Policy Brief: Proposed General Excise Tax (GET) Exemption for Medical Services

April 15, 2024

SUMMARY POINTS

- The Hawai‘i State Legislature is considering a General Excise Tax (GET) exemption for all medical services (SB 1035). This proposal is supported by AARP, veterans’ organizations, County Council members from Hawai‘i and Maui, Hawai‘i Island Chamber of Commerce, Big Island Mayor Mitch Roth, Community First, Hawai‘i State Rural Health Association, American Dental Association-Hawai‘i Chapter, and numerous healthcare professional organizations, including the Hawai‘i Medical Association and Hawai‘i Association of Professional Nurses.
- There is precedent for the Hawai‘i State Legislature granting exemptions to the GET for other industries (including non-profit organizations, drugs and prosthetic devices, and more). Costs for granting a GET exemption for medical services, as determined by the estimate from the State of Hawai‘i Department of Taxation (DoTax) for 2026, are significantly less than other exemptions already granted (see Figure 1).
- Improved healthcare access, including in rural areas; positive economic output; and demonstrable support for Hawai‘i’s health providers are valuable public goods that would counteract the anticipated loss in state tax revenue resulting from a GET exemption for medical services.

Brief Background

The General Excise Tax (GET) was imposed by the Hawai‘i Territorial Legislature through Act 141 in 1935. Now imposed under Chapter 237 of Hawai‘i Revised Statutes, the GET acts as a replacement for the more common sales tax in Hawai‘i. Diverging from a sales tax, the GET affects the sale of all goods and services at every transaction level, from manufacturing to retail.[1] Currently the GET rate is set at 4%, with a 0.5% surcharge levied by all counties. While the GET is levied on businesses rather than customers, the burden of the tax is often passed on to the customer through pricing. According to the Hawai‘i State Department of Taxation, “[the] GET is imposed on a taxpayer’s gross income (or gross receipts) for the privilege of conducting business in the State of Hawai‘i.”[2] Overall, the GET is an important form of revenue for the State of Hawai‘i, generating over $4.4 billion dollars in revenue in 2023, almost half of the total revenue distributed to the general fund that year.[3]

Precedent for GET Exemptions in Certain Industries

Some industries are exempt from paying the GET, as established through legislative actions dating from 1959 to 2015, which amended Hawai‘i Statute §237-23.[4] There are over 50 categories of exemptions from the GET, including non-profit organizations (including non-profit medical providers), drugs and prosthetic devices, real estate sales, orchard operators, labor organizations, and more; however, private medical services are not one of them.[5]

Examples of Industries with a GET exemption	Cost of GET Exemption to the State (2021)
Non-Profit Organizations	$4,500,394,000
Drugs and Prosthetic Devices	$1,978,324,000
Real Estate Sales	$384,811,000
Hotel Operator/ Suboperator	$125,125,000
Shipbuilding and Ship Repairs	$329,000,000
Private Medical Services	$74,100,000 (DoTax estimate for 2026)

Figure 1. Source: Hawai‘i Department of Taxation: Hawaii General Excise & Use Tax Exemptions Tax Year 2021 https://files.hawaii.gov/tax/stats/stats/act94_2015/act94_2015_taxyr2021.pdf

GET Impacts on Health Care Providers in Private Settings

While oftentimes businesses in Hawai‘i pass on the costs of the GET to customers (i.e., a Hawai‘i resident may see a “4.5% GET” on their receipt at the store)**, health care providers in private practice settings across the state, who work with Medicare and TRICARE insurance, are legally not allowed to pass these costs to patients, meaning they absorb the blow of these increased costs.**[6]

[1] https://www.grassrootinstitute.org/2023/02/what-is-hawaiis-general-excise-tax/
[2] https://files.hawaii.gov/tax/stats/stats/act94_2015/act94_2015_taxyr2021.pdf
[3] https://dbedt.hawaii.gov/economic/qser/tax-revenues/, *see Tax Data Tables, sheet C-1
[4] https://files.hawaii.gov/tax/legal/hrs/hrs_237.pdf
[5] Ibid
[6] https://www.grassrootinstitute.org/2023/02/the-case-for-exempting-medical-services-from-hawaiis-general-excise-tax/

Significant Health Provider Shortages in Hawai'i

As is well-known, Hawai'i has significant health provider shortages. In a 2023 report from the Hawai'i Physician Workforce Assessment Project, Hawai'i has an **estimated unmet need of 776 full-time-equivalent (FTE) physicians**.[7] The highest need is in primary care, with a shortage of 162 physicians; however, shortages exist in almost every specialty field.[8] Additionally, the Healthcare Association of Hawai'i reported there were over 4,200 open positions for non-physician healthcare positions in 2023.[9]

Physicians across the state have articulated that a major cause of the shortages is the financial burden doctors currently experience in order to practice in Hawai'i, including high costs of living, limited revenue from reimbursement relative to U.S. mainland counterparts, and the GET.[10] In 2022, of all the providers in the state, at least 42 retired, 55 moved away, and 212 decreased their work time.[11] In 2022, 53% of providers in Hawai'i were considering leaving or retiring from medicine, due often to financial strain.[12] Private/independent medical service providers are often particularly affected by these financial strains, due in part to the GET. **Given that many providers on neighbor islands are in private practice, this further exacerbates pronounced shortages and higher rates of chronic medical and mental health conditions in rural and remote areas.**[13]

Impacts of Proposed GET Exemption for Medical Services

In recent testimony on SB1035 submitted by DoTax, an estimate was provided that in fiscal year 2026—the first full year that would be impacted by a GET exemption for medical services—the State would lose **$74.1 million in revenue**.[14] While GET revenue data for 2026 is not possible to collect yet, in 2023 terms, a $74.1 million loss in revenue would equate to just 1.7% of all GET revenue generated by the state in 2023, and **only 0.08% of all state taxes collected in 2023**.[15] As shown in Figure 1, a GET exemption for medical services would be significantly less than GET exemptions that have previously been legislatively provided to other industries in the state.

Benefits of Proposed GET Exemption for Medical Services

For every step taken to reduce the financial burden on providers, more providers are likely to practice in Hawai'i, resulting in improved health care access for our patients, especially in rural areas. More patients having access to primary care availability has been shown to lead to a reduction in costly emergency room visits.[16] Given that approximately one-third of the state's population is on Medicaid (for which the state of Hawai'i pays approximately 41% of services provided as a state match), and that emergency services cost significantly more than primary care and preventive services,[17] having more primary care availability is more efficient financially for state spending on Medicaid. Moreover, while supportive data is not currently available, state costs for avoidable Medicaid Emergency Department usage resulting from poor primary care access already likely greatly exceed the tax consequences of this proposed GET exemption.

Economically, retaining and recruiting more physicians supports jobs in our state, as—for every physician that practices in Hawai'i—an average of 12.63 jobs (including their own) are supported.[18]

Especially since COVID-19, physicians are facing significant burnout and many are leaving medicine. Eliminating the GET on medical services is an important opportunity for the legislature to show support for health providers, particularly in private settings, and acknowledge the real challenges they face operating with thin margins in many of Hawai'i's most disadvantaged communities. As stated in a report from the Grassroot Institute, **granting a GET exemption for medical services "would demonstrate that policymakers are listening to the needs of the state's healthcare workers, and that they are taking action at the local level to relieve the burdens associated with practicing medicine in our state**."[19]

Summary

A GET exemption for medical services would likely improve healthcare access, especially for rural residents across the state of Hawai'i, while adding economic viability and demonstrating support for Hawai'i's hard-working health providers. There is legal precedent for such an exemption, and the costs of exempting medical services from the GET are projected to be significantly less than the costs from existing exemptions.

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[7] https://www.hawaii.edu/govrel/docs/reports/2023/act18-sslh2009_2023_physician-workforce_annual-report_508.pdf
[8] Ibid.
[9] https://static1.squarespace.com/static/5d703ec20712890001abe61f/t/6371dd4102fbca73ff8d0539/1668406609446/HAH_HWI2022Report-111122_LR.pdf
[10] https://www.bizjournals.com/pacific/news/2020/01/14/why-hawaii-island-doctors-are-looking-for-tax.html
[11] https://www.ahec.hawaii.edu/wp-content/uploads/sites/16/2021/12/Hawaii-Physician-Shortage-Research-and-Ideas.pdf
[12] https://issuu.com/communityfirsthawaii/docs/atc_july_2022_report_07032022_final?utm_medium=referral&utm_source=communityfirsthawaii.org
[13] https://www.hawaiihealthmatters.org/index.php?module=indicators&controller=index&action=dashboard&id=8301676210042188&card=0&localeId=601
[14] https://www.youtube.com/watch?v=gX65h1_oSis *please see testimony from DoTax, starting at 01:18:00.
[15] https://dbedt.hawaii.gov/economic/qser/tax-revenues/
[16] https://pubmed.ncbi.nlm.nih.gov/18261503/
[17] https://www.unitedhealthgroup.com/content/dam/UHG/PDF/2019/UHG-Avoidable-ED-Visits.pdf
[18] https://www.physicianseconomicimpact.org/pdf/FullStateReports/HI-Study.pdf
[19] https://www.grassrootinstitute.org/2023/02/the-case-for-exempting-medical-services-from-hawaiis-general-excise-tax/