RELATING TO HEALTH.

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

SECTION 1. The legislature finds that the findings of the annual report from the Hawaii physician workforce assessment project submitted to the legislature prior to the regular session of 2020 determined that there is a serious twenty-four per cent physician shortage in the State. The neighbor island shortage is more severe, measuring forty-four per cent in Hawaii county, thirty-six per cent in Maui county, and thirty-two per cent in Kauai county. The federal government has also validated the shortage by designating Hawaii, Maui, and Kauai counties as health professional shortage areas. Additionally, Hawaii's congressional delegation has written to the federal Centers for Medicare and Medicaid Services, recognizing the risk to the State's most vulnerable communities. Moreover, the legislature recognizes that the physician shortage will worsen unless mitigating steps are taken immediately.

The legislature further finds that the general excise tax and related county surcharges are levied on Hawaii businesses on
the sale of goods and services. The general excise tax applies to medical services provided by group and private practice physicians, making Hawaii the only state taxing medical services in this way. The general excise tax and related county surcharges are applied to the gross receipts of Hawaii medical practices without regard to the high costs of providing medical services in a high cost state. Community physicians are often operating small businesses with narrow profit margins, and medicare, medicaid, and private insurer payments for medical services are well below national levels. The general excise tax and related county surcharges make medical practices unviable, resulting in practice closures and challenges in recruiting and retaining new or younger physicians.

The legislature also finds that the general excise tax and related county surcharges are highly regressive forms of taxation and disproportionately and adversely affect low-income and middle-class families struggling to cope with the State's high cost of living. Currently, physicians who receive medicare, medicaid, and tricare payments are subject to the general excise tax, although they may recoup this cost from patients as a way to recover the expense. However, most
physicians do not currently pass along this cost to patients, but this practice may soon have to change.

The legislature further finds that while hospitals and their employed physicians are exempt from the general excise tax and related county surcharges, many Hawaii hospitals continue to operate at a loss. If the general excise tax were imposed on hospitals, it would result in nearly all hospitals having negative margins, essentially taxing the institutions out of business and significantly impairing patient access to health care. The legislature concludes that in order to safeguard patient access to care, medical services performed within group and private practice should be exempt from the general excise tax and related county surcharges.

The purpose of this Act is to help reduce the impact of the general excise tax on the shortage of physicians by exempting all gross proceeds from medical services by physicians from the general excise tax.

SECTION 2. Chapter 237, Hawaii Revised Statutes, is amended by adding a new section to be appropriately designated and to read as follows:
§237- Exemption for medical services provided by physicians. (a) There shall be exempted from, and excluded from the measure of, the taxes imposed by this chapter, on all of the gross proceeds arising from medical services provided by physicians.

(b) As used in this section, "medical services provided by physicians" includes those services provided within hospitals, medical clinics, and private medical practices that are performed by a physician or osteopathic physician licensed under chapter 453."

SECTION 3. New statutory material is underscored.

SECTION 4. This Act, upon its approval, shall apply to taxable years beginning after July 1, 2050.
Report Title:
Health; General Excise Tax; Exemption; Medical Services; Physicians

Description:
Provides a general excise tax exemption for medical services provided by physicians for taxable years beginning after July 1, 2050. (HD2)

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.