
Auditor's Summary

Review of Tax Provisions Pursuant to Section 23-74, Hawai'i Revised Statutes

Report No. 22-06



ILLUSTRATION: ISTOCK.COM

THIS REPORT ASSESSES certain Hawai'i tax exemptions, exclusions, and credits under the General Excise Tax (GET), Use Tax, Public Service Company Tax, and Insurance Premium Tax. Section 23-71 et seq., Hawai'i Revised Statutes (HRS), requires the Auditor to annually review tax provisions on a 10-year recurring cycle.

As described by the Department of Taxation, Hawai'i's GET and Use Tax, taken in concert, apply to nearly all business activities in Hawai'i. In fiscal year 2021, which ended June 30, 2021, GET and Use Tax revenues accounted for \$3.08 billion, or nearly 38 percent of the total tax revenue of \$8.17 billion.

This report reviews a total of nine tax provisions, which include four exemptions, three exclusions from GET, and two tax credits.

- Exclusion on Gross Receipts of Home Service Providers Acting as Service Carriers (Section 239-2, paragraph (5) of the definition of "gross income", HRS)
- Exclusion for Dividends or Gross Income from the Sale or Transfer of Materials and Supplies, Interest on Loans, and Provision of Services Among Members of an Affiliated Public (Utility) Service Company Group (Section 239-2, HRS)
- Exemption for Monthly Surcharge Assessments Collected by a Utility from Ratepayers in Emergency Situations (Section 239-5.5, HRS)

In fiscal year 2021, which ended June 30, 2021, GET and Use Tax revenues accounted for \$3.08 billion, or nearly 38 percent of the total tax revenue of \$8.17 billion.

- Tax Credit for Lifeline Telephone Service Subsidies (Section 239-6.5, HRS)
- Exclusion for Green Infrastructure Charges Received by Electric Utilities (Section 269-172, HRS)
- Exemption of Gross Income or Gross Proceeds Received by Insurance Companies (Section 237-29.7, HRS)
- Tax Credit to Facilitate Regulatory Oversight (Section 431:7-207, HRS)
- Exemption for Nonprofit Medical Indemnity or Hospital Service Associations or Societies Specifically from General Excise Tax, Public Service Company Tax, and Insurance Premium Tax (Section 432:1-403, HRS)
- Exemption for Fraternal Benefit Societies Specifically from General Excise Tax, Public Service Company Tax, and Insurance Premium Tax (Section 432:2-503, HRS)

Under section 23-74, HRS, we also were to analyze the exclusion for gross receipts from the sale or transfer of materials and supplies, interest on loans, and provision of services among members of an affiliated public service company group under section 237-3(b), HRS. We previously reviewed that exclusion in Report No. 20-09, *Review of General Excise and Use Tax Exemptions and Exclusions*, issued in June 2020.

We could not determine whether three GET exemptions and one tax credit were achieving their purpose. We also determined that one exemption, three exclusions, and one tax credit were at least partially meeting their stated or inferred purposes. As we note in the report, making conclusions as to whether purposes are being met is extremely challenging (and often impossible) when amounts claimed are not tracked or where no benchmarks or metrics are set forth in statute to assess whether a provision is achieving its intended purpose.