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STATE OF HAWAII  
DEPARTMENT OF TAXATION

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December 23, 2024

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

The Honorable Nadine K. Nakamura  
Speaker and Members of the  
House of Representatives  
Thirty-Third State Legislature  
State Capitol, Room 431  
Honolulu, HI 96813

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

For your information and consideration, the Department of Taxation (Department) hereby transmits a copy of the Hawai'i General Excise & Use Tax Exemptions Report for Tax Year 2023, as required by Section 231-3.4(a)(4), Hawai'i Revised Statutes (HRS).

In accordance with section 93-16, HRS, the Department also informs you that the report may be viewed electronically at: [https://tax.hawaii.gov/stats/a5\\_1annual/a5\\_7ge\\_use/](https://tax.hawaii.gov/stats/a5_1annual/a5_7ge_use/)

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Gary S. Suganuma".

Gary S. Suganuma  
Director of Taxation

Enclosure

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# **Hawai‘i General Excise & Use Tax Exemptions**

**Tax Year 2023**

**(January 1, 2023 – December 31, 2023)**

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**DEPARTMENT OF TAXATION**

**STATE OF HAWAI‘I**

**DECEMBER 2024**

## STATE OF HAWAI'I

Josh Green, M.D., Governor

## DEPARTMENT OF TAXATION

Gary S. Suganuma, Director

Kristen M.R. Sakamoto, Deputy 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 Hawai'i. "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 generally limited to the retail sales of tangible goods and specifically enumerated services. 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 added a surcharge of 0.5% in 2023.<sup>1</sup> The Use Tax complements the GET by imposing tax on tangible personal property, services, and contracting that are imported into Hawai'i.

This report presents exemptions claimed against the GET for tax (calendar) year 2023. Act 94, Session Laws of Hawai'i 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, Section 3 identifies the exemptions claimed by tax rate and business activity. Second, Section 4 explains the difference between tax exemptions and tax expenditures and presents estimates of tax expenditures by exemption.

Unlike other reports prepared by DOTAX, this report relies on the determination and categorization of tax expenditures that requires assumptions. 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 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

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<sup>1</sup> The County of Maui also adopted a GET surcharge at the rate of 0.5% effective from January 1, 2024 to December 31, 2030.

the amounts and types of GET exemptions claimed. The period for which a taxpayer must submit a Form G-45 varies. Taxpayers must submit a periodic return (Form G-45) every month if they will pay more than \$4,000 in GET per year. Taxpayers who will pay \$4,000 or less in GET per year may file quarterly and taxpayers who will pay \$2,000 or less may file 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. DOTAX also requires taxpayers with a general excise tax liability exceeding \$4,000 for the taxable year, to file G-45/G-49 returns electronically.

This report provides information on all Schedules GE submitted with Forms G-49 for the tax year 2023. 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, 2023 and December 31, 2023 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 August 29, 2024. 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, or when an individual return represents a large percentage in a tabulation.

### 3. GENERAL EXCISE & USE TAX EXEMPTIONS

In 2023, 30,624 taxpayers comprising 12.5% of the total number of Hawai'i General Excise and Use Tax (GET) filers, claimed 35,108 GET exemptions. These taxpayers claimed \$38.1 billion in exemptions from their gross receipts. As a result, 21.7% of their gross receipts were exempted from the GET in 2023.

Table 1 lists the dollar amounts and the numbers of GET exemptions claimed (sorted by exemption amount in descending order).

**Table 1**  
**GET Exemptions Claimed for Tax Year 2023**

Exemption	Amount (in \$1,000)	% of Total Amount	Number of Claims	% of Total Claims
130 - Non-profit Organizations (§237-23)	\$7,705,311	20.2%	1,034	2.9%
148 - Subcontract Deduction (§237-13(3)(B))	\$4,619,610	12.1%	2,202	6.3%
132 - Out of State Sales (§237-29.5(1))	\$4,184,559	11.0%	8,790	25.0%
113 - Drugs and Prosthetic Devices (§237-24.3(6))	\$2,729,963	7.2%	287	0.8%
141 - Sales to Federal Government and Credit Unions (§237-25(a))	\$2,355,706	6.2%	842	2.4%

**Table 1 (Cont.)**  
**GET Exemptions Claimed for Tax Year 2023**

<b>Exemption</b>	<b>Amount (in \$1,000)</b>	<b>% of Total Amount</b>	<b>Number of Claims</b>	<b>% of Total Claims</b>
157 - Imported for Resale at Wholesale (§238-2(1),238-2.3(a)(1)(A))	\$2,156,130	5.7%	109	0.3%
153 - Wholesale Transactions (§237-29.55)	\$1,854,276	4.9%	1,170	3.3%
127 - Maintenance Fees (§§237-24.3(2), 237-24(16))	\$1,845,552	4.8%	2,423	6.9%
100 - Affordable Housing (§§46-15.1, 201H-36 237-29, 238-3(j))	\$1,380,150	3.6%	574	1.6%
150 - Taxes Passed On (§§237-24(8), 237-24(9), 237-24(10), 237-24(12))	\$1,060,061	2.8%	11,221	32.0%
120 - Foreign Trade Zone Sales (§212-8)	\$988,667	2.6%	25	0.1%
119 - Food Stamps and WIC (§237-24.3(5))	\$931,289	2.4%	396	1.1%
116 - Exported Services (§237-29.53)	\$906,404	2.4%	1,406	4.0%
143 - Service Related to Ship & Aircraft (§237-24.3(3))	\$804,406	2.1%	40	0.1%
139 - Real Estate Sales (§237-3(b))	\$670,872	1.8%	57	0.2%
112 - Discounts and Returned Merchandise (§237-3(b))	\$606,180	1.6%	976	2.8%
118 - Federal Preempted Amount (§§237-22, 238-3(a))	\$519,244	1.4%	205	0.6%
142 - Scientific Contracts (§§237-26, 238-3(j)).	\$439,229	1.2%	153	0.4%
124 - Intercompany Charges (§237-23.5(a))	\$397,610	1.0%	271	0.8%
115 - Enterprise Zones (§209E-11)	\$270,906	0.7%	123	0.4%
144 - Shipbuilding and Ship Repairs (§237-28.1).	\$223,488	0.6%	70	0.2%
122 - Hotel Operator/Suboperator (§237-24.7(1))	\$197,137	0.5%	15	0.0%
126 - Subleases of Real Property (§237-16.5)	\$182,385	0.5%	537	1.5%
114 - Employee Benefit Plans (§237-24.3(4))	\$151,094	0.4%	28	0.1%
137 - Professional Employer Organizations (§237-24.75(3))	\$143,650	0.4%	69	0.2%
140 - Reimbursement of Payroll Costs (§237-24.7(9))	\$96,362	0.3%	66	0.2%
154 - Sales Tax Paid Offset (§§237-22(b), 238-3(i))	\$94,817	0.2%	510	1.5%
135 - Petroleum Refining (§237-27)	\$90,226	0.2%	5	0.0%
101 - Air Pollution Control Facilities (§§237-27.5, 238-3(k))	\$72,058	0.2%	48	0.1%
110 - Diplomats and Consular Officials (§§237-24.3(10), 238-1)	\$71,489	0.2%	67	0.2%
103 - Aircraft Service and Maintenance Facility (§§237-24.9, 238-1)	\$65,254	0.2%	37	0.1%
104 - Bad Debts (§237-3(b))	\$57,452	0.2%	411	1.2%
152 - Wholesale Amusements (§237-4(a)(13))	\$40,601	0.1%	7	0.0%
102 - Aircraft Leasing (§§237-24.3(11), 238-1)	*	*	*	*
145 - Shipping and Handling of Agricultural Commodities (§237-24.3(1))	\$37,442	0.1%	7	0.0%
121 - Hawai'i Convention Center Operator (§237-24.75(2))	\$35,899	0.1%	8	0.0%
117 - Federal Cost-Plus Contractors (§237-13(3)(C))	\$31,753	0.1%	90	0.3%
133 - Out of State Services/Contracting to Foreign Customers (§238-2.3(1)(C))	\$15,035	0.0%	15	0.0%
107 - Contracting Activity in an Enterprise Zone (§209E-11)	\$12,306	0.0%	26	0.1%
129 - Merchants' Association Dues (§237-24.3(8))	\$11,185	0.0%	16	0.0%
138 - Producers (Certain property used) (§238-4)	*	*	*	*
136 - Potable Water (§237-23(a)(7))	\$6,605	0.0%	10	0.0%
156 - Exported Intangibles (§237-29.57)	\$5,068	0.0%	12	0.0%
146 - Small Business Innovation Research Grants (§237-24.7(10))	\$4,596	0.0%	11	0.0%
128 - Mass Transit (§237-24.7(2))	\$3,213	0.0%	8	0.0%
123 - Insurance Proceeds Received Because of a Natural Disaster (§237-24.7(6))	\$2,585	0.0%	28	0.1%
131 - Orchard Operator (§237-24.7(4))	\$2,512	0.0%	7	0.0%
134 - Patient-Centered Community Care (§237-24(18))	\$2,005	0.0%	21	0.1%
147 - Stock Exchange Transactions (§237-24.5)	\$1,782	0.0%	13	0.0%
111 - Disability Provisions (§237-24(13))	\$1,410	0.0%	612	1.7%
105 - Certain Convention, Conference and Trade Show (§237-16.8)	\$1,163	0.0%	12	0.0%
106 - Common Paymaster Exemption (§237-23.5(b))	\$1,038	0.0%	16	0.0%
125 - Labor Organizations (§237-24.3(9))	\$219	0.0%	11	0.0%
149 - Sugar Cane Payments to Independent Producers (§237-24(14))	*	*	*	*
151 - TRICARE (§237-24(17))	\$0	0.0%	0	0.0%
<b>TOTAL</b>	<b>\$38,134,657</b>	<b>100.0%</b>	<b>35,108</b>	<b>100.0%</b>

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

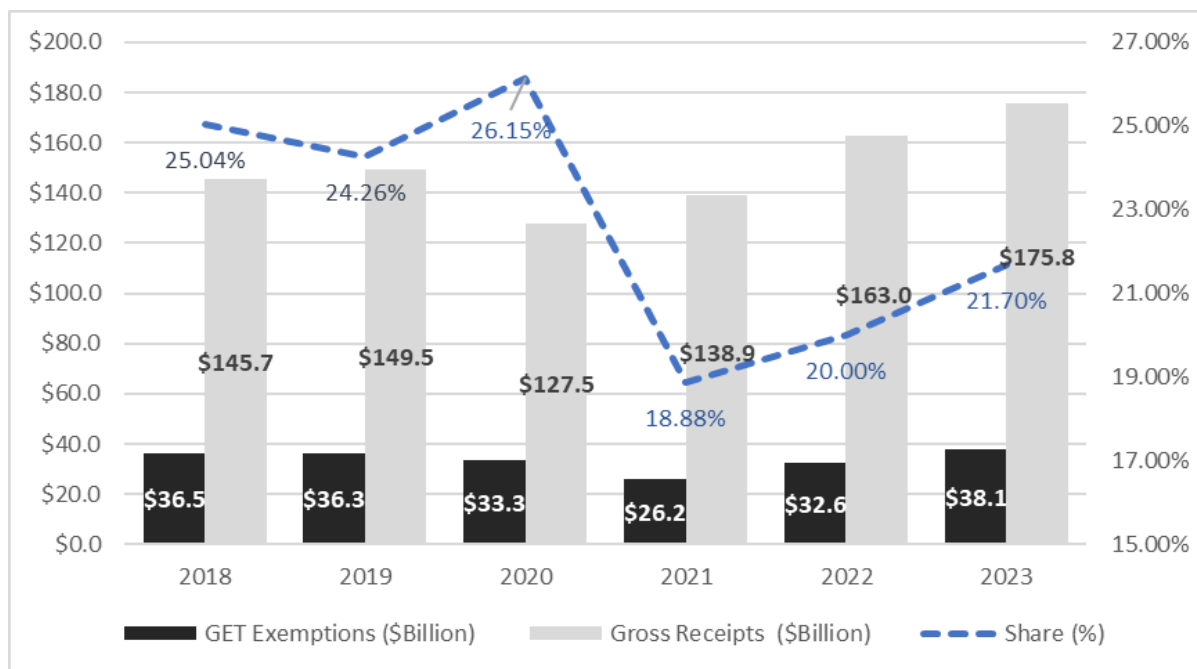


The exemption names are preceded by their three-digit exemption/deduction (ED) codes and with the corresponding Hawai'i Revised Statutes (HRS) section numbers (§ codes) in parentheses. These codes are as indicated on Schedule GE forms and explained in DOTAX's "General Instructions for Filing the General Excise/Use Tax Returns (Rev. 2023)" publication.

The number of claims (35,108 in 2023) does not translate into the unique number of taxpayers (30,624 in 2023), 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 2023.

**Figure 1**  
**GET Exemptions and Gross Receipts (\$Billion) for Tax Years 2018 through 2023**



In 2023, the gross receipts increased by 7.8% (or \$12.7 billion), and the amount of GET exemptions increased by 16.9% (or \$5.5 billion), compared to 2022. As a result, the share of GET exemptions in total gross receipts rose from 20.0% in 2022 to 21.7% in 2023.

The rate of increase in gross receipts was higher than the growth of GET exemptions in 2023 compared to the 2018-2020 period. Therefore, the share of GET exemptions in total gross receipts declined from their 24-26% level in 2018 through 2020 to 21.7% in 2023.

Although there may be fluctuations in the exemptions claimed from year to year, two developments played a role in the relative decline of GET exemption claims starting 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> 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. In 2023, GET exemptions for FTZ Sales increased to \$989 million, which was still about 74% below the 2020 level. In 2019, GET Exemption for FTZ sales was the top GET exemption category with \$6.2 billion in claims and it had 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 for which certain GET exemptions could be claimed.<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. The adjustments made by the Department when processing the annual and periodic returns and any adjustments due to audits resolved by August 29, 2024 are reflected in this report.

As shown in Table 1, in 2023, the largest exemptions in terms of dollar amounts were for

1. **Non-profit Organizations** (\$7.7 billion or 20.2% of total);
2. **Subcontract Deduction** (\$4.6 billion or 12.1% of total);
3. **Out of State Sales** (\$4.2 billion or 11.0% of total);
4. **Drugs and Prosthetic Devices** (\$2.7 billion or 7.2% of total); and
5. **Sales to Federal Government and Credit Unions** (\$2.4 billion or 6.2% of total).

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

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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 November 6, 2023) is available on the DOTAX website at: [https://files.hawaii.gov/tax/geninfo/info/EDvsAct2023\\_11-06-23.xlsx](https://files.hawaii.gov/tax/geninfo/info/EDvsAct2023_11-06-23.xlsx)

- *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 sanitarium 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 Hawai'i 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.
- *Sales to Federal Government and Credit Unions (ED Code 141)*: Sales of tangible property to the federal government and state and federal credit unions are exempt. This exemption does not apply to federal cost-plus contractors or service providers (even if the service provider separately bills for the item of tangible personal property).

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

1. **Taxes Passed On** (11,221 claims or 32.0% of total);
2. **Out of State Sales** (8,790 claims or 25.0% of total);
3. **Maintenance Fees** (2,423 claims or 6.9% of total);
4. **Subcontract Deduction** (2,202 claims or 6.3% of total); and
5. **Exported Services** (1,406 claims or 4.0% of total).

*Out of State Sales* and *Subcontract Deduction* have been described above, the remaining three 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) Hawai'i liquor taxes collected by dealers; (3) Hawai'i 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 Hawai'i.

- *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.
- *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**  
**GET Exemptions Claimed by Business Activity for Tax Year 2023**

<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	\$3,905,171	10.2%	2,620	7.5%
02. Manufacturing	\$56,213	0.1%	66	0.2%
03. Producing	\$18,143	0.0%	28	0.1%
04. Wholesale Services	\$73,432	0.2%	202	0.6%
05. Landed Value of Imports for Resale	\$2,181,044	5.7%	147	0.4%
06. Business Activities of Disabled Persons	\$2,517	0.0%	630	1.8%
<b>07. Wholesale Rate Subtotal</b>	<b>\$6,236,519</b>	<b>16.4%</b>	<b>3,693</b>	<b>10.5%</b>
<b><u>Retail Rate (4.0%)</u></b>				
08. Retailing	\$9,824,313	25.8%	9,293	26.5%
09. Services Including Professional	\$7,817,946	20.5%	4,151	11.8%
10. Contracting	\$6,094,390	16.0%	2,864	8.2%
11. Theater, Amusement and Broadcasting	\$48,612	0.1%	48	0.1%
12. Commissions	\$32,096	0.1%	168	0.5%
13. Transient Accommodations Rentals	\$284,645	0.7%	10,713	30.5%
14. Other Rentals	\$1,124,713	2.9%	1,326	3.8%
15. Interest and All Others	\$6,603,968	17.3%	2,741	7.8%
16. Landed Value of Imports for Consumption	\$53,757	0.1%	81	0.2%
<b>17. Retail Rate Subtotal</b>	<b>\$31,884,440</b>	<b>83.6%</b>	<b>31,385</b>	<b>89.4%</b>
<b><u>Insurance Rate (0.15%)</u></b>				
<b>18. Insurance Commissions</b>	<b>\$13,698</b>	<b>0.0%</b>	<b>30</b>	<b>0.1%</b>
<b>GRAND TOTAL</b>	<b>\$38,134,657</b>	<b>100.0%</b>	<b>35,108</b>	<b>100.0%</b>

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).

In 2023, the largest five exemptions in terms of the dollar amounts were in:

1. **Retailing** (\$9.82 billion or 25.8% of total);
2. **Services Including Professional** (\$7.82 billion or 20.5% of total);
3. **Interest and All Others** (\$6.60 billion or 17.3% of total);
4. **Contracting** (\$6.10 billion or 16.0% of total); and
5. **Wholesaling** (\$3.91 billion or 10.2% of total) business activity categories.

The “Retailing” business activity contains the high-exemption items of *Drugs and Prosthetic Devices (ED Code 113)* and *Out of State Sales (ED Code 132)*.

For the “Services Including Professional” business activity *Non-profit Organizations (ED Code 130)* is the highest exemption item followed by *Out of State Sales (ED Code 132)*.

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

*Subcontract Deduction (ED Code 148)* is the primary exemption under “Contracting” and the highest exemption in “Wholesaling” business activity is for *Wholesale Transactions (ED Code 153)*.

As shown in Table 2, the most commonly claimed exemptions in 2023 were in the “Transient Accommodations Rentals” (10,713 claims or 30.5% of total), “Retailing” (9,293 claims or 26.5% of total), “Services Including Professional” (4,151 claims or 11.8% of total), and “Contracting” (2,864 claims or 8.2% of total) business activities just like in 2019 through 2022. 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 2023 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 Hawai'i 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. 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 provide 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 must 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 exemptions involving certain activities not traditionally included in the base of a sales or excise tax on consumption are not considered tax expenditures (Section 4.5).

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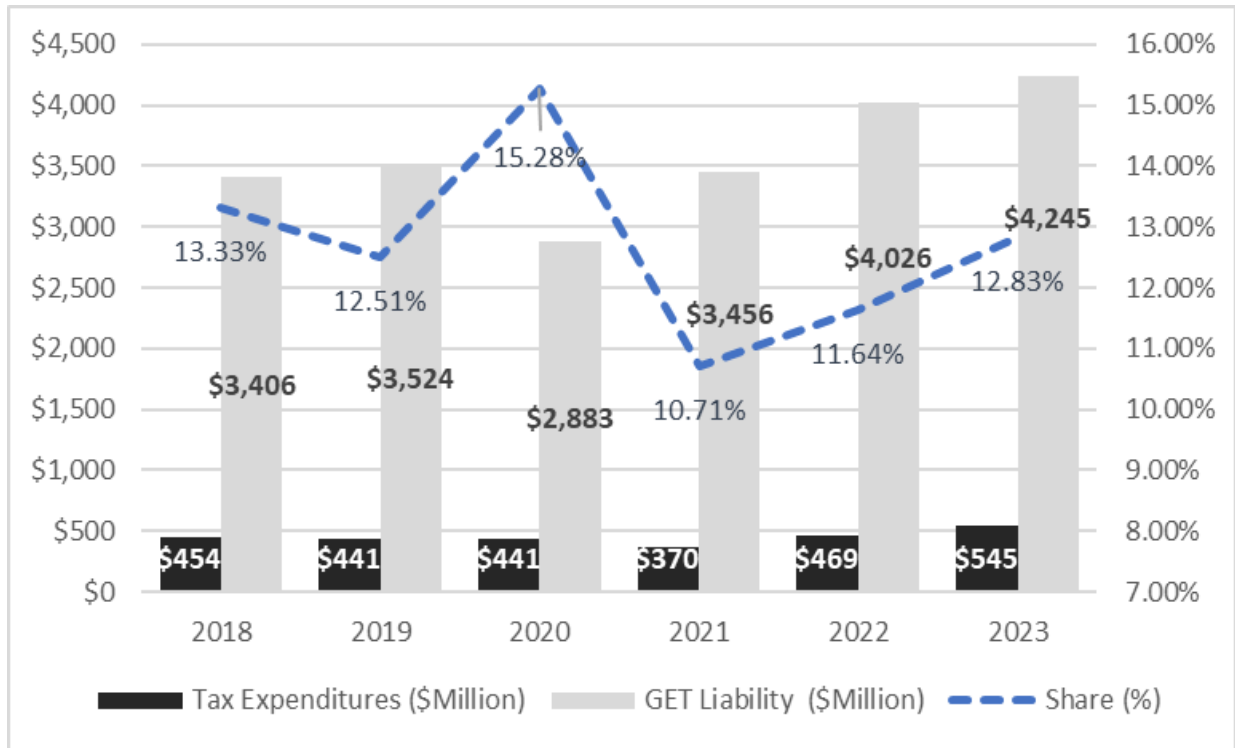
<sup>4</sup> Substitution means that if a certain exemption is repealed, a portion of the taxpayers that had been claiming the repealed exemption may be entitled to claim a different exemption for the same activity. As an example, a taxpayer claiming the enterprise zone exemption may also be exporting 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.

#### 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 2023.<sup>6</sup>

**Figure 2**  
**GET Expenditures and Liability (\$Million) for Tax Years 2018 through 2023**



This report finds that total GET expenditures amounted to \$545 million in 2023. The GET expenditures increased by 16.2% and the total GET liability increased by 5.4% in 2023 compared to 2022. As a result, the ratio of GET expenditures to GET liabilities rose from 11.6% in 2022 to 12.8% in 2023.

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.

In 2023, \$484 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).

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

Putting this magnitude in perspective, tax expenditures at the retail rate represent 11.4% of the total general excise and use tax liability of Hawai'i taxpayers.

Another \$60.7 million worth of tax expenditures (1.4% 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 \$316.1 million (7.4% 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).

**Table 3**  
**Summary of Tax Expenditures for Tax Year 2023**

	<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%)	\$12,149,704	6.9%	\$60,749	1.4%
Tax Expenditures at the Retail Rate (4.0%)	\$12,100,363	6.9%	\$484,015	11.4%
<b>Tax Expenditures Subtotal</b>	<b>\$24,250,067</b>	<b>13.8%</b>	<b>\$544,763</b>	<b>12.8%</b>
Out of State Sales**	\$8,966,157	5.1%	\$316,124	7.4%
Other Exemptions	\$4,918,434	2.8%	\$0	0.0%
<b>Grand Total</b>	<b>\$38,134,657</b>	<b>21.7%</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 2023, the total exemptions claimed that can be classified as tax expenditures at the wholesale or retail rate amounted to \$24.3 billion or 13.8% of total gross receipts. The total exemption amount for the Out of State Sales and Other Exemptions categories was \$13.9 billion or 7.9% of total gross receipts.

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

Tax expenditures at the wholesale rate were \$60.7 million in total for tax year 2023 (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.

The largest GET expenditures at the wholesale rate were due to the exemptions for *Subcontract Deduction* (\$23.1 million) and *Imported for Resale at Wholesale* (\$10.8 million).



**Table 4**  
**Tax Expenditures at the Wholesale Rate (0.5%) for Tax Year 2023 (in \$1,000)**

Exemption	Exemption Amount	Expenditure Amount*
101 - Air Pollution Control Facilities (§§237-27.5, 238-3(k))	\$72,058	\$360
102 - Aircraft Leasing (§§237-24.3(11), 238-1)	**	**
103 - Aircraft Service and Maintenance Facility (§§237-24.9, 238-1)	\$65,254	\$326
105 - Certain Convention, Conference and Trade Show (§237-16.8)	\$1,163	\$6
107 - Contracting Activity in an Enterprise Zone (§209E-11)	\$12,306	\$62
117 - Federal Cost-Plus Contractors (§237-13(3)(C))	\$31,753	\$159
121 - Hawai'i Convention Center Operator (§237-24.75(2))	\$35,899	\$179
122 - Hotel Operator/Suboperator (§237-24.7(1))	\$197,137	\$986
127 - Maintenance Fees (§§237-24.3(2), 237-24(16))	\$1,845,552	\$9,228
129 - Merchants' Association Dues (§237-24.3(8))	\$11,185	\$56
131 - Orchard Operator (§237-24.7(4))	\$2,512	\$13
134 - Patient-Centered Community Care (§237-24(18))	\$2,005	\$10
135 - Petroleum Refining (§237-27)	\$90,226	\$451
138 - Producers (Certain property used) (§238-4)	**	**
143 - Service Related to Ship & Aircraft (§237-24.3(3))	\$804,406	\$4,022
144 - Shipbuilding and Ship Repairs (§237-28.1).	\$223,488	\$1,117
145 - Shipping and Handling of Agricultural Commodities (§237-24.3(1))	\$37,442	\$187
148 - Subcontract Deduction (§237-13(3)(B))	\$4,619,610	\$23,098
149 - Sugar Cane Payments to Independent Producers (§237-24(14))	**	**
151 - TRICARE (§237-24(17))	\$0	\$0
152 - Wholesale Amusements (§237-4(a)(13))	\$40,601	\$203
153 - Wholesale Transactions (§237-29.55)	\$1,854,276	\$9,271
157 - Imported for Resale at Wholesale (§238-2(1),238-2.3(a)(1)(A))	\$2,156,130	\$10,781
<b>TOTAL</b>	<b>\$12,149,704</b>	<b>\$60,749</b>

\* Tax expenditure estimates are not revenue estimates.

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

### 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 \$484 million in tax year 2023 (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.

The largest GET expenditures at the retail rate were due to the exemptions for *Non-profit Organizations* (\$308.2 million), *Drugs and Prosthetic Devices* (\$109.2 million), and *Affordable Housing* (\$55.2 million).

**Table 5**  
**Tax Expenditures at the Retail Rate (4.0%) for Tax Year 2023 (in \$1,000)**

Exemption	Exemption Amount	Expenditure Amount*
100 - Affordable Housing (§§46-15.1, 201H-36 237-29, 238-3(j))	\$1,380,150	\$55,206
111 - Disability Provisions (§237-24(13))	\$1,410	\$56
113 - Drugs and Prosthetic Devices (§237-24.3(6))	\$2,729,963	\$109,199
115 - Enterprise Zones (§209E-11)	\$270,906	\$10,836
123 - Insurance Proceeds Received Because of a Natural Disaster (§237-24.7(6))	\$2,585	\$103
125 - Labor Organizations (§237-24.3(9))	\$219	\$9
128 - Mass Transit (§237-24.7(2))	\$3,213	\$129
130 - Non-profit Organizations (§237-23)	\$7,705,311	\$308,212
136 - Potable Water (§237-23(a)(7))	\$6,605	\$264
<b>TOTAL</b>	<b>\$12,100,363</b>	<b>\$484,015</b>

\* Tax expenditure estimates are not revenue estimates.

#### 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.

**Table 6**  
**Out of State Sales for Tax Year 2023 (in \$1,000)**

Exemption	Exemption Amount	Foregone Taxes
110 - Diplomats and Consular Officials (§§237-24.3(10), 238-1)	\$71,489	\$2,860
116 - Exported Services (§237-29.53)	\$906,404	\$34,603
120 - Foreign Trade Zone Sales (§212-8)	\$988,667	\$39,547
132 - Out of State Sales (§237-29.5(1))	\$4,184,559	\$127,407
133 - Out of State Services/Contracting to Foreign Customers (§238-2.3(1)(C))	\$15,035	\$548
141 - Sales to Federal Government and Credit Unions (§237-25(a))	\$2,355,706	\$94,228
142 - Scientific Contracts (§§237-26, 238-3(j)).	\$439,229	\$16,729
156 - Exported Intangibles (§237-29.57)	\$5,068	\$203
<b>TOTAL</b>	<b>\$8,966,157</b>	<b>\$316,124</b>

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 \$316.1 million in tax year 2023.

#### 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 fee simple land. 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 2023 (in \$1,000)**

Exemption	Exemption Amount	Expenditure Amount*
104 - Bad Debts (§237-3(b))	\$57,452	\$0
106 - Common Paymaster Exemption (§237-23.5(b))	\$1,038	\$0
112 - Discounts and Returned Merchandise (§237-3(b))	\$606,180	\$0
114 - Employee Benefit Plans (§237-24.3(4))	\$151,094	\$0
118 - Federal Preempted Amount (§§237-22, 238-3(a))	\$519,244	\$0
119 - Food Stamps and WIC (§237-24.3(5))	\$931,289	\$0
124 - Intercompany Charges (§237-23.5(a))	\$397,610	\$0
126 - Subleases of Real Property (§237-16.5)	\$182,385	\$0
137 - Professional Employer Organizations (§237-24.75(3))	\$143,650	\$0
139 - Real Estate Sales (§237-3(b))	\$670,872	\$0
140 - Reimbursement of Payroll Costs (§237-24.7(9))	\$96,362	\$0
146 - Small Business Innovation Research Grants (§237-24.7(10))	\$4,596	\$0
147 - Stock Exchange Transactions (§237-24.5)	\$1,782	\$0
150 - Taxes Passed On (§§237-24(8), 237-24(9), 237-24(10), 237-24(12))	\$1,060,061	\$0
154 - Sales Tax Paid Offset (§§237-22(b), 238-3(i))	\$94,817	\$0
<b>TOTAL</b>	<b>\$4,918,434</b>	<b>\$0</b>

\* Tax expenditure estimates are not revenue estimates.

# APPENDIX

## Table A-1

### GET Exemptions Claimed by GET Rate for Tax Year 2023 (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))	\$38,996	\$1,341,154	\$0	\$1,380,150
101 - Air Pollution Control Facilities (§§237-27.5, 238-3(k))	\$4	\$72,054	\$0	\$72,058
102 - Aircraft Leasing (§§237-24.3(11), 238-1)	*	*	*	*
103 - Aircraft Service and Maintenance Facility (§§237-24.9, 238-1)	\$5,531	\$59,723	\$0	\$65,254
104 - Bad Debts (§237-3(b))	\$2,944	\$54,508	\$0	\$57,452
105 - Certain Convention, Conference and Trade Show (§237-16.8)	\$0	\$1,163	\$0	\$1,163
106 - Common Paymaster Exemption (§237-23.5(b))	\$0	\$1,038	\$0	\$1,038
107 - Contracting Activity in an Enterprise Zone (§209E-11)	\$0	\$12,306	\$0	\$12,306
110 - Diplomats and Consular Officials (§§237-24.3(10), 238-1)	\$0	\$71,489	\$0	\$71,489
111 - Disability Provisions (§237-24(13))	\$1,410	\$0	\$0	\$1,410
112 - Discounts and Returned Merchandise (§237-3(b))	\$148,964	\$457,216	\$0	\$606,180
113 - Drugs and Prosthetic Devices (§237-24.3(6))	\$0	\$2,729,963	\$0	\$2,729,963
114 - Employee Benefit Plans (§237-24.3(4))	\$0	\$151,094	\$0	\$151,094
115 - Enterprise Zones (§209E-11)	\$216,552	\$54,354	\$0	\$270,906
116 - Exported Services (§237-29.53)	\$47,237	\$859,167	\$0	\$906,404
117 - Federal Cost-Plus Contractors (§237-13(3)(C))	\$14,105	\$17,648	\$0	\$31,753
118 - Federal Preempted Amount (§§237-22, 238-3(a))	\$82,198	\$423,348	\$13,698	\$519,244
119 - Food Stamps and WIC (§237-24.3(5))	\$0	\$931,289	\$0	\$931,289
120 - Foreign Trade Zone Sales (§212-8)	\$0	\$988,667	\$0	\$988,667
121 - Hawai'i Convention Center Operator (§237-24.75(2))	\$0	\$35,899	\$0	\$35,899
122 - Hotel Operator/Suboperator (§237-24.7(1))	\$2	\$197,135	\$0	\$197,137
123 - Insurance Proceeds Received b/c of a Natural Disaster (§237-24.7(6))	\$186	\$2,399	\$0	\$2,585
124 - Intercompany Charges (§237-23.5(a))	\$0	\$397,610	\$0	\$397,610
125 - Labor Organizations (§237-24.3(9))	\$0	\$219	\$0	\$219
126 - Subleases of Real Property (§237-16.5)	\$0	\$182,385	\$0	\$182,385
127 - Maintenance Fees (§§237-24.3(2), 237-24(16))	\$0	\$1,845,552	\$0	\$1,845,552
128 - Mass Transit (§237-24.7(2))	\$0	\$3,213	\$0	\$3,213
129 - Merchants' Association Dues (§237-24.3(8))	\$0	\$11,185	\$0	\$11,185
130 - Non-profit Organizations (§237-23)	\$33	\$7,705,278	\$0	\$7,705,311
131 - Orchard Operator (§237-24.7(4))	\$3	\$2,509	\$0	\$2,512
132 - Out of State Sales (§237-29.5(1))	\$1,142,145	\$3,042,414	\$0	\$4,184,559
133 - Out of State Services/Contracting to Foreign Customers (§238-2.3(1)(C))	\$1,535	\$13,499	\$0	\$15,035
134 - Patient-Centered Community Care (§237-24(18))	\$0	\$2,005	\$0	\$2,005
135 - Petroleum Refining (§237-27)	\$90,226	\$0	\$0	\$90,226

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

**Table A-1 (Cont.)**  
**GET Exemptions Claimed by GET Rate for Tax Year 2023 (in \$1,000)**

Exemption Name	Wholesale Rate (0.5%)	Retail Rate (4%)	Insur. Rate (0.15%)	TOTAL
136 - Potable Water (§237-23(a)(7))	\$33	\$6,572	\$0	\$6,605
137 - Professional Employer Organizations (§237-24.75(3))	\$572	\$143,078	\$0	\$143,650
138 - Producers (Certain property used) (§238-4)	*	*	*	*
139 - Real Estate Sales (§237-3(b))	\$0	\$670,872	\$0	\$670,872
140 - Reimbursement of Payroll Costs (§237-24.7(9))	\$0	\$96,362	\$0	\$96,362
141 - Sales to Federal Government and Credit Unions (§237-25(a))	\$1	\$2,355,705	\$0	\$2,355,706
142 - Scientific Contracts (§§237-26, 238-3(j)).	\$23,998	\$415,231	\$0	\$439,229
143 - Service Related to Ship & Aircraft (§237-24.3(3))	\$12,250	\$792,156	\$0	\$804,406
144 - Shipbuilding and Ship Repairs (§237-28.1).	\$5,164	\$218,324	\$0	\$223,488
145 - Shipping and Handling of Agricultural Commodities (§237-24.3(1))	\$10	\$37,432	\$0	\$37,442
146 - Small Business Innovation Research Grants (§237-24.7(10))	\$0	\$4,596	\$0	\$4,596
147 - Stock Exchange Transactions (§237-24.5)	\$0	\$1,782	\$0	\$1,782
148 - Subcontract Deduction (§237-13(3)(B))	\$456	\$4,619,154	\$0	\$4,619,610
149 - Sugar Cane Payments to Independent Producers (§237-24(14))	*	*	*	*
150 - Taxes Passed On (§§237-24(8), 237-24(9), 237-24(10), 237-24(12))	\$378,094	\$681,967	\$0	\$1,060,061
151 - TRICARE (§237-24(17))	\$0	\$0	\$0	\$0
152 - Wholesale Amusements (§237-4(a)(13))	\$0	\$40,601	\$0	\$40,601
153 - Wholesale Transactions (§237-29.55)	\$1,854,276	\$0	\$0	\$1,854,276
154 - Sales Tax Paid Offset (§§237-22(b), 238-3(i))	\$6,224	\$88,593	\$0	\$94,817
156 - Exported Intangibles (§237-29.57)	\$0	\$5,068	\$0	\$5,068
157 - Imported for Resale at Wholesale (§238-2(1),238-2.3(a)(1)(A))	\$2,156,130	\$0	\$0	\$2,156,130
<b>GRAND TOTAL</b>	<b>\$6,236,519</b>	<b>\$31,884,440</b>	<b>\$13,698</b>	<b>\$38,134,657</b>

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