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SENATE JOINT COMMITTEE ON HEALTH AND INTERGOVERNMENTAL AFFAIRS

TESTIMONY REGARDING SB 2694
RELATING TO EXCISE TAX ON HEALTH CARE

February 9, 2006

This bill would exempt the services of licensed physicians, hospitals, medical facilities, nursing homes, and rehabilitation facilities from the county surcharge on the general excise tax. The bill would take effect on July 1, 2006.

The Department of Taxation ("Department") offers comments on this bill.

I. ADDRESSING THE REGRESSIVE NATURE OF THE TAX ON MEDICAL SERVICES IS IMPORTANT TO THE DEPARTMENT AND ADMINISTRATION.

Currently, counties are entitled to levy a 0.5% surcharge on the state General Excise Tax (GET) based upon a "home rule" election. The current structure of the GET, including the county surcharge, is extremely regressive. The GET is regressive in the sense that it applies at the same rate to all taxpayers, regardless of their income level. **No one should be taxed on getting sick and the Lingle-Aiona administration and the Department both strongly agree.**

The Department suggests that the most comprehensive means of dealing with the regressive nature of the GET on medical services is by adopting the administration bill providing a tax credit for medical services, food, and nonprescription drugs, SB 2378. The issue of overtaxing the sick is an issue greater than just the county surcharge, but stems from the state GET in general. To meaningfully provide relief to the poor who are taxed the most, the legislature must provide solutions on a greater scale.

II. THIS BILL WILL IMPACT COUNTY REVENUES.

This legislation will have no effect on the revenue collection of the State.

However, Honolulu county surcharge tax collection will be lowered by \$3.9 million for FY 2007 (5 months) and \$9.8 million for FY2008.

Thank you for this opportunity to testify.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Kurt Kawafuchi', written in a cursive style.

KURT KAWAFUCHI
Director of Taxation