LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR

KURT KAWAFUCHI
DIRECTOR OF TAXATION

STANLEY SHIRAKI
DEPUTY DIRECTOR

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

PHONE NO: (808) 587-1510
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HOUSE COMMITTEE ON FINANCE
TESTIMONY REGARDING HB 2984 HD 1
RELATING TO TAX CREDITS

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: FEBRUARY 18, 2010
TIME: 2PM
ROOM: 308

As amended, this measure extends the tax credit for research activities until 2011 and repeals the high technology business investment tax credit and the technology infrastructure renovation tax credit.

The Department of Taxation (Department) **supports the intent** of repealing the high tech and technology infrastructure tax credits; however is **concerned over potential revenue loss** from extending the research credit.

The Department supports what this measure accomplishes, which is a continuation of the research credit and financing that continuation by repealing other tax incentives. The Department's primary concern relates to the cost of the extension, which results in a revenue loss in Year 2. This cost has not been factored into the Executive Budget. The Department suggests that this measure be passed out of committee in order to continue the discussion of maintaining tax incentives for high technology.

This measure will result in the following revenue impacts—

Revenue Gain:	Revenue Loss:	**NET REVENUE IMPACT**
FY 2011, $13.1m		**FY 2011, $13.1m gain**
FY 2012, $ 9.4m	(FY 2012, $20.0m)	**(FY 2012, $10.6m loss)**
FY 2013, $ 7.5m		**FY 2013, $ 7.5m gain**
FY 2014, $ 3.8m		**FY 2014, $ 3.8m gain**
FY 2015, $ 3.8m		**FY 2015, $ 3.8m gain**

HTDC Cultivating Hawaii's tech sector
HIGH TECHNOLOGY DEVELOPMENT CORPORATION

Written Statement of
YUKA NAGASHIMA
Executive Director & CEO
High Technology Development Corporation
before the
HOUSE COMMITTEE ON FINANCE
Thursday, February 18, 2010
2:90 PM
State Capitol, Conference Room 308

In consideration of
HB 2984 HD1 RELATING TO TAX CREDITS.

Chair Oshiro, Vice Chair Lee, and Members of the House Committee on Finance.

The High Technology Development Corporation (HTDC) respectfully opposes HB 2984 HD1, which extends the tax credit for research activities for an additional year to be funded by repealing Act 221/215 upon enactment of this bill.

HTDC respects our collective need to be fiscally responsible and to implement projects that are revenue neutral (or positive) as much as possible. HTDC appreciates the legislature embracing the importance of funding innovation via the research and development (R&D) tax credit portion of Act 221/215. While the continued funding of R&D activities is important, we believe the opportunity cost of repealing the last six months of a 10-year law (which has been contested heavily and consistently with major amendments being made twice), in terms of the State's reputation, is too high.

If we are to seriously consider future capital formation and mechanisms to support the nurturing of an innovation economy, we must take a long-term position. Repealing Act 221/215 six months early will send the message to the investment community not only locally but nationally and internationally that Hawaii's State government is not consistent with respect to its tech policies, at best. At worst, we would be found unstable and unreliable. Having such a profile will cost us when negotiating with financial institutions to have monies loaned to the State for private investment funds (and any other future programs we might consider).

Should we not find other alternatives to fund the extension of the R&D credit, despite the merits of the R&D credit, we should let the R&D credit sunset alongside the rest of Act 221/215.

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

HSDC HAWAII STRATEGIC DEVELOPMENT CORPORATION

No. 1 Capitol District Building
250 South Hotel Street, Suite 508
P.O. Box 2359
Honolulu, Hawaii 96804
Telephone: (808) 587-3830

Written Statement of
Karl Fooks
President
Hawaii Strategic Development Corporation

Before the
HOUSE COMMITTEE ON FINANCE

February 18, 2010
2:00 PM
State Capitol, Conference Room 308

In consideration of

HB 2984 HD1 RELATING TO TAXATION

Chair Oshiro, Vice Chair Lee and Members of the Committee:

The Hawaii Strategic Development Corporation (HSDC) opposes HB2984 HD1.

Sections 2 repeals what is popularly known as the Act 221 tax credits. These tax credits sunset at the end of 2011 and were the subject of significant alteration in last year's legislative session. The repeal of Act 221, coming on the heels of last year's changes, and in light of its scheduled sunset at the end of 2011, will only reinforce investors' perception that the State of Hawaii does not stand behind its legislative commitments to support the technology sector.

Understanding the budgetary pressures confronting the State, perhaps a better solution would be to cap the amount of tax credits that can be claimed under the remaining life of the statute.

Thank you for the opportunity to submit testimony.

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Extend tax credit for research activities

BILL NUMBER: HB 2984, HD-1

INTRODUCED BY: House Committee on Economic Revitalization, Business, and Military Affairs

BRIEF SUMMARY: Amends HRS section 235-110.91 to extend the expiration of the tax credit for research activities from December 31, 2010 to December 31, 2011.

Amends HRS section 235-110.51 to repeal the technology infrastructure renovation tax credit.

Amends HRS section 235-110.9 to repeal the high technology business investment tax credit.

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: The legislature by Act 178, SLH 1999, and Act 221, SLH 2001, enacted various tax incentives to encourage the development of high technology businesses in the state. The acts provided investment and research credits, as well as income exclusions, providing tax incentives to encourage high tech businesses and individuals associated with high tech businesses. This measure repeals the technology infrastructure renovation tax credit and the high technology business investment tax credit and it proposes to extend the expiration of the tax credit for research activities from December 31, 2010 to December 31, 2011, which will perpetuate the financial drain on the state's revenues. It should also be remembered that the research credit is a refundable tax credit. Thus, should the amount of the credit exceed the taxpayer's income tax liability, any excess credit is a cash payment out of the state treasury to the claimant. Although the prior committee suggested that the finance committee might want to consider making this credit nonrefundable, it is curious that the subject committee did not take that action if it, indeed, wanted to preserve the credit for another year.

While the focus on high technology in the last few years is commendable, it fails to recognize that investments are made with the prospect that the venture will yield a profit. If the prospects for making a profit are absent, no amount of tax credits will attract investment from outside Hawaii's capital short environment. People do not invest to lose money. It should be remembered that until Hawaii's high cost of living can be addressed, all the tax incentives in the world will not make a difference in attracting new investment to Hawaii. The only attractive aspect for resident investors to plough money into such activities is the fact that the credit provides a way to avoid paying state taxes.

A former Hawaii resident who has been a success in the field of high technology pointed out recently what will make Hawaii conducive to high tech businesses and they are: (1) entrepreneurs, not capital, that comes first; (2) entrepreneurs coming from engineering schools and technology companies; (3) building a world class engineering school in Hawaii; (4) supporting internships at technology companies; (5) allowing our best children to go away to get a worldwide perspective; (6) not broadband passing through Hawaii that is a selling point; (7) that people fly direct and therefore is Hawaii's location in the middle of the Pacific an advantage?; (8) learning the rules of the game; (9) looking at Israel and learn from them; and (10) doing your own thing, being a copy cat does not work. At the heart of his remarks was the fact that in order to produce a high technology industry in Hawaii, those companies need to have access to institutions of higher education that are producing the people needed by the high technology industry. Without the academic synergy, Hawaii will never become a center for high technology activity. Thus, all of the tax incentives, like this measure embodies, will fall short of luring high technology firms to Hawaii.

Further, the tremendous tax burden, the draconian regulatory environment, and the dramatic increase in fees that go with the permitting process make Hawaii an unattractive place to do business. It should be remembered that while the high technology credits may look like a good incentive or enticement to undertake research activities in Hawaii, those who would conduct this research must live in the same high cost-of-living environment with which other taxpayers continue to struggle. Thus, the cost of maintaining those researchers will be higher than to do so where the cost of living is much lower. Let's not bet the farm on high technology without really understanding what makes this industry tick.

Obviously the authors of this proposal would like to ignore the evaluation of these tax incentives done by UHERO last year which basically condemned the credits as a waste of state resources as there is little evidence that the current program of tax credits has created substantial new employment or on-going enterprises. It is truly amazing that given the dire condition of the state's financial condition, that lawmakers would continue to support unbridled drains of resources while at the same time proposing that the tax burden be increased on all other taxpayers. With declining revenues, every program from education to corrections to health services will be severely curtailed. If the state doesn't have the money to put textbooks in the schools why then do we need the highly touted, high-paying jobs the advocates for the industry promise? The next generation may not even know how to read given the cuts to the education budget.

Again, lawmakers must ask themselves whether or not this incentive is appropriate in these dire financial times. Given that there are many other proposals in the legislature to hike tax rates for either the general excise or net income taxes, taxpayers will find the continuance of these targeted business tax credits frightening. Frightening because these very lawmakers are supposed to represent the best interest of their constituents. Raising taxes on constituents while still handing out money to favored groups will engender the ire of constituents. The finger of blame for these potential increases in tax burden should not stop at lawmakers, but be placed squarely on those in the community who continue to push for these targeted tax credits. Perhaps those proponents should be asked to pick up the tab for this reckless expenditure of precious tax dollars.

It should be noted that this measure, which repeals two of the high technology credits, would become effective upon approval. Given that they are credits against the income tax and there are investments made to qualify for the credit, the effective date should be certain and apply to a specified tax year, e.g., "Upon approval and shall not apply to investments made after June 30 and for tax years beginning after July 1, 2010."

Digested 2/17/10

Bill	**HB2984**
Date	**February 18, 2010**
Time	**2:00pm**
Place	**Conference Room 308**
Committee	**FIN**
Chair	**The honorable Representative Marcus R. Oshiro**
Vice Chair	**The honorable Representative Marilyn B. Lee**

Aloha Chair Oshiro, Vice Chair Lee and Members of the Committee,

Hawaii Science and Technology Council (HSTC) would like to add comments to HB2984.

HSTC does not support or oppose this bill. However, we would like to comment that we are in support of extending the Research and Development Credits for an additional year to December 2011. Due to the fact that some of our members have raised concerns about repealing the remaining Act 221 tax credits earlier, the council must take a neutral position on this bill.

Thank you for your time and for the opportunity to testify.

Respectfully yours,

Jamie Ayaka Moody
Government Relations
Hawaii Science & Technology Council
733 Bishop Street. #1800
Honolulu, HI 96813

PACIFICAP
GROUP

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

February 18, 2010

Testimony for Hearing before the
House Committee on Finance
Wednesday, February 18, 2010, 2:00 pm

State Capitol, Conference Room 308
415 South Beretania Street
Honolulu, Hawaii 96813

Re: Testimony in OPPOSITION to HB 2984 HD1
Relating to Tax Credits

Chair Oshiro, Vice-Chair Lee, and Committee Members:

Thank you for the opportunity to submit testimony in OPPOSITION to HB 2984 HD1.

This bill proposes to extend the Act 221 Research Credit under Section 235-110.91, Hawaii Revised Statutes ("HRS") for a year while repealing the High Technology Business Investment Tax Credit, commonly known as the "Act 221 Investment Credit" under Section 235-110.9, HRS.

While I support the extension of the Act 221 Research Credit, I oppose this bill if this extension is done at the expense of repealing the Act 221 Investment Credit.

This bill also appears to have serious mechanical and legal flaws and is potentially unconstitutional to the extent that it repeals the ability to claim Act 221 Investment Credits in current and future years for investments that have already been made.

While somewhat unclear, it appears that Section 4 of this bill may be attempting to address some retroactivity concerns in the language that reads:

> This Act does not affect rights and duties that matured, penalties that were incurred, and proceedings that were begun before its effective date, including carryover tax credits.

However, this language still does not address the retroactivity problems of Investment Credits that continue to mature over the five year period after an investment was made, if some of this five year period occurs after this bill's effective date.

Moreover, by completely repealing and deleting all of the existing statutory language of Section 235-110.9, HRS for the Act 221 Investment Credit, Section 3 of this bill would make it legally impossible for the Department of Taxation to administer the Act 221 Investment Credit after the effective date of this bill, for investments made prior to the effective date of this bill.

While I support both the Research Credit and Investment Credit, more local companies have benefited from the Investment Credit than the Research Credit. The Department of Taxation reported in December 2009 that in 2008, 203 companies utilized the Investment Credit, while 114 companies utilized the Research Credit.

The Research Credit provides companies with a refundable tax credit equal to 20% of their qualified research expenditures. Many companies utilizing the Investment Credit, however, may not have the money to spend in the first place and in some cases may not survive if they cannot use the Act 221 Investment Credit to attract the investment capital they need from investors.

We have seen a tremendous drop in investment activity since the enactment last year of Act 178, SLH 2009, which substantially restricted Act 221 as of May 1, 2009. We have also heard and read in the papers about resulting financial problems and bankruptcies of several promising local high tech companies, such as Hawaii Biotech.

Nevertheless, there are other promising Act 221 companies who have products to sell and are earning revenues and just need a relatively small amount of additional investment capital to reach profitability. Our firm invested in 11 such companies in late 2009 and were approached by other companies whom we had to turn away because of our limited resources.

These types of companies, which are on the "home stretch" in reaching profitability and need relatively small amounts of additional capital, after many years of hard work and prior investments, could be hurt the most by the early repeal of the Act 221 Investment Credit.

As I sat here last night listening to testimony on other bills, I heard several sarcastic comments from one testifier about "goodies" and "handouts" being given away in the form of tax credits.

What he failed to mention, however, was that investors don't get Act 221 Investment Credits for free. In order to receive them, investors have had to invest hard cold CASH into our local companies, in amounts substantially higher than their tax liabilities.

The Act 221 Investment Credit provides investors with a credit of only 35% in the first year, so to cover 100% of their tax liability, investors have to invest more than 285% of the amount of taxes that they would otherwise have to pay (1/35% = 285.7%), and this is before both the State and federal governments effectively tax the credits.

Many corporate investors we've seen have utilized the Act 221 Investment Credit to invest in our local tech and media companies, not because they are greedy or evil, but because they do not have additional budgets of cash to invest. The Act 221 Investment Credit has enabled larger local companies to invest their state tax budgets to help get young local tech and media companies off the ground.

In December 2009, the Department of Taxation reported that from 2000 through 2008, Act 221 investors invested more than $1.34 billion in our local tech and media companies and $594 million in excess of the total credits that are projected to be claimed.

In short, Act 221 investors have invested and contributed to our economy at least $594 million more CASH than they are projected to receive in the form of tax credits.

Therefore, implying that Act 221 investors are getting "goodies" for free or are somehow ripping off the State, is both misleading and disrespectful and really serves to further sour the already very difficult and sometimes toxic investment and business environment that we in Hawaii have to live with.

Act 221 also should not be a scapegoat for the State's current budget deficit.

In many years prior to 2009, the State had annual budget SURPLUSES of several hundred million dollars (as much as $700 million in 2006 alone), even AFTER taking into account the costs of Act 221 tax credits.

Whatever our State officials chose to spend, what is probably more than $1.5 billion in State surplus funds, on over the past four years, is objectively more responsible for the State's current budget deficit than Act 221.

You also know that the primary cause of the current State budget deficit is a substantial drop in General Excise Tax revenues, and that Act 221 Investment Credits do not even apply to General Excise Tax.

Thank you for the opportunity to testify.

Respectfully submitted,

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

ISLAND
FILM GROUP

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February 17, 2010

Rep. Marcus R. Oshiro, Chair
Rep. Marilyn B. Lee, Vice Chair
Committee on Finance

Re: Testimony in Opposition to HB 2984 HD1

My name is Ricardo Galindez and I am co-founder of Island Film Group (IFG), a local independent producer of film and television projects in Hawaii. Since 2007 has produced or co-produced three television movies, a television series, three feature films and numerous national and international television commercials. During that time our companies have used Hawaii's investment and film incentives to help employ hundreds of local residents, spend tens of millions in the local community, purchase thousands of room nights from local hotels and broadcast the beauty of Hawaii to millions of people worldwide.

TAX INCENTIVES WORK...

Currently, there are at least five film and television productions slated to be produced in Hawaii in 2010, all of which would not have come to Hawaii without tax incentives:

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"Soul Surfer" a feature film about Hawaii's own Bethany Hamilton
"Hawaii 5-0" a television pilot remake of Hawaii's best-known television series
"The Descendants" a feature film based on a novel written by Hawaii's own Kaui Hart
"Battleship" a feature film set in Hawaii and featuring the Mighty Missouri
"Pirates of the Caribbean" one of the highest-grossing theatrical franchises in history

TAX INCENTIVES WORK...

While I am clearly biased regarding the benefits of Hawaii's film incentives, I am at a loss to understand the House of Representatives' bias against tax credits. For years, critics have bemoaned the lack of data regarding our tax incentives (even thought the data was within their power to obtain). Once the data was provided it was distorted and manipulated to suggest that the incentives were not working. As a taxpayer I expect my representatives to fully and honestly

(808) 536-7955 www.islandfilmgroup.com PO Box 3261 Honolulu, Hawaii 96801

evaluate the legislation that they will enact or repeal. In the area of tax credits, I do not feel that this happens often enough.

TAX INCENTIVES WORK…

Finally, if the House of Representatives decide that the path to economic recovery begins with the repeal of tax incentives, then please explain how economic recovery is to be achieved. While it easy to point to the "cost" of tax incentives and declare the elimination of such "cost" to be the answer to our fiscal problems, history tells us otherwise. We elect you to make the hard decisions for us. We also elect you to make the right decisions for us. Please make the effort to do both.

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puko'a
SCIENTIFIC

HB2984 HD1 - Relating to Tax Credits

DATE: February 18, 2010
TIME: 2:00 P.M.
PLACE: Room 308
TO: House Committee on Finance
Rep. Oshiro, Chair
Rep. Lee, Vice Chair

FROM: James P. Karins
President and CEO
Pukoa Scientific

Re: Testimony in Support to HB2984 HD1

Chair, Vice-Chair and Committee Members:

Thank you for the opportunity to submit testimony in support to HB2984 HD1. My name is Jim Karins and I am the President of Pukoa Scientific. Pukoa Scientific is a 17 person company started in 2004 specializing in the interpretation of image and signal data to identify objects, threats or targets for military, security, medical and industrial applications. Pukoa Scientific is in the dual use sector which has proven to be one of the fastest growing technology sectors. Even during the trying year of 2009 we were able to grow to 17 employees; 13 of our 17 employees are full time and 16 of those 17 reside in Hawaii. Of the 12 full time staff in Hawaii, 10 graduated from high schools in Hawaii, 10 graduated from the University of Hawaii or Hawaii Pacific University and at least 4 worked on the mainland prior to finding work in Hawaii. We currently generate more than $2.5M in revenue and pay over $1.5M in compensation.

All of us understand the difficult financial condition of the state and industry wants to help. One of the best ways for industry to help is to maintain and grow the workforce. Without job creation, all the cost cutting and all the tax increases will only create a downward spiral, requiring more costs and more tax increases. The state must maximize its return by spending money that generates multiples of increased spending, garnering the most jobs and job income from the least amount of tax dollars. Research and development is one of those areas. In comparing the R&D tax credit to the investment tax credit, we observe that R&D tax credit is more effective in generating and maintaining a higher number of jobs per tax dollar, generates significantly higher tax revenues for dollar spent, and stimulates significantly more economic activitiy in the state per dollar of tax credit. Additionally, companies leveraging the R&D tax credits tend to be more mature companies, some of which are on the cusp of becoming much larger firms, further increasing the number of employees and generating tax revenue. As such, and as painful as it will be to terminate the investment tax credit early, we feel that state benefits greatly from this trade-off, and those companies most likely to survive and grow will be able to continue to do such.

Research and development is a highly critical component to a sustainable economy. R&D provides high-paying jobs to highly educated employees. These employees pay significant taxes back to the state and spend significant amounts of their income within the state for goods and services. Additionally as the R&D matures it creates product companies that increase the number of jobs and tax base significantly.

Some important facts related to R&D tax credits are:

(1) The cost of the R&D tax credit is between $13 and $14 million per year, but R&D employees are highly paid and pay income taxes at high rates and generate significant other economic activity within the state (see Appendix A for analysis),
(2) R&D is so important to the economy of the United States that the federal government is considering making the federal R&D tax credit permanent,
(3) R&D is so important to the economy of states, that approximately 33 states provide R&D tax credits of various kinds and of the 17 that don't, 4 have no corporate income taxes (see Appendix B),
(4) R&D is becoming more competitive world-wide. Some countries are offering vastly larger tax credits to lure R&D companies, for example small companies in Quebec are eligible for a 37.5% tax credit in addition to the Canadian tax credits. Additionally, for the first time, China has increased its R&D at a rate higher than the United States (see Appendix C),
(5) A tax credit of 20% on wages and supplies amounts to about 10% of the cost of doing R&D,
(6) The tax credits for R&D are comparable or less than those given to other critical industries to economic diversity such as Act 88 (15% credit on costs not just salaries and supplies) for the movie industry or 35% tax credits on renewable energy,
(7) R&D funds are highly leveraged by imported monies, thus generating more economic activity than economic activities that just move money from one in-state entity to another,
(8) R&D tax credits are only received after the company has expended the funding, generating tax revenues to the state first,
(9) R&D tax credits typically go back into additional R&D through additional salaries,
(10) Studies have shown that for every $1 in tax credits or lower costs of operation, R&D increases by approximately $2-$3.

While these positive aspects are fairly defined, there have been some people who have expressed concerns about the competitiveness of Hawaii's R&D tax credit levels and their refundability. But several factors that are not considered in those concerns include:

(1) Comparisons are only made to other states and not to other countries. R&D is becoming a economic driver worldwide and Hawaii companies compete worldwide,
(2) Hawaii's tax credits have been defined to a very small but high payoff group of high technology companies defined as QHTBs while most states provide their tax credits to any company that can qualify under federal tax credit laws,
(3) The entire cost of doing R&D is the most important factor. Hawaii has a number of competitive disadvantages such as high income tax rates, high cost of living, high unemployment insurance costs, and high transportation costs, and
(4) R&D returns are highest after several years when R&D turns into products, resulting in significant growth in job opportunities, increased intellectual property owned by Hawaii residents, and increased travel to the state by customers and technology related conferences

In summary the Hawaii R&D tax credit has been effective in generating new taxes, generating new companies and employing approximately 1100 residents. It is important that there not be a gap in the R&D tax credit while the 2011 legislature addresses the longer term impact of R&D on the state. Companies need to make long term plans when doing R&D. It is critical to the industry that the tax credit be in place long enough to encourage R&D and its commiserate high paying jobs, potential job growth, and its impact on the sustainability of the states economy.

I therefore strongly encourage the committee to pass this bill.

Thank you for the opportunity to testify.

/s/James P Karins

James P. Karins
President and CEO
Pukoa Scientific
karins@pukoa.com

APPENDICES

A. Revenue generated to the state by R&D companies compares favorably to the expenses of the R&D tax credit. The table below demonstrates a fairly simple model of the tax revenue generated by the R&D efforts and supporting structure of the companies. In 2008 $13.4M in tax credits was claimed. Since the credit is 20% of qualified expenses, the qualified expenses are 5 times the credit ($67M). Typically about half of an R&D companies expenses are qualified, yielding expenses of about $134M by companies relating to qualified R&D. Wages are about 60% of those expenses and 40% goes to a variety of expenses including rent. I used a 6% income tax rate and a 4.5% GET rate to estimate the taxes directly paid by these companies. An economic multiplier of 2 was used since most of the wages and most the other expenses are recycled in the economy. Total revenue of about $14.4M is calculated to be attributable to the R&D efforts of the companies receiving $13.4M in R&D tax credits.

2008		Income Tax	GET
R&D Tax Credit	$13.4 M		
Qualified Expenses	$67 M		
Total R&D Related Expenses	$134 M		
Wages	$80.4 M	$4.8 M	
Other Expenses	$53.6 M		$2.4 M
Economic Multiplier Effect		$9.6 M	$4.8 M
TOTAL REVENUE	$14.4 M		

B. State R&D tax credits vary greatly from state to state. In some respects Hawaii's tax credit is very good. In a couple it lags other states. For example the credit rate is the best in Hawaii, however only a few states such as Hawaii restrict it to certain companies or R&D areas.

R&D Credit Topic		**Notes**
R&D Tax Credits	33 States	Of the 17 that do not 4 have no income taxes
Non-incremental	3 States	HI, CT, WV
Credit Refundable	8 States	
Limited Availability	2 States	HI, AR
Taxes the Credit Received	1	HI
Tax Credit	2.5-20%	Average rate is 6.5%

C. International tax credits vary even more and are particularly favorable in some countries. The table below is a summary of some of the tax credits offered by competing nations. A direct comparison is difficult since the incentives are in various forms such as tax abatements or enhanced deductions. One noteworthy example is Quebec Province in Canada where overall tax credits can reach 72.5%.

Country	R&D Tax Incentive
Australia	• Allows a 125% deduction for R&D expenses • *Plus* a 175% deduction for R&D expenditures exceeding a base amount of prior-year spending.
Canada	• Offers a permanent 20% flat (i.e., first-dollar) R&D tax credit for large companies Small companies receive 35% flat R&D tax credit Quebec province offers an additional 37.5% for small companies Other provinces offer other incentives
China	• Offers foreign investment enterprises a 150% deduction for R&D expenditures, provided that R&D spending has increased by 10% from the prior year.
France	• Allows a 50% R&D credit, includes a 10% flat credit and a 40% credit for R&D expenditures in excess of average R&D spending over the two previous years.
India	• Companies carrying on scientific research and development are entitled to a 100% deduction of profits for 10 years. • Automobile industry also is entitled to a 150% deduction for expenditures on in-house R&D facilities.
Ireland	• Offers a 20% R&D tax credit, plus a full deduction, as well as a low generally applicable 12.5% corporate income tax rate. • Capital expenditures may also qualify for a separate flat credit.
Japan	• Offers a flat 10% R&D tax credit (a 15% flat credit is provided for small companies), in addition to other incentives.
Korea	• Tax holidays, up to 7 years, are provided for high-technology businesses. • In addition, a variety of tax credits are provided for R&D type expenditures.
Singapore	• "R&D and Intellectual Property Management Hub Scheme" offers U.S. companies a 5-year tax holiday for foreign income earned with respect to Singapore-based R&D.
United Kingdom	• Allows a 125% deduction for R&D expenses Plus a 175% deduction for R&D expenditures exceeding a base amount of prior-year R&D spending.

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SCIENTIFIC

HB2984 HD1 - Relating to Tax Credits

DATE: February 18, 2010
TIME: 2:00 P.M.
PLACE: Room 308
TO: House Committee on Finance
Rep. Oshiro, Chair
Rep. Lee, Vice Chair

FROM: James P. Karins
President and CEO
Pukoa Scientific

Re: Proposed Amendmet to HB2984 HD1

Chair, Vice-Chair and Committee Members:

Thank you for the opportunity to submit testimony in support to HB2984 HD1. My name is Jim Karins and I am the President of Pukoa Scientific.

I generally support the bill but like several other testifiers I am concerned that there needs to be additional clarity to assure that there are no retroactive changes to credits earned or promised which could result in lawsuits due to constitutional questions. I therefore propose that the bill be amended to clearly state that all tax credits earned in the past, including those that come due in the future, will be honored by the state. Currently investment tax credits are earned over a five year period. Investors have made these investments based on the promises and good faith of the state. I encourage the committee to make sure that these commitments continue to be met.

I therefore strongly encourage the committee to incorporate the proposed amendment in the bill.

Thank you for the opportunity to offer this amendment.

/s/James P Karins

James P. Karins
President and CEO
Pukoa Scientific
karins@pukoa.com

FINTestimony

rom: mailinglist@capitol.hawaii.gov
ent: Wednesday, February 17, 2010 9:19 AM
To: FINTestimony
Cc: rick@nova-sol.com
Subject: Testimony for HB2984 on 2/18/2010 2:00:00 PM

Testimony for FIN 2/18/2010 2:00:00 PM HB2984

Conference room: 308
Testifier position: support
Testifier will be present: Yes
Submitted by: Rick Holasek
Organization: NovaSol
Address: 1001 Bishop St., suite 2950 Honolulu, HI
Phone: 808.441.3666
E-mail: rick@nova-sol.com
Submitted on: 2/17/2010

Comments:
The R&D credit is providing/producing jobs in the high tech sector, hawaii's fastest growing sector and arguably the most important to diversification of the State's financial future.
Continued support of the R&D credit is the right move.

Testimony of

John A. Chock

before the

HOUSE COMMITTEE ON FINANCE

Rep. Marcus R. Oshiro, Chair
Rep Marilyn B. Lee, Vice Chair

HB 2984 HD1 RELATING TO TAX CREDITS

DATE: Tuesday, February 18, 2010
TIME: 2:00 PM
PLACE: Conference Room 308
State Capitol
415 South Beretania Street

Chair Oshiro, Vice Chair Lee, and Committee Members:

It has been said that if we're going to invest in educating our young people, we need to invest in good, high-paying jobs for them in the future as well. For this reason I support HB2984 HD1 which will provide support to emerging firms by extending the tax credit provided by the state for qualified research activities.

I also feel that the state should honor its obligations to provide future investment tax credits for any existing, qualified investments made under current investment tax credit laws.

HB 2984 HD 1 Relating to Tax Credits will stimulate continued Research & Development, which is what drives innovation within the economy. R&D is the early stage of company growth that occurs after the "What if?" moment, when testing, proof of concepts, and prototypes are being developed out in garages and laboratories. This is the nucleus of future business growth.

Along with at least 32 other states and the federal government, Hawaii currently provides support for research by qualified research companies in the form of an R&D credit. This credit is utilized by tech companies across all sectors, from biotech, to software, to small and large defense/dual-use by companies, and by renewable energy firms, all contributing to innovation, high skilled jobs and growing our economy.

As important as R&D is, we also need to emphasize that as a state we must look at a long-term integrated capital formation policy which includes R&D, entrepreneurship, venture capital, and expansion/follow-on financing, all of which are needed to grow successful businesses

With respect to R&D legislation, we are not asking for anything new. The legislature has established an R&D credit that parallels the Internal Revenue Code, providing support for scientific experimentation at 20% of the cost of the qualified research. That program cost to the state has averaged about $11 million per year over the last 9 years, and in the last year for which data is available, 2006, provided funding to over 400 companies.

The state R&D credit has been a great source of support for local companies, and is seen as helping to level the playing field of our high cost state, as Hawaii companies compete with national and international competition. Further, the refundable element is helping to attract new technology companies to Hawaii.

The existing research credit would stay in place for another year during which time we will have elections and opportunities for fresh ideas on R&D. This is a running in place strategy, not a growth initiative, and certainly is not requesting new tax dollars in this environment. What the bill asks is to keep the spark of R&D alive. This is the ember that will lead to future innovation, commercialization, and growth as the economy rebounds. It allows a thorough review of the best ways to provide R&D support at the state level, and it helps hundreds of tech firms get through the rough patch over the next year.

To conclude, I have been involved in economic diversification, technology development, and capital formation for a long time in both the public and private sectors and I early on learned that it's tough to convince people to invest in diversification when the economy's strong, and there is no need for diversification. It's equally tough to promote diversification when the economy's down and it's not affordable, so a long-term vision clearly is needed. Right now is no different, and HB 2984 HD1 provides that vision.

Thank you for the opportunity to provide testimony on HB 2984 HD1.

John A. Chock
1949 Kakela Drive
Honolulu, Hawaii 96822

TESTIMONY OF WILLIAM G. MEYER, III

HEARING DATE/TIME: Thursday, February 18, 2010
2:00 p.m. in Conference Room 308

TO: House Committee on Finance

RE: Testimony in Opposition of HB 2984, HD1

Dear Chair, Vice-Chair and Committee Members:

My name is William G. Meyer, III. I am an intellectual property attorney who has been practicing law in Honolulu for over 30 years. I represent both locally based and national and international motion picture and television production companies and high technology businesses.

I strenuously oppose HB 2984, HD1.

Respectfully submitted,

/s/ William G. Meyer, III

William G. Meyer, III