this is an appropriate use of state taxpayer dollars.

Digested: 2/28/2022

HB-2414

Submitted on: 2/25/2022 8:19:29 PM

Testimony for FIN on 2/28/2022 11:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Julia M. Yano	Individual	Support	No

Comments:

May I urge you to support HB2414, which relieves financial burden from families with young children.

February 28, 2022

To: House Committee on Finance
Rep. Chair S. Luke
Rep. Vice Chair K. Yamashita

Re: HB2414 - Relating to General Excise Tax Exemptions; Diapers

Aloha and Hāfa ādai, Chair Luke, Vice Chair Yamashita, and members of the Committee,

My name is Nina Gayle Baluran. I am an MSW Distance Education student from the island of Guam, attending the Thompson School of Social Work & Public Health at the University of Hawaii at Manoa. **I strongly support HB2414, establishing a general excise tax exemption for the gross proceeds or income from the manufacture, production, packaging, and sale of diapers.**

Diapers are a necessity for children and their families. No child should have to suffer from a diaper need. All children have the right to clean dry diapers. Access to diapers promotes the physical, emotional, and economic well-being of newborns, babies, families, and communities. Unfortunately, many low-income families struggle to afford diapers, which creates the diaper gap. The diaper gap is the inequality caused by low-income families not being able to afford diapers. This can result in significant health issues for both newborns and parents. Urinary tract or staph infections in young children can lead to hospitalization. Consider the burden of not purchasing the necessities for your infant - not a trivial concern for struggling parents and caregivers. When families can't afford a sufficient quantity of diapers for their children, they must choose between purchasing diapers and paying for food, rent, or utilities such as heat. No family should have to make that decision. In the worst-case scenario, these types of stresses can contribute to child abuse and neglect over time.

In addition, unlike other necessities such as food or health insurance, there is no federal support for purchasing diapers. WIC, SNAP, and Medicaid programs help parents with nutritious foods and the support they and their babies need to stay healthy. Unless we act now and advocate for these low-income families, there will be no programs or solutions to purchase diapers for their children. The lack of diapers affects the children who use them, but it has on their families who cannot afford them.

I may not be a parent, but I do have a sister who has struggled to buy diapers from time to time. I see the stress that not affording diapers has had on her and her family. Diapers are not cheap, and doing what I can to help my sister out is my way of supporting her and my niece and nephew. Not everyone has the support they need to obtain diapers; HB2414 would help us battle diaper needs for individuals already working hard to make their family financially stable. It will provide relief to families struggling to provide the necessities for their children and allow parents to focus on other matters such as paying rent and utilities, putting food on the table, and supporting their children's healthy growth. I humbly beg your support on HB2414 so that the families we assist, who work tirelessly every day to keep their children safe and healthy, can succeed. I appreciate the opportunity to provide testimony.

Mahalo nui loa & si Yu'us ma'āse',

Nina Gayle Baluran
The University of Hawai'i at Mānoa
Thompson School of Social Work & Public Health
MSW Student

HB-2414

Submitted on: 2/27/2022 2:10:50 PM

Testimony for FIN on 2/28/2022 11:00:00 AM

Submitted By	Organization	Testifier Position	Remote Testimony Requested
Cynthia Kitkowski	Individual	Support	No

Comments:

I am writing to lend my wholehearted support of HB2414 General Excise Tax Exemption:
Diapers

I am a retired Maternal-Child RN and nurse educator and have been a supporter of the Hawai'i Diaper Bank since its inception. In my career, I have witnessed families in Hawai'i struggle to provide the basics for a safe, healthy environment for their children. This legislation would be a good faith measure towards providing relief to the most vulnerable in our state, especially for families barely making ends meet. It is a small beginning but only unimportant to those who have not personally experienced these hardships. I urge you to support this legislation and applaud the work that already has been done through the generosity and sacrifice of people who inspire us to truly live Aloha. Mahalo.