
Hawaii General Excise & Use Tax Exemptions

Tax Year 2018

**DEPARTMENT OF TAXATION
STATE OF HAWAII**

STATE OF HAWAII

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1. INTRODUCTION

Act 94, Session Laws of Hawaii 2015 amended Section 231-3.4, Hawaii Revised Statutes (HRS) to require the Department of Taxation (DOTAX) to publish a report on General Excise tax exemptions that:

- (1) are tax expenditures at the wholesale rate;
- (2) are tax expenditures at the retail rate; and
- (3) may be foregone opportunities to export taxes.¹

Accordingly, this report presents **exemptions claimed against the General Excise & Use Tax (GET) for tax (calendar) year 2018.**

This report takes the following approach to meet requirements provided in HRS 231-3.4:

- Identifies the exemptions that are claimed by taxpayers in tax year 2018,
- Breaks those exemptions down by tax rate and economic activity (see Section 3), and
- Provides an explanation about the difference between tax exemptions and tax expenditures.

Unlike other reports prepared by DOTAX, this report relies on the determination and categorization of tax expenditures. These decisions are based on a set of assumptions about what constitutes an ideal tax system and what constitutes a tax expenditure. In Section 4, this report provides estimates of the tax expenditures that are associated with the exemptions claimed.

This report is different from the reports provided in past years. Specifically, **the methodology utilized to select the data is different.** Thus, the information presented in this report may not be comparable to prior years. This is discussed further in Section 2.

2. DATA SOURCE AND METHODOLOGY

For this report on Tax Year 2018, DOTAX updated its methodology for obtaining the GET data compared with the previous two (2) reports for tax years 2016 and 2017. As such, **comparisons between this and prior reports should not be done.** This section explains the changes and its implications.

The **data source** for this report is the DOTAX tax management system for GET returns for the tax year 2018 filing period as of November 5, 2019. The primary data are from the "General Excise/Use Tax Schedule of Exemptions and Deductions" form (Schedule GE (Form G-45/G-49), herein referred to as "Schedule GE"), which is required to be filed with a taxpayer's periodic (Form G-45, herein referred to as "G-45") and annual (Form G-49, herein referred to as "G-49") GET returns if exemptions or deductions are claimed.

For the 2016 and 2017 tax year reports, only data from Schedule GE forms that were filed with taxpayers' periodic returns (G-45) were used. This report utilizes the G-49 data if available and adds on the G-45 data when the G-49 is not available. This is a significant change in that **a more complete data set, reflective of actual exemptions impacting GET, was used** for this report.

It should be noted that the DOTAX computer system began collecting more detailed data from GET returns in 2017. Now that the data are available electronically, DOTAX is able to use these

data to study reporting trends and enhance compliance rather than manually reviewing return details during audit.

In reviewing the data for this report, several opportunities for improvement were identified to improve the accuracy of this report and the administration of the exemptions:

- **Data accuracy.** Data quality problems were identified due to manual data entry for paper returns. Paper returns can be difficult to read. 40 percent of GET taxpayers filing returns in tax year 2018 were on paper. DOTAX is improving data accuracy by:
 1. Using reports and processes to improve quality control for scanned and manually entered data,
 2. Configuring additional business rules on electronic forms to increase accuracy of data submitted by taxpayers, and
 3. Requiring mandatory electronic filing to reduce the number of paper returns being filed.
- **Total exemptions reported on Schedule GE forms are significantly greater than the exemptions/deductions claimed on the G-45 and G-49 forms.** GET taxpayers over-reported exemptions on Schedule GE for tax year 2018. When discrepancy was identified, the G-45 and/or G-49 exemption values were used for this report because these values directly impact the tax computation. In the future, DOTAX will be requiring the total exemptions reported on Schedule GE to match the exemptions claimed on G-45 and/or G-49.
- **Taxpayers are misreporting the activity and/or exemption/deduction (ED) codes on Schedule GE** (See Appendix A). Taxpayers completing Schedule GE do not always select the right activity and/or ED code and some entries are not legible. When there is a discrepancy (i.e., if the exemption classification is not indicated, cannot be ascertained, or falls outside of the codes listed on the Schedule GE forms), the exemptions are labeled as "Non-specified" and will require a DOTAX staff member to work with the taxpayer correct. This will be reduced in the future when we require mandatory e-filing for GET returns because Hawaii Tax Online return forms can require an accurate activity or ED code to be entered.
- **Taxpayers are using previous versions of Schedule GE forms.** The older versions of Schedule GE did not require an activity or ED code. Thus, we are unable to match the exemptions claimed on Schedule GE with the activity lines on G-45 and/or G-49. This is problematic for paper forms as Hawaii Tax Online automatically presents taxpayers the right version of the return forms. In the future, taxpayers filing on paper will be required to use the right form versions.

The forms filed may be subsequently amended by a taxpayer or adjusted due to audit. By compiling the data for this report in November 2019 instead of April, as was done in the past, more complete information for tax year 2018 is being presented in this report.

In addition to the data source changes, we are also changing the reporting methodology. Specifically, the tables in Section 3 present data for **the unique taxpayers claiming each exemption**. In years past, this report showed the number of times an exemption was claimed on a tax form (e.g., we reported "12" units if a monthly GE filer reported an exemption instead of a single taxpayer who claimed the exemption). The new methodology more clearly reflects the number of taxpayers who

are claiming each of the GET exemptions. To preserve taxpayer confidentiality, this report does not provide data if there are ten or less observations.

3. GENERAL EXCISE & USE TAX EXEMPTIONS

25,330 Hawaii taxpayers (11% of total) claimed **30,161 GET exemptions and deductions** for a total amount of **\$36.5 billion** in tax year 2018. Table 1 lists the dollar amounts and the number of GET exemptions claimed in descending order by exemption amount.

The exemption names are preceded by their 3-digit exemption/deduction (ED) codes and with the corresponding HRS section numbers (§ codes) in parentheses. These codes are as indicated on Schedule GE forms and explained in DOTAX's "General Instructions for filing the General Excise/Use Tax Returns (Rev. 2018)" publication. If the exemption classification is not indicated, cannot be ascertained, or falls outside of the codes listed on the Schedule GE forms, the exemptions are labeled as "Unspecified/mislabeled/other" and assigned 99 as their ED code in Table 1, below. The number of claims does not translate into the unique number of taxpayers, as some may claim more than one exemption. Finally, to preserve taxpayer confidentiality, the report suppresses the data for a given category if there are ten or less observations.

As shown in Table 1, the top five (5) **largest exemptions in terms of the dollar amounts** were:

1. Wholesale Transactions (\$6.2 billion or 16.9% of total),
2. Non-profit Organizations (\$5.8 billion or 15.8% of total),
3. Subcontract Deduction (\$3.7 billion or 10.2% of total),
4. Foreign Trade Zone Sales (\$3.6 billion or 9.8% of total), and
5. Out of State Sales (\$2.9 billion or 7.9% of total).

The top five (5) **most commonly claimed exemptions** were:

1. Taxes Passed On (8,235 claims or 27.3% of total),
2. Out of State Sales (5,591 claims or 18.5% of total),
3. Subcontract Deduction (2,294 claims or 7.6% of total),
4. Maintenance Fees (2,167 claims or 7.2% of total), and
5. Sales to Federal Government and Credit Unions (1,198 claims or 4% of total).

Table 1
GET Exemptions Claimed for Tax Year 2018

Exemption	Amount (in \$1,000)	% of Total Amount	Number of Claims	% of Total Claims
153 - Wholesale Transactions (§237-29.55)	\$6,154,671	16.9%	1,177	3.9%
130 - Non-profit Organizations (§237-23)	\$5,778,490	15.8%	972	3.2%
148 - Subcontract Deduction (§237-13(3)(B))	\$3,717,037	10.2%	2,294	7.6%
120 - Foreign Trade Zone Sales (§212-8)	\$3,564,652	9.8%	144	0.5%
132 - Out of State Sales (§237-29.5(1))	\$2,869,935	7.9%	5,591	18.5%
127 - Maintenance Fees (§§237-24.3(2), 237-24(16))	\$2,575,523	7.1%	2,167	7.2%
113 - Drugs and Prosthetic Devices (§237-24.3(6))	\$2,030,325	5.6%	311	1.0%
150 - Taxes Passed On (§§237-24(8), 237-24(9), 237-24(10), 237-24(12))	\$1,492,321	4.1%	8,235	27.3%
141 - Sales to Federal Government and Credit Unions (§237-25(a))	\$1,388,008	3.8%	1,198	4.0%
100 - Affordable Housing (§§46-15.1, 201H-36 237-29, 238-3(j))	\$1,171,246	3.2%	624	2.1%
143 - Service Related to Ship & Aircraft (§237-24.3(3))	\$681,665	1.9%	46	0.2%
112 - Discounts and Returned Merchandise (§237-3(b))	\$525,810	1.4%	586	1.9%
139 - Real Estate Sales (§237-3(b))	\$469,191	1.3%	290	1.0%
115 - Enterprise Zones (§209E-11)	\$461,848	1.3%	150	0.5%
114 - Employee Benefit Plans (§237-24.3(4))	\$389,883	1.1%	55	0.2%
124 - Intercompany Charges (§237-23.5(a))	\$362,304	1.0%	332	1.1%
116 - Exported Services (§237-29.53)	\$357,169	1.0%	489	1.6%
119 - Food Stamps and WIC (§237-24.3(5))	\$354,541	1.0%	434	1.4%
142 - Scientific Contracts (§§237-26, 238-3(j))	\$236,052	0.6%	172	0.6%
118 - Federal Preempted Amount (§§237-22, 238-3(a))	\$233,836	0.6%	144	0.5%
133 - Out of State Services or Contracting to Foreign Customers (§238-2.3(1)(C))	\$209,729	0.6%	1,175	3.9%
144 - Shipbuilding and Ship Repairs (§237-28.1)	\$201,442	0.6%	63	0.2%
101 - Air Pollution Control Facilities (§§237-27.5, 238-3(k))	\$189,655	0.5%	70	0.2%
126 - Subleases of Real Property (§237-16.5)	\$169,995	0.5%	825	2.7%
122 - Hotel Operator/Suboperator (§237-24.7(1))	\$148,780	0.4%	68	0.2%
140 - Reimbursement of Payroll Costs (§237-24.7(9))	\$95,301	0.3%	59	0.2%
109 - Certain Oahu Sales (§237-8.6)	\$93,484	0.3%	250	0.8%
137 - Professional Employer Organizations (§237-24.75(3))	\$71,360	0.2%	54	0.2%
117 - Federal Cost-Plus Contractors (§237-13(3)(C))	\$70,385	0.2%	40	0.1%
108 - Oahu - Certain Contracts Entered into Before 6/30/2006 (§237-8.6(c))	\$62,053	0.2%	30	0.1%
104 - Bad Debts (§237-3(b))	\$51,722	0.1%	449	1.5%
102 - Aircraft Leasing (§§237-24.3(11), 238-1)	\$49,277	0.1%	13	0.0%
107 - Contracting Activity in an Enterprise Zone (§209E-11)	\$36,064	0.1%	58	0.2%
125 - Labor Organizations (§237-24.3(9))	\$31,232	0.1%	22	0.1%
103 - Aircraft Service and Maintenance Facility (§§237-24.9, 238-1)	\$31,048	0.1%	18	0.1%
152 - Wholesale Amusements (§237-4(a)(13))	\$19,344	0.1%	62	0.2%
106 - Common Paymaster Exemption (§237-23.5(b))	\$19,014	0.1%	28	0.1%
105 - Certain Convention, Conference and Trade Show (§237-16.8)	\$18,493	0.1%	39	0.1%

**Table 1 (Cont.)
GET Exemptions Claimed for Tax Year 2018**

Exemption	Amount (in \$1,000)	% of Total Amount	Number of Claims	% of Total Claims
121 - Hawaii Convention Center Operator (§237-24.75(2))	*	*	10 or less	*
154 - Sales Tax Paid Offset (§§237-22(b), 238-3(i))	\$15,787	0.0%	172	0.6%
129 - Merchants' Association Dues (§237-24.3(8))	\$13,898	0.0%	30	0.1%
99 - Unspecified/mislabeled/other	\$11,801	0.0%	70	0.2%
138 - Producers (Certain property used) (§238-4)	\$10,130	0.0%	29	0.1%
145 - Shipping and Handling of Agricultural Commodities (§237-24.3(1))	\$8,637	0.0%	13	0.0%
136 - Potable Water (§237-23(a)(7))	\$5,693	0.0%	11	0.0%
131 - Orchard Operator (§237-24.7(4))	\$4,303	0.0%	18	0.1%
128 - Mass Transit (§237-24.7(2))	\$3,017	0.0%	16	0.1%
147 - Stock Exchange Transactions (§237-24.5)	*	*	10 or less	*
111 - Disability Provisions (§237-24(13))	\$2,103	0.0%	885	2.9%
110 - Diplomats and Consular Officials (§§237-24.3(10), 238-1)	\$1,909	0.0%	115	0.4%
151 - TRICARE (§237-24(17))	*	*	10 or less	*
123 - Insurance Proceeds Received Because of a Natural Disaster (§237-24.7(6))	\$1,453	0.0%	19	0.1%
134 - Patient-Centered Community Care (§237-24(18))	\$1,283	0.0%	12	0.0%
146 - Small Business Innovation Research Grants (§237-24.7(10))	*	*	10 or less	*
135 - Petroleum Refining (§237-27)	*	*	10 or less	*
149 - Sugar Cane Payments to Independent Producers (§237-24(14))	*	*	10 or less	*
TOTAL	\$36,486,061	100.0%	30,161	100.0%

* Data were suppressed to avoid potential disclosure of confidential taxpayer information.

Table 2 shows the dollar amounts of GET exemptions grouped by business activity as indicated on G-49 and/or G-45 forms.

The largest exemptions in terms of the dollar amounts were in Wholesaling (\$8.5 billion or 23.2% of total), Interest and All Others (\$7.4 billion or 20.3% of total), Retailing (\$7.1 billion or 19.5% of total), and Services Including Professional (\$5.6 billion or 15.3% of total) categories.

**Table 2
GET Exemptions Claimed by Business Activity for Tax Year 2018**

Business Activity	Amount (in \$1,000)	% of Total Amount
<u>Wholesale Rate (0.5%)</u>		
01. Wholesaling	\$8,480,071	23.2%
02. Manufacturing	\$191,633	0.5%
03. Producing	\$88,418	0.2%
04. Wholesale Services	\$91,801	0.3%
05. Landed Value of Imports For Resale	\$1,140,874	3.1%
06. Business Activities of Disabled Persons	\$2,950	0.0%
07. Wholesale Rate Subtotal	\$9,995,747	27.4%

Table 2 (Cont.)
GET Exemptions Claimed by Business Activity for Tax Year 2018

Business Activity	Amount (in \$1,000)	% of Total Amount
<u>Retail Rate (4.0%)</u>		
08. Retailing	\$7,103,715	19.5%
09. Services Including Professional	\$5,566,140	15.3%
10. Contracting	\$4,711,763	12.9%
11. Theater, Amusement and Broadcasting	\$37,968	0.1%
12. Commissions	\$188,567	0.5%
13. Transient Accommodations Rentals	\$239,882	0.7%
14. Other Rentals	\$1,048,871	2.9%
15. Interest and All Others	\$7,422,427	20.3%
16. Landed Value of Imports for Consumption	\$131,032	0.4%
17. Retail Rate Subtotal	\$26,450,365	72.5%
<u>Insurance Rate (0.15%)</u>		
18. Insurance Commissions	\$39,949	0.1%
GRAND TOTAL	\$36,486,061	100.0%

Finally, a complete list and dollar amounts of exemptions claimed are provided in Appendix Table A-1 grouped by GET rate.

4. TAX EXPENDITURES

The prior section of the report focused on GET exemptions. A tax expenditure is not the same as a tax exemption. For purposes of this report, tax expenditures are revenue losses attributable to provisions in the State tax laws which allow a special exclusion, exemption, or deduction from the gross receipts tax. These exemptions (or tax breaks) are deviations from a uniform tax on consumption of Hawaii residents. Tax expenditures are the implied revenue cost of the deviation from a uniform application of the excise and use tax. These exemptions may be viewed as alternatives to other policy instruments, such as spending or regulatory programs.

This report presents GET exemptions that are tax expenditures at the wholesale rate (0.5%) and the retail rate (4.0%), and also presents tax exemptions that are not tax expenditures but may represent foregone opportunities to export the tax burden. The approach utilized in this paper for estimating tax expenditures came from the methodology put forth by Rousslang (2013).¹

¹ Rousslang, Donald (2013), "Tax Expenditures in Paradise," *State Tax Notes*, May 13, pp. 549-558.

It is important to understand that the decision to label GET exemptions as tax expenditures at the wholesale or retail rate or not as tax expenditures at all is based on economic parameters and assumptions that are subject to debate. Thus, if DOTAX's assumptions change, then the distribution of exemptions among the categories may change.

In presenting data on tax exemptions, it is also crucial that a clear distinction be made between tax expenditures and revenue estimates. The data presented in this report provides only the amounts of each exemption claimed and should not be relied on as an estimate of the amount of revenue that may be realized by repealing an exemption. An estimate would have to account for the substitution and behavioral effects of repealing an exemption.

Substitution means that if a certain exemption is repealed, a portion of the taxpayers that had been claiming the repealed exemption may be entitled to claim a different exemption for the same activity. As an example, a taxpayer claiming the enterprise zone exemption may also be exporting the goods and services they sell. Thus, if the enterprise zone exemption were repealed, the taxpayer may instead claim the exported goods and services exemption. This would limit the revenue impact to some amount smaller than the amount claimed under the enterprise zone exemption.

Behavioral factors are the responses of taxpayers affected by the repeal of an exemption. If an exemption is repealed, some taxpayers may cease engaging in formerly exempted activity. In this case, the repeal would not yield the full amount of the tax expenditure, because the gross income previously exempted would no longer be generated.

Additionally, tax expenditures are valued at the tax rate they should be taxed at to achieve the assumed ideal tax system. These assumptions may not agree with the actual tax rates that would apply if an exemption were repealed. For example, each exemption categorized as tax expenditure at the wholesale rate may not qualify for the 0.5% rate under the wholesale rules of section 237-4, HRS.

Table 3 (on next page) provides a summary of tax expenditures and the corresponding GET exemption amounts, which are then detailed in sections 4.1 through 4.4 below. The report finds that total GET expenditures amounted to \$453.9 million in tax (calendar) year 2018. Of this amount, current tax laws created \$382.3 million of tax expenditures (11.2% of total GET liability²) for final consumption in select industries, primarily for non-profit organizations, drugs and prosthetic devices, and affordable housing (Tax Expenditures at the Retail Rate). The Hawaii tax code granted another \$71.7 million worth of tax expenditures (2.1% of total GET liability) for business-to-business transactions reducing tax pyramiding effects for specific industries (Tax Expenditures at the Wholesale Rate). In addition, \$228.8 million (6.7% of total GET liability) was forgone in exemptions that were meant to reduce or eliminate the taxation of exported goods and services (Out of State Sales). Finally, the total exemptions claimed that can be classified as tax expenditures amounted to

² Total GET liability is the total taxes due aggregated from GET returns (Forms G-49/G-45).

\$23.9 billion or 16.4% of total gross receipts,³ whereas the total exemption amount for the Out of State Sales category was \$8.6 billion or 5.9% of total gross receipts (Table 3).

Table 3
Summary of Tax Expenditures for Tax Year 2018

	Exemption Amount (in \$1,000)	% of Total Gross Receipts	Expenditure Amount* (in \$1,000)	% of Total GET Liability
Tax Expenditures at the Wholesale Rate (0.5%)	\$14,332,606	9.8%	\$71,663	2.1%
Tax Expenditures at the Retail Rate (4.0%)	\$9,556,767	6.6%	\$382,271	11.2%
Tax Expenditures Subtotal	\$23,889,373	16.4%	\$453,934	13.3%
Out of State Sales**	\$8,627,453	5.9%	\$228,808	6.7%
Other Exemptions	\$3,801,897	2.6%	\$0	0.0%

* Tax expenditure estimates are not revenue estimates

** The expenditure amount for Out of State Sales represents forgone taxes, it is not a tax expenditure.

4.1. Tax Expenditures at the Wholesale Rate (0.5%)

The tax expenditures reported in this section provide exemptions for activities that would ideally be taxed at the GET wholesale rate and are mostly business-to-business transactions. These exemptions are designed to reduce tax pyramiding. Labeling exemptions of business-to-business sales as tax expenditures at the 0.5% rate is based on the assumption that all business-to-business sales should be taxed equally.

The results of the analysis suggest that the cost of the tax expenditures that would be subject to the wholesale rate amounted to \$71.7 million in total for tax year 2018 (see Table 4 on the next page). The largest GET expenditures at the wholesale rate were the exemptions for Wholesale Transactions (\$30.8 million), Subcontract Deduction (\$18.6 million), and Maintenance Fees (\$12.9 million).

³ Total gross receipts refer to the aggregate gross proceeds or income computed from GET returns.

Table 4
Tax Expenditures at the Wholesale Rate (0.5%) for Tax Year 2018 (in \$1,000)

Exemption	Exemption Amount	Expenditure Amount*
101 - Air Pollution Control Facilities (§§237-27.5, 238-3(k))	\$189,655	\$948
102 - Aircraft Leasing (§§237-24.3(11), 238-1)	\$49,277	\$246
103 - Aircraft Service and Maintenance Facility (§§237-24.9, 238-1)	\$31,048	\$155
105 - Certain Convention, Conference and Trade Show (§237-16.8)	\$18,493	\$92
106 - Common Paymaster Exemption (§237-23.5(b))	\$19,014	\$95
107 - Contracting Activity in an Enterprise Zone (§209E-11)	\$36,064	\$180
117 - Federal Cost-Plus Contractors (§237-13(3)(C))	\$70,385	\$352
121 - Hawaii Convention Center Operator (§237-24.75(2))	**	**
122 - Hotel Operator/Suboperator (§237-24.7(1))	\$148,780	\$744
124 - Intercompany Charges (§237-23.5(a))	\$362,304	\$1,812
127 - Maintenance Fees (§§237-24.3(2), 237-24(16))	\$2,575,523	\$12,878
129 - Merchants' Association Dues (§237-24.3(8))	\$13,898	\$69
131 - Orchard Operator (§237-24.7(4))	\$4,303	\$22
134 - Patient-Centered Community Care (§237-24(18))	\$1,283	\$6
135 - Petroleum Refining (§237-27)	**	**
138 - Producers (Certain property used) (§238-4)	\$10,130	\$51
143 - Service Related to Ship & Aircraft (§237-24.3(3))	\$681,665	\$3,408
144 - Shipbuilding and Ship Repairs (§237-28.1)	\$201,442	\$1,007
145 - Shipping and Handling of Agricultural Commodities (§237-24.3(1))	\$8,637	\$43
148 - Subcontract Deduction (§237-13(3)(B))	\$3,717,037	\$18,585
149 - Sugar Cane Payments to Independent Producers (§237-24(14))	**	**
151 - TRICARE (§237-24(17))	**	**
152 - Wholesale Amusements (§237-4(a)(13))	\$19,344	\$97
153 - Wholesale Transactions (§237-29.55)	\$6,154,671	\$30,773
TOTAL	\$14,332,606	\$71,663

* Tax expenditure estimates are not revenue estimates

** Data were suppressed to avoid potential disclosure of confidential taxpayer information.

4.2. Tax Expenditures at the Retail Rate (4.0%)

The tax expenditures reported in this section provide exemptions for activities that would ideally be taxed at the GET retail rate. Unlike tax expenditures at the wholesale rate, these are transactions between businesses and final consumers or the equivalent thereof.

The total amount of the GET expenditures subject to the 4.0% retail rate was \$382.3 million in tax year 2018 (see Table 5 on the next page). The largest GET expenditures at the retail rate were the exemptions for Non-profit Organizations (\$231.1 million), Drugs and Prosthetic Devices (\$81.2 million), and Affordable Housing (\$46.9 million).

Table 5
Tax Expenditures at the Retail Rate (4.0%) for Tax Year 2018 (in \$1,000)

Exemption	Exemption Amount	Expenditure Amount*
100 - Affordable Housing (§§46-15.1, 201H-36 237-29, 238-3(j))	\$1,171,246	\$46,850
111 - Disability Provisions (§237-24(13))	\$2,103	\$84
113 - Drugs and Prosthetic Devices (§237-24.3(6))	\$2,030,325	\$81,213
115 - Enterprise Zones (§209E-11)	\$461,848	\$18,474
123 - Insurance Proceeds Received Because of a Natural Disaster (§237-24.7(6))	\$1,453	\$58
125 - Labor Organizations (§237-24.3(9))	\$31,232	\$1,249
128 - Mass Transit (§237-24.7(2))	\$3,017	\$121
130 - Non-profit Organizations (§237-23)	\$5,778,490	\$231,140
136 - Potable Water (§237-23(a)(7))	\$5,693	\$228
137 - Professional Employer Organizations (§237-24.75(3))	\$71,360	\$2,854
TOTAL	\$9,556,767	\$382,271

* Tax expenditure estimates are not revenue estimates

4.3. Out of State Sales

The following exemptions do not qualify as tax expenditures but are GET exemptions that may represent a lost opportunity to export taxes to nonresidents. These consist of exemptions of exports and exemptions of sales to the federal government. An exemption on exports is not a tax expenditure because it is provided to prevent pyramiding of tax rather than to encourage a certain industry.

The value of the foregone taxes in Out of State Sales in tax year 2018 was \$228.8 million (Table 6).

Table 6
Out of State Sales for Tax Year 2018 (in \$1,000)

Exemption	Exemption Amount	Foregone Taxes
110 - Diplomats and Consular Officials (§§237-24.3(10), 238-1)	\$1,909	\$75
116 - Exported Services (§237-29.53)	\$357,169	\$12,794
120 - Foreign Trade Zone Sales (§212-8)	\$3,564,652	\$74,104
132 - Out of State Sales (§237-29.5(1))	\$2,869,935	\$76,011
133 - Out of State Services/Contracting to Foreign Customers (§238-2.3(1)(C))	\$209,729	\$7,481
141 - Sales to Federal Government and Credit Unions (§237-25(a))	\$1,388,008	\$49,372
142 - Scientific Contracts (§§237-26, 238-3(j)).	\$236,052	\$8,971
TOTAL	\$8,627,453	\$228,808

4.4. Other Exemptions

The following exemptions in Table 7 would not be subject to a sales, excise, or other form of consumption tax. This is because the GET is worded so broadly that, without explicit exemptions, it would apply to many sales that are not properly part of a broad-based tax on consumption. For example, the GET contains exemptions for wages of workers, sales of stocks and bonds, bad debts, and sales of land in fee simple. These items are not traditionally included in the base of a sales or excise tax. In the case of food stamps, the federal government does not permit taxation of purchases made with food stamps.

Table 7
Other Exemptions for Tax Year 2018 (in \$1,000)

Exemption	Exemption Amount	Expenditure Amount*
104 - Bad Debts (§237-3(b))	\$51,722	\$0
112 - Discounts and Returned Merchandise (§237-3(b))	\$525,810	\$0
114 - Employee Benefit Plans (§237-24.3(4)).	\$389,883	\$0
118 - Federal Preempted Amount (§§237-22, 238-3(a))	\$233,836	\$0
119 - Food Stamps and WIC (§237-24.3(5))	\$354,541	\$0
126 - Subleases of Real Property (§237-16.5)	\$169,995	\$0
139 - Real Estate Sales (§237-3(b))	\$469,191	\$0
140 - Reimbursement of Payroll Costs (§237-24.7(9))	\$95,301	\$0
146 - Small Business Innovation Research Grants (§237-24.7(10))	**	\$0
147 - Stock Exchange Transactions (§237-24.5)	**	\$0
150 - Taxes Passed On (§§237-24(8), 237-24(9), 237-24(10), 237-24(12))	\$1,492,321	\$0
154 - Sales Tax Paid Offset (§§237-22(b), 238-3(i))	\$15,787	\$0
TOTAL	\$3,801,897	\$0

* Tax expenditure estimates are not revenue estimates

** Data were suppressed to avoid potential disclosure of confidential taxpayer information.

APPENDIX

Table A-1

GET Exemptions Claimed by GET Rate for Tax Year 2018 (in \$1,000)

Exemption Name	Wholesale Rate (0.5%)	Retail Rate (4%)	Insur. Rate (0.15%)	TOTAL
100 - Affordable Housing (§§46-15.1, 201H-36 237-29, 238-3(j))	\$14,099	\$1,157,148	\$0	\$1,171,246
101 - Air Pollution Control Facilities (§§237-27.5, 238-3(k))	\$69,460	\$120,195	\$0	\$189,655
102 - Aircraft Leasing (§§237-24.3(11), 238-1)	\$48	\$49,229	\$0	\$49,277
103 - Aircraft Service and Maintenance Facility (§§237-24.9, 238-1)	\$15	\$31,033	\$0	\$31,048
104 - Bad Debts (§237-3(b))	\$2,059	\$37,106	\$12,557	\$51,722
105 - Certain Convention, Conference and Trade Show (§237-16.8)	\$6	\$18,477	\$10	\$18,493
106 - Common Paymaster Exemption (§237-23.5(b))	\$807	\$18,207	\$0	\$19,014
107 - Contracting Activity in an Enterprise Zone (§209E-11)	\$5,250	\$30,813	\$0	\$36,064
108 - Oahu - Certain Contracts Entered into Before 6/30/2006 (§237-8.6(c))	\$0	\$62,053	\$0	\$62,053
109 - Certain Oahu Sales (§237-8.6)	\$2,303	\$91,181	\$0	\$93,484
110 - Diplomats and Consular Officials (§§237-24.3(10), 238-1)	\$27	\$1,882	\$0	\$1,909
111 - Disability Provisions (§237-24(13))	\$1,721	\$380	\$2	\$2,103
112 - Discounts and Returned Merchandise (§237-3(b))	\$194,648	\$331,158	\$3	\$525,810
113 - Drugs and Prosthetic Devices (§237-24.3(6))	\$54,186	\$1,976,139	\$0	\$2,030,325
114 - Employee Benefit Plans (§237-24.3(4))	\$51	\$389,812	\$20	\$389,883
115 - Enterprise Zones (§209E-11)	\$422,566	\$39,283	\$0	\$461,848
116 - Exported Services (§237-29.53)	\$42,650	\$314,519	\$0	\$357,169
117 - Federal Cost-Plus Contractors (§237-13(3)(C))	\$87	\$70,297	\$0	\$70,385
118 - Federal Preempted Amount (§§237-22, 238-3(a))	\$35,072	\$198,763	\$0	\$233,836
119 - Food Stamps and WIC (§237-24.3(5))	\$842	\$353,699	\$0	\$354,541
120 - Foreign Trade Zone Sales (§212-8)	\$1,956,636	\$1,608,016	\$0	\$3,564,652
121 - Hawaii Convention Center Operator (§237-24.75(2))	*	*	*	*
122 - Hotel Operator/Suboperator (§237-24.7(1))	\$7,737	\$141,044	\$0	\$148,780
123 - Insurance Proceeds Received Bec. of a Natural Disaster (§237-24.7(6))	\$401	\$929	\$123	\$1,453
124 - Intercompany Charges (§237-23.5(a))	\$15,708	\$346,519	\$77	\$362,304
125 - Labor Organizations (§237-24.3(9))	\$122	\$31,110	\$0	\$31,232
126 - Subleases of Real Property (§237-16.5)	\$108	\$169,887	\$0	\$169,995
127 - Maintenance Fees (§§237-24.3(2), 237-24(16))	\$4,424	\$2,571,080	\$20	\$2,575,523
128 - Mass Transit (§237-24.7(2))	\$0	\$3,017	\$0	\$3,017
129 - Merchants' Association Dues (§237-24.3(8))	\$0	\$13,898	\$0	\$13,898
130 - Non-profit Organizations (§237-23)	\$2,583	\$5,775,907	\$0	\$5,778,490
131 - Orchard Operator (§237-24.7(4))	\$454	\$3,849	\$0	\$4,303
132 - Out of State Sales (§237-29.5(1))	\$1,103,231	\$1,762,211	\$4,493	\$2,869,935
133 - Out of State Services/Contracting to Foreign Customers (§238-2.3(1)(C))	\$25,813	\$183,782	\$133	\$209,729
134 - Patient-Centered Community Care (§237-24(18))	\$0	\$1,283	\$0	\$1,283

* Data were suppressed to avoid potential disclosure of confidential taxpayer information.

Table A-1 (Cont.)
GET Exemptions Claimed by GET Rate for Tax Year 2018 (in \$1,000)

Exemption Name	Wholesale Rate (0.5%)	Retail Rate (4%)	Insur. Rate (0.15%)	TOTAL
135 - Petroleum Refining (§237-27)	*	*	*	*
136 - Potable Water (§237-23(a)(7))	\$38	\$5,655	\$0	\$5,693
137 - Professional Employer Organizations (§237-24.75(3))	\$5,904	\$65,456	\$0	\$71,360
138 - Producers (Certain property used) (§238-4)	\$4,157	\$5,939	\$33	\$10,130
139 - Real Estate Sales (§237-3(b))	\$6	\$468,643	\$542	\$469,191
140 - Reimbursement of Payroll Costs (§237-24.7(9))	\$497	\$94,706	\$98	\$95,301
141 - Sales to Federal Government and Credit Unions (§237-25(a))	\$175,665	\$1,212,343	\$0	\$1,388,008
142 - Scientific Contracts (§§237-26, 238-3(j)).	\$13,464	\$222,588	\$0	\$236,052
143 - Service Related to Ship & Aircraft (§237-24.3(3))	\$106,440	\$575,225	\$0	\$681,665
144 - Shipbuilding and Ship Repairs (§237-28.1).	\$1,328	\$200,114	\$0	\$201,442
145 - Shipping and Handling of Agricultural Commodities (§237-24.3(1))	\$8,568	\$69	\$0	\$8,637
146 - Small Business Innovation Research Grants (§237-24.7(10))	*	*	*	*
147 - Stock Exchange Transactions (§237-24.5)	*	*	*	*
148 - Subcontract Deduction (§237-13(3)(B))	\$219	\$3,716,818	\$0	\$3,717,037
149 - Sugar Cane Payments to Independent Producers (§237-24(14))	*	*	*	*
150 - Taxes Passed On (§§237-24(8), 237-24(9), 237-24(10), 237-24(12))	\$358,803	\$1,111,704	\$21,815	\$1,492,321
151 - TRICARE (§237-24(17))	*	*	*	*
152 - Wholesale Amusements (§237-4(a)(13))	\$6,470	\$12,874	\$0	\$19,344
153 - Wholesale Transactions (§237-29.55)	\$5,343,537	\$811,134	\$0	\$6,154,671
154 - Sales Tax Paid Offset (§§237-22(b), 238-3(i))	\$6,503	\$9,285	\$0	\$15,787
99 - Unspecified/mislabeled/other	\$590	\$11,188	\$23	\$11,801
GRAND TOTAL	\$9,995,747	\$26,450,365	\$39,949	\$36,486,061

* Data were suppressed to avoid potential disclosure of confidential taxpayer information.