

JAN 25 2012

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

13 Innovation is essential for creating new jobs in 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 or 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. However, it is certain that an
8 economy better able to respond to such events by adopting
9 innovative solutions and re-deploying old activities, jobs, and
10 industries will be less susceptible to adversity.

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

15 The current law parallels, with enhancements tailored to
16 Hawaii's unique position, the Internal Revenue Code, providing
17 support for scientific experimentation through a tax credit at
18 twenty per cent of the cost of the qualified research. The
19 program cost to the State has averaged about \$11,000,000 per
20 year over the last nine years, and in 2006, provided funding to
21 over four hundred companies. This tax credit has been a great
22 source of support for local companies, especially to the



1 research and development companies that are still in the start-
2 up and early stages, and is seen as helping to level the playing
3 field of our high-cost State, as Hawaii companies compete with
4 national and international competition. It has also been useful
5 in providing support for early-stage research and development
6 companies that are not yet profitable, and have few sources of
7 funding. Further, the refundable element is helping to attract
8 new technology companies to Hawaii.

9 The purpose of this Act is to extend the income tax credit
10 for qualified research activities for an additional five years
11 and to add extensive reporting requirements related to the tax
12 credit.

13 SECTION 2. Section 235-110.91, Hawaii Revised Statutes, is
14 amended to read as follows:

15 **"§235-110.91 Tax credit for research activities.** (a)
16 Section 41 (with respect to the credit for increasing research
17 activities) and section 280C(c) (with respect to certain
18 expenses for which the credit for increasing research activities
19 are allowable) of the Internal Revenue Code shall be operative
20 for the purposes of this chapter as provided in this section;
21 except that references to the base amount shall not apply and
22 credit for all qualified research expenses may be taken without



1 regard to the amount of expenses for previous years. If section
2 41 of the Internal Revenue Code is repealed or terminated prior
3 to January 1, [~~2011,~~] 2017, its provisions shall remain in
4 effect for purposes of the income tax law of the State as
5 modified by this section, as provided for in subsection [~~(j)~~]
6 (n).

7 (b) All references to Internal Revenue Code sections
8 within sections 41 and 280C(c) of the Internal Revenue Code
9 shall be operative for purposes of this section.

10 (c) There shall be allowed to each qualified high
11 technology business subject to the tax imposed by this chapter
12 an income tax credit for qualified research activities equal to
13 the credit for research activities provided by section 41 of the
14 Internal Revenue Code and as modified by this section. The
15 credit shall be deductible from the taxpayer's net income tax
16 liability, if any, imposed by this chapter for the taxable year
17 in which the credit is properly claimed.

18 (d) Every qualified high technology business, before
19 March 31 of each year in which qualified research and
20 development activity was conducted in the previous taxable year,
21 shall submit a written, certified statement to the director of
22 taxation identifying:



- 1 (1) Qualified expenditures, if any, expended in the
- 2 previous taxable year; and
- 3 (2) The amount of tax credits claimed pursuant to this
- 4 section, if any, in the previous taxable year.
- 5 (e) The department shall:
- 6 (1) Maintain records of the names and addresses of the
- 7 taxpayers claiming the credits under this section and
- 8 the total amount of the qualified research and
- 9 development activity costs upon which the tax credit
- 10 is based;
- 11 (2) Verify the nature and amount of the qualifying costs
- 12 or expenditures;
- 13 (3) Total all qualifying and cumulative costs or
- 14 expenditures that the department certifies; and
- 15 (4) Certify the amount of the tax credit for each taxable
- 16 year and cumulative amount of the tax credit.

17 Upon each determination made under this subsection, the

18 department shall issue a certificate to the taxpayer verifying

19 information submitted to the department, including the

20 qualifying costs or expenditure amounts, the credit amount

21 certified for each taxable year, and the cumulative amount of

22 the tax credit during the credit period. The taxpayer shall



1 file the certificate with the taxpayer's tax return with the
2 department.

3 The director of taxation may assess and collect a fee to
4 offset the costs of certifying tax credit claims under this
5 section. All fees collected under this section shall be
6 deposited into the tax administration special fund established
7 under section 235-20.5.

8 (f) As used in this section:

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

12 "Qualified high technology business" means [~~the same as in~~
13 ~~section 235-110.9.~~] a business that conducts more than per
14 cent of its activities in qualified research.

15 "Qualified research" [~~under~~] means the same as in section
16 section 41(d)(1) of the Internal Revenue Code; provided that it
17 shall not include research conducted outside of the State.

18 (g) If the tax credit for qualified research activities
19 claimed by a taxpayer exceeds the amount of income tax payment
20 due from the taxpayer, the excess of the tax credit over
21 payments due shall be refunded to the taxpayer; provided that no



1 refund on account of the tax credit allowed by this section
2 shall be made for amounts less than \$1.

3 (h) All claims for a tax credit under this section shall
4 be filed on or before the end of the twelfth month following the
5 close of the taxable year for which the credit may be claimed.
6 Failure to properly claim the credit shall constitute a waiver
7 of the right to claim the credit.

8 (i) A qualified high technology business that claims the
9 credit under this section shall complete and file with the
10 director of taxation through the department website, an annual
11 survey on electronic forms prepared and prescribed by the
12 department. The annual survey shall be filed before June 30 of
13 each calendar year following the calendar year in which the
14 credit may be claimed under this section. The department may
15 adjust the due date of the annual survey by rule.

16 (j) The annual survey shall include the following
17 information for the time period or periods specified by the
18 department:

19 (1) Identification of the industry sector or sectors in
20 which the qualified high technology business conducts
21 business, as set forth in paragraphs (2) to (8) of the



- 1 definition of "qualified research" in section
2 235-7.3(c);
- 3 (2) Qualified expenditures, if any, expended in the
4 previous taxable year;
- 5 (3) Revenue and expense data;
- 6 (4) Hawaii employment and wage data including the numbers
7 of full- and part-time employees retained, new jobs,
8 temporary positions, external services procured by the
9 business, and payroll taxes; and
- 10 (5) Filed intellectual property, including invention
11 disclosures, provisional patents, and patents issued
12 or granted.

13 The department shall request information in each of these
14 categories sufficient to measure the effectiveness of the tax
15 credit. The department may request any additional information
16 necessary to measure the effectiveness of the tax credit, such
17 as information related to patents. In preparing the survey and
18 requesting any additional information, the department shall
19 ensure that qualified high technology businesses are not subject
20 to duplicative reporting requirements.

21 (k) The department shall use information collected under
22 this section and through other reporting requirements of the



1 department to prepare summary descriptive statistics by
2 category. The information shall be reported at the aggregate
3 level to prevent compromising identities of qualified high
4 technology business investors or other confidential information.
5 The department shall also identify each qualified high
6 technology business that is the beneficiary of tax credits
7 claimed under this section. The department shall report the
8 information required under this subsection to the legislature by
9 September 1 of each year.

10 (1) The department shall use the information collected to
11 study the effectiveness of the tax credit under this section.
12 The department shall report on the amount of tax credits claimed
13 and total taxes paid by qualified high technology businesses,
14 the number of qualified high technology businesses in each
15 industry sector, jobs created, external services and materials
16 procured by the businesses, compensation levels, qualified
17 research activities, and other factors as the department
18 determines. The department shall report the results of its
19 study to the legislature by December 1 of each year.

20 [(+)] (m) The director of taxation may adopt any rules
21 under chapter 91 and forms necessary to carry out this section.



S.B. NO. 2941

1 [~~(j)~~] (n) This section shall not apply to taxable years
2 beginning after December 31, [~~2010-~~] 2016."

3 SECTION 3. Statutory material to be repealed is bracketed
4 and stricken. New statutory material is underscored.

5 SECTION 4. This Act, upon its approval, shall apply to
6 taxable years beginning after December 31, 2011.

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INTRODUCED BY: Carol Johnson
Amid y Ize
Rochel de Bob
Will Zeno
Linda M. Dan



S.B. NO. 2941

Report Title:

Taxation; Technology; Tax Credit for Research Activities

Description:

Adds reporting requirements to measure the effectiveness of the tax credit for research activities; extends the tax credit through 2016; applies to tax years beginning after 12/31/2011.

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.

