
A BILL FOR AN ACT

RELATING TO GENERAL EXCISE TAX EXEMPTIONS.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature finds that Hawaii has the
2 highest cost of living in the nation. The general excise tax
3 levied on nearly all forms of economic activity contributes to
4 the high cost of goods and services in Hawaii. Although
5 businesses are required to pay general excise taxes out of their
6 gross receipts, those taxes are passed on to citizens in the
7 form of higher prices for goods and services.

8 The general excise tax is regressive, meaning that it
9 disproportionately affects poor and middle-class families. The
10 State of Hawaii is far more reliant on this consumption tax than
11 most other states, depending on it for over half of State
12 revenues. This tax policy has made it more difficult than it
13 should be for an average family to afford basic staples like
14 food and medical care.

15 Food is a major expense for Hawaii families. In 2014, the
16 average spent on food annually for a two-person household was
17 \$9,978 in Maui county, \$9,901 in Kauai county, \$9,467 in



1 Honolulu county, and \$7,676 in Hawaii county. An average two-
2 person household would save over \$400 each year if food were
3 exempt from the general excise tax, far more than the existing
4 low-income food/excise tax credit under section 235-55.85.

5 Larger households would see even greater savings. Thirty-two
6 states plus the District of Columbia exempt groceries from their
7 sales taxes; another six states tax groceries at lower rates
8 than other goods. The Legislature finds that it is time for
9 Hawaii to join this majority.

10 Health care is another major expense for local families.
11 Hawaii is one of only a handful of states that taxes medical and
12 dental services. Each physician supports an average of \$2.2
13 million in annual economic output and 13.84 jobs. Hawaii's tax
14 policy inhibits the ability of medical professionals to support
15 the local community, and makes their services less affordable.
16 Forty-one states generally exclude medical services from their
17 sales taxes, and Hawaii should join this majority.

18 The purpose of this bill is to help alleviate the general
19 excise tax burden on local households by exempting food and
20 medical services.



1 SECTION 2. Chapter 237, Hawaii Revised Statutes, is
2 amended by adding a new section to be appropriately designated
3 and to read as follows:

4 §237-A Amounts not taxable for food. (a) The excise tax
5 assessed under this chapter shall not apply to amounts received
6 for food or food ingredients.

7 (b) The excise tax assessed under this chapter shall apply
8 to food or food ingredients that are furnished, prepared, or
9 served as meals, except:

10 (1) In the case of persons sixty years of age or over, or
11 who receive supplemental security income benefits, or
12 disability or blindness payments under Title I, II, X,
13 XIV, or XVI of the Social Security Act (42 U.S.C. 301
14 et seq., 401 et seq., 1201 et seq., 1351 et seq., 1381
15 et seq.) and their spouses, meals prepared by and
16 served in senior citizens' centers, apartment
17 buildings occupied primarily by such persons, public
18 or private nonprofit establishments, eating or
19 otherwise, that feed such persons, private
20 establishments that contract with the appropriate



1 agency of the State to offer meals for such persons at
2 concessional prices, and meals prepared for and served
3 to residents of federally subsidized housing for the
4 elderly;

5 (2) In the case of persons sixty years of age or over and
6 persons who are physically or mentally handicapped or
7 otherwise so disabled that they are unable to
8 adequately prepare all of their meals, meals prepared
9 for and delivered to them and their spouses at their
10 home by a public or private nonprofit organization or
11 by a private establishment that contracts with the
12 appropriate state agency to perform such services at
13 concessional prices;

14 (3) In the case of disabled or blind recipients of
15 benefits under Title I, II, X, XIV, or XVI of the
16 Social Security Act (42 U.S.C. 301 et seq., 401 et
17 seq., 1201 et seq., 1351 et seq., 1381 et seq.), who
18 are residents in a public or private nonprofit group
19 living arrangement that serves no more than sixteen
20 residents and is certified by the appropriate state



1 agency or agencies, meals prepared and served under
2 such arrangement;

3 (4) In the case of women and children temporarily residing
4 in public or private nonprofit shelters for battered
5 women and children, meals prepared and served by such
6 shelters; and

7 (5) In the case of households that do not reside in
8 permanent dwellings and households that have no fixed
9 mailing addresses, meals prepared for and served by a
10 public or private nonprofit establishment approved by
11 an appropriate state or local agency that feeds such
12 individuals and by private establishments that
13 contract with the appropriate agency of the State to
14 offer meals for such individuals at concessional
15 prices.

16 (c) As used in this section:

17 "Alcoholic beverages" means beverages that are suitable for
18 human consumption and contain one-half of one per cent or more
19 of alcohol by volume.



1 "Dietary supplement" means any product, other than tobacco,
2 intended to supplement the diet that:

3 (1) Contains one or more of the following dietary
4 ingredients:
5 (A) A vitamin;
6 (B) A mineral;
7 (C) An herb or other botanical element;
8 (D) An amino acid; or
9 (E) A dietary substance for use by humans to
10 supplement a person's diet by increasing the
11 total dietary intake; or a concentrate,
12 metabolite, constituent, extract, or combination
13 of any ingredient described in this definition;

14 (2) Is intended for ingestion in tablet, capsule, powder,
15 softgel, gelcap, or liquid form, or if not intended
16 for ingestion in such form, is not represented as
17 conventional food and is not represented for use as a
18 sole item of a meal or of a diet; and

19 (3) Is required to be labeled as a dietary supplement,
20 identifiable by the "supplement facts" box found on



1 the label as required pursuant to title 21 Code of
2 Federal Regulations section 101.36, as amended or
3 renumbered.

4 "Food" or "food ingredients" mean substances, whether in
5 liquid, concentrated, solid, frozen, dried, or dehydrated form,
6 that are sold for ingestion or chewing by humans and are
7 consumed for their taste or nutritional value. Food or food
8 ingredients does not include alcoholic beverages, tobacco,
9 prepared food, soft drinks, dietary supplements, or food or food
10 ingredients sold from a vending machine, whether cold or hot;
11 provided that food or food ingredients sold from a vending
12 machine that is subsequently heated shall be subject to this
13 chapter.

14 "Prepared food" means:

- 15 (1) Food sold in a heated state or heated by the seller;
- 16 (2) Food sold with eating utensils provided by the seller,
17 including plates, knives, forks, spoons, glasses,
18 cups, napkins, or straws. A plate does not include a
19 container or packaging used to transport the food; or



- 1 (3) Two or more food ingredients mixed or combined by the
2 seller for sale as a single item, except:
- 3 (A) Food that is only cut, repackaged, or pasteurized
4 by the seller; or
- 5 (B) Raw eggs, fish, meat, poultry, or foods
6 containing these raw animal foods requiring
7 cooking by the consumer as recommended by the
8 federal Food and Drug Administration in Chapter
9 3, part 401.11 of the Food Code, published by the
10 Food and Drug Administration, as amended or
11 renumbered, to prevent foodborne illness.
- 12 Prepared food does not include the following food or food
13 ingredients:
- 14 (1) Food sold in an unheated state by weight or volume as
15 a single item; or
- 16 (2) Bakery items, such as bread, rolls, buns, biscuits,
17 bagels, croissants, pastries, donuts, Danish, cakes,
18 tortes, pies, tarts, muffins, bars, cookies, or
19 tortillas.



1 "Soft drinks" means nonalcoholic beverages that contain
2 natural or artificial sweeteners. Soft drinks do not include
3 beverages that contain:

- 4 (1) Milk or milk products;
- 5 (2) Soy, rice, or similar milk substitutes; or
- 6 (3) Greater than fifty per cent vegetable or fruit juice
7 by volume.

8 "Tobacco" means cigarettes, cigars, chewing or pipe
9 tobacco, or any other item that contains tobacco."

10 SECTION 3. Chapter 237, Hawaii Revised Statutes, is
11 amended by adding a new section to be appropriately designated
12 and to read as follows:

13 "§237-B Exemption for medical services. (a) There shall
14 be exempted from, and excluded from the measure of, the taxes
15 imposed by this chapter all of the gross proceeds arising from
16 the sale of medical services.

17 (b) As used in this section, "medical services" means:
18 Professional services provided by hospitals and medical clinics
19 and facilities that are licensed by the appropriate state
20 agencies and services rendered under chapters 436E, 442, 447,



1 448, 448B, 451A, 451J, 451K, 452, 453, 453D, 455, 457, 457A,
 2 457G, 458, 459, 460, 461, 461J, 463E, 465, 465D, 466D, 466J, and
 3 468E."

4 SECTION 4. In codifying the new sections added by sections
 5 2 and 3 of this Act, the revisor of statutes shall substitute
 6 appropriate section numbers for the letters used in designating
 7 the new sections in this Act.

8 SECTION 5. New statutory material is underscored.

9 SECTION 6. This Act shall take effect upon its approval
 10 and shall apply to taxable years beginning after December 31,
 11 2018.

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H.B. NO. 1732

Report Title:

General Excise Tax; Food Exemption; Medical Services Exemption

Description:

Provides an exemption for food and medical services from the general excise tax.

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