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GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



GARY S. SUGANUMA
DIRECTOR

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION

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TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION

TESTIMONY ON THE FOLLOWING MEASURE:

H.B. No. 1437, Relating to General Excise Tax Exemptions

BEFORE THE:

House Committee on Education

DATE: Thursday, February 13, 2025

TIME: 2:00 p.m.

LOCATION: State Capitol, Room 309

Chair Woodson, Vice-Chair La Chica, and Members of the Committee:

The Department of Taxation (DOTAX) offers the following comments regarding H.B. 1437 for your consideration.

H.B. 1437 amends chapter 237, Hawaii Revised Statutes (HRS), to create a general excise tax (GET) exemption for gross proceeds or gross income arising from a sale that benefits a nonprofit school, if the sale is made by a nonprofit school or a nonprofit school-sponsored student activity group.

The nonprofit school must be recognized as a charitable organization organized and operated exclusively for educational purposes and is exempt from federal taxation under section 501(c) (3) of the Internal Revenue Code of 1986 (IRC), as amended. The nonprofit school must also be registered and in good standing with the State and exempt from GET under section 237-23(a)(4).

“Sale that benefits a nonprofit school” is defined as “a sale of a commodity or service from which all proceeds of the sale, less only the actual cost of the commodity or service to the nonprofit school or school-sponsored student activity group, are donated to the nonprofit school and are used exclusively to further the nonprofit school’s tax exempt purpose.”

The bill takes effect on January 1, 2026.

DOTAX requests that the reference to “registered and in good standing with the State” be clarified to specify which department the registration and good standing applies to.

DOTAX also suggests each reference to “school-sponsored student activity group” be amended to “nonprofit school-sponsored activity group” for clarity.

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

HB-1437

Submitted on: 2/12/2025 10:00:06 AM

Testimony for EDN on 2/13/2025 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Randy M Iwashita	Sacred Hearts Academy	Support	Written Testimony Only

Comments:

I am in support of HB1437 to exclude fundraiser from general excise tax. Sacred Hearts Academy provides all girls Catholic education. We have struggle to keep tuition affordable for Hawaii families. In our demographic of families, the middle class and lower middle has been hit hard. We have depended on fundraising more and more. This would be of great benefit for our school and families.

HB-1437

Submitted on: 2/12/2025 10:18:41 AM

Testimony for EDN on 2/13/2025 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Edwin Arcalas	Calvary Chapel Christian School	Support	Written Testimony Only

Comments:

As a private school leader, I support any legislation that would maximize the resources we raise for the benefit of our students to be used toward education and/or student-related activities.

Thank you for your time and consideration.

Ed Arcalas

HB-1437

Submitted on: 2/12/2025 10:30:14 AM

Testimony for EDN on 2/13/2025 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
David Randall	Hongwanji Mission School	Support	Written Testimony Only

Comments:

I support this bill as an individual citizen and as the leader of a non-profit school that relies on fundraising to support student programs. Our elementary students travel to the Big Island, East Coast, and Japan as part of our educational program. These study tours are tied into the curriculum and offer authentic place-based learning that most youth are not able to experience. Our school holds fundraisers throughout the year to help families afford these learning opportunities so no child is left out. The GET can be a significant amount that would otherwise be used to support student travel.

Please pass this legislation to support all nonprofit schools.

HB-1437

Submitted on: 2/12/2025 11:04:11 AM

Testimony for EDN on 2/13/2025 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Robert Dobrzynski	Montessori Community School	Support	Written Testimony Only

Comments:

I am in support of HB1437. As a non-for profit educational institution, we rely on fundraisers to support our mission to educate children. By having to pay GET on fundaraising, the full use of those dollars does not go to benefit the education of youth, but instead goes to the state government. If Hawai'i is **truly committed** to supporting the education of our keiki, then this bill will be passed.

HB-1437

Submitted on: 2/12/2025 11:09:36 AM

Testimony for EDN on 2/13/2025 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Ron Shiira	Ron Shiira, President of Hawaii Baptist Academy.	Support	Written Testimony Only

Comments:

Ron Shiira, President of Hawaii Baptist Academy, in support of HB1437.



February 12, 2025

House of Representatives
Committee on Education
Rep. Justin H. Woodson, Chair Rep. Trish La Chica, Vice Chair

Re: TESTIMONY IN SUPPORT OF HB1437

Dear Chair Woodsen, Vice Chair La Chica, and Members of the Committee,

Le Jardin Academy, a nonprofit independent school in Kailua, Hawai'i, strongly supports HB1437, which seeks to establish a general excise tax exemption on sales that benefit nonprofit schools. As an institution dedicated to fostering academic excellence and positive student outcomes, fundraising revenue plays a vital role in our ongoing work to enhance student experiences, expand educational opportunities, and strengthen our ability to serve Hawai'i's families.

This exemption would directly support nonprofit schools like ours by ensuring that more resources remain within the educational community, ultimately benefiting students, teachers, and programs that enrich learning. By alleviating financial burdens associated with fundraising efforts, HB1437 reinforces the state's commitment to quality education and helps nonprofit schools continue their missions of preparing future generations for success. For Le Jardin Academy, this means more funds raised going directly toward our work to cultivate a community of learners who embrace hana pono to positively impact the world.

We respectfully urge the Legislature's support of this important measure. Mahalo for your consideration and support.

Respectfully submitted,

Courtney Chow, CFRE
Executive Director of Advancement
Le Jardin Academy



TO: The Honorable Justin H. Woodson, Chair
The Honorable Trish La Chica, Vice Chair
House Committee on Education

FROM: Philip Bossert, Executive Director
Hawaii Association of Independent Schools

RE: **HB 1437 – RELATING TO GENERAL EXCISE TAX EXEMPTIONS
In Strong Support**

DATE: Thursday, February 13, 2025
2:00 p.m.; Conference room 309 & Videoconference

Aloha Chair Woodson, Vice Chair La Chica, and Members of the Committee on Education:

My name is Philip Bossert, and I am the Executive Director of the Hawaii Association of Independent Schools.

The Hawaii Association of Independent Schools (HAIS) strongly supports HB 1437.

HAIS is a membership organization that currently represents as its members 100 of Hawaii's independent K-12 schools; and, through its subsidiary, the Hawaii Council of Private Schools (HCPS), licenses all 112 private and parochial K-12 schools in the State.

Private schools in Hawaii currently educate approximately 33,000 students and the parents of these students all pay Hawaii GET and income taxes, a portion of which are used to support Hawaii's public and charter schools. Private education institutions receive no state funding for providing these educational services. The state and federal government currently exempt from taxation the tuition, fees and donations paid to private schools. However, income from the fund-raising activities that private schools undertake, in most cases to support scholarships and financial aid for students, is not tax exempt and the schools must pay GET on any proceeds (profit) from such activities. Fundraising activities undertaken by public and charter schools are not subject to GET.

These school fund-raising activities are, for the most part, events that occur once or perhaps twice each year. They are not long-term retail-type activities. Also, for the most part, the persons attending such events are family members of the students who understand that participation in such events is another type of financial support for or donation to the school. As such, I think the income or profit from such activities that private schools undertake to provide support for their institutions should be considered another type of tax-exempt donation to the school as opposed to a taxable business activity just as they are for Hawaii's public schools.

Thank you for the opportunity to submit testimony.



Kauai Christian Academy

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“Academically excellent, Christ-centered education”



February 12, 2025

TO: The Honorable Justin H. Woodson, Chair
The Honorable Trish La Chica, Vice Chair
House Committee on Education

The Honorable Greggor Ilagan, Chair
The Honorable Ikaika Hussey, Vice Chair
Committee on Judiciary & Hawaiian Affairs

FROM: Daniel Plunkett, Head of School
Kauai Christian Academy

RE: **HB 1437 – RELATING TO GENERAL EXCISE TAX EXEMPTIONS
In Strong Support**

DATE: Thursday, February 13, 2025
2:00 p.m.; Conference room 309 & Videoconference

Aloha Chairs Woodson and Ilagen, Vice Chairs La Chica and Hussey, and Members of the Committees:

My name is Daniel Plunkett, and I'm the Head of School at Kauai Christian Academy on Kauai's north shore.

As a non-profit private school, our school is exempt from filing GE taxes on basic program income (i.e., tuition), but we do have to do GE tax filings and pay tax on fundraisers, t-shirt sales, sales of tickets to school plays, rentals of our campus for outside groups, and other ancillary things. For our school that usually amounts to a few hundred dollars a month, though it varies widely according to events we may hold. Like most non-profits, we work very hard and all of us who work here are paid little, but we stretch to make ends meet because we believe in the value our school offers to our community.

I believe that the money we (and other similar schools) pay each month can't possibly make that much of a difference in the state's budget, but for us that is a lot of money. Further, the whole category of non-profit entities exists to benefit the community rather than any individual, so this would be an easy way for the state to empower non-profits. Getting taxed on the fundraisers and such we put on to help meet our funding needs is a tough pill to swallow.

According to the Hawaii Association of Independent Schools which licenses non-profit schools, there are 112 non-profit schools in the state representing over 33,000 students. When multiplied by the average amount of money per student that the state spends on children in the public school system, one can see that private schools actually save the state hundreds of millions of dollars per year while also providing educational options to families in Hawaii. I believe it is clearly in the interest of our communities and the state to enable private schools to succeed by keeping the funds they raise for the sake of their mission.

While I understand that the Hawaii state constitution does not allow the state to directly fund private schools, this request would not provide taxpayer funds to non-profit schools, it would merely allow us to keep our own funds from our fundraising and similar revenue. Numerous federal court decisions, including some very recently, have consistently concluded that tax exemptions do not make an institution the recipient of financial aid. For example, the U.S. 4th Circuit Court of Appeals recently ruled in *Buettner-Hartsoe v. Baltimore Lutheran High School Association* that a non-profit high school's tax-exempt status did not constitute federal financial assistance. Looking at legislative history and court precedent, the 4th Circuit found that "Tax exemption is the withholding of a tax burden, rather than the affirmative grant of funds."

I believe having healthy private school options benefits the state and our communities, and I think approving this bill is an easy way to empower them with little impact on the state's coffers. The money that schools save would, of course, be spent in any number of ways which would benefit the school's operations but also go back into the state's economy.

Again, I respectfully urge you to approve this bill. Thank you for the opportunity to submit testimony.

Daniel Plunkett
Head of School
Kauai Christian Academy

HB-1437

Submitted on: 2/12/2025 11:48:18 AM

Testimony for EDN on 2/13/2025 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Corrine Wachi	HANALANI SCHOOLS	Support	Written Testimony Only

Comments:

I am writing on behalf of Hanalani Schools, a small, private, independent school dedicated to providing quality education to our students. As a nonprofit institution, we rely heavily on fundraising activities to support essential programs, scholarships, and operational costs that directly benefit our students and families.

Subjecting our school to the General Excise Tax (GET) on proceeds from fundraising places an undue financial burden on our institution and limits our ability to serve our community effectively. Every dollar collected through fundraising is intended to enhance educational opportunities, not to be diminished by taxation. Unlike large institutions with substantial endowments, small schools like ours operate on tight budgets, making every contribution critical to our sustainability.

Exempting our school from GET on fundraising proceeds would allow us to maximize our resources, continue offering financial aid in addition to our Royal Merit Scholarship and maintain the high-quality education that Hawai'i's students deserve. We urge you to support this exemption to ensure that our school and others like us can thrive and continue serving our students without unnecessary financial strain.

Thank you for your time and consideration.

Sincerely,

Corrine Wachi

HB-1437

Submitted on: 2/12/2025 12:17:24 PM

Testimony for EDN on 2/13/2025 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Jeanne Wilks	Holy Nativity School	Support	Written Testimony Only

Comments:

Aloha and thank you.

If passed, HB1437 would be particularly helpful for the many small independent non-profit Hawai'i schools that operate on a very narrow margin in their budget. For most schools, tuition covers about 80% of operating expenses, with that shortfall made up by fundraising, donations, and grants. Smaller schools in particular, rely even more heavily on fundraising to continue to operate and serve our diverse body of students.

On behalf of Holy Nativity School and the small non-profit school community I humbly ask the committee to vote in the affirmative to pass HB1437 and grant tax relief for funds raised by Hawai'i's non-profit schools.

Thank you,

Jeanne Wilks

Head of Holy Nativity School

TAX FOUNDATION OF HAWAII

735 Bishop Street, Suite 417

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE; Exemption for Nonprofit Schools

BILL NUMBER: HB 1437

INTRODUCED BY: NAKAMURA by request

LATE

LATE

EXECUTIVE SUMMARY: Establishes a general excise tax exemption on the gross proceeds or gross income received from sales of commodities or services that benefit nonprofit schools.

SYNOPSIS: Adds section 237-____, HRS, to exclude gross income from a sale that benefits a nonprofit school, if the sale is made by either 1) a nonprofit school; or 2) a school-sponsored student activity group.

“Nonprofit school” means an organization that is 1) recognized by the IRS as a charitable organization organized and operated exclusively for educational purposes and is exempt from federal taxation under section 501(c)(3) of the Internal Revenue Code of 1986 and 2) registered and in good standing with the State and is exempt under section 237-23(a)(4), HRS.

“Sale that benefits a nonprofit school” means a sale of a commodity or service from which all sale proceeds, less the actual cost to the nonprofit school or school-sponsored student activity group, *are donated* to the nonprofit school and are used exclusively to further the nonprofit school’s tax-exempt purpose.

“School-sponsored student activity group” means a group connected to and under the control of a nonprofit school. Includes student government; athletic, math, and debate teams; band, orchestra, choir, drama, and other performing groups; foreign language clubs, honor societies; pep squads; and other student activity groups that come under the control of the nonprofit school.

EFFECTIVE DATE: January 1, 2026.

STAFF COMMENTS: One of the points of frustration that tax practitioners have when working with nonprofit tax-exempt organizations is the different way that federal and state law define income that is subject to tax even for a nonprofit. The federal code uses the concept of “unrelated business taxable income.” State income tax law conforms to that concept. State GET law uses another concept, however, taxing “any activity the primary purpose of which is to produce income even though the income is to be used for or in furtherance of the exempt activities.” Thus, the GET taxes such items as:

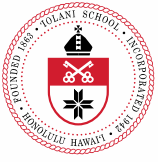
- Fundraising dinners
- Golf tournaments
- Sales of fundraising items whether or not donated to the organization
- Benefit concerts or carnivals
- Parking fees at hospitals and medical clinics

The rule that has been in effect for many years is that when a nonprofit sells something for fundraising purposes, the sale is fully taxable the same as if the sale was made by a for-profit entity, even if all net proceeds are donated to the nonprofit.

A legislative effort to change the rule was mounted in 2022 when the legislature passed SB 3021 (2022). However, Governor Ige vetoed the bill, citing the revenue cost and the possibility of unintended consequences. See GM 1405 (2022).

We also question why nonprofit schools should be given treatment unlike that afforded to other nonprofit organizations.

Digested: 2/12/2025



IOLANI SCHOOL

LATE

LATE

HEAD OF SCHOOL

February 12, 2025

Members of the House Committee on Education of the Hawaii State Legislature
Hawaii State Capitol
415 South Beretania Street
Honolulu, HI 96813

Dear Honorable Members of the Committee on Education,

My name is Dr. Timothy Cottrell, and I am the Head of School at 'Iolani School. I am writing to strongly support Hawaii Bill 1437, which proposes general excise tax (GET) exemptions for fundraising activities conducted by private educational institutions.

Private schools in Hawai'i, including 'Iolani School, rely heavily on fundraising efforts to help support ongoing school operations. Proceeds raised from fundraising activities help provide access to private school education through need-based scholarships and financial aid. In addition, 'Iolani School fundraises to support programs such as the 'Āina Informatics Network, which serves students and teachers in the Hawai'i State Department of Education by providing resources and instruction that allow them to offer advanced subjects such as modern genomics. Bill 1437's provision to exempt fundraising efforts from GET will allow private schools to dedicate more resources toward need-based access and community-centered educational programs, thus serving Hawai'i's families and elevating educational programs statewide.

Thank you for considering this important matter and for your continued commitment to supporting education in Hawai'i.

Sincerely,

A handwritten signature in black ink, appearing to read "T. R. Cottrell".

Dr. Timothy R. Cottrell
Head of School

HB-1437

Submitted on: 2/12/2025 10:18:22 AM

Testimony for EDN on 2/13/2025 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Renee Dieperink	Individual	Support	Written Testimony Only

Comments:

I SUPPORT HB1437

It's about time that food/groceries and health care are exempt

HB-1437

Submitted on: 2/12/2025 11:03:29 AM

Testimony for EDN on 2/13/2025 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Ellen Crocker	Individual	Support	Written Testimony Only

Comments:

Aloha e, I support this bill as it would apply to Hawaii Arts Alliance, a non-profit organization which handles and pays out checks to the SFCA grants Teaching Artists for teaching in our public schools. It would lessen the financial burden on the Teaching Artists.

I have worked as a Teaching Artist of Hawaii for 40 years, we are paid for our time but only twice during a school year. When I receive my last payment, it also pays for my excise tax, which is a chunk. I would appreciate being exempt for excise taxes as a Teaching Artist.

Mahalo, Ellen Crocker

LATE

HB-1437

Submitted on: 2/12/2025 2:03:15 PM

Testimony for EDN on 2/13/2025 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Laurel Matsuda	Waimea Country School	Support	Written Testimony Only

Comments:

I am writing to support the GE tax exemption for non-profit schools. As the relatively new Head of School at a small, independent school, I am learning first hand that every dollar counts when it comes to fundraising and allocating resources to benefit our students. I strongly urge you to pass this exemption to keep fundraising dollars with schools where they belong and where they will most benefit our keiki.

Mahalo!

Laurel Matsuda

Waimea Country School

Kamuela HI