

JOSH GREEN, M.D.  
GOVERNOR

SYLVIA LUKE  
LIEUTENANT GOVERNOR



GARY S. SUGANUMA  
DIRECTOR

KRISTEN M. R. SAKAMOTO  
DEPUTY DIRECTOR

DEPT. COMM. NO. 293

STATE OF HAWAII  
DEPARTMENT OF TAXATION

*Ka 'Oihana 'Auhau*  
P.O. BOX 259  
HONOLULU, HAWAII 96809  
PHONE NO: (808) 587-1540  
FAX NO: (808) 587-1560

December 29, 2022

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

The Honorable Scott K. Saiki  
Speaker and Members of the  
House of Representatives  
Thirty-Second State Legislature  
State Capitol, Room 431  
Honolulu, Hawaii 96813

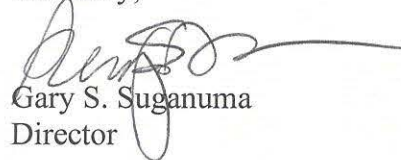
Dear President Kouchi, Speaker Saiki, and Members of the Legislature:

For your information and consideration, I am transmitting a copy of the Department of Taxation's 2021 Hawaii General Excise & Use Tax Exemptions, as required by section 231-3.4, Hawaii Revised Statutes (HRS).

In accordance with section 93-16, HRS, 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/).

If you have any questions or concerns, please feel free to call me at (808) 587- 1540.

Sincerely,

  
Gary S. Suganuma  
Director

C: Josh Green, M.D., Governor  
Sylvia Luke, Lieutenant Governor  
Legislative Reference Bureau (Attn: Karen Mau)  
Leslie H. Kondo, State Auditor  
Luis Salaveria, Director of Finance, Department of Budget and Finance  
Stacey A. Aldrich, State Librarian, Hawaii State Public Library System  
David Lassner, Ph.D., President, University of Hawai'i

Enclosure

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

**Tax Year 2021**

**(January 1, 2021 – December 31, 2021)**

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**DEPARTMENT OF TAXATION**

**STATE OF HAWAII**

**NOVEMBER 2022**

# STATE OF HAWAII

David Y. Ige, Governor

## DEPARTMENT OF TAXATION

Isaac W. Choy, Director

### TAX RESEARCH & PLANNING

Seth Colby, Tax Research & Planning Officer

Baybars Karacaovali, Economist

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## 1. INTRODUCTION

Hawaii's General Excise Tax (GET) is imposed on a taxpayer's gross income (or gross receipts) for the privilege of conducting business in the State of Hawaii. "Gross income" is the total business income before any deduction of business expenses, and it includes any cost passed on to customers, such as the GET, as well. GET is a tax on income from almost all business activities unlike a sales tax which is only on the retail sales of tangible goods. Business activities subject to GET include wholesaling, retailing, farming, services, construction contracting, rental of personal or real property, business interest income, and royalties among others. The state GET rates are 0.15% on commissions from insurance sales; 0.5% on wholesaling activities in which a business sells goods or services to another business for resale; and 4.0% on all other activities for which all counties except Maui add a surcharge of 0.5%. The Use Tax complements the GET by imposing tax on tangible personal property, services and contracting that are imported into Hawaii.

This report presents exemptions claimed against the GET for tax (calendar) year 2021. Act 94, Session Laws of Hawaii 2015 requires the Department of Taxation (DOTAX) 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 to meet requirements provided by Act 94. First, in Section 3, it identifies the exemptions that are claimed by taxpayers, breaking those exemptions down by tax rate and business activity. Second, in Section 4, it provides a detailed explanation about the difference between tax exemptions and tax expenditures and presents estimates of the tax expenditures that are associated with the exemptions claimed.

Unlike other reports prepared by DOTAX, this report relies on the determination and categorization of tax expenditures which requires certain assumptions as will be discussed in Section 4. In calculating GET expenditures, this report utilizes the retail rate of 4.0% for exemptions that apply to final sales, the wholesale rate of 0.5% for exemptions that apply to business-to-business transactions, and 0.0% for exemptions that eliminate the double taxation of exported products or that eliminate the taxation of certain purchases by federal and foreign governments which cannot be taxed.

## **2. DATA SOURCE AND METHODOLOGY**

The main data are from the "General Excise/Use Tax Schedule of Exemptions and Deductions" (Schedule GE) which is required to be filed along with a taxpayer's periodic (Form G-45) and annual (Form G-49) GET returns. The Schedule GE reports the amounts and types of GET exemptions claimed. The period for which a taxpayer must submit a Form G-45 varies. Taxpayers are required to submit a periodic return (Form G-45) every month if they will pay more than \$4,000 in GET every year while taxpayers who will pay \$4,000 (\$2,000) or less in GET per year may file quarterly (semiannually). All taxpayers must also submit Form G-49, the annual return and reconciliation, which is a summary of taxpayers' activity for the entire year.

This report provides information on all Schedules GE submitted with Forms G-49 for the tax year 2021. If a Form G-49 was not submitted by a taxpayer, the periodic returns (Forms G-45) of the taxpayer for the filing period between January 1, 2021 and December 31, 2021 were aggregated to obtain the pertinent GET exemptions data.

The data presented on GET exemptions are before any adjustments made by subsequent audits when the data were queried on September 6, 2022. The information presented does include adjustments the Department made when processing the annual and periodic returns (Forms G-49/G-45). Therefore, GET exemptions claimed on Schedules GE disallowed by the Department are not included in the data set for this study.

To maintain taxpayer confidentiality, the Department does not disclose tabulations containing data for five or fewer returns at the state level, ten or fewer returns below the state level and when an individual return represents a large percentage in a tabulation.

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

In 2021, 27,115 taxpayers representing 11.4% of the total number of Hawaii General Excise and Use Tax (GET) filers claimed 30,990 GET exemptions. These taxpayers claimed \$26.2 billion in exemptions from their gross receipts. As a result, 18.9% of their gross receipts were exempted from the GET in 2021.<sup>1</sup>

Table 1 lists the dollar amounts and the numbers of GET exemptions claimed (sorted by exemption amount in descending order). The exemption names are preceded by their 3-digit exemption/deduction (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 DOTAX's "General Instructions for Filing the General Excise/Use Tax Returns (Rev. 2021)" publication.

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<sup>1</sup> Total gross receipts refer to the aggregate gross proceeds or income computed from GET returns.

**Table 1**  
**GET Exemptions Claimed for Tax Year 2021**

<b>Exemption</b>	<b>Amount (in \$1,000)</b>	<b>% of Total Amount</b>	<b>Number of Claims</b>	<b>% of Total Claims</b>
130 - Non-profit Organizations (§237-23)	\$4,500,394	17.2%	950	3.1%
148 - Subcontract Deduction (§237-13(3)(B))	\$3,973,550	15.2%	2,178	7.0%
132 - Out of State Sales (§237-29.5(1))	\$2,852,852	10.9%	7,230	23.3%
113 - Drugs and Prosthetic Devices (§237-24.3(6))	\$1,978,324	7.5%	261	0.8%
127 - Maintenance Fees (§§237-24.3(2), 237-24(16))	\$1,606,681	6.1%	2,278	7.4%
100 - Affordable Housing (§§46-15.1, 201H-36 237-29, 238-3(j))	\$1,244,994	4.7%	579	1.9%
157 - Wholesale, Imported for Resale at (§237-8.6(c))	\$1,139,606	4.3%	143	0.5%
141 - Sales to Federal Government and Credit Unions (§237-25(a))	\$871,628	3.3%	888	2.9%
119 - Food Stamps and WIC (§237-24.3(5))	\$830,302	3.2%	383	1.2%
150 - Taxes Passed On (§§237-24(8), 237-24(9), 237-24(10), 237-24(12))	\$754,047	2.9%	9,603	31.0%
153 - Wholesale Transactions (§237-29.55)	\$707,310	2.7%	964	3.1%
118 - Federal Preempted Amount (§§237-22, 238-3(a))	\$697,756	2.7%	229	0.7%
143 - Service Related to Ship & Aircraft (§237-24.3(3))	\$605,587	2.3%	41	0.1%
112 - Discounts and Returned Merchandise (§237-3(b))	\$506,798	1.9%	890	2.9%
114 - Employee Benefit Plans (§237-24.3(4))	\$501,247	1.9%	37	0.1%
116 - Exported Services (§237-29.53)	\$441,594	1.7%	1,145	3.7%
115 - Enterprise Zones (§209E-11)	\$416,081	1.6%	141	0.5%
139 - Real Estate Sales (§237-3(b))	\$384,811	1.5%	71	0.2%
144 - Shipbuilding and Ship Repairs (§237-28.1).	\$329,862	1.3%	75	0.2%
124 - Intercompany Charges (§237-23.5(a))	\$318,720	1.2%	264	0.9%
142 - Scientific Contracts (§§237-26, 238-3(j)).	\$250,866	1.0%	153	0.5%
137 - Professional Employer Organizations (§237-24.75(3))	\$183,366	0.7%	52	0.2%
120 - Foreign Trade Zone Sales (§212-8)	\$170,747	0.7%	37	0.1%
126 - Subleases of Real Property (§237-16.5)	\$147,061	0.6%	506	1.6%
122 - Hotel Operator/Suboperator (§237-24.7(1))	\$125,125	0.5%	15	0.0%
154 - Sales Tax Paid Offset (§§237-22(b), 238-3(i))	\$123,135	0.5%	364	1.2%
101 - Air Pollution Control Facilities (§§237-27.5, 238-3(k))	\$98,279	0.4%	49	0.2%
140 - Reimbursement of Payroll Costs (§237-24.7(9))	\$91,934	0.4%	48	0.2%
104 - Bad Debts (§237-3(b))	\$83,358	0.3%	407	1.3%
117 - Federal Cost-Plus Contractors (§237-13(3)(C))	\$58,185	0.2%	78	0.3%
102 - Aircraft Leasing (§§237-24.3(11), 238-1)	*	*	*	*
103 - Aircraft Service and Maintenance Facility (§§237-24.9, 238-1)	\$41,960	0.2%	36	0.1%
156 - Exported Intangibles (§237-29.57)	\$30,653	0.1%	10	0.0%
107 - Contracting Activity in an Enterprise Zone (§209E-11)	\$24,316	0.1%	28	0.1%
152 - Wholesale Amusements (§237-4(a)(13))	*	*	*	*
121 - Hawaii Convention Center Operator (§237-24.75(2))	*	*	*	*
145 - Shipping and Handling of Agricultural Commodities (§237-24.3(1))	\$9,708	0.0%	9	0.0%
129 - Merchants' Association Dues (§237-24.3(8))	\$7,569	0.0%	9	0.0%
133 - Out of State Services/Contracting to Foreign Customers (§238-2.3(1)(C))	\$6,464	0.0%	19	0.1%
138 - Producers (Certain property used) (§238-4)	*	*	*	*
136 - Potable Water (§237-23(a)(7))	*	*	*	*
146 - Small Business Innovation Research Grants (§237-24.7(10))	*	*	*	*
131 - Orchard Operator (§237-24.7(4))	*	*	*	*
135 - Petroleum Refining (§237-27)	*	*	*	*
110 - Diplomats and Consular Officials (§§237-24.3(10), 238-1)	\$3,039	0.0%	61	0.2%
111 - Disability Provisions (§237-24(13))	\$1,330	0.0%	651	2.1%
106 - Common Paymaster Exemption (§237-23.5(b))	\$1,163	0.0%	15	0.0%
147 - Stock Exchange Transactions (§237-24.5)	*	*	*	*
123 - Insurance Proceeds Received Because of a Natural Disaster (§237-24.7(6))	\$331	0.0%	9	0.0%
125 - Labor Organizations (§237-24.3(9))	\$282	0.0%	13	0.0%
109 - No Nexus Sales (§237-8.6)	*	*	*	*
134 - Patient-Centered Community Care (§237-24(18))	\$229	0.0%	8	0.0%
128 - Mass Transit (§237-24.7(2))	*	*	*	*
105 - Certain Convention, Conference and Trade Show (§237-16.8)	*	*	*	*
149 - Sugar Cane Payments to Independent Producers (§237-24(14))	\$0	0.0%	0	0.0%
151 - TRICARE (§237-24(17))	\$0	0.0%	0	0.0%
<b>TOTAL</b>	<b>\$26,220,883</b>	<b>100.0%</b>	<b>30,990</b>	<b>100.0%</b>

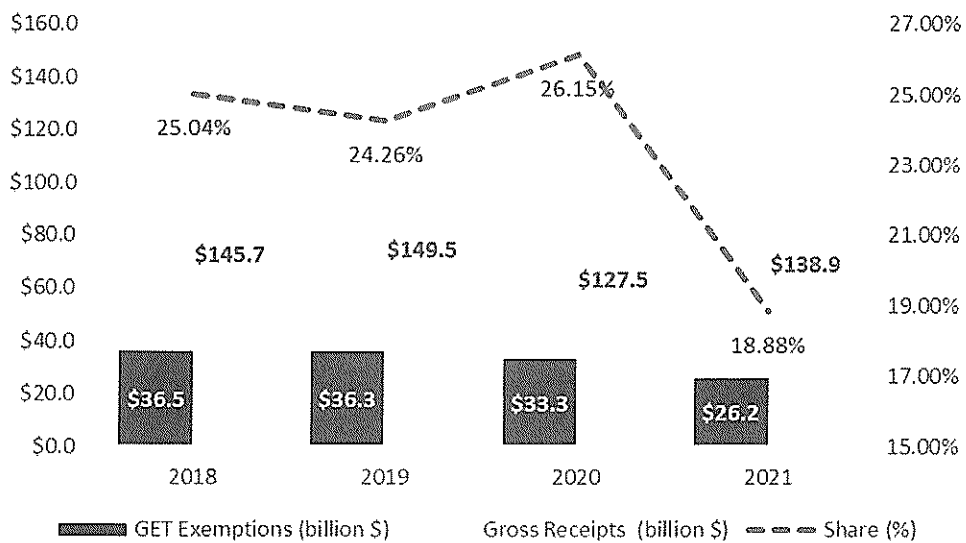
\* Data were suppressed to avoid potential disclosure of confidential taxpayer information.



The number of claims (30,990 in 2021) does not translate into the unique number of taxpayers (27,115 in 2021) as some may claim more than one exemption or claim the same exemption but for different business activities.

Figure 1 presents the amounts (in billions of dollars) of GET exemptions and gross receipts as well as GET exemptions to gross receipts ratios (%) for tax years 2018 through 2021.

**Figure 1**  
**GET Exemptions and Gross Receipts (billion \$) for Tax Years 2018 through 2021**



In 2020, GET exemptions were 8.4% below their 2019 level. However, this was in line with the fact that the gross receipts subject to GET had also declined (by 14.7%) due to the presumably negative economic impact of the COVID-19 pandemic starting in 2020.

In 2021, while the gross receipts increased by 8.9% (or \$11.4 billion) compared to 2020, the amount of GET exemptions decreased by 21.4% (or \$7.1 billion). As a result, the share of GET exemptions in total gross receipts declined from their 24-26% level in 2018 through 2020 to 18.9% in 2021.

Although there may be fluctuations in the exemptions claimed from year to year, two developments played a role in the significant decline of GET exemption claims in 2021. First, on September 29, 2021, the Department published Tax Information Release (TIR) No. 2021-07, which clarified the GET Exemption for Foreign Trade Zone (FTZ) Sales

(ED Code 120).<sup>2</sup> The policy change limited the amount of transactions eligible for the exemption. Following the tax announcement, the GET exemptions claimed for FTZ Sales (ED 120) declined by 95.5% from \$3.77 billion in 2020 to \$170.7 million in 2021. About half of the \$7.1 billion decline in GET Exemptions overall may be attributable to the decline in the exemptions claimed for FTZ Sales. In 2019, GET Exemption for FTZ sales was the top GET exemption category with \$6.2 billion in claims and it has historically been one of the top four exemptions claimed since GET Exemptions reports started being prepared in Tax Year 2017.

Second, the Department implemented an automatic adjustment in its computer system (effective 2021) that restricted the types of business activities to which certain GET exemptions could apply.<sup>3</sup> For example, the GET Exemption for Non-profit Organizations (ED Code 130) cannot be under “Wholesaling” business activity because it is to be used by Nonprofit Organizations to exempt from GET the amounts that are considered exempt nonprofit income. Other taxpayers would be misusing this exemption if they claimed it under “Wholesaling” thinking that sales to nonprofits are exempt, which would be incorrect. Similarly, GET Exemptions for Real Estate Sales (ED Code 139) and Sales to the Federal Government and Credit Unions (ED Code 141) are not allowed for “Wholesaling” business activity as well. The adjustments made by the Department when processing the annual and periodic returns and any adjustments due to audits resolved by September 6, 2022 are reflected in this report.

As shown in Table 1, in 2021, the largest exemptions in terms of dollar amounts were for

1. **Non-profit Organizations** (\$4.5 billion or 17.2% of total);
2. **Subcontract Deduction** (\$4 billion or 15.2% of total);
3. **Out of State Sales** (\$2.9 billion or 10.9% of total);
4. **Drugs and Prosthetic Devices** (\$2 billion or 7.5% of total); and
5. **Maintenance Fees** (\$1.6 billion or 6.1% of total).

The details for the top five GET exemptions (in terms of dollar amounts) are as follows:

- *Non-profit Organizations (ED Code 130)*: This exemption applies to amounts received by certain non-profit fraternal, religious, charitable, scientific, educational, community or social welfare groups and hospitals, infirmaries and

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<sup>2</sup> According to this GET exemption, sales of privileged foreign merchandise, nonprivileged foreign merchandise, domestic merchandise, or zone-restricted merchandise which are admitted into a foreign-trade zone and made directly to any common carrier in interstate or foreign commerce for consumption out-of-state are exempt, provided that the sale takes place entirely within the zone.

<sup>3</sup> An Excel Workbook listing the GET Exemptions allowed by Activity Code (as of June 20, 2022) is available on the DOTAX website at: [https://files.hawaii.gov/tax/geninfo/info/EDvsAct2022\\_06-20-22.xlsx](https://files.hawaii.gov/tax/geninfo/info/EDvsAct2022_06-20-22.xlsx).

sanitaria organizations. However, all fundraising activities are taxable and must be reported.

- *Subcontract Deduction (ED Code 148)*: This deduction is for a prime contractor (or a developer) in the amount of payments made to a subcontractor or a specialty contractor. The subcontractor's name, the subcontractor's Hawaii Tax I.D. No., and the amount of deduction must be provided since the subcontractor is liable for GET on this amount.
- *Out of State Sales (ED Code 132)*: The value or gross proceeds received by a manufacturer, producer, or seller of tangible personal property shipped to a point outside of the State where it is resold or otherwise consumed or used outside the State are exempt, provided the purchaser furnishes Form G-61 certifying as such to the manufacturer, producer, or seller.
- *Drugs and Prosthetic Devices (ED Code 113)*: Sales to individuals by a hospital, infirmary, medical clinic, health care facility, pharmacy, or practitioner licensed to administer drugs or prosthetic devices are exempt.
- *Maintenance Fees (ED Code 127)*: Amounts received by the manager, submanager, or board of directors of: (1) an association of a condominium property; (2) a nonprofit homeowners or community association; or (3) a qualifying cooperative housing corporation; in reimbursement of sums paid for common expenses such as maintenance fees are exempt.

As shown in Table 1, the most-commonly-claimed exemptions were for

1. **Taxes Passed On** (9,603 claims or 31.0% of total);
2. **Out of State Sales** (7,230 claims or 23.3% of total);
3. **Maintenance Fees** (2,278 claims or 7.4% of total);
4. **Subcontract Deduction** (2,178 claims or 7.0% of total); and
5. **Exported Services** (1,210 claims or 4.1% of total).

Three of the most-commonly-claimed exemptions have been described above, the remaining two are as follows:

- *Taxes Passed On (ED Code 150)*: The amounts received to pay the following taxes are exempt: (1) Fuel taxes collected by distributors; (2) Hawaii liquor taxes collected by dealers; (3) Hawaii cigarette and tobacco taxes paid by wholesalers; (4) Transient accommodations taxes visibly passed on; (5) Rental motor vehicle, tour vehicle & car-sharing vehicle surcharge taxes visibly passed on; (6) Federal excise taxes imposed on articles sold at retail and collected from purchasers; and (7) Federal taxes imposed on sugar manufactured in Hawaii.

- *Exported Services (ED Code 116)*: The value or gross proceeds received by a contractor, service provider, or seller from the sale of contracting or services to a customer for resale, consumption, or use outside of the State are exempt, provided the customer furnishes Form G-61 certifying as such to the contractor, service provider, or seller.

Table 2 shows the dollar amounts of GET exemptions grouped by business activity as indicated on Forms G-49 (and if not available, on Forms G-45).

**Table 2**  
**GET Exemptions Claimed by Business Activity for Tax Year 2021**

<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	\$2,575,564	9.8%	2,372	7.7%
02. Manufacturing	\$77,448	0.3%	58	0.2%
03. Producing	\$16,133	0.1%	35	0.1%
04. Wholesale Services	\$43,393	0.2%	138	0.4%
05. Landed Value of Imports for Resale	\$1,197,871	4.6%	153	0.5%
06. Business Activities of Disabled Persons	\$1,573	0.0%	663	2.1%
<b>07. Wholesale Rate Subtotal</b>	<b>\$3,911,983</b>	<b>14.9%</b>	<b>3,419</b>	<b>11.0%</b>
<b><u>Retail Rate (4.0%)</u></b>				
08. Retailing	\$6,058,112	23.1%	8,090	26.1%
09. Services Including Professional	\$6,093,823	23.2%	3,380	10.9%
10. Contracting	\$5,205,853	19.9%	2,787	9.0%
11. Theater, Amusement and Broadcasting	\$17,737	0.1%	34	0.1%
12. Commissions	\$54,843	0.2%	191	0.6%
13. Transient Accommodations Rentals	\$161,819	0.6%	9,104	29.4%
14. Other Rentals	\$1,065,124	4.1%	1,236	4.0%
15. Interest and All Others	\$3,592,516	13.7%	2,653	8.6%
16. Landed Value of Imports for Consumption	\$55,018	0.2%	71	0.2%
<b>17. Retail Rate Subtotal</b>	<b>\$22,304,844</b>	<b>85.1%</b>	<b>27,546</b>	<b>88.9%</b>
<b><u>Insurance Rate (0.15%)</u></b>				
<b>18. Insurance Commissions</b>	<b>\$4,056</b>	<b>0.0%</b>	<b>25</b>	<b>0.1%</b>
<b>GRAND TOTAL</b>	<b>\$26,220,883</b>	<b>100.0%</b>	<b>30,990</b>	<b>100.0%</b>

In 2021, the largest five exemptions in terms of the dollar amounts were in:

1. **Services Including Professional** (\$6.09 billion or 23.2% of total);
2. **Retailing** (\$6.06 billion or 23.1% of total);
3. **Contracting** (\$5.21 billion or 19.9% of total);

**4. Interest and All Others** (\$3.59 billion or 13.7% of total); and

**5. Wholesaling** (\$2.58 billion or 9.8% of total) business activity categories.

The “Services Including Professional” business activity tops the largest exemptions list mainly because it contains the high-exemption items of Non-profit Organizations (ED Code 130) and Out of State Sales (ED Code 132).

For the “Retailing” business activity, the top exemptions are in Drugs and Prosthetic Devices (ED Code 113) followed by Out of State Sales (ED Code 132).

The Subcontract Deduction (ED Code 148) is the primary exemption under “Contracting”.

For the “Interest and All Others” business activity, Maintenance Fees (ED Code 127) exemption comprises the biggest portion followed by Non-profit Organizations (ED Code 130).

The highest exemption in “Wholesaling” business activity is for Out of State Sales (ED Code 132) as well.

As shown in Table 2, the most-commonly-claimed exemptions in 2021 were in the “Transient Accommodations Rentals” (9,104 claims or 29.4% of total), “Retailing” (8,090 claims or 26.1% of total), “Services Including Professional” (3,380 claims or 10.9% of total) and “Contracting” (2,787 claims or 9.0% of total) business activities just like in 2019 and 2020. The most numerous exemptions in each business activity were: (1) Taxes Passed On (ED Code 150) exemption in “Transient Accommodations Rentals”; (2) Out of State Sales (ED Code 132) exemption in “Retailing” and “Services Including Professional”; and (4) Subcontract Deduction (ED Code 148) exemption in “Contracting”.

A complete list with dollar amounts of exemptions claimed in 2021 are provided in Appendix Table A-1 grouped by GET rate.

## 4. TAX EXPENDITURES

Tax expenditures are distinct from tax exemptions. Tax expenditures are revenue losses associated with an exemption. They are the implied revenue cost of the deviation from applying the excise and use tax on all consumers in Hawaii without any exemptions. Exempting portions of the tax base has a fiscal cost and results in an indirect type of government spending—the tax expenditure.

Tax exemptions shrink the tax base which means that those who are not exempted must pay higher taxes after an exemption is put in place to collect the same amount of tax revenue. This makes the tax less efficient and potentially less equitable. However, tax exemptions are utilized because they are viewed as alternatives to other policy instruments, such as government spending or regulatory programs.

The data presented in this report provides only the amounts of each exemption claimed and should not be relied on as an estimate of the amount of revenue that may be realized by repealing an exemption. A revenue impact estimate would have to account for the potential substitutional and behavioral effects of repealing an exemption.<sup>4</sup>

The decision on how to classify GET exemptions as tax expenditures at the wholesale rate, retail rate, or not at all is based on economic parameters and assumptions. Thus, if DOTAX's assumptions change, then the distribution of exemptions among the categories may change. The approach utilized in this paper for estimating tax expenditures comes from the methodology put forth by Rousslang (2013).<sup>5</sup>

The calculation of tax expenditures requires certain assumptions regarding the appropriate tax rate if the exemption were to be discontinued. To calculate the tax expenditures, this report applies the wholesale rate of 0.5% for exemptions that apply to business-to-business transactions (Section 4.2), the retail rate of 4.0% for exemptions that apply to final sales (Section 4.3), and 0.0% for exemptions that eliminate the double taxation of exported products or that eliminate the taxation of certain purchases by federal and foreign governments which cannot be taxed (Section 4.4). Other

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<sup>4</sup> 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, a taxpayer claiming the enterprise zone exemption may also be 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 or reduce the frequency of the 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.

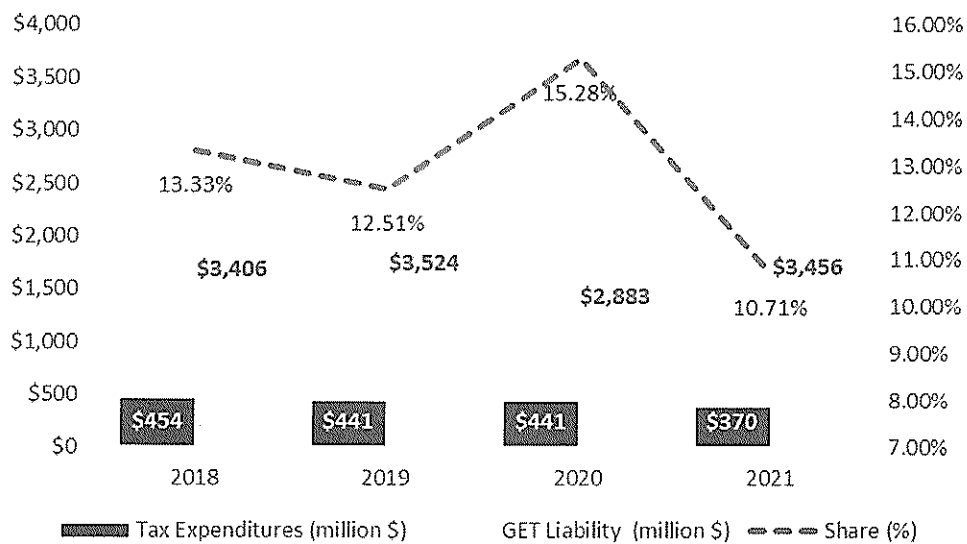
<sup>5</sup> Rousslang, Donald (2013), "Tax Expenditures in Paradise," *State Tax Notes*, May 13, pp. 549-558.

exemptions involving certain activities not traditionally included in the base of a sales or excise tax on consumption are not considered as tax expenditures (Section 4.5).

#### 4.1. General Excise Tax Expenditures Overview

Figure 2 presents the amounts (in millions of dollars) of GET liability and expenditures as well as GET expenditures to liability ratios (%) for tax years 2018 through 2021.<sup>6</sup>

**Figure 2**  
**GET Expenditures and Liability (million \$) for Tax Years 2018 through 2021**



This report finds that total GET expenditures amounted to \$370 million in 2021. The GET expenditures declined by 16% while the total GET liability increased by 19.9% in 2021 as compared to 2020. The ratio of GET expenditures to GET liabilities declined from 15.28% in 2020 to 10.71% in 2021. The causes of the decline in GET expenditures versus GET liabilities are the same as those discussed in Section 3 above.

Table 3 provides a summary of GET exemption amounts and the corresponding tax expenditures for the categories detailed in sections 4.2 through 4.5 below.

<sup>6</sup> Total GET liability is the total taxes due (excluding county surcharge taxes) aggregated from GET returns (Forms G-49/G-45).

**Table 3**  
**Summary of Tax Expenditures for Tax Year 2021**

	<b>Exemption Amount (in \$1,000)</b>	<b>% of Total Gross Receipts</b>	<b>Expenditure Amount* (in \$1,000)</b>	<b>% of Total GET Liability</b>
Tax Expenditures at the Wholesale Rate (0.5%)	\$8,816,123	6.3%	\$44,081	1.3%
Tax Expenditures at the Retail Rate (4.0%)	\$8,147,405	5.9%	\$325,896	9.4%
<b>Tax Expenditures Subtotal</b>	<b>\$16,963,529</b>	<b>12.2%</b>	<b>\$369,977</b>	<b>10.7%</b>
Out of State Sales**	\$4,627,844	3.3%	\$155,698	4.5%
Other Exemptions	\$4,629,260	3.3%	\$0	0.0%
<b>Grand Total</b>	<b>\$26,220,632</b>	<b>18.9%</b>		

\* Tax expenditure estimates are not revenue estimates.

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

In 2021, \$325.9 million of tax expenditures occurred at the retail rate of 4.0% for final consumption in select industries, primarily for non-profit organizations, drugs and prosthetic devices, and affordable housing (Tax Expenditures at the Retail Rate). Putting this magnitude in perspective, tax expenditures at the retail rate represent 9.4% of the total general excise and use tax liability of Hawaii taxpayers.

Another \$44.1 million worth of tax expenditures (1.3% of total GET liability) emanated from business-to-business transactions reducing tax pyramiding effects for specific industries (Tax Expenditures at the Wholesale Rate). An additional \$155.7 million (4.5% 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).

In 2021, the total exemptions claimed that can be classified as tax expenditures at the wholesale or retail rate amounted to \$17 billion or 12.2% of total gross receipts of Hawaii taxpayers. The total exemption amount for the Out of State Sales and Other Exemptions categories was \$9.3 billion or 6.7% of total gross receipts.

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

Tax expenditures at the wholesale rate were \$44.1 million in total for tax year 2021 (Table 4). To calculate tax expenditures, this report applies the wholesale rate of 0.5% to exemptions that target business-to-business transactions. These exemptions are designed to reduce tax pyramiding which means the application of GET on the same goods or services multiple times by the time they reach the final consumer.



**Table 4**  
**Tax Expenditures at the Wholesale Rate (0.5%) for Tax Year 2021 (in \$1,000)**

Exemption	Exemption Amount	Expenditure Amount*
101 - Air Pollution Control Facilities (§§237-27.5, 238-3(k))	\$98,279	\$491
102 - Aircraft Leasing (§§237-24.3(11), 238-1)	**	**
103 - Aircraft Service and Maintenance Facility (§§237-24.9, 238-1)	\$41,960	\$210
105 - Certain Convention, Conference and Trade Show (§237-16.8)	**	**
107 - Contracting Activity in an Enterprise Zone (§209E-11)	\$24,316	\$122
117 - Federal Cost-Plus Contractors (§237-13(3)(C))	\$58,185	\$291
121 - Hawaii Convention Center Operator (§237-24.75(2))	**	**
122 - Hotel Operator/Suboperator (§237-24.7(1))	\$125,125	\$626
127 - Maintenance Fees (§§237-24.3(2), 237-24(16))	\$1,606,681	\$8,033
129 - Merchants' Association Dues (§237-24.3(8))	\$7,569	\$38
131 - Orchard Operator (§237-24.7(4))	**	**
134 - Patient-Centered Community Care (§237-24(18))	\$229	\$1
135 - Petroleum Refining (§237-27)	**	**
138 - Producers (Certain property used) (§238-4)	**	**
143 - Service Related to Ship & Aircraft (§237-24.3(3))	\$605,587	\$3,028
144 - Shipbuilding and Ship Repairs (§237-28.1).	\$329,862	\$1,649
145 - Shipping and Handling of Agricultural Commodities (§237-24.3(1))	\$9,708	\$49
148 - Subcontract Deduction (§237-13(3)(B))	\$3,973,550	\$19,868
149 - Sugar Cane Payments to Independent Producers (§237-24(14))	\$0	\$0
151 - TRICARE (§237-24(17))	\$0	\$0
152 - Wholesale Amusements (§237-4(a)(13))	**	**
153 - Wholesale Transactions (§237-29.55)	\$707,310	\$3,537
157 - Wholesale, Imported for Resale at (§237-8.6(c))	\$1,139,606	\$5,698
<b>TOTAL</b>	<b>\$8,816,123</b>	<b>\$44,081</b>

\* Tax expenditure estimates are not revenue estimates.

\*\* Data were suppressed to avoid potential disclosure of confidential taxpayer information.

The largest GET expenditures at the wholesale rate were due to the exemptions for Subcontract Deduction (\$19.9 million) and Maintenance Fees (\$8 million).

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

The total amount of the GET expenditures subject to the 4.0% retail rate was \$325.9 million in tax year 2021 (Table 5). The tax expenditures reported in this section provide exemptions for activities that are transactions between businesses and final consumers or the equivalent thereof.

**Table 5**  
**Tax Expenditures at the Retail Rate (4.0%) for Tax Year 2021 (in \$1,000)**

Exemption	Exemption Amount	Expenditure Amount*
100 - Affordable Housing (§§46-15.1, 201H-36 237-29, 238-3(j))	\$1,244,994	\$49,800
111 - Disability Provisions (§237-24(13))	\$1,330	\$53
113 - Drugs and Prosthetic Devices (§237-24.3(6))	\$1,978,324	\$79,133
115 - Enterprise Zones (§209E-11)	\$416,081	\$16,643
123 - Insurance Proceeds Received Because of a Natural Disaster (§237-24.7(6))	\$331	\$13
125 - Labor Organizations (§237-24.3(9))	\$282	\$11
128 - Mass Transit (§237-24.7(2))	**	**
130 - Non-profit Organizations (§237-23)	\$4,500,394	\$180,016
136 - Potable Water (§237-23(a)(7))	**	**
<b>TOTAL</b>	<b>\$8,147,405</b>	<b>\$325,896</b>

\* Tax expenditure estimates are not revenue estimates.

\*\* Data were suppressed to avoid potential disclosure of confidential taxpayer information.

The largest GET expenditures at the retail rate were due to the exemptions for Non-profit Organizations (\$180 million), Drugs and Prosthetic Devices (\$79.1 million), and Affordable Housing (\$49.8 million).

#### 4.4. Out of State Sales

The exemptions listed in Table 6 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 not a deviation from a uniform tax on consumption of residents and it is provided to prevent pyramiding of taxes such that the exports of residents are taxed only once, that is when they are realized as imports from nonresidents.

The value of the total foregone GE taxes in “Out of State Sales” was \$155.7 million in tax year 2021.

**Table 6**  
**Out of State Sales for Tax Year 2021 (in \$1,000)**

Exemption	Exemption Amount	Foregone Taxes
110 - Diplomats and Consular Officials (§§237-24.3(10), 238-1)	\$3,039	\$122
116 - Exported Services (§237-29.53)	\$441,594	\$16,766
120 - Foreign Trade Zone Sales (§212-8)	\$170,747	\$6,830
132 - Out of State Sales (§237-29.5(1))	\$2,852,852	\$86,102
133 - Out of State Services/Contracting to Foreign Customers (§238-2.3(1)(C))	\$6,464	\$96
141 - Sales to Federal Government and Credit Unions (§237-25(a))	\$871,628	\$34,819
142 - Scientific Contracts (§§237-26, 238-3(j)).	\$250,866	\$9,738
156 - Exported Intangibles (§237-29.57)	\$30,653	\$1,226
<b>TOTAL</b>	<b>\$4,627,844</b>	<b>\$155,698</b>

#### 4.5. Other Exemptions

The exemptions listed 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 for Tax Year 2021 (in \$1,000)**

Exemption	Exemption Amount	Expenditure Amount*
104 - Bad Debts (§237-3(b))	\$83,358	\$0
106 - Common Paymaster Exemption (§237-23.5(b))	\$1,163	\$0
112 - Discounts and Returned Merchandise (§237-3(b))	\$506,798	\$0
114 - Employee Benefit Plans (§237-24.3(4))	\$501,247	\$0
118 - Federal Preempted Amount (§§237-22, 238-3(a))	\$697,756	\$0
119 - Food Stamps and WIC (§237-24.3(5))	\$830,302	\$0
124 - Intercompany Charges (§237-23.5(a))	\$318,720	\$0
126 - Subleases of Real Property (§237-16.5)	\$147,061	\$0
137 - Professional Employer Organizations (§237-24.75(3))	\$183,366	\$0
139 - Real Estate Sales (§237-3(b))	\$384,811	\$0
140 - Reimbursement of Payroll Costs (§237-24.7(9))	\$91,934	\$0
146 - Small Business Innovation Research Grants (§237-24.7(10))	**	\$0
147 - Stock Exchange Transactions (§237-24.5)	**	\$0
150 - Taxes Passed On (§§237-24(8), 237-24(9), 237-24(10), 237-24(12))	\$754,047	\$0
154 - Sales Tax Paid Offset (§§237-22(b), 238-3(i))	\$123,135	\$0
<b>TOTAL</b>	<b>\$4,629,260</b>	<b>\$0</b>

\* Tax expenditure estimates are not revenue estimates.

\*\* Data were suppressed to avoid potential disclosure of confidential taxpayer information.

# APPENDIX

**Table A-1  
GET Exemptions Claimed by GET Rate for Tax Year 2021 (in \$1,000)**

Exemption Name	Wholesale Rate (0.5%)	Retail Rate (4%)	Insur. Rate (0.15%)	TOTAL
100 - Affordable Housing (§§46-15.1, 201H-36 237-29, 238-3(j))	\$23,345	\$1,221,649	\$0	\$1,244,994
101 - Air Pollution Control Facilities (§§237-27.5, 238-3(k))	\$93	\$98,186	\$0	\$98,279
102 - Aircraft Leasing (§§237-24.3(11), 238-1)	*	*	*	*
103 - Aircraft Service and Maintenance Facility (§§237-24.9, 238-1)	\$531	\$41,429	\$0	\$41,960
104 - Bad Debts (§237-3(b))	\$1,093	\$82,265	\$0	\$83,358
105 - Certain Convention, Conference and Trade Show (§237-16.8)	*	*	*	*
106 - Common Paymaster Exemption (§237-23.5(b))	\$0	\$1,163	\$0	\$1,163
107 - Contracting Activity in an Enterprise Zone (§209E-11)	\$0	\$24,316	\$0	\$24,316
109 - No Nexus Sales (§237-8.6)	*	*	*	*
110 - Diplomats and Consular Officials (§§237-24.3(10), 238-1)	\$0	\$3,039	\$0	\$3,039
111 - Disability Provisions (§237-24(13))	\$1,330	\$0	\$0	\$1,330
112 - Discounts and Returned Merchandise (§237-3(b))	\$188,007	\$318,791	\$0	\$506,798
113 - Drugs and Prosthetic Devices (§237-24.3(6))	\$253	\$1,978,071	\$0	\$1,978,324
114 - Employee Benefit Plans (§237-24.3(4))	\$0	\$501,247	\$0	\$501,247
115 - Enterprise Zones (§209E-11)	\$376,370	\$39,711	\$0	\$416,081
116 - Exported Services (§237-29.53)	\$25,652	\$415,942	\$0	\$441,594
117 - Federal Cost-Plus Contractors (§237-13(3)(C))	\$47,709	\$10,476	\$0	\$58,185
118 - Federal Preempted Amount (§§237-22, 238-3(a))	\$284,843	\$408,861	\$4,053	\$697,756
119 - Food Stamps and WIC (§237-24.3(5))	\$0	\$830,302	\$0	\$830,302
120 - Foreign Trade Zone Sales (§212-8)	\$0	\$170,747	\$0	\$170,747
121 - Hawaii Convention Center Operator (§237-24.75(2))	*	*	*	*
122 - Hotel Operator/Suboperator (§237-24.7(1))	\$1	125124.409	0	125125.064
123 - Insurance Proceeds Received Because of a Natural Disaster (§237-24.7(6))	\$101	\$229	\$0	\$331
124 - Intercompany Charges (§237-23.5(a))	\$0	\$318,720	\$0	\$318,720
125 - Labor Organizations (§237-24.3(9))	\$0	\$282	\$0	\$282
126 - Subleases of Real Property (§237-16.5)	\$0	\$147,061	\$0	\$147,061
127 - Maintenance Fees (§§237-24.3(2), 237-24(16))	\$0	\$1,606,681	\$0	\$1,606,681
128 - Mass Transit (§237-24.7(2))	*	*	*	*
129 - Merchants' Association Dues (§237-24.3(8))	\$0	\$7,569	\$0	\$7,569
130 - Non-profit Organizations (§237-23)	\$981	\$4,499,413	\$0	\$4,500,394
131 - Orchard Operator (§237-24.7(4))	*	*	*	*
132 - Out of State Sales (§237-29.5(1))	\$800,354	\$2,052,498	\$0	\$2,852,852
133 - Out of State Services/Contracting to Foreign Customers (§238-2.3(1)(C))	\$4,658	\$1,806	\$0	\$6,464
134 - Patient-Centered Community Care (§237-24(18))	\$0	\$229	\$0	\$229

\* Data were suppressed to avoid potential disclosure of confidential taxpayer information.

**Table A-1 (Cont.)**  
**GET Exemptions Claimed by GET Rate for Tax Year 2021 (in \$1,000)**

Exemption Name	Wholesale Rate (0.5%)	Retail Rate (4%)	Insur. Rate (0.15%)	TOTAL
135 - Petroleum Refining (§237-27)	*	*	*	*
136 - Potable Water (§237-23(a)(7))	*	*	*	*
137 - Professional Employer Organizations (§237-24.75(3))	\$359	\$183,007	\$0	\$183,366
138 - Producers (Certain property used) (§238-4)	*	*	*	*
139 - Real Estate Sales (§237-3(b))	\$0	\$384,811	\$0	\$384,811
140 - Reimbursement of Payroll Costs (§237-24.7(9))	\$0	\$91,934	\$0	\$91,934
141 - Sales to Federal Government and Credit Unions (§237-25(a))	\$1,317	\$870,308	\$3	\$871,628
142 - Scientific Contracts (§§237-26, 238-3(j)).	\$8,472	\$242,394	\$0	\$250,866
143 - Service Related to Ship & Aircraft (§237-24.3(3))	\$12,932	\$592,655	\$0	\$605,587
144 - Shipbuilding and Ship Repairs (§237-28.1).	\$1,153	\$328,710	\$0	\$329,862
145 - Shipping and Handling of Agricultural Commodities (§237-24.3(1))	\$129	\$9,579	\$0	\$9,708
146 - Small Business Innovation Research Grants (§237-24.7(10))	*	*	*	*
147 - Stock Exchange Transactions (§237-24.5)	*	*	*	*
148 - Subcontract Deduction (§237-13(3)(B))	\$0	\$3,973,550	\$0	\$3,973,550
149 - Sugar Cane Payments to Independent Producers (§237-24(14))	\$0	\$0	\$0	\$0
150 - Taxes Passed On (§§237-24(8), 237-24(9), 237-24(10), 237-24(12))	\$281,562	\$472,485	\$0	\$754,047
151 - TRICARE (§237-24(17))	\$0	\$0	\$0	\$0
152 - Wholesale Amusements (§237-4(a)(13))	*	*	*	*
153 - Wholesale Transactions (§237-29.55)	\$701,037	\$6,273	\$0	\$707,310
154 - Sales Tax Paid Offset (§§237-22(b), 238-3(i))	\$5,111	\$118,024	\$0	\$123,135
156 - Exported Intangibles (§237-29.57)	\$0	\$30,653	\$0	\$30,653
157 - Wholesale, Imported for Resale at (§237-8.6(c))	\$1,136,218	\$3,388	\$0	\$1,139,606
<b>GRAND TOTAL</b>	<b>\$3,911,983</b>	<b>\$22,304,844</b>	<b>\$4,056</b>	<b>\$26,220,883</b>

\* Data were suppressed to avoid potential disclosure of confidential taxpayer information.