
A BILL FOR AN ACT

RELATING TO THE GENERAL EXCISE TAX.

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

1 SECTION 1. The legislature finds that the annual report on
2 findings from the Hawaii physician workforce assessment project,
3 submitted to the 2024 legislature, determines that there is a
4 twenty-one per cent physician shortage in the State. The
5 physician shortage is more severe on the neighbor islands,
6 measuring forty-one per cent in Hawaii county, forty-three per
7 cent in Maui county, and thirty per cent in Kauai county. In
8 recognition of the State's physician shortage, the federal
9 government has designated Hawaii, Maui, and Kauai counties as
10 health professional shortage areas. Additionally, Hawaii's
11 congressional delegation has written to the Centers for Medicare
12 and Medicaid Services, recognizing the risk to Hawaii's most
13 vulnerable communities. Moreover, the legislature recognizes
14 that the physician shortage will worsen unless mitigating steps
15 are taken immediately.

16 The legislature further finds that the general excise tax
17 and related county surcharges are levied on Hawaii businesses



1 that engage in the sale of goods and services. The general
2 excise tax applies to the sale of medical services provided by
3 group and private practice physicians, making Hawaii the only
4 state that taxes medical services in this way. The general
5 excise tax and related county surcharges are applied to the
6 gross receipts of Hawaii medical practices without regard to the
7 high costs of providing medical services in a high-cost state.
8 Community physicians often operate small businesses with narrow
9 profit margins, and medicare, medicaid, and private insurer
10 payments for medical services are well below national levels.
11 The general excise tax and related county surcharges make
12 medical practices unviable, resulting in practice closures and
13 challenges in recruiting and retaining new or younger
14 physicians.

15 The legislature also finds that the general excise tax and
16 related county surcharges are highly regressive forms of
17 taxation that disproportionately and adversely affect low-income
18 and middle class families struggling to cope with the State's
19 high cost of living. Currently, physicians who receive
20 medicare, medicaid, and TRICARE payments are subject to the
21 general excise tax, although they may recoup this cost from



1 patients as a way to recover the expense. Most physicians do
2 not currently pass along this cost to patients, but this
3 practice may soon have to change.

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

15 Accordingly, the purpose of this Act is to help reduce the
16 negative impact of the general excise tax on physicians and
17 advanced practice registered nurses in the State by exempting
18 from the general excise tax all gross proceeds arising from the
19 sale of medical services by licensed physicians and advanced
20 practice registered nurses acting in the capacity of primary
21 care providers.



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- Exemption for medical services; physicians;
5 advanced practice registered nurses. (a) In addition to any
6 other applicable exemption provided under this chapter,
7 beginning January 1, 2026, there shall be exempted from, and
8 excluded from the measure of, the taxes imposed by this chapter
9 all of the gross proceeds arising from the sale of medical
10 services provided by a physician licensed under chapter 453 or
11 an advanced practice registered nurse licensed pursuant to
12 chapter 457 acting in the capacity of a primary care provider.

13 (b) As used in this section, "medical services" means
14 professional services provided by a physician or an advanced
15 practice registered nurse acting in the capacity of a primary
16 care provider. "Medical services" includes services provided
17 within hospitals, medical clinics, and private medical
18 practices."

19 SECTION 3. New statutory material is underscored.



1 SECTION 4. This Act shall take effect on July 1, 3000.



Report Title:

General Excise Tax; Exemption; Medical Services; Physicians;
Advanced Practice Registered Nurses

Description:

Beginning 1/1/2026, exempts medical services provided by
licensed physicians and advanced practice registered nurses
acting in the capacity of primary care providers from the
general excise tax. Effective 7/1/3000. (HD1)

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