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GCA of Hawaii

GENERAL CONTRACTORS ASSOCIATION OF HAWAII

Quality People. Quality Projects.

October 21, 2011

Via E-mail: Titin.L.Sakata@hawaii.gov

Mr. Randall Y. Iwase, Chair
Tax Review Commission
State of Hawaii
Department of Taxation
830 Punchbowl Street
Honolulu, Hawaii 96813

Subject: ACT 105, SLH, 2011
Suspension of General Excise Tax Exemptions

Dear Chair Iwase and Members:

My name is Lyle Moody, President of the General Contractors Association of Hawaii (GCA), an organization comprised of over six hundred (600) general contractors, subcontractors and construction related firms. GCA was established in 1932 and is the largest construction association in the State of Hawaii. The mission of GCA is to represent its members and be a strong, but reasoned voice in matters related to the construction industry.

The recently enacted Act 105, SLH, 2011 suspended several exemptions from the General Excise Tax, for two years, beginning July 1, 2011, which included the subcontractor exemption for construction. Act 105 is scheduled to sunset on June 30, 2013.

Although the legislation suspended the exemption for only two (2) years, the GCA is very concerned that the Tax Review Commission may view the suspension of the exemption as a permanent solution to increase state tax revenues. It is GCA's hope and request that the Commission would recommend allowing Act 105 to sunset as scheduled on June 30, 2013 or earlier based on the following.

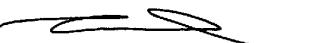
Act 105 was enacted as a means to increase tax revenue and as an alternative to raising the general excise tax in order to balance the budget due to the revenue shortfall while the economy is languishing. As the Tax Foundation of Hawaii noted in a Honolulu Star-Advertiser article published on April 17, 2011, the elimination of certain exemptions, such as the construction exemption would have a pyramiding effect, and could damage the state's economic recovery. The article went on to note that elimination of any exemption should be done with caution. DePledge, D. (2011, April 17). State lawmakers want to reap taxes by ending dispensations. *Honolulu Star-Advertiser*.

Construction activity has been declining every year since 2008, and is expected to lead economic recovery in the coming years. The GCA believes that the suspension of the general excise tax exemption for construction has a chilling effect on new developments that are not released due to the added cost. Some projects may be waiting for the suspension to be lifted before the projects are released.

Any delays in ending the suspension may permanently shelve those projects to the detriment of the languishing economy of the State. The GCA urges the Commission to have the Act 105 suspension of the subcontractor exemption lifted as soon as possible and certainly no later than the two (2) years envisioned under Act 105.

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

Very truly yours,



Lyle Moody
President