

Honolulu, Hawaii
February 15, 2013RE: H.B. No. 1194
H.D. 1

Honorable Joseph M. Souki
Speaker, House of Representatives
Twenty-Seventh State Legislature
Regular Session of 2013
State of Hawaii

Sir:

Your Committee on Consumer Protection & Commerce, to which
was referred H.B. No. 1194 entitled:

"A BILL FOR AN ACT RELATING TO SUBCONTRACTORS,"

begs leave to report as follows:

The purpose of this measure is to repeal the temporary
suspension of the general excise tax exemption on amounts deducted
from the gross income of subcontractors that was imposed by Act
105, Session Laws of Hawaii 2011.

The Chamber of Commerce of Hawaii; the General Contractors
Association of Hawaii; the Sheet Metal Contractors Association;
the Pacific Resource Partnership; the Electrical Contractors
Association of Hawaii; the Plumbing and Mechanical Contractors
Association of Hawaii; the Tile Contractors Association of Hawaii;
Oahu Air Conditioning Service, Inc.; Royal Contracting Co., Ltd.;
Build Pacific General Contractor LLC; Koga Engineering and
Construction, Inc.; Jack Endo Electric Inc.; Electricians, Inc.;
HSI Mechanical, Inc.; S&M Sakamoto, Inc.; Weston Solutions, Inc.;
Pioneer Contracting Co., Ltd.; Grace Pacific Corporation; Oahu
Plumbing and Sheet Metal, Ltd.; Electrical Contractors Hawaii;
Zelinsky Company; Hawaiian Dredging Construction Company, Inc.;
Charles Pankow Builders, Ltd.; LYZ, Inc.; Constructors Hawaii
Inc.; Nordic PCL Construction, Inc.; Kokea Construction and
Consultants, Inc.; William C. Loeffler Construction, Inc.; Ralph
S. Inouye Co., Ltd.; Forest City Hawaii; Healy Tibbitts Builders,
Inc.; Oahu Construction and Consultants; Waltz Engineering, Inc.;



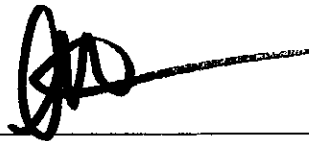
Dorvin D. Leis Co., Inc.; King & Neel, Inc.; Jack Wolfe Insurance, Inc.; Alan Shintani, Inc.; Commercial Shelving, Inc.; and Complete Construction Services Corp. testified in support of this measure. The Department of Taxation and the Subcontractors Association of Hawaii testified in opposition to this measure. The Tax Foundation of Hawaii submitted comments on the measure.

Your Committee finds that, in response to a weak state economy, Act 105, Session Laws of Hawaii 2011, temporarily suspended various general excise and use tax exemptions from July 1, 2011, to June 30, 2013. One of the exemptions that were suspended was the general excise tax exemption on amounts deducted from the gross income of subcontractors. Your Committee notes that the suspension of this general excise tax exemption has not resulted in increased revenues and, as a result, has caused the Council on Revenues to adopt reduced estimates of revenue gains attributable to Act 105. Your Committee also finds that the suspension of the subcontractors' exemption has made it difficult for small contractors to compete with large contractors. This measure levels the playing field and lets all contractors compete on an equal basis. Your Committee respectfully urges the Committee on Finance, should it decide to support reinstatement of the subcontractors' exemption, to consider some form of broad based plan to increase revenue.

Your Committee has amended this measure by changing the effective date to January 1, 2012, to facilitate further discussion on the measure.

As affirmed by the record of votes of the members of your Committee on Consumer Protection & Commerce that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 1194, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 1194, H.D. 1, and be referred to the Committee on Finance.

Respectfully submitted on
behalf of the members of the
Committee on Consumer
Protection & Commerce,



ANGUS L.K. MCKELVEY, Chair



