

STAND. COM. REP. NO.

2283

Honolulu, Hawaii

FEB 16 2012

RE: S.B. No. 2941  
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 S.B. No. 2941 entitled:

"A BILL FOR AN ACT RELATING TO HIGH TECHNOLOGY,"

begs leave to report as follows:

The purpose and intent of this measure is to extend the income tax credit for qualified research activities for an additional five years and to add extensive reporting requirements related to the tax credit.

Your Committee received testimony in support of this measure from The Chamber of Commerce of Hawaii, Continuum Icon, Makai Ocean Engineering, Navatek Ltd., NovaSol, Referentia, and one individual. Your Committee received comments on this measure from the Hawaii Strategic Development Corporation, High Technology Development Corporation, 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

2012-0925 SSCR SMA.doc



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 has amended this measure by:

- (1) Repealing the definition of "basic research", as it is unnecessary;
- (2) Amending the definition of "qualified high technology business" to mean a business employing or owning capital or property, or maintaining an office, in this State; provided that more than fifty percent of its total business activities are qualified research and more than fifty percent of its qualified research is in this State;
- (3) Repealing the reference to research conducted outside of the State from the definition of "qualified research";
- (4) Establishing a fine of not more than \$1,000 for each month of a delay to file by the due date an annual survey with the Department of Taxation; and
- (5) Requiring 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.

Your Committee is concerned that some of the definitional changes may need further clarification, particularly in relation to the definitions for "qualified high technology business" in sections 235-110.91 and 235-7.3, Hawaii Revised Statutes. Your Committee encourages the stakeholders and the Department of Taxation to continue discussions on the appropriate terminology.

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 S.B. No. 2941, as amended herein, and recommends that



it pass Second Reading in the form attached hereto as S.B. No. 2941, 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



