
A BILL FOR AN ACT

RELATING TO HIGH TECHNOLOGY.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. Research and development is the core of
2 innovation, and without innovation, there is no technology
3 industry. Consequently, the growth of our economy is stunted
4 with no new products, services, or processes. Research and
5 development is the critical first step in the product
6 development cycle. During the research and development stage,
7 ideas and theories are tested to determine feasibility. Due to
8 the increasing interconnected and competitive global economy,
9 fostering and encouraging innovation is essential to a
10 comprehensive economic strategy for the State. The key to
11 developing more jobs and more prosperity will be to create and
12 deploy new products, services, and processes.

13 Innovation is essential for creating new jobs in the high
14 technology and traditional sectors. In recent years, innovation
15 has led to new jobs in many different sectors as diverse as
16 defense/dual-use, software and information technology, life
17 sciences and biotechnology, and clean energy. At the same time,
18 innovations ripple through the economy, creating jobs for



1 workers building advanced infrastructure (clean energy
2 solutions), installing broadband networks, and utilizing new
3 devices and products in the service industries, such as health-
4 care and tourism.

5 Innovation is also critical for sustaining the vitality and
6 resilience of our economy. Future challenges (natural or man-
7 made) are impossible to predict, but what is certain is that an
8 economy better able to respond to such events by adapting
9 innovative solutions and re-deploying old activities, jobs, and
10 industries will be least susceptible to adversity.

11 Innovation is the key to remaining competitive globally,
12 creating new and better jobs, and maintaining a resilient
13 economy. The legislature recognizes this and supports research
14 and development as the stimulant to our innovation economy.

15 The legislature finds that, in order to facilitate the
16 development and growth of Hawaii's commercial high technology
17 industry sector, the high technology development corporation
18 established the Manoa innovation center. The Manoa innovation
19 center is the first and only innovation and incubation facility
20 on Oahu that offers an array of client services, facilities, and
21 equipment to assist new and early stage technology companies.
22 The Manoa innovation center was built on public lands that have



1 been transferred to the University of Hawaii. The high
2 technology development corporation's current land lease with the
3 University of Hawaii expires in 2015. If the lease is not
4 extended, the State will lose the Manoa innovation center, a
5 technology infrastructure and economic development engine that
6 would be difficult to replace.

7 The legislature also finds that current state tax law
8 parallels, with enhancements tailored to Hawaii's unique
9 position, the Internal Revenue Code, providing support for
10 scientific experimentation at twenty per cent of the cost of the
11 qualified research. The program cost to the State has averaged
12 about \$11,000,000 per year over the last nine years, and in
13 2006, provided funding to over four hundred companies. This tax
14 credit has been a great source of support for local companies,
15 especially to the research and development companies that are
16 still in the start-up and early stage, and is seen as helping to
17 level the playing field of our high cost state, as Hawaii
18 companies compete with national and international competition.
19 It has also been useful in providing support for early-stage
20 research and development companies that are not yet profitable
21 and have few sources of funding. Further, the refundable



1 element is helping to attract new technology companies to
2 Hawaii.

3 In addition, in 2010, the senate committee on economic
4 development and technology and the house committee on economic
5 revitalization, business, and military affairs convened an
6 informal small business discussion group to address the most
7 critical issues facing the small business sectors within
8 Hawaii's economy. Representatives from the Chamber of Commerce
9 of Hawaii, construction and trades industries, community
10 nonprofits, the agricultural sector, food and restaurant
11 industries, retailing, the science and technology sector, the
12 commercial transportation industry, and interested stakeholders
13 developed a package of bills that address the most pressing
14 problems facing Hawaii's small business community.

15 The purpose of this Act is to:

- 16 (1) Support the findings of the small business working
17 group and recommendations to reauthorize the dormant
18 income tax credit for qualified research activities
19 for five years; and
- 20 (2) Direct the University of Hawaii to extend the high
21 technology development corporation's land lease, with



1 the same terms, for twenty-five years beyond the
2 existing lease's expiration.

3 SECTION 2. Section 235-110.91, Hawaii Revised Statutes, is
4 amended as follows:

5 1. By amending subsection (f) to read:

6 "(f) As used in this section:

7 "Basic research" under section 41(e) of the Internal
8 Revenue Code shall not include research conducted outside of the
9 State.

10 "Qualified high technology business" means [~~the same as in~~
11 ~~section 235-110.9-~~] a business, employing or owning capital or
12 property, or maintaining an office, in this State; provided
13 that:

14 (1) More than fifty per cent of its total business
15 activities are qualified research; and provided
16 further that the business conducts more than seventy-
17 five per cent of its qualified research in this State;
18 or

19 (2) More than seventy-five per cent of its gross income
20 and funds is derived from qualified research; and
21 provided further that this income is received from:



- 1 (A) Products sold from, manufactured in, or produced
2 in this State; or
3 (B) Services performed in this State.

4 "Qualified research" [~~under~~] means the same as in section
5 ~~[41(d)-(1)]~~ 41(d) of the Internal Revenue Code; provided that
6 qualified research shall not include research conducted outside
7 of the State."

8 2. By amending subsection (j) to read:

9 "(j) This section shall not apply to taxable years
10 beginning after December 31, [~~2010-~~] 2015."

11 SECTION 3. The University of Hawaii shall extend the
12 current land lease agreement with the high technology
13 development corporation, located at 2800 Woodlawn Drive, Manoa,
14 Honolulu, Hawaii, identified as Tax Map Key 2-9-26: Por. 3, 37,
15 and 38, on the same terms and for a period no less than twenty-
16 five years from the expiration date of the existing lease.

17 SECTION 4. Statutory material to be repealed is bracketed
18 and stricken. New statutory material is underscored.

19 SECTION 5. This Act shall take effect upon its approval;
20 provided that section 2 shall apply to taxable years beginning
21 after December 31, 2011, and shall be repealed on December 31,
22 2016; provided further that section 235-110.91, Hawaii Revised



1 Statutes, shall be reenacted in the form in which it read on the
2 day before the effective date of this Act.



Report Title:

High Technology; R&D Income Tax Credit; High Technology
Development Corporation; University of Hawaii; Land Lease

Description:

Extends the tax credit for qualified research activities for
five years. Sunset 12/31/16. Requires the UH to extend the
current land lease with the high technology development
corporation for no less than 25 years from the date of
expiration. (HD1)

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