



**Testimony to the House Committee on Finance
Tuesday, February 15, 2011 at 3:30 p.m.
Conference Room 308, State Capitol
Agenda #3**

RE: HOUSE BILL NO. 529 RELATING TO TAXATION

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

The Chamber of Commerce of Hawaii ("Chamber") does not support HB 529 relating to Taxation. Although we are concerned about the broad impact of this bill, this testimony specifically addresses the impact on the research and development industry (R&D).

The Chamber is the largest business organization in Hawaii, representing more than 1,100 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of its members, which employ more than 200,000 individuals, to improve the state's economic climate and to foster positive action on issues of common concern.

This measure prohibits recipients of federal grants from qualifying for state tax credits.

While we understand the Legislature's uneasy task in finding solutions to balance the state's budget, we do not support this measure for the following reasons:

- The bill will have a wide effect on those receiving funds from social security to low-cost housing to federal contractors, as well as the R&D industry as it applies to any recipients of federal grants or moneys.
- The purpose of a State R&D tax credit is to share the risks and rewards by creating an incentive for companies to setup or stay in a region, attract outside capital (Federal, Private, etc), and for these companies to build valuable enterprises that become economic engines of prosperity.
- The federal tax code IRC 41(d) already limits R&D tax credits to research that is both unfunded and has intellectual property rights. Thus only research that has risk to the company can be claimed for tax credits already. This bill could create confusion with already defined restrictions.
- Federal support plays a critical role in growing Hawaii's R&D industry. The federal funds are restricted to only R&D activities and may not be used for commercialization.

We have a prime opportunity to promote the R&D sector in our state. This is the opportune time to support our small local companies in the R&D industry so that it can continue to flourish and provide jobs for our talented citizens and ensure that our talented keiki have a viable option to

move back or stay in Hawaii and obtain quality jobs. Supporting the R&D industry will help broaden and diversify Hawaii's economic base.

We are working on the R&D tax credit bill that will have appropriate economic indicator type data so the right metric can be set and information collected for analysis to ensure the state can track its return on investment.

For these reasons, we do not support HB 529. Thank you for the opportunity to provide testimony.

FINTestimony

From: mailinglist@capitol.hawaii.gov
ent: Tuesday, February 15, 2011 2:56 PM
To: FINTestimony
Cc: mkelley323@gmail.com
Subject: Testimony for HB529 on 2/15/2011 3:30:00 PM

Testimony for FIN 2/15/2011 3:30:00 PM HB529

Conference room: 308
Testifier position: oppose
Testifier will be present: No
Submitted by: Mary Lu Kelley
Organization: Individual
Address:
Phone:
E-mail: mkelley323@gmail.com
Submitted on: 2/15/2011

LATE TESTIMONY

Comments:

Honorable Chair, Vice-Chair and Committee Members: Thank you for the opportunity to submit testimony in opposition of HB529.

Oceanit currently employs about 160 scientists, engineers and support staff. We compete nationally for federal funding to conduct advance research and development (R&D) in Hawaii. For example, we are developing revolutionary technologies like pressure sensitive concrete and sniper detection systems that see the shooter before you hear the gunshot. On average, we write ten proposals to win two. But during the last two years, federal funding is down, and the competition is up. This has reduced the incentive for us and other Hawaii companies to bear the risk and expense to compete for these federal dollars.

By supporting this bill, you will further reduce the incentive to compete, which works counter to the "Hawaii Fair Share Initiative" to bring more Federal funding to Hawaii, but you will also affect industry support of STEM education and outreach, because companies will have to cut back on staff and resources.

As an industry, about \$11 million in R&D is claimed per year, but in exchange, the State gets an injection of \$55 million into the economy before one dollar of credits is claimed, and that's only for qualified research, as millions more flow into the economy that don't qualify but still benefit Hawaii.

At Oceanit, we regularly employ over a dozen summer interns, host labs and facilities tours for public and charter school kids, mentor and judge robotics programs throughout Hawaii, raise money for education programs on Maui and Kauai, support the Women in Technology program, and so on. For the last three years, we have produced over 130 episodes of "Weird Science with Dr. V" every Tuesday morning on Hawaii News Now. These programs are supported in part by the State's R&D tax credit, which this bill would negate.

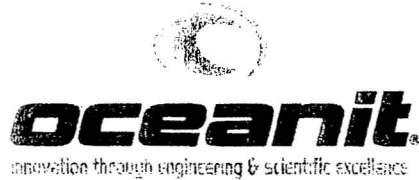
We are exciting Hawaii kids to become scientists and engineers, but where will they go, who will they work for when there is no industry because of this bill?

A few additional points to consider:

- The bill may affect anyone receiving Federal funding.
- The purpose of a State R&D tax credit is to share the risks and rewards by creating an incentive for companies to setup or stay in a region, attract outside capital (Federal, Private, etc), and for these companies to build valuable enterprises that become economic engines of prosperity.

The federal tax code IRC 41(d) already limits R&D tax credits to research that is both unfunded and has intellectual property rights. Thus only research that has risk to the company can be claimed for tax credits. This bill could create confusion with already defined restrictions.

We strongly urge you to vote in opposition of HB529 and appreciate your continued support of the technology industry.



LATE TESTIMONY

Written Statement of
Dayananda Vithanage
Technical Director Engineering
Oceanit
before the
HOUSE COMMITTEE ON FINANCE
February 15, 2011
3:30 PM
State Capitol, Conference Room 308
In Opposition of
HB 529 RELATING TO TAXATION

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

From: Dayananda Vithanage, Technical Director Oceanit

Re: Testimony in Opposition of HB529

Honorable Chair, Vice-Chair and Committee Members:

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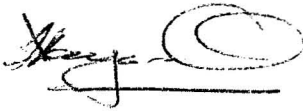
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We strongly urge you to vote in opposition of HB529 and appreciate your continued support of the technology industry.

Sincerely,

A handwritten signature in black ink, appearing to be "K. J. O'Connell", written over a horizontal line.

Applied Materials

Borrego Solar

BP Solar

Community Energy

Element Power

First Solar

enXco

Kyocera

Mainstream Energy

Mitsubishi Electric

Oerlikon Solar

Petra Solar

Q-Cells

Sanyo

Schott Solar

Sharp Solar

SolarCity

Solaria

Solar Power Partners

Solyndra

SunRun

SolarWorld

SPG Solar

SunEdison

SunPower

Suntech

Tioga Energy

Trinity Solar

Unirac

Uni-Solar

**Working with the
states to develop
cost-effective PV
policies and
programs.**

TESTIMONY IN **OPPOSITION** TO HB 529

To: House Committee on Finance

Hearing on February 15, 2011 at 3:30 p.m. in Room 308

Submitted by: The Solar Alliance

Aloha Chair Oshiro and members of the Committee:

The Solar Alliance is a state-focused association of thirty solar manufacturers, integrators, and financiers specifically working with state administrators, legislators, and utilities to establish cost-effective solar policies and programs. Our experience in Hawaii includes, but is not limited to, (i) being an intervenor in the Public Utilities Commission's ("PUC") Feed-in Tariffs Investigation; (ii) having a member be an intervenor in the Commission's Intra-Governmental Wheeling Docket; (iii) having a member serve on the Generating Committee of the Hawaii Clean Energy Initiative; (iv) and having a member serve on the Hawaii Energy Policy Forum since it convened in 2003. Solar Alliance members have invested millions of dollars in solar installations of all types in Hawaii, but will not be able to do so if HB529 is passed out in its current form.

In its current form, HB529 would penalize local solar businesses that accept a federal grant in lieu of the federal solar investment tax credit by making them ineligible for the Hawaii Renewable Energy Technologies Income Tax Credit. The Solar Alliance opposes HB529 in its current form because it will derail Hawaii's burgeoning solar industry, which has been aided by the State tax credit, and the jobs it brings to the Hawaii economy.

It is our understanding that the intent of the proponents of HB529 is to reduce the basis on which State tax credits are calculated by the amount of any federal grants received by the taxpayer or recipient. For example, if a taxpayer or recipient has a \$100 project that is eligible for a 40% federal grant, the basis for calculating any applicable State tax credit would be \$60.

We understand, however, it is not the intent of the proponents to reduce the basis on which State tax credits are calculated when a taxpayer or recipient is receiving a federal grant **in lieu of** a federal tax credit. The Solar Alliance therefore suggests making this distinction clear in the proposed measure.

LATE TESTIMONY

The Solar Alliance could support SH529, if it was revised to clarify that a reduction in the Hawaii tax credit basis for projects receiving federal grants does not occur when the grant is simply another option available to tax filers that also are eligible for an identical federal tax credit at the same level

Accordingly, The Solar Alliance suggests the following revision to the substantive portion of HB529 (Section 1):

"§235- Tax credits; ineligibility. Notwithstanding any law to the contrary, the basis for calculating the amount of any Hawaii tax credit available under this section shall be reduced by the amount of any federal grant received, provided that grants received in lieu of a federal tax credit are exempted from this restriction."

The Solar Alliance also strongly requests that the retroactive effective date be struck from the bill.

We would humbly submit that the proposed language captures the true intent of the proponents.

The Solar Alliance opposes HB529 in its current form. HB529 should only be passed out if the above proposed amendments are adopted.

Thank you for the opportunity to provide testimony.