

STAND. COM. REP. NO.

2153

Honolulu, Hawaii

FEB 10 2010

RE: S.B. No. 2293

Honorable Colleen Hanabusa  
President of the Senate  
Twenty-Fifth State Legislature  
Regular Session of 2010  
State of Hawaii

Madam:

Your Committee on Economic Development and Technology, to which was referred S.B. No. 2293 entitled:

"A BILL FOR AN ACT RELATING TO HIGH TECHNOLOGY,"

begs leave to report as follows:

The purpose of this measure is to support Hawaii's science and technology industry by:

- (1) Extending the ending date for the tax credit for research activities from December 31, 2010, to December 31, 2011; and
- (2) Establishing a high technology research and development task force to develop legislative initiatives to improve the tax credit or establish alternatives to the tax credit.

Testimony in support of this measure was submitted by the Department of Business, Economic Development, and Tourism; Hawaii Strategic Development Corporation; High Technology Development Corporation; The Chamber of Commerce of Hawaii; Puko'a Scientific; and three individuals. The Department of Taxation submitted testimony in opposition. The Tax Foundation of Hawaii submitted comments.

Written testimony presented to the Committee may be reviewed on the Legislature's website.



In testimony, the Department of Taxation anticipated a revenue loss of approximately \$20,000,000 in fiscal year 2012 for the one-year extension of the tax credit for research activities, but provided no information as to how the Department arrived at this figure.

Your Committee finds that one of the key issues regarding the tax credit for research activities is how the revenues generated to the State by research and development companies compare to the expenses of the tax credit. According to recent industry analysis, in 2008, \$13,400,000 in tax credits was claimed. Given a credit of twenty per cent of qualified expenses, the qualified expenses are five times the credit, or \$67,000,000. Typically, about half of companies' expenses are qualified, yielding total expenses of approximately \$134,000,000 by companies relating to qualified research and development activities. Wages average about sixty per cent of those expenses, with the remaining forty per cent attributable to a variety of expenses, including rent, etc. The industry analysis is based on a six per cent income tax rate and a 4.5 per cent general excise tax rate to estimate the taxes directly paid by these companies, and an economic multiplier of two was used, as most of the wages and other expenses are recycled in the economy. Finally, total revenue of about \$14,400,000 is calculated to be attributable to the research and development efforts of the companies receiving \$13,400,000 in tax credits, thereby showing that the refundable tax credit can generate more tax revenue than it costs the State in the form of the credit.

Your Committee also finds that in a highly competitive industry, Hawaii's tax credit for research activities compares well with other countries and states. While a direct comparison of comparable tax credits in other countries and jurisdictions is more difficult because the incentives are in various forms such as tax abatements or enhanced deductions, examples such as Canada's Quebec Province where overall tax credits can reach 72.5 per cent, illustrate the competition that Hawaii faces.


Your Committee is in strong support of the extension of the tax credit for research activities, as a means of attracting and sustaining this critical sector of Hawaii's economy.

As affirmed by the record of votes of the members of your Committee on Economic Development and Technology that is attached to this report, your Committee is in accord with the intent and



purpose of S.B. No. 2293 and recommends that it pass Second Reading and be referred to the Committee on Ways and Means.


Respectfully submitted on  
behalf of the members of the  
Committee on Economic  
Development and Technology,

  
CAROL FUKUNAGA, Chair



The Senate  
Twenty-Fifth Legislature  
State of Hawaii

**Record of Votes**  
**Committee on Economic Development and Technology**  
**EDT**

Bill / Resolution No.:* <b>SB 2293</b>	Committee Referral: <b>EDT, WAM</b>	Date: <b>2-3-2010</b>		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input checked="" type="checkbox"/> Pass, unamended 2312 <input type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
FUKUNAGA, Carol (C)	✓			
BAKER, Rosalyn H. (VC)	✓			
HEE, Clayton				✓
IGE, David Y.				✓
SLOM, Sam	✓			
<b>TOTAL</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>2</b>
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: 				
<b>Distribution:</b> Original     Yellow     Pink     Goldenrod File with Committee Report     Clerk's Office     Drafting Agency     Committee File Copy				

\*Only one measure per Record of Votes