

# TAXBILLSERVICE

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**SUBJECT:** GENERAL EXCISE, Exempt medical services from county surcharge

**BILL NUMBER:** SB 2694; HB 1996 (Identical)

**INTRODUCED BY:** SB by Chun Oakland, 6 Democrats and 4 Republicans; HB by Ito and 9 Democrats

**BRIEF SUMMARY:** Amends HRS section 237-8.6 to include in the list of transactions exempt from the county surcharge of the general excise tax services performed by licensed medical practitioner, hospitals, medical facilities, nursing homes or facilities, or a rehabilitation facility.

**EFFECTIVE DATE:** July 1, 2006

**STAFF COMMENTS:** This measure proposes to provide relief from the imposition of the general excise surcharge on medical services of practitioners and facilities that provide such services. Apparently, lawmakers are beginning to feel a twinge of guilt for their rush to approve the county surcharge of an additional 0.5%.

While lawmakers may be concerned that it was their fault that the additional tax rate will exacerbate the already high cost of health care, the tax is but a small consideration in the cost of health care. From the growing cost of medical malpractice insurance to the cost of acquiring the latest technology, the general excise tax is just a part of the high cost of health care. Even if lawmakers exempted medical practitioners and medical care facilities, those practitioners and facilities will still have to purchase goods and services which will be subject to the additional surcharge. So everything from the brooms that sweep the floors of the hospital to the gauze and bandages will be subject to the additional half percent rate. This is the beauty, if not the beast, of the general excise tax structure, that all business-to-business transactions where the goods or services are not for resale are subject to the full retail rate of 4% and, therefore, the additional 0.5% surcharge.

Further, it should be remembered that the general excise tax is imposed for the privilege of doing business in the state and exempting medical practitioners merely confers a preference for this profession as opposed to all other professions such that the mechanic working on a doctor's Ferrari is subject to the surcharge while the doctor would not be under this measure.

Lawmakers need to live with the fact that they just boosted the cost of living in Hawaii by approving the surcharge. The cost of the additional half percent will make its way throughout the economy and affect the cost of all goods and services. So merely exempting medical services will in and of itself not keep the cost of medical care from rising.

Digested 2/8/06