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**LATE TESTIMONY**

To: The Honorable Marcus R. Oshiro, Chair  
and Members of the House Committee on Finance

Date: Monday, February 27, 2012

Time: 1:00 p.m.

Place: Conference Room 308, State Capitol

From: Frederick D. Pablo, Director  
Department of Taxation

Re: H.B. No. 1511 H.D. 1 Relating to High Technology

The Department of Taxation (Department) appreciates the merits of H.B. 1511 HD1 and offers the following comments for the Committee's consideration. The Department defers to the University of Hawaii regarding the requirement that the land lease for the property located at 2800 Woodlawn Drive, Honolulu, Hawaii, be extended for a period of twenty five years.

H.B.1511 HD1 would reinstate the refundable tax credit for research activities for five years for a qualified high technology business, as well as direct the University of Hawaii to extend the high technology development land lease for an additional twenty-five years.

As written, the bill's language is very broad. For example, "products" and "services" in subsection (f)(2)(A) and (B) should be further defined and consistent with other sections of Chapter 235. Clarification should also be made to the provisions which address how to determine whether a business' activities have met the required thresholds to qualify for the tax credit.

Thank you for the opportunity to provide comments.



Written Testimony of

James P Karins, PhD  
President, Pukoa Scientific  
before the

**LATE TESTIMONY**

**HOUSE COMMITTEE ON FINANCE**

February 27, 2012

1:00 PM

State Capitol, Conference Room 308

In consideration of

**HB 1511 HD1 RELATING TO HIGH TECHNOLOGY**

Chair Oshiro, Vice Chair Lee, and Members of the Committee on Finance:

Pukoa Scientific supports this bill. Pukoa Scientific is a small 5 person company located in the Manoa Innovation Center. Pukoa specializes in image processing for the defense, security, and home markets.

This bill will create and retain jobs while increasing the state's revenues. We cannot afford to overlook the prime opportunity to promote this sector which has been hit very hard over the past year. This is an opportune time to support our small local companies in the R&D industry so that they can 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.

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 an 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. 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**. Thank you for the opportunity to express our views.

Thank you for allowing me to testify,

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