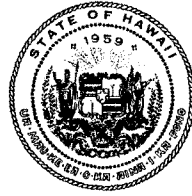


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JAMES R. AIONA, JR.  
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**HOUSE COMMITTEE ON ECONOMIC REVITALIZATION, BUSINESS &  
MILITARY AFFAIRS  
TESTIMONY REGARDING HB 2945  
RELATING TO ECONOMIC DEVELOPMENT**

**\*\*\*WRITTEN TESTIMONY ONLY\*\*\***

**TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)**  
**DATE: FEBRUARY 4, 2010**  
**TIME: 8AM**  
**ROOM: 312**

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This measure, among other things, funds the State private investment fund to allow transferability of tax credits.

The Department of Taxation ("Department") **opposes the credit transfer amendments; as well as any anticipated revenue loss** anticipated by this measure.

**I. THE DEPARTMENT OPPOSES TRANSFERS OF CREDIT.**

The Department is strongly opposed to any provision that allows Hawaii tax credits to be sold, assigned, or transferred. Allowing taxpayers to market or sell their tax credits is fundamentally poor tax policy. Selling tax credits can be subject to abuse and suspect motivation by parties involved.

The Department's fundamental and primary concerns regarding credit transfers are the following:

- The transferability rewards a separate taxpayer unrelated to the taxpayer that generated the credit, which is fundamentally poor tax policy for encouraging behavior and directly rewarding that behavior;
- The Department is not setup to regulate credit transfers. Will the Department be required to establish a "Bureau of Credit Conveyances" in order to track transfers? If this is the case, resources will have to be dedicated to this;

- And, abuse relating tax credit transfer prices will be problematic. The State will be out a \$1 when taxpayers will be transferring this \$1 for pennies.

## **II. ANTICIPATED REVENUE LOSS**

This measure also provides for the funding of the investment fund's allocable credits. Currently, this program is not funded. Funding this program will result in a revenue loss to the general fund equal to whatever is appropriated.

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**From:** Bill Spencer [bspencer@hawaii.rr.com]  
**Sent:** Wednesday, February 03, 2010 10:40 AM  
**To:** 'Bill Spencer'; EBMtestimony  
**Subject:** Testimony in Support of the Intent of HB 2945 - being heard February 4, 2010 at 8:00AM, Conference Room 312

**Importance:** High



805 Kainui Drive  
Kailua, Hawaii 96734

DATE: February 4, 2009  
TIME: 8:00am  
PLACE: Conference Room 312

TO: House Committee on Economic Revitalization, Business and Military Affairs  
Representative Angus McKelvey, Chair  
Representative Isaac W. Choi, Vice Chair

FROM: Bill Spencer, President, Hawaii Venture Capital Association

RE: Testimony In Strong Support for HB 2945

Aloha Chair McKelvey, Vice Chair Choy, and Members of the Committee,

On behalf of the 2,000 members and friends of the Hawaii Venture Capital Association, let me express our support for the intent of HB2945. In 2005 we strongly supported the original bill that created a State private investment fund to help provide later stage finance for Hawaii companies and help build a vibrant venture capital industry in Hawaii. We continue to believe that this "fund of fund" approach will help keep companies seeded with Act 221/215 funds in Hawaii. We also believe that the fund of fund approach guaranteed by "contingent" tax credits will have only a positive impact on the State budget in the form of increased tax revenues from companies and their employees.

The Hawaii Venture Capital Association is one of Hawaii's oldest economic development trade associations devoted to diversifying Hawaii's economy, capital formation and Hawaii's entrepreneurs for last 22 years.

Thank you for your kind consideration of this testimony.

Sincerely,

/s/  
Bill Spencer  
President

Written Statement of  
**YUKA NAGASHIMA**  
**Executive Director & CEO**  
High Technology Development Corporation  
before the  
**HOUSE COMMITTEE ON ECONOMIC REVITALIZATION, BUSINESS & MILITARY  
AFFAIRS**  
Thursday, February 4, 2010  
8:00 AM  
State Capitol, Conference Room 312

In consideration of  
**HB 2945 RELATING TO ECONOMIC DEVELOPMENT.**

Chair McKelvey, Vice Chair Choy, and Members of the House Committee on Economic Revitalization, Business and Military Affairs.

The High Technology Development Corporation (HTDC) supports HB 2945, which amends the State Private Investment Fund (SPIF) legislation, in order to further Hawaii's capital formation efforts. While I refer to my colleague, Mr. Karl Fooks, of Hawaii Strategic Development Corporation (HSDC) for detailed analyses and wording suggestions, HTDC respectfully offers some comments for the Committee's consideration.

This bill offers the flexibility for the State to offer the models of Utah, Tennessee and Pennsylvania, by providing refundable tax credit to be used for collateral purposes. The flexibility is important to nurture Hawaii's innovation economy because the challenges we face in Hawaii are different from some of the other states we studied. Utah, for example, is considered to be a "higher tier" in terms of their capital formation with more deal flow than Hawaii. It makes sense, then, for Utah's legislation to not provide any geographic restrictions for investments, to obtain the "cheapest" financing available. This bill's language would allow us to take the best aspects of the studied models to optimize for Hawaii.

One alternative might be to amend the HSDC statutes rather than the SPIF legislation for brevity and simplicity. HSDC already has the structure needed to accommodate a fund-to-fund model. We simply need to allocate the refundable tax credit to the agency. Language in HB 2944 may be used as a basis for this alternative method of obtaining the same goal, by inserting the term "refundable" tax credit.

Thank you for the opportunity to submit testimony on this bill.