

THE CHAMBER OF COMMERCE OF HAWAII
1132 Bishop Street, Suite 402
Honolulu, HI 96813

Testimony to the House Committee on Finance

Thursday, February 18, 2010
2:00 PM
Conference Room 308
Agenda #2

RE: HOUSE BILL NO. 2984, HD 1, RELATING TO TAX CREDITS

Chair Oshiro, Vice Chair Lee, and members of the committee.

My name is Charles Ota and I am the Vice President for Military Affairs at The Chamber of Commerce of Hawaii (The Chamber). I am here to state The Chamber's strong support of House Bill 2984, HD 1, Relating To Tax Credits.

The Chamber's Military Affairs Council (MAC) serves as the liaison for the state in matters relating to the US military and its civilian workforce and families, and has provided oversight for the state's multi-billion dollar defense industry since 1985.

The measure proposes to extend the tax credit for research activities for one year and repeal the remaining tax credit provisions of Act 22, Session Laws of Hawaii 2001.

As we testified in an earlier hearing of HB 2984 with the House Committee on Economic Revitalization, Business, and Military Affairs, we believe that this measure will allow sufficient time to complete a more in-depth look of the research and development (R&D) sector and develop recommendations that would ensure long term growth and expansion of Hawaii's technology companies.

We reiterate that the large presence of all of the Nation's military services in Hawaii has attracted the top defense prime contractors to establish operations in the state. This has served as a source of funding and contracting opportunities

for Hawaii's growing R&D sector, and there are considerable opportunities for greater expansion.

The extension of tax credits for one more year will provide a means for the legislature to become better informed on the impediments hindering growth in this important high technology sector. There are literally millions of dollars that could be directed to Hawaii R&D businesses via military channels and through the prime defense contractors positioned in Hawaii.

For these reasons, we respectfully request that the proposed measure be passed for further review and adoption.

Thank you for the opportunity to testify.

ALAN S. HAYASHI
207-4 Kawaihae Street
Honolulu, Hawaii 96825

February 18, 2010

Representative Marcus R. Oshiro, Chairman
Marilyn B. Lee, Vice Chair
Hawaii State Legislature
House Finance Committee
Members of the Committee

LATE TESTIMONY

SUBJECT: HB 2984 HD1 "Relating to Taxation"

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

Thank you for the opportunity to provide comments on HB 2984. My name is Alan Hayashi and I am testifying as an individual employed by a large local defense company. My testimony is in strong support of the proposed HB 2984 HD1.

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 proposals 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 **HB 2984 which industry supports!**

The impact of HB 2984 HD1, in its current form will be to extend the R&D tax credits thru December 31, 2011. ("SECTION 1. Section 235-110.91, Hawaii Revised Statutes, is 2 amended by amending subsection (j) to read as follows: 3 "(j) This section shall not apply to taxable years 4 beginning after December 31, [2010.] 2011.") Under this draft Act #221 will sunset on June 30th.

Some facts to consider:

- 1) R&D credits are calculated from funds already prepaid by the technology companies. The labor cost (on which the credits are based) are prepaid to employees (salaries), and to the state of Hawaii (labor / employment taxes).
- 2) These R&D credits are returned directly to these companies who pre-pay the wages.... not to a second, or third party.
- 3) There maybe some valid concerns as to existing investment tax (capital formation) contract validity past June 30th 2010, and those concerns must be addressed.

Is it worth the return on an annual investment of approximately \$14M (DoTax figures)? To have a competitive high technology industry that can provide clean, high paying, jobs where Hawaii's

STEM graduates can be employed, I say the answer is yes! The STEM educational program that the legislature supports and has helped fund is definitely developing high quality graduates who can compete with the best on the mainland....some of our high school juniors are employed at NASA and the Iolani School's girls team won the National Real World Design Challenge offered by Cessna Aircraft corporation last year!. Do we want them to move to the mainland with this valuable expertise when our economy is in need of their talent? Unless we create an environment where high technology can survive and thrive, we will educate our bright young folks for employment elsewhere. We must develop our technology sector for the benefit of future generations. In this time of economic gloom, I ask you to be bold and to continue to plant the seeds for the growth of start up companies and an industry that can become a leader for Hawaii and the Pacific area. This is not the first year, but it does take time and the critical mass is now in place. Technology is the sector that can lead us into the future with capability to diversify and to expand our economy.

In my opinion, it is critical to keep the technology sector of Hawaii's economy alive during the current economic downturn. Most R&D projects cannot be turned off and restarted with out loss of critical time, and personnel with specific skill sets. As the technology sector degrades, many will gravitate to the mainland cities where technology is embraced with credits and other forms of relief to entice companies to relocate there. We will lose the very asset (human capital) that you have been attempting to develop thru your STEM initiatives...which are working well with STEM and robotics programs in almost every school in Hawaii and the University of Hawaii. Where will these bright young problem solvers go with out an industry to employ them. We need more than service industries in Hawaii; we also need a strong growing technology sector to take us into the future.

It is true that all firms are suffering, not just research and development (R&D) firms. However, R&D has a higher risk and funding profile that companies alone have difficulty bearing with out supplemental support from government. After all, they are developing products that have never been developed before! There are some failures in R&D...that is the price for exploring the unknown. Without this willingness, or capability to risk, there are no new inventions! The government must be a partner with the technology sector. The economic return will far outweigh the investment of \$14M already prepaid in wages by the R&D sector of the technology industry.

Thank you for the opportunity to provide this information. I would be glad to answer should you have any questions.

Sincerely,

Alan S. Hayashi

Bill/Hearing Info

Bill: HB 2984 HD1

Date: February 18, 2010

Time: 2pm

Place: House conference room 308

Committee: FIN

Chair: Representative Marcus R. Oshiro

Vice Chair: Representative Marilyn B. Lee

I oppose this bill

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

My name is Mike Curtis and I run a small local software development company called SDC Hawaii, LLC. We employ seven people, five of whom are software designers and developers. We are a start-up company owned and funded by local investors and members of our own employee team.

It pains me to oppose this measure but I feel I must do so on principle. It pains me because I support the extension of the R&D tax credit and I support the development of the local technology industry as a whole. However, this bill as amended to cause the early sunset of the Act 221 investment tax credit will result in irreparable harm to my company's investors, the company itself, and my employee partners. It will also result in further damage to our state's reputation as a place to do business.

The recent amendments to HB2984 would pay for the extension of the R&D tax credit with the early sunset of the Act 221 investor tax credit. While I understand the fiscal crisis we face as a state, I offer the following thoughts regarding this proposed bill.

- Making further changes to Act 221 prior to its established sunset date continues a dangerous precedent set last year wherein the Legislature upset what investors and local tech companies considered to be stable law. The sunset date was put into effect four years ago. Major provisions within the law were then changed last session, critically impacting companies (and costing jobs) throughout the state.

- The extension of the R&D tax credit beyond the current sunset date is a new promise to industry. Financing this new commitment should not come at the expense of breaking an existing promise.

One potential solution would be to consider extending the R&D tax credit but doing so by implementing a deferred tax credit rather than one that can be claimed immediately. This has the benefit of allowing the investment tax credit to sunset as planned, being revenue neutral in the near term, and still providing the industry much needed support. It does not upset existing law and will not damage those companies that have relied on the investor tax credit to develop their financing plans for the remainder of this year.

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

Sincerely,

Name: Mike Curtis

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