



EXECUTIVE CHAMBERS

HONOLULU

LINDA LINGLE
GOVERNOR

Testimony of
Linda L. Smith
Senior Policy Advisor to the Governor

Before the
HOUSE COMMITTEES ON EDUCATION and HIGHER EDUCATION

Thursday, February 5, 2009, 2:00 p.m.

Room 309, State Capitol

**H.B. 1082 RELATING TO THE SCIENCE, TECHNOLOGY, ENGINEERING, AND
MATH INCOME TAX CREDIT**

Chair Chang, Chair Takumi, Vice Chair Nakashima, Vice Chair Berg, and members of the Committees, thank you for the opportunity to testify in strong support of House Bill 1082, Relating to the Science, Technology, Engineering, and Math Income Tax Credit, an administration proposal that encourages partnerships between schools and the community through the creation of an income tax credit for donations given to science, technology, engineering, and math (STEM) programs in schools.

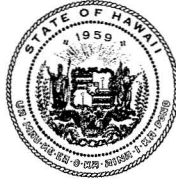
Since 2007, the Legislature, Governor Lingle, Department of Education, University of Hawaii Community Colleges, Department of Human Services, and the Department of Business, Economic Development, and Tourism have worked collaboratively to create an educational focus on STEM programs in public schools. STEM programs help students develop analytical and problem-solving skills and increase their exposure to advanced technology and other innovative learning tools. STEM programs create an educational environment where students develop twenty-first century skill sets that will make them employable in the future.

House Bill 1082 allows fifty percent of every contribution made to a STEM program to be claimed as an income tax credit. The bill caps the total amount of tax credit that may be claimed in a given year at \$500,000. By creating this tax credit, individuals and businesses are incentivized to assist the State in improving the quality of educational programs for Hawaii's students. This proposal is modeled after the successful Hawaii 3 R's program, which provides a tax credit to businesses that contribute to the repair and maintenance of public schools.

Your consideration of this Administration proposal is appreciated. Thank you for the opportunity to testify in strong support of House Bill 1082.

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



KURT KAWAFUCHI
DIRECTOR OF TAXATION

SANDRA L. YAHIRO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510
FAX NO: (808) 587-1560

**HOUSE COMMITTEES ON EDUCATION AND HIGHER EDUCATION
TESTIMONY REGARDING HB 1082
RELATING TO THE SCIENCE, TECHNOLOGY, ENGINEERING, AND MATH
INCOME TAX CREDIT**

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: FEBRUARY 5, 2009

TIME: 2:00PM

ROOM: 309

This measure provides a nonrefundable income tax credit for donations to a qualifying science, technology, engineering, and math academy (STEM) at a school.

The Department of Taxation (Department) **supports this Administration measure and recommends passage of this bill.**

STRONG SUPPORT FOR THE FUTURE TECHNOLOGY LEADERS—The Administration and the Department strongly support this budgeted tax incentive to encourage donations to qualifying STEM academies. Studies in science, technology, engineering, and math are the future of Hawaii's developing technology sector. By providing an incentive to contribute to these programs, these programs will be better funded to advance at the necessary pace as technology grows. This measure is patterned after the innovative 3R's school repair and maintenance credit that already exists.

BUDGETED INCENTIVES—The Department appreciates that this measure has already been funded into the executive budget and financial plan as a high priority to assist in the investment of educating Hawaii's youth. This measure will result in a known revenue loss of \$500,000 per year.

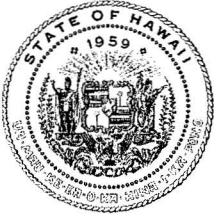
DBEDT ADMINISTRATION—The Department also supports that DBEDT administers the certification of this credit to ensure proper claims of donations.

LIMITED CARRY-FORWARD—This measure only allows credits to be carried forward for five years. This too is positive tax policy to ensure the budget is not unduly burdened by this incentive.

TECHNICAL CORRECTION—The Department points out that the sentence in subsection (d) relating to the certification cap needs to be clarified as follows:

....The department of business, economic development, and tourism shall certify no more than \$1,000,000 in donations in the aggregate for all taxpayers for each taxable year. When the total amount of certified donations reaches [~~\$500,000~~], \$1,000,000 the department of business, economic development, and tourism shall immediately discontinue certifying donations and notify the department of taxation.

Because the credit is equal to 50% of donations, DBEDT needs to certify either \$1,000,000 in donations or \$500,000 in credits. Either way arrives at the budgeted \$500,000 revenue impact.



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

LINDA LINGLE
GOVERNOR
THEODORE E. LIU
DIRECTOR
MARK K. ANDERSON
DEPUTY DIRECTOR

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
Web site: www.hawaii.gov/dbedt

Telephone: (808) 586-2355
Fax: (808) 586-2377

Statement of
THEODORE E. LIU
Director
Department of Business, Economic Development, and Tourism
before the
COMMITTEE ON EDUCATION
and the COMMITTEE ON HIGHER EDUCATION
Thursday, February 05, 2009
2:00 p.m.
State Capitol, Conference Room 309

in consideration of
HB 1082
RELATING TO THE SCIENCE, TECHNOLOGY, ENGINEERING, AND MATH
INCOME TAX CREDIT.

Chair Takumi, Chair Chang, Vice Chair Berg, Vice Chair Nakashima, and Members of the House Committees on Education and Higher Education.

The Department of Business, Economic Development, and Tourism (DBEDT) strongly supports HB 1082 which would provide an income tax credit for donations made to qualifying science, technology, engineering, and math academies.

Our Department continues to advocate for the need to enhance Hawaii's ability to provide an education for all Hawaii students that includes the development of strong skills in science, technology, engineering and math (STEM). This tax credit would enable the State to leverage scarce public resources with private funding to create a supportive partnership.

Since 2007, the Legislature, Governor Lingle, the Department of Education (DOE), the Department of Human Services (DHS), the University of Hawaii (UH) Community Colleges, and DBEDT have cooperated to establish STEM academies in seven public high schools. These

academies are operated cooperatively by the Department of Education and the University of Hawaii Community Colleges, under the direction of the Director of Academies at Honolulu Community College. Additional funding from the private sector would provide added value to these academies, and perhaps allow expansion of the program to other volunteer high schools.

HB 1082 defines a qualifying science, technology, engineering, and math academy as a “primary, middle, or high school operated by the department of education that has been approved by the department of business, economic development, and tourism or the director of academies, Honolulu community college to participate in it science, technology, engineering, and math educational programs.” This broad definition opens the program to a much larger number of programs; including the robotics and Research Experience for Teachers programs operated by the UH College of Engineering and funded by Act 111 (SLH 2007), Project EAST funded by Act 271 (SLH 2007), and potentially many other STEM programs throughout the State.

Under these circumstances, we would like to recommend that if this measure is adopted, there will need to be a clarification of the process of certification, including a clear definition of the criteria used to determine eligible programs. Development of these criteria should involve representatives of DOE, DHS, and UH College of Engineering in addition to DBEDT and the Director of Academies at Honolulu Community College. We also would like to recommend that the certification process be developed with ease of administration in mind, since no staff resources are provided to take on this new task.

Thank you for the opportunity to provide these comments.

Date of Hearing: February 5, 2009

Committee: House Education/Higher Education

Department: Education

Person Testifying: Patricia Hamamoto, Superintendent

Title: H.B. No. 1082, Relating to the Science, Technology, Engineering, and Math Income Tax Credit

Purpose: Provides an income tax credit for donations made to a qualifying science, technology, engineering, and math academy certified by the department of business, economic development, and tourism.

Department's Position: The Department of Education (DOE) supports this Bill and its potential to directly help schools fund academies related to science, technology, engineering, and mathematics academies by allowing individuals and businesses who donate money directly to receive tax credit. Donations can only be made to Hawaii schools as certified by the Department of Business, Economic Development, and Tourism, in collaboration with the director of academies at Honolulu Community College. The DOE suggests that the process of certification, definition of academies, and criteria be clarified and provided to all Hawaii schools to enable additional schools to apply for and receive certification. Should the legislature choose to support this Bill, the DOE recommends to also include input from a member from the state Career and Technical Education (CTE) program office in collaboration with the director of academies at Honolulu Community College to

align science, technology, engineering, and math academy criteria with the DOE's standards-based education efforts and, where applicable, to ensure congruence with Federal CTE initiatives and requirements.



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
House Committees on
Education
and Higher Education
February 5, 2009 at 2:00 p.m.

by
John Morton
Vice President for Community Colleges, University of Hawai'i

HB 1082 – RELATING TO THE SCIENCE, TECHNOLOGY, ENGINEERING, AND MATH INCOME TAX CREDIT

Chairs Takumi and Chang, Vice Chairs Berg and Nakashima, and Members of the
Committees:

The relatively low performance on assessments of mathematics and science by a significant number of Hawaii high school graduates have proven to be barriers to their ability to either become employed in high skilled jobs, or complete the postsecondary education programs designed to secure such employment. The University of Hawai'i stands in support of the desire expressed in HB 1082 to increasing private sector financial support for science, technology, engineering, and math (STEM) academies established within our public schools. However, we don't feel qualified to determine the measure's impact on either private revenue support for the academies, or its impact on state revenues and finances.

Through a contract the Department of Human Services, and with the coordination provided by the Department of Business, Economic Development, and Tourism, the University of Hawai'i Community Colleges began a pilot of the Hawaii Excellence in Science and Technology (HiEST) academy in the fall of 2008. The participation of the high schools as well as the colleges was voluntary. At present, there are HiEST academies located in seven high schools across the state, involving more than 600 students.

We believe that successful implementation and expansion of the HiEST Academies if they prove to be successful, coupled with other similar initiatives, are vital to the future success of Hawai'i's economy. Our future success, separate from the current economic downturn, is dependent upon our ability to increase the number of young people who have the mathematics, scientific, and technical skills, as well as the formal education, that are being required for a growing number of jobs in Hawaii. We expect this demand to accelerate as an increasing number of our aging population leave the workforce during the next decade.

We would request that the following amendments be made to the current version of the measure:

- Page 1, Section 1, line 16. "...director of academies, Honolulu community college" should be amended to "...university of Hawai'i community colleges."
- Page 5, Section 2, line 16-18. "...approved by the department of business, economic development, and tourism or the director of academies, Honolulu community college..." should be amended to "...approved by the department of business, economic development, and tourism in conjunction with the department of education and the university of Hawai'i community colleges..."

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Education tax credits

BILL NUMBER: SB 900; HB 1082 (Identical)

INTRODUCED BY: SB by Hanabusa by request; HB by Say by request

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow a taxpayer to claim a tax credit for 50% of the amount donated to a qualifying science, technology, engineering, and math academy. The amount of the credit shall be: \$ ___ for individuals; \$ ___ for persons filing a joint return; and \$ ___ for corporations. In the case of a partnership, S corporation, or estate of trust, the tax credit is allowable for cash donated by the entity and shall not exceed \$ _____. Allocations of the tax credit shall be determined under the income tax rules governing allocations of credits and subject to limitations in paragraphs (1), (2), (3), and (4).

Requires the department of business, economic development, and tourism (DBEDT) to maintain records and certify the total amount of the donations eligible for the credit made during the taxable year, including donations made to a qualifying science, technology, engineering, and math academy at a school. Donations eligible for the credit shall be verified by DBEDT in consultation with the director of academies, Honolulu community college. DBEDT shall issue a certificate to the taxpayer certifying the amount of the donations eligible to be claimed as a credit. The taxpayer shall file the certificate with the taxpayer's tax return. DBEDT shall certify no more than \$1,000,000 in donations in the aggregate for all taxpayers for each taxable year. When the total amount of certified donations reaches \$500,000, DBEDT shall immediately discontinue certifying donations and notify the department of taxation.

Defines "qualifying science, technology, engineering, and math academy" as a primary, middle, or high school operated by the department of education that has been approved by DBEDT or the director of academies, Honolulu community college to participate in its science, technology, engineering, and math educational programs.

If the tax credit claimed by a taxpayer exceeds the taxpayer's income tax liability, any excess tax credit may be used as a credit against the taxpayer's income liability up to five consecutive taxable years following the year of the donation until exhausted. If the credit is not exhausted within the five consecutive taxable years following the year of the donation, the credit expires.

If a deduction is taken under IRC section 170 (with respect to charitable contributions and gifts) on the taxpayer's federal or state income tax return for the amount donated to a qualifying science, technology, engineering, and math academy at a school, no tax credit shall be allowed for that portion of the donation for which the deduction was taken.

Claims for the credit, including amended claims, must be filed on or before the end of the 12th month following the close of the taxable year. The director of taxation may adopt rules pursuant to HRS chapter 91 and prepare necessary forms to claim the credit and require proof of the claim for the credit.

EFFECTIVE DATE: Tax years beginning after December 31, 2008

STAFF COMMENTS: This is an administration measure submitted by the Office of the Governor, GOV-03(09). The legislature by Act 309, SLH 2001, proposed a pilot project to allow contractors, pest control operators, architects, surveyors, and engineers to claim a credit for contributions of in-kind services made for the repair and maintenance of public schools. This measure proposes another tax credit for individuals who contribute in support of science, technology, engineering, and math academies in the public schools. If this measure is enacted, it would allow the same taxpayers who are able to claim the existing tax credit for school repair and maintenance as provided for by Act 309, SLH 2001, to claim the proposed credit as there is no prohibition against claiming both tax credits.

It should also be remembered that there is already a tax preference for such contributions to schools in the form of a deduction which, while not as generous as the dollar-for-dollar return that a tax credit provides, is nonetheless already available to donors of goods or services to a government agency, in this case public schools. The deduction is also available to private schools and therefore maintains parity in the tax treatment of such donations. The proposed credit is therefore discriminatory, extending the tax benefit only for donations to public schools.

While this measure provides another incentive to a select group of taxpayers, it should be remembered that the tax system is not an efficient means to accomplish this goal.

As pointed out when Act 309 was proposed, while these credits would be granted only for contributions to public schools in the state, it discriminates against non-public institutions of learning. Rather than perpetuate the drain on precious state funds, consideration should be given to repealing Act 309, SLH 2001.

Digested 2/4/09