

Written Statement of

Leilani C. Williams
Vice Pres/COO
Williams Aerospace, Inc.
before the

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY

1:15 PM, March 23, 2011

State Capitol, Conference Room 016

In consideration of

HOUSE BILL NO. 1642 HD1 RELATING TO HIGH TECHNOLOGY

Chair Fukunaga, Vice Chair Wakai, and Members of the Committee:

Williams Aerospace, Inc. ("WA") **supports HB 1642 HD2** relating to High Technology with amendments.

Williams Aerospace, Inc. is one of Hawaii's only UAS (Unmanned Aerial System) Companies, we are involved with R&D and build our own UAV's prototypes here in Hawaii. WA is also involved in UAS training and SIR training. WA has been able to transition to more than just Research and development company because of the tax credits. Because of this we will be able to continue to bring in more funding to Hawaii that will allow us to hire more staff in the near future. WA is now a product driven company with three different plate forms and two training areas. WA is also involved with many community projects e.g (Pacific Air Museum) "Discovering Your Future in Aviation" and with the Science Department at Waipahu High for the senior class projects. Because of the tax credits WA has been able to transition our products and keep our company working on the next generation of products, in turn this has helped us get into international markets as well. We have been granted more than \$1.5 million, and have used 90% percent of that for R&D and are now in the Testing and Evaluation process and have transitioned at least two of the three products. WA makes it a priority to use Hawaii base companies for anything that we can not do ourselves in house. WA is now working on further development of a new class of UAS and have also been awarded an SBIR from NavAir Phase I for \$77K. WA has 3 U.S. patents pending on its technology as well as international patents pending.

HB 1642 HD2 extends the income tax credit for qualified research activities for five years and places an annual aggregate cap on the tax credit.

WA supports this measure with the following amendments:

Eliminate the annual aggregate cap on the tax credit.

The Chamber agrees with the Department of Taxation that the cap is unnecessary given the relative stability of claims over the past nine years, which averaged at about \$11-\$12 million a year. Also, placing a cap may inhibit growth in this flourishing sector and will be expensive and difficult to administer fairly

Add reporting requirements.

The Chamber supports the requirements as stated in SB 753 SD2 with the following clarifications:

Remove **“invention disclosures”** (lines 3-4)

Justification: This would be harder to track consistently when the industry as a whole does not follow this practice, only some companies claim to track this.

Change **“Filed intellectual property..., provisional patents, and patents issued or granted”** to read: **(5) Patents filed: (a) provisional, (b) full; and patents issued and granted.**

Justification: Patents issued/granted happens after the start of the filing process, so if we just track the filed IP metric, we may not be capturing all the near term activities and results.

Add a stricter reporting requirement: same deadline, same penalty and the survey must be filed to receive the tax credit.

Require DOTAX reported data to go to DBEDT for economic analysis reports.

This will take into account the income, payroll and other taxes these companies have paid in order to receive the credit. The tax credit can only be claimed for qualified research conducted in Hawaii and for 20% of the qualified expenditures. This refund occurs after the company files its tax return. So, R&D tax credits for 2011 would not be paid until 2012 and most of the payments will be in the latter half of the year. Therefore, the state receives the benefits of a business base now and doesn't pay for on average 18 months later.

Also, DBEDT is probably the more appropriate agency to evaluate the economic impacts.

Almost all potential investors from the Mainland question our decision keep our company here in Hawaii and while we can talk at length about Hawaii's culture and quality of life, the 20% refundable R&D credit in HB 1642 brings immediate credibility to our location.

Helping insure the success of small, hi-tech companies such as WA helps grow our tax base in a time when the necessity of such diversification is perhaps never more apparent.

Thank you for the opportunity to provide testimony. We respectfully ask that the committee pass this measure with the proposed amendments.

Sincerely,

Leilani C. Williams

Vice President/COO
Williams Aerospace, Inc.



**Testimony to the Senate Committee on Economic Development and
Technology**

**Wednesday, March 23, 2011 at 1:15 p.m.
Conference Room 016, State Capitol**

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RE: HOUSE BILL NO. 1642 HD1 RELATING TO HIGH TECHNOLOGY

Chair Fukunaga, Vice Chair Wakai, and Members of the Committee:

The Chamber of Commerce of Hawaii ("The Chamber") **supports HB 1642 HD2** relating to High Technology with amendments.

The Chamber is the largest business organization in Hawaii, representing more than 1,100 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of its members, which employ more than 200,000 individuals, to improve the state's economic climate and to foster positive action on issues of common concern.

HB 1642 HD2 extends the income tax credit for qualified research activities for five years and places an annual aggregate cap on the tax credit.

The Chamber supports this measure with the following amendments:

- Eliminate the annual aggregate cap on the tax credit.
 - The Chamber agrees with the Department of Taxation that the cap is unnecessary given the relative stability of claims over the past nine years, which averaged at about \$11-\$12 million a year. Also, placing a cap may inhibit growth in this flourishing sector.
- Add reporting requirements.
 - The Chamber supports the requirements as stated in SB 753 SD2 with the following clarifications:
 - *Remove "invention disclosures" (lines 3-4)*
 - Justification: This would be harder to track consistently when the industry as a whole does not follow this practice, only some companies claim to track this.
 - *Change "Filed intellectual property..., provisional patents, and patents issued or granted" to read: **(5) Patents filed: (a) provisional, (b) full; and patents issued and granted.***

- Justification: Patents issued/granted happens after the start of the filing process, so if we just track the filed IP metric, we may not be capturing all the near term activities and results.
 - *Add* a stricter reporting requirement: same deadline, same penalty and the survey must be filed to receive the tax credit.
- Require DOTAX reported data to go to DBEDT for economic analysis reports.
 - This will take into account the income, payroll and other taxes these companies have paid in order to receive the credit. The tax credit can only be claimed for qualified research conducted in Hawaii and for 20% of the qualified expenditures. This refund occurs after the company files its tax return. So, R&D tax credits for 2011 would not be paid until 2012 and most of the payments will be in the latter half of the year. Therefore, the state receives the benefits of a business base now and doesn't pay for on average 18 months later.
 - Also, DBEDT is probably the more appropriate agency to evaluate the economic impacts.

While technically referred to as a “tax credit”, this credit could be viewed as a sound state “investment” that has the proven potential to diversify the economy exponentially and create meaningful careers in skilled, technical and manufacturing jobs.

This is a prime opportunity to promote the R&D sector in our state and support our small local companies in the R&D industry so that it can continue to flourish. This will allow them to provide jobs for our talented citizens and ensure that our keiki has 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 by spurring spin-off activities resulting from successful innovations. This would include production and manufacturing businesses that would further expand business activity and create skilled jobs outside the service and retail sectors.

Thank you for the opportunity to provide testimony. We respectfully ask that the committee pass this measure with the proposed amendments.

Suggested Amendments of

**James P Karins,
President, Pukoa Scientific**

before the

**Senate Committee on Economic Development and Technology
Wednesday, March 23, 2011 at 1:15 p.m.
Conference Room 016, State Capitol**

RE: HOUSE BILL NO. 1642 HD2 RELATING TO HIGH TECHNOLOGY

Chair Fukunaga, Vice Chair Wakai, and Members of the Committee:

Pukoa strongly supports this measure with the following amendments:

- Replace HB1642 HD2 section 2 with SB0753 SD 2 section 2 (a), (b), (c), (g), (h), and (i).
 - This eliminates the annual aggregate cap on the tax credit and Pukoa agrees with the Department of Taxation that the cap is unnecessary given the relative stability of claims over the past nine years, which averaged at about \$11-\$12 million a year. Also, placing a cap may inhibit growth in this flourishing sector.
 - This eliminates the reporting requirement associated with N319A which are unnecessary since much better data is provided in subsection (j) described below.
- Insert section 2 (f) from SB0753 SD2 with the following modification
 - “Qualified high technology business means the same as in section 235-7.3
- Replace HB1642 HD2 section 3 with
 - The requirements as stated in SB 753 SD2 section 2 subsection j with the following clarifications:
 - *Remove “invention disclosures” (lines 3-4)*
 - **Justification:** This would be harder to track consistently when the industry as a whole does not follow this practice, only some companies claim to track this.

- *Change* “Filed intellectual property..., provisional patents, and patents issued or granted” to read: **(5) Patents filed: (a) provisional, (b) full; and patents issued and granted.**
 - Justification: Patents issued/granted happens after the start of the filing process, so if we just track the filed IP metric, we may not be capturing all the near term activities and results.
 - *Add* a stricter reporting requirement: same deadline, same penalty and the survey must be filed to receive the tax credit.
- Require DOTAX reported data to go to DBEDT for economic analysis reports.
 - This will take into account the income, payroll and other taxes these companies have paid in order to receive the credit. The tax credit can only be claimed for qualified research conducted in Hawaii and for 20% of the qualified expenditures. This refund occurs after the company files its tax return. So, R&D tax credits for 2011 would not be paid until 2012 and most of the payments will be in the latter half of the year. Therefore, the state receives the benefits of a business base now and doesn't pay for on average 18 months later.
 - Also, DBEDT is probably the more appropriate agency to evaluate the economic impacts.