APPENDIX H

REVENUE COSTS FOR
SELECTED GENERAL EXCISE TAX AND USE TAX
EXEMPTIONS AND DEDUCTIONS

Tax Research and Planning Office
Department of Taxation
State of Hawaii

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REVENUE COSTS FOR SELECTED GENERAL EXCISE TAX AND USE TAX EXEMPTIONS AND DEDUCTIONS

Prepared by the Tax Research and Planning Office, Hawaii Department of Taxation

This report provides estimates for the revenue costs of various exemptions and deductions from the General Excise Tax (GET) and the Use Tax. Hawaii has used various forms of the GET since 1935. The basic version of the present GET law was codified in 1955, but it has been amended on numerous occasions since then. The GET is levied against a business's gross receipts for the privilege of doing business in Hawaii. Unlike a sales tax, the legal incidence of the GET is on the seller and not on the purchaser. Whether the GET is passed forward to the customer is a matter of private contractual agreement, but if it is passed forward, it becomes part of the business's taxable gross receipts. The rate of the GET varies from as low as 0.15 percent (for insurance commissions) to as high as 4 percent (the rate that applies to most retail sales). Sales at wholesale usually are subject to tax at one-half of one percent.

The Use Tax complements the GET by imposing tax on tangible personal property, services and contracting that are imported into Hawaii. The Use Tax was enacted in 1965 and became law on January 1, 1966. It is levied at the rate of one-half of one percent if the imports are intended for resale at retail and at four percent if the imports are for use or consumption by the importer. No Use Tax is due when the imports are intended for resale at wholesale in Hawaii.

This report provides estimates of the direct revenue costs for the various exemptions and deductions from the GET and Use Tax. Each exemption or deduction is described briefly, with reference to the appropriate sections in the Hawaii Revised Statutes, and the data sources used to construct the estimates of foregone revenue are noted. The estimates do not take into account the changes in behavior that could result if the exemption were removed, nor do they consider the effects on other tax collections if removing the exemption affects total income in Hawaii. They therefore have the nature of tax expenditure estimates rather than of actual revenue estimates.

It might be tempting to view the estimates of revenue foregone as an excise tax counterpart for the tax expenditures that are commonly provided for the income tax. However, the present study makes no judgment as to whether the exemptions or deductions it covers are aberrations from an ideal, uniformly applied excise tax. For example, because the Use Tax is imposed on imports, it can be inferred that the intention is to apply Hawaii's excise tax according to the destination principle. But a destination-based excise tax is not supposed to be applied to exports, so an exemption for exports is not an aberration from a universally applied excise tax administered under the destination principle. The present study, however, includes an item for the revenue cost of the exemption for exports.

The GET base is defined very broadly. Consequently, the State's Legislature has found it necessary to include exemptions for items that one would ordinarily not associate with gross income generated by a business activity. For example, there is an explicit exemption for receipt of alimony payments. Similarly, there are exemptions for such items as salaries or wages of employees, for "casual sales," for discounts, for returned merchandise, and for uncollected bad debts. Estimates are provided for the revenue cost of these exemptions, though they are usually not considered as part of a uniform general excise tax.

Some items of gross income are exempt from the GET, because they are taxed elsewhere in the Hawaii Revised Statutes. For example, gross income earned by banks and other financial corporations from providing financial services, and gross income earned by insurance companies from providing insurance are exempt from the GET, but financial institutions are subject to tax on their net income under the Tax on Banks and Other Financial Corporations and the insurance companies are subject to the Tax on Insurance Premiums. Similarly, the gross income of public service companies is exempt from the GET, but it is subject to the Public Service Company Tax. Nevertheless, these items are included among the GET exemptions and revenue costs are provided for them.

The estimates entail some double counting, because we considered each exemption in isolation. Nor are they stacked one upon the other; unless noted explicitly, the revenue cost of each exemption is calculated as if no other exemptions were present. For example, there is an exemption for gross receipts of nonprofit organizations and a separate exemption for gifts and bequests. The revenue cost of the exemption for nonprofit organizations is measured as if, in its absence, all of their gross receipts would be subject to tax, including the gifts they receive. As another example, gross income received by mutual benefit societies for providing insurance is exempt from the GET, because they are insurance companies, but if this exemption were not available, they might still be exempt because they are not for profit. Their income is also exempt from the Tax on Insurance Premiums because they are not for profit. The cost of the GET exemption for nonprofit organizations includes the GET foregone on the gross income of the mutual benefit societies, and the cost of the GET exemption for insurance companies also includes the GET foregone on the income of the mutual benefit societies. The reason for using this procedure is to avoid losing the revenue costs of some exemptions. This would happen if we considered only the isolated effect of each exemption, assuming all other exemptions would remain in force. If we used the latter procedure, we would never capture the revenue cost of the overlap of exemptions. For example, the estimate for the GET exemption for nonprofits would exclude the gifts they receive, on grounds that eliminating the exemption for the nonprofits by itself would not eliminate the exemption for their receipt of gifts, and the estimate for the GET exemption for gifts would exclude gifts to the nonprofits, because these gifts would continue to be exempt if the exemption for nonprofits were not simultaneously eliminated.

In most cases, the cost of each exemption is calculated as if all of the receipts described by the exemption would have been subject to GET without the exemption, not just the receipts that might belong to a business enterprise. For example, the revenue cost for the exemption for alimony payments is measured as the GET that would have been due on the total value of alimony received in Hawaii. If we had tried to include only alimony payments that might be part of gross receipts from a business activity, the revenue cost would presumably be negligible.

Finally, we wish to emphasize the preliminary nature of the estimates. In addition to the conceptual problem of establishing what should properly be considered as an exemption from the GET (which we did not try to resolve for this exercise), there are problems, sometimes severe, in estimating the revenue cost of the exemptions. In many cases, data needed to produce the estimate are not available, so the estimate is based on very rough assumptions. Sometimes, the estimate is little more than an educated guess.

REVENUE COSTS OF SELECTED GENERAL EXCISE TAX AND USE TAX EXEMPTIONS AND DEDUCTIONS

Exemption: ***1. Amounts received as salaries or wages for services rendered to an employer.*** Since salaries or wages are not considered gross receipts from businesses, they are not subject to GET. See section 237-24(6), HRS.

Data Source: U.S. Bureau of Economic Analysis, 2005 Wage and Salary Disbursements.

Methodology:	Total wages and salaries:	$24,974,000,000
	Tax Expenditure at 4% GET:	$998,960,000

Exemption: ***2. Real estate sales. '***Gross income' and 'gross proceeds of sales' subject to GET do not include gross receipts received from the sale of land in fee simple, improved or unimproved. See Section 237-3(b), HRS.

Data Source: State of Hawaii 2005 Data Book, tables 21.07, 21.30, and 21.33.

Methodology: Sales are for resales on Oahu only. Adjustments were made for the statewide total and for the land value of new construction sales. The estimate is for 2005.

Average price of fee simple, single family homes resales:	$744,174
Total number of fee simple, single family home resales:	4,677
Gross single family resales:	$3,480,501,798
Adjustment for statewide:	$7,010,863,254
Adjustment for new construction:	$8,871,298,254
Average price of fee simple, condominiums resales:	$320,003
Total number of fee simple, condominiums resales:	8,534
Gross condominiums resales:	$2,730,905,602
Adjustment for statewide:	$3,967,077,191
Adjustment for new construction:	$4,031,077,791
Average price of vacant land sold:	$609,043
Total number of vacant land unit sales:	329
Gross vacant land sales:	$200,375,147
Adjustment for statewide:	$299,067,384
Average price of multi-family unit resales:	$1,202,699
Total number of multi-family unit resales:	147
Gross multi-family resales:	$176,796,753
Adjustment for statewide:	$263,875,751
Average price of commercial/industrial businesses:	$1,754,255
Total number of commercial/industrial unit sales:	70
Gross commercial/industrial:	$122,797,850
Adjustment for statewide:	$183,280,373

Tax expenditure at 4% GET:	$545,943,982

Exemption: ***3. Certain gross receipts of non-profit organizations.*** Certain organizations are exempt from the GET on their gross income or revenues, as long as it is related to their tax exempt purpose. See Section 237-23(a) through (6), HRS.

Data Source: *Pacific Business News*, 2005 Book of Lists, Data for Calendar Year 2003.

Methodology: Total receipts of non-profit organizations:

Hospitals:	$1,666,874,640
Mutual Benefit Societies:	$1,587,798,762
Service Providers:	$929,069,384
Foundations and Trusts:	$849,539,212
Private Elementary/Middle Schools:	$85,798,567
Private High Schools:	$83,342,666
Health Care Providers:	$64,639,273
Child Care Centers:	$57,431,082
Credit Unions:	$43,116,716
Senior Living Facilities:	$7,104,215
Fraternal Benefit Societies:	$5,228,510
Skilled Nursing/Intermediate Care Facilities:	$4,867,549
Chambers of Commerce:	$3,088,005
Estimated total receipts:	$5,387,898,581
Adjustment to 2005:	$5,926,688,439
Assuming 5% of receipts are not exempt from GET	$5,630,354,017
Tax expenditures at 4% GET:	$225,214,161

Exemption: ***4. Amounts received by an employee benefit plan by way of contributions, dividends, interest, and other income.*** The exempt amounts include both employer and employee shares. See section 237-24.3(5), HRS.

Data Source: U.S. Bureau of Economic Analysis, 2005 Wage and Salary Disbursements.

Methodology:

Employer contribution to pension and insurance funds:	$5,663,230,000
Assuming that employees contribute another 40%:	$2,265,292,000
GET base is:	$7,928,522,000
Tax Expenditure at 4% GET.	$317,140,880

Exemption: ***5. Gross income or gross proceeds from insurance policies.*** GET does not apply to gross income or gross proceeds from insurance policies owing to death of the insured or received as endowment or annuity contracts, or payments under accident or health policies for injury or sickness. (The exemption does not apply to personal damages). See section 237-24.(1-3), HRS.

Data Source: Department of Commerce and Consumer Affairs, 2005 Report to the Insurance Commissioner, table 1, covering claims paid in 2004.

Methodology:	Life insurance claims:		$804,335,968
	Annuities:		$280,030,731
	Accident and health:		$108,510,939
	Workman's compensation:		$128,532,200
	Medical benefits:		$2,182,345,371
		Total:	$3,503,755,209
		Tax Expenditure @ 4% GET:	$140,150,208
		Adjustent to 2005:	1.070
		Tax Expenditure @ 4% GET:	$149,960,723

Exemption: ***6. The deduction that a prime contractor is allowed to take from gross income for payments to another contractor or specialty contractor.*** Any person claiming a deduction must provide the name and General Excise Tax number of the person paying the tax on the deducted amount. See Section 237-13(3)(B), HRS.

Data Source: Department of Taxation data on General Excise Tax Collections, GET Base for Contracting.

Methodology:	Contracting GET Base in 2004:		$5,618,306,000
	Assuming that 1/2 of all work is sub-contracted to licensed contractors, GET base for the value of gross proceeds:		$2,809,153,000
		Tax Expenditure @ 4% GET:	$112,366,120

Exemption: ***7. Stocks, Bonds, and Commodity Futures.*** Amounts received from the sale of securities, commodity futures, or bonds are not subject to GET. See Section 237-3(b), HRS.

Data Source: Hawaii Income Patterns, Individuals and Business 2002, table 4, 36.

Methodology:	Gross proceeds from sale of capital assets and other		$942,486,901
	Assuming that 50% of gains are from securities		$471,243,451
		Adjustment to 2005:	1.326
		Tax Expenditure @ 4% GET:	$24,988,766

Exemption:	***8. The value of all property of every kind and sort acquired by gift, bequest, or devise, and the value of all property acquired by descent or inheritance.*** See Section 237-24(2)
Data Source:	State of Hawaii Data Book, 2005.
Methodology:	Limited to top wealth holders for 1998 with total assets greater than $625,000 and net worth of $10 million

	Total Net Worth:	$26,853,000,000
Assume that this represents 75% of the total:		$35,804,000,000
Assuming that 1% of the total is bequeathed, GET base		$358,040,000
	Tax Expenditure @ 4% GET:	$14,321,600
	Adjusted to 2005	$19,353,608

Exemption:	***9. Damages for personal injuries and property.*** Exempt amounts include amounts under any accident insurance, health insurance policy, contract workers' compensation acts, or employers liability acts received as compensation for personal injuries, death or sickness. See Section 237.24(5).
Data Source:	Report of the Insurance Commission of Hawaii for 2005 (data are for 2004 claims).

Methodology: Losses, claims and benefits paid		$812,436,277
	Tax Expenditure @ 4% GET:	$32,497,451
	Adjusted to 2005	$43,872,751

Exemption:	***10. Amounts of taxes on fuel, liquor, cigarettes and tobacco products.*** See Section 237.24 (8-12).
Data Source:	Calendar Year 2005 tax collections and Tax Foundation

Methodology: Fuel taxes		$161,430,172
Liquor taxes		$43,594,058
Transient Accommodations Tax		$207,381,407
Tobacco taxes		$85,962,298
Federal excise taxes		$343,541,800
	Total:	$885,335,906
	Tax Expenditure @ 4% GET	$51,909,662

Exemption:	***11. Certain amounts of services and interest costs between related entities and for common paymasters.*** Certain services provided by an entity to a related entity are exempt from GET. Likewise, amounts received by a common paymaster from related corporations are also exempt from GET. See Section 237-23.5 (a) and (b), HRS.
Data Source:	Department of Business, Economic Development and Tourism, Input-Output Study for Hawaii, 2002, and Department of Taxation data for 2005.

The Hawaii input output table indicates that business-to-business sales are 39% of gross receipts and that sales of services are 24% of business-to-business sales. It is assumed that 90% of these services sales are not intermediary sales and that 5% of these non-intermediary sales are exempt under section 237-23.5(a) and (b), HRS

Gross receipts in 2005	$65,877,828,000
Tax Expenditure @ 4% GET	$11,099,096

Exemption:	***12. Amounts received by the operator of a hotel from the owner of the hotel equal to and disbursed for employee wages, salaries and benefits.*** Amounts received by the operator of a hotel from the owner of the hotel include employee wages, salaries and benefits, as well as retirement, vacation, sick pay and health benefits. See Section 237-24.7(1), HRS.
Data Source:	Hawaii Income Patterns, Business 2002 (unpublished).

Methodology:	Transient accommodation entities paid wages:	$631,130,000
	Add cost of benefits @ 85%:	$189,339,000
	Total estimated payroll costs:	$820,469,000
	Assuming that 30% of these costs are for separate owner/operators, GET base is:	$697,398,650
	Updating to 2005 using growth in GET revenues	$1,019,681,359
	Tax Expenditure @ 4% GET:	$40,787,254

Exemption:

13. A*mounts received by an association of apartment owners, a nonprofit homeowners association, a community association or cooperative association in reimbursement of sums paid for common expenses.* The exempt expenses usually are maintenance costs. See Section 237-24.3(3) and Section 237-24(16), HRS.

Data Source: Hawaii Income Patterns, Business, 2002 and Survey and Marketing Services, Hawaii Housing Policy Study, 2003.

Methodology:	In 2002, there were 1250 property owner associations with gross receipts totaling	$299,979,000
	Assuming that 70% represents common expenses, the GET base is:	$209,985,300
	There were 2,956 units in "cooperative housing". inventoried in 2003	
	Assuming that the common expenses for each totaled $7,200 per year, the GET base is:	$21,283,200
	Total exempt GET base:	$231,268,500
	Adjusted to account for growth from 2002 to 2005:	$338,142,580
	Tax expenditure @ 4 % GET:	$13,525,703

Exemption: ***14. Sale of prescription drugs and prosthetic devices by a hospital, infirmary, medical clinic, health care facility, pharmacy, or practitioner licensed to administer the drug or prosthetic device.*** Prescription drugs are dispensed by filling or refilling a written or oral prescription. A prosthetic device means any artificial device or appliance, instrument, apparatus or contrivance, including their components, parts accessories and replacements. See Section 237-24.3(7), HRS.

Data Source: U.S. Center for Medicare and Medicaid Services, Office of the Actuary, National Statistics Group, 2004.

Methodology:	Expenditures on prescription drugs:	$471,500,000
	Total expenditures on durable medical equipment which include prosthetic devices:	$115,000,000
	Assuming that 5% is for prosthetic devices:	$5,750,000
	Adjusted to account for growth from 2004 to 2005:	$546,102,273
	Tax Expenditure @ 4% GET	$21,844,091

Exemption: ***15. Value of gross proceeds arising from the manufacture, production or sale of tangible personal property shipped to out-of-state purchasers for resale or use out of state.*** The tangible personal property must be resold or otherwise consumed or used outside the State. See Section 237-29.5 and Section 237-29.53, HRS.

Data Source: Hawaii Input-Output Model, Department of Business Economics, Development and Tourism, 2002.

Methodology:	Hawaii's total exports including services but excluding visitor expenditures = 3% of Hawaii's GDP in 2005:	$1,607,790,000

Tax Expenditure @ 4% GET	$64,311,600

Exemption: ***16. Amounts received as rent for the leasing of aircraft or aircraft engines used by the lessee for interstate air transportation of passengers and goods.*** Payments made to a lease are considered rent regardless of whether the lease is an operating lease or a financing lease. See Section 237-24.3(12), HRS.

Data Source: Source: Hawaii Income Patterns, Business 2002.

Methodology:

Gross receipts of "Air Travel" businesses:	$1,547,275,213
Assuming that 25% is for Aircraft leasing for interstate transport, GET base for leasing of aircraft or aircraft	$386,818,803
Updated to 2005:	$565,575,977
Tax Expenditure @ 4% GET	$22,623,039

Exemption: ***17. Amounts received for purchases made with U.S. Department of Agriculture food coupons and food vouchers.*** See Section 237-24.3(6), HRS.

Data Source: State of Hawaii Data Book, 2005.

Methodology:

Value of Food Stamp receipts in 2005:	$155,816,670
Tax Expenditure @ 4% GET	$6,232,667

Exemption: ***18. Amounts received by the operator of a county transportation system under a contract with a political subdivision.*** The political subdivision must be the owner of the county transportation system. See Section 237-24.7(2).

Source: City and County of Honolulu, FY 2005 Budget.

Methodology: Transportation gross receipts:

Bus transportation funds:	$118,364,678
Federal grants funds:	$21,800,000
Community Development/Home funds:	$700,000
Total:	$140,864,678
Tax Expenditure @ 4% GET:	$5,634,587

Exemption: ***19. Aircraft service and maintenance facilities.*** The exemption is for amounts received from servicing and maintenance of aircraft or from the construction of an aircraft service and maintenance facility. See Section 237-24.9, HRS.

Data Source:	Hawaii Income Patterns, Business 2002, DoTAX Data (unpublished).	
Methodology:	Gross Receipts of Aviation Services Businesses: (Non-jet aircraft repair and services are not exempt.)	$132,482,832
	Assuming that 90% involves exempt activity, GET base for the value of gross proceeds is:	$119,234,549
	Adjustment to 2005:	1.462
	Tax Expenditure @ 4% GET:	$6,973,415

Exemption: ***20. Affordable housing.*** All gross income received by any qualified person or firm for the planning, design, financing, construction, sale, or lease of a housing project which has been certified or approved by the state shall be exempt from GET. See Section 206G-116, HRS.

Data Source: State of Hawaii Data Book, 2005.

Methodology:	Housing and Community Development Corporation housing operations' gross revenues:	$24,222,000
	Assuming that there is an additional 10% in gross revenues from other concerns, the GET base for the exemption is:	$26,644,200
	Assuming that 5 percent of residential building permits are for affordable housing, the GET base for the exemption becomes:	$201,242,400
	Tax Expenditure @ 4% GET:	$8,049,696

Exemption: ***21. Amounts received from the loading, transportation and unloading of agricultural commodities shipped for a producer or produce dealer on one island to a person, firm or organization on another island.*** See Section 237-24.3(1), HRS.

Data Source: State of Hawaii Data Book, 2005.

Methodology:	Value of Hawaii 2005 agricultural exports totaled:	$78,700,000
	Value of Hawaii production of agricultural products in 2005:	$516,124,000
	Assuming the difference between production and exports, Hawaii consumption is:	$437,424,000
	Whereas half of Hawaii consumption is shipped inter-island:	$218,712,000
	Assuming shipping costs represent 25 % of dollar value, GET base is:	$54,678,000
	Tax Expenditure @ 4% GET:	$2,187,120

Exemption:	***22. Amounts levied against any federal cost-plus contractor as reimbursement of costs incurred for materials, plants or equipment purchased from a licensed taxpayer.*** See Section 237-13(3)(C), HRS.	
Data Source:	Department of Taxation data on GET collections for 2005	
Methodology:	Contracting base is:	$5,618,306,000
	Assuming that 5% represent federal cost-plus work, amount equals:	$280,915,300
	Assuming that 40% of the federal cost-plus work is exempted materials, the GET base is:	$112,366,120
	Tax Expenditure @ 4% GET:	$4,494,645

Exemptions:	***23. Sales to federal government and credit unions.*** The exemption applies to sales of tangible personal property to the United States and state-charted credit unions. See Section 237-25(a), HRS.	
Data Source:	DBEDT, Input-Output Table for 2002.	
Methodology:	Federal procurement spending for goods (estimated):	$680,400,003
	Adjustment ot 2005:	$994,827,277
	Tax Expenditure @ 4% GET:	$39,793,091

Exemption:	***24. Discounts and returned merchandise.*** This includes cash discounts on sales of goods, wares or merchandise returned by customers, whether refunded in cash or by credit. See Section 237-3(b), HRS.	
Data Source:	Hawaii Income Patterns, 2002, Table 2-10 and 2-11.	
Methodology:	Returns and allowances reported by non-apportioned "C" corporations totaled:	$50,643,000
	Inflated to all "C" corporations:	$129,596,534
	Returns and allowances reported by non-apportioned "S" corporations:	$30,917,000
	Inflated to all "S" corporations:	$32,519,818
	Grand Total:	$162,116,351
	Tax Expenditure @ 4% GET:	$6,484,654

Exemption: ***25. Accounts found to be worthless and actually charged off for income tax purposes*** . The exemption does not apply to a reserve established for bad debts. See Section 237-3(b), HRS.

Data Source: Hawaii Income Patterns, 2002, Tables 2-11.

Methodology:

Bad debts reported by non-apportioned "C"corporations:	$48,667,000
Inflated to all "C" corporations:	$124,542,107
Bad debts reported by non-apportioned "S" corporations:	$9,677,000
Inflated to all "S" coproations:	$11,498,371
Subtotal:	$136,040,478
Adjusted to 2005:	$209,487,864
Tax Expenditure @ 4% GET:	$8,379,515

Exemption: ***26. The value or gross proceeds arising from contracting or services performed in Hawaii for a customer located outside on the State*** . Such contracting or services are exempt provided the customer furnishes a required form to the vendor certifying that the contracting or servicing is for resale, consumption or use outside of the State. See Section 237-29.53, HRS.

Data Source: Coalition of Service Industries, 2/5/2002 Report, Pages 12-13.

Methodology: The following amounts of services were exported in 1997:

Software Publishers:	$644,000
Broadcasting and Telecommunications:	$2,444,000
Information and Data Processing Services:	$1,257,000
Professional, Scientific and Technical Services:	$31,239,000
Administrative and Support and Waste Management Services:	$22,637,000
Total Services Exported in 1997:	$58,221,000
Inflated to 2005 and to account for contracting:	$101,591,657
Tax Expenditure @ 4% GET:	$4,063,666

Exemption: ***27. Dividends and other distribution of income or profit from corporations, partnerships and trusts are not taxable.*** The exemption does not apply if the distribution is a payment due to transaction of business with the shareholder, partner or beneficiary. See Section 237-3(b).

Data Source: Hawaii Income Pattern, 2002, Business, Table 2 and Individual, Table 4.

Methodology:	Dividends reported as gross income for non-apportioned "C' corporations only:	$23,354,000
	Inflate to all corporations:	$59,763,392
	Dividends reported by taxpayers:	$319,360,410
	Adjust to 2005:	$554,324,953
	Tax Expenditure @ 4% GET:	$22,172,998

Exemption: ***28. Sales of products that are admitted into a foreign trade zone and shipped directly to any common carrier in interstate or foreign commerce for consumption out-of-state are exempt.*** The sale must take place entirely within the zone. See Section 212-8, HRS.

Data source: State of Hawaii Data Book, 2005, Table 24.04.

Methodology:	Combined exports from Foreign Trade Zones:	$567,644,000
	Tax Expenditure @ .5 GET:	$2,838,220

Exemption: ***29. Gross income derived by a fraternal benefit, religious, charitable, scientific, educational or other nonprofit organization under section 501(c) of the Internal Revenue Service Code from fees for convention conference or trade show exhibit or display spaces is GET exempt.*** See Section 237-16.8, HRS.

Data Source: According to the Hawaii Community Foundation, revenue from "Special Events" represent about 1% of total receipts.

Methodology:	Estimated gross receipts:	$5,926,688,439
	"Special Events" @ 1%:	$59,266,884
	Tax Expenditure @ 4% GET:	$2,370,675

Exemption: ***30. Gross proceeds derived by a contractor or subcontractor arising from the performance of scientific work*** . This involves primarily the research and development for, or the design, manufacture, instrumentation, installation, maintenance, or operation of aerospace, agricultural, astronomical, biomedical, electronic, geophysical, oceanographic, test range or other scientific facilities. See Section 237.26, HRS.

Data Source: U.S. Economic Census for Hawaii, 2002, page 16.

Methodology:	Gross receipts from 21 "scientific, research and development service" entities exempt from federal tax:	$72,990,000
	Assuming that 50% was exempt, GET base is:	$36,495,000

	Adjusted to 2005:	$53,360,114
	Tax Expenditure @ 4% GET:	$2,134,405

Exemption: ***31. Petroleum products refined in Hawaii that will further be refined by another taxpayer.*** Refining means any process performed by a refiner that includes a change in the character or properties of a petroleum product. See Section 237-27, HRS.

Data Source: Hawaii Income Patterns, Business 2002, and DoTAX Data.

Methodology:	Gross receipts of petroleum products manufacturing businesses:	$314,890,094
	Assuming that 10% involves exempt activities, the GET base is:	$31,489,009
	Adjusted to 2005:	$46,040,749
	Tax Expenditure @ 4% GET:	$1,841,630

Exemption: ***32. Amounts received as alimony and other similar payments and settlements.*** See Section 237-24(7), HRS.

Data Source: Hawaii Income Patterns, 2002, and DoTAX Data, 2002 (unpublished).

Methodology:	Alimony paid:	$16,197,192
	Adjusted to 2005:	$23,682,258
	Tax Expenditure @ 4% GET:	$947,290

Exemption: ***33. Money paid by the State of Hawaii or eleemosynary child-placing organizations to foster parents for their care of children in foster homes.*** See Section 237-24(15), HRS.

Data Source: Department of Human Services, 2005 Report to the Legislature.

Methodology:	Annual benefit payments in 2004 to foster parents of 5,232 children receiving monthly benefits averaging $537:	$33,715,008
	Assume 5% increase for 2005:	$35,400,758
	Tax Expenditure @ 4% GET:	$1,416,030

Exemption: ***34. Amounts received by the operator of an orchard property from the property owner to cover the costs of employee wages, salaries, payroll taxes, insurance premiums and benefits including retirement, vacation, sick pay and health benefits.*** See Section 237-24.7(4), HRS.

Data Source:	DBEDT State of Hawaii Data Book, 2005, and Hawaii Income Patterns, 2002 Business, Table 1-4.	
Methodology:	Wages paid by "Crop and Ornamental" agricultural entities:	$52,041,000
	Adding 30% for cost of benefits provides total wages paid:	$67,653,300
	Assuming that about 20% are "Orchard" operated (total value of coffee, macadamai nuts and fruits other than pineapple is about 20% of total value of crop sales):	$13,530,660
	Further assuming that 30% of these costs are for separate owner/operators, GET base is:	$4,059,198
	Adjusted to 2005:	$5,935,040
	Tax Expenditure @ 4% GET:	$237,402

Exemption:	***35. Amounts received from selling geothermal power.*** See Section 182-16, HRS.	
Data Source:	Hawaii Electric Company	
Methodology:	Puna Geothermal on Hawaii sells power to HELCO. It produces the energy equivalent of about about 430,000 barrels of oil per year. At $55 per barrel, this is:	$23,650,000
	Tax Expenditure @ 4% GET:	$946,000

Exemption:	***36. Amounts received from the loading or unloading of ships or aircraft; for tugboat services; for the transportation of pilots or governmental officials to vessels offshore; for rigging gear; for checking freight; for standby charges; and for use of moorings and running mooring lines.*** See Section 237-24.3(4), HRS.	
Data Source:	Hawaii Income Patterns, Business 2002, and DoTAX Data.	
Methodology:	Gross receipts of marine cargo, handling and salvaging businesses:	$67,599,818
	Assuming that 60% involves exempt activities, the GET base is:	$40,559,891
	Adjusted to 2005:	$59,303,477
	Tax Expenditure @ 4% GET:	$2,372,139

Exemption:	***37. Reduction of the price of a new article by the amount of the trade-in allowance.*** The trade-in allowance may be subtracted from the new article's sales price. See Section 237-3(b), HRS.
Data Source:	Hawaii Business Patterns, 2002, Business, Table 2-5, Business Receipts reported by "C" Corporations,

Methodology:	Assuming that 5% of "C" Corporations gross receipts in the retail industry is attributed to the sale of automobiles, gross receipts are:	$399,547,750
	And, assuming that 20% of the gross proceeds is attributed to trade-ins on car sales:	$79,909,550
	Adjustment to 2005:	$116,837,448
	Tax Expenditure @ 4% GET:	$4,673,498

Exemption:	***38. Gross proceeds from the construction, operation, use or maintenance of an air pollution control facility.*** The facilities must be certified by the Department of Health at least once every five years. See Section 237-27.5, HRS.
Data Source:	Department of Health, Nolan Hirai, Clean Air Branch, and Congressional Research Service Report to Congress, April 1, 2001.

Methodology:	Assume that the cost per kw. at 1.12 cents for the control of coal-fired generating plant is 20,805 megawatts annually, and Applied Energy Systems (AES Hawaii) is 65,700 megawatts annually:	
	Annual pollution control costs are:	$96,885,600
	Assume base for exemption is equal to costs of pollution control:	
	Tax Expenditure @ 4% GET:	$3,875,424

Exemption:	***39. Gross income or proceeds received by a public internet data center.*** The term "Public Internet Data Center" means a facility available for compensated use by the public that is designed to house data servers, operates on a 24-hour, 7-days a week basis, has redundant systems for electricity, air conditioning, fire suppression and security, and provides bandwidth, co-location, data back-up, complex web hosting and aggregation for application service providers. See Section 237-29.65, HRS.
Data Source:	Verizon Superpages Listing for Internet Cafes, Paradise Yellow Pages for Internet Cafes and Hawaii Income Patterns, 2002 Business, "Entertainment and Hospitality".

Methodology:		
	Assuming that four of the eleven cafes listed qualify for GET exemption and that the annual gross revenues are approximately the same for each, the GET base is:	$6,347,228
	Adjusted to 2005:	$9,280,416
	Tax Expenditure @ 4% GET:	$371,217

Exemption: ***40. Gross proceeds arising from shipbuilding and ship repairs rendered to surface vessels federally owned or engaged in interstate or international trade.*** See Section 237-28.1, HRS.

Data Source: Hawaii Income Patterns, Business 2002, and DoTAX Data.

Methodology:	Gross receipts of shipbuilding and repair businesses:	$25,511,703
	Assuming that 60% involves exempt activities, GET base is:	$15,307,022
	Adjusted to 2005:	$22,380,721
	Tax Expenditure @ 4% GET:	$895,229

Exemption: ***41. Amount received by an independent sugarcane producer from the manufacturer to whom the producer sells the sugarcane.*** See Section 237-24(14).

Data Source: U.S. Department of Agriculture, Sugarcane Sales in 2004.

Methodology:	Gross receipts totaled:	$64,400,000
	Tax Expenditure @ 0.5% GET:	$322,000

Exemption: ***42. A deduction is allowed a taxpayer who leases real property from a leassor under a written lease, and subsequently subleases the same property to a sub-leassee under a written lease.*** See Section 237-16.5.

Data Source: Hawaii Income Patterns, Business 2002.

Methodology:	Gross receipts from rentals other than hotels in 2002:	$4,144,000,000
	Assuming that sublease rentals were 25% of rentals, the total amount of subleases would be:	$1,036,000,000
	Assuming that the sublease rentals increased by 10% from 2002 to 2005 (the same as the CPI for Honolulu) the gross proceeds of subleases would be:	$1,127,996,800

Tax Expenditure @ 3.5% GET:	$39,479,888

Exemption: ***43. An amount up to, but not to exceed, $2,000 a year of gross income received by any blind, deal or totally disabled person engaging or continuing in any business, trade, activity, occupation, or calling with the State of Hawaii.*** The remainder of gross receipts is taxed at .05%. See Section 237-24(13), HRS.

Data Source: Department of Taxation, Sources of Income on Disabled Residents Returns, 2003.

Methodology:

Receipts from rental and business net income of blind, deaf and disabled taxpayers:	$25,000,000
Assuming that gross income is three times greater than reported net income, the amount is:	$75,000,000
Assuming that there are approximately 3,500 blind, deaf or totally disabled persons exempt from paying GET on the first $2,000, the amount is:	$68,000,000
Assuming that gross income of blind, deaf and disabled taxpayers will increase at the same rate that taxable gross receipts were forecast to expand for the economy from 2003 to 2005, the amount would be:	$109,659,091
Tax Expenditure @ 3.5% GET:	$4,178,068

Exemption: ***44. Retail sales of alcohol fuel, which includes gasohol that is at least 10% alcohol by volume.*** See Section 237-27.1, HRS.

Data Source: DoTAX Fuel Tax Collections for CY 2004, "Other Fuel".

Methodology:

Annual volume of gasoline sold in Hawaii:	452,000,000
Assuming that the average price per gallon net of exempt taxes is $2.50, the GET base is:	$282,500,000
Tax Expenditure @ 4% GET:	$11,300,000

Exemption: ***45. Amounts received from foreign diplomats and consular officials who are holding cards issued by the U.S. Department of State granting them an exemption from state taxes.*** The tax exemption is not applicable to taxes imposed on telecommunications services, other utilities or gasoline purchases. See Section 237-24.3(11), HRS.

Data Source: DoTAX CY 2005 General Excise Tax Collections.

Methodology:

For 22 consulates with three diplomats each,

Tax Expenditure @ 4% GET:	$231,000

Exemption: ***46. Proceeds from a casual sale are not taxed.*** A casual sale means as occasional, isolated, irregular, infrequent, or incidental sale or transaction involving tangible personal property that is not ordinarily sole in the usual course of a trade or business. See Section 237-2, HRS.

Data Source: None

Methodology: Estimated value of annual casual sales in Hawaii: $50,000,000

Tax Expenditure @ 4% GET:	$2,000,000

Exemption: ***47. Gross proceeds received by a contractor for a qualified business within an enterprise zone.*** The Department of Business, Economic Development and Tourism shall certify annually to the Department of Taxation that any qualified business is exempt from the GET. See Section 209E-11, HRS.

Data Source: Thomas Smyth, Senior Policy Advisor for DBEDT.

Methodology: Sales by businesses certified since 1999 for GET exemption under the Enterprise Zone provision:

	Gross Receipts:
Total:	$3,628,992
Assume annual qualified sales are 25% of total	$907,248
Tax Expenditure @ 4% GET:	$36,290

Exemption: ***48. Certain amounts received by a domestic or foreign stock exchange, and certain amounts received by exchange members by reasons of executing a securities or product transaction on an exchange.*** The exemption does not apply to commission or other income received by brokers or dealers from their customers. See Section 237-24.5, HRS.

Data Base: None available

Methodology: There is currently no stock exchange in Hawaii.

Tax Expenditure @ 4% GET:	$0

Exemption:	***49. Amounts received under property and casualty insurance policies for damage or loss of inventory used in the conduct of a trade or business located within the State or a portion thereof that is declared a natural disaster area by the governor.*** See Section 237-24.7(6), HRS.
Data Source:	Department of Commerce and Consumer Affairs, 2004 Report to the Insurance Commissioner on Natural Disaster, Summary, Page 7.

Methodology:	Amount reported under federal flood:	$321,403
	Tax Expenditure @ 4% GET:	$12,856

Exemption:	***50. Amounts received by a telecommunications common carrier from a person operating a call center, as well as the gross income received by a call center for customer services and support.*** See Section 237-29.8, HRS.
Data Source:	Hawaii Income Patterns, Business 2002, and DoTAX Data.

Methodology:	Gross receipts of "Phone Answering/Telemarketing" businesses:	$2,795,415
	Assuming that 30% is paid to the common carrier, exempt GET base is:	$838,625
	Adjusted to 2005:	$1,226,171
	Tax Expenditure @ 4% GET:	$49,047

Exemption:	***51. Labor organizations exempt from federal income tax under Section 501(c)(5) are not taxable on rents for real property leased to another labor organization, or to a trust providing benefits to members or their families.*** See Section 237-24.3(10),
Data Source:	IRS Registered Non-Profit Organizations.

Methodology:	"Employment" related non-profit organizations, 2004 gross receipts:	$17,366,946
	Assuming that 1% of gross receipts are from property leased to exempt organizations, GET base is:	$173,669
	Tax Expenditure @ 4% GET:	$6,947

Exemption:	***52. Gross proceeds received by a contractor for construction within an enterprise zone performed for a qualified business within an enterprise zone.*** See Section 209E-11.
Data source:	Thomas Smyth, Senior Policy Advisor for DEBDT

Methodology:	Assuming that contracting exemption is equal to 20% of enterprise zone amount, GET base is:	$725,798
	Tax Expenditure @ 4% GET:	$29,032

Exemption: ***53. Amounts received as grants awarded by the High Technology Development Corporation to supplement federal small business innovation research phase1 awards or contracts.*** See Section 237-24.7(10), HRS and Section 206M-15, HRS.

Data Source: Pacific Business News, February 5, 2005, and High Technology Development Corp.

Methodology:	Value of total grants awarded in 2005:	$136,155
	Tax Expenditure @ 4% GET:	$5,446

Exemption: ***54. Proceeds of an annual senior citizens' fair held by a county commission on aging or appropriate county agencies.*** See Section 349-10, HRS.

Data Source: None Available.

Methodology:	Value of estimated sales:	$100,000
	Tax Expenditure @ 4% GET:	$4,000

Exemption: ***55. Amounts received from the membership of an unincorporated merchants' association as dues for advertising or promotion, as long as they are for the benefit of the membership as a whole and not for an individual member or subgroup of members.*** See Section 237-24.3(9),HRS.

Data Source: Enterprise Hawaii, 2003 Marketing Group.

Methodology:	Assuming that 10 associations are unincorporated with gross dues receipts of $1,000:	$10,000
	And, assuming that 90% of dues are used to promote the association, GET base is:	$9,000
	Tax Expenditure @ 4% GET:	$360

TAX EXPENDITURES FOR USE TAX EXEMPTIONS AND DEDUCTIONS

Exemption: ***56. The use of imported contracting by a building industry contractor, who has a general excise tax license, is engaged in business as a contractor and otherwise would be subject to the use tax on the imported contracting*** . See Section 238.1, HRS.

Data Source:	DoTAX CY 2005 General Excise Tax Collection, GET Base for Contracting.	
Methodology:	The the contracting GET base for 2005 is:	$5,618,306
	Assuming that 3% of the contracting GET base is for imported contracting:	$168,549
	Tax Expenditure @ 4% Use Tax:	$6,742

Exemption: ***57. Materials, parts or tools imported or purchased by a person with a general excise tax license and which are used for certain types of aircraft service and maintenance, or for the construction of a qualified aircraft service and maintenance facility.*** See Section 238.1, HRS.

Data Source:	Hawaii Income Patterns, Business 2002, and DoTAX Data.	
Methodology:	Gross receipts of aviation service businesses:	$132,482,832
	Assuming that 90% of the gross receipts involves exempted activities:	$119,234,549
	And, assuming that imported materials equal 30% of exempt activities:	$35,770,365
	Adjusted to 2005:	$52,300,609
	Tax Expenditure @ 4% Use Tax:	$2,092,024

Exemption: ***58. Property which is to be affixed to, or which is to become a physical, integral part of a scientific facility, or which is to be entirely consumed during the performance of a service required by a scientific contract with the U.S. Government.*** See Section 238-3(j), HRS.

Data Source:	U.S. Economic Census for Hawaii, 2002, Page 16	
Methodology:	Gross receipts from 21 "scientific, research and development service" entities exempt from federal tax:	$72,990,000
	Assuming that 50% was exempt scientific contracts, GET base is:	$36,495,000
	Assuming that 30% of the exempt contracts represents imported exempt property purchases, Use Tax base is:	$10,948,500
	Adjusted to 2005:	$16,008,034
	Tax Expenditure @ 4% Use Tax:	$640,321

Exemption:	***59. Amounts by individuals who bought drugs or prosthetic devices from a hospital, infirmary, medical clinic, health care facility, pharmacy or practitioner licensed to administer the drug to an individual.*** See Section 238-1, HRS.	
Data Source:	See item 14 above.	
Methodology:	Gross receipts for drugs and prosthetic devices in 2005:	$546,102,273
	Assuming that 5% is purchased by individuals outside Hawaii, the use tax base is:	$27,305,114
	Tax Expenditure @ 4% Use Tax:	$1,092,205

Exemption:	***60. Certain imported property used by licensed producers is exempt if it is going to be resold at wholesale.*** See Section 238-4, HRS.	
Data Source:	DBEDT Hawaii input-output table for 2002 and DOTAX data	
Methodology:	Imports by producers in 2002:	$1,941,600,000
	Assuming that 50% qualifies as exempt, the use tax base is:	$970,800,000
	Adjusted to 2005:	$1,419,427,273
	Tax Expenditure @ .5% Use Tax:	$7,097,136

Exemption:	***61. The use of services or contracting imported for resale to a foreign customer who will resell, consume or use the services or contracting outside of the State.*** See Section 238-1, HRS.	
Data Source:	Calendar Year 2005 General Excise Tax Collections Summary.	
Methodology:	Total reported "Services (intermediary)" GET base:	$314,344,905
	Assuming that 3% qualifies as exempt, the use tax base is:	$9,430,347
	Tax Expenditure @ .5% Use Tax:	$47,152

Exemption:	***62. An air pollution control facility , and any tangible personal property furnished in conjunction with the construction, reconstruction, erection, operation and use.*** See Section 238-3(k), HRS.	
Data Source:	See item 38 above.	
Methodology:	Assume GET exempt costs are equal to annual cost of pollution abatement.	

Pollution control costs for AES is:	$73,584,000
Pollution contrail costs for H-Power is:	$23,301,600
Sub-total:	$96,885,600
Assume exempt cost of imports is 30% of total:	$29,065,680
Tax Expenditure @ 4% Use Tax:	$1,162,627

Exemptions: ***63. Liquor or tobacco products imported and then sold in interstate commerce for sale out of state, or sold to a common carrier for consumption on a vessel or airplane.*** See Section 238-3(g)m HRS.

Data Source: Hawaii Income Patterns, Business, 2002, and DOTAX data.

Methodology:	Exempt liquor sales:	$4,348,664
	Wholesale tobacco sales:	$121,075,000
	Assuming that exempt tobacco sales are the same ratio as exempt grocery to wholesales grocery sales, estimated exempt tobacco sales are:	$4,867,879
	Assuming that half of exempt sales are for common carrier sales, GET base is:	$4,608,271
	Adjusted to 2005:	$6,737,851
	Tax Expenditure @ 0.5% GET:	$33,689

Exemption: ***64. A sale of tangible personal property by someone not in the business of selling the property.*** See Section 238-1, HRS.

Data Source: None Available.

Methodology:	Estimated value of casual sales in Hawaii:	$50,000,000
	Assume 50% is imported:	$25,000,000
	Tax Expenditure @ 4% GET:	$1,000,000

Exemption: ***65. The use of property, services or contracting by foreign diplomats and consular officials who hold cards issued by the U.S. Department of State granting them an exemption from state taxes.*** See Section 238-1, HRS.

Source: See item 45 above

Methodology: See item 45 above. Use Tax = 5% of GET

Tax Expenditure @ 4% Use Tax: $11,550

Exemption:	***66. Purchase by a qualified business in an enterprise zone.*** See Section 209E-11, HRS.	
Data Source:	Thomas Smyth, Senior Policy Advisor for DBEDT.	
Methodology	Gross receipts of exempt businesses (see item 47):	$3,628,992
	Assuming that 30% of qualified business gross receipts represent exempt imports (see Exemption 48), the Use Tax base is:	$1,088,698
	Tax Expenditure @ 4% Use Tax:	$43,548