

JAN 22 2007

A BILL FOR AN ACT

RELATING TO HIGH TECHNOLOGY BUSINESS TAX CREDITS.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The Legislature has recognized the importance
2 of promoting innovation and research-based activities with the
3 enactment of several path-breaking tax credits and programs to
4 promote growth in the technology and other innovation-related
5 sectors. Likewise, the legislature has sought to encourage a
6 range of industries and activities judged to be of value in
7 creating a higher-wage and more knowledge-intensive economy.

8 It is important that the effectiveness of these efforts and
9 other such incentives be evaluated. It is also of utmost
10 importance to maintain taxpayer confidentiality. As a self-
11 reporting, self-assessing tax system, the tax collections in
12 Hawaii depend on confidentiality of the collection process in
13 order to ensure the fullest compliance.

14 In order to assure accountability with the disposition of
15 public funds, government must balance the confidentiality with
16 the public's right to know.

17 The purpose of this bill is to improve the State's ability
18 to measure the impact being made in using the high technology

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1 business investment tax credit and the tax credit for research
2 activities as authorized in Sections 235-110.9 and 235-110.91,
3 Hawaii Revised Statutes.

4 SECTION 2. Chapter 235, Hawaii Revised Statutes, is
5 amended by adding a new section to be appropriately designated
6 and to read as follows:

7 "§235- High technology business investment tax credit
8 and tax credit for research activities analysis and evaluation.

9 (a) For purposes of determining the economic impact of
10 the credits provided in sections 235-110.9 and 235-110.91, the
11 department of taxation is authorized to:

12 (1) Contract with technical experts at the national and
13 international level knowledgeable in the field of
14 technology and research investment for the purposes of
15 evaluating existing and proposed tax incentives in
16 Hawaii;

17 (2) Establish a working group of industry, tax, and
18 economic development experts in Hawaii to identify and
19 develop a set of standards, benchmarks, and data
20 elements for the evaluation and quantification of the
21 economic impacts of existing and proposed tax
22 incentives in Hawaii;

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1 (3) Coordinate and receive relevant information from other
2 State agencies, including but not limited to, the
3 department of labor and industrial relations and the
4 department of business, economic development, and
5 tourism to assist in the development of the benchmarks
6 and evaluation methodologies and determine the
7 measurement data that will need to be analyzed; and

8 (4) Review the returns of companies whose investors
9 receive credits pursuant to section 235-110.9 and the
10 returns of companies that receive credit pursuant to
11 section 235-110.91 for the purposes of aggregating the
12 impact data to determine the impacts. Such data may
13 be sub-aggregated into industry sectors so as to
14 delineate and differentiate between short-term and
15 longer-term economic impacts.

16 (b) The department of taxation shall be responsible for
17 preparing an annual report to the legislature identifying the
18 findings of any analysis performed under this section. The
19 report is due no later than twenty days prior to the start of
20 the legislative session.

21 (c) The department of taxation may, from time to time,
22 provide periodic updates to its annual analysis to assist bodies

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1 such as the tax review commission or the council on revenues in
2 these bodies' respective deliberations."

3 SECTION 3. Nothing contained in this Act shall be
4 interpreted as waiving any liability, as provided by other
5 operative law, for the confidentiality and safeguarding of
6 taxpayer information.

7 SECTION 4. There is appropriated out of the general
8 revenues of the State of Hawaii the sum of \$250,000, or so much
9 thereof as may be necessary, for fiscal year 2007-2008 and
10 \$250,000, or so much thereof as may be necessary, for fiscal
11 year 2008-2009, to carry out the purposes of this Act.

12 The sums appropriated shall be expended by the department
13 of taxation.

14 SECTION 5: This Act shall take effect on July 1, 2007 and
15 shall be repealed on December 31, 2015.

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INTRODUCED BY: _____


BY REQUEST

JUSTIFICATION SHEET

DEPARTMENT: Taxation

TITLE: A BILL FOR AN ACT RELATING TO HIGH TECHNOLOGY BUSINESS TAX CREDITS.

PURPOSE: To allow analysis and evaluation of relevant information to determine the economic impact of tax credits granted pursuant to sections 235-110.9 and 235-110.91, Hawaii Revised Statutes.

MEANS: Add a new section to chapter 235, Hawaii Revised Statutes.

JUSTIFICATION: Act 221, Session Laws of Hawaii 2001, as amended by Act 215, Session Laws of Hawaii 2004, provides a tax credit for any investment in a qualifying high technology business, as defined, and also provides a tax credit for research activities.

This bill enhances the State's ability to measure and report on the impact these tax credits are having on the State's economy and to provide a means for regularly reporting and evaluating these impacts.

Impact on the public: An ability to evaluate the merits of tax credits as tools to diversify and encourage economic development.

Impact on the department and other agencies: The Department of Business, Economic Development, and Tourism and the Department of Labor and Industrial Relations will be asked to assist the Department of Taxation in carrying out the functions of this bill.

GENERAL FUND: \$250,000 general funds in Fiscal Year 2007-2008; \$250,000 general funds in Fiscal Year 2008-2009

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OTHER FUNDS: None.

PPBS PROGRAM
DESIGNATION: TAX 100.

OTHER AFFECTED
AGENCIES: Department of Business, Economic
Development, and Tourism; Department of
Labor and Industrial Relations.

EFFECTIVE DATE: July 1, 2007 and shall be repealed on
December 31, 2015.