

Honolulu, Hawaii

MAR 23 2012

RE: H.B. No. 1551  
H.D. 2  
S.D. 1

Honorable Shan S. Tsutsui  
President of the Senate  
Twenty-Sixth State Legislature  
Regular Session of 2012  
State of Hawaii

Sir:

Your Committee on Economic Development and Technology, to which was referred H.B. No. 1551, H.D. 2, entitled:

"A BILL FOR AN ACT RELATING TO TAX CREDITS,"

begs leave to report as follows:

The purpose and intent of this measure is to establish:

- (1) A qualified persons crew training program rebate equal to an unspecified percentage of the hourly wages of each resident participant in a qualified persons crew training program; and
- (2) A tax credit for qualified media infrastructure projects at an unspecified percentage of the qualified costs incurred for qualified media infrastructure projects.

Prior to the hearing, your Committee made available a proposed S.D. 1, which deleted the contents of this measure and inserted language to:

- (1) Extend the income tax credit for research activities through December 31, 2016;
- (2) Define "qualified high technology business" for the purposes of the tax credit to mean a business employing or owning capital or property, or maintaining an office, in this State; provided that more than fifty per cent of



its total business activities are qualified research and more than fifty per cent of its qualified research is in this State;

- (3) Add annual survey reporting requirements for tax credit claimants to measure the effectiveness of the tax credit; establish a fine for failure to file the survey information; and include federal and state income tax returns and documents related to deductions for tax credits for research activities to be filed as part of the survey;
- (4) Require the Department of Taxation to use information collected from the annual surveys to study the effectiveness of the tax credit and to annually report certain data collected to the Legislature; and
- (5) Apply to tax years beginning after December 31, 2011.

Your Committee received testimony in support of the proposed S.D. 1 from the Hawaii Strategic Development Corporation, High Technology Development Corporation, The Chamber of Commerce of Hawaii, Dual Use Hawaii, Novasol, Pukoa Scientific, and one individual. Your Committee received comments on this measure from the Department of Taxation and Tax Foundation of Hawaii.

Your Committee finds that the state tax credit for research activities was an effective measure to support research and development activities, and in turn, foster and encourage the innovation essential to create high-wage job opportunities in the State's economy. Your Committee understands that the tax credit claims under this program averaged approximately \$11,000,000 a year. However, it is anticipated that use of this credit in the future may fall below this average as federal spending on research activities has been reduced due to the elimination of congressional earmarks. In addition, as the credit can only be claimed for actual expenditures made in Hawaii and for only twenty percent of the qualified expenditures, the cost of the program is partially offset by taxes paid on expenditures and payroll.

Your Committee further finds that in the current economy, extension of this tax credit would provided critical assistance for research activities that are the base of success in the rapidly evolving technology industry, and for which other financial assistance is limited.



Your Committee understands that there may be additional amendments necessary to clarify the definitions in this measure and recommends that the Department of Taxation, Hawaii Strategic Development Corporation, and interested industry stakeholders collaborate on these amendments for presentation to the Committee on Ways and Means.

As affirmed by the record of votes of the members of your Committee on Economic Development and Technology that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 1551, H.D. 2, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 1551, H.D. 2, S.D. 1, and be referred to the Committee on Ways and Means.

Respectfully submitted on  
behalf of the members of the  
Committee on Economic  
Development and Technology,

  
CAROL FUKUNAGA, Chair



