



# COMMERCIAL SHELVING, INC.

2835 Ualena Street ♦ Honolulu, HI 96819-1911 / P.O. Box 29480 ♦ Honolulu, HI 96820-1880  
Phone: (808) 836-3811 / Fax: (808) 833-7552 / E-mail: sales@commshelving.com

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**LATE**

Via E-mail: [CPCTestimony@capitol.hawaii.gov](mailto:CPCTestimony@capitol.hawaii.gov)  
Via Fax: (808) 586-8437

February 6, 2013

TO: HONORABLE ANGUS MCKELVEY, CHAIR, HONORABLE DEREK KAWAKAMI, VICE CHAIR AND MEMBERS OF THE HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMMERCE

SUBJECT: SUPPORT OF H.B. 1194, RELATING TO SUBCONTRACTORS. Repeals the temporary suspension under Act 105, SLH 2011, on the general excise tax exemption on amounts deducted from the gross income of subcontractors.

HEARING  
DATE: Wednesday, February 6, 2013  
TIME: 2:30 p.m.  
PLACE: Conference Room 325

Dear Chair Angus McKelvey, Vice Chair Derek Kawakami and Members of the Committee:

**Commercial Shelving, Inc. supports** the passage of H.B. 1194, Relating to Subcontractors because it will repeal the temporary suspension under Act 105, SLH 2011, regarding the general excise tax (GET) exemption on amounts deducted from the gross income of subcontractors.

Our company remains concerned about Act 105 (SLH, 2011), which suspended several exemptions from the GET for two years, beginning July 1, 2011, particularly its effects on construction activity because of the included subcontractor exemption. We fully support the scheduled sunset and termination of Act 105 on June 30, 2013, and this bill would ensure the termination of Act 105 does happen.

We believe that the suspension of the general excise tax exemption for construction is having a chilling effect on new developments that are not released due to the added cost. We are also deeply concerned that the longer the suspension remains in effect, the more likely contracting business will change in Hawaii to the detriment of our industry.

**Accordingly, Commercial Shelving, Inc. supports H.B. 1194.**

Thank you for the opportunity to testify in this matter.



P.O. Box 757  
Kailua, HI 96734  
Ph. (808) 263-4900  
Fax (808) 263-5966  
[www.ccs-hawaii.com](http://www.ccs-hawaii.com)

**LATE**

February 5, 2013

**Testimony to the House Committee on Consumer Protection & Commerce  
Wednesday, February 6, 2013  
2:30 p.m.  
State Capitol - Conference Room 325**

**RE: H.B. 1194, RELATING TO SUBCONTRACTORS**

Dear Chair McKelvey, Vice-Chair Kawakami, and members of the committee:

I am Greg Thielen, President and RME of Complete Construction Services. I am a Small Business Owner and have over 20 years experience in the Construction Industry.

Complete Construction Services **strongly supports** H.B. 1194, which repeals the temporary suspension under Act 105, SLH 2011, on the general excise tax exemption on amounts deducted from the gross income of subcontractors. Prior to Act 105, contractors were able to deduct the amount they paid to subcontractors when calculating their tax liability on construction projects.

In 2011, in an attempt to help close a \$1.3 billion deficit in the State's budget, Act 105 was passed to suspend various tax exemptions under Chapter 237-13. Of particular concern relates to Chapter 237-13(3)(B), which includes "amounts deducted from the gross income received by contractors." According to the Department of Taxation, this particular suspension alone would have generated approximately \$135 million in new revenue through FY 2013. This amount reflects 34% of the revenue generated by the suspension of 22 exemptions. However, in May 2012, the Department of Taxation reported that suspension of the subcontractor's deduction was expected to generate only \$50 million in new revenues in 2012, and less in 2013.

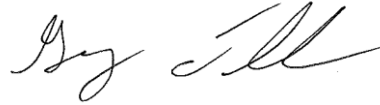
The subcontractors deduction was created over 75 years ago to prevent the "pyramiding" (double taxation) of the GET. This is typical in construction-related projects where work is performed by various specialty contractors. If a general contractor passes on a 4% tax to his customer and the general contractor hires a subcontractor to perform

part of the work, the general contractor cannot deduct payments made to the subcontractor, even if the subcontractor has charged the general contractor for his portion of the work at 4%.

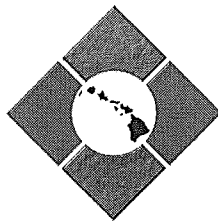
This is not a fair tax policy as it taxes the construction industry at a higher rate than other industries. It encourages use of unlicensed subcontractors since there is no deduction offered for the legitimate licensed subcontractors. It hurts small businesses and their employees as well as the consumers purchasing their products.

Thank you for the opportunity to provide this testimony.

Sincerely,

A handwritten signature in black ink, appearing to read "Greg Thielen". The signature is fluid and cursive, with the first name "Greg" being more prominent than the last name "Thielen".

Greg Thielen  
President/RME



**TILE CONTRACTORS  
ASSOCIATION OF HAWAII**

**1440 Kapiolani Blvd., Suite 800. Honolulu, Hawaii 96814  
Phone: Oahu (808) 441-8600; Fax: (808) 441-8750  
www.tilehawaii.com; e-mail: tileinfo@tilehawaii.com**

**LATE**

February 6, 2013

Testimony To: House Committee on Consumer Protection & Commerce  
Representative Angus L.K. McKelvey, Chair

Presented By: Tim Lyons  
Legislative Liaison

Subject: H.B. 1194 – RELATING TO SUBCONTRACTORS

Chair McKelvey and Members of the Committee:

I am Tim Lyons, Legislative Liaison for the Tile Contractors Association and we are very much in support of this bill.

This bill has caused a real uproar in the subcontracting community, particularly ours. We have noted that since the time that this legislation passed, general contractors are ordering materials and asking us only for quotes to install. This reduces our overall profitability and our gross volume by almost 50%. The general contractors do this in order to save money because that way they avoid at least the 4% tax on the materials.

We understand that the legislature needed money and that is why this bill was enacted however it has really upset the subcontracting community. In this case, we believe the unintended consequences are more negative than the positive consequences of the additional revenue.

Based on that, we respectfully request your favorable consideration to restore the subcontractors exemption.

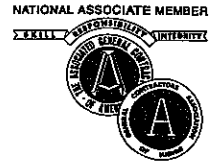
Thank you.

# KING & NEEL, INC.

1164 Bishop Street • Suite 1710 • Honolulu, Hawaii 96813

Telephone: (808) 521-8311

Fax: (808) 526-3893



**LATE**

Via E-mail: [CPCTestimony@capitol.hawaii.gov](mailto:CPCTestimony@capitol.hawaii.gov)

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February 5, 2013

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HEARING

DATE: Wednesday, February 6, 2013

TIME: 2:30 p.m.

PLACE: Conference Room 325

Dear Chair Angus McKelvey, Vice Chair Derek Kawakami and Members of the Committee:

King & Neel, Inc. **supports** the passage of H.B. 1194, Relating to Subcontractors because it will repeal the temporary suspension under Act 105, SLH 2011, regarding the general excise tax (GET) exemption on amounts deducted from the gross income of subcontractors.

Our company remains concerned about Act 105 (SLH, 2011), which suspended several exemptions from the GET for two years, beginning July 1, 2011, particularly its effects on construction activity because of the included subcontractor exemption. We fully support the scheduled sunset and termination of Act 105 on June 30, 2013, and this Bill would ensure the termination of Act 105 does happen.

We believe that the suspension of the general excise tax exemption for construction is having a chilling effect on new developments that are not released due to the added cost. We are also deeply concerned that the longer the suspension remains in effect, the more likely contracting business will change in Hawaii to the detriment of our industry, and the State's ability to benefit from the nominal additional collection of taxes.

**Accordingly, King & Neel, Inc. supports H.B. 1194.**

Thank you for the opportunity to testify in this matter.



**JACK WOLFE**  
INSURANCE  
INC.

*Late*

PRINCIPALS

Lawrence D. Stubbins  
John F. Junk  
Ernest L. Torres

**LATE**

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SUBJECT: SUPPORT OF H.B. 1194, RELATING TO SUBCONTRACTORS. Repeals the temporary suspension under Act 105, SLH 2011, on the general excise tax exemption on amounts deducted from the gross income of subcontractors.

HEARING

DATE: Wednesday, February 6, 2013  
TIME: 2:30 p.m.  
PLACE: Conference Room 325

Dear Chair Angus McKelvey, Vice Chair Derek Kawakami and Members of the Committee

Jack Wolfe Insurance, Inc **supports** the passage of H.B. 1194, Relating to Subcontractors because it will repeal the temporary suspension under Act 105, SLH 2011, regarding the general excise tax (GET) exemption on amounts deducted from the gross income of subcontractors.

Our company remains concerned about Act 105 (SLH, 2011), which suspended several exemptions from the GET for two years, beginning July 1, 2011, particularly its effects on construction activity because of the included subcontractor exemption. We fully support the scheduled sunset and termination of Act 105 on June 30, 2013, and this bill would ensure the termination of Act 105 does happen.

We believe that the suspension of the general excise tax exemption for construction is having a chilling effect on new developments that are not released due to the added cost. We are also deeply concerned that the longer the suspension remains in effect, the more likely contracting business will change in Hawaii to the detriment of our industry.

Accordingly, Jack Wolfe Insurance, Inc. **supports** H.B. 1194.

Thank you for the opportunity to testify in this matter.

John F. Junk

**2013 Officers**

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Complete Construction Services Corp.

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**Gary T. Okimoto**

Honolulu Wood Treating

**Mark Kennedy**

HASEKO Construction Kamakana, LLC

**Marshall Hickox**

Homeworks Construction, Inc.

**Michael Watanabe**

JW, Inc.

**Ryan Engle**

Bays Lung Rose & Holma

**Scotty Anderson**

Pacific Rim Partners

**W. Bruce Barrett**

Castle & Cooke Homes Hawaii, Inc.

**Testimony to the House Committee on Consumer Protection & Commerce  
Wednesday, February 6, 2013**

**2:30 p.m.**

**State Capitol - Conference Room 325**

**RE: H.B. 1194, RELATING TO SUBCONTRACTORS**

Dear Chair McKelvey, Vice-Chair Kawakami, and members of the committee:

My name is Gladys Marrone, Director of Government Relations for the Building Industry Association of Hawaii (BIA-Hawaii), the voice of the construction industry. BIA-Hawaii promotes its members through advocacy and education, and provides community outreach programs to enhance the quality of life for the people of Hawaii. BIA-Hawaii is a not-for-profit professional trade organization, chartered in 1955, and affiliated with the National Association of Home Builders.

BIA-Hawaii **strongly supports** H.B. 1194, which repeals the temporary suspension under Act 105, SLH 2011, on the general excise tax exemption on amounts deducted from the gross income of subcontractors. Prior to Act 105, contractors were able to deduct the amount they paid to subcontractors when calculating their tax liability on construction projects.

In 2011, in an attempt to help close a \$1.3 billion deficit in the State's budget, Act 105 was passed to suspend various tax exemptions under Chapter 237-13. Of particular concern relates to Chapter 237-13(3)(B), which includes "amounts deducted from the gross income received by contractors." According to the Department of Taxation, this particular suspension alone would have generated approximately \$135 million in new revenue through FY 2013. This amount reflects 34% of the revenue generated by the suspension of 22 exemptions. However, in May 2012, the Department of Taxation reported that suspension of the subcontractor's deduction was expected to generate only \$50 million in new revenues in 2012, and even less in 2013.

The subcontractors deduction was created over 75 years ago to prevent the "pyramiding" (double taxation) of the GET. This is typical in construction-related projects where work is performed by various specialty contractors. If a general contractor passes on a 4% tax to his customer and the general contractor hires a subcontractor to perform part of the work, the general contractor cannot deduct payments made to the subcontractor, even if the subcontractor has charged the general contractor for his portion of the work at 4%.

Act 105's suspension of the subcontractors' deduction has made it difficult for small- and mid-size contractors to compete with large contractors. Smaller contractors need help from consultants and subcontractors because they lack the necessary licenses to complete all aspects of a project themselves, while big



Representative Angus McKelvey, Chair  
Consumer Protection & Commerce  
Wednesday, February 6, 2013  
2:30 p.m.  
Testimony of BIA-Hawaii

contractors often have the staff to do all the work in-house. This increases the price of work because several subcontractors' GET are included in the contract bids.

Act 105 made the playing field uneven, giving larger companies, many of whom are not locally-owned, an advantage over small- and medium-sized companies. Furthermore, Act 105 increases taxes, which in turn increases the cost of new construction and renovation projects, for both private and public projects, effectively halting the anticipated recovery of the construction industry.

For the foregoing reasons, BIA-Hawaii is in **strong support** of H.B. 1194.

Thank you for the opportunity to express our views on this matter.

# BIA-HAWAII

BUILDING INDUSTRY ASSOCIATION

**LATE**

*"Building Better Communities"*

## 2013 Officers

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Complete Construction Services Corp.

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**Brian Adachi**  
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### Vice President

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## Testimony to the House Committee on Consumer Protection & Commerce Wednesday, February 6, 2013

**2:30 p.m.**

**State Capitol - Conference Room 325**

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BIA-Hawaii **strongly supports** H.B. 1194, which repeals the temporary suspension under Act 105, SLH 2011, on the general excise tax exemption on amounts deducted from the gross income of subcontractors. Prior to Act 105, contractors were able to deduct the amount they paid to subcontractors when calculating their tax liability on construction projects.

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Consumer Protection & Commerce  
Wednesday, February 6, 2013  
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Act 105 made the playing field uneven, giving larger companies, many of whom are not locally-owned, an advantage over small- and medium-sized companies. Furthermore, Act 105 increases taxes, which in turn increases the cost of new construction and renovation projects, for both private and public projects, effectively halting the anticipated recovery of the construction industry.

For the foregoing reasons, BIA-Hawaii is in **strong support** of H.B. 1194.

Thank you for the opportunity to express our views on this matter.

Testimony of Thomas J. Smyth, CEcD

**LATE**

Before the  
House Committee on Consumer Protection & Commerce

Monday, February 6, 2013, 2:30 p.m. Conference Room 325

On

**HB 1194 Relating to Subcontractors**

Chair McKelvey, Vice Chair Kawakami and Committee Members:

**Having worked in DBEDT on tax and regulatory issues for many years I am very aware of the provisions of Act 105, SLH 2011. In particular the provision that provided for removal of the exemption on taxation of construction contractors and subcontractors. I strongly support HB 1194 that repeals the temporary suspension of this particular tax policy.**

The nominal purpose of Act 105 was to increase state tax revenue by removing several GET exemptions. This purpose has not been met as projected as construction contracts were restructured to reduce subcontractor payments and many construction, maintenance and repair contracts were deferred when costs rose significantly.

Ironically, major cost increases in construction, repair and maintenance contracting are being seen by the state government itself. Agencies such as DOT, DAGS, DOE and UH are among the largest construction entities in our state.

This leads to the conclusion that not only has the projected revenue from this exemption repeal not meet expectations, but in fact the state is spending more revenue because of the law.

Please move this measure to the Finance Committee for further favorable consideration.

Thank you for the opportunity to provide testimony on this important bill.

# Hawai'i Construction Alliance



P.O. Box 179441  
Honolulu, HI 96817  
(808) 348-8885

February 6, 2013

House Committee on Consumer Protection and Commerce  
Hawai'i State Capitol  
Honolulu, Hawai'i 96813

RE: Testimony supporting HB 1194, relating to subcontractors.

Dear Chair McKelvey, Vice Chair Kawakami, and members of the committee:

The Hawaii Construction Alliance supports HB 1194, which would repeal the temporary suspension under Act 105, SLH 2011, on the general excise tax exemption on amounts deducted from the gross income of subcontractors.

The Hawai'i Construction Alliance is comprised of the Hawaii Regional Council of Carpenters; the Hawai'i Masons Union, Local 1 and Local 630; the Laborers' International Union of North America, Local 368; and the Operating Engineers, Local 3. Together, the four member unions of the Hawai'i Construction Alliance represent 15,000 working men and women in the four basic crafts of Hawai'i's construction industry.

Prior to the institution of Act 105, contractors were able to deduct the amount they paid to subcontractors when calculating their tax liability on construction projects. This deduction had been in place for over 75 years, and had the effect of preventing the "pyramiding" of the GET when contractors hired subcontractors to perform part of the work on a project. By suspending this deduction, Act 105 increased the cost of new construction and renovation projects in both the public and private sector.

The Hawaii Construction Alliance believes that restoring the GET exemption would have a position effect on the industry at this critical time in our state's economic recovery. We respectfully ask for the committee's support for HB 1194.

Mahalo for the opportunity to testify on this matter.

Aloha,

A handwritten signature in black ink, appearing to read "Tyler Dos Santos-Tam".

Tyler Dos Santos-Tam  
Executive Director  
Hawai'i Construction Alliance  
execdir@hawaiiconstructionalliance.org