

Potential Savings from Proposed General Excise Tax Exemptions

According to the Annual Report on Findings from the Hawaii Physician Workforce Assessment Project, there is a shortage of physicians in Hawaii. Based on the analysis, when island geography and the need for specialty care and by county are examined, there is an estimated shortage of 820 full-time equivalent physicians (up from 797 last year).¹ One reason cited for the lack of physicians in Hawaii is the fact that medical services (except those provided by not-for-profit facilities) are subject to a 4.0 percent General Excise Tax (GET).^{2,3} Unlike a sales tax, this levy falls directly on medical offices, making it much more expensive to provide care than in most other states.

Hawaii exempts a number of services from the GET. These include aircraft maintenance and leasing, convention expenses, petroleum refining and orchards. This means that the state of Hawaii uses its tax code to encourage the development of orchards, but discourages the provision of medical care.

Relieving medical professionals of the onerous GET would encourage the provision of medical services throughout the state, but would result in only a modest reduction in overall tax collections.

Table 1
Excise Tax Savings Under Various Scenarios

Scenario	Est. Medical Spending	GET Savings	Percent of GET
Exempt All Private Medical Services	\$ 5,007,327,861	\$ 200,293,114	5.8%
Exempt Services in Health Professional Shortage Areas	\$ 1,823,657,817	\$ 72,946,313	2.1%
Exempt Medicare/Medicaid Funded Services	\$ 363,950,766	\$ 14,558,031	0.4%

As Table 1 above shows, if all for-profit medical providers were exempted from the GET, it would result in a savings of \$200.3 million, or about \$5,275 per medical service worker in the state. This is equivalent to roughly 6.7 percent of the average medical service worker's wage and roughly 5.8 percent of current GET collections.

Were the exemption to only be applied to medical services performed in Health Professional Shortage Areas (namely Hawaii, Hilo and Maui counties, and the northern part of Oahu), the savings would be \$72.9 million, or about \$1,920 per medical service worker in the state.

If only publicly funded services were to be exempted, the savings would be just \$14.6 million, or roughly 0.5 percent of the average medical service worker's wage.

At most, the cost of the exemption to the state would amount to 5.8 percent of current GET collections.

Methodology

The GET is a 4.0 percent ad valorem tax imposed on services in the state of Hawaii. This includes medical services provided by for-profit providers such as physicians, dentists, laboratories and dialysis centers. To determine the amount of GET paid by these medical providers, data from IMPLAN was used to develop a baseline of sales in the state. The IMPLAN Model adopts an accounting framework through

¹ Withy, Kelly, *Annual Report on Findings from the Hawai'i Physician Workforce Assessment Project Act*, Report to the 2020 Hawaii State Legislature, December 2019.

² See: Kukaua, Kelsey, *Why Hawaii Island doctors are looking for tax relief*, Pacific Business News, January 14, 2020, on-line at: <https://www.bizjournals.com/pacific/news/2020/01/14/why-hawaii-island-doctors-are-looking-for-tax.html>.

³ Businesses conducted in Oahu are also subject to the 0.5% City and County of Honolulu Surcharge. This surcharge is not included in the analysis.

which the relationships between different inputs and outputs across industries and sectors are computed. It is based on the national income accounts generated by the US Department of Commerce, Bureau of Economic Analysis (BEA).⁴ IMPLAN provides data on employment, wages and economic output in 10 relevant medical service sectors. Table 2 below outlines these data.

Table 2
Economic Data on Medical Sectors in Hawaii (2018)

Sector	Jobs (FTE)	Economic Output	Wages and	
			Proprietor Income	
Offices of physicians	9,869	\$ 1,919,097,168	\$	1,149,585,136
Offices of dentists	4,951	\$ 612,115,601	\$	324,728,806
Offices of other health practitioners	6,955	\$ 547,708,679	\$	416,709,381
Outpatient care centers	6,404	\$ 991,036,438	\$	576,175,832
Medical and diagnostic laboratories	1,864	\$ 330,343,018	\$	131,804,482
Home health care services	7,033	\$ 360,156,464	\$	344,836,792
Other ambulatory health care services	898	\$ 109,060,890	\$	64,645,259
Hospitals	17,016	\$ 3,359,944,092	\$	1,723,056,068
Nursing and community care facilities	8,064	\$ 691,757,996	\$	410,144,093
Residential mental retardation, mental health, substance abuse and other facilities	1,540	\$ 100,260,963	\$	64,470,858
Total Medical Care Services	64,595	\$ 9,021,481,308	\$	5,206,156,707

As the table shows, there are nearly 65,000 full-time equivalent employees working in the medical services sectors in Hawaii. They produce over \$9.0 billion in economic output, which is equivalent to sales for services industries. Of these sales, over \$5.2 billion goes toward wages and benefits for employees, and firm owners (in most cases individual physicians or dentists).⁵

Since the GET is not imposed on services provided by not-for-profit entities, hospitals were not included in the analysis (hospitals in Hawaii are all not-for-profit).⁶ In addition, as data on the status of all facilities is not generally available, nursing and community care facilities, as well as residential psychiatric and other facilities were removed from the analysis.⁷

Once these sectors were removed, the total economic output of the medical services sector subject to the GET was estimated at just under \$4.9 billion (\$5.0 billion in 2019 dollars). These businesses provided jobs for 37,975 full-time equivalent employees.

Applying the 4.0 percent GET to these sales gives an estimate of just under \$200.3 million in payments, which equates to about \$5,275 per employee. This represents about 5.75 percent of all GET revenues collected by the state in 2018.⁸

Interestingly the state of Hawaii even taxes services that both it and the Federal government are paying for. Based on data from both the US Department of Health and Human Services and from the State of Hawaii, almost \$354.0 million (\$364.0 million in 2019 dollars) in payments made for medical services

⁴ RIMS II is a product developed by the U.S. Department of Commerce, Bureau of Economic Analysis as a policy and economic decision analysis tool. IMPLAN was originally developed by the US Forest Service, the Federal Emergency Management Agency and the Bureau of Land Management. It was converted to a user-friendly model by the IMPLAN in 1993. The model uses the Input-Output tables for 2018.

⁵ These data are in 2018 dollars and are inflated by the Consumer Price Index for medical care to bring them to 2019 dollars for the tax calculations.

⁶ *Number of hospitals in Hawaii in 2017, by ownership type*, Statista.com, www.statista.com/statistics/202829/number-of-hospitals-in-hawaii-by-ownership-type/

⁷ These facilities represent about 8.8 percent of total economic output or sales.

⁸ Inflated to 2019 dollars using the Consumer Price Index. \$3,426,524,729 in 2018 dollars is equal to \$3,479,635,862 in 2019 dollars. General Excise Tax figures are from: General Excise And Use Tax Collections - Calendar Year Ending December 31, 2018, State of Hawaii, Department of Taxation, at: <http://files.hawaii.gov/tax/stats/monthly/2018cy-ge.pdf>

provided by the sectors being examined in this analysis were paid for by Medicare or Medicaid.⁹ Table 3 below outlines these payments. As the table shows, roughly 12.1 percent of all medical services spending in Hawaii is provided by Medicare and Medicaid. The highest percentage of this is for nursing care, where over one-third of the funding comes from these programs. Hospitals receive 14.7 percent of their revenue from these sources. On the other hand, physicians receive 7.8 percent, and miscellaneous health care practitioners only 0.8 percent.

Table 3
Medicare and Medicaid Spending by Sector (\$2018)

Sector	Medicare	Medicaid	Total Public (\$)	Percent of Total
				Output
Offices of physicians	\$ 150,403,309	\$ 170,850	\$ 150,574,159	7.8%
Offices of dentists	\$ -	\$ 33,941,757	\$ 33,941,757	5.5%
Offices of other health practitioners	\$ 4,494,139	\$ 4,390	\$ 4,498,529	0.8%
Outpatient care centers	\$ 58,326,410	\$ 8,086,922	\$ 66,413,333	6.7%
Medical and diagnostic laboratories	\$ 42,024,914	\$ 8,086,922	\$ 50,111,837	15.2%
Home health care services	\$ 16,693,239	\$ 8,086,922	\$ 24,780,162	6.9%
Other ambulatory health care services	\$ 23,956,119	\$ (341,631)	\$ 23,614,488	21.7%
Hospitals	\$ 486,599,000	\$ 6,637,548	\$ 493,236,548	14.7%
Nursing and community care facilities	\$ 102,728,475	\$ 131,786,450	\$ 234,514,925	33.9%
Residential mental retardation, mental health, substance abuse and other facilities	\$ 313,430	\$ 10,570,186	\$ 10,883,616	10.9%
Total Medical Care Services	\$ 885,539,036	\$ 207,030,317	\$ 1,092,569,353	12.1%
Relevant Sectors to Model	\$ 295,898,131	\$ 58,036,133	\$ 353,934,264	5.0%

Were services paid for by Medicare and Medicaid to be exempted from the GET, the overall savings to the relevant health service sectors would be nearly \$14.2 million (\$2019) or \$383 per full-time equivalent medical services employee. This represents about 0.4 percent of GET revenues.

Finally, were the exemption to only be applied to medical services performed in Health Professional Shortage Areas (namely Hawaii, Hilo and Maui counties, and the northern part of Oahu), the savings would be \$72.9 million, or about \$1,920 per medical service worker in the state. Data on these areas is based on employment data provided by Infogroup.¹⁰ Employment data are gathered at the zip code level and by NAICS code. These data are used to break out the percentage of revenues coming from each of the relevant areas. In the case of Northern Oahu only specific zip code data were used.¹¹ Table 4 presents the percentage of output allocated to these areas by sector.

Table 4
Estimated Medical Service Spending in HPSA (\$2018)

Sector	Total Output	Estimated Output in		Percent of Total
		HPSA	Total	
Offices of physicians	\$ 1,919,097,168	\$ 563,504,777		29.4%
Offices of dentists	\$ 612,115,601	\$ 167,637,864		27.4%
Offices of other health practitioners	\$ 547,708,679	\$ 172,747,892		31.5%
Outpatient care centers	\$ 991,036,438	\$ 545,545,654		55.0%
Medical and diagnostic laboratories	\$ 330,343,018	\$ 214,999,368		65.1%
Home health care services	\$ 360,156,464	\$ 70,541,846		19.6%
Other ambulatory health care services	\$ 109,060,890	\$ 38,490,460		35.3%
Total for All Sectors	\$ 4,869,518,257	\$ 1,773,467,861		36.4%

⁹ Data on Medicare spending is from *State and County Level Demographic, Cost, Utilization, and Quality Data (All Ages)*, US Department of Health and Human Services, Centers for Medicare and Medicaid Services, Public Use File, at: https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/Medicare-Geographic-Variation/GV_PUF. 2017 data were converted to 2018 dollars using the Consumer Price Index for medical care. Data on Medicaid spending is from *Total Medicaid Benefit Spending by State and Category, FY 2018 (millions)*, Medicaid and CHIP Payment and Access Commission, at: <https://www.macpac.gov/publication/total-medicare-benefit-spending-by-state-and-category/>

¹⁰ Infogroup, is the leading provider of business and consumer data for the top search engines in North America. Infogroup gathers data from a variety of sources by sourcing, refining, matching, appending, filtering, and delivering the best quality data. The company verifies its data at the rate of almost 100,000 phone calls per day to ensure absolute accuracy.

¹¹ Zip codes 96717, 96730, 96731, 96762, 96786, 96791, 96792, 96857. While this does not match perfectly with the geography of the Health Professional Shortage Area it is the closest match that can be provided with available data.

As the table shows, based on where employees are located, roughly 36.4 percent of all medical services revenues in the state are generated in the HPSA.