April 5, 2011

The Honorable David Ige, WAM Chair
Members of the (WAM) Ways and Means Committee
Hawaii State Senate, State Capitol
Honolulu, HI 96813

WAM Hearing Date: April 6, 2011, 9:30 am State Capitol Auditorium
Subject: OPPOSE House Bill 793 SD1 Relating to Taxation; Section 3

Amending Chapter 237, Hawaii Revised Statutes to temporarily suspend exemption from January 1, 2012 through June 30, 2015 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 700 architect members and other allied design professionals of the American Institute of Architects, AIA Honolulu, I am writing to OPPOSE HB 793 SD1 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. AIA Honolulu, representing members on Oahu, Maui, Kauai and the Island of Hawaii, previously opposed similar provisions contained in HB 799 HD1 for similar reasons.

The provision within HB 793 SD1 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, allied engineers and Hawaii construction firms, a majority of whom are small businesses in Hawaii. This measure will have a significantly broad and negative effect on our State’s overall economy as we all know the importance of design and construction in stimulating economic growth and creating needed jobs.

While this measure is proposed to extract additional revenues to address the state’s fiscal crisis, it is especially key to note that elimination of this specific exemption and others would come at a bad time as Hawaii’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.

Moreover, 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. Hawaii citizens already struggle with one of the highest costs for construction and housing in the nation.

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,

Spencer Leineweber, FAIA, 2011 AIA Honolulu President

AIA Honolulu
119 Merchant Street, Suite 402
Honolulu, Hawaii 96813-4452
Phone: 808.545.4242
Fax: 808.545.4243
Website: www.aiahonolulu.org