SB 753

EDT

The Chamber of Commerce of Hawaii
The Voice of Business in Hawaii

Testimony to the Senate Committee on Economic Development and Technology
Monday, January 31, 2011 at 1:45 p.m.
Conference Room 016, State Capitol

LATE

RE: SENATE BILL NO. 753 RELATING TO HIGH TECHNOLOGY

Chair Fukunaga, Vice Chair Wakai, and Members of the Committee:

The Chamber of Commerce of Hawaii ("Chamber") appreciates the committee for hearing SB 753. **The Chamber supports this measure with amendments**.

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.

SB 753 establishes a tax credit for ten per cent of qualified labor costs; extends the tax credit for qualified research activities for five years.

This bill will create and retain jobs while increasing the state's revenues. We cannot afford to overlook the prime opportunity to promote this growing 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 keiki has a viable option to move back or stay in Hawaii and obtain quality jobs. Furthermore, this measure will strengthen the industry's effort to compete with other players in the national and international arena. Finally, supporting the R&D industry will help broaden and diversify Hawaii's economic base.

In order to sustain and maximize the outcome of this credit to benefit Hawaii's economy, the Chamber respectfully requests that the committee:

Amend the measure to allow refundability of the tax credit
The bill is currently silent on whether the tax credit is refundable or not.

The federal R&D tax credit is not refundable because it is focused on large R&D organizations. It is driven for many of the successful technology business areas in the country such as aerospace and defense (e.g. Boeing, Lockheed Martin, and Northrop), computer and software businesses (e.g. Intel, IBM, and Microsoft), and pharmaceuticals (e.g. Merck, Abbott Laboratories, and Glaxo Smith Klein).

However, Hawaii is not the home of these big technology companies; it is the home of small innovative companies. The tax credit is focused on these companies by limiting the tax credit to QHTBs. But QHTB's are not typically profitable or if they are, it is a small profit. Without the credit being refundable, these companies receive no near-term benefit from the R&D tax credit.

Amend the measure to establish the base amounts zero
The federal tax credit is also based on growing R&D for the credit, which is more applicable to the large companies discussed above. The small R&D start-ups that exist in Hawaii do not have those resources that the federal tax credit affords. Small R&D companies build a business with limited resources and cannot grow R&D year-over-year. Therefore an amendment to make the base amounts zero is necessary.

Role and Economic Impact of the Research and Development Industry in Hawaii
The large presence of all of the Nation's military services in Hawaii has spurred local companies to form and emerge into this industry. This has served as a source of funding and contracting opportunities for Hawaii's growing R&D sector, and there is considerable opportunity for even greater growth. There are literally millions of dollars that could be directed to Hawaii R&D businesses via military channels and through the prime defense contractors.

The Defense and Dual Use industry can and will play a vital role in stabilizing the state's economic climate. One of the best ways for the industry to help is to maintain and grow the workforce. Without job creation, cost cutting and 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 return from the least amount of tax dollars.

Research and development is one of those areas. In comparing the R&D tax credit to other credits, we observe that the R&D tax credit is one of the most effective in generating and maintaining jobs per tax dollar, generating higher tax revenues for dollar spent, and stimulating measurably more economic activity in the state per dollar of tax credit.

Additionally, companies leveraging the R&D tax credits tend to be more mature companies; many on the cusp of significant expansion, which will accelerate the hiring of new employees and tax revenue.

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

The cost of the tax credit, which is approximately $10-15 million per year, helps support $50-75 million in qualified expenses, which is $100-150 million in business expenditures in the state. Much of these expenditures come from imported dollars either from outside investors, the federal government or large mainland businesses. These expenditures result in income taxes and significant GET taxes. Since imported funds generate about a factor of 2 in economic activity in the state, the R&D efforts generate about $200-300M in economic activity. A state investment of $10-15M generates economic activity of $200-300M.

R&D tax credit requires a company to expend its funds for which it receives a percentage (has been 20% of wages) of qualified work. This refund occurs after the company files its tax return. So, R&D tax credits for 2011 would not be paid until 2012 and most of the payments will be in the latter half of the year. Therefore, the state receives the benefits of a business base now and doesn't pay for on average 18 months later. The tax is highly focused on wages for research activities. These jobs are typically high paying and result in significant income tax revenues and GET from the money spent by these employees.

While these positive aspects are fairly defined, some have expressed concerns about the competitiveness of Hawaii's R&D tax credit levels and their refundability. However, some 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) 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
(3) 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.

Summary

In summary, the Hawaii R&D tax credit has been effective in generating new taxes, creating new companies and employing a number of residents. Therefore, it is important that a gap does not exist 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 commensurate high paying jobs, job growth, and its direct impact on the sustainability of the state's economy.

Therefore, we urge the committee to **pass this measure with the proposed amendments**. Thank you for the opportunity to express our views.

NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR

FREDERICK D. PABLO
INTERIM 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

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT & TECHNOLOGY

TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING SB 753 RELATING TO HIGH TECHNOLOGY

TESTIFIER:	**FREDERICK D. PABLO, INTERIM DIRECTOR OF TAXATION (OR DESIGNEE)**
COMMITTEE:	**EDT**
DATE:	**JANUARY 31, 2011**
TIME:	**1:45PM**
POSITION:	**SUPPORT INTENT; CONCERNED WITH COSTS**

This measure extends the Tax Credit for Research Activities (Research Credit) allowed under Section 235-110.91, Hawaii Revised Statutes (HRS), prior to December 31, 2010, by five years to 2015. This measure also expands upon the tax credit base to include 10% of "qualified labor costs," as defined.

The Department of Taxation (Department) **supports the intent** of this measure; however raises **concerns over the revenue loss** anticipated by this measure.

SUPPORT FOR RESEARCH & DEVELOMPENT INCENTIVES, GENERALLY—As a principal matter, the Department supports the Legislature's efforts to expand the research and development industries in Hawaii through means of the Research Credit. The Research Credit was in effect for several years until its expiration on December 31, 2010. The Department supports the concept of the Research Credit because it is a credit that rewards scientific and technical innovation in a laboratory sense. These activities directly relate the development of a taxpayer's "business component," which is a product, process, formula, or other idea having

marketable value and that which allows the Company to exploit the idea for economic gain, thus expanding Hawaii's economy.

STATISTICS SHOW RESEARCH & DEVELOPMENT INCENTIVES HELP THE LOCAL TECH INDUSTRY—In a 2007 study released by Grant Thornton, LLP, statistics show that the Research Credit provides effective incentives through tax policy to expand Hawaii's tech industry. These statistics include:

- 81% of respondents indicated the Research Credit will increase high tech jobs in Hawaii; and

- 74% of respondents indicated that the Research Credit is more effective in attracting high tech jobs than other incentives.

Based upon this study, among other data regarding the credit from throughout the country, extending the Research Credit is worth exploring.

PREFERENCE FOR CONFORMITY—The Department prefers that this incentive conforms to federal law. The Research Credit is based upon Section 41(d) of the Internal Revenue Code. Conforming to tax policies that are well settled based upon federal regulations and court cases greatly assists with the implementation of the credit.

CONCERN FOR DOUBLE INCENTIVE—However, the Department points out a general tax policy concern, which is the propriety of providing a "double incentive" for a program already being spearheaded by the federal government. With state revenues scarce and social service priorities growing, the Department questions whether already limited state general fund revenues should go toward programs already being funded by the federal government.

CONCERN OVER "QUALIFIED LABOR COSTS" PROVISION—The Department has concerns over this measure's extension of the Research Credit to include "qualified labor costs," which is a concept foreign to Section 41(d) of the Internal Revenue Code. The Research Credit already provides a tax credit for "qualified wages," which includes an appropriate standard for "hard science" costs, such as the cost of scientists and their direct supervisors. The Department is unsure whether this bill intends to provide an additional 10% credit for all labor costs, including those who already qualify.

Or, whether the intent is to allow a credit for labor that is currently excluded from the Research Credit.

The Department requests clarification on this provision, such as:

- Whether the "qualified labor costs" are to be only those costs that aren't "qualified wages."

- Whether the provision only applies to "new" hires. It is unclear under the current reading; though "new" hires seems to be the target.

In the interest of conserving lost revenue, consider eliminating the "qualified labor costs" provision seeing how the Research Credit already provides a 20% credit for those wages directly associated with the research.

CONCERN FOR REVENUE COST—As with all measures, the Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either.

REVENUE IMPACT—This measure will result in an estimated revenue loss of $11.7 million per year from FY 2012 to FY 2016.

According to the survey filed by QHTBs for calendar year 2009, a total of 64 QHTBs claimed $10.9 million in research activities tax credit. These companies have a total of (1) 871 full-time employees in 2009, a decline of 8% from 2008, (2) 114 part-time employees in 2009, an increase of 34% from 2008, and (3) 50 temporary employees in 2009. Total full-time, part-time, and temporary employees for these companies in 2009 are 1,035. The average wage for these companies is $77,756. Assuming that due to this incentive, the company will add 10% new workforce, or 103.5 new employees with an average salary of $77,756, the estimated cost for the 10% of qualified labor cost would be $0.8 million (103.5 * $77,756 * 10%).

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
SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY
January 31, 2011
1:45 PM
State Capitol, Conference Room 016

In consideration of
SB 753 RELATING TO HIGH TECHNOLOGY.

Chair Fukunaga, Vice Chair Wakai, and Members of the Committee on Economic Development and Technology.

The Hawaii Strategic Development Corporation (HSDC) respectfully submits comments on SB 753. The state tax credit for research activities sunset at the end of calendar year 2010. This tax credit program was an effective measure to support research and development activities, which in turn, foster and encourage the innovation essential to create high-wage job opportunities in our economy. Over the past nine years, the tax credit claims under this program averaged approximately $11 million a year. As the credit can only be claimed for actual expenditures made in Hawaii and only for 20% of the qualified expenditures, the cost of the program is partially offset by taxes paid on expenditures and payroll.

HSDC supports efforts to reinstate this tax credit, but has concerns about the addition of "qualified labor costs" that will become eligible for an additional 10% credit. The added complications and cost to document and monitor this new category of eligible expenditures may not offset the benefit it provides and adds complexity to a credit that both industry and DoTax have already established a working system to administer.

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

HTDC Cultivating Hawaii's tech sector
HIGH TECHNOLOGY DEVELOPMENT CORPORATION

Written Statement of

YUKA NAGASHIMA
Executive Director & CEO
High Technology Development Corporation
before the
SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY
January 31, 2011
1:45 PM
State Capitol, Conference Room 016

In consideration of
SB 753 RELATING TO HIGH TECHNOLOGY.

Chair Fukunaga, Vice Chair Wakai, and Members of the Committee on Economic Development and Technology.

The High Technology Development Corporation (HTDC) respectfully submits comments on SB 753. The state tax credit for research activities sunset at the end of calendar year 2010. This tax credit program was an effective measure to support research and development activities which in turn, foster and encourage the innovation essential to create high-wage job opportunities in our economy. Over the past nine years, the tax credit claims under this program averaged approximately $11 million a year. As the credit can only be claimed for actual expenditures made in Hawaii and only for 20% of the qualified expenditures, the cost of the program is partially offset by taxes paid on expenditures and payroll.

HTDC supports efforts to reinstate this tax credit, but has concerns about the addition of "qualified labor costs" that will become eligible for an additional 10% credit. The added complications and cost to document and monitor this new category of eligible expenditures may not offset the benefit it provides and adds complexity to a credit that both industry and DoTax have already established a working system to administer.

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

SUBJECT: INCOME, Extend tax credit for research activities

BILL NUMBER: SB 753

INTRODUCED BY: Fukunaga, Baker, Chun Oakland, Shimabukuro, Tokuda, 2 Democrats and 1 Republican

BRIEF SUMMARY: Amends HRS section 235-110.91 to expand the tax credit for research activities to include 10% of the qualified labor costs. Defines "qualified labor costs" for purposes of the measure.

Extends the expiration of the tax credit for research activities from December 31, 2010 to December 31, 2015.

EFFECTIVE DATE: Tax years beginning after December 31, 2010

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. These 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 expands the tax credit for research activities to include qualified labor costs and extends the expiration of the tax credit from December 31, 2010 to December 31, 2015, 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.

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 learning 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 a few years ago 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.

Finally, it should be noted that this state credit basically tracks the federal tax credit for research activities, including the disqualification for the credit should any part of the cost of the research be supported by federal grants. It would be interesting how many of the claims for this state research credit were disqualified because all or a part of the research activities were paid for with funds from federal grants.

Digested 1/28/11

Hawaii Venture Capital Association
805 Kainui Drive
Kailua, Hawaii 96734
808-262-7329
http://www.hvca.org

DATE: January 29, 2011
Hearing Date: January 31, 2011, 1:45PM, Conference Room 016

TO: COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY
Sen. Carol Fukunaga, Chair
Sen. Glenn Wakai, Vice Chair

FROM: Bill Spencer
President
Hawaii Venture Capital Association

RE: Testimony In SUPPORT of the Intent of SB753 Relating to High Technology

Aloha Chair Fukunaga, Vice Chair Wakai, and Members of the Committee:

Thank you for the opportunity to provide testimony in SUPPORT THE INTENT of SB 753. As you are aware, research and development is the basis of our knowledge industry in Hawaii. It forms the basis for development of new technologies and methods that can generate export revenues and expand the economy.

It is the strong believe of HVCA and others in the tech community that the one thing this legislature can do that will truly help grow the tech economy and help generate more quality jobs and tax revenues is to strongly support research and development.

We support SB753 and your intentions, but think that it should be more aggressive and offer businesses engaged in research and development a 20% refund on all qualified research including labor costs and not limited to labor costs alone. Research dollars are spent by companies on many other qualified items that contribute to valuable research outcomes. Limiting the refund to labor costs places a heavy burden on companies many of which are in the earliest stage of growth and have limited amounts of capital.

puko'a
SCIENTIFIC

Testimony to the Senate Committee on Economic Development and Technology
Monday, January 31, 2011 at 1:45 p.m.
Conference Room 016, State Capitol

RE: SENATE BILL NO. 753 RELATING TO HIGH TECHNOLOGY

Chair Fukunaga, Vice Chair Wakai, and Members of the Committee:

Pukoa Scientific **supports SB 753 with amendments**.

This bill will create and retain jobs while increasing the state's revenues. We cannot afford to overlook the prime opportunity to promote this growing 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 keiki have a viable option to move back or stay in Hawaii and obtain quality jobs. Furthermore, this measure will strengthen the industry's effort to compete with other players in the national and international arena. Finally, supporting the R&D industry will help broaden and diversify Hawaii's economic base.

Proposed Amendments to SB 753

In order to sustain and maximize the outcome of this credit to benefit Hawaii's economy, Pukoa respectfully requests that the committee amend the bill, to:

(1) Specify that the tax credit may be refunded. The federal tax credit was designed for large profitable technology companies that have multiple product lines that can utilize tax credits that are not refunded. Small technology companies, such as QHTBs, are typically spending more money to develop their products than they receive. They tend to be losing money at this stage of development and therefore do not receive any benefit from a tax credit that is not refunded. Pukoa requests that the following language be added to the bill, "If the tax credit for qualified research activities claimed by a taxpayer exceeds the amount of income tax payment due from the taxpayer, the excess of the tax credit over payments due shall be refunded to the taxpayer; provided that no refund on account of the tax credit allowed by this section shall be made for amounts less than $1."
(2) Eliminate the limitation on the R&D tax credit to increased R&D. Again, the federal tax credit was designed for large profitable technology companies that can afford the increases in R&D. Hawaii must focus on helping Hawaii-based companies win, and therefore the state to win. The state must recognize that the industry in Hawaii is not yet

profitable with the wherewithal to increase R&D. Pukoa recommends adding the following language to the bill, "Section 41 (with respect to the credit for increasing research activities) and Section 280C(c) (with respect to certain expenses for which the credit for increasing research activities are allowable) of the Internal Revenue Code shall be operative for the purposes of this chapter as provided in this section; except that references to the base amount shall not apply and credit for all qualified research expenses may be taken without regard to the amount of expenses for previous years."

Role of the Research and Development Industry in Hawaii

The R&D technology industry can and will play a vital role in stabilizing the state's economic climate. One of the best ways for the industry to help is to maintain and grow the workforce. Without job creation, cost cutting and 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 return from the least amount of tax dollars.

Research and development is one of those areas. In comparing the R&D tax credit to other credits, we observe that the R&D tax credit is one of the most effective in generating and maintaining jobs per tax dollar, generating higher tax revenues for dollar spent, and stimulating measurably more economic activity in the state per dollar of tax credit. Additionally, companies leveraging the R&D tax credits tend to be more mature companies; many on the cusp of significant expansion, which will accelerate the hiring of new employees and concomitant tax revenue.

Additionally, research and development is a highly critical component to a sustainable economy. R&D provides well-paying jobs to highly-educated employees. These employees pay significant taxes back to the state and spend considerable amounts of 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) R&D employees are highly paid and pay income taxes at high rates and generate significant other economic activity within the state. For example, the average salary for technology jobs is $66,000.
(2) 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,
(3) R&D tax credits are only received after the company has expended the funding, generating tax revenues to the state first,
(4) R&D tax credits typically go back into additional R&D through additional salaries,

While these positive aspects are fairly defined, some have expressed concerns about the competitiveness of Hawaii's R&D tax credit levels and their refundability. However, 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) 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
(3) 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.

Summary

In summary, the Hawaii R&D tax credit has been effective in generating new taxes, creating new companies and employing a number of residents. Therefore, it is important that a gap does not exist in the R&D tax credit while the administration and 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 commensurate high paying jobs, job growth, and its direct impact on the sustainability of the state's economy.

Therefore, we urge the committee to **pass this measure with the proposed amendments**. Thank you for the opportunity to express our views.

Proposed Amendments to SB 753

In order to sustain and maximize the outcome of this credit to benefit Hawaii's economy, Pukoa respectfully requests that the committee amend the bill, to:

(1) Specify that the tax credit may be refunded. Pukoa Scientific requests that the following language be added to the bill, "If the tax credit for qualified research activities claimed by a taxpayer exceeds the amount of income tax payment due from the taxpayer, the excess of the tax credit over payments due shall be refunded to the taxpayer; provided that no refund on account of the tax credit allowed by this section shall be made for amounts less than $1."

(2) Eliminate the limitation on the R&D tax credit to increased R&D. Pukoa scientific recommends adding the following language to the bill, "Section 41 (with respect to the credit for increasing research activities) and Section 280C(c) (with respect to certain expenses for which the credit for increasing research activities are allowable) of the Internal Revenue Code shall be operative for the purposes of this chapter as provided in this section; except that references to the base amount shall not apply and credit for all qualified research expenses may be taken without regard to the amount of expenses for previous years."

LATE

From: mailinglist@capitol.hawaii.gov
To: EDTTestimony
Cc: fritz@oceantronics.net
Subject: Testimony for SB753 on 1/31/2011 1:45:00 PM
Date: Monday, January 31, 2011 6:51:34 AM

Testimony for EDT 1/31/2011 1:45:00 PM SB753

Conference room: 016
Testifier position: support
Testifier will be present: No
Submitted by: Fritz M Amtsberg
Organization: Oceantronics
Address: 711 No. Nimitz Hwy Honolulu
Phone: 8085225600
E-mail: fritz@oceantronics.net
Submitted on: 1/31/2011

Comments:
Honorable Chair, Vice-Chair and Committee Members:

Thank you for the opportunity to submit testimony in support to SB753. Oceantronics, is part of Hawaii's emerging defense and dual-use technology sector, one of the fastest growing segments of Hawaii's economy. See www.oceantronics.net

Our company currently generate more than in $2M revenue and pays over $500K in compensation to our 10 employees. We understand the difficult financial condition of the State and want to help by maintaining and growing our workforce. As a technology-based business, we know that to accomplish this we need to continue to invest in research and development (R&D). R&D investment is the key to our ability to innovate, attract customers and outside funding, compete in the global marketplace, and continue to grow our workforce.

The State of Hawaii has much to gain from our R&D investment, which provides high-paying jobs to highly educated employees. These employees pay substantial payroll taxes and spend significant amounts of their income within the State for goods and services as they work on developing new technologies and products that will eventually bring new sources of revenue into Hawaii and help to diversify our economy.

Without Hawaii's R&D tax credit, we may be forced to curtail our investment in R&D. Because of the forward-looking nature of research, few R&D investments have a payoff horizon shorter than one year. In order to continue to invest in R&D and maintain or grow our well-trained workforce, it is critical that we have visibility into the future financial implications of today's R&D investments.

By extending the R&D tax credit, you will enable dual-use technology companies to keep investing in the future of our companies, our employees, and our State. You will also help keep one of the bright spots in our State economy intact, and growing.

We urge you to support the extension of the R&D tax credit through SB753. Thank you for the opportunity to testify

TERASYS TECHNOLOGIES LLC

WIRELESS IN HARMONY™

SB753 - Relating to High Technology

LATE

DATE: January 31, 2011
TIME: 1:45 P.M.
PLACE: Room 016

From: Kevin Miyashiro
President
TeraSys Technologies LLC

Re: Testimony in Support to SB753

Honorable Chair, Vice-Chair and Committee Members:

Thank you for the opportunity to submit testimony in support to SB753. Our company, TeraSys Technologies LLC, is part of Hawaii's emerging defense and dual-use technology sector, one of the fastest growing segments of Hawaii's economy. Our company provides products to the US Military and Public Safety markets to improve the reliability of wireless communications for Army, Navy, Marine Corps, Air Force, National Guard, Police, Fire, and Emergency Medical personnel.

Our company currently generates more than in $1M in annual revenue. We understand the difficult financial condition of the State and want to help by maintaining and growing our workforce. As a technology-based business, we know that to accomplish this we need to continue to invest in research and development (R&D). R&D investment is the key to our ability to innovate, attract customers and outside funding, compete in the global marketplace, and continue to grow our workforce.

For the past three years, we have received over $2.5M in R&D funding from the Department of Defense to improve their wireless communications. As a result of these investments, we now have our first generation of products that we have begun to sell to customers all over the country, generating over $350,000 in product sales as well as securing the next round of R&D funding to develop even more products in coming years.

The State of Hawaii has much to gain from our R&D investment, which provides high-paying jobs to highly educated employees. These employees pay substantial payroll taxes and spend significant amounts of their income within the State for goods and services as they work on developing new technologies and products that will eventually bring new sources of revenue into Hawaii and help to diversify our economy. All of our eight employees are here in Hawaii and highly educated, four with Bachelor's degrees and four with Master's degrees.

By extending the R&D tax credit, you will enable dual-use technology companies to keep investing in the future of our companies, our employees, and our State. You will also help keep one of the bright spots in our State economy intact, and growing.

We urge you to support the extension of the R&D tax credit through SB753. Thank you for the opportunity to testify.

Sincerely

Digitally signed by Kevin Miyashiro
DN: cn=Kevin Miyashiro, o=TeraSys Technologies, ou, email=kmiyashiro@terasystechnologies.com, c=US
Date: 2011.01.31 09:10:24 -10'00'

Kevin Miyashiro
President
TeraSys Technologies LLC

Testimony in Support of SB753

TO: Chair Fukunaga, Vice Chair Baker, and Members of the Committee

From: Jan Sullivan, COO Oceanit

Re: Testimony in Support of SB753

LATE

Honorable Chair, Vice-Chair and Committee Members:

Thank you for the opportunity to submit testimony in support of SB753.

Oceanit currently employs about 160 scientists, engineers and support staff. We regularly host interns, school classes, and conduct numerous outreach activities for elementary thru college level kids to introduce them to science and engineering careers. We let kids know that there are exciting, decent paying jobs for them in Hawaii if they pursue these careers. Many of them have returned to us, equipped with college degrees, wanting to work in science and engineering.

It is our hope that we can continue to offer an alternative to kids that want to work in an industry that is growing nationally as well as internationally - and to show them that world class technical work can thrive in Hawaii.

The R&D credit has helped to jump start an industry that is in its infancy in Hawaii. The R&D credit has been responsible for job creation, as well as long term investments that will set the stage for growth into the future. At Oceanit, the R&D credit has allowed us to:

- Establish and launch the Oceanit Innovation Fund, providing early stage R&D funding through a process that is open to all staff at Oceanit. We have established a bi-annual proposal process where anyone can submit innovative, early stage ideas for internal funding. This has allowed us to nurture a culture of innovation, risk taking and entrepreneurial spirit that are essential to creating a long term growth industry. These funds have been used to provide the initial early stage research that allows scientists and engineers to make a strong case to obtain follow on funding from traditional sources. As a result, a relatively modest capital investment has allowed us to leverage this into large funding sources that have led to new jobs and opportunities.
- Internally fund prototype developments that would normally flounder in what the dual use community calls the "valley of death". This is the stage in which federal funding runs out but technology development is perhaps 70% complete. Customers will not fund that final last stretch of technology development so the majority of R&D dies at this stage. We have internally invested in pushing technologies through this stage and are nearing marketable products.
- Invest in equipment and laboratory space that is required to conduct cutting edge research. This investment has allowed us to build world class materials and life science labs that allow us to successfully compete at a national level for R&D funding.

Oceanit Center 828 Fort Street Mall, Suite 600 Honolulu, Hawaii 96813 Phone: 808.531.3017 Fax: 808.531.3177
www.oceanit.com

We view all of the above as investments that will act as a catalyst for continued job growth. The reality is that without Hawaii's R&D tax credit, we would not have been able to make all of these investments, and in the future, we will be forced to severely curtail R&D infrastructure investments across the board.

Because of the forward-looking nature of research, few R&D investments have short term rewards. This bill would provide longer term continuity for an industry that is still in its infancy, and is struggling to grow.

We urge you to maintain the momentum that has started and to keep this new sector of the economy growing at this critical juncture.

Thank you for your continued support of the R&D tax credit and for your support of the industry.

Sincerely,

Oceanit