LATE

HB1451

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR

KURT KAWAFUCHI
DIRECTOR OF TAXATION

SANDRA L. YAHIRO
DEPUTY DIRECTOR

LATE

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

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

SENATE COMMITTEE ON WAYS & MEANS
TESTIMONY REGARDING HB 1451 HD 2 SD 1
RELATING TO TAXATION

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: APRIL 6, 2009
TIME: 9:30AM
ROOM: 211

As amended, this measure extends the high technology business investment tax credit, research credit, and technology infrastructure credit through 2012. This measure also provides a $100 million aggregate cap per year on the high tech investment credit and a $10 million cap per qualified high technology business.

The Department of Taxation (Department) **requests that the measure be amended to its HD 2 form and provides comments.**

I. SUPPORT FOR HIGH TECH BUSINESSES GENERALLY

The Department and the Administration support the use of tax incentives to assist with the development of Hawaii's high tech industry. Act 221 has been effective in encouraging local and out-of-state investment in Hawaii's high tech businesses.

The importance of promoting innovation and research-based activities was recognized with the enactment of several ground-breaking tax credits and programs intended to promote growth in technology and other innovation-related sectors. Beginning with Act 178, Session Laws of Hawaii 1999, the State vigorously encouraged the development of high technology businesses in order to further diversify its economy, attract former residents to return home, and develop business sectors with better paying jobs.

Act 178 was followed by Act 221, Session Laws of Hawaii 2001, which provided for what is believed to be the only one hundred percent tax credit available for investments into businesses conducting high technology research-related activities. Act 221 provided financial backing for these companies by attracting capital from both local and out-of-state sources through government incentives. Recognizing the amount the State has invested in these companies through tax incentives to date, coupled with the viability these companies demonstrate as promising profitable ventures, it is important that the State maintain its commitment to making Hawaii a high technology hub of the future for the sake of its overall economy, which is overly tourism- and real estate-based.

II. SD 1 VERSION AND THE CAP FRAMEWORK

The Department supports instituting a cap on the investment credit. Instituting a cap preserves the State's commitment to diversifying Hawaii's economy with a booming high technology industry by maintaining the current structure of the one hundred percent investment tax credit; however capping the amount of credits that may be generated.

By implementing this cap, the State will be better able to insulate the general fund from unpredictable drains in revenue due to volatile credit claims. From a budgeting perspective, knowing the maximum amount of liability the State will be forced to fund allows for predictability, especially in such trying times.

THE CAP CONCEPT WAS DISCUSSED WITH INDUSTRY—The Department believes it is important that the general concept of a cap, including the per-qualified high technology business cap, was discussed previously with the input of the high tech industry that benefits from this credit. Though the industry may not agree with the policy of this measure, the industry has been given the opportunity to help shape how the cap procedures in HB 1157/SB 975 operate.

THE CAP MUST REFLECT THE BUDGETING TARGET IN LIGHT OF THE CURRENT BUDGET SHORTFALL—The Department takes issue with the current $100 million that is earmarked for this industry as provided in the current measure because it will not generate substantial savings. The cap must reflect the budget shortfall and the revenue that can be saved by capping this credit. Lowering the cap amount will generate additional savings.

In addition, the Department should be given more than one day turnaround to administer the cap. The Department should have at least 10 business days.

EXTENDING THE INCENTIVES—It is important to point out that the high technology business investment tax credit is the most expensive credit to the State. At the same time; however, it has also effectively generated substantial investments into the local economy. The Department does not support repealing or extending Act 221; only modifying it to improve budget planning. There is a need for tax incentives to assist fledgling high technology business. At the same time; however, it is important to provide incentives responsibly by instituting, among other things, transparency and caps.

REPEAL THE INFRASTRUCTURE CREDIT—With regard to the Technology Infrastructure Renovation Credit specifically, the Department recommends repealing this credit rather than extending it. It is good tax policy to eliminate incentives that go unused. In the case of this credit, only 17 claims have been made totally $30,430 in 2006. This data demonstrates that the incentive is unattractive. The Department surmises that the credits go unclaimed because the capital goods excise tax credit is more attractive and/or the 179 deduction yields more benefit. In light of the foregoing, it may be more prudent in light of the current fiscal picture to repeal the credit.

DROP DOWN SUBSIDIARY LANGUAGE-- The thresholds at which drop-down subsidiaries are required to obtain a comfort ruling from the Department are much too high. At the current level of $100 million in assets in Hawaii and $50 million of gross income earned in Hawaii, very few, if any companies, will be required to obtain a comfort ruling. This would defeat the purpose of allowing the Department to better monitor abuses in this area.

III. PREFERRED HD 2 VERSION

The Department strongly prefers the HD 2 version of this measure.

INELIGIBILITY FOR CREDITS PAID WITH GOVERNMENT MONEY—The Department supports the proposal to preclude the use of government grants or other subsidies from being used to then qualify for tax credits.

The Department believes this bill represents good general tax policy. A person should not be allowed to "double dip" by being subsidized by the government and then leveraging that subsidy for further government tax benefits.

MODIFYING THE DEFINITION OF "INVESTMENT"—The Department supports the amendments to the term "investment" for purposes of the investment credit. The Department supports amendments that clarify, among other things, that any money for which a 100% credit is provided, must actually be put "at risk" as that phrase is generally understood, rather than the technical definition in the Internal Revenue Code. Such a definition also ensures that investors receiving the 100% credit are doing so only for an equity stake, thus assuming the inherent risk that this credit seeks to minimize, which is what this law originally intended. Such an amendment eliminates the ability to claim a credit for exchanges of licensing rights, marketing rights, and other unrelated transactions.

An amendment to the "investment" definition also ensures that investors receiving the 100% credit invest their money for true business purposes other than simply receiving a 100% credit. An investment must remain in the company and cannot be repaid in any form for 5 years. The time requirement currently is one year and there is less than clear language on how that repayment can be made.

ELIMINATING THE MUTIPLE—The Department supports the amendments to conform to Internal Revenue Code § 704(b). The Department generally supports conforming to the Internal Revenue Code in all respects. The effect of conforming is to ensure that an investor receives a 100% credit for their investment, subsidized by state funds, and no more. Under current law, it is possible for taxpayers to receive up to 200% of their investment in credits. At a time when the State's budget shortfall has grown month-after-month, the important and responsible budgeting decisions must be made.

INCREASED RECAPTURE; ACTIVITIES; AND WORKFORCE REQUIREMENTS—The Department supports amendments to increase recapture, increase the activities requirement to qualify as a high technology business, and the workforce requirements in Hawaii, which are contained in the HD 2. In short, the Department believes that these are rational and reasonable expectations of policymakers who subsidize investors' risk in these companies through a 100% credit. These amendments ensure that the companies are "real," invest back into Hawaii by providing jobs, and conduct sufficient innovation to continue shifting Hawaii's economy to one based upon technology.

RESEARCH CREDIT AMENDMENTS IN THE HD 2—The Department points out problematic amendments to the research credit contained in the HD 2. The certification of investments and subsidiary amendments are not relevant to the research credit. The Department is unsure whether these amendments were intended for the investment credit; however points them out.

IV. FURTHER DISCUSSION TO OPTIMIZE SAVINGS WHILE MAINTAINING INCENTIVE EFFICIENCIES

The Department would like to encourage further discussion so these savings can be achieved with minimal affect with regard to the usefulness of this incentive. As this important legislation moves toward conference committee, the Department will continue to make itself available to the legislature and the industry to discuss further refinement of the credit language.

The Department believes that further discussion could result in a better credit while contributing to a solution to the budget shortfall, for example, discussions regarding:

- An aggregate cap of $80 million per year, including the first 6 months of 2009;
- Refinement of the existing qualified research categories;
- Reducing the credit per QHTB cap from $10 million to $5 million or $3 million; and
- At what point a business should no longer need the credit.

V. REVENUE IMPACT & METHODOLOGY

If the measure's effective date is July 1, 2009, the revenue impacts would be:

- $15.9 million gain for FY10,
- $36.6 million gain in FY11,
- $11.3 million loss in FY12;
- $39.4 million loss in FY13;
- $20.7 million loss in FY14; and
- $15.0 million loss in FY15.

Without the bill, it is assumed that investment claimed for credit per year would be $150 million. With the new law, investment claimed would be $56.3 million less in 2009 and $75 million less in 2010. Investment for 2011 and 2012 would be $75.0 million (cap at $100.0 million x 75% utilization). Assumed $25 million investment would move from Act 221 claim to Act 88 claim for 2009 and 2010. Revenue loss of $15 million per year for FY12 and FY13 due to 2-year extension of research credit.

ARCHINOETICS
700 Bishop Street, Suite 2000 Honolulu, HI 96813

HB1451 HD2 SD1- Relating to Taxation

DATE: Monday, April 06, 2009
TIME: 9:30AM
PLACE: Conference Room 211

LATE

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

Re: Comments in strong support of HB1451 HD2 SD1

Chair, Vice-Chair and Committee Members:

Thank you for the opportunity to submit comments in support of to HB 1451 HD2 SD1. We ask the committee to recognize the significant amount of testimony in support of HB1451 HD1 submitted to the Senate Economic Development and Technology Committee. The concepts included in SD1 resulted from collaboration between stakeholders and members of the legislature. These include:

- A $10 Million cap on credits over five years for investment made in a single QHTB per year
- An aggregate cap on credits over five years for all investments made in all QHTB's per year provided that this aggregate cap is set at a reasonable amount, includes clear a "first come first serve" after investment is secured allotment process administered through DoTax and rollover language for unused credits
- Drop Down Subsidiaries: Further statutory restrictions on so-called "drop down subsidiaries, provided that what constitutes a "drop down subsidiary" is properly and clearly defined by statute
- A two-year extension of Act 221

Act 221 companies have:

- Generated more than $1.2 billion in investments in at least 333 Act 221 companies.
- Spent more than $1.4 billion in Hawaii
- Created more than 4,000 employee and independent contractor jobs, which paid more than $228 million in salary and other compensation in 2007 alone.
- Earned more than $228 million in revenues in 2007 alone.
- These benefits have been realized BEFORE most of these Act 221 companies have reached their full potential, and exceed the $437 million in costs of credits claimed from 1999 through 2007.

Archinoetics, LLC is a woman owned world class technology company focused on the research and development of human-centered technologies. Our current research and development projects include functional brain imaging systems, human fatigue and performance monitoring devices, intelligent algorithms based on genetic programming and biometric sensors, remote sensing, and specialized computing platforms. We were created in 2004 with the help of Act 221 which allowed my husband and I to make the leap of investing in our own company and have brought in over $10 Million to the State of Hawaii in the past 4 years. Today we employ 30 software and hardware engineers and scientists from varying backgrounds. A large number of our employees are kamaaina who left Hawaii and never dreamed that they would be able to work in their profession and raise their children back here at home. Act 221 has, and continues to be, vital to our company's success. Please help us survive through this economy and continue to expand the technology sector in Hawaii.

Thank you for the opportunity to testify.

Traci H Downs, Ph.D.
President & COO
Archinoetics, LLC

phone: 808.585.7439 fax: 808.585-7483
www.archinoetics.com

Think Tech Hawaii
841 Bishop Street, #1500
Honolulu, Hawaii 96813

Testimony relating to HB1451 SD1 submitted on April 5, 2009

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

LATE

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

FROM: Jay Fidell, President, ThinkTech Hawaii, Inc.

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 members and friends of ThinkTech Hawaii, 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/
Jay Fidell, President,
ThinkTech Hawaii, Inc.
808-780-9254

PACIFICAP
GROUP

PACIFICAP GROUP, LLC
820 Mililani Street, Suite 600
Honolulu, HI 96813
Direct: 808.237.5388 Fax: 808.537.2188

April 6, 2009

To: WAMTestimony@Capitol.hawaii.gov

LATE

Testimony for Hearing before the
Senate Committee on Ways and Means
Friday, Monday, April 6, 2009, 9:30 am

State Capitol, Conference Room 211
415 South Beretania Street
Honolulu, Hawaii 96813

Re: Testimony in Strong Support of HB 1451 SD1
Relating to Taxation

Chair Kim, Vice-Chair Tsutsui and Committee Members:

Thank you for the opportunity to submit testimony in Strong Support of HB 1451 SD1. I apologize for submitting late testimony, as I am currently traveling on business in China.

I am Jeff Au, Managing Director and General Counsel of PacifiCap, Hawaii's largest local venture capital firm.

This bill is very important since it preserves the benefits of Act 221 while also addressing State budgetary concerns, without potentially destroying hundreds of local high tech and media companies and potentially thousands of jobs, the financing of which Act 221 has, and continues to play a very critical role.

While a very small number of Act 221 critics, in large part from outside Hawaii, have tried to mislead the legislature and the press into opposing Act 221 with misleading half-truths, distorted data and negative press spin about Act 221 for more than seven years now, the more than 130 pages of data and analysis of Act 221 published by the Department of Taxation in 2008 clearly shows that the benefits of Act 221 have far exceeded its costs:

- As of the end of 2007, more than $1.2 billion had been invested in at least 333 Act 221 technology and media companies, which had already spent more than $1.4 billion in Hawaii.

- These Act 221 companies created more than 4,000 employee and independent contractor jobs, which paid more than $228 million in salary and other compensation in 2007 alone.

- These Act 221 high tech and media companies earned more than $228 million in revenues in 2007 alone.

- All of these benefits, already realized long BEFORE most of these Act 221 companies have reached their full potential, have already far exceeded the costs of credits claimed from 1999 through 2006 of less than $301 million ($437 million including credits claimed from 1999 through 2007).

At the same time, as many technology companies take several years to complete their research and development before being able to earn revenues from products they can sell, more than 78% of the Act 221 companies reported on by DoTax still were not profitable and needed additional investment capital in 2007. Therefore, if Act 221 is excessively curtailed this year and just 50% of Act 221 companies fail as a result, more than $100 million of jobs could be lost per year.

HB 1451 SD1 strikes the right balance in helping to address the State's budget crisis in a substantial way by imposing aggregate caps on new investments for which credits may be claimed, while clarifying recapture provisions and limiting the ability of large local "old economy" companies to form "drop-down subsidiaries" to claim investment tax credits. The aggregate caps that would be imposed by this bill would help to address the State's budget deficit with quantitative certainty, as compared to other proposals, such as HB 1583, whose cost savings estimates are purely subjective and speculative, and which may add up to zero to the extent that unconstitutional provisions of HB 1583, such as those that may have retroactive effect, are challenged through litigation.

Highlights of HB 1451 SD1, which I support, are as follows:

<u>$10 Million Cap Per QHTB Per Year</u>: To address budgetary concerns facing the legislature, HB 1451 SD1 caps the amount of investment for which Act 221 Investment Credits can be claimed (over five years) to $10 million per year per Qualified High Technology Business ("QHTB"). According to Tax Department data, in 2007, only four QHTB's raised more than $10 million in investment, but these four companies accounted for more than $166 million, or more than half of the $307 million invested in QHTB's in 2007. Therefore, instituting a cap of $10 million per QHTB per year, could reduce Act 221's budgetary costs for new investments by almost 50%.

<u>Aggregate Cap on Credits for New Investments</u>: HB 1451 SD1 would also place an aggregate cap on credits for new Act 221 investments to help address budgetary concerns. The proposed $100 million per year cap is estimated to save more than $84 million over the biennium. This bill also statutorily establishes the procedures by which Act 221 Investment Credits will be allotted by the Department of Taxation on a "first come first serve" basis to QHTB's only after they have received the investments for which they seek credit allotments, provided that investors have a right to get their money back in the event that insufficient credits remain to be allotted to cover their investment amounts. These statutory allotment procedures protect against excessive administrative discretion that could result if no statutory allotment procedure is established by the legislature.

<u>Statutory Additions to Recapture Provisions</u>: This bill provides statutory additions to existing recapture provisions to provide that 100% of the Act 221 Investment Credits that would otherwise be allowed for a QHTB investment be disallowed for the year in which a recapture event occurs for a QHTB and every year thereafter during the five year QHTB compliance period.

Drop Down Subsidiaries: This bill also establishes further statutory restrictions on so-called "Drop Down Subsidiaries, " and it clearly defines a "Drop-Down Subsidiary" to b a subsidiary that is more than 80% owned and controlled by a parent company that had at least $100 million of assets or $50 million of gross income in Hawaii in the preceding tax year. This bill provides that a company that is a Drop Down Subsidiary be statutorily required to obtain a comfort letter ruling from the Department of Taxation confirming its status as a legitimate QHTB before receiving investment for which Act 221 Investment Credits may be claimed.

Thank you very much for allowing me to submit this testimony today.

Respectfully submitted,

Jeffrey K. D. Au
Managing Director and General Counsel
PacifiCap Group, LLC

040609JAUWAMTESTIMONYINSTRONGSUPPORTOFHB1451SD1.040609DRAFT#1

HB1451 SD1 - Relating to Taxation **LATE**

DATE: Monday, April 6, 2009

TIME: 9:30 am

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 HB 1451 SD1 Relating to Taxation**

Chair Kim, Vice-Chair Tsutsui, and Committee Members:

I am submitting testimony in support of HB 1451 SD1 as an employee of a large multinational defense/aerospace company that does a significant amount of qualified high technology research here in Hawaii. Within our sensor development group, our Hawaii employees are recognized for having accomplished very advanced electro-optical solutions for military applications and are saving lives in remote battlefields. Over 10% of this local staff is comprised of PhDs and many of the rest are the high-skilled tech employees who are pulling up the average wage of Hawaii's workforce. And let me assure you that we are not a "drop down" subsidiary.

Even though we are part of a large corporation, our work could not have progressed to the level it has without Act 221. Because of the government's strict Cost Accounting Standards, little room is left for scientific innovation outside of the specific research grant awards or contracts with very specific deliverables. We have utilized the incentives provided by Act 221/215 to further our research and refine our product capabilities so that we can develop products for the government that will be able to go beyond the RDT&E stage and hopefully into programs of record. Our Joint Multi Mission Electro-optical System (JMMES) was made possible largely by the incentives in Act #221 and the program has now moved to a Presidential Budget line item....a true success story!

Hawaii's Act #221/215 incentives differentiate our R&D programs from others within the company. Work can be transferred anywhere within the large corporate engineering network, yet much of it is directed here to Hawaii because our capable and experienced workforce has been efficiently utilized and retained thanks in great measure to Act #221. Our workforce has stabilized and grown because of the R&D tax credits.

Would we be here in Hawaii without the impacts of Act #221 / 215? Probably yes, but **not in the number of employees we currently employ.** The positive impact on the Hawaiian community would not be as large.

We are a large company, but we work with many small companies that need the state's assistance through both **Investment and R&D credits** to advance their growing technology capability. All of our local companies, small and medium sized, need to leverage as many sources of funding as they possibly can, from federal and state research grants, to tax incentives, to angel, venture capital, and later stage equity funding, to the stage where they can finally generate sustainable business contracts. These funding sources are not, and can not be mutually exclusive of each other.

Your Act #221 / 215 legislation has enabled the growth of a high technology industry that is in its infancy, but with great promise to support Hawaii's economy of the future. It is a high paying, clean, small carbon footprint industry with many smart young people who will be the solvers of tomorrow's problems. **Unless you keep this industry alive with competitive incentives, many of the young people who are now into STEM studies, will have to go to the mainland for work...there will not be a high technology sector to employ them!**

We urge you to pass HB 1451 SD1, and to file the concepts espoused in HB 1583. Your technology industry in Hawaii will be gone, if HB 1583 is passed.

We recognize that these are difficult economic times and that compromises need to be made across the board. However, we ask that you bear in mind that this is the time when this state most needs to support a diversified economy. High Technology is a viable growing industry worthy of, and still dependent on your support. Without a technology sector in Hawaii, the brightest and best of your problem solvers will be forced to go elsewhere for employment, and Hawaii will become strictly a service sector driven economy.

I am submitting this testimony as an individual since I did not have time to get this approved by corporate. However, I can assure you the corporate entity supports these concepts. Thank you for the opportunity to submit this testimony.

Sincerely,

Alan Hayashi
207-4 Kawaihae Street
Honolulu, Hawaii 96825
255-6699 cell

LATE

Hawaii State legislature
State Capital
Honolulu, Hawaii 96813

Testimony on
H.B. NO. 1451

Senate Ways and Means Committee on March 27, 2009, Conference Room 221
To: Chair Donna Mercado Kim, Vice Chair Shan Tsutsui, Members of Ways and Mean Committee

Re: Strong Support for HB 1451

From: Pono Shim, Kahu and Vice President Enterprise Honolulu, The Oahu Economic Development Board
737 Bishop Street, #2040
Honolulu, HI 96813
808-521-3611 x12

Enterprise Honolulu has and will continue to support initiatives that stimulate economic growth in High Tech industries in Hawaii.

Please do whatever you can to protect and extend Act 221/215. It's working, it's helping Hawaii's future economy, it's good public policy, and it's a legacy to our children.

Act 221/215 are vital components needed for the development of the industries that can and will diversify Hawaii's economy.

Mahalo for your consideration,
Pono Shim

TERASYS
TECHNOLOGIES LLC

LATE

PIONEERING THE FUTURE OF ELECTROMAGNETICS™

April 5, 2009

To:
Senator Donna Kim
Hawaii State Legislature Chair
Ways and Means Committee
Shan Tsutsui
Vice Chair
Members of the Committee

SUBJECT: HB1451 HD2 SD1

Dear Chair Kim, Vice Chair Tsutsui, and Members of the Committee:

Thank you for the opportunity to once again provide support for Hawaii's Technology Industry via HB1451 HD2 SD1.

The technology and defense Industry clearly understands the economic and fiscal challenges facing the state. For this reason industry has been working collaboratively with members of the legislature and stakeholders to craft workable amendments which address the state's budget needs while ensuring that we preserve jobs and companies in Hawaii's science and technology sectors. The result of this collaborative effort is HB1451 HD2 SD1 which industry supports.

We believe the proposed amendments in HB1451 HD2 SD1 will not only address the fiscal concerns of the state but will address enforcement concerns expressed by the legislature which are missing from HB 1583 HD1 Proposed SD1

Someday the current global economic recession/depression will be over - will Hawaii be ready for a very different world? The Big 5 are gone except for one company – A&B who changed and diversified as the world changed. Have we (Hawaii) been keeping up with this change? Tourism will always be a part of Hawaii, like agriculture, but we must evolve to meet a new reality - and we have a great start with tech in Hawaii.

TeraSys Technologies LLC is a defense and dual use technology company developing wireless technologies. Founded in September 2007, we have grown to six employees, with four employees holding advanced degrees beyond a Bachelor's degree. We are preparing to launch our first commercial product in August of this year and plan to have ten employees by the end of the year.

Thank you for the opportunity to provide testimony.

Sincerely,

Digitally signed by Kevin Miyashiro
DN: cn=Kevin Miyashiro, o=TeraSys Technologies LLC, ou, email=kmiyashiro@terasystech.com, c=US
Date: 2009.04.05 21:46:44 -10'00'

Kevin Miyashiro
President, TeraSys Technologies LLC

kim3 - Frances

LATE

From: Ian Kitajima [IKitajima@OCEANIT.COM]
Sent: Sunday, April 05, 2009 8:32 PM
To: WAM Testimony; Sen. Donna Mercado Kim; Sen. Shan Tsutsui
Subject: HB1451 - public decision making on April 6th at 9:30am. Room 211

April 5, 2009

Senator Donna Kim
Hawaii State Legislature
Chair, Ways and Means Committee
Shan Tsutsui, Vice Chair
Members of the Committee

<u>SUBJECT:</u> HB1451 HD2 SD1

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

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The technology and defense Industry clearly understands the economic and fiscal challenges facing the state. For this reason industry has been working collaboratively with members of the legislature and stakeholders to craft workable amendments which address the state's budget needs while ensuring that we preserve jobs and companies in Hawaii's science and technology sectors. The result of this collaborative effort is **<u>HB1451 HD2 SD1 which industry supports</u>.**

We believe the proposed amendments in HB1451 HD2 SD1 will not only address the fiscal concerns of the state but will address enforcement concerns expressed by the legislature which are missing from HB 1583 HD1 Proposed SD1

We recognize that these are difficult economic times and that compromises need to be made across the board, and HB1451 HD2 SD1 is the industry's attempt.

Someday the current global economic recession/depression will be over - will Hawaii be ready for a very different world? The Big 5 are gone except for one company – A&B who changed and diversified as the world changed. Have we (Hawaii) been keeping up with this change? Tourism will always be a part of Hawaii, like agriculture, but we must evolve to meet a new reality - and we have a great start with tech in Hawaii.

Thank you for the opportunity to provide testimony. Please do not hesitate to call should you have any further questions.

Sincerely, Ian Kitajima

Ian Kitajima | Oceanit | Marketing Manager

HISciTech
HAWAII SCIENCE & TECHNOLOGY COUNCIL

HB1451 HD2 SD1- Relating to Taxation

DATE: Monday, April 06, 2009
TIME: 9:30AM
PLACE: Conference Room 211

LATE

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

Re: Comments in strong support of HB1451 HD2 SD1

Chair, Vice-Chair and Committee Members:

Thank you for the opportunity to submit comments in support of to HB 1451 HD2 SD1. We ask the committee to recognize the significant amount of testimony in support of HB1451 HD1 submitted to the Senate Economic Development and Technology Committee. The concepts included in SD1 resulted from collaboration between stakeholders and members of the legislature. These include:

- A $10 Million cap on credits over five years for investment made in a single QHTB per year
- An aggregate cap on credits over five years for all investments made in all QHTB's per year provided that this aggregate cap is set at a reasonable amount, includes clear a "first come first serve" after investment is secured allotment process administered through DoTax and rollover language for unused credits
- Drop Down Subsidiaries: Further statutory restrictions on so-called "drop down subsidiaries, provided that what constitutes a "drop down subsidiary" is properly and clearly defined by statute
- A two-year extension of Act 221

Act 221 companies have:

- Generated more than $1.2 billion in investments in at least 333 Act 221 companies.
- Spent more than $1.4 billion in Hawaii
- Created more than 4,000 employee and independent contractor jobs, which paid more than $228 million in salary and other compensation in 2007 alone.
- Earned more than $228 million in revenues in 2007 alone.
- These benefits have been realized BEFORE most of these Act 221 companies have reached their full potential, and exceed the $437 million in costs of credits claimed from 1999 through 2007.

The Hawaii Science & Technology Council (HISciTech) is a 501(c)6 industry association with a 28-member board. HISciTech serves Hawaii companies engaged in ocean sciences, agricultural biotechnology, astronomy, defense aerospace, biotech/life sciences, information & communication technology, energy, environmental technologies, and creative media.

Thank you for the opportunity to testify.

Lisa Gibson, President
Hawaii Science & Technology Council

733 Bishop Street, Suite 2950 Honolulu, Hawaii 96813
808.536.4670 *phone* | 808.536.4680 *fax* |

kim2 - Arline

From: Rick Holasek [rick.holasek@nova-sol.com]
Sent: Monday, April 06, 2009 9:43 AM
To: WAM Testimony
Subject: HB1451 HD2 SD1 Comments

HB1451 HD2 SD1- Relating to Taxation

LATE

DATE: Monday, April 06, 2009
TIME: 9:30AM
PLACE: Conference Room 211

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

Re: Comments in strong support of HB1451 HD2 SD1

Chair, Vice-Chair and Committee Members:

Thank you for the opportunity to submit comments in support of to HB 1451 HD2 SD1. We ask the committee to recognize the significant amount of testimony in support of HB1451 HD1 submitted to the Senate Economic Development and Technology Committee. The concepts included in SD1 resulted from collaboration between stakeholders and members of the legislature. These include:

- A $10 Million cap on credits over five years for investment made in a single QHTB per year
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- Drop Down Subsidiaries: Further statutory restrictions on so-called "drop down subsidiaries, provided that what constitutes a "drop down subsidiary" is properly and clearly defined by statute
- A two-year extension of Act 221

Act 221 companies have:

- Generated more than $1.2 billion in investments in at least 333 Act 221 companies.
- Spent more than $1.4 billion in Hawaii
- Created more than 4,000 employee and independent contractor jobs, which paid more than $228 million in salary and other compensation in 2007 alone.
- Earned more than $228 million in revenues in 2007 alone.
- These benefits have been realized BEFORE most of these Act 221 companies have reached their full potential, and exceed the $437 million in costs of credits claimed from 1999 through 2007.

NovaSol is a local Hawaii-based high technology firm working in the aerospace/defense sector. Established in 1998, we specialize in reconnaissance camera systems and free space optical communications.

Sincerely,

Rick

Rick Holasek
President & CEO
NovaSol
733 Bishop St, Makai Tower

Pacific Guardian Center
Honolulu, HI 96813
office: 808.441.3666
fax: 808.441.3601

ARCHINOETICS

700 Bishop Street, Suite 2000 Honolulu, HI 96813

April 6, 2009

LATE

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

Re: Comments in strong support of HB1451 HD2 SD1

Chair, Vice-Chair and Committee Members:

Thank you for the opportunity to submit comments in support of to HB 1451 HD2 SD1. We ask the committee to recognize the significant amount of testimony in support of HB1451 HD1 submitted to the Senate Economic Development and Technology Committee. The concepts included in SD1 resulted from collaboration between stakeholders and members of the legislature. These include:

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Since Archinoetics began operations in 2005 we have grown to 30 Hawaii based employees with a payroll of over $2 million in 2008. We are a research company that develops intelligent human assistive technologies (i.e. we use sensors and computers to improve peoples' lives). We are currently launching a subsidiary company, Fatigue Science, using a technology that was developed 4 years ago in Hawaii. That our first major client is in Australia illustrates the worldwide market within the reach of Hawaii's technology companies. Achieving that market reach will take time and is why we need this support to continue to grow our business in Hawaii.

Thank you for the opportunity to testify on this important bill.

Sincerely,

Joe Cooper, CFO
Archinoetics
808) 741-1684
joe@archinoetics.com

TERASYS TECHNOLOGIES LLC **_PIONEERING THE FUTURE OF ELECTROMAGNETICS™_**

April 5, 2009

To:
Senator Donna Kim
Hawaii State Legislature Chair
Ways and Means Committee
Shan Tsutsui
Vice Chair
Members of the Committee

LATE

SUBJECT: HB1451 HD2 SD1

Dear Chair Kim, Vice Chair Tsutsui, and Members of the Committee:

Thank you for the opportunity to once again provide support for Hawaii's Technology Industry via HB1451 HD2 SD1.

The technology and defense Industry clearly understands the economic and fiscal challenges facing the state. For this reason industry has been working collaboratively with members of the legislature and stakeholders to craft workable amendments which address the state's budget needs while ensuring that we preserve jobs and companies in Hawaii's science and technology sectors. The result of this collaborative effort is HB1451 HD2 SD1 which industry supports.

We believe the proposed amendments in HB1451 HD2 SD1 will not only address the fiscal concerns of the state but will address enforcement concerns expressed by the legislature which are missing from HB 1583 HD1 Proposed SD1

Someday the current global economic recession/depression will be over - will Hawaii be ready for a very different world? The Big 5 are gone except for one company – A&B who changed and diversified as the world changed. Have we (Hawaii) been keeping up with this change? Tourism will always be a part of Hawaii, like agriculture, but we must evolve to meet a new reality - and we have a great start with tech in Hawaii.

TeraSys Technologies LLC is a defense and dual use technology company developing wireless technologies. Founded in September 2007, we have grown to six employees, with four employees holding advanced degrees beyond a Bachelor's degree. We are preparing to launch our first commercial product in August of this year and plan to have ten employees by the end of the year.

Thank you for the opportunity to provide testimony.

Sincerely,

Digitally signed by Kevin Miyashiro
DN: cn=Kevin Miyashiro, o=TeraSys Technologies LLC, ou, email=kmiyashiro@terasystech.com, c=US
Date: 2009.04.05 21:46:44 -10'00'

Kevin Miyashiro
President, TeraSys Technologies LLC

TeraSys Technologies LLC • 2800 Woodlawn Drive Suite 198 • Honolulu, HI 96822
Phone: (808) 469-4251 • Fax: (808) 237-5168 • http://www.terasystechnologies.com

kim4 - Elizabeth

From: Ian Kitajima [IKitajima@OCEANIT.COM]
Sent: Sunday, April 05, 2009 8:32 PM
To: WAM Testimony; Sen. Donna Mercado Kim; Sen. Shan Tsutsui
Subject: HB1451 - public decision making on April 6th at 9:30am. Room 211

April 5, 2009

Senator Donna Kim
Hawaii State Legislature
Chair, Ways and Means Committee
Shan Tsutsui, Vice Chair
Members of the Committee

LATE

SUBJECT: HB1451 HD2 SD1

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We believe the proposed amendments in HB1451 HD2 SD1 will not only address the fiscal concerns of the state but will address enforcement concerns expressed by the legislature which are missing from HB 1583 HD1 Proposed SD1

We recognize that these are difficult economic times and that compromises need to be made across the board, and HB1451 HD2 SD1 is the industry's attempt.

Someday the current global economic recession/depression will be over - will Hawaii be ready for a very different world? The Big 5 are gone except for one company – A&B who changed and diversified as the world changed. Have we (Hawaii) been keeping up with this change? Tourism will always be a part of Hawaii, like agriculture, but we must evolve to meet a new reality - and we have a great start with tech in Hawaii.

Thank you for the opportunity to provide testimony. Please do not hesitate to call should you have any further questions.

Sincerely, Ian Kitajima

Ian Kitajima | Oceanit | Marketing Manager

828 Fort. St. Mall, Suite 600, Honolulu, HI 96813
P: 808.531.3017 x131 | F: 808.531.3177
E: ikitajima@oceanit.com | Skype: ian.kitajima | Twitter: ikitajima
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NEWS: *Watch "Weird Science with Dr. V" every Tues at 6:40am on KGMB9*

Please consider the environment before printing this message

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Testimony Opposed to HB1741, Relating to the Conveyance Tax
Hearing Date: Monday, April 6, 2009, 10:00am

LATE

I am writing in opposition to HB1741. This bill proposes suspending the transfer of conveyance tax monies into the Hawaiʻi Land Conservation Fund starting July 1, 2009, for the next five years.

I am fully aware that the State of Hawaiʻi must find sources of revenue to pay for underfunded projects due to the current recession. However, there are many reasons why the money should not be stripped from the Land Conservation Fund:

• As a several-time volunteer at Maʻo Farms in Waiʻanae, I have seen firsthand the benefits of preserving Hawaiʻi's agricultural lands. Gary and Kukui Maunakea-Forth, the farm owners, have built a thriving organic farming business while simultaneously employing, educating and nurturing twenty-five young people (at present) from the Waiʻanae-Nānākuli area. These local kids spend three days a week attending Leeward Community College and two days a week laboring on the farm--and they are thriving! The pride they show in their community and the pride in their work radiates from their faces. Isn't the stimulus bill meant to do what they are doing on this farm? Shouldn't we be encouraging this level of community involvement and creating incentives for this type of enterprise? Please visit the Maʻo Farms website (http://www.maoorganicfarms.org) or better yet, visit in person on the fourth Saturday of every month.

• Invasive species (plant and animal) will not be taking a break during this five-year period. The Hawaiʻi Youth Conservation Corps, also supported by this fund, is a primary agency for combating pests to our indigenous species. The Corps also helps maintain the state's reefs, forests, fishponds and other natural/cultural resources. Because conveyance tax funds will undoubtedly be substantially lower, at least in the short term, depleting this fund even further puts our precious environment at risk. Learn more about HYCC at: http://www.hawaiiycc.com/programs/programs.html

• "Locally grown" means more employment and lower prices for Hawaiʻi citizens. If the price of oil hits $200/barrel, how much do you think a head of lettuce shipped from the Mainland will cost? In economically uncertain times, "a bird in hand is worth two in the bush". Buy local should be the byword and should be fully supported by the State.

• The time to consider buying real estate is now (or soon), while prices are low. The State should take advantage of buying natural or culturally-significant properties that--during boom times--would be difficult or impossible to acquire.

• Money that goes into the State's general fund has no accountability. We will never know how this money was spent. At some point in the past, the Land Conservation Fund was deemed worthy of funding. I maintain that this commitment has even greater import at this time. The "small potatoes" that the State will gain from the conveyance tax is not worth the trouble, bad will or possibly dire consequences that could result from passage of this bill.

I favor a balanced budget, BUT I favor raising the general excise tax over raiding the Land Conservation Fund; I favor removing levels of bureaucracy from State government as a cost-cutting measure; I favor trimming hours from State workers if necessary; I favor creative thinking about how funds can be raised and money can be saved.

For the future generations who will live in these unique islands, please preserve the Land Conservation Fund for its intended purposes.

Thank you very much for this opportunity to testify.

Sincerely,
Janet L. Pappas
jrjt@hawaiiantel.net
808-383-1988

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

LATE

SENATE COMMITTEE ON WAYS & MEANS
TESTIMONY REGARDING HB 1451 HD 2 SD 1
RELATING TO TAXATION

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: APRIL 6, 2009
TIME: 9:30AM
ROOM: 211

As amended, this measure extends the high technology business investment tax credit, research credit, and technology infrastructure credit through 2012. This measure also provides a $100 million aggregate cap per year on the high tech investment credit and a $10 million cap per qualified high technology business.

The Department of Taxation (Department) **requests that the measure be amended to its HD 2 form and provides comments.**

I. SUPPORT FOR HIGH TECH BUSINESSES GENERALLY

The Department and the Administration support the use of tax incentives to assist with the development of Hawaii's high tech industry. Act 221 has been effective in encouraging local and out-of-state investment in Hawaii's high tech businesses.

The importance of promoting innovation and research-based activities was recognized with the enactment of several ground-breaking tax credits and programs intended to promote growth in technology and other innovation-related sectors. Beginning with Act 178, Session Laws of Hawaii 1999, the State vigorously encouraged the development of high technology businesses in order to further diversify its economy, attract former residents to return home, and develop business sectors with better paying jobs.

Act 178 was followed by Act 221, Session Laws of Hawaii 2001, which provided for what is believed to be the only one hundred percent tax credit available for investments into businesses conducting high technology research-related activities. Act 221 provided financial backing for these companies by attracting capital from both local and out-of-state sources through government incentives. Recognizing the amount the State has invested in these companies through tax incentives to date, coupled with the viability these companies demonstrate as promising profitable ventures, it is important that the State maintain its commitment to making Hawaii a high technology hub of the future for the sake of its overall economy, which is overly tourism- and real estate-based.

II. SD 1 VERSION AND THE CAP FRAMEWORK

The Department supports instituting a cap on the investment credit. Instituting a cap preserves the State's commitment to diversifying Hawaii's economy with a booming high technology industry by maintaining the current structure of the one hundred percent investment tax credit; however capping the amount of credits that may be generated.

By implementing this cap, the State will be better able to insulate the general fund from unpredictable drains in revenue due to volatile credit claims. From a budgeting perspective, knowing the maximum amount of liability the State will be forced to fund allows for predictability, especially in such trying times.

THE CAP CONCEPT WAS DISCUSSED WITH INDUSTRY—The Department believes it is important that the general concept of a cap, including the per-qualified high technology business cap, was discussed previously with the input of the high tech industry that benefits from this credit. Though the industry may not agree with the policy of this measure, the industry has been given the opportunity to help shape how the cap procedures in HB 1157/SB 975 operate.

THE CAP MUST REFLECT THE BUDGETING TARGET IN LIGHT OF THE CURRENT BUDGET SHORTFALL—The Department takes issue with the current $100 million that is earmarked for this industry as provided in the current measure because it will not generate substantial savings. The cap must reflect the budget shortfall and the revenue that can be saved by capping this credit. Lowering the cap amount will generate additional savings.

In addition, the Department should be given more than one day turnaround to administer the cap. The Department should have at least 10 business days.

EXTENDING THE INCENTIVES—It is important to point out that the high technology business investment tax credit is the most expensive credit to the State. At the same time; however, it has also effectively generated substantial investments into the local economy. The Department does not support repealing or extending Act 221; only modifying it to improve budget planning. There is a need for tax incentives to assist fledgling high technology business. At the same time; however, it is important to provide incentives responsibly by instituting, among other things, transparency and caps.

REPEAL THE INFRASTRUCTURE CREDIT—With regard to the Technology Infrastructure Renovation Credit specifically, the Department recommends repealing this credit rather than extending it. It is good tax policy to eliminate incentives that go unused. In the case of this credit, only 17 claims have been made totally $30,430 in 2006. This data demonstrates that the incentive is unattractive. The Department surmises that the credits go unclaimed because the capital goods excise tax credit is more attractive and/or the 179 deduction yields more benefit. In light of the foregoing, it may be more prudent in light of the current fiscal picture to repeal the credit.

DROP DOWN SUBSIDIARY LANGUAGE-- The thresholds at which drop-down subsidiaries are required to obtain a comfort ruling from the Department are much too high. At the current level of $100 million in assets in Hawaii and $50 million of gross income earned in Hawaii, very few, if any companies, will be required to obtain a comfort ruling. This would defeat the purpose of allowing the Department to better monitor abuses in this area.

III. <u>PREFERRED HD 2 VERSION</u>

The Department strongly prefers the HD 2 version of this measure.

INELIGIBILITY FOR CREDITS PAID WITH GOVERNMENT MONEY—The Department supports the proposal to preclude the use of government grants or other subsidies from being used to then qualify for tax credits.

The Department believes this bill represents good general tax policy. A person should not be allowed to "double dip" by being subsidized by the government and then leveraging that subsidy for further government tax benefits.

MODIFYING THE DEFINITION OF "INVESTMENT"—The Department supports the amendments to the term "investment" for purposes of the investment credit. The Department supports amendments that clarify, among other things, that any money for which a 100% credit is provided, must actually be put "at risk" as that phrase is generally understood, rather than the technical definition in the Internal Revenue Code. Such a definition also ensures that investors receiving the 100% credit are doing so only for an equity stake, thus assuming the inherent risk that this credit seeks to minimize, which is what this law originally intended. Such an amendment eliminates the ability to claim a credit for exchanges of licensing rights, marketing rights, and other unrelated transactions.

An amendment to the "investment" definition also ensures that investors receiving the 100% credit invest their money for true business purposes other than simply receiving a 100% credit. An investment must remain in the company and cannot be repaid in any form for 5 years. The time requirement currently is one year and there is less than clear language on how that repayment can be made.

ELIMINATING THE MUTIPLE—The Department supports the amendments to conform to Internal Revenue Code § 704(b). The Department generally supports conforming to the Internal Revenue Code in all respects. The effect of conforming is to ensure that an investor receives a 100% credit for their investment, subsidized by state funds, and no more. Under current law, it is possible for taxpayers to receive up to 200% of their investment in credits. At a time when the State's budget shortfall has grown month-after-month, the important and responsible budgeting decisions must be made.

INCREASED RECAPTURE; ACTIVITIES; AND WORKFORCE REQUIREMENTS—The Department supports amendments to increase recapture, increase the activities requirement to qualify as a high technology business, and the workforce requirements in Hawaii, which are contained in the HD 2. In short, the Department believes that these are rational and reasonable expectations of policymakers who subsidize investors' risk in these companies through a 100% credit. These amendments ensure that the companies are "real," invest back into Hawaii by providing jobs, and conduct sufficient innovation to continue shifting Hawaii's economy to one based upon technology.

RESEARCH CREDIT AMENDMENTS IN THE HD 2—The Department points out problematic amendments to the research credit contained in the HD 2. The certification of investments and subsidiary amendments are not relevant to the research credit. The Department is unsure whether these amendments were intended for the investment credit; however points them out.

IV. FURTHER DISCUSSION TO OPTIMIZE SAVINGS WHILE MAINTAINING INCENTIVE EFFICIENCIES

The Department would like to encourage further discussion so these savings can be achieved with minimal affect with regard to the usefulness of this incentive. As this important legislation moves toward conference committee, the Department will continue to make itself available to the legislature and the industry to discuss further refinement of the credit language.

The Department believes that further discussion could result in a better credit while contributing to a solution to the budget shortfall, for example, discussions regarding:

- An aggregate cap of $80 million per year, including the first 6 months of 2009;
- Refinement of the existing qualified research categories;
- Reducing the credit per QHTB cap from $10 million to $5 million or $3 million; and
- At what point a business should no longer need the credit.

V. REVENUE IMPACT & METHODOLOGY

If the measure's effective date is July 1, 2009, the revenue impacts would be:

- $15.9 million gain for FY10,
- $36.6 million gain in FY11,
- $11.3 million loss in FY12;
- $39.4 million loss in FY13;
- $20.7 million loss in FY14; and
- $15.0 million loss in FY15.

Without the bill, it is assumed that investment claimed for credit per year would be $150 million. With the new law, investment claimed would be $56.3 million less in 2009 and $75 million less in 2010. Investment for 2011 and 2012 would be $75.0 million (cap at $100.0 million x 75% utilization). Assumed $25 million investment would move from Act 221 claim to Act 88 claim for 2009 and 2010. Revenue loss of $15 million per year for FY12 and FY13 due to 2-year extension of research credit.

Cellular Bioengineering, Inc.

Invent. Disrupt. Inspire.

HB1451 HD2 SD1: Relating to Taxation

Date: April 6, 2009
Time: 9:30 a.m.
Place: Conference Room 211

LATE

To: Senate Committee on Ways and Means
The Honorable Donna Mercado Kim, Chair
The Honorable Shan S. Tsutsui, Vice Chair
From: Michael J. Coy, Vice President, Cellular Bioengineering, Inc. (CBI)

Re: Comments in Strong Support to HB1451 HD2 SD1 - Relating to Taxation

Aloha Chair, Vice Chair and Members of the Committee:

Thank you for the opportunity to submit comments in strong support of HB1451 HD2 SD1. CBI asks the Committee to recognize the significant amount of testimony in support of HB1451 HD2 submitted to the Senate Economic Development and Technology Committee. The concepts included in SD1 resulted from collaboration between stakeholders and members of the legislature. These include:

- A $10 Million cap on credits over five years for investment made in a single QHTB per year
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- Generated more than $228 million in revenues in 2007 alone
- These benefits have been realized BEFORE most of these Act 221 companies have reached their full potential, and exceed the $437 million in costs of credits claimed from 1999 through 2007.

With help from Act 221, CBI has grown from 2 employees to 30; acquired technologies from leading scientific institutions around the world; harnessed a robust portfolio of over 25 patents and patent applications; developed the world's most advanced artificial cornea technology which holds the promise of restoring vision to 10 million people around the world; commercialized from concept to market a new generation of green technology for surface cleaning and decontamination; brought talented kama'āinas back home to work, thrive, and pay taxes; and demonstrated to the world that it is entirely possible for a Hawaii-based technology company to have impact that is truly global. Without Act 221, many of these feats could not possibly be accomplished in Hawaii.

Sincerely,

1946 Young Street, Suite 288 · Honolulu, Hawaii 96826
Ph: 808.949.2208 · Fax: 808.949.2209
www.cellularbioengineering.com

HB 1583 HD 1	TAXATION (reduces credits)	General comments See previous WAM testimony on Proposed SD1 (March 27)	No technical comments	As amended in the proposed SD 1, this measure will result in a general fund revenue gain estimated at $83.3 million for FY 2010 and $76.1 million FY 2011.	
HB 1451 HD2 SD1	TAXATION (Act 221 amendments	Prefer HD2 version	See separate testimony submitted for this bill	If the measure's effective date is July 1, 2009, the revenue impacts would be: • $15.9 million gain for FY10, • $36.6 million gain in FY11, • $11.3 million loss in FY12; • $39.4 million loss in FY13; • $20.7 million loss in FY14; and • $15.0 million loss in FY15.	Without the bill, it is assumed that investment claimed for credit per year would be $150 million. With the new law, investment claimed would be $56.3 million less in 2009 and $75 million less in 2010. Investment for 2011 and 2012 would be $75.0 million (cap at $100.0 million x 75% utilization). Assumed $25 million investment would move from Act 221 claim to Act 88 claim for 2009 and 2010. Revenue loss of $15 million per year for FY12 and FY13 due to 2-year extension of research credit.

LATE