November 14, 2017

MEMORANDUM

TO: Dawn Kim
Compliance Manager
Office of Research Services
University of Hawaii

FROM: Kenneth Lum
Tax Manager, Financial Management Office
University of Hawai’i

SUBJECT: Tax Analysis of “tax exempt certificate” versus “tax exempt status”

Pursuant to our conversation, the following is my tax analysis of “tax exempt certificate” as requested by vendors, as well as request of “tax exempt status” of the University by the vendors.

Inquiry:

Is the request of “tax exempt certificate” similar to the request of “tax exempt status” by vendors?

Conclusion:

No, tax exempt certificate does not provide evidential support of tax exempt status of the University (UH). Tax exempt certificate is a document that indicates being exempt from “sales tax” on selling tangible items. Whereas, tax exempt status of the University relates to being exempt from “federal income tax” on business income of the University.

Tax Analysis:

Tax exempt certificate is a document issued by the State tax authority that certifies exempting sales tax on tangible items sold. Tangible items are physical items such as food, computers, books, equipment and other physical items. Tangible items do not include services, such as services provided by doctors, attorneys, engineers, consultants etc. Hawaii does not have sales
The State of Hawaii imposes general excise tax. General excise tax is imposed on sale of tangible items as well as income from providing services.

Tax exempt status is a designation from Federal Agency such as Internal Revenue Service, to certify exemption from federal income tax on UH’s business income. Tax exempt status is not related with tax exempt certificate at all. Tax exempt status could be obtained by qualifying in the statute provided by the Internal Revenue Code, or by applying for tax exempt status with the Internal Revenue Service, if an entity wishes to request for such tax exempt status (i.e. charitable organizations, or education institutions etc.)

University of Hawaii (UH) does not need to obtain “tax exempt status”. By virtue of being a State Instrumentality, UH is exempted from most federal taxes under Internal Revenue Code §115. The only federal income tax that will be imposed upon UH, would be unrelated business income tax, as stated under Internal Revenue Code §511.