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**LATE**

NORTH WEST &  
CANADA CRUISE  
ASSOCIATION

March 23, 2011

**Testimony to the Senate Committee on Economic Development & Technology**  
**in OPPOSITION to**  
**HB 799 HD 1, "Relating to Taxation."**

Aloha Chair Fukunaga, Vice Chair Wakai, and members of the Committee.

Thank you for this opportunity to testify on HB 799 HD 1, "Relating to Taxation."

I am Greg Wirtz, President of the North West and Canada Cruise Association (NWCCA), a trade association of eleven major cruise lines operating in Hawaii, the Pacific Northwest, Canada and Alaska. Our member lines include the following companies: Carnival Cruise Lines, Celebrity Cruises, Crystal Cruises, Disney Cruises, Holland America Line, Norwegian Cruise Line (incl. NCL-America), Oceania Cruises, Princess Cruises, Regent Seven Seas Cruises, Royal Caribbean International, and Silversea Cruises.

Our member lines bring hundreds of thousands of cruise visitors to Hawaii every year, support thousands of local jobs, and contribute an estimated \$475 million annually to the state's economy.

Today we are here to provide testimony in opposition to HB 799 HD 1, which would temporarily suspend the GET exemptions for a multitude of industries and services and impose a graduated tax schedule from Jan. 1, 2012 thru June 30, 2015.

We are specifically concerned with the following parts of Section 2 which would repeal:

(9) Amounts received or accrued from the loading or unloading of  
cargo as described under section 237-24.3(4)(A);

(10) Amounts received or accrued from tugboat and towage  
services as described under section 237-24.3(4)(B);

NWCCA Members Lines:

Carnival Cruise Lines ♦ Celebrity Cruises ♦ Crystal Cruises ♦ Disney Cruise Line ♦ Holland America Line ♦ Norwegian Cruise Line ♦ Oceania Cruises ♦ Princess Cruises ♦ Regent Seven Seas Cruises ♦ Royal Caribbean International ♦ Silversea Cruises

(11) Amounts received or accrued from the transportation of pilots or government officials and other maritime-related services as described under section 237-24.3(4)(C);

19) Gross proceeds received from shipbuilding and ship repairs as described under section 237-28.1

For the cruise industry, this would dramatically increase the cost for items such as pilotage, tugboat services, line handling, and ship repairs. We are very concerned as to the impact these additional costs may have on cruise tourism in Hawaii.

Our major concerns are as follows:

**1. Like other segments of the travel and tourism industry, the cruise sector is extremely price sensitive.**

To a degree never seen before, consumers are considering the total cost of a vacation when making their travel decisions including not only the cost of the cruise, but other costs such as transportation to embarkation ports, shore tours and government taxes and fees.

It has been illustrated in other markets that fee increases can have an impact on cruise traffic. For example, another long-distance destination, Alaska, was dramatically impacted by the introduction of new fees and taxes imposed by the state. Traffic there over the past two seasons (2009/2010) has declined by 15%.

Given these difficult economic times and the importance of tourism to Hawaii, now is not the time to levy taxes and increase costs.

**2. Our industry has already been assessed large fee increases by the Dept. of Transportation for projects that will be of no direct benefit to us, and more increases are forthcoming.**

Last year, our DOT harbor fees were increased across the board in order to help finance the Harbors Modernization Plan (HMP). None of the HMP projects are of direct benefit to the cruise industry in the form of new piers, passenger facilities, or even repairs on existing cruise facilities. Our passenger fees will increase dramatically this July and go up annually thru 2016. For NCL-America, the primary cruise operator in the state, the first increase will be on the order of 140% of the current fee structure.

**3. Our member lines may now have to reconsider dry-docking their vessels here and may instead choose to do so on the West Coast or in other countries.**

NCLA's Pride of America has dry-docked in Honolulu for years, and Princess Cruises dry docked two of their vessels in Honolulu a few years ago. Dry dock costs can range up to \$5

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million per vessel in any given year and employs hundreds of shipyard workers for several days on average. It would be very unfortunate if NCLA or any other lines were to instead spend millions of dollars in maintenance funds at ports outside of Hawaii.

**4. The repeal of the tax exemptions are being proposed without first studying the impacts of doing so.**

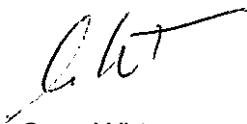
HB 1270 proposed that the State first review the economic impacts of the existing tax exemptions and credits and present the results to the Legislature prior to the beginning of the 2012 session. This is a reasonable approach that we recommend be incorporated into HB 799 prior to repealing any of the existing exemptions.

What should also be kept in mind is that Hawaii is a very small piece of the global cruise market, barely 1.5% in terms of passenger count. NCLA has the only large US-flagged cruise ship in the country and has to deal with the associated costs. With respect to international ships, a voyage from the west coast and back requires nine days at sea for four days in the state. These are niche cruises that appeal to a very small segment of the cruising population.

With fuel costs rising again and state passenger fees about to rise significantly this summer, we are very concerned that further taxes on our industry could result in Hawaii becoming a less attractive cruise destination and lose market share to other destinations that offer shorter, less expensive itineraries and are more easily accessible.

Thank you for this opportunity to present testimony before your committee.

Regards,



Greg Wirtz,  
President

NWCCA Members Lines:

Carnival Cruise Lines ♦ Celebrity Cruises ♦ Crystal Cruises ♦ Disney Cruise Line ♦ Holland America Line ♦ Norwegian Cruise Line ♦ Oceania Cruises ♦ Princess Cruises ♦ Regent Seven Seas Cruises ♦ Royal Caribbean International ♦ Silversea Cruises

March 22, 2011

**Senate Committee on Economic Development and Technology**

**Hearing Date: Wednesday, March 23, 1:15 p.m., Conference Room 016**

Honorable Senators Carol Fukunaga, Chair; Glenn Wakai, Vice Chair; and Members of the Senate Committee on Economic Development and Technology

Subject: **HB 799, HD 1, Relating to Taxation**  
**TESTIMONY IN OPPOSITION**

Dear Chair Fukunaga, Vice Chair Wakai, and Committee Members:

**Fukunaga & Associates, Inc.** is a Hawaii-owned and managed Civil & Environmental Engineering firm operating in Hawaii since 1969. We strongly **OPPOSE HB 799, HD 1, Relating to Taxation, in particular the portion of the bill (Section 2 (1)) related to gross income by contractors.** The definition of "contractor" includes engineers, architects and other design professionals licensed under Section 464-1, HRS.

The bill implies that prime contractors have been receiving an "exemption" from some portion of their income. This is not the case. HAR §18-237-13-03 simply ensures that the GET is not applied twice to the same income. HAR §18-237-13-0 allows that if a prime contractor hires a subcontractor, and the subcontractor pays the GET, then the prime contractor does not pay GET on the project income that goes to the subcontractor. For example, if the State pays a civil engineer \$100,000 to design a project, and the civil engineer in turn subcontracts the geotechnical engineering services for \$20,000 and environmental engineering services for \$10,000, the civil "prime" contractor pays GET on \$70,000, while the geotechnical and environmental engineers pay GET on their income. Under the proposed change, the civil engineer prime would pay GET on the full \$100,000, essentially double-taxing the \$30,000 allocated to the subcontractors, and forcing the prime contractor to pay taxes on income they did not receive.

In this time of economic stress for all involved in the construction business, this proposal will only further burden struggling design professionals and contractors. In addition to forcing these businesses to pay tax on income they don't receive, the proposal has a number of other far-reaching implications:

1. Large out-of-state businesses that bid on Hawaii projects may be less likely to utilize small business from Hawaii, so they can avoid this duplication of taxes.
2. Prime Architect-Engineering firms assist their clients by subcontracting specialty services, such as geotechnical, environmental, landscape architecture, surveying, etc. If the prime contractor is forced to pay double taxes on those services, they may request the client to contract those specialty services directly, increasing the administrative burden and risk exposure for the client, and inhibiting the benefits of having the design team collaborate under one contract.
3. Taxes are one of the expenses contractors pass on to their clients. This measure would add to the cost of building and construction for the owners of these projects, including State projects.

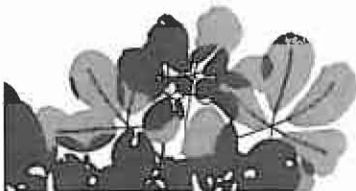
Due to the many negative outcomes described above, we strongly urge you to hold this bill. Thank you for the opportunity to provide testimony regarding this measure. Please let me know if you have any questions regarding our testimony.

Very truly yours,  
FUKUNAGA & ASSOCIATES, INC.



Jon K. Nishimura, P.E.  
President

FUKUNAGA & ASSOCIATES, INC.



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Due to the many negative outcomes described above, we strongly urge you to hold this bill. Thank you for the opportunity to provide testimony regarding this measure. Please let me know if you have any questions regarding our testimony.

Respectfully submitted,



Bernie Wonneberger, AIA, NCARB  
Unit Manager and Principal

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Due to the many negative outcomes described above, we strongly urge you to hold this bill. Thank you for the opportunity to provide testimony regarding this measure. Please let me know if you have any questions regarding our testimony.

Respectfully submitted,



Joel Yuen, P.E., President





# THERMAL ENGINEERING CORPORATION

512 Kalihi Street • Honolulu, Hawaii 96819  
Tel: (808) 848-6966 • Fax: (808) 848-6964  
engineering@thermaleng.com

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Respectfully submitted,

Jeffrey K. Kohara  
Sr. Vice President/CFO  
Thermal Engineering Corporation

**MASA FUJIOKA & ASSOCIATES**  
Environmental • Geotechnical • Hydrogeological Consultants

98-021 Kamehameha Highway, Suite 337, Aiea, HI 96701

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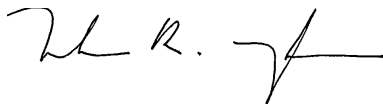
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Respectfully submitted,



Masa Fujioka, P.E.  
Managing Partner





March 22, 2011

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In this time of economic stress for all involved in business, this proposal will only further burden struggling small businesses, design professionals, and contractors. In addition to forcing these businesses to pay tax on income they don’t receive, the proposal has a number of other far-reaching implications:

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Due to the many negative outcomes described above, we strongly urge you to **hold this bill**. Thank you for the opportunity to provide testimony regarding this measure. Please let me know if you have any questions regarding our testimony.

Respectfully submitted,

PACIFIC GEOTECHNICAL  
ENGINEERS, INC.

Glen Y.F. Lau, P.E.  
President



ELECTRICAL CONTRACTOR'S ASSOCIATION OF HAWAI'I

**NECA Hawai'i Chapter**  
1286 Kalani Street, Suite B-203  
Honolulu, Hawai'i 96817  
PH: (808) 847-7306  
FX: (808) 841-8096  
Email: [ecah@ecahi.com](mailto:ecah@ecahi.com)

**LATE**



March 22, 2011

To: The Honorable Senator Carol Fukunaga, Chair  
And the Members of the Committee on Economic Development and Technology

From: Al Itamoto, Executive Director  
Electrical Contractors Association of Hawaii  
National Electrical Contractors Association, Hawaii Chapter

Subject: HB799, HD1, Relating to Taxation

Notice of Hearing

Date: Wednesday, March 23, 2011  
Time: 1:15 PM  
Place: Conference Room 016  
State Capitol  
415 South Beretania Street

Dear Chair Fukunaga and Committee members:

The Electrical Contractors Association of Hawaii (ECAH) is a non-profit association representing 100 electrical contractors in Hawaii. ECAH is also the Hawaii Chapter of the National Electrical Contractors Association. ECAH **strongly opposes** the intent and purpose of HB799, HD1 repealing the exemptions from various persons, in particular contractors. HB799 is not good for the State, the tax payers of Hawaii and contractors. While this bill generates additional tax revenues to the State, it has far reaching ramifications that will continue to hinder the recovery of the construction industry and passes on additional costs to consumers. At the least, this bill should be amended to remove the repeal of the subcontractor's portion of a contractor's gross receipts.

Currently, the subcontractor pays the 4% GETax on their portion of the gross receipts included in the gross receipts reported by the prime contractor, so in effect, 100% of the gross receipts are being taxed at the 4% level. HB799 imposes an additional 2% - 4% on the subcontractor's portion that in effect taxes that portion a second time. If the subcontractor also uses a sub-subcontractor, there's a possibility of an additional level of taxes. There is no logical reason why the same amount of gross receipts should generate a different amount of GETax depending on the amount subcontracted by the prime contractor. In general, this is a poorly thought out piece of legislation.

The construction industry is still experiencing over 50% unemployment and those that are working are not at full time levels. This legislation will only delay the recovery of the industry and adds additional costs to all construction projects. The city recently announced the awarding of the second light rail project and reported that the bids came in under budget. This bill would eliminate some of the savings and cost tax payers more to construct the rail project.

ECAH **strongly opposes** the passage of SB 263. As the Senate did last year, please stop this bill from moving on further.

Thank you for the opportunity to provide testimony on this issue.

**TESTIMONY OF KEONI WAGNER ON BEHALF OF HAWAIIAN AIRLINES IN  
OPPOSITION TO H.B. NO. 799, HD 1, RELATING TO TAXATION**

Wednesday, March 23, 2011

**LATE**

To: Chair Carol Fukunaga and Members of the Senate Committee on Economic Development and Technology:

My name is Keoni Wagner and I am the Vice President for Public Affairs for Hawaiian Airlines presenting this testimony on behalf of Hawaiian Airlines in opposition to Sections 2 and 3 of H.B. No. 799 HD 1.

Hawaiian Airlines understands the severity of the budget problem and the difficulty of finding solutions to balance the state budget with the severe economic situation facing the state. At the same time, we believe Sections 2 and 3 of this bill will undermine the state's economic recovery and effectively put Hawaii companies at a disadvantage to competitors based elsewhere.

Hawaiian Airlines is the only carrier serving Hawaii from the mainland that is entirely focused on our home state and the only carrier whose economic well being is tied directly to that of Hawaii. The company is reinvesting profits in expansion and is actively pursuing a growth strategy that is aimed at adding service and new routes to bring more visitors to Hawaii. We are increasing service to Tokyo and Osaka in Japan and to Korea. This growth is providing significant increases in tourism and tax revenues to the state. Last year, the HTA estimated that our Haneda flight alone would boost visitor spending in Hawaii by more than \$130 million.

The company has committed to investing in a fleet of new long range aircraft to fulfill its vision to become an even larger contributor to Hawaii tourism. We have taken possession of

three new aircraft since Spring 2010, with two more arriving this year and additional aircraft scheduled for delivery in future years.

Hawaiian is the only airline which employs large numbers of individuals in the state. We have hired more than 600 employees over the past two years and plan to hire more in the next few months.

The current exemptions that exist in the law are part of the foundations upon which this growth at Hawaiian has been planned. Elimination of any of the current tax exemptions affecting airlines will disproportionately injure local airlines, such as Hawaiian, and will deepen the competitive disadvantage we already face. Carriers not based in Hawaii have little exposure to state taxes compared to Hawaiian, so the impact on Hawaiian is much larger. We would ask whether it is good policy to pass legislation that as a matter of design actively disadvantages Hawaii-based companies over companies in the same industry that are based in other states.

While 2010 was a positive year for Hawaiian, the risk factors this year are far greater.

For example:

- a. Oil prices have been steadily increasing and recently hit a two-year high. Our fuel costs are projected to be 50 percent higher this year than in 2010.
- b. Labor costs are higher with new contracts in effect
- c. Aircraft maintenance costs are projected to be higher
- d. Investments in opening new routes and markets
- e. Uncertainty about Japan visitor traffic

Hawaiian already pays the state approximately \$50 million annually in taxes and fees – \$5.2 million of that in GET this year – and our employees also contribute more than \$9 million in state taxes. The taxes and fees we pay to the State have more than doubled in the last five



years and are set to increase further in 2011. Loss of the current tax exemptions would raise Hawaiian's existing tax burden by up to \$12 million in 2012 and this amount would multiply in successive years as we bring additional new aircraft into Hawaii. The total increased tax burden on our company would be up to \$73 million over four years

Hawaiian is already facing substantial financial pressures with high fuel prices and the prospect of diminished revenues on some routes that have already required increased costs to be passed along in the form of higher fares on mainland and international routes. Loss of these exemptions will require further fare increases across our system and/or other remedies, such as reductions in service and workforce. Accordingly, we urge the Committee to omit Sections 2 and 3 from HB799 HD1.

Thank you for the opportunity to comment on this measure.

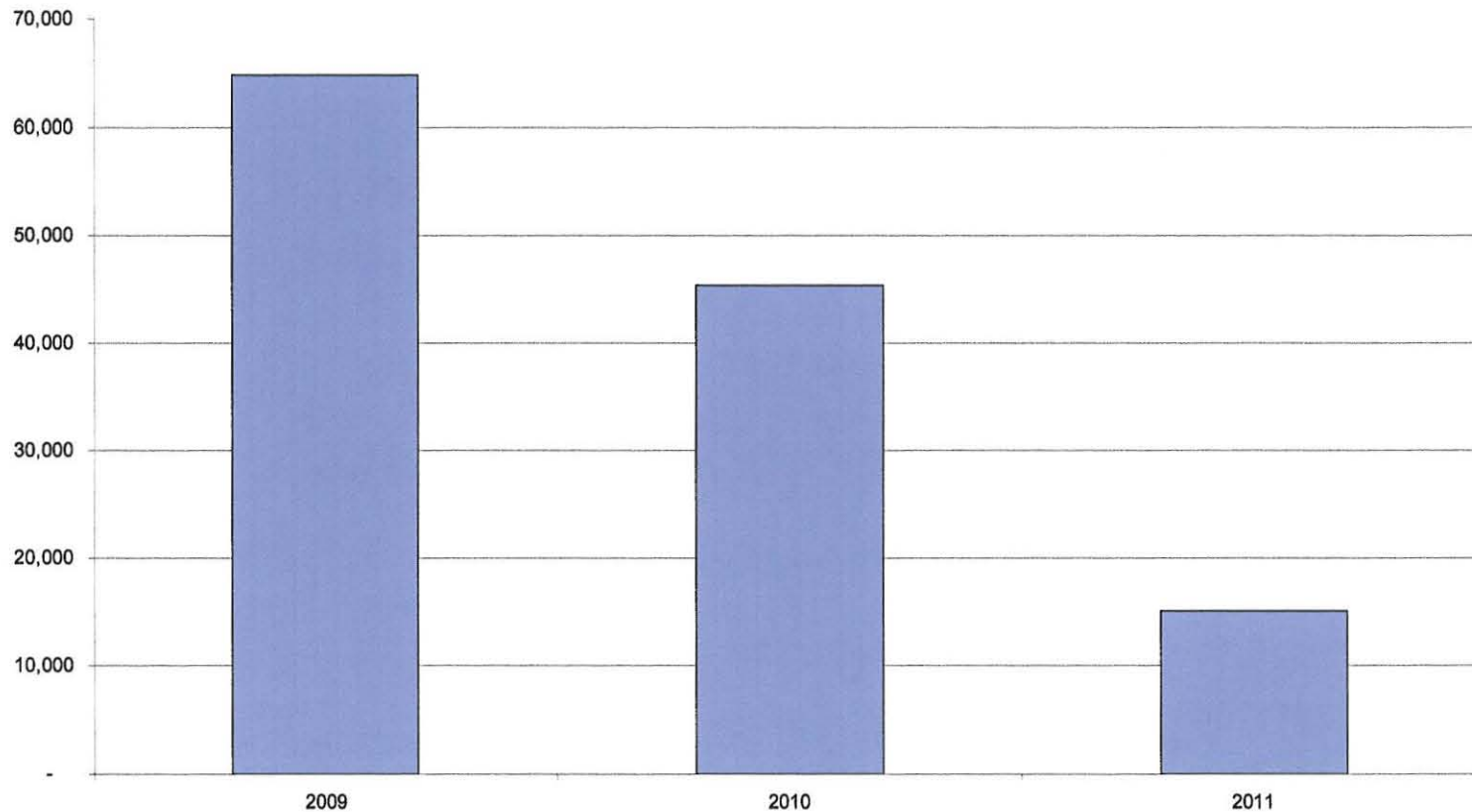
# HB799 Testimony Appendix



**HAWAIIAN**  
— AIRLINES —

# Hawaiian's Financial Performance

Adjusted Net Income (in 000s)



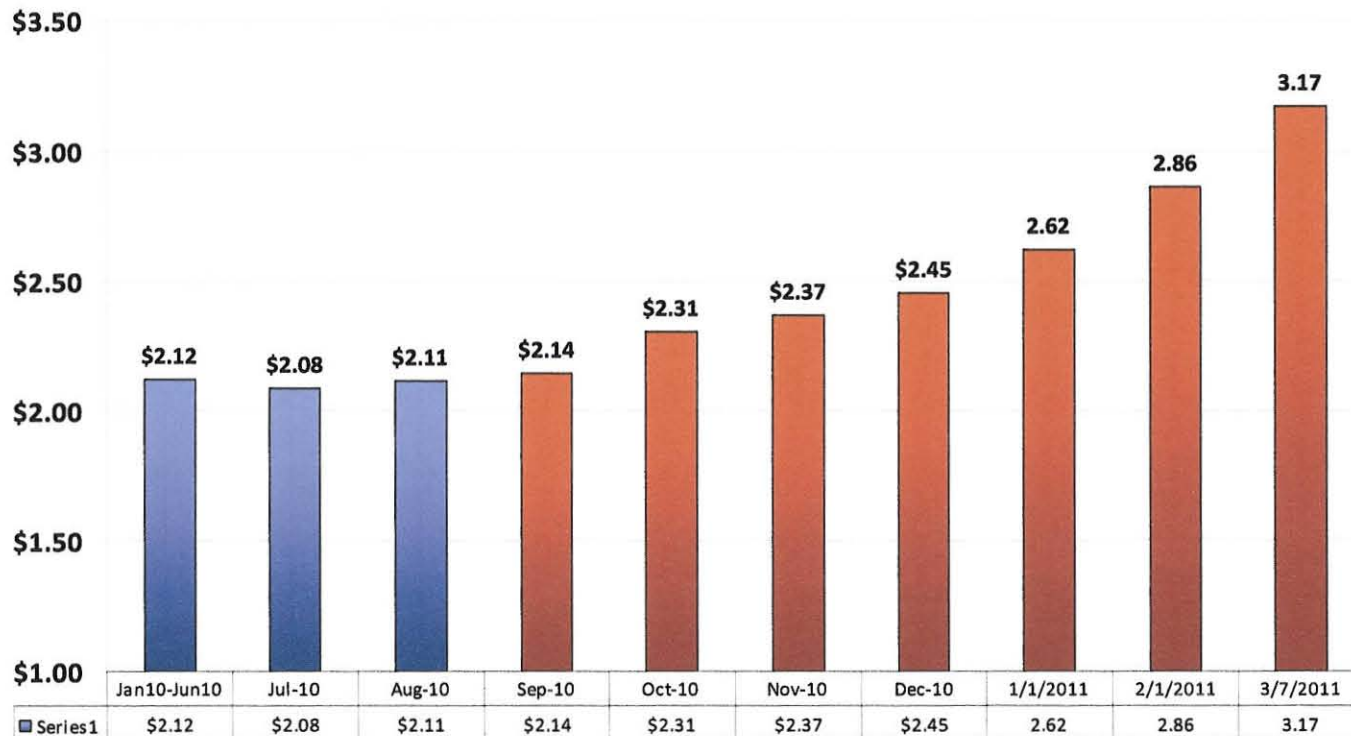
- Adjusted to reflect economic fuel expense and remove the effect of beneficial non-recurring tax items
- 2011 information represents mean of Wall Street analyst projections adjusted for current fuel prices



**HAWAIIAN**  
— AIRLINES —

# 2011 fuel prices could end or reverse growth

## 2010-2011 Jet Fuel Weighted Average Price per Gallon



1 cent per gallon = \$1.6 million annually

Note: LA/MOPS weighted average



**HAWAIIAN**  
AIRLINES

**From:** [mailinglist@capitol.hawaii.gov](mailto:mailinglist@capitol.hawaii.gov)  
**To:** [EDTTestimony](#)  
**Cc:** [LArakaki@ahldesign.com](mailto:LArakaki@ahldesign.com)  
**Subject:** Testimony for HB799 on 3/23/2011 1:15:00 PM  
**Date:** Tuesday, March 22, 2011 5:09:53 PM

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**LATE**

Testimony for EDT 3/23/2011 1:15:00 PM HB799

Conference room: 016  
Testifier position: oppose  
Testifier will be present: No  
Submitted by: Lloyd Arakaki  
Organization: Individual  
Address:  
Phone:  
E-mail: [LArakaki@ahldesign.com](mailto:LArakaki@ahldesign.com)  
Submitted on: 3/22/2011

Comments:

The Honorable Carol Fukunaga, Chair  
Members of the Committee on the Economic Development and Technology (EDT)  
Hawaii State Senate  
State Capitol  
Honolulu, HI 96813

Subject: OPPOSE as written, House Bill 799 HD1 Relating to Taxation; Section 2  
Amending Chapter 237, Hawaii Revised Statutes to temporarily suspend exemption for 1) Amounts deducted from the gross income received by contractors as described under section 237-13 (3) (B)

On behalf of the more than 800 architect members and other allied design professionals of The American Institute of Architects (AIA), AIA Hawaii State Council, I am writing to OPPOSE HB 799 HD1 on Taxation whose provisions aim to suspend key exemptions currently afforded to significant design and construction efforts in Hawaii, among other key business areas across the state.

The provision within HB 799 HD1 to remove the exemption currently afforded to "contractors" as defined in the Hawaii Revised Statutes (Section 237-13 (03) (B) (i) will specifically cause an adverse effect on our members, and allied engineers, a majority of whom are small businesses in Hawaii. While this measure is proposed to extract additional revenues to address the state's fiscal crisis, it should be noted that elimination of this specific exemption and others would come at a bad time as the state's economy struggles to come back from the devastation of economic recession. Eliminating the general excise exemptions for temporary gain may have a significantly dire consequence over the long term.

The overall impact on the design and construction industry would be very large, because of the well documented "pyramid effect." A gross receipts tax, without key exemptions in place, has a well known escalating effect that creates an extra layer of taxation at each stage of the product and service life cycle. For the design and construction industry this leads to dramatically higher costs for housing, commercial and industrial structures built for Hawaii businesses, state and city governments and residential homeowners.

We encourage you to seek more economically neutral ways of taxing businesses, and urge you to look deeper at long-term solutions for creating greater efficiencies within the government. This bill has the serious potential of reducing business in a time when Hawaii business needs stimulation. We urge opposition as currently written.

Sincerely,

Copies to:

Senator Glenn Wakai, Vice Chair EDT, Email: [senwakai@capitol.hawaii.gov](mailto:senwakai@capitol.hawaii.gov)  
Senator Rosalyn Baker, Member EDT, Email: [senbaker@capitol.hawaii.gov](mailto:senbaker@capitol.hawaii.gov)  
Senator Malama Solomon, Member EDT, Email: [sensolomon@capitol.hawaii.gov](mailto:sensolomon@capitol.hawaii.gov)  
Senator Sam Slom, Member EDT, Email: [senslom@capitol.hawaii.gov](mailto:senslom@capitol.hawaii.gov)





ARCHITECTURE  
RESTORATION  
RENOVATION  
RESEARCH

# Mason Architects

**LATE**

March 22, 2011

Senator Samuel Slom, Member  
Senate Committee on Economic Development and Technology  
Hawai'i State Capitol, Room 216  
Honolulu, Hawai'i

Re: **OPPOSE** as written, House Bill 799-SD1 Relating to Taxation; Section 2:  
Amending Chapter 237, Hawai'i Revised Statutes to temporarily suspend exemption  
for 1) Amounts deducted from the gross income received by contractors as described  
under section 237-13 (3) (B)

Senator Slom:

Mason Architects is a 23 person firm. We have managed to weather the recession without having to let employees go but bills like this one tend to make me think our record may come to an end. We understand the State needs to raise additional revenues as well as to continue to cut cost to balance its budget but this bill will be counter-productive. It will substantially increase the cost of design and construction in the state and kill off much needed work for the construction industry when it needs it most.

The overall impact on the design and construction industry would be very large, because of the well documented "pyramid effect." A gross receipts tax, without key exemptions in place, has a well known escalating effect that creates an extra layer of taxation at each stage of the product and service life cycle. For the design and construction industry this leads to dramatically higher costs.

More savvy owner/developers will work around the pyramiding effect by hiring subcontractors and engineers directly rather than entering into traditional sole source contracts with general contractors and architects. The net effect is more administrative expenses for the owner/developer, greater coordination delays for all involved, greater insurance risk, and no increased tax revenue for the state. Less savvy owners will either pay the significant higher cost or choose not to move forward with a project if they can wait for the law to expire—eliminating potential work for an industry starved of it.

We encourage you to seek more equitable and effective means of raising revenue in lieu of removing this critical exemption.

Sincerely,

John Fullmer, AIA,  
Vice President

(Home Address: 459 Kawaihae Street, Honolulu, Hawai'i 96825)

1099 Alakea Street, Suite 2400  
Honolulu, Hawaii 96813  
Tel: 808-523-8499  
Fax: 808-533-0226  
www.browncaldwell.com

LATE

March 22, 2011

**Brown** AND  
**Caldwell**

**Senate Committee on Economic Development and Technology**  
**Hearing Date: Wednesday, March 23, 1:15 p.m., Conference Room 016**

Honorable Senators Carol Fukunaga, Chair; Glenn Wakai, Vice Chair; and Members of the Senate Committee on Economic Development and Technology

Subject: **HB 799, HD 1, Relating to Taxation**  
**TESTIMONY IN OPPOSITION**

Dear Chair Fukunaga, Vice Chair Wakai, and Committee Members:

**Brown and Caldwell strongly OPPOSES HB 799, HD 1, Relating to Taxation, in particular the portion of the bill (Section 2 (1)) related to gross income by contractors.** The definition of “contractor” includes engineers, architects and other design professionals licensed under Section 464-1, HRS.

The bill implies that prime contractors have been receiving an “exemption” from some portion of their income. This is not the case. HAR §18-237-13-03 simply ensures that the General Excise Tax (GET) is not applied twice to the same income. HAR §18-237-13-03 allows that if a prime contractor hires a subcontractor, and the subcontractor pays the GET, then the prime contractor does not pay GET on the project income that goes to the subcontractor. For example, if the State pays a civil engineer \$100,000 to design a project, and the civil engineer in turn subcontracts the geotechnical engineering services for \$30,000 and land surveying services for \$20,000, the civil “prime” contractor pays GET on \$50,000, while the geotechnical engineer and land surveyor pay GET on their income. Under the proposed change, the civil engineer prime would pay GET on the full \$100,000, essentially double taxing the \$50,000 allocated to the subcontractors, and forcing the prime contractor to pay taxes on income they did not receive.

In this time of economic stress for all involved in the construction business, this proposal will only further burden struggling design professionals and contractors. In addition to forcing these businesses to pay tax on income they don’t receive, the proposal has a number of other far-reaching implications:

1. Large out-of-state businesses that bid in Hawaii projects may be less likely to utilize small business from Hawaii, so they can avoid this duplication of taxes.
2. Prime Architect-Engineering firms assist their clients by subcontracting specialty services, such as geotechnical engineering, land surveying, etc. If the prime contractor is forced to pay double taxes on those services, they may request the client to contract those specialty services directly, increasing the administrative burden and risk exposure for the client, and inhibiting the benefits of having the design team collaborate under one contract.
3. Taxes are one of the expenses contractors pass on to their clients. This measure would add to the cost of building and construction for the owners of these projects, including State projects.

Due to the many negative outcomes described above, we strongly urge you to hold this bill. Thank you for the opportunity to provide testimony regarding this measure. Please let me know if you have any questions regarding our testimony.

Very truly yours,

Brown and Caldwell



Douglas B. Lee, P.E.  
Vice President



March 22, 2011

**Senate Committee on Economic Development and Technology  
Hearing Date: Wednesday, March 23, 1:15 p.m., Conference Room 016**

Honorable Senators Carol Fukunaga, Chair; Glenn Wakai, Vice Chair; and Members of the Senate Committee on Economic Development and Technology

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In this time of economic stress for all involved in the construction business, this proposal will only further burden struggling design professionals and contractors. In addition to forcing these businesses to pay tax on income they don't receive, the proposal has a number of other far-reaching implications:


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HB 779, HD-1 Relating to Taxation  
Page 2  
March 22, 2011

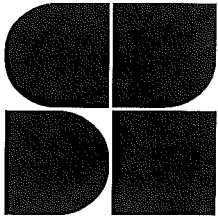
3. Taxes are one of the expenses contractors pass on to their clients. This measure would add to the cost of building and construction for the owners of these projects, including State projects.

Due to the many negative outcomes described above, we strongly urge you to hold this bill. Thank you for the opportunity to provide testimony regarding this measure. Please let me know if you have any questions regarding our testimony.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Anson M. Murayama", with a long horizontal flourish extending to the right.

Anson M. Murayama, R.E.  
Chief Executive Officer



# SHIGEMURA, LAU, SAKANASHI, HIGUCHI AND ASSOCIATES, INC.

March 22, 2011

EMAILED TESTIMONY TO: [EDTTestimony@Capitol.hawaii.gov](mailto:EDTTestimony@Capitol.hawaii.gov)

**LATE**

**Senate Committee on Economic Development and Technology**  
**Hearing Date: Wednesday, March 23, 1:15 p.m., Conference Room 016**

Howard K.C. Lau  
Craig H. Sakanashi  
Wayne K. Higuchi  
Beverly Ishii-Nakayama

Honorable Senators Carol Fukunaga, Chair; Glenn Wakai, Vice Chair; and Members of the Senate Committee on Economic Development and Technology

**Subject: HB 799, HD 1, Relating to Taxation**  
**TESTIMONY IN OPPOSITION**

Dear Chair Fukunaga, Vice Chair Wakai, and Committee Members:

Shigemura, Lau, Sakanashi, and Higuchi & Associates (SLSH), a Hawaii-owned and --operated small business engineering firm, is **in strong opposition of HB 799, HD1, Relating to Taxation, in particular the portion of the bill (Section 2 (1)) related to gross income by contractors.** The definition of "contractor" includes engineers, architects and other design professionals licensed under Section 464-1, HRS.

The bill implies that prime contractors have been receiving an "exemption" from some portion of their income. This is not the case. HAR §18-237-13-03 simply ensures that the GET is not applied twice to the same income. HAR §18-237-13-0 allows that if a prime contractor hires a subcontractor, and the subcontractor pays the GET, then the prime contractor does not pay GET on the project income that goes to the subcontractor. For example, if the State pays a civil engineer \$100,000 to design a project, and the civil engineer in turn subcontracts the geotechnical engineering services for \$20,000 and environmental engineering services for \$10,000, the civil "prime" contractor pays GET on \$70,000, while the geotechnical and environmental engineers pay GET on their income. Under the proposed change, the civil engineer prime would pay GET on the full \$100,000, essentially double-taxing the \$30,000 allocated to the subcontractors, and forcing the prime contractor to pay taxes on income they did not receive.

In this time of economic stress for all involved in the construction business, this proposal will only further burden struggling design professionals and contractors. In addition to forcing these businesses to pay tax on income they don't receive, the proposal has a number of other far-reaching implications:

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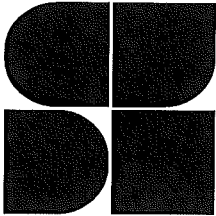
Due to the many negative outcomes described above, we strongly urge you to hold this bill. Thank you for the opportunity to provide testimony regarding this measure. Please let me know if you have any questions regarding our testimony.

We appreciate the opportunity to provide testimony regarding this measure. Please do not hesitate to contact us if you have any questions regarding our testimony.

Respectfully submitted,

Beverly K. Ishii-Nakayama  
Principal





# SHIGEMURA, LAU, SAKANASHI, HIGUCHI AND ASSOCIATES, INC.

March 22, 2011

EMAILED TESTIMONY TO: [EDTTestimony@Capitol.hawaii.gov](mailto:EDTTestimony@Capitol.hawaii.gov)

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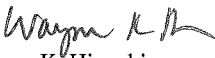
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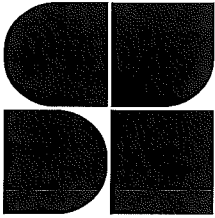
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Respectfully submitted,

  
Wayne K. Higuchi  
Principal

CONSULTING STRUCTURAL ENGINEERS



# SHIGEMURA, LAU, SAKANASHI, HIGUCHI AND ASSOCIATES, INC.

March 22, 2011

EMAILED TESTIMONY TO: [EDTTestimony@Capitol.hawaii.gov](mailto:EDTTestimony@Capitol.hawaii.gov)

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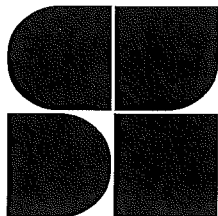
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Respectfully submitted,

Howard K.C. Lau  
President

CONSULTING STRUCTURAL ENGINEERS



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March 22, 2011

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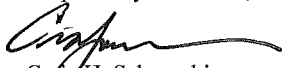
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Respectfully submitted,

  
Craig H. Sakanashi  
Principal

CONSULTING STRUCTURAL ENGINEERS

March 22, 2011

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Respectfully submitted,

C. Michael Street, PE  
Project Manager





501 Sumner Street  
Suite 620  
Honolulu, Hawaii 96817  
Phone: (808) 531-1308  
Fax: (808) 521-7348  
[www.ssfm.com](http://www.ssfm.com)

22 March 2011 (revised)

**LATE**

**Senate Committee on Economic Development and Technology  
Hearing Date: Wednesday, March 23, 1:15 p.m., Conference Room 016**

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The bill implies that prime contractors have been receiving an “exemption” from some portion of their income. This is not the case. HAR §18-237-13-03 simply ensures that the GET is not applied twice to the same income. HAR §18-237-13-0 allows that if a prime contractor hires a subcontractor, and the subcontractor pays the GET, then the prime contractor does not pay GET on the project income that goes to the subcontractor. For example, if the State pays a civil engineer \$100,000 to design a project, and the civil engineer in turn subcontracts the geotechnical engineering services for \$20,000 and environmental engineering services for \$10,000, the civil “prime” contractor pays GET on \$70,000, while the geotechnical and environmental engineers pay GET on their income. Under the proposed change, the civil engineer prime would pay GET on the full \$100,000, essentially double-taxing the \$30,000 allocated to the subcontractors, and forcing the prime contractor to pay taxes on income they did not receive.

In this time of economic stress for all involved in the construction business, this proposal will only further burden struggling design professionals and contractors.

Due to the many negative outcomes described above, we strongly urge you to hold this bill. Thank you for the opportunity to provide testimony regarding this measure. Please let me know if you have any questions regarding our testimony.

Respectfully submitted,

SSFM INTERNATIONAL, INC.

Michael P. Matsumoto, P.E., FACEC  
President/CEO

March 23, 2011

LATE



HEARING BEFORE THE  
SENATE COMMITTEE ON ECONOMIC DEVELOPMENT  
AND TECHNOLOGY

2343 Rose Street • Honolulu, Hawaii 96819  
Phone: (808) 848-2074 • Neighbor-Islands: (800) 482-1272  
Fax: (808) 848-1921 • Email: [info@hfbf.org](mailto:info@hfbf.org)  
[www.hfbf.org](http://www.hfbf.org)

RE: HB 799 HD1  
RELATING TO TAXATION

Chair Fukunaga, Vice Chair Wakai and Members of the Committee:

General Excise Tax places Hawaii at a competitive disadvantage to exporting states that do not levy GET. Most states levy a sales tax that is collected from the ultimate consumer of products fostering wholesale interstate competition. Moreover, most states have exemptions for food products.

According to Wikipedia: "An unusual example of an excise tax is found in the State of Hawaii. In lieu of a sales tax, the State of Hawaii imposes a General Excise Tax, or GET, on all business activity in the State. The GET is charged at a rate of 4% for most businesses and 0.5% for wholesalers. The tax is imposed on all business entities; so in essence, the tax is collected at every level of production (material supplier to manufacturer to wholesaler to retailer.)"

**Our members are concerned that HB 799 HD 1 proposes suspending GET exemptions on the following:**

- (6) Amounts received by sugarcane producers as described under section 237-24(14);
- (7) Amounts received from the loading, transportation, and unloading of agricultural commodities shipped interisland as described under section 237-24.3(1);

If this legislation were to pass, taxes on transportation of the aforementioned products and revenue derived from sugar production would increase to 4% by 2014.

**HFBF asks that these exemptions be retained and stricken from this legislation.**

These additional costs will inevitably be passed on to consumers. It is important to highlight that these increased taxes will hurt the most vulnerable in our society.

Since consumers will be incentivized by cheaper pricing to choose mainland imports over locally produced foodstuffs, local farm and ranch product sales will decline, leading to cascading effect of unemployment and eventual reduction in tax revenue. These newly unemployed will soon be on the welfare rolls necessitating increased social spending.

Ideally, Hawaii should be focused on creating an economic environment in which the cost of production of local products is more competitive in the marketplace, not less. More locally produced food will lead to increased employment, food security, environmental, economic and social sustainability, open space preservation that beckons tourists, and will reduce the probability of introduction of invasive species hitchhiking in shipments of imports.

We understand that the increased cost is offset by the continuation of benefits and services provided by our State agencies in education, crop certification and crop protections. While HFBF and the agricultural community are cognizant of the need for the state to increase revenue, we choose our political leaders based in part, on their long-range vision. Shortsightedness in imposing burdensome tax policy will inevitably damage or stall our economy. The result will be application of additional pressure to increase social spending and will not achieve the common goal of a vigorous economy.

Thank you for the opportunity to offer comments to HB 799 HD 1.

Chris Manfredi  
Hawaii Farm Bureau Federation



March 22, 2011

**VIA FACSIMILE - 586-6659**

**Senate Committee on Economic Development and Technology  
Hearing Date: Wednesday, March 23, 1:15 p.m., Conference Room 016**



Honorable Senators Carol Fukunaga, Chair; Glenn Wakai, Vice Chair; and  
Members of the Senate Committee on Economic Development and Technology



**Subject: HB 799, HD 1, Relating to Taxation  
TESTIMONY IN OPPOSITION**

Dear Chair Fukunaga, Vice Chair Wakai, and Committee Members:

**Our company strongly OPPOSES HB 779, HD 1, Relating to Taxation, in particular the portion of the bill (Section 2 (1)) related to gross income by contractors. The definition of "contractor" includes engineers, architects and other design professionals licensed under Section 464-1, HRS.**

The bill implies that prime contractors have been receiving an "exemption" from some portion of their income. This is not the case. HAR §18-237-13-03 simply ensures that the GET is not applied twice to the same income. HAR §18-237-13-0 allows that if a prime contractor hires a subcontractor, and the subcontractor pays the GET, then the prime contractor does not pay GET on the project income that goes to the subcontractor. For example, if the State pays a civil engineer \$100,000 to design a project, and the civil engineer in turn subcontracts the geotechnical engineering services for \$20,000 and environmental engineering services for \$10,000, the civil "prime" contractor pays GET on \$70,000, while the geotechnical and environmental engineers pay GET on their income. Under the proposed change, the civil engineer prime would pay GET on the full \$100,000, essentially double-taxing the \$30,000 allocated to the subcontractors, and forcing the prime contractor to pay taxes on income they did not receive.

In this time of economic stress for all involved in the construction business, this proposal will only further burden struggling design professionals and contractors. In addition to forcing these businesses to pay tax on income they don't receive, the proposal has a number of other far-reaching implications:

1. Large out-of-state businesses that bid on Hawaii projects may be less likely to utilize small business from Hawaii, so they can avoid this duplication of taxes.
2. Prime Architect-Engineering firms assist their clients by subcontracting specialty services, such as geotechnical, environmental, landscape architecture, surveying, etc. If the prime contractor is forced to pay double taxes on those services, they may request the client to contract those specialty services directly, increasing the administrative burden and risk exposure for the client, and inhibiting the benefits of having the design team collaborate under one contract.
3. Taxes are one of the expenses contractors pass on to their clients. This measure would add to the cost of building and construction for the owners of these projects, including State projects.

Due to the many negative outcomes described above, we strongly urge you to hold this bill. Thank you for the opportunity to provide testimony regarding this measure. Please let me know if you have any questions regarding our testimony.

Respectfully submitted,

DAVID B. BILLS, President



**AUSTIN, TSUTSUMI & ASSOCIATES, INC.**

CIVIL ENGINEERS • SURVEYORS

CONTINUING THE ENGINEERING PRACTICE FOUNDED BY H. A. R. AUSTIN IN 1934

KENNETH K. KUROKAWA, P.E.  
TERRANCE S. ARASHIRO, P.E.  
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March 22, 2011

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In this economically down times, this bill will further burden struggling businesses, and create another argument that Hawaii is a bad place for business and investment. As a professional design business we will pass on these expenses to the client, who is often our very own State government.

We represent nearly 60 employees on 3 different islands. Due to the argument presented above, we strongly urge you to hold this bill. Thank you for the opportunity to provide testimony regarding this measure. Please let me know if you have any questions regarding our testimony.

Respectfully submitted,

  
Kenneth K. Kurokawa, P.E.  
President



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Respectfully submitted,

Terrance S. Arashiro  
Senior Vice President

**LATE**



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Dear Chair Fukunaga, Vice Chair Wakai, and Committee Members:

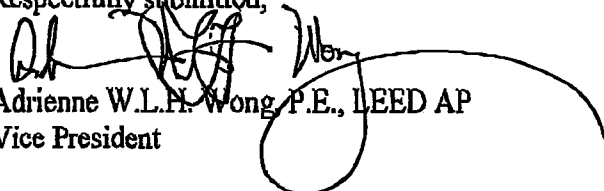
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Respectfully submitted,

  
Adrienne W.L.H. Wong, P.E., LEED AP  
Vice President



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Respectfully submitted,

Ivan Nakatsuka  
 Vice President





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**LATE**

March 22, 2011

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Respectfully submitted,

Donohue Fujii  
 Vice President

REPLY TO:  
 301 SUMNER STREET, SUITE 521 • HONOLULU, HAWAII 96817-5031  
 PHONE (808) 522-3648 • FAX (808) 526-1267  
 EMAIL: aiahn@atahawaii.com

OFFICES IN:  
 HONOLULU, HAWAII  
 WAILUKU, MAUI, HAWAII  
 HILO, HAWAII





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March 22, 2011

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Respectfully submitted,

DeAnna Hayashi  
 Assistant Chief Engineer

REPLY TO:  
 501 BURNER STREET, SUITE 521 • HONOLULU, HAWAII 96817-5031  
 PHONE (808) 533-3646 • FAX (808) 526-1267  
 EMAIL : atahrvl@atahawaii.com

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AUSTIN, TSUTSUMI &amp; ASSOCIATES, INC.

CIVIL ENGINEERS • SURVEYORS

CONTINUING THE ENGINEERING PRACTICE FOUNDED BY H. A. R. AUSTIN IN 1884

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March 22, 2011

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Respectfully submitted,

Davin Hironaka  
 Controller



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**Austin, Tsutsumi & Associates, Inc. strongly OPPOSES HB 799, HD 1, Relating to Taxation, in particular the portion of the bill (Section 2 (1)) related to gross income by contractors. The definition of "contractor" includes engineers, architects and other design professionals licensed under Section 464-1, HRS.**

The bill implies that prime contractors have been receiving an "exemption" from some portion of their income. This is not the case. HAR §18-237-13-03 simply ensures that the GET is paid by the appropriate party, and that double taxation on the same income does not occur. HAR §18-237-13-0 allows that if a prime contractor hires a subcontractor, and the subcontractor pays the GET, then the prime contractor does not pay GET on the project income that goes to the subcontractor. For example, if the State pays a civil engineer \$100,000 to design a roadway project, and the civil engineer in turn subcontracts the geotechnical engineering services for \$20,000 and environmental engineering services for \$10,000, the civil "prime" contractor pays GET on \$70,000, while the geotechnical and environmental engineers pay GET on their income. Under the proposed change, the civil engineer prime would pay GET on the full \$100,000, essentially double-taxing the \$30,000 allocated to the subcontractors, and forcing the prime contractor to pay taxes on income they did not receive. This is different from an exemption from paying taxes and we question the legality of this measure.

In this economically down times, this bill will further burden struggling businesses, and create another argument that Hawaii is a bad place for business and investment. As a professional design business we will pass on these expenses to the client, who is often our very own State government.

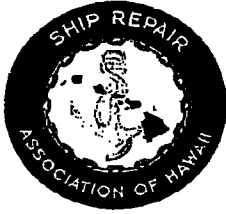
We represent nearly 60 employees on 3 different islands. Due to the argument presented above, we strongly urge you to hold this bill. Thank you for the opportunity to provide testimony regarding this measure. Please let me know if you have any questions regarding our testimony.

Respectfully submitted,

Jared Mimura, P.E.

REPLY TO:  
 901 SUMNER STREET, SUITE 521 • HONOLULU, HAWAII 96817-5031  
 PHONE (808) 533-3646 • FAX (808) 536-1267  
 EMAIL : atahnl@atahawaii.com

OFFICES IN:  
 HONOLULU, HAWAII  
 WAILUKU, MAUI, HAWAII  
 HILO, HAWAII

**LATE**

## **Ship Repair Association of Hawaii**

*P.O. BOX 29001, Honolulu HI 96820*

23 March 2011

The Honorable Senator Carol Fukunaga, Chair  
The Honorable Senator Glenn Wakai, Vice Chair  
Senate Committee on Economic Development and Technology

Hawaii State Capitol, Conference Room 016  
415 South Beretania Street  
Honolulu, HI 96813

Dear Chair Fukunaga, Vice Chair Wakai and Members of the Committee:

On behalf of the Ship Repair Association of Hawaii (SRAH), I am submitting this written testimony in response to House Bill 799, HD 1. The Ship Repair Association of Hawaii strongly opposes the suspension of the General Excise Tax (GET) exemption proposed by Section 2 (a) (19) and the imposition of tax proposed by Section 2 (b), pertaining to;

*...Gross proceeds received from shipbuilding and ship repairs as described under section 237-28.1;*

The ship repair industry in Hawaii has been fighting to maintain our industrial base since the mid 1990s. Owing to a number of unique economic factors that exist in Hawaii, our industry struggles to keep Hawaii's military and commercial home ported vessels in the State for ship modernization and repair requirements. Hawaii is the only Island State in the Union. We have a unique, encapsulated economy which restricts our ability to import the material and resources necessary to maintain our industry.

Because of our encapsulated economy and the resultant costs of having to ship all material needed from the mainland, along with the necessity to provide an appropriate and livable wage to our skilled island workforce, the Hawaii ship repair industry is, and has been, at a significant cost competitive disadvantage with mainland and foreign repair entities for years. Compounding the matter are the challenges of fluctuating workflows in the marine industry and the difficulties of recruiting, training and retaining the skilled workforce necessary to perform marine repairs.

It is worthy to note that the U.S. Navy is pressed through intense necessity, to reduce ship repair costs for work conducted on U.S. Navy ships, including those home ported in Pearl Harbor. To that end, the Navy instituted the Multi-Ship Multi-Option (MSMO) contracting concept to consolidate commercially contracted Pearl Harbor surface ship repairs under central (prime contractor) management, with a principal goal of improving the cost effectiveness of ship maintenance.

As a near term example of the undermining effect removing the GET exemption and imposing a tax would have on our industry in Hawaii: SRAH and MSMO contractors are working to maintain the Navy's commitment to conduct Navy Aegis Cruiser (CG) and Guided Missile

Destroyer (DDG) modernizations and upgrades here in Pearl Harbor over the next 10 years. The first such conversion is in progress now aboard USS CHOSIN in Pearl Harbor Naval Shipyard. If the Navy were required to pay GET on these projects, the added costs to the Navy would constitute a substantial element on the side of the ledger in favor of relocating these maintenance availabilities – and other significant Navy ship repair availabilities planned to take place - to the West Coast of the U.S.

Hawaii based Coast Guard vessels are similarly pressed, and have already opted to conduct a number of scheduled maintenance availabilities on the West Coast in recent years, predicated on cost differential. Our association continues to take cost-limiting measures to remain in the running to service Coast Guard, U.S. Army and other government marine vessels here in Hawaii. Imposing GET on our ship repairs would further exacerbate the challenges we face, resulting in further lost work and lost revenue for our industry and this State.

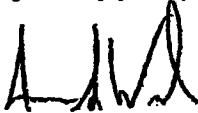
Similarly, with respect to commercial operators, we see the effects of this cost analysis on large repair projects where commercial operators are not as impacted by the politics of their decisions. As is stands, we have seen these operators take their vessels to the mainland or to foreign competitors. Imposing a GET on ship repair will further exacerbate this dilemma.

Our ship repair businesses are significantly engaged in critical industrial services to our community, including electric motor and generator repairs and service; welding and metal manufacturing and repairs; ventilation and air conditioning, among others. Imposing a GET on the ship repair portions of our businesses would critically impact them in an already difficult economy, constituting a very real threat to a unique component of our community's fragile industrial base.

The employees and families of our Ship Repair Association of Hawaii constitute a significant industrial benefit to our community, with sound skills, technology and employment, good wages and a positive input to the State's tax base. Their jobs and the taxes they pay – as well as the substantial taxes our companies pay on the non-ship repair revenues of our businesses - would all be imperiled by imposing GET on ship repair in Hawaii.

Representing the SRAH, we ask you to delete existing Shipbuilding and Ship Repair GET exemptions from the range of exemptions proposed for suspension and tax imposition by this bill.

Respectfully yours,



Iain S. Wood, President  
Ship Repair Association of Hawaii

### Member Firms

AMSEC LLC Airgas Gaspro American Industrial Insulation Anawati & Associates Arise Waco Scaffolding  
BAE Hawaii Shipyards C & S Services Dresser-Rand Hawaii Marine Cleaning Honolulu Marine, LLC  
HSI-Electric Boat HSI Mechanical, Inc. International Paint IMIA, LLC JCI Metal Products Jo-Kell, Inc  
Kratos Defense & Security Solutions Marisco, Ltd. NSC Technologies Oceaneering  
Pacific Shipyards International Phoenix International Potter Electric, Inc Propulsion Control Engineering

March 22, 2011

**Senate Committee on Economic Development and Technology**  
**Hearing Date: Wednesday, March 23, 1:15 p.m., Conference Room 016**



Honorable Senators Carol Fukunaga, Chair; Glenn Wakai, Vice Chair; and Members of the Senate Committee on Economic Development and Technology

Subject: **HB 799, HD 1, Relating to Taxation**  
**TESTIMONY IN OPPOSITION**

Dear Chair Fukunaga, Vice Chair Wakai, and Committee Members:

**Our company strongly OPPOSES HB 779, HD 1, Relating to Taxation, in particular the portion of the bill (Section 2 (1)) related to gross income by contractors.** The definition of “contractor” includes engineers, architects and other design professionals licensed under Section 464-1, HRS.

The bill implies that prime contractors have been receiving an “exemption” from some portion of their income. This is not the case. HAR §18-237-13-03 simply ensures that the GET is not applied twice to the same income. HAR §18-237-13-0 allows that if a prime contractor hires a subcontractor, and the subcontractor pays the GET, then the prime contractor does not pay GET on the same income. For example, if the State pays a civil engineer \$100,000 to design a project, and the civil engineer in turn subcontracts the geotechnical engineering services for \$20,000 and environmental engineering services for \$10,000, the civil “prime” contractor pays GET on \$70,000, while the geotechnical and environmental engineers pay GET on their income. Under the proposed change, the civil engineer prime would pay GET on the full \$100,000, essentially double-taxing the \$30,000 allocated to the subcontractors, and forcing the prime contractor to pay taxes on income they did not receive.

In this time of economic stress for all involved in the construction business, this proposal will only further burden struggling design professionals and contractors. In addition to forcing these businesses to pay tax on income they don’t receive, the proposal has a number of more far-reaching implications:

1. Large out-of-state businesses that bid on Hawaii projects may be less likely to utilize small business from Hawaii, so they can avoid this duplication of taxes.
2. Prime Architect-Engineering firms assist their clients by subcontracting specialty services, such as geotechnical, environmental, landscape architecture, surveying, etc. If the prime contractor is forced to pay double taxes on those services, they may request the client to contract those specialty services directly, increasing the administration burden and risk exposure for the client, and inhibiting the benefits of having the design team collaborate under one contract.
3. Taxes are one of the expenses contractors pass on to their clients. This measure would add to the cost of building and construction for the owners of these projects, including the State.

Due to these far-reaching negative outcomes described above, we strongly urge you to hold this bill. Thank you for the opportunity to provide testimony regarding this measure. Please let me know if you have any questions regarding our testimony.

Respectfully submitted,

Kennedy/Jenks Consultants

Janice Marsters, Ph.D., LEED AP  
Senior Environmental Engineer





**From:** [fukunaga3 - Devin](#)  
**To:** [EDTestimony](#)  
**Subject:** FW: HB799  
**Date:** Tuesday, March 22, 2011 11:25:38 PM

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**From:** RON SATO <[satos004@hawaii.rr.com](mailto:satos004@hawaii.rr.com)>  
**Date:** Tue, 22 Mar 2011 20:44:50 -1000  
**To:** Carol Fukunaga <[senfukunaga@capitol.hawaii.gov](mailto:senfukunaga@capitol.hawaii.gov)>  
**Subject:** HB799

Ms Fukunaga

My name is ron sato and am a small business flooring contractor who deals with general contractors  
In regards to the bill please vote no  
You did it before so please continue

Thanks in advance

Ron sato



**From:** [fukunaga3 - Devin](#)  
**To:** [EDTestimony](#)  
**Subject:** FW: HB 799, HD 1 - Relating to Taxation  
**Date:** Tuesday, March 22, 2011 11:25:54 PM

---

**From:** "Fujikawa, Sam" <[FujikawaSam@contmech.com](mailto:FujikawaSam@contmech.com)>  
**Date:** Tue, 22 Mar 2011 19:22:22 -1000  
**To:** Carol Fukunaga <[senfukunaga@capitol.hawaii.gov](mailto:senfukunaga@capitol.hawaii.gov)>  
**Subject:** HB 799, HD 1 - Relating to Taxation

As a subcontractor, I am very much against this bill. It is just not fair.

Please do what you can to delete the subcontractor exemption repeal from the bill.

Thank you very much!  
Samuel T. Fujikawa, RME  
Chief Executive Officer  
Continental Mechanical of the Pacific

Cell: 808-478-2680  
Bus: 808-846-4228  
Fax: 808-846-4218



**From:** [fukunaga3 - Devin](#)  
**To:** [EDTestimony](#)  
**Subject:** FW: HB 799, HD1  
**Date:** Tuesday, March 22, 2011 11:56:46 PM

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**From:** Carine Foo <[carine@pacelectric.com](mailto:carine@pacelectric.com)>  
**Date:** Tue, 22 Mar 2011 22:14:58 -1000  
**To:** Carol Fukunaga <[senfukunaga@capitol.hawaii.gov](mailto:senfukunaga@capitol.hawaii.gov)>  
**Subject:** HB 799, HD1

Dear Senator Fukunaga,

PAC Electric is an electrical contractor. We are humbly ask you to consider not to remove the current subcontractor exemption as suggested in bill HB 799, HD1. This bill will increase our cost of business. Without the exemption, we will pay 4% additional tax on work done by our sub-contractor and sub-sub contractor

The economy has not improved and competition has getting more intense. We have been tighten our pricing in order to obtain business to keep the company going. Our profit margin is at minimum and sometimes it is not enough to cover overhead. Our company simply cannot bear any additional cost. Any additional cost will drive us out of business. All our employees will join the unemployment wagon if we close business.

Please help the contractors in Hawaii. We need to survive.

Sincerely,  
Carine Foo  
PAC Electric Co., Inc.  
3375 Koapaka St. Ste F281  
Honolulu, HI 96819  
Phone: (808) 839-8099  
Fax: (808) 833-5798

LATE

**BIA-HAWAII**  
BUILDING INDUSTRY ASSOCIATION

March 23, 2011

Senator Carol Fukunaga, Chair  
Committee on Economic Development and Technology  
State Capitol, Room 016  
Honolulu, Hawaii 96813

RE: HB799, HD! Relating to Taxation

Dear Chair Fukunaga and Members of the Committee on Economic Development and Technology:

I am Karen Nakamura, Chief Executive Officer of the Building Industry Association of Hawaii (BIA-Hawaii). Chartered in 1955, the Building Industry Association of Hawaii is a professional trade organization affiliated with the National Association of Home Builders, representing the building industry and its associates. BIA-Hawaii takes a leadership role in unifying and promoting the interests of the industry to enhance the quality of life for the people of Hawaii.

BIA-Hawaii recognizes the difficult position of the Legislature in trying to find ways to address the projected budget deficit, but we wish to point out that suspending or eliminating certain exemptions and deductions may negatively impact the economy. The biggest factor for the construction industry, especially home builders, is the suspension of the subcontractor deduction.

According to the March 21, 2011 Star-Advertiser article, contractors face the deepest bite. The loss of a subcontractor deduction could increase their tax burden by \$33.3 million in fiscal year 2012, \$85.7 million in fiscal year 2013, \$123.7 million in fiscal year 2014 and \$145.6 million in fiscal year 2015. To bring this closer to home for home builders, one of our contractor members estimates that the elimination of the subcontractor deduction could add another \$18,000 to the cost of a home. National studies have shown that, for every \$1,000 that is added to the cost of a home, 1,200 people will not be able to qualify for a home.

The deduction allows primary contractors to deduct amounts paid to subcontractors from gross receipts when calculating their GET burden. If the deduction were removed, the GET would be applied to both the gross receipts of primary contractors and the amount paid to subcontractors working on projects

As for the suspension of the exemption for non-profit organizations, if BIA-Hawaii were taxed on its gross revenues and did not have this exemption, we would be taxed \$84,000 per year. BIA-Hawaii, like most non-profits, would have to make further budget cuts which it can ill afford. Is government making the same sacrifices?

In your deliberations on this bill, we ask that you carefully weigh the negative impacts on the non-profits and on the State in general. We know that your task is one of the most difficult things you will encounter in your careers in government

Thank you for the opportunity to share our views with you.

A handwritten signature in black ink that reads "Karen I. Nakamura". The signature is written in a cursive style with a large initial 'K'.

Chief Executive Officer

BIA-Hawaii



**From:** [mailinglist@capitol.hawaii.gov](mailto:mailinglist@capitol.hawaii.gov)  
**To:** [EDTTestimony](#)  
**Cc:** [dadams@dlaa.com](mailto:dadams@dlaa.com)  
**Subject:** Testimony for HB799 on 3/23/2011 1:15:00 PM  
**Date:** Wednesday, March 23, 2011 4:44:29 AM

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Testimony for EDT 3/23/2011 1:15:00 PM HB799

Conference room: 016  
Testifier position: oppose  
Testifier will be present: No  
Submitted by: David L. Adams, P.E.  
Organization: D. L. Adams Associates, Ltd.  
Address:  
Phone:  
E-mail: [dadams@dlaa.com](mailto:dadams@dlaa.com)  
Submitted on: 3/23/2011

Comments:

What an absolutely terrible idea. Double taxation is not right. Prime consultants and design professionals should not have to pay GET on monies received that are then paid to their sub-consultants for work performed. If this passes that is exactly what will happen. The prime consultant/design is taxed on the money and then the sub-consultant is taxed on the same money again. What a terrible idea. You should be trying to draw more small businesses (architects and engineers) to the state not drive them away. Please do not vote for this bill. It is wrong,





THE LIMTIACO CONSULTING GROUP  
CIVIL ENGINEERING AND ENVIRONMENTAL CONSULTANTS

March 22, 2011

EMAIL: Send testimony [EDTTestimony@Capitol.hawaii.gov](mailto:EDTTestimony@Capitol.hawaii.gov)

**Senate Committee on Economic Development and Technology**  
**Hearing Date: Wednesday, March 23, 1:15 p.m., Conference Room 016**

Honorable Senators Carol Fukunaga, Chair; Glenn Wakai, Vice Chair; and Members of the Senate Committee on Economic Development and Technology

Subject: HB 799, HD 1, Relating to Taxation  
**TESTIMONY IN OPPOSITION**

Dear Chair Fukunaga, Vice Chair Wakai, and Committee Members:


**Our company strongly OPPOSES HB 779, HD 1, Relating to Taxation, in particular the portion of the bill (Section 2 (1)) related to gross income by contractors.** The definition of “contractor” includes engineers, architects and other design professionals licensed under Section 464-1, HRS.

Simply put, this is double taxation and will penalize prime engineering companies that are trying to keep their staff employed or trying to hire new employees. This bill will be bad for businesses and will limit or possibly reverse employment growth. There are other ways to generate more tax revenue. Penalizing businesses (who hire employees) is not the way to do it.

We strongly urge you to hold this bill.

Thank you for the opportunity to provide testimony regarding HB 799. Please do not hesitate to contact us if you have any questions regarding our testimony.

Best always,  
*The Limtiaco Consulting Group, Inc.*

  
John H. Katahira  
President



## Hawaii Harbors Users Group

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### **HB 799, HD 1 RELATING TO TAXATION**

### **MAR LABRADOR CHAIR HAWAII HARBORS USERS GROUP**

**MARCH 23, 2011**

Gary North  
Executive Director

Mar Labrador  
Horizon-Lines, LLC  
Board Chairman

Vic Angoco  
Matson Navigation Company,  
Inc.  
Board Vice Chair

Douglas Won  
Sause Bros., Inc.  
Board Vice Chair

Glenn Hong  
Young Brothers, Ltd./Hawaiian  
Tug and Barge  
Secretary/Treasurer

Sandi Weir  
NCL America, Inc.

Richard Maxwell  
Aloha Cargo Transport,  
Division of Northland Services,  
Inc.

Kraig Kennedy  
McCabe, Hamilton & Renny Co.,  
Ltd.

Philip MacDougall  
Hawaii Stevedores, Inc.

Lance Tanaka  
Tesoro Hawaii Corporation

Stephanie Ackerman  
The Gas Company

Eric Yoshizawa  
Ameron Hawaii

Nate Lopez  
Hawaiian Cement

Scott Vuillemot  
American Marine

Robert Alm  
Hawaiian Electric Company, Inc.

Steve Kelly  
Kapolei Property Development

Captain Steve Baker  
Hawaii Pilots  
Associate Member

Kim Beasley  
Clean Islands Council  
Associate Member

Chair Fukunaga, Vice Chair Wakai, and Members of the Senate

Committee on Economic Development and Technology:

I am Mar Labrador, testifying on behalf of the Hawaii Harbors Users Group (HHUG), on HB 799 HD1, "A BILL FOR AN ACT RELATING TO TAXATION."

The Hawaii Harbor Users Group (HHUG) is a non-profit maritime transportation industry group comprised of the following key harbor users: Matson Navigation Company, Horizon Lines, LLC, Young Brothers/Hawaii Tug & Barge, Norwegian Cruse Line, Sause Brothers Inc., Aloha Cargo Transport (ACT), Hawaii Stevedores, McCabe Hamilton & Renny Stevedores, Hawaiian Electric Company, Tesoro Hawaii Corporation, The Gas Company, Ameron Hawaii, Hawaiian Cement, American Marine, Kapolei Property Development, the Hawaii Pilots Association, and Clean Islands Council.

This bill suspends, until June 30, 2015, various general excise and use tax exemptions and implements a tax on these items and services. While HHUG recognizes the need for the State of Hawaii to obtain additional income, the removal of the exemptions in the maritime area will markedly impact the cost of goods in the state.

HHUG is very concerned about the suspension of the exemptions for amounts received or accrued from the loading or unloading of cargo (stevedoring services) in Section 2, subsection (a) (9); from tugboat and towage services in Section 2, subsection (a) (10); and from the transportation of pilots or governmental officials and other maritime-related services in Section 2, subsection (a) (11). Because of the complicated array of providers of maritime goods and services, the impact of the removal of these exemptions would be compounded.

The bill similarly proposes to suspend the exemptions that currently exist for amounts received from the loading, transportation and unloading of agricultural commodities shipped interisland in Section 2, subsection (a) (7). The impact of the suspension of these exemptions may be compounded by multiple instances of taxation and, in addition, this new tax burden would be disproportionately borne by groups, i.e., neighbor island farmers and residents, that may already face the most difficult climbs out of the present recession.

The bill also proposes to suspend the exemption that applies to the gross proceeds arising from shipbuilding and ship repairs in Section 2, subsection (a) (19). The suspension of this exemption would increase the cost

of obtaining these services in Hawaii, which could result in a decrease in the demand for such work to be performed in Hawaii.

With these additional taxes, tariffs would increase and as a result the cost of all goods purchased by consumers would increase to cover this expense. With approximately 98% of Hawaii's imported goods passing through our harbors including commercial goods, motor vehicles, construction materials, and fuel, we anticipate that this bill will result in a significant increase in cost to Hawaii's residents and businesses. If this bill proceeds, HHUG urges that the bill be amended to preserve the current exemptions in the maritime area for stevedoring services; tugboat and towage services; pilot transportation; loading, transportation and unloading of agricultural commodities; and shipbuilding and ship repair services.

Thank you for this opportunity to testify.



GOODSILL ANDERSON QUINN & STIFEL

A LIMITED LIABILITY LAW PARTNERSHIP LLP

GOVERNMENT RELATIONS TEAM:  
GARY M. SLOVIN  
ANNE T. HORIUCHI  
MIHOKO E. ITO  
CHRISTINE OGAWA KARAMATSU

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ahoriuchi@goodsill.com  
meito@goodsill.com  
ckaramatsu@goodsill.com

**TO:** Senator Carol Fukunaga  
Chair, Committee on Economic Development and Technology  
Hawaii State Capitol, Room 216  
*Via Email: [EDTTestimony@Capitol.hawaii.gov](mailto:EDTTestimony@Capitol.hawaii.gov)*

**FROM:** Gary M. Slovin

**DATE:** March 23, 2011

**RE:** H.B. 799, H.D. 1 – Relating to Taxation  
Hearing: March 23, 2011 at 1:15 p.m.  
Room 016

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Dear Chair Fukunaga and Members of the Committee on Economic Development and Technology:

I am Gary Slovin, testifying on behalf of PVT Land Company, the owner and operator of the PVT Construction and Demolition Landfill (“PVT”) in Nanakuli. PVT owns and operates Oahu’s only landfill for the disposal of construction and demolition debris.

PVT opposes H.B. 799, H.D.1, insofar as it temporarily suspends exemptions for 1) amounts received by qualified businesses and contractors as part of enterprise zones and 2) amounts received by contractors.

PVT supports companies like Honua, who will take construction and demolition waste feedstock from PVT and generate renewable energy for Hawaiian Electric Company. Our understanding is that Honua’s project would be immediately harmed and placed in jeopardy by suspending exemptions relating to enterprise zone benefits. This would also undermine PVT’s plans to focus on recycling and renewable energy, including the hiring of additional employees for this purpose. Ultimately, by imposing a tax on companies like Honua who should be encouraged, this bill will increase the cost of waste reduction, recycling and renewable energy facilities.

PVT is also concerned that eliminating the exemption for contractors will further harm the construction industry, at a time when tremendous impact has already been felt from

March 23, 2011

Page 2

the economic downturn. This will raise the cost of all construction projects, such as rail, transit-oriented development, shipyard maintenance, as well as commercial and residential building and renovation. It would directly impede the critically important recovery of Oahu's construction industry.

For the above reasons, PVT opposes the suspension and taxing of these exemptions, and respectfully request that they be removed.

Thank you very much for the opportunity to testify on H.B. 799, H.D. 1.

3-23-2011

John L. Hetherington, Associate Member A.I.A.  
73-4428 Mamalahoa Hwy.  
Kailua Kona, HI 96740  
808-938-3498  
johnhetherington13@gmail.com

The Honorable Carol Fukunaga, Chair  
Members of the Committee on the Economic Development and Technology (EDT)  
Hawaii State Senate  
State Capitol  
Honolulu, HI 96813

**Subject: OPPOSE as written, House Bill 799 HD1 Relating to Taxation; Section 2**

Amending Chapter 237, Hawaii Revised Statutes to temporarily suspend exemption for 1) Amounts deducted from the gross income received by contractors as described under section 237-13 (3) (B)

I have been living and working in Hawaii for about 20 years now. I love this state, its people, the land and oceans. I have watched the ups and downs of the economy and our dependency on outside sources to fuel the up periods. The proposed bill would further complicate and make more difficult doing business here in our home. This would not only affect the Architects and Engineers, but also the young couple wanting to build their first home, the families working hard to sustain themselves and their children. On behalf of the more than 800 architect members and other allied design professionals of The American Institute of Architects (AIA), AIA Hawaii State Council, I am writing to OPPOSE HB 799 HD1 on Taxation whose provisions aim to suspend key exemptions currently afforded to significant design and construction efforts in Hawaii, among other key business areas across the state.

The provision within HB 799 HD1 to remove the exemption currently afforded to "contractors" as defined in the Hawaii Revised Statutes (Section 237-13 (03) (B) (i) will specifically cause an adverse effect on our members, and allied engineers, a majority of whom are small businesses in Hawaii.

While this measure is proposed to extract additional revenues to address the state's fiscal crisis, it should be noted that elimination of this specific exemption and others would come at a bad time as the state's economy struggles to come back from the devastation of economic recession. Eliminating the general excise exemptions for temporary gain may have a significantly dire consequence over the long term.

The overall impact on the design and construction industry would be very large, because of the well documented "pyramid effect." A gross receipts tax, without key exemptions in place, has a well known escalating effect that creates an extra layer of taxation at each stage of the product and service life cycle. For the design and construction industry this leads to dramatically higher costs for housing, commercial and industrial structures built for Hawaii businesses, state and city governments and residential homeowners.

We encourage you to seek more economically neutral ways of taxing businesses, and urge you to look deeper at long-term solutions for creating greater efficiencies within the government. This bill has the serious potential of reducing business in a time when Hawaii business needs stimulation. We urge opposition as currently written.

Sincerely,

John L. Hetherington

Copies to:

Senator Glenn Wakai, Vice Chair EDT, Email: [senwakai@capitol.hawaii.gov](mailto:senwakai@capitol.hawaii.gov)  
Senator Rosalyn Baker, Member EDT, Email: [senbaker@capitol.hawaii.gov](mailto:senbaker@capitol.hawaii.gov)  
Senator Malama Solomon, Member EDT, Email: [sensolomon@capitol.hawaii.gov](mailto:sensolomon@capitol.hawaii.gov)  
Senator Sam Slom, Member EDT, Email: [senslom@capitol.hawaii.gov](mailto:senslom@capitol.hawaii.gov)



**From:** [mailinglist@capitol.hawaii.gov](mailto:mailinglist@capitol.hawaii.gov)  
**To:** [EDTTestimony](#)  
**Cc:** [cpalesh@beltcollins.com](mailto:cpalesh@beltcollins.com)  
**Subject:** Testimony for HB799 on 3/23/2011 1:15:00 PM  
**Date:** Wednesday, March 23, 2011 7:48:53 AM

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Testimony for EDT 3/23/2011 1:15:00 PM HB799

Conference room: 016  
Testifier position: oppose  
Testifier will be present: No  
Submitted by: Cheryl Palesh  
Organization: Belt Collins Hawaii Ltd.  
Address:  
Phone:  
E-mail: [cpalesh@beltcollins.com](mailto:cpalesh@beltcollins.com)  
Submitted on: 3/23/2011

Comments:

Amending Chapter 237, Hawaii Revised Statutes to temporarily suspend exemption for 1) Amounts deducted from the gross income received by contractors as described under section 237-13 (3) (B) The provision within HB 799 HD1 to remove the exemption currently afforded to "contractors" as defined in the Hawaii Revised Statutes (Section 237-13 (03) (B) (i) could have an effect contrary to that expected, which is to generate revenue for the State.

In discussions with local construction contractors and suppliers, it has been mentioned that it is less costly to deal directly with off-shore vendors than to pay the pyramid tax applied to local goods and services. In turn, the loss of business by the local firms and vendors many of which are small business concerns results a decrease in their income, further diminishing the State's tax base.

The cost of construction also increases as the tax burden is passed onto the ultimate buyer of the residential home, commercial or industrial structure, and State and local governments in the case of public projects. In the latter case, whatever the State collects in taxes is then just paid back in the final costs of the construction, creating a paperwork burden along the way.

HB 799 HD1 has the serious potential of reducing business in a time when Hawaii business needs stimulation



**Gray • Hong • Nojima & Associates, Inc.**  
CONSULTING ENGINEERS



*Daniel S.C. Hong PE  
Sheryl E. Nojima PhD PE  
Michael H. Nojima PE LEED AP  
Paul T. Matsuda PE LEED AP  
Rusty B. Bungayao  
Gavin Y. Masaki PE LEED AP*

**841 Bishop Street, Suite 1100  
Honolulu, Hawaii 96813-3915  
Telephone: (808) 521-0306  
Fax: (808) 531-8018  
email@grayhongnojima.com**

March 22, 2011

**Senate Committee on Economic Development and Technology  
Hearing Date: Wednesday, March 23, 1:15 p.m., Conference Room 016**

Honorable Senators Carol Fukunaga, Chair; Glenn Wakai, Vice Chair; and Members of the Senate Committee on Economic Development and Technology

Subject: **HB 799, HD 1, Relating to Taxation  
TESTIMONY IN OPPOSITION**

Dear Chair Fukunaga, Vice Chair Wakai, and Committee Members:

**Our company strongly OPPOSES HB 779, HD 1, Relating to Taxation, in particular the portion of the bill (Section 2 (1)) related to gross income by contractors.** The definition of “contractor” includes engineers, architects and other design professionals licensed under Section 464-1, HRS.

The bill implies that prime contractors have been receiving an “exemption” from some portion of their income. This is not the case. HAR §18-237-13-03 simply ensures that the GET is not applied twice to the same income. HAR §18-237-13-0 allows that if a prime contractor hires a subcontractor, and the subcontractor pays the GET, then the prime contractor does not pay GET on the project income that goes to the subcontractor. For example, if the State pays a civil engineer \$100,000 to design a project, and the civil engineer in turn subcontracts the geotechnical engineering services for \$20,000 and environmental engineering services for \$10,000, the civil “prime” contractor pays GET on \$70,000, while the geotechnical and environmental engineers pay GET on their income. Under the proposed change, the civil engineer prime would pay GET on the full \$100,000, essentially double-taxing the \$30,000 allocated to the subcontractors, and forcing the prime contractor to pay taxes on income they did not receive.

In this time of economic stress for all involved in the construction business, this proposal will only further burden struggling design professionals and contractors. In addition to forcing these businesses to pay tax on income they don’t receive, the proposal has a number of other far-reaching implications:

1. Large out-of-state businesses that bid on Hawaii projects may be less likely to utilize small business from Hawaii, so they can avoid this duplication of taxes.
2. Prime Architect-Engineering firms assist their clients by subcontracting specialty services, such as geotechnical, environmental, landscape architecture, surveying, etc. If the prime contractor is forced to pay double taxes on those services, they may request the client to contract those specialty services directly, increasing the administrative burden and risk exposure for the client, and inhibiting the benefits of having the design team collaborate under one contract.
3. Taxes are one of the expenses contractors pass on to their clients. This measure would add to the cost of building and construction for the owners of these projects, including State projects.

Due to the many negative outcomes described above, we strongly urge you to hold this bill. Thank you for the opportunity to provide testimony regarding this measure. Please let me know if you have any questions regarding our testimony.

Respectfully submitted,

Michael Nojima



**Gray • Hong • Nojima & Associates, Inc.**  
CONSULTING ENGINEERS

**LATE**

Daniel S.C. Hong, PE  
Sheryl E. Nojima, PhD, PE  
Michael H. Nojima, PE, LEED AP  
Paul T. Matsuda, PE, LEED AP  
Rusty B. Bungcayao  
Gavin Y. Masako, PE, LEED AP

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Telephone: (808) 521-0306  
Fax: (808) 531-8018  
email@grayhongnojima.com

**Senate Committee on Economic Development and Technology**  
**Hearing Date: Wednesday, March 23, 1:15 p.m., Conference Room 016**

Honorable Senators Carol Fukunaga, Chair; Glenn Wakai, Vice Chair; and Members of the Senate Committee on Economic Development and Technology

**Subject: HB 779, HD 1, Relating to Taxation**  
**TESTIMONY IN OPPOSITION**

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3. Taxes are one of the expenses contractors pass on to their clients. This measure would add to the cost of building and construction for the owners of these projects, including State projects.

Due to the many negative outcomes described above, we strongly urge you to hold this bill. Thank you for the opportunity to provide testimony regarding this measure. Please feel free to contact me should there be questions.

Respectfully submitted,

GRAY, HONG, NOJIMA & ASSOCIATES, INC.

Sheryl E. Nojima, PhD, PE  
President





Ken K. Hayashida, P.E.  
Michael P. Hunnemann, P.E.

**LATE**

March 23, 2011

**Senate Committee on Economic Development and Technology**  
**Hearing Date: Wednesday, March 23, 1:15 p.m., Conference Room 016**

Honorable Senators Carol Fukunaga, Chair; Glenn Wakai, Vice Chair; and Members of the Senate Committee on Economic Development and Technology

Subject: **HB 799, HD 1, Relating to Taxation**  
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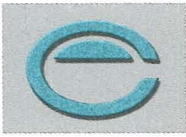
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Due to the many negative outcomes described above, we strongly urge you to hold this bill. Thank you for the opportunity to provide testimony regarding this measure. Please let me know if you have any questions regarding our testimony.

Respectfully submitted,

Ken Hayashida  
KAI Hawaii, Inc.





# ENGINEERING CONCEPTS, INC.

Consulting Engineers

LATE

March 23, 2011

**Senate Committee on Economic Development and Technology**  
**Hearing Date: Wednesday, March 23, 1:15 p.m., Conference Room 016**

Honorable Senators Carol Fukunaga, Chair; Glenn Wakai, Vice Chair; and Members of the Senate Committee on Economic Development and Technology

Subject: **HB 799, HD 1, Relating to Taxation**  
**TESTIMONY IN OPPOSITION**

Dear Chair Fukunaga, Vice Chair Wakai, and Committee Members:

**Engineering Concepts, Inc. strongly OPPOSES HB 799, HD 1, Relating to Taxation, in particular the portion of the bill (Section 2 (1)) related to gross income by contractors.** The definition of “contractor” includes engineers, architects and other design professionals licensed under Section 464-1, HRS.

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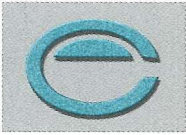
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3. Taxes are one of the expenses contractors pass on to their clients. This measure would add to the cost of building and construction for the owners of these projects, including State projects.

Due to the many negative outcomes described above, we strongly urge you to hold this bill. Thank you for the opportunity to provide testimony regarding this measure. Please let me know if you have any questions regarding our testimony.

Respectfully submitted,

A handwritten signature in black ink that reads "Myron Nomura".

President



**ENGINEERING CONCEPTS, INC.**  
Consulting Engineers

**LATE**

March 23, 2011

**Senate Committee on Economic Development and Technology**  
**Hearing Date: Wednesday, March 23, 1:15 p.m., Conference Room 016**

Honorable Senators Carol Fukunaga, Chair; Glenn Wakai, Vice Chair; and Members of the Senate Committee on Economic Development and Technology

Subject: **HB 799, HD 1, Relating to Taxation**  
**TESTIMONY IN OPPOSITION**

Dear Chair Fukunaga, Vice Chair Wakai, and Committee Members:

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3. Taxes are one of the expenses contractors pass on to their clients. This measure would add to the cost of building and construction for the owners of these projects, including State projects.

Due to the many negative outcomes described above, we strongly urge you to hold this bill. Thank you for the opportunity to provide testimony regarding this measure. Please let me know if you have any questions regarding our testimony.

Respectfully submitted,

*Craig S. Arabachi*

Vice President

1150 South King Street, Suite 700 • Honolulu, Hawaii 96814  
Tel (808) 591-8820 • Fax (808) 591-9010 • E-Mail: [eci@ecihawaii.com](mailto:eci@ecihawaii.com)





**From:** [mailinglist@capitol.hawaii.gov](mailto:mailinglist@capitol.hawaii.gov)  
**To:** [EDTTestimony](#)  
**Cc:** [hiroto@pva.com](mailto:hiroto@pva.com)  
**Subject:** Testimony for HB799 on 3/23/2011 1:15:00 PM  
**Date:** Wednesday, March 23, 2011 9:15:16 AM

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Testimony for EDT 3/23/2011 1:15:00 PM HB799

Conference room: 016  
Testifier position: oppose  
Testifier will be present: No  
Submitted by: HIROTO SUZUKI  
Organization: Peter Vincent Architects  
Address:  
Phone:  
E-mail: [hiroto@pva.com](mailto:hiroto@pva.com)  
Submitted on: 3/23/2011

Comments:

LATE

The Honorable Carol Fukunaga, Chair  
Members of the Committee on the Economic Development and Technology (EDT)  
Hawaii State Senate  
State Capitol  
Honolulu, HI 96813

**Subject: OPPOSE as written, House Bill 799 HD1 Relating to Taxation; Section 2**

Amending Chapter 237, Hawaii Revised Statutes to temporarily suspend exemption for 1) Amounts deducted from the gross income received by contractors as described under section 237-13 (3) (B)

I am a sole proprietor, a licensed architect and have the privilege of living and working in Waimea on the Big Island.

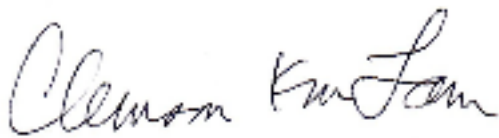
I am writing to OPPOSE HB 799 HD1 on Taxation whose provisions aim to suspend key exemptions currently afforded to significant design and construction efforts in Hawaii, among other key business areas across the state.

The provision within HB 799 HD1 to remove the exemption currently afforded to "contractors" as defined in the Hawaii Revised Statutes (Section 237-13 (03) (B) (i) will specifically cause an adverse effect on my business.

Nearly half my billings go to consultants. I count on this as the only general excise exemption that fits my business. My monthly GE tax would increase significantly and put my net income in a precarious position. It would have the effect of increasing my costs to my clients which I am loath to do.

I urge opposition as currently written.

Sincerely,

A handwritten signature in black ink that reads "Clemson Lam". The signature is written in a cursive, flowing style.

Clemson Lam, AIA

Copies to:

Senator Glenn Wakai, Vice Chair EDT, Email: [senwakai@capitol.hawaii.gov](mailto:senwakai@capitol.hawaii.gov)

Senator Rosalyn Baker, Member EDT, Email: [senbaker@capitol.hawaii.gov](mailto:senbaker@capitol.hawaii.gov)

Senator Malama Solomon, Member EDT, Email: [sensolomon@capitol.hawaii.gov](mailto:sensolomon@capitol.hawaii.gov)

Senator Sam Slom, Member EDT, Email: [senslom@capitol.hawaii.gov](mailto:senslom@capitol.hawaii.gov)

**President**

Sheryl Nojima, P.E., Ph.D.  
Gray Hong Nojima & Assoc.  
Ph: (808) 521-0306

**President-Elect**

Douglas Lee, P.E.  
Brown and Caldwell  
Ph: (808) 523-8499

**Treasurer**

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Austin, Tsutsumi & Assoc.  
Ph: (808) 533-3646

**Secretary**

Mike Street, P.E.  
**Bowers + Kubota Consulting**  
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**Past President**

John Katahira, P.E.  
The Limtiaco Consulting Group  
Ph: (808) 596-7790

**National Director**

Jon Nishimura, P.E.  
Fukunaga & Assoc.  
Ph: (808) 944-1821

**Directors**

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Higuchi & Assoc.  
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Joel Yuen, P.E.

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Ph: (808) 521-3773

Robin Lim, P.E.

Geolabs  
Ph: (808) 841-5064

Ginny M. Wright

Executive Director  
P.O. Box 88840  
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Fx: (808) 234-1721  
Email: [gwright@acechawaii.org](mailto:gwright@acechawaii.org)  
Website: [www.acechawaii.org](http://www.acechawaii.org)

March 23, 2011

**Senate Committee on Economic Development and Technology**  
**Hearing Date: Wednesday, March 23, 1:15 p.m., Conference Room 016**

Honorable Senators Carol Fukunaga, Chair; Glenn Wakai, Vice Chair; and Members of the Senate Committee on Economic Development and Technology

Subject: **HB 799, HD 1, Relating to Taxation**

**TESTIMONY IN OPPOSITION**

Dear Chair Fukunaga, Vice Chair Wakai, and Committee Members:

**ACECH strongly opposes HB 799, HD1, Relating to Taxation.** The American Council of Engineering Companies of Hawaii (ACECH) represents 67 member firms with over 1,300 employees throughout Hawaii, most of which are small businesses. Our member firms are comprised of the most highly qualified engineers, land surveyors, scientists, and other specialists.

The bill proposes temporary suspension of certain general excise tax “exemptions” under HAR §18-237. Section 2, item (1) includes “amounts deducted from the gross income received by contractors as described under HAR §18-237-13(3)(B). Under §18-237-13(3), providers of professional engineering and architectural services are included under their definition of “contractor”.

The bill implies that prime contractors have been receiving an “exemption” from some portion of their income. This is not the case. HAR §18-237-13-03 simply ensures that the GET is not applied twice to the same income. HAR §18-237-13-0 allows that if a prime contractor hires a subcontractor, and the subcontractor pays the GET, then the prime contractor does not pay GET on the project income that goes to the subcontractor.

For example, if the State pays a civil engineer \$100,000 to design a project, and the civil engineer in turn subcontracts the geotechnical engineering services for \$20,000 and environmental engineering services for \$10,000, the civil “prime” contractor pays GET on \$70,000, while the geotechnical and environmental engineers pay GET on their income (totaling \$30,000). Under the proposed change, the civil engineer prime would pay GET on the full \$100,000, essentially double-taxing the \$30,000 allocated to the subcontractors, and forcing the prime contractor to pay taxes on income they did not receive. This unfair situation would be even worse for contractors bidding on large projects, with multiple tiers of subcontractors.

In this time of economic stress for all involved in the construction business, this proposal will only further burden struggling design professionals and contractors. In addition to forcing these businesses to pay tax on income they don’t receive, the proposal has a number of other far-reaching implications:

1. Large out-of-state businesses that bid on Hawaii projects may be less likely to utilize small business from Hawaii, so they can avoid this duplication of taxes.



AMERICAN COUNCIL OF ENGINEERING COMPANIES  
of Hawaii

**President**

Sheryl Nojima, P.E., Ph.D.  
Gray Hong Nojima & Assoc.  
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3. Taxes are one of the expenses contractors pass on to their clients. This measure would add to the cost of building and construction for the owners of these projects, including State projects.

**Due to the many negative outcomes described above, we urge you to hold this bill, or to remove Section 2, Item 1 from the bill.**

Thank you for the opportunity to provide testimony regarding this measure. Please contact us if you have any questions regarding our testimony.

Respectfully submitted,

ACEC Hawaii

Janice Marsters  
Legislative Committee Co-Chair  
(808) 488-0477

1099 Alakea Street, Suite 2400  
Honolulu, Hawaii 96813  
Tel: 808-523-8499  
Fax: 808-533-0226  
www.browncaldwell.com

**LATE**

**Brown** AND  
**Caldwell**

March 23, 2011

**Senate Committee on Economic Development and Technology**  
**Hearing Date: Wednesday, March 23, 1:15 p.m., Conference Room 016**

Honorable Senators Carol Fukunaga, Chair; Glenn Wakai, Vice Chair; and Members of the Senate Committee on Economic Development and Technology

**Subject: HB 799, HD 1, Relating to Taxation - TESTIMONY IN OPPOSITION**

Dear Chair Fukunaga, Vice Chair Wakai, and Committee Members:

**Our company strongly OPPOSES HB 799, HD 1, Relating to Taxation, in particular the portion of the bill (Section 2 (1)) related to gross income by contractors.** The definition of “contractor” includes engineers, architects and other design professionals licensed under Section 464-1, HRS.

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3. Taxes are one of the expenses contractors pass on to their clients. This measure would add to the cost of building and construction for the owners of these projects, including State projects.

Due to the many negative outcomes described above, we strongly urge you to hold this bill. Thank you for the opportunity to provide testimony regarding this measure. Please let me know if you have any questions regarding our testimony.

Very truly yours,

Brown and Caldwell

A handwritten signature in black ink that reads "Ray N. Matasci". The signature is written in a cursive style with a large initial "R" and "M".

Raymond N. Matasci, PE  
Vice President

RNM:lt





LATE

March 23, 2011

Senate Committee on Economic Development and Technology  
Hearing Date: Wednesday, March 23, 1:15 p.m., Conference Room 016

Honorable Senators Carol Fukunaga, Chair; Glenn Wakai, Vice Chair; and Members of the Senate Committee on Economic Development and Technology

Subject: **HB 799, HD 1, Relating to Taxation**  
**TESTIMONY IN OPPOSITION**

Dear Chair Fukunaga, Vice Chair Wakai, and Committee Members:

Our company strongly OPPOSES HB 799, HD 1, Relating to Taxation, in particular the portion of the bill (Section 2 (1)) related to gross income by contractors. The definition of "contractor" includes engineers, architects and other design professionals licensed under Section 464-1, HRS.

The bill implies that prime contractors have been receiving an "exemption" from some portion of their income. This is not the case. HAR §18-237-13-03 simply ensures that the GET is not applied twice to the same income. HAR §18-237-13-0 allows that if a prime contractor hires a subcontractor, and the subcontractor pays the GET, then the prime contractor does not pay GET on the project income that goes to the subcontractor. For example, if the State pays a civil engineer \$100,000 to design a project, and the civil engineer in turn subcontracts the geotechnical engineering services for \$20,000 and environmental engineering services for \$10,000, the civil "prime" contractor pays GET on \$70,000, while the geotechnical and environmental engineers pay GET on their income. Under the proposed change, the civil engineer prime would pay GET on the full \$100,000, essentially double-taxing the \$30,000 allocated to the subcontractors, and forcing the prime contractor to pay taxes on income they did not receive.

In this time of economic stress for all involved in the construction business, this proposal will only further burden struggling design professionals and contractors. In addition to forcing these businesses to pay tax on income they don't receive, the proposal has a number of other far-reaching implications.

1. Large out-of-state businesses that bid on Hawaii projects may be less likely to utilize small business from Hawaii, so they can avoid this duplication of taxes.
2. Prime Architect-Engineering firms assist their clients by subcontracting specialty services, such as geotechnical, environmental, landscape architecture, surveying, etc. If the prime contractor is forced to pay double taxes on those services, they may request the client to contract those specialty services directly, increasing the administrative burden and risk exposure for the client, and inhibiting the benefits of having the design team collaborate under one contract.
3. Taxes are one of the expenses contractors pass on to their clients. This measure would add to the cost of building and construction for the owners of these projects, including State projects.

Due to the many negative outcomes described above, we strongly urge you to hold this bill. Thank you for the opportunity to provide testimony regarding this measure. Please let me know if you have any questions regarding our testimony

Respectfully submitted,

Aaron Hamada, P.E.  
Vice President



March 23, 2011

LATE

**Senate Committee on Economic Development and Technology**  
**Hearing Date: Wednesday, March 23, 1:15 p.m., Conference Room 016**

Honorable Senators Carol Fukunaga, Chair; Glenn Wakai, Vice Chair; and Members of the Senate Committee on Economic Development and Technology

**Subject: HB 799, HD 1, Relating to Taxation**  
**TESTIMONY IN OPPOSITION**

Dear Chair Fukunaga, Vice Chair Wakai, and Committee Members:

**Our company strongly OPPOSES HB 799, HD 1, Relating to Taxation, in particular the portion of the bill (Section 2 (1)) related to gross income by contractors. The definition of "contractor" includes engineers, architects and other design professionals licensed under Section 464-1, HRS.**

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In this time of economic stress for all involved in the construction business, this proposal will only further burden struggling design professionals and contractors. In addition to forcing these businesses to pay tax on income they don't receive, the proposal has a number of other far-reaching implications:

1. Large out-of-state businesses that bid on Hawaii projects may be less likely to utilize small business from Hawaii, so they can avoid this duplication of taxes.
2. Prime Architect-Engineering firms assist their clients by subcontracting specialty services, such as geotechnical, environmental, landscape architecture, surveying, etc. If the prime contractor is forced to pay double taxes on those services, they may request the client to contract those specialty services directly, increasing the administrative burden and risk exposure for the client, and inhibiting the benefits of having the design team collaborate under one contract.
3. Taxes are one of the expenses contractors pass on to their clients. This measure would add to the cost of building and construction for the owners of these projects, including State projects.

Due to the many negative outcomes described above, we strongly urge you to hold this bill. Thank you for the opportunity to provide testimony regarding this measure. Please let me know if you have any questions regarding our testimony.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read 'Masahiro Nishida'.  
Masahiro Nishida, Vice President

March 23, 2011

**LATE**

Senator Carol Fukunaga



Re: Bill HB 799, HD 1

Dear Senator:

Twenty years ago, the Legislature passed a bill that eliminated the unjust effect of pyramiding taxes within the construction industry. Bill, HB 799, HD1, will in fact, have the effect of bringing back this pyramid of over taxation. This bill is not a bill which has been thought out or written for the good of the people, but rather as a quick fix to help the State meet its budget.

The long term effect of this bill will harm a very vital industry of this State. It will and could be a deathly blow to an already ailing industry.

Please do what is right and fair, delete the subcontractor exemption repeal from this bill. Do not allow State to over tax any industry, community or its citizens.

Sincerely,

A handwritten signature in black ink, appearing to read 'Joyce F. Furukawa', written in a cursive style.

Joyce F. Furukawa  
Treasurer  
Royal Contracting Co., Ltd.



2004 Kahai Street  
Honolulu, HI 96819  
Phone: (808) 847-5325  
Fax: (808) 847-5326  
Website: [www.honroof.com](http://www.honroof.com)

**LATE**

March 23, 2011

Dear Senator Carol Fukunaga,

On behalf of Honolulu Roofing Company and in conjunction with the subcontracting community, we would like to humbly ask for your support in rejecting H.B. No. 799 H.D.1 – relating to the taxation of subcontractors in the State of Hawaii. We do realize the importance for our State to generate funds for the growing deficit, but H.B. No. 799 will only hurt small local businesses struggling to survive these difficult times and may result in more businesses closing and rising unemployment rates. Thank you for your all of your efforts.

Very Respectfully,

Lawrence Roy Fabella, Vice President

**Doris Lam**

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**From:** fukunaga3 - Devin  
**Sent:** Wednesday, March 23, 2011 11:50 AM  
**To:** EDTTestimony  
**Subject:** Discussion -HB 799 Taxation

LATE

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**From:** Doug Allen <[dallen@rimarchitects.com](mailto:dallen@rimarchitects.com)>  
**Date:** Wed, 23 Mar 2011 11:24:48 -1000  
**To:** Carol Fukunaga <[senfukunaga@capitol.hawaii.gov](mailto:senfukunaga@capitol.hawaii.gov)>  
**Cc:** "Sen. Glenn Wakai" <[senwakai@capitol.hawaii.gov](mailto:senwakai@capitol.hawaii.gov)>, Rosalyn Baker <[senbaker@capitol.hawaii.gov](mailto:senbaker@capitol.hawaii.gov)>, "Sen. Malama Solomon" <[sensolomon@capitol.hawaii.gov](mailto:sensolomon@capitol.hawaii.gov)>, Sam Slom <[senslom@capitol.hawaii.gov](mailto:senslom@capitol.hawaii.gov)>  
**Subject:** Discussion -HB 799 Taxation

The Honorable Carol Fukunaga, Chair  
Members of the Committee on the Economic Development and Technology (EDT)  
Hawaii State Senate  
State Capitol  
Honolulu, HI 96813

**Subject: OPPOSE as written, HouseBill 799 HD1 Relating to Taxation; Section 2**

Amending Chapter 237, Hawaii Revised Statutes to temporarily suspend exemption for 1) Amounts deducted from the gross income received by contractors as described under section 237-13 (3) (B)

Dear Ms Fukunaga,

On behalf of the more than 800 architect members and other allied design professionals of The American Institute of Architects (AIA), AIA Hawaii State Council, I am writing to OPPOSE HB 799 HD1 on Taxation whose provisions aim to suspend key exemptions currently afforded to significant design and construction efforts in Hawaii, among other key business areas across the state.

The provision within HB 799 HD1 to remove the exemption currently afforded to "contractors" as defined in the Hawaii Revised Statutes (Section 237-13 (03) (B) (i) will specifically cause an adverse effect on our members, and allied engineers, a majority of whom are small businesses in Hawaii.

While this measure is proposed to extract additional revenues to address the state's fiscal crisis, it should be noted that elimination of this specific exemption and others would come at a bad time as the state's economy struggles to come back from the devastation of economic recession. Eliminating the general excise exemptions for temporary gain may have a significantly dire consequence over the long term.

The overall impact on the design and construction industry would be very large, because of the well documented "pyramid effect." A gross receipts tax, without key exemptions in place, has a well **known escalating effect that creates an extra layer of taxation at each stage of the product and service life cycle**. For the design and construction industry this leads to dramatically higher costs for housing, commercial and industrial structures built for Hawaii businesses, state and city governments and residential homeowners.

We encourage you to seek more economically neutral ways of taxing businesses, and urge you to look deeper at long-term solutions for creating greater efficiencies within the government. This bill has the serious potential of reducing business in a time when Hawaii business needs stimulation. We urge opposition as currently written.

Sincerely,

**Douglas L. Allen, AIA**

Copies to:

Senator Glenn Wakai, Vice Chair EDT, Email: [senwakai@capitol.hawaii.gov](mailto:senwakai@capitol.hawaii.gov)

Senator Rosalyn Baker, Member EDT, Email: [senbaker@capitol.hawaii.gov](mailto:senbaker@capitol.hawaii.gov)

Senator Malama Solomon, Member EDT, Email: [sensolomon@capitol.hawaii.gov](mailto:sensolomon@capitol.hawaii.gov)

Senator Sam Slom, Member EDT, Email: [senslom@capitol.hawaii.gov](mailto:senslom@capitol.hawaii.gov)



**Honua Power**  
renewable energy

SEVEN WATERFRONT PLAZA, 500 ALA MOANA BOULEVARD SUITE 7-220, HONOLULU, HAWAII 96813 TEL. (808) 550-2877 FAX (808) 523-3122

**LATE**

March 22, 2011

**VIA WEBSITE - <http://www.capitol.hawaii.gov/emailtestimony/>**

Chair Carol Fukunaga  
Vice Chair Glenn Wakai  
Senate Committee on Economic Development and Technology  
Hawaii State Capitol, Conf. Rm. 016  
Honolulu, Hawaii 96813

Re: HB 799, HD1, Relating to Taxation  
Hearing on Wednesday, March 23, 2011 at 1:15 p.m.

Dear Chair Fukunaga and Vice Chair Wakai:

Honua Power, LLC (“Honua”) is a renewable energy developer based in Hawaii. We hereby submit this letter in OPPOSITION to HB 799, HD1, Relating to Taxation. This bill unjustifiably “suspends temporarily the exemptions” for Qualified Businesses in Enterprise Zones, as described under section 209E-11” including the “[g]ross proceeds received by contractors licensed under chapter 444 for construction within enterprise zones performed for Qualified Businesses within the Enterprise Zones or businesses approved by the department of business, economic development, and tourism to enroll into the enterprise zone program, as described under HRS Section 209E-11.” In addition, the bill repeals the exemption for air pollution control facilities under HRS Section 237-27.5. We are strongly opposed to any suspension of the excise tax exemption for qualified businesses, construction work performed for those businesses, or for pollution control facilities.

Honua will produce approximately 12 MW net of non-fossil fuel renewable electrical energy that will be supplied to the residents of Oahu. This renewable energy will reduce oil consumption by 177,000 barrels, light 12,000 homes, and count toward the state of Hawaii’s renewable portfolio standard goals of 15% renewable energy generation by 2015 and 40% of new renewable energy generation by 2040. This activity will not only prevent such valuable energy resources from taking up scarce landfill space indefinitely, thereby stabilizing the tipping fees and discouraging illegal landfills, but it will also relieve all of us from purchasing fossil-fuel-derived energy from foreign sources and delink the price of that energy from the price of oil forever.

Honua has executed a 20 year Power Purchase Agreement (“PPA”) with Hawaiian Electric Company setting forth fixed pricing for renewable electrical power received from Honua’s facility. This agreement has already been approved by the state of Hawaii Public Utilities Commission and the energy provided under the agreement has been held by the PUC, as a matter of law, to meet the definition of “renewable electrical energy” or “renewable energy” as defined under Hawaii Revised Statutes Section 269-91, so as to be counted toward the renewable portfolio standards for Hawaii.

However, there is no mechanism under the PPA by which our company may raise the price for power charged to HECO, and, thereby, pass on to the ratepayers specific increases in the cost to produce the renewable electrical energy delivered by Honua. Therefore, the application of this repeal of the general excise tax exemption for qualified businesses, contractors doing work for Qualified Businesses in Enterprise Zones, and the exemption for pollution control facilities, will add millions of dollars of capital expense to our project budget and adversely affect our company’s ability to obtain project financing



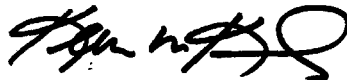
Chair Carol Fukunaga  
Vice Chair Glenn Wakai  
Senate Committee on  
Economic Development and Technology  
March 22, 2011  
Page Two

because it will erode our ability to meet the debt service coverage ratios (“DSCR”) required by lenders.

It is very difficult for projects like ours to receive project finance funding necessary to construct the facility in the first place. “The project is too small, Hawaii is too remote and the project finance credit market is too tight.” Nevertheless, Honua has already succeeded in qualifying the project for financing and we are preparing to close on that financing with this legislative session. However, given the DSCR required by project finance lenders in the current marketplace that could very well change with this amendment. The imposition of the general excise tax on activities relating to our project will have the effect of raising the cost to produce renewable energy without any corresponding way for our company to recover that cost by increasing revenue. Any additional cost to a project like ours, at this time, will have the effect of quashing the successful completion of the project even though it is otherwise financeable.

The repeal of these tax exemptions comes at a time when we all desperately need renewable energy to succeed for our state. Any change to the existing exemption regime would confound the development of renewable energy resources in our state at an incredibly vulnerable and critical time for the struggling industry. We can think of no better reasons to keep Chapter 237 intact in its present form. For these reasons, Honua Power opposes this bill.

Very truly yours,



Kevin Kondo  
Managing Partner  
Honua Power, LLC



Conference room: 016  
Testifier position: oppose  
Testifier will be present: No  
Submitted by: Michelle Kaneshiro  
Organization: Individual  
Address:  
Phone:  
E-mail:  
Submitted on: 3/23/2011

Comments:

HB # 799 HD1 currently proposes the suspension of various exemptions currently allowed under the State of Hawaii tax law. While I am not familiar with all of the exemptions that are proposed to be suspended, I am familiar with the sublease deduction noted in Section 2 # 4 of HB 799 HD1. The sublease deduction was implemented to allow one piece of land to be taxed by the state only once per leasable period. For example if Kamehameha Schools owns a parcel of land and they decide to rent that land to Company ABC. Then Company ABC manages the land as a parking lot and collects rent. The current sublease deduction would allow for the State of Hawaii to receive 0.5% of GET for the rent received by Kamehameha Schools, the land owner, and 4% for the rent received by Company ABC from the people parking on the land. If the sublease deduction is suspended, then the state would be double taxing the exact same piece of land.

While you may think that this exemption is giving something special to real estate professionals, I believe it is apply the current rule of not double taxing the same product. Currently in the retail business the law allows wholesale merchants to pay only 0.5% of GET on all goods they purchase, for when they sell that exact same product to the end user, the end user (you and me) pays the entire 4% of GET. Do you think that is it fair for the state to collect 4% of GET twice as the same book that travels from the manufacturer to the middleman to you and me while the book has remained exactly the same throughout the whole process? I believe that double taxation is unfair and prevents business from happening in the State of Hawaii.

Therefore, I believe that suspending the sublease deduction would be unethical, as I believe it is unethical to tax the same piece of land twice. This is the same theory that your predecessors believed to be unethical as they created the exemption to prevent double taxation on the same product. I understand that the State is in a crisis right now, but I do not believe that we should solve that crisis by lowering our morals and being unethical. Therefore I oppose HB 799 as it specifically relates to suspending the sublease deduction.



LATE

MAR 20 2011

**Design Partners Incorporated** • Architects • Planners • Interiors

Vernon Inoshita AIA, LEED AP  
Michael Goshi AIA  
Michael Muromoto AIA  
Duane Hamada AIA, LEED AP  
Kendall Ellingwood III AIA, LEED AP

Renee Nishioku  
Keith Sawamura AIA, LEED AP  
Lena Ann Tamashiro AIA  
Clarissa Santoki AIA, LEED AP  
Johnny Wu AIA, LEED AP  
Jay Ogawa  
Steve Teves AIA

March 22, 2011

The Honorable Carol Fukunaga, Chair  
Members of the Committee on the  
Economic Development and Technology (EDT)  
Hawaii State Senate  
State Capitol  
Honolulu, HI 96813

**Subject: OPPOSE as written, House Bill 799 HD1 Relating to Taxation; Section 2 Amending Chapter 237, Hawaii Revised Statutes to temporarily suspend exemption for 1) Amounts deducted from the gross income received by contractors as described under section 237-13 (3) (B)**

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layer of taxation at each stage of the product and service life cycle. For the design and construction industry this leads to dramatically higher costs for housing, commercial and industrial structures built for Hawaii businesses, state and city governments and residential homeowners.

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Sincerely,

Vernon D. Inoshita  
President

# MOSS Engineering, Inc.

Electrical / Lighting Engineers

1357 Kapiolani Blvd., Suite 830

Honolulu, Hawaii 96814

Richard M. Moss, P.E., LEED® AP

March 28, 2011

**LATE**

**Senate Committee on Economic Development and Technology**  
**Hearing Date: Wednesday, March 23, 1:15 p.m., Conference Room 016**

Honorable Senators Carol Fukunaga, Chair; Glenn Wakai, Vice Chair; and Members of the Senate Committee on Economic Development and Technology

Subject: **HB 799, HD 1, Relating to Taxation**  
**TESTIMONY IN OPPOSITION**

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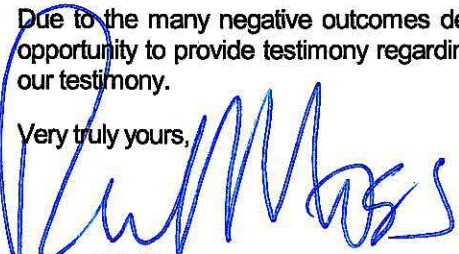
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3. Taxes are one of the expenses contractors pass on to their clients. This measure would add to the cost of building and construction for the owners of these projects, including State projects.

Due to the many negative outcomes described above, we strongly urge you to hold this bill. Thank you for the opportunity to provide testimony regarding this measure. Please let me know if you have any questions regarding our testimony.

Very truly yours,

  
Richard M. Moss

Supporting AutoCAD and Revit Platforms

TEL: (808) 951-6632

mail@moss-engineering.net

FAX: (808) 941-0917