

Hawaii Tax Credit Workshop



A briefing by Kurt Kawafuchi
Director, Department of Taxation
February 17, 2009, 9:00 a.m.
Senate Ways and Means Committee
(Revised)

Agenda

1. Hawaii Tax Credits

- History
- Refundable vs. Non-refundable Credits
- Social Credits
- Economic Incentives

2. Discussion on Selected Credits

- Capital Excise Tax Credit
- Low Income Housing Tax Credit
- Renewable Energy & Ethanol Facilities Tax Credits
- Motion Picture Production Tax Credit
- Ko Olina Tax Credit
- Important Agricultural Land
- High Technology Investment and Research Activities Tax Credits

3. Q&As

Hawaii Tax Credits



Hawaii Tax Credits

Two Main Categories

- 🌺 **Social** tax credits
- 🌺 **Economic incentive** tax credits

Refundable vs. Non-Refundable Credits

Refundable Credit

- 🌺 A taxpayer need **not** have any **tax liability** in the year the credit is claimed.
- 🌺 The state will **refund** the amount of the credit that remains after the credit has been applied against any outstanding tax liability of the taxpayer.

Non-Refundable Credit

- 🌺 A taxpayer **must** have a **tax liability** against which to apply the investment credit.
- 🌺 If the taxpayer has no tax liability for the particular year, the credit amount claimed in that year may be **carried forward** to a future year in which the taxpayer does have a tax liability.

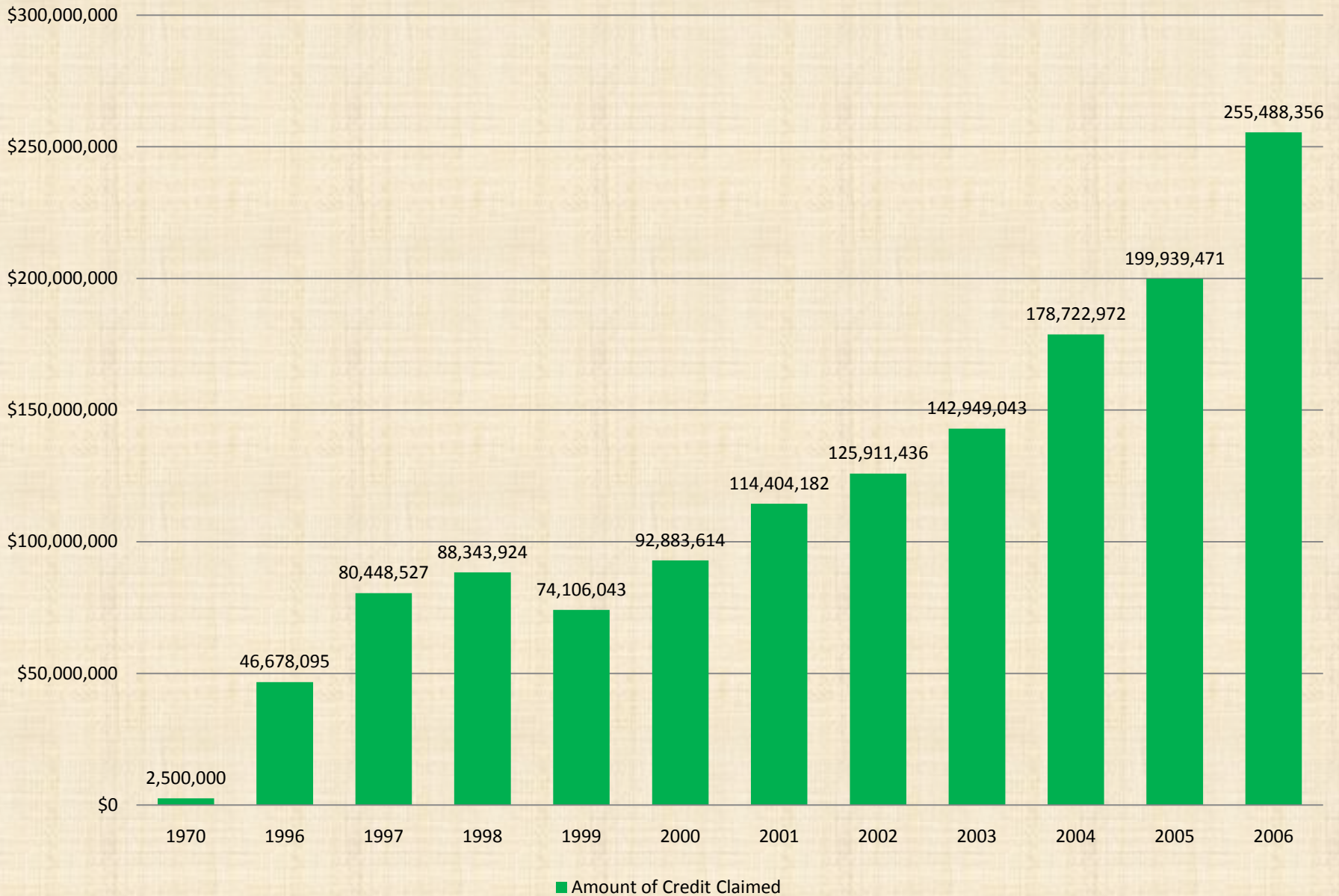
History

Figure 1. Number of Tax Credits Available (1970, 1996 - 2008)



History (Cont.)

Figure 2. Amount of Tax Credits Claimed (1970, 1996 - 2006)



Hawaii Tax Credits

SOCIAL CREDITS				
No.	Credit	Effective Date	Sunset Date	Tax Credits Claimed for TY 2006 (\$million)
Non-Refundable Tax Credits				
1	Credit for Income Tax Paid to Another State or Foreign Country (Constitutionally required credit)	1957	n/a	\$44.35
2	Child Passenger Restraint System Tax Credit	1/1/1982	n/a	\$0.14
3	Lifeline Telephone Service Tax Credit	1/1/1986	n/a	\$0.11
4	Low-Income Housing Tax Credit	1/1/1988	n/a	\$6.51
5	Employment of Vocational Rehabilitation Referrals Tax Credit	1/1/1990	n/a	\$0.02
6	Individual Development Account Contribution Tax Credit	1/1/2000	12/31/2004	\$0.01
7	Credit for School Repair and Maintenance	1/1/2001	n/a	\$0.01
8	Flood Victims Tax Credits	Applicable to TYs beginning after 12/31/2003 and ending	12/31/2007	\$0.15
Subtotal				\$51.29

Hawaii Tax Credits

SOCIAL CREDITS (CONT.)				
No.	Credit	Effective Date	Sunset Date	Tax Credits Claimed for TY 2006 (\$million)
Refundable Tax Credits				
1	Low-Income Household Renter's Credit	1/1/1977	n/a	\$5.29
2	Child & Dependent Care Credit	1/1/1977	n/a	\$8.87
3	Low-Income Refundable	1/1/1999	Became refundable food/excise tax credit beginning with TYs after 12/31/2007	\$7.37
4	Food/Excise Tax Credit (Replaced Low-Income Refundable Credit)	1/1/2008	n/a	n/a
Subtotal				\$21.53
TOTAL SOCIAL CREDITS				\$72.82

Hawaii Tax Credits

ECONOMIC INCENTIVES				
No.	Credit	Effective Date	Sunset Date	Tax Credits Claimed for TY 2006 (\$million)
Non-Refundable Tax Credits				
1	Energy Conservation Credit	1/1/1975	No systems qualify after 6/30/2003	\$0.41
2	Enterprise Zone Tax Credit	1986	n/a	\$1.53
3	High Technology Business Investment Tax Credit	1/1/1999	12/31/2010	\$105.41
4	Hotel Remodeling Credit (10% Nonrefundable)	2001 (but only for costs incurred after 11/02/2001 and before 7/1/2003)	n/a	\$0.49
5	Residential Remodeling Credit	Costs incurred from 1/1/2001 - 6/30/2003	6/30/2003	\$7.87
6	Technology Infrastructure Renovation Tax Credit	1/1/2001	12/31/2010	\$0.03
7	Renewable Energy Technologies Income Tax Credit	Available for systems installed and placed in service after 6/30/2003	n/a	\$6.18
8	Ko Olina Resort & Marina Attractions and Educational Facilities Tax Credit	1/1/2005	No costs incurred after 5/31/2009 qualify	\$3.45
Subtotal				\$125.37

Hawaii Tax Credits

ECONOMIC INCENTIVES (CONT.)				
No.	Credit	Effective Date	Sunset Date	Tax Credits Claimed for TY 2006 (\$million)
Refundable Tax Credits				
1	Fuel Tax Credit for Commercial Fishers	1/1/1981	n/a	\$0.06
2	Capital Goods Excise Tax Credit	1/1/1988	n/a	\$34.33
3	Hotel Remodeling Credit (4% Refundable)	1/1/1999	12/31/2005	\$0.11
4	Motion Picture & Television Film Production Tax Credit	1/1/1997	Act 88, SLH 2006 shall be repealed on 1/1/2016. Revert back to HRS §235-17 prior to Act 88	\$7.28
5	Tax Credit for Research Activities	1/1/2000	12/31/2010	\$14.38
6	Ethanol Facilities Tax Credit	1/1/2002	n/a	\$0.00
7	Important Agricultural Land	TYs beginning after Ko'Oolina tax credit is repealed, exhausted, or expired	No credits will be certified after the 4th TY following the TY which credits are 1st claimed	n/a
8	Other Refundable Credits	7/1/2008	n/a	\$1.12
Subtotal				\$57.28
TOTAL ECONOMIC INCENTIVE CREDITS				\$182.65

Brief Description of Credits

Social Credit

Non-Refundable



- Credit for Income Tax Paid to Another State or Foreign Country (HRS §235-55)
 - Provides a nonrefundable income tax credit for taxes paid by Hawaii taxpayers in another state or country.
 - Required by the U.S. Constitution.
- Child Passenger Restraint System Tax Credit (HRS §235-15)
 - Provides a \$25 tax credit for the purchase of a child car seat.
- Lifeline Telephone Service Tax Credit (HRS §239-6.5)
 - Provides a nonrefundable tax credit equal to the foregone revenue and costs of providing phone service to eligible individuals.

Brief Description of Credits

Social Credit

Non-Refundable (Cont.)

- Employment of Vocational Rehabilitation Referrals Tax Credit (HRS §235-55.91)
 - Provides a nonrefundable income tax credit equal to 20% of the qualifying first-year wages, up to \$6,000 for employing vocational rehabilitation referrals.

- Individual Development Account Contribution Tax Credit (HRS §235-5.6)
 - Provides a nonrefundable income tax credit equal to 50% of the amount donated to an IDA.
 - Available for taxable years beginning 1/1/2000 to 12/31/2004.

Brief Description of Credits

Social Credit

Non-Refundable (Cont.)

- Credit for School Repair and Maintenance (HRS §235-110.2)
 - Provides a nonrefundable income tax credit for contributions of in-kind services to public schools for repair and maintenance.
- Flood Victims Tax Credits (Un-codified)
 - Provides a one-time 10% tax credit (up to \$10,000 per taxpayers) for un-reimbursed costs for those affected by the flooding of the Manoa Stream on 10/30/2004 on Oahu, and the flooding in all counties from 2/20/2006 - 4/9/2006.



Brief Description of Credits

Social Credit (Cont.)

Refundable

- Low-Income Household Renter's Credit (HRS §235-55.7)
 - Provides a \$50 credit per exemption for renters with AGI of less than \$30,000 and paid more than \$1,000 in rent during the taxable year.
- Child & Dependent Care Credit (HRS §235-55.6)
 - Provides a sliding scale credit for costs incurred in providing care to children or dependent adults.
- Food/Excise Tax Credit (Replaced Low-Income Refundable Credit) (HRS §235-55.85)
 - Provides a credit of up to \$85 per taxpayer to taxpayers with AGI of less than \$50,000 per year on a sliding scale.



Brief Description of Credits

Economic Incentive Credits

Non-Refundable

- Energy Conservation Credit (HRS §235-12)
 - Provides a nonrefundable tax credit for taxpayers who installed an energy conservation device (installed prior to 7/1/2003).
- Enterprise Zone Tax Credit (HRS §209E-10, §209E-11)
 - Provides a nonrefundable tax credit for income tax liability on a sliding scale.
- Residential Remodeling Credit (Repealed 2007) (HRS §235-110.45)
 - Provides a 4% nonrefundable tax credit for home construction or renovation costs incurred after 12/31/2000 up to a max. of \$250,000 (sunset 6/30/2003).



Brief Description of Credits

Economic Incentive Credits (Cont.)

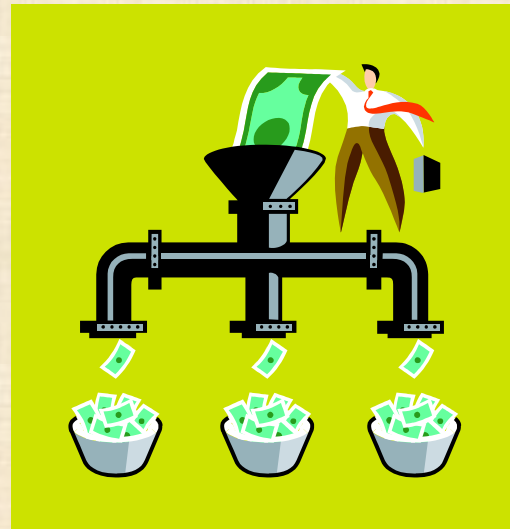
Non-Refundable (Cont.)

- Technology Infrastructure Renovation Tax Credit (HRS §235-110.51)
 - Provides a nonrefundable income tax credit of 4% of renovation costs incurred in installing technology infrastructure beginning after 12/31/2000 (sunset 12/31/2010).

Refundable

- Fuel Tax Credit for Commercial Fishers (HRS §235-110.6)
 - The tax credit shall be equal to the fuel taxes imposed under HRS §243-4(a) and paid by the principal operator during that taxable year.
- Hotel Remodeling Credit (Repealed 2007) (HRS §235-110.4)
 - Provides 4% refundable tax credit for hotel remodeling costs (10% nonrefundable from 11/2/2001 until 7/1/2003)

Discussion on Selected Credits



Capital Goods Excise Tax Credit

- HRS §235-110.7
- The most common income tax credit claimed.
- Essentially provides a refundable income tax credit equal to the **4% GET** paid on eligible depreciable tangible personal property.
- Utilizes terms contained in the IRC as of 1954, as amended as of 12/31/1984.
- Property must be placed in service in Hawaii.
- Practice Tips
 - Computer Software DOES NOT qualify for the Capital Goods Excise Tax Credit.
 - Substantiation is critical to a valid credit claim.
- Total credit claimed for TY 2006: \$34.3 million



Low Income Housing Tax Credit

- HRS §235-110.8
- Owners of residential buildings who provide low-income housing may claim this credit.
- It is a non-refundable tax credit and equal to a **% of the applicable federal low-income housing tax credit** under §42 Internal Revenue Code (IRC).
 - **30%** for buildings place in service prior to July 1, 2005
 - **50%** for buildings place in service after June 30, 2005
- Can be used against Franchise Tax paid by banks and Insurance Premiums Tax paid by insurance companies.
- Total credit claimed for TY 2006: \$6.51 million



Low Income Housing Tax Credit

● Federal Low Income Housing Tax Credit

- Administered by Hawaii Housing Finance & Development Corporation
- % that will yield over a **10-year period** amounts of credit which have a present value equal to:
 - **70%** of the qualified basis of the building (**9% credits**) (new buildings not financed with tax-exempt bonds)
 - **30%** of the qualified basis of the building (**4% credits**) (new buildings financed with tax-exempt bonds & existing building)

● Income restriction:

The tax credit is available only for units rented to low-income occupants. This means that a project must have:

- at least **20%** of its units rented to households with incomes of **50%** or less of area median income; or
- at least **40%** of the units must be rented to households with incomes of **60%** or less of area median income.

● Rent restriction:

Low-income rents are restricted based on the number of bedrooms in the unit and the area median income as established annually by HUD. If the tenant pays for utilities, the rent must be adjusted by the applicable utility allowance.

Renewable Energy Tax Credit

- HRS §235-12.5
- A nonrefundable income tax credit for renewable energy technologies
 - Photovoltaic Systems
 - Wind-Powered Systems
 - Solar Thermal Energy Systems
- Must be installed in Hawaii
- Total credit claimed for TY 2006: \$6.18 million
- **Photovoltaic Systems** placed in service after December 31, 2006:
 - Single Family Residential Property
 - 35% of actual costs (max \$5,000)
 - Multi-Family Residential Property
 - 35% of actual cost (max \$350/unit)
 - Commercial Property
 - 35% of actual cost (max \$500,000)

Renewable Energy Tax Credit

● Wind-Powered Systems placed in service after December 31, 2006:

- Single Family Residential Property
 - 20% of actual costs (max \$1,500)
- Multi-Family Residential Property
 - 20% of actual cost (max \$200/unit)
- Commercial Property
 - 20% of actual cost (max \$500,000)

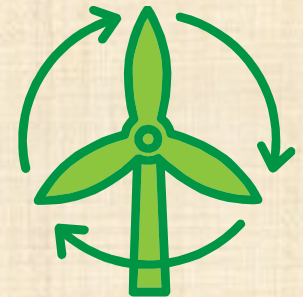
● Solar Thermal Energy Systems placed in service after December 31, 2006:

- Single Family Residential Property
 - 35% of actual costs (max \$2,250)
- Multi-Family Residential Property
 - 35% of actual cost (max \$350/unit)
- Commercial Property
 - 35% of actual cost (max \$250,000)



Renewable Energy Tax Credit

- “Actual Cost”
 - Includes accessories and installation
 - Does NOT include consumer incentives and costs for which another credit is claimed (*e.g.*, capital goods excise tax credit).
 - Subtract from the cost any utility rebate.
- Credit is apportioned between multiple owners of a single system in proportion to their contribution to the cost of the system
- TIR 2007-02 addresses common issues:
 - Who may claim the credit
 - When the credit may be claimed
 - Definition of a system
 - Type of property being served by the system
 - Difference between a system serving one property with more than one use and a system serving multiple properties.



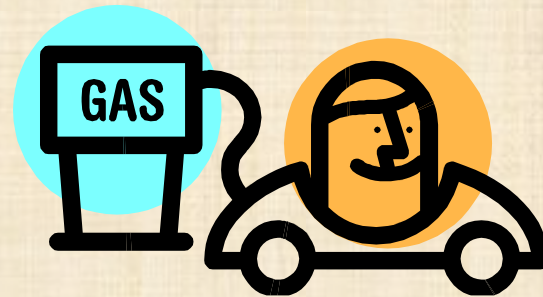
Ethanol Facilities Tax Credits

- HRS §235-110.3
- Provides a refundable income tax credit equal to **30%** of the nameplate capacity (**> 500,000 but < 15 million gallons**).
- Qualifications:
 - Credit claim shall not exceed 100% of total investments made in the qualifying ethanol production facility during the credit period;
 - The ethanol production facility operated at a level of $\geq 75\%$ of its nameplate capacity on an annualized basis; and
 - The ethanol production facility is in production on or before 01/01/2017.
- Credit period: maximum **8 years** beginning from the first taxable year in which the ethanol production facility begins production (even if actual production is not at 75% of nameplate capacity).



Ethanol Facilities Tax Credits

- Qualifying ethanol production means ethanol produced from renewable, organic feedstocks, or waste materials, including municipal solid waste.
 - All qualifying production shall be fermented, distilled, gasified, or produced by physical chemical conversion methods such as reformation and catalytic conversion and dehydrated at the facility.
- Aggregate credit amount capped at \$12 million per year.
 - Certification done by DBEDT.



Motion Picture Production Tax Credit

- HRS §235-17
- History of Act 88
 - Act 88 was the product of the 2006 legislative session.
- Before Act 88—
 - Taxpayers were entitled to a refundable **4%** tax credit; and
 - A refundable **7.25%** tax credit for expenditures related to transient accommodation costs.
 - Essentially, taxpayers were entitled to a refund of GET & TAT taxes paid.
- Provides a refundable **15%-20%** tax credit for qualified production costs incurred by a qualified production in Hawaii.
 - **15%** on Oahu;
 - **20%** on Neighbor Islands



Motion Picture Production Tax Credit

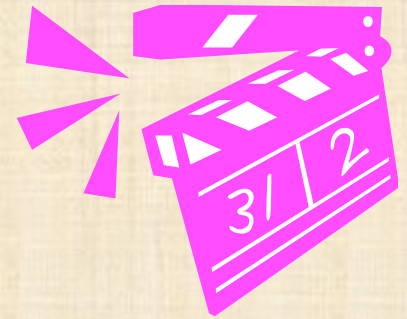
- Minimum production size: **\$200,000**
- Maximum credit amount: **\$8 million**
- Must be a “qualified production”
 - Feature-length film
 - Television series
 - Up to 22 episodes = one season; all additional is a separate production
 - TV special
 - Single-episode
 - Commercial
 - Pilot
- Includes all productions; local, national, and international
- \$200,000 in qualified production costs
- **Excluded** productions:
 - Daily local news
 - Sporting events
 - Productions soliciting funds (telethon)
 - Private, corporate, or institutional productions
 - Productions containing obscene material



Motion Picture Production Tax Credit

● Qualified Production Costs

- As a general matter, costs must be incurred in Hawaii. Costs must be subject to, directly or indirectly:
 - General Excise Tax, Chapter 237; or
 - Income Tax, Chapter 235
 - The Legislature specifically intended **very specific costs to qualify**, including:
 - Preproduction costs, including scouting;
 - Set construction, rentals, wardrobe, props, accessories, food, transportation, etc.;
 - Wages or salaries of cast and crew;
 - Photograph, sound synch, lighting;
 - Editing, visual effects, music, post-production;
 - Rental and fees for location use;
 - Rental of vehicles and lodging;
 - Airfare to and from Hawaii, and interisland;
 - Shipping of equipment to/from Hawaii and interisland;
 - Other costs determined by DOTAX in consultation with the Film Office.
 - Usually handled on a case-by-case basis.
 - Costs disqualified include any costs financed with Act 221 money. Any funds where a claim for credit has been made by any investor.
- Total credit claimed for FY 2006: \$7.28 million



Ko Olina Tax Credit

- HRS §235-110.46

- “Super credit” that can be used against tax liability under the following chapters:

- 235 (Income Tax),
- 237 (General Excise Tax),
- 237D (Transient Accommodation Tax),
- 238 (Use Tax),
- 239 (Public Service Company Tax),
- 241 (Taxation of Banks and Other Financial Institution), or
- 431 (Insurance)

- Tax credit for qualified costs in the development of facilities for attractions and educational purposes at Ko Olina Resort & Marina and at Makaha Resort.

- The tax credit shall be equal to the qualified costs incurred from **06/01/2003 – 05/31/2009**.

- Aggregate cap: **\$75 million** for all qualified taxpayers for all years.

- Aggregate cap: **\$7.5 million** for all qualified taxpayers per year.

- Certified by DBEDT.

Ko Olina Tax Credit

- To qualify for the credit, a taxpayer shall:
 1. Have expended qualified costs on and be developing a world-class aquarium and marine science and mammal research facility at Ko Olina Resort and Marina; **and**
 2. Dedicate **50%** of the **net operating income** of the world-class aquarium **to the State**, beginning on the 1st day of the 7th year following the year in which the credit was first taken; **or**
 3. Acquire or own the Makaha Resort, and lease or sell a portion of the Makaha Resort for use as training and educational facilities for a period of > 6 years to a taxpayer meeting the requirements of subsection (1) above.



Ko Olina Tax Credit

- **Qualified costs** means:
 - Any costs for plans, design, and construction, costs for equipment that is permanently affixed to a building or structure, and acquisition of facilities for educational purposes,
 - Incurred after 03/31/2003 & before 06/01/2009,
 - At either or both of:
 - **Ko Olina Resort and Marina** for the development of facilities for attractions and educational purposes, and for infrastructure within the Ko Olina Resort and Marina that is directly related to those facilities, including:
 - a work-class aquarium,
 - marine science and mammal research facilities,
 - internal sports training complex,
 - a travel industry management intern campus,
 - infrastructure for the transfer of ocean waters to the aquarium or marine mammal facilities, or both, seawater air conditioning, and
 - other educational facilities developed or operated in cooperation with the UH or other educational institutions; **or**
 - **Makaha Resort** for the development of a training and educational facility within a working resort and hotel; provided that “qualified costs” shall **not** include **land acquisition costs**.
- **100% recapture** if costs no longer meet definition.

Important Agricultural Land (IAL)

- The IAL qualified agricultural cost tax credit may be claimed in taxable years beginning after the taxable year during which the **Ko Olina tax credit** is repealed, exhausted, or expired.
- The tax credit amount shall be determined as follows:
 - **Year 1: 25%** of the lesser of the following:
 - The qualified agricultural costs incurred by the taxpayer after July 1, 2008; or
 - \$625,000;
 - (Maximum: \$156,250)
 - **Year 2: 15%** of the lesser of the following:
 - The qualified agricultural costs incurred by the taxpayer after July 1, 2008; or
 - \$250,000; and
 - (Maximum: \$37,500)
 - **Year 3: 10%** of the lesser of the following:
 - The qualified agricultural costs incurred by the taxpayer after July 1, 2008; or
 - \$125,000
 - (Maximum: \$12,500).
- DOA is to certify credits up to **\$7,500,000 annually**.

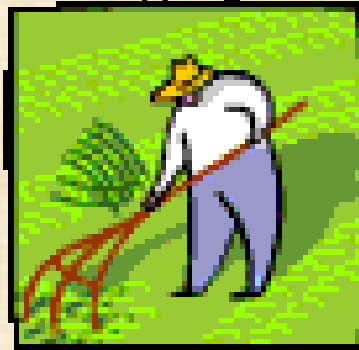
Important Agricultural Land (IAL)

- **"Qualified agricultural costs"** means expenditures for:
 - The plans, design, engineering, construction, renovation, repair, maintenance, & equipment for:
 - Roads or utilities, where majority of lands serviced are IAL;
 - Agricultural processing facilities in the State, where majority of crops processed is from businesses using > 50% IAL;
 - Water wells, reservoirs, dams, water storage facilities, water pipelines, ditches, or irrigation systems in the State, where majority of lands served are IAL; and
 - Agricultural housing in the State; provided that the housing units:
 - Are occupied solely by farmers or employees for agricultural businesses and their immediate family members;
 - Are owned by the agricultural business;
 - Are in the general vicinity, as determined by the department of agriculture, of agricultural lands owned or leased by the agricultural business; and
 - Conform to any other conditions that may be required by the DOA;



Important Agricultural Land (IAL)

- **"Qualified agricultural costs"** means expenditures for (cont.):
 - Feasibility studies, regulatory processing, and legal and accounting services related to the items on the prior slide;
 - Equipment, primarily for agricultural purposes, used to cultivate, grow, harvest, or process agricultural products by an agricultural business; **and**
 - Regulatory processing, studies, and legal and other consultant services related to obtaining or retaining sufficient water for agricultural activities and retaining the right to farm on lands identified as important agricultural lands.
- The DOA shall cease certifying credits after the 4th taxable year following the taxable year during which the credits are first claimed.



High Technology Investment Tax Credit & Research Activities Tax Credit

- History
- Statistics
 - Data Sources
 - Investment in Hawaii
 - Job Creation
 - Revenues vs. Expenses
 - Intellectual Property
 - Costs in State Tax Credits to Attract High Technology Investments & Research Activities Tax Credits



High Technology & Research Credits

High Technology Investment Tax Credit

1. 1999: Act 178

- **10%** investment tax credit (**non-refundable credit**) for \$ invested to Qualified High Technology Business (**QHTB**)
- **Max:** \$500,000/QHTB/yr
- Define **QHTB** as: A business employing or owning capital or property, or maintaining an office in Hawaii; provided that:
 - **Activities Test**— **100%** of their business activities are in qualified research; **OR**
 - **Gross Income Test**— **100%** of the business' gross income is derived from qualified research and received from:
 - Products sold from, manufactured in, or produced in Hawaii; or
 - Services performed in Hawaii
- **Limit “qualified research”** to
 - research as defined in IRC §41(d), and
 - developing, designing, modifying, programming, and licensing of computer software
- **List specific restrictions** on certain businesses from qualifying as QHTB. For example, banking, insurance, financing, leasing, rental, investing, or similar business can **not** qualify as QHTB.

Research Activities Tax Credit

1. 1999: Act 178

- Conform to IRC §41(d) and IRC §280
- **2.5%** of expenses incurred to conduct new research over and above expenses in prior year (**non-refundable credit**)
- Available to **all taxpayers**

Other Incentives (Included in Act 178)

- Stock exclusion
- Royalty exclusion

High Technology & Research Credits

High Technology Investment Tax Credit

2. 2000: Act 297

- Amend Act 178, SLH 1999
- **QHTB definition**
 - Lower the **activity test** threshold from **100% to >50%** (of which 75% must be done in Hawaii, or 37.5% total)
 - Lower the **gross income test** threshold from **100% to 75%**
- **Redefine “qualified research”** by altering the description of qualifying computer software activities, adding biotechnology, and removing the exception regarding research conducted outside the State
- **Allow credit allocation** without regard to IRC § 704(b)(2)

Research Activities Tax Credit

2. 2000: Act 297

- Amend Act 178, SLH 1999
- **Amend** the research credit to make it a **refundable credit**
- **Increase** the credit from **2.5%** to **20%** of the excess expenditure (over previous tax years)

High Technology & Research Credits

High Technology Investment Tax Credit

3. 2001: Act 221

- Amend Act 297, SLH 2000
- **Increase** investment credit from **10% (max: \$500,000/QHTB) to 100% (max: \$2 million/QHTB)** - claimable over 5 years:
 - Yr 1: 35% (max: \$700,000)
 - Yr 2: 25% (max: \$500,000)
 - Yr 3: 20% (max: \$400,000)
 - Yr 4: 10% (max: \$200,000)
 - Yr 5: 10% (max: \$200,000)
- **Redefine** “qualified research” to include:
 - IRC 41(d) qualified research
 - Computer software (for sale, lease, or license)
 - Biotechnology
 - Performing arts products (audio files, video files, computer animation, movies and TV)
 - Sensor optic technologies
 - Ocean sciences
 - Astronomy
 - Nonfossil fuel energy-related technology
- **Specific restrictions** on certain businesses from qualifying as QHTB **were removed**

Research Activities Tax Credit

3. 2001: Act 221

- Amend Act 297, SLH 2000
- **Expand** the research credit to include **all qualified research expenditures**, not just those expenditure that exceeded the expenditures from previous tax years

High Technology & Research Credits

High Technology Investment Tax Credit

4. 2004: Act 215

- **Extend** the expiration date of the investment credit from 12/31/05 to 12/31/10
- **Require** investment transactions to have **economic substance & business purpose**
 - Safe haven for taxpayers claiming credits with credit allocation ratio of 1.5 or less
- Add certification requirements
- Remove the “liberally construed” language

5. 2007: Act 206

- Require QHTB receiving investments after 6/30/07 to submit investment, employment, job creation, revenue, expense, and other information to DOTAX
- Require DOTAX to report the information annually to the Legislature
- Require DOTAX to study the effectiveness of the credit

Research Activities Tax Credit

4. 2004: Act 215

- **Extend** the expiration date of the investment credit from 12/31/05 to 12/31/10
- **Limit** the **availability** of the credit to only qualified high technology businesses (“QHTB”), effective 7/1/04

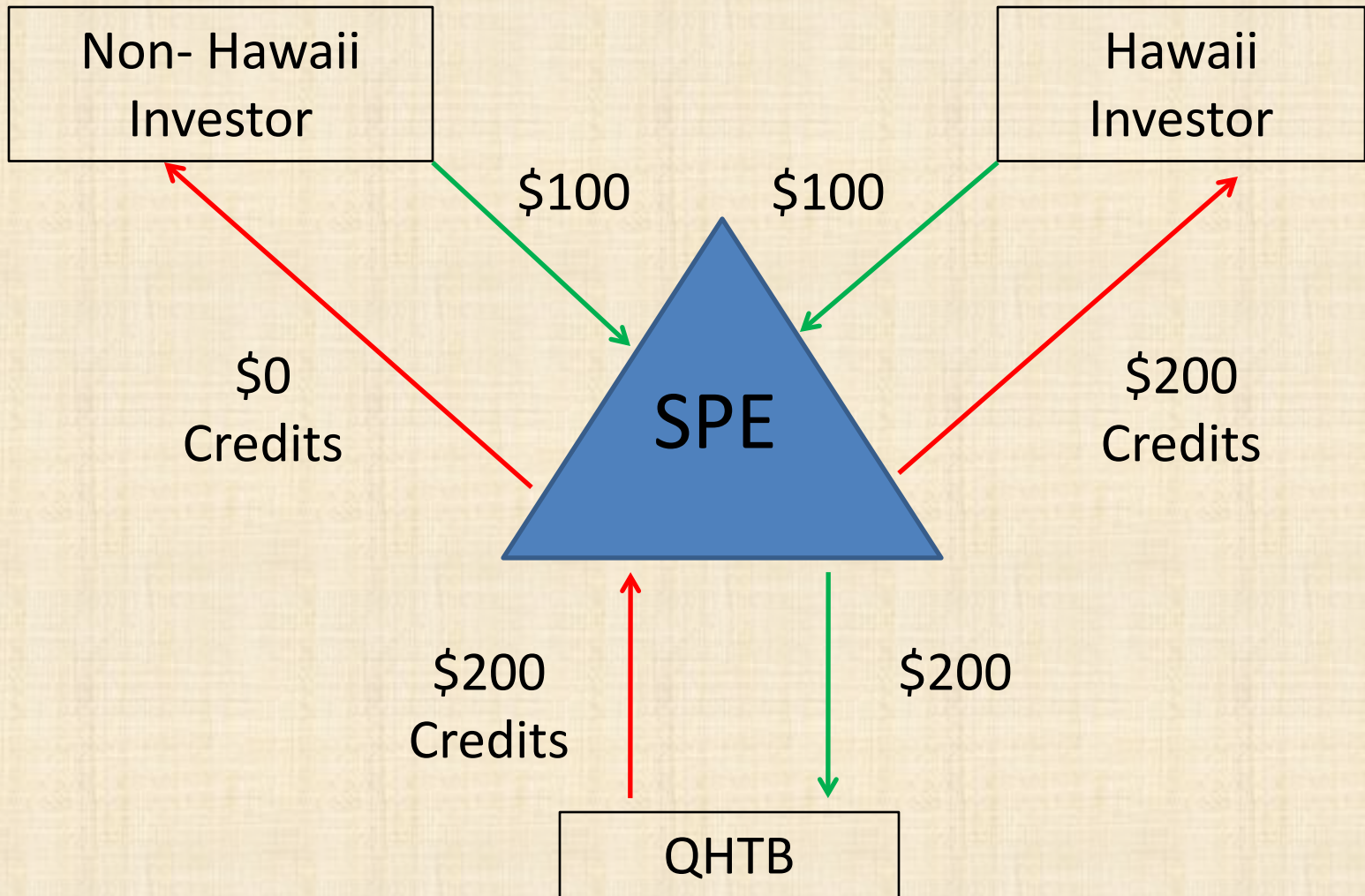


High Technology & Research Credits

High Technology Investment Tax Credit (Current Statute)

- **100%** investment tax credit (**non-refundable credit**) for \$ invested to Qualified High Technology Business (**QHTB**)
- Claimed over **5 years**: 35%, 25%, 15%, 10%, 10%
- **Max**: \$2 million/year/QHTB
- Define **QHTB** as: A business employing or owning capital or property, or maintaining an office in Hawaii; provided that:
 - **Activities Test**: **>50%** of all activities are qualified research (of which 75% must be done in HI, or 37.5% total); **OR**
 - **Gross Income Test**: **75%** of the business' gross income is derived from qualified research and received from:
 - Products sold from, manufactured in, or produced in Hawaii; or
 - Services performed in Hawaii
- **Qualified research** means:
 - IRC 41(d) qualified research
 - Computer software (for sale, lease, or license)
 - Biotechnology
 - Performing arts products (audio files, video files, computer animation, movies and TV)
 - Sensor optic technologies
 - Ocean sciences
 - Astronomy
 - Nonfossil fuel energy-related technology

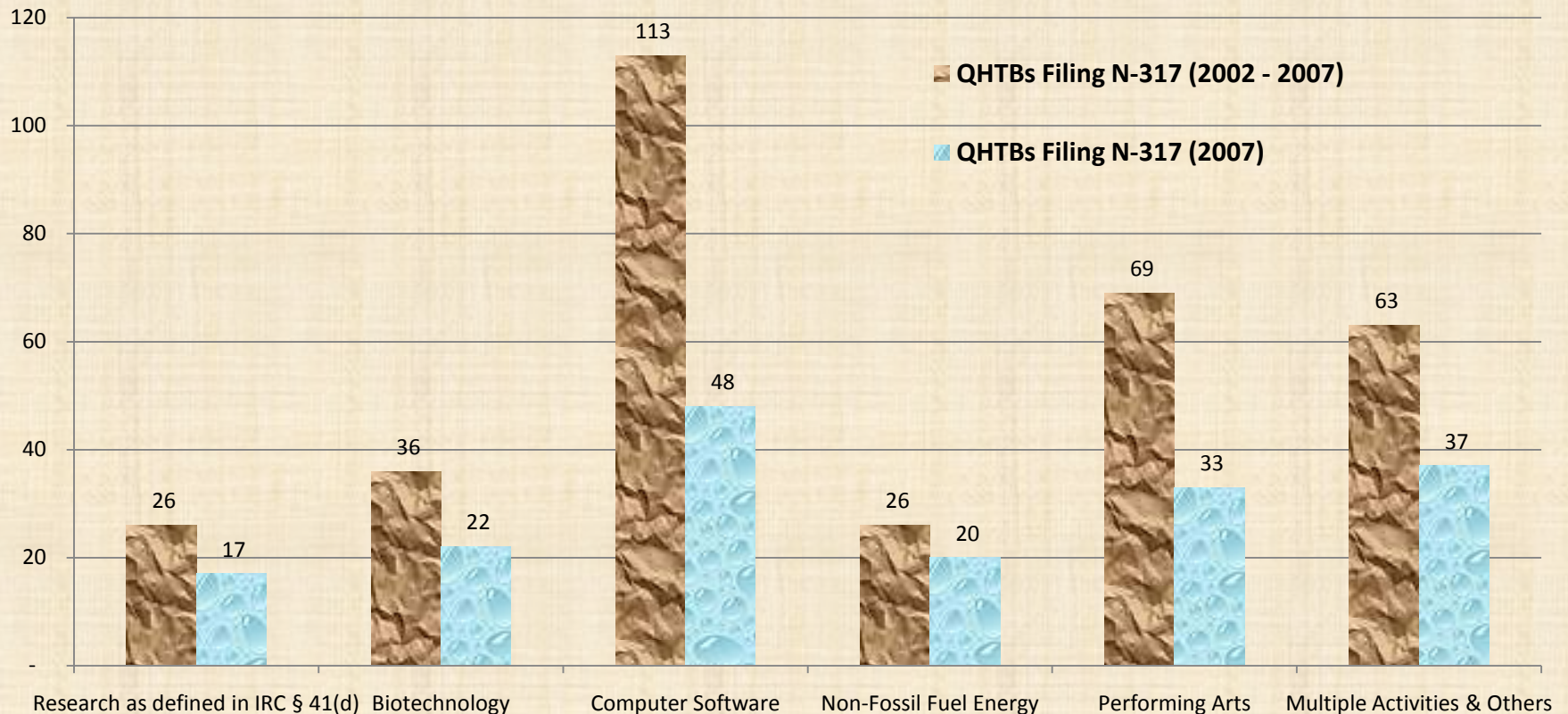
High Technology Credits



Data Sources

- Each year QHTBs are required to file DOTAX Form N-317 (“Statement by Qualified High Technology Business”)
- The QHTBs are asked to provide data for the previous calendar year
- Current filing deadline: before June 30th of each year
- QHTBs began filing Form N-317 for CY 2002 operations
- For CY 2007, the form was significantly improved to include more detail on the operations of high technology firms

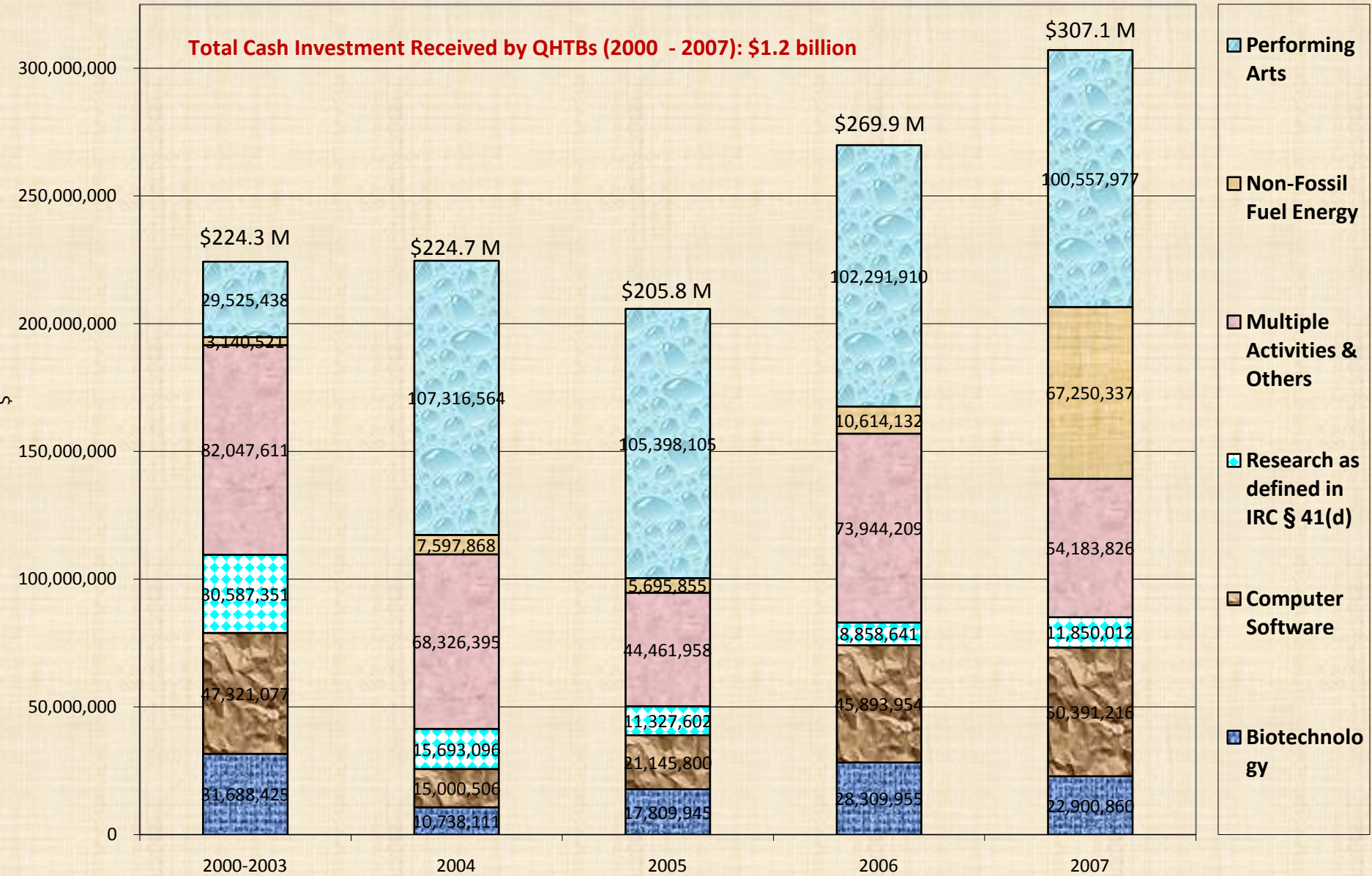
Table 1. Summary of QHTBs Filing Form N-317



Investment in Hawaii

Table 2. Cash Investment Received by 333 QHTBs (2000 - 2007)

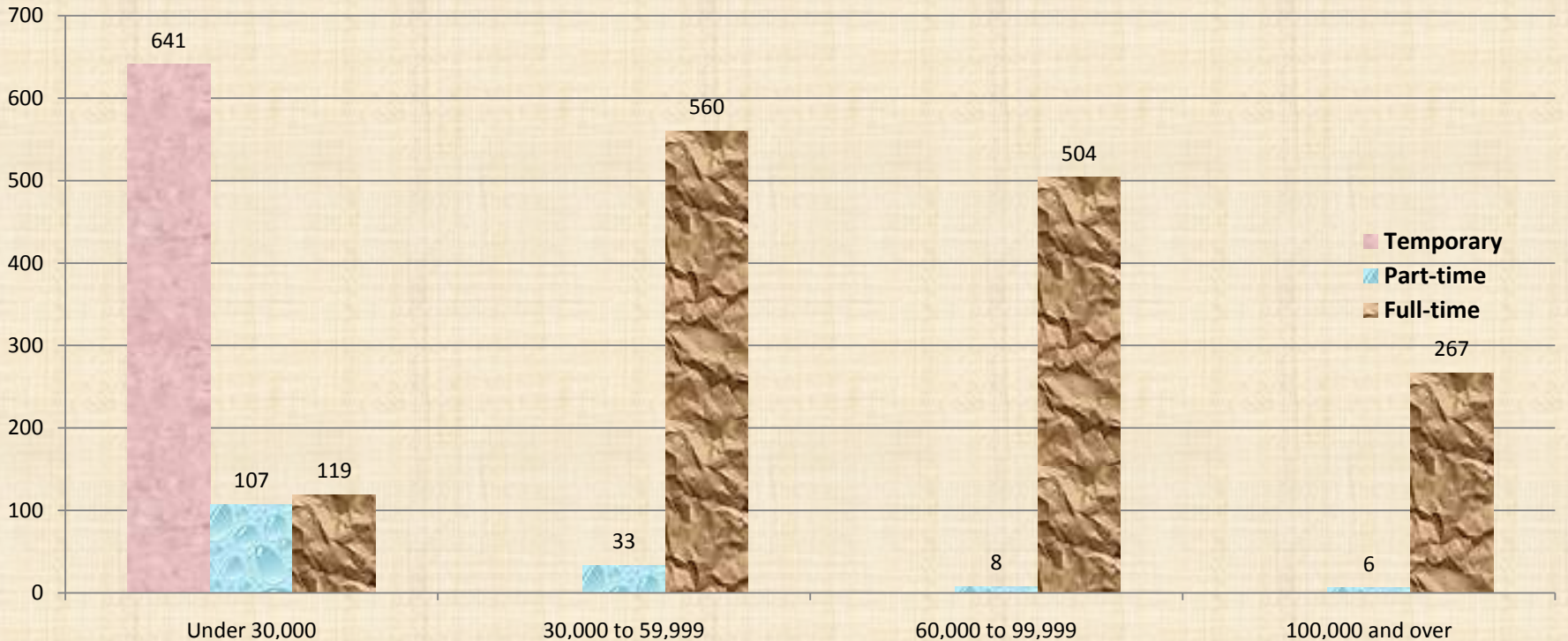
Total Cash Investment Received by QHTBs (2000 - 2007): \$1.2 billion



Job in Hawaii

Category of Investment Received	# of QHTBs	Total Investment	2007 Full-time Employees	2007 Part-time Employees	2007 Temporary Workers	2007 Independent Contractors
>= \$ 10,000,000	4	166,056,728	137	10	7	922
\$5,000,000 - < \$10,000,000	6	41,774,198	27	1	399	121
\$3,000,000 - < \$5,000,000	12	45,998,693	155	14	12	137
< \$3,000,000	155	53,304,609	1,129	129	223	938
TOTAL	177	307,134,228	1,448	154	641	2,118

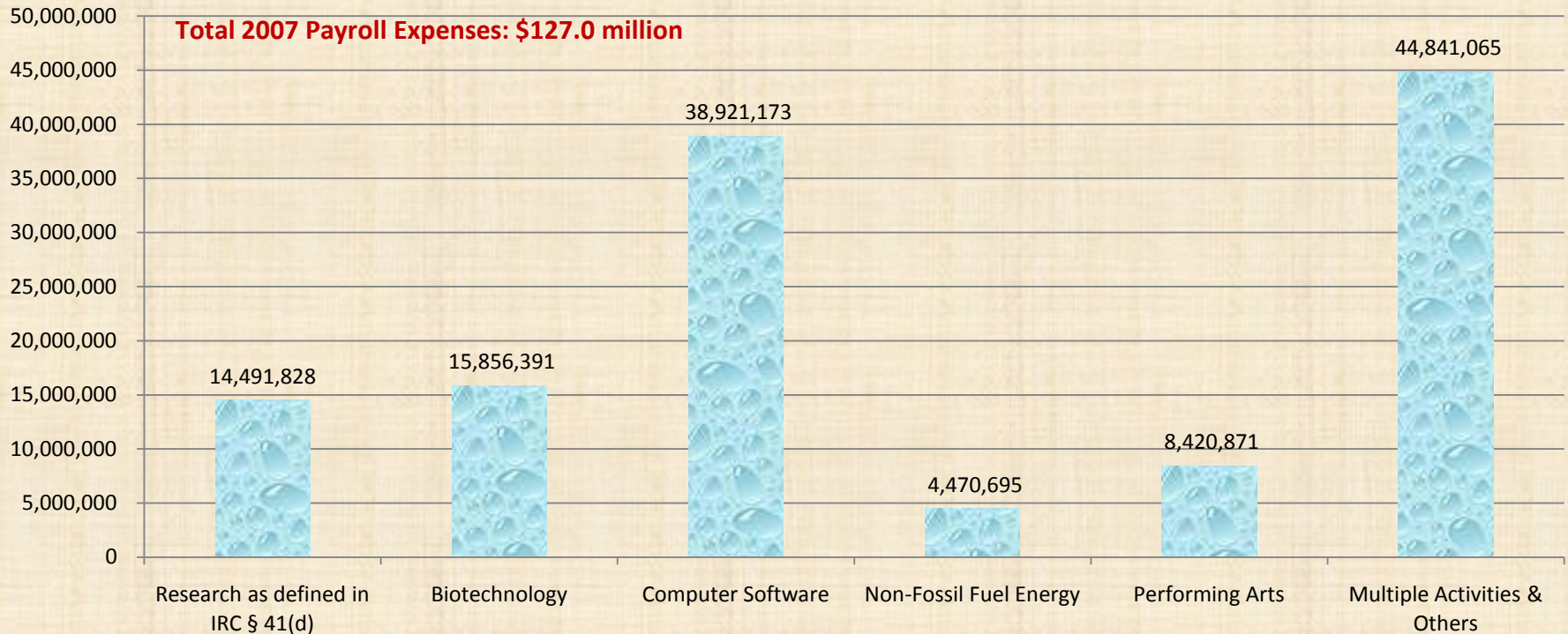
Table 3. Number of Jobs Created by QHTBs



Hawaii Revenue vs. Expenses

Category of Investment Received	# of QHTBs	Total Investment	Hawaii Revenue	Hawaii Expenses	Hawaii Payroll Expenses
>= \$ 10,000,000	4	166,056,728	23,616,188	112,327,964	8,292,568
\$5,000,000 - < \$10,000,000	6	41,774,198	4,103,824	26,216,072	6,725,395
\$3,000,000 - < \$5,000,000	12	45,998,693	5,553,047	39,836,011	12,050,117
< \$3,000,000	155	53,304,609	172,571,921	206,163,150	99,933,943
TOTAL	177	307,134,228	205,844,980	384,543,197	127,002,023

Table 4. 2007 QHTBs Payroll Expenses



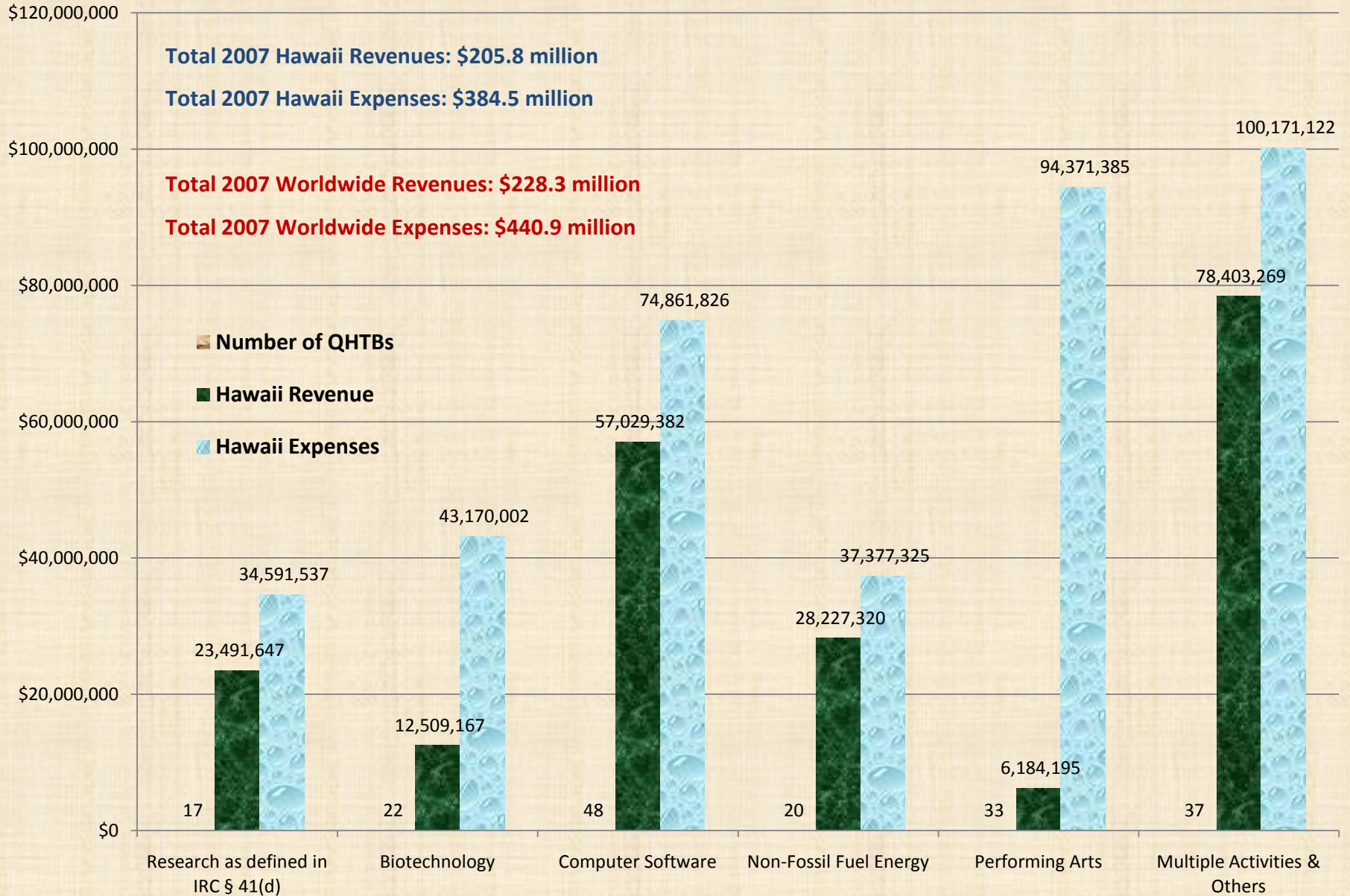
Hawaii Independent Contractors

Category of Investment Received	# of QHTBs	Total Investment	Hawaii Independent Contractor (Scientific & Technical)	Hawaii Independent Contractor (Performing Arts)	Hawaii Independent Contractor (Other)
>= \$ 10,000,000	4	166,056,728	233,014	51,338,423	329,401
\$5,000,000 - < \$10,000,000	6	41,774,198	56,060	2,162,863	9,086,425
\$3,000,000 - < \$5,000,000	12	45,998,693	742,353	169,536	6,550,377
< \$3,000,000	155	53,304,609	13,838,244	1,556,335	7,925,295
TOTAL	177	307,134,228	14,869,671	55,227,157	23,891,498



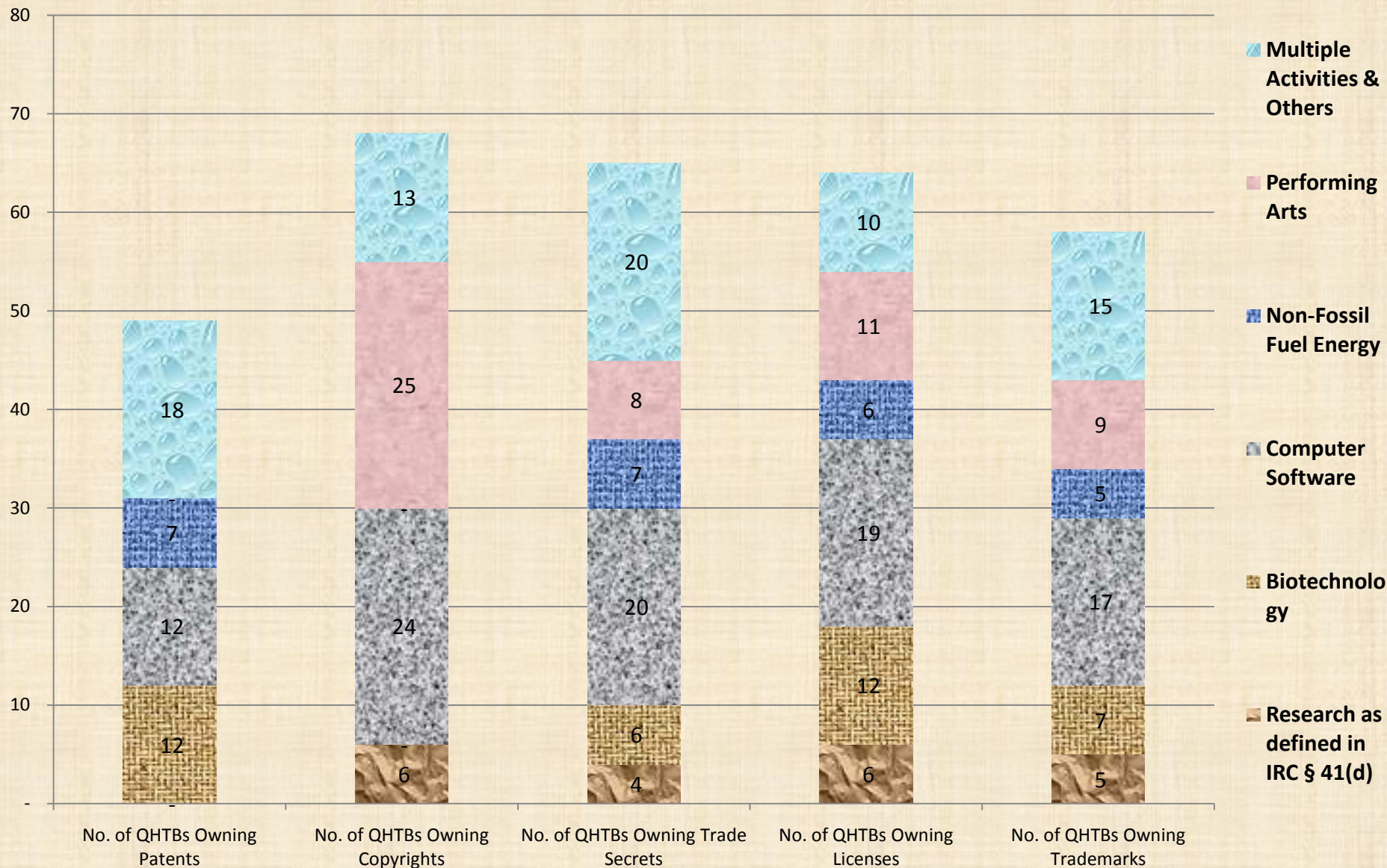
Hawaii Revenues vs. Expenses

Table 5. 2007 Hawaii Revenues and Expenses



Intellectual Property Owned by QHTBs

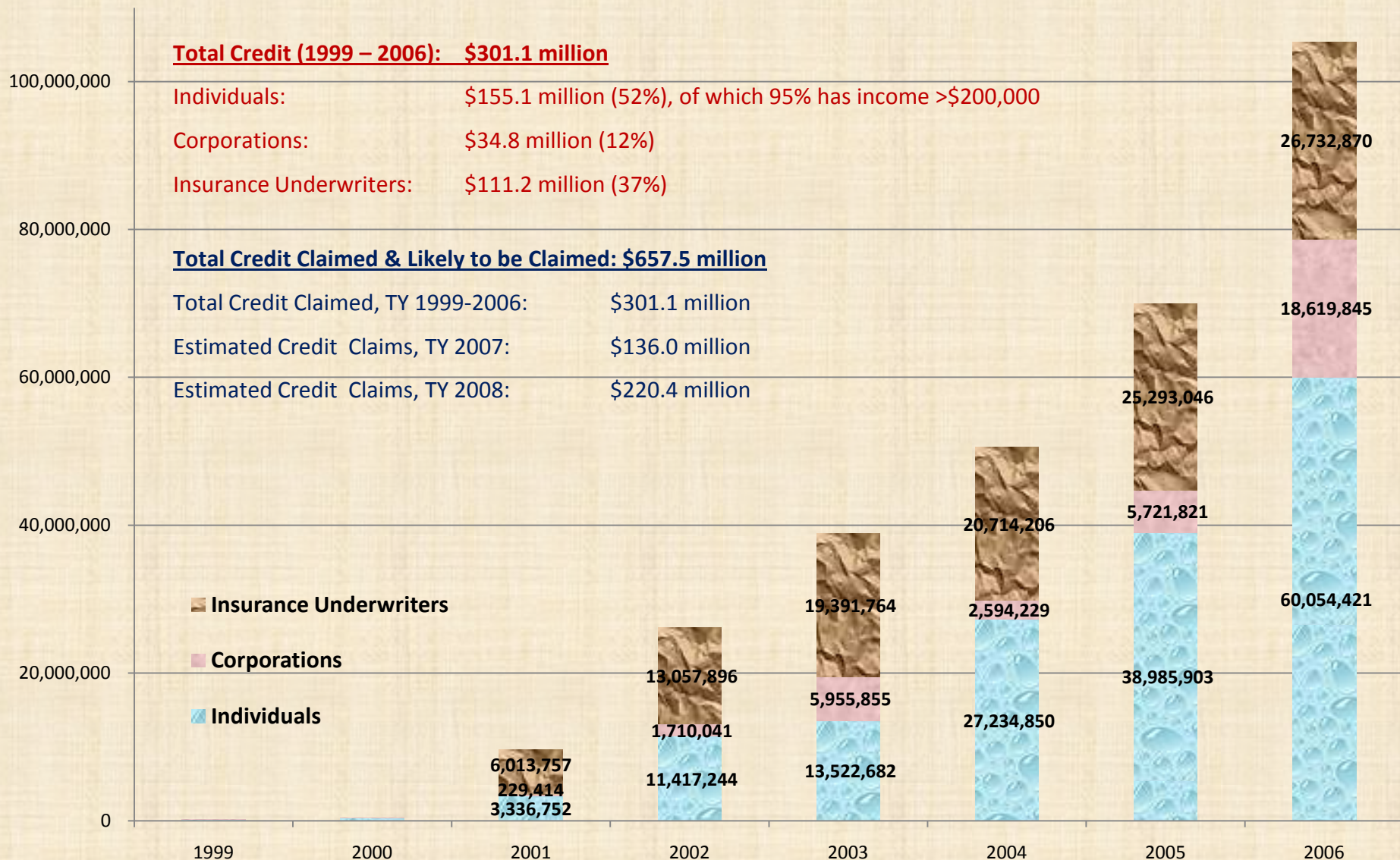
Table 6. Intellectual Property Owned by QHTBs



Costs in State Tax Credits to Attract High Technology Investments

(HRS § 235-110.91, "Investment Credit")

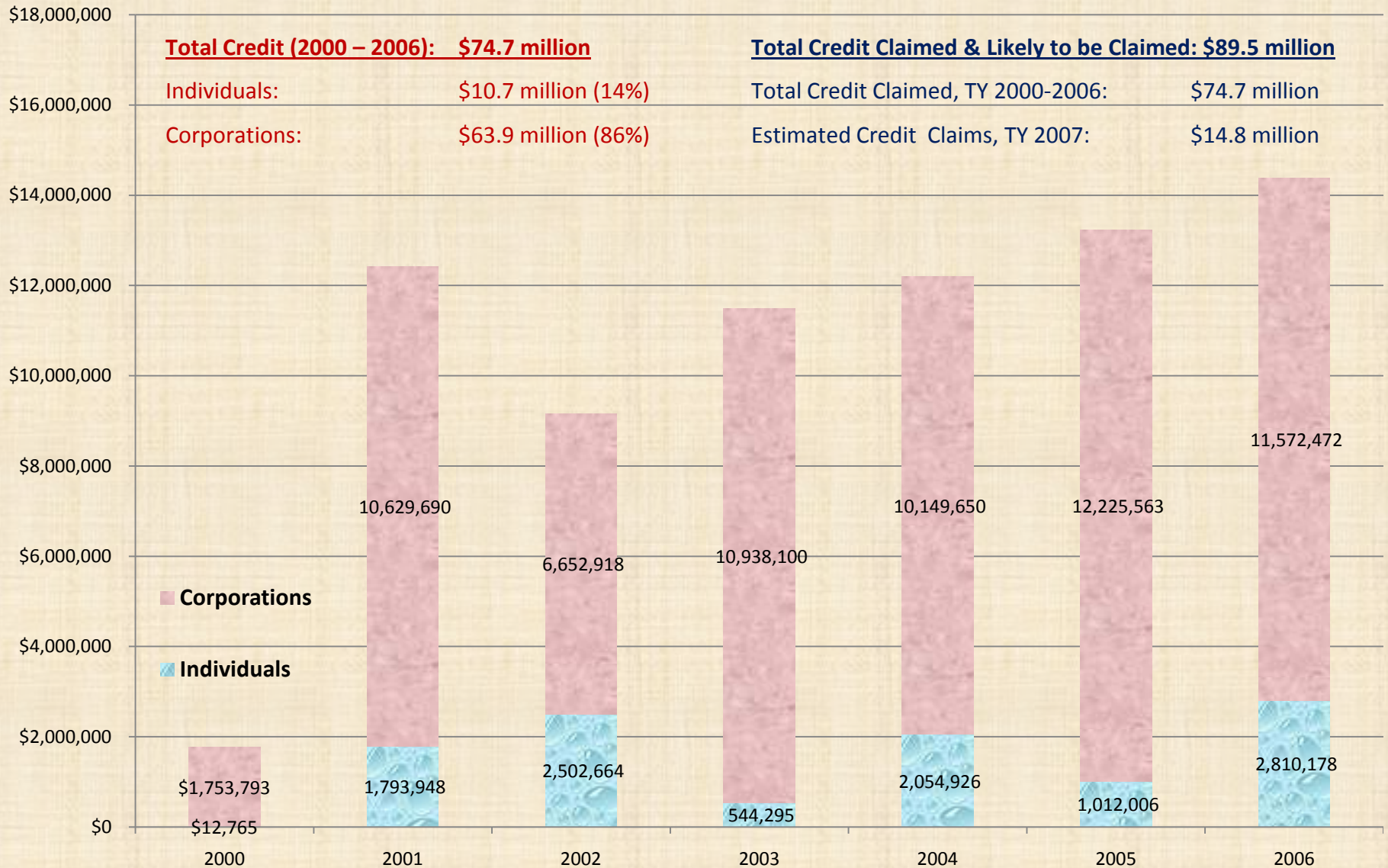
Table 7. High Technology Business Investment Tax Credit Claimed for TY 1999-2006



Costs in State Tax Credits to Attract **Research Activities**

(HRS § 235-110.9, "Research Credit")

Table 8. Research Activities Tax Credit Claimed for TY 2000 - 2006



2007 Taxes Paid by 177 QHTBs

Type of Taxes	# of QHTBs*	Amount of Taxes Paid for TY 2007
General Excise Tax	131	\$1.9 million
Income Tax	144	\$0.3 million
Withholding Tax	132	\$5.4 million
Total		\$7.6 million

Note: *Out of 177 QHTBs, 131 QHTBs filed 2007 GE returns, 144 filed 2007 Income tax returns, and 132 filed 2007 Withholding tax returns.



Q&A



Thank you