

HB 1451



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The Twenty-Fifth Legislature, State of Hawaii
Hawaii State Senate
Committee on Ways and Means

Testimony by
Hawaii Government Employees Association
April 6, 2009

H.B. 1451, H.D. 2, S.D. 1 – RELATING
TO TAXATION

The Hawaii Government Employees Association, AFSCME, Local 152, AFL-CIO supports the purpose and intent of H.B. 1451, H.D. 2, S.D. 1. However, we prefer certain provisions of the H.D. 2 version because it imposed more stringent criteria to qualify for the tax credits and a smaller aggregate limit for the high technology business tax credits claimed by taxpayers who invest in qualified high technology businesses.

H.B. 1451, H.D. 2 includes several provisions that will ensure that the state receives tangible benefits for the tax credits during this period of economic turmoil. For example, there is a limit of \$50 million on the aggregate of credits claimed in a taxable year by all taxpayers who invest in qualified high technology businesses for all taxable years beginning after December 31, 2009. It also changes the definition of a "qualified high technology business" (QHTB) by specifying that more than 75% of its business are research activities conducted in Hawaii, and the workforce conducting the research activities is comprised of employees or independent contractors physically performing services in Hawaii.

Another provision of the bill that was enhanced in the H.D. 2 version is the ability of the state to recapture tax credits if businesses no longer meet the criteria of a QHTB or if a business moves out of state. In this last instance, the recapture amount is 100%. Any extension of Act 221, SLH should contain the benchmarks that clearly demonstrate the tax credits are actually benefiting the state, while penalizing those who attempt to misuse them.

The state Department of Taxation recently estimated that the high technology tax credits cost the state an estimated \$747 million through 2007. Although qualifications for Act 221, SLH 2001 were tightened under Act 215, SLH 2004, the credits are still considered generous compared with those offered by other states. It is likely that at least a portion of the estimated gains in the technology sector would have occurred without the credits.

Given the serious financial problems confronting the state, tax credits of all types deserve close scrutiny. We are concerned that the costs associated with Act 221 may exceed the benefits and wasting scarce resources that could be directed elsewhere. With the aggregate cap, changes to the definition of a QHTB and the recapture provisions, we prefer H.B. 1451, H.D. 2.

Hawaii State Senate
Committee on Ways and Means
Re: Testimony Re: H.B. 1451, H.D. 2, S.D. 1
April 6, 2009
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Respectfully submitted,

Kevin Mullegin

for
Nora A. Nomura
Deputy Executive Director

kim4 - Elizabeth

From: Bill Spencer [bspencer@hawaii.rr.com]
Sent: Saturday, April 04, 2009 4:56 PM
To: WAM Testimony
Subject: Testimony supporting the intent of HB1451 SD1 9:30AM 4/6/09 Room 211
Attachments: image003.jpg



805 Kainui Drive
Kailua, Hawaii 96734

Testimony relating to HB1451 SD1 submitted on April 4, 2009

HEARING DATE: April 6, 2009
TIME: 9:30AM
PLACE: Conference Room 211

TO: Senate Committee on Ways and Means
Senator Donna Kim, Chair
Senator Shan Tsutsui, Vice Chair

FROM: Bill Spencer, President, Hawaii Venture Capital Association

RE: Testimony in Support of the Intent of HB1451 SD1

Aloha Chair Kim, Vice Chair Tsutsui, and Members of the Committee,

On behalf of the 1,500 members and friends of the Hawaii Venture Capital Association, let me express support for the intent of HB1451 SD1.

This bill in its present form reflects the industries desire to address budget concerns by agreeing to cap the aggregate investment amount in order to save future tax credits that investors can claim. But we do so recognizing that the benefits to the State have not been truly accounted for in Tax Department analysis which did not calculate or project the excise and payroll tax contribution that qualified high tech businesses have made to the state over the last seven years.

We know those companies have spent \$1.4 billion in Hawaii since 2001, almost 4 times more than the \$300 million cost of tax credits claimed to date. We know that Act 221/215 has been an effective economic stimulus that has created high paying jobs and helped grow Hawaii's tech sector to \$3B dollars in gross revenues, as much as the revenue generated by Hawaii's hospitality industry.

The problem we face with major changes to Act 221 is that companies and their investors cannot effectively plan and grow when rules they operate by are being significantly changed and could have adverse long term impact. While we agree that balancing the budget is extremely important and our industry is willing to do its part, we remain concerned that wholesale changes in the law could diminish investor confidence which could threaten the industry we have worked so hard to build.

We continue to be ready, willing and able to work with this committee to achieve budgetary objectives without destroying Hawaii's tech sector.

Thank you for your kind consideration of this testimony.

Sincerely,

/s/

Bill Spencer, President,
Hawaii Venture Capital Association
808-225-3579

kim4 - Elizabeth

From: Joel Fischer [jfischer@hawaii.edu]
Sent: Saturday, April 04, 2009 2:43 PM
To: WAM Testimony
Subject: HB1451;WAM;4/6/09;9:30AM;Rm221
Importance: High

PLEASE KILL THIS BILL! It should be make, die, dead!

I am opposed to the extension of tax credits for one reason: **Tax credits are a fraud!** All the research on ways of stimulating an economy shows that tax credits are the worse way of doing so. For example, look at the results of Act 221: almost \$800 million in tax credits, only a few thousand jobs created. Are you kidding me? We can do much better by simply giving the money to people who need it to get them off welfare or put them to work using those funds!

Tax credits do not stimulate our local economy because there are no multiplier effects; the money does not get recirculated in Hawai'i; most goes out of state!

Tax credits are the way the rich get richer by feeding off the trough of public funds!

Please stop this enormous leak of our monies.

Aloha, joel

Dr. Joel Fischer, ACSW
Professor
University of Hawai'i, School of Social Work
Henke Hall
Honolulu, HI 96822

"It is reasonable that everyone who asks justice should DO justice."
Thomas Jefferson

"There comes a time when one must take a position that is neither safe, nor politic, nor popular, but one must take it because one's conscience tells one that it is right."
Dr. Martin Luther King, Jr.

"Never, never, never quit."
Winston Churchill

kim2 - Arline

From: Peter Kay [peter@cybercominc.com]
Sent: Sunday, April 05, 2009 4:25 PM
To: WAM Testimony
Subject: Testimony relating to HB1451 SD1

Follow Up Flag: Follow up
Flag Status: Completed

HEARING DATE: April 6, 2009
TIME: 10:00AM
PLACE: Conference Room 211

TO: Senate Committee on Ways and Means
Senator Donna Kim, Chair
Senator Shan Tsutsui, Vice Chair

RE: Testimony in Support of the Intent of HB1451 SD1

Aloha Chair Kim, Vice Chair Tsutsui, and Members of the Committee,

The state faces difficult budget priority choices. The true question at hand: what kind of future do we want more of? The facts of Act 221's effectiveness undeniable. This program has created more jobs, mainland investment, and tax revenue than any other program in the state's history.

HB1451 SD1 represents a compromise that has support of the industry. I hope we can all agree about the performance of Act 221 in future sessions and give it the support it deserves. Until then, HB1451 SD1 is a reasonable approach that the Tech community supports, as well as do I

Mahalo,

Peter Kay