NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR

FREDERICK D. PABLO
DIRECTOR OF TAXATION

RANDOLF L. M. BALDEMOR
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1530
FAX NO: (808) 587-1584

HOUSE COMMITTEE ON FINANCE

TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING HB 805 RELATING TO TAXATION

TESTIFIER:	**FREDERICK D. PABLO, DIRECTOR OF TAXATION (OR DESIGNEE)**
COMMITTEE:	**FIN**
DATE:	**FEBRUARY 25, 2011**
TIME:	**11:00AM**
POSITION:	**SUPPORT**

This measure repeals the income tax exemption for income derived from stock or stock options issued by a qualified high technology business.

The Department of Taxation supports the repeal of this generous exemption for qualified high technology businesses. Businesses that are profitable and can pay dividends should also be responsible for paying tax on those profits. In addition, the Department points out that the definition of "qualified high technology business" that would apply does not require that these businesses have any percentage of their activities in Hawaii.

The revenue impact for this bill is approximately $2.5 million per year.

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, Repeal exclusion for high technology stock options

BILL NUMBER: HB 805

INTRODUCED BY: Say

BRIEF SUMMARY: Repeals HRS section 235-9.5 which provides an income tax exclusion for income derived from stock options from a qualified high technology business.

EFFECTIVE DATE: Tax years beginning after December 31, 2010

STAFF COMMENTS: The legislature by Act 178, SLH 1999, established high technology tax credits to encourage the development of high technology businesses in the state. These acts provided investment and research credits, as well as income exclusions such as this one for stock options, providing tax incentives to encourage high tech businesses and individuals associated with high tech businesses to locate in the state. Due to the financial crisis that the state government is experiencing, this measure proposes to alleviate the drain on state revenue due to this income tax exclusion.

What this measure does underscore is that the unbridled offering of tax incentives amounts to nothing more than the expenditure of public funds out the back door. Even as similar measures that restrict tax credits are being introduced and discussed, other lawmakers continue to introduce measures proposing tax credits and exemptions for all kinds of activities, none of which have anything to do with relieving an excessive tax burden. Instead of perpetuating the anticipation of special interests that they can get a "tax break with a tax credit," lawmakers need to go back to the old-fashioned way of supporting specific programs and projects by appropriating public funds. The appropriation process allows for the careful scrutiny and evaluation of proposals to determine the worthiness of the investment of public dollars.

Finally, one has to ask what lawmakers were thinking when they adopted these "tax breaks." Were they caught up in the emotional fervor that favored this darling of economic development and were otherwise blinded to the fact that the overall all business climate in Hawaii is poor. Those sponsors of these incentives should be held accountable for the waste of taxpayer dollars at the expense of all other taxpayers who are now being asked to pick up the tab by having their pensions taxed, losing the ability to deduct their state income taxes, and are being asked to pay additional taxes on alcoholic beverages and sugary beverages. All of these latter proposals would not have been necessary had lawmakers been more judicious about handing out these high tech "goodies."

Digested 2/24/11