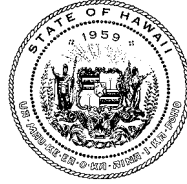


NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

FREDERICK D. PABLO
DIRECTOR OF TAXATION

RANDOLF L. M. BALDEMOR
DEPUTY DIRECTOR

LATE

To: The Honorable Carol Fukunaga, Chair
and Members of the Senate Committee on Economic Development and Technology

Date: Monday, January 30, 2012

Time: 1:15 p.m.

Place: Conference Room 016, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: S.B. No. 2941 Relating to High Technology

The Department of Taxation (Department) appreciates the intent of S.B. 2941 and provides the following information and comments for your consideration.

S.B. 2941 would reinstate the tax credit for research activities for a period of five years beginning with taxable years beginning after December 31, 2011. The measure also changes the definition of a qualified high technology business which is entitled to claim the credit, as well as requiring any company claiming the credit to provide certain specified information.

The Department first notes that the broad definitions for "research" and "supply" have made it difficult for the Department to administer the credit, resulting in protracted and complex litigation. Considerable staff and financial resources have been spent by the Department in litigation over the issues of which expenses are eligible for the credit, as well which taxpayers qualify for the tax credit. Secondly, while a company claiming the credit is expected to provide certain information to the Department pursuant to this measure, there is no penalty if a company fails to provide such information or fails to timely provide it.

The measure also redefines which companies can claim the credit by changing the definition of "qualified high technology business" from that contained in Section 235-110.9, Hawaii Revised Statutes, to merely "a business that conducts more than __ percent of its activities in qualified research". The Department is concerned about the potential revenue impact that this measure will have, since it is a refundable credit whereas the federal credit is non-refundable, and there is no upper limit to the amount a company can claim. We suggest that the definition be amended to better define the businesses that may be eligible for the tax credit.

Thank you for the opportunity to provide comments.



HAWAII
STRATEGIC
DEVELOPMENT
CORPORATION



Written Statement of

KARL FOOKS

President

Hawaii Strategic Development Corporation
and

Yuka Nagashima

Executive Director and CEO

High Technology Development Corporation

before the

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY

January 30, 2012

1:15 PM

State Capitol, Conference Room 016

In consideration of

SB 2941 RELATING TO HIGH TECHNOLOGY.

Chair Fukunaga, Vice Chair Wakai, and Members of the Committee on Economic Development and Technology:

The Hawaii Strategic Development Corporation (HSDC) and the High Technology Development Corporation (HTDC) respectfully submit comments on SB 2941. The state tax credit for research activities sunset at the end of calendar year 2010. This tax credit program was an effective measure to support research and development activities, which in turn, foster and encourage the innovation essential to create high-wage job opportunities in our economy. Over the life of the previous tax credit, the tax credit claims under this program averaged approximately \$11 million a year. It is anticipated that use of this credit may fall below this average as Federal spending on research activities has been reduced due to the elimination of earmarks. As the credit can only be claimed for actual expenditures made in Hawaii and only for 20% of the qualified expenditures, the cost of the program is partially offset by taxes paid on expenditures and payroll.

HSDC and HTDC support efforts to reinstate this tax credit and support the requirement to collect metrics from companies claiming the credit as this will provide the data needed to measure the effectiveness of the credit.

Thank you for the opportunity to submit testimony on this bill



HAWAII
STRATEGIC
DEVELOPMENT
CORPORATION



Written Statement of

KARL FOOKS

President

Hawaii Strategic Development Corporation
and

Yuka Nagashima

Executive Director and CEO

High Technology Development Corporation

before the

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY

January 30, 2012

1:15 PM

State Capitol, Conference Room 016

In consideration of

SB 2941 RELATING TO HIGH TECHNOLOGY.

Chair Fukunaga, Vice Chair Wakai, and Members of the Committee on Economic Development and Technology:

The Hawaii Strategic Development Corporation (HSDC) and the High Technology Development Corporation (HTDC) respectfully submit comments on SB 2941. The state tax credit for research activities sunset at the end of calendar year 2010. This tax credit program was an effective measure to support research and development activities, which in turn, foster and encourage the innovation essential to create high-wage job opportunities in our economy. Over the life of the previous tax credit, the tax credit claims under this program averaged approximately \$11 million a year. It is anticipated that use of this credit may fall below this average as Federal spending on research activities has been reduced due to the elimination of earmarks. As the credit can only be claimed for actual expenditures made in Hawaii and only for 20% of the qualified expenditures, the cost of the program is partially offset by taxes paid on expenditures and payroll.

HSDC and HTDC support efforts to reinstate this tax credit and support the requirement to collect metrics from companies claiming the credit as this will provide the data needed to measure the effectiveness of the credit.

Thank you for the opportunity to submit testimony on this bill

**Testimony to the Senate Committee on Economic Development and
Technology
Monday, January 30, 2012 at 1:15 p.m.
Conference Room 016, State Capitol**

RE: SENATE BILL NO. 2941 RELATING TO HIGH TECHNOLOGY

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

The Chamber of Commerce of Hawaii ("The Chamber") **supports the passage of SB 2941** relating to High Technology for further discussion.

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.

This measure 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.

This bill will create and retain jobs while increasing the state's revenues. We cannot afford to overlook the prime opportunity to promote this growing sector in our state. This is the opportune time to support our small local companies in the R&D industry so that it can continue to flourish and provide jobs for our talented citizens and ensure that our talented 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.

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. Furthermore, as the R&D matures it creates product companies that increase the number of jobs and tax base significantly.

Therefore, we respectfully ask that the committee to **pass this measure** for further discussion. Thank you for the opportunity to provide testimony.



126 Waihili Place
Honolulu, Hawaii 96825

T 808-352-0553
remington@continuum-icon.com

www.remingtonscott.com

January 28, 2012

SB 2941
Economic Development and Technology Committee
Hawaii State Capitol
Conference Room 016
415 South Beretania St
Honolulu, HI 96813

Dear Economic Development and Technology Committee,

Aloha. Please find my support for SB 2941

My work has received the Academy Award for Achievement in Visual Effects for the films *The Lord of The Rings: The Two Towers* and *Spider-man 2*. Both films utilized advanced technologies for which I have invested years fine tuning in research and development of performance capture and digital acquisition methodologies. *The Lord of The Rings* received the Academy Award for "utilizing a motion capture system to create a split personality character of Gollum and Smeagol", of which I was the Supervisor of Motion Capture. I have authored several patents, all of which have been possible because of time invested in R&D. One of my patents is used for the creation of the photo real facial performances by the digital characters in the blockbuster movies *Avatar*, *Rise of the Planet of the Apes*, *Tin Tin*. Directors such as James Cameron and Steven Spielberg have been able to tell these new stories, in large part, due to the vast amount of R&D that has made the technology possible.

My company, Continuum Icon, based in Honolulu, is set to bring about a new watermark of high technology and high profile computer graphics to the entertainment arena. However, to break ground and develop something that is completely unique takes a lot of time and money in research and development, of which I have already invested almost a year of my time for Continuum Icon. Unlike just about any other industry, the high technology industry can not survive or thrive unless there is something compelling that is different, new or 'out for the box'.

Research and development in high technology industries elevate 'ideas' into 'events'. The cost of R&D is higher than ever in today's highly competitive technology markets as we must find new ways to achieve our goals or we will not stand out from the rest.

To put it succinctly, technology, in its definition is about the application of scientific knowledge for practical purposes. Understanding *how* to apply such knowledge is the direct result of research and development.

I'm committed to growing with Hawaii and hope you can pass SB 2941 to help businesses like Continuum Icon realize their goals of leading the future rather than following the pack. Mahalo.

Sincerely yours,

Remington Scott

Partner, Continuum Icon

Testimony To

Senate Committee Economic Development & Technology

Relating to:

SB 2941 Relating to High Technology

By

Reb Bellinger, Vice President
Makai Ocean Engineering

DATE: January 30, 2012
Conference Room 016, 1:15 p.m.

TO: COMMITTEE ON ECONOMIC DEVELOPMENT & TECHNOLOGY
The Honorable Carol Fukunaga, Chair
The Honorable Glenn Wakai, Vice Chair

RE: Testimony In Strong Support of 2941

Aloha Chair, Vice Chair, and Members of the Committee:

We appreciate the opportunity to submit testimony in support of SB2941.

Makai Ocean Engineering is a diversified high technology ocean engineering firm located at the Makai Research Pier at Makapuu Point since 1973. We have 30 employees, the majority of which were either born or educated in Hawaii and have advanced degrees in engineering, business or computer science.

Our main areas of technical expertise is in ocean energy in the seawater air conditioning and ocean thermal energy conversion; submarine cable software as it relates to telecom, power and US Navy surveillance systems and in the development of innovative 4D/5D visualization software.

Much of Makai's work is in research and development. An example is the development of an Ocean Thermal Energy Conversion (OTEC) Test Facility at NELHA where we are focusing on the technical challenges of commercializing OTEC. To date, more than \$6 million has been invested in this R&D program and we have added 4 full time positions to support that effort.

I think it's important to emphasize that R&D by its nature is a slow, painful and expensive process. It takes time to successfully develop a product that can be commercialized to a point where revenues can be generated. Most R&D funding comes from a mixture of sources like competitive government grants such as SBIR's, STTR's, unique programs like CEROS, from a company's own funds or from personal loans. For a small business, it's a risky proposition which, hopefully, will generate future commercial revenues.

With the challenges facing both our national and state economies, R&D funding is becoming more and more difficult to obtain. Having this R&D tax credit passed would be a great help to Hawaii's high tech industry and will assist in Hawaii's ability to continue new innovations, to attract new customers, to compete in the global marketplace and to continue to grow our workforce.

The prior laws for R&D tax credits were of tremendous value because those funds were reinvested in continuing R&D, hiring of new personnel or maintaining current positions. This new bill would re-establish that source of R&D funding.

There is an amendment to this measure that I would like to propose and it is in the definition of a qualified high technology business. As the bill now reads, it defines a QHTB as a business that conducts more than a certain percent (not specified) of its activities in qualified research. This may work very well for smaller startup companies for but "larger" small businesses it would limit the number of companies that could qualify.

I would recommend that the definition of a qualified high technology business be the same as in the past definition of a QHTB under the old Section 235-110.9 where a company may rely on either the (1) activity test or (2) gross revenue test to qualify as a QHTB and claim the research credit.

"Qualified high technology business" means a business, employing or owning capital or property, or maintaining an office, in this State; provided that:

- (1) More than fifty per cent of its total business activities are qualified research; and provided further that the business conducts more than seventy-five per cent of its qualified research in this State; **or**
- (2) More than seventy-five per cent of its gross income is derived from qualified research; and provided further that this income is received from:
 - (A) Products sold from, manufactured in, or produced in this State; or
 - (B) Services performed in this State.

By eliminating this second test, taxpayers who are beyond the earlier start-up stages of R&D many businesses may not qualify for the R&D credit if the activity threshold is not met.

Thank you for the opportunity to testify.

REB BELLINGER

Reb Bellinger
Vice President
Makai Ocean Engineering

LATE

Honorable Committee Members:

My name is Michael Schmicker and I am Vice President of Navatek Ltd., a kama'aina high-technology company which has been doing business in Hawaii for over 30 years. We have almost 50 employees, most of whom are engineers and scientists, and were either born or educated here in the Islands. As a company, we design; build and test advanced marine craft (boats and ships) for both the U.S. military and the commercial sector. The company holds 27 U.S. and foreign patents on its inventions, and generates approximately \$15 million a year in revenues.

We would like to voice our strong support for SB 2941 which extends the state income tax credit for qualified research activities for five years. Research and development, by its nature, does not immediately create a product or generate revenues. It is an expensive investment a company makes now with the hope that sometime in the future the work will result in a profitable product. Most high tech companies fund this research with a mix of money won through competitive government grants (e.g. SBIR) AND with internal funding from the company itself. This internal funding comes from either profits made from other company operations, or loans from banks. Thus a high tech company puts at risk its own money when it decides to develop a new invention.

SB 2941 encourages private companies to continue to put their money at risk, and develop new products and services which ultimately create new jobs for Hawaii. Without experimentation and innovation leading to new businesses, Hawaii's economy and employment opportunities will stagnate. The Federal government recognizes this important relationship between innovation, an R&D tax credit, and the health of the nation's economy by its federal R&D tax credit. Hawaii is wise to do the same to ensure the continued vitality and growth of our state economy.

We respectfully urge the committee to pass SB 2941. Thank you for considering this request.

Aloha,

Michael Schmicker
Vice President-Business Development
Navatek Ltd.
Honolulu HI



January 30, 2012

TESTIMONY TO THE COMMITTEE ON ECONOMIC
DEVELOPMENT AND TECHNOLOGY

January 30, 2012

1:15 PM

ROOM 16

HAWAII STATE CAPITOL

LATE

RE: SB 2941, RELATING TO HIGH TECHNOLOGY

CORPORATE OFFICE

1001 Bishop Street
Suite 2950
Honolulu, Hawaii 96813
808.441.3600
808.441.3601 fax

CALIFORNIA OPERATIONS

12675 Danielson Court
Suite 406
Poway, California 92064
858.376.0185
858.376.0190 fax

FINANCE OFFICE

1001 Bishop Street
Suite 2950
Honolulu, Hawaii 96813
808.441.3600
808.441.3601 fax

Dear Chair Fukunaga, Vice Chair Wakai and members of the committee:

I am writing to you to express my strong support for SB 2941 which seeks to extend for five years the research and development (R&D) tax credit that has proven so successful in the past. This bill is extremely important and affects a large number of individuals and organizations in the State of Hawaii that perform R&D work.

This bill will enable broad sectors of R&D activities in the State to continue by incentivizing this type of work. R&D activities in the State produce the very kinds of jobs that are desired here, high paying technology sector jobs. The type of personnel that perform this kind of activity are also the same entrepreneurs that start additional new companies that ultimately yield even more revenues, jobs and provide tremendous upside potential in Hawaii.

R&D work is critical to the future growth in Hawaii industry and education and should be supported as this bill would do.

Please feel free to contact me at any time if you have other questions or comments.

Sincerely,

Rick E. Holasek, Ph.D.
President and CEO
NovaSol
1001 Bishop Street, Suite 2950
Honolulu, HI 96813
(808) 441-3666
rick@nova-sol.com

LATE**TESTIMONY TO THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT
AND TECHNOLOGY**

JANUARY 30, 2012

1:15 PM

ROOM 016

HAWAII STATE CAPITOL

RE: SB 2941 – RELATING TO HIGH TECHNOLOGY

Dear Chair Fukunaga, Vice Chair Wakai and members of the committee:

Thank you for the opportunity to submit testimony in support of SB 2941.

Referentia Systems Incorporated is part of Hawaii's emerging defense and dual-use technology sector, one of the fastest growing segments of Hawaii's economy. Referentia is a Hawaii-based software innovation company committed to building a sustainable high technology company in Hawaii and providing interesting science and technology jobs today and in the future.

SB 2941 supports companies like Referentia that bring outside capital to our State's economy and create innovative technologies here in Hawaii that meet the critical needs of our Federal government. The R&D tax credit is an effective way to help drive innovation, boost the economic development of our industry and create high value STEM careers for the next generation here in Hawaii.

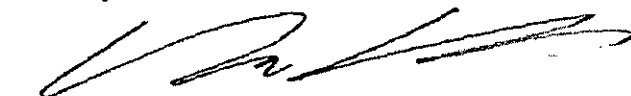
Role of the Defense and Dual Use Technology Industry in Hawaii

The large presence of the military in Hawaii has spurred the development of the dual use technology industry in Hawaii and has helped to establish the critical role Hawaii plays in national defense. The Defense industry is a key economic driver in the State's economy and has helped provide R&D funding for small local companies, like Referentia, to grow and develop technology solutions for critical and complex DoD needs. The Hawaii R&D tax credit helps high tech companies like Referentia maintain an innovation edge by investing and focusing R&D beyond the defense R&D funding to lead competitively both nationally and globally. These solutions are readily transitionable to other key areas of national and international importance.

Without Hawaii's R&D credit, small businesses like Referentia may be forced to curtail our investment in R&D. Because of the forward-looking nature of research, few R&D investments have a payoff horizon shorter than one year. The R&D tax credit is critical to encourage R&D, foster high-wage job growth, and enable Hawaii to compete as an economic stronghold of innovation nationally and internationally.

By supporting the R&D tax credit, you will enable dual-use technology firms such as Referentia to keep investing in the future of our companies, our employees, and our State. We urge you to support the R&D tax credit through SB 2941.

Sincerely

Nelson Kanemoto
President and CEO

ALAN S. HAYASHI

207-4 Kawaihae Street

Honolulu, Hawaii 96825

TESTIMONY TO THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TECHNOLOGY

Monday, January 30, 2012 @ 1:15 pm

Conference Room #016

RE: SB 2941 "RELATING TO HIGH TECHNOLOGY"

Chair Fukunaga, Vice Chair Wakai, and members of the EDT Committee:

My name is Alan Hayashi and I am testifying as an individual employed by a large defense contractor involved in research and development. My testimony is in support of the intent of SB2941.

The High Technology industry's research and development (R&D) function is one that could employ Hawaii's brightest and best STEM graduates and could grow to be a substantial contributor to the kind of green "clean" economy we are striving to develop. Unfortunately, the 2008 economic downturn and corresponding lack of funding for research and development dealt a severe blow to the High Technology industry and the local technology community. The suspension last year of the R&D Tax credit was crippling to many small R&D firms. Some were sold to "off island" interests, and some severely cut back on employees, or closed. Because the industry is based on invention and innovation of intellectual property, firms are transportable....large factories are not necessary. Many sections of the country offer incentives to attract high technology industry to their cities. As such the competition for high technology companies is always present. Many stay in Hawaii, because they grew up here and enjoy the life style and closeness of family. However, in these competitive times, that is not enough. Unless Hawaii offers a competitive economic environment many will leave and the dream of a society of smart young folks solving problems and innovating will forever disappear.

If the Legislature values the High Technology capability, I urge you to support the industry with reinstatement of a tax credit.

Thank you for consideration of my position on the issue and for the opportunity to present testimony. I will be glad to answer any questions you might have.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Extend tax credit for research activities

BILL NUMBER: SB 2941

INTRODUCED BY: Fukunaga, 4 Democrats and 1 Republican

BRIEF SUMMARY: Amends HRS section 235-110.91 to require a qualified high technology business that claims the credit under this section to complete and file with the director of taxation, through the department website, an annual survey on electronic forms prepared and prescribed by the department. Requires the survey to be filed before June 30 of each year following the calendar year in which the credit may be claimed under this section.

The survey shall include: (1) identification of the industry sector in which the qualified high technology business conducts business; (2) qualified expenditures; (3) revenue and expense data; (4) Hawaii employment and wage data including the number of full and part-time employees retained, new jobs, temporary positions, external services procured by the business, and payroll taxes; and (5) filed intellectual property, including invention disclosures, provisional patents, and patents issued or granted.

The department of taxation shall request information necessary to measure the effectiveness of the tax credit, such as information related to patents. In preparing the survey and requesting any additional information, the department shall ensure that qualified high technology businesses are not subject to duplicative reporting requirements. The department shall use information collected to prepare summary descriptive statistics by category and reported at the aggregate level to prevent compromising identities of qualified high technology business investors or other confidential information. The department shall also identify each qualified high technology business that is the beneficiary of tax credits claimed under this section. The department shall report the information required under this subsection to the legislature by September 1 of each year

The department shall also use the information collected to study the effectiveness of the tax credit and shall report on the amount of tax credits claimed and total taxes paid by qualified high technology businesses, the number of qualified high technology businesses in each industry sector, jobs created, external services and materials procured by the businesses, compensation levels, qualified research activities, and other factors as the department determines. The department shall report the results of its study to the legislature by December 1 of each year.

Extends the expiration of the tax credit for research activities from 12/31/10 to 12/31/16.

EFFECTIVE DATE: Tax years beginning after December 31, 2011

STAFF COMMENTS: The legislature by Act 178, SLH 1999, and Act 221, SLH 2001, enacted various tax incentives to encourage the development of high technology businesses in the state. These acts provided investment and research credits, as well as income exclusions and tax incentives to encourage high tech businesses and individuals associated with high tech businesses to locate in the state. This

measure adds extensive information reporting requirements and extends the expiration of the tax credit from December 31, 2010 to December 31, 2016. While the adoption of this measure would allow the department of taxation to ascertain the effectiveness of the tax credit for research activities, such a review should have been performed a few years after the credit had been adopted.

While the proposed measure would also extend the credit for research activities until December 31, 2016, it would perpetuate the drain on state funds. It should also be remembered that the research credit is a refundable tax credit. Thus, should the amount of the credit exceed the taxpayer's income tax liability, any excess credit is a cash payment out of the state treasury to the claimant.

While the focus on high technology in the last few years is commendable, it fails to recognize that investments are made with the prospect that the venture will yield a profit. If the prospects for making a profit are absent, no amount of tax credits will attract investment from outside Hawaii's capital short environment. People do not invest to lose money. It should be remembered that until Hawaii's high cost of living can be addressed, all the tax incentives in the world will not make a difference in attracting new investment to Hawaii. The only attractive aspect for resident investors to plough money into such activities is the fact that the credit provides a way to avoid paying state taxes.

A former Hawaii resident who has been a success in the field of high technology pointed out recently what will make Hawaii conducive to high tech businesses and they are: (1) entrepreneurs, not capital, that comes first; (2) entrepreneurs coming from engineering schools and technology companies; (3) building a world class engineering school in Hawaii; (4) supporting internships at technology companies; (5) allowing our best children to go away to get a worldwide perspective; (6) not broadband passing through Hawaii that is a selling point; (7) that people fly direct and therefore is Hawaii's location in the middle of the Pacific an advantage?; (8) learning the rules of the game; (9) looking at Israel and learning from them; and (10) doing your own thing, being a copy cat does not work. At the heart of his remarks was the fact that in order to produce a high technology industry in Hawaii, those companies need to have access to institutions of higher education that are producing the people needed by the high technology industry. Without the academic synergy, Hawaii will never become a center for high technology activity. Thus, all of the tax incentives, like this measure embodies, will fall short of luring high technology firms to Hawaii.

Further, the tremendous tax burden, the draconian regulatory environment, and the dramatic increase in fees that go with the permitting process make Hawaii an unattractive place to do business. It should be remembered that while the high technology credits may look like a good incentive or enticement to undertake research activities in Hawaii, those who would conduct this research must live in the same high cost-of-living environment with which other taxpayers continue to struggle. Thus, the cost of maintaining those researchers will be higher than to do so where the cost of living is much lower. Let's not bet the farm on high technology without really understanding what makes this industry tick.

Obviously the authors of this proposal would like to ignore the evaluation of these tax incentives done by UHERO a few years ago which basically condemned the credits as a waste of state resources as there is little evidence that the current program of tax credits has created substantial new employment or on-going enterprises. It is truly amazing that given the dire condition of the state's financial condition that lawmakers would continue to support unbridled drains of resources while at the same time proposing that the tax burden be increased on all other taxpayers. With declining revenues, every program from education to corrections to health services will be severely curtailed. If the state doesn't have the money to put textbooks in the schools why then do we need the highly touted, high-paying jobs the

advocates for the industry promise? The next generation may not even know how to read given the cuts to the education budget.

Again, lawmakers must ask themselves whether or not this incentive is appropriate in these dire financial times. Given that there are many other proposals in the legislature to hike tax rates for either the general excise or net income taxes, taxpayers will find the continuance of these targeted business tax credits frightening. Frightening because these very lawmakers are supposed to represent the best interest of their constituents. Raising taxes on constituents while still handing out money to favored groups will engender the ire of constituents. The finger of blame for these potential increases in tax burden should not stop at lawmakers, but be placed squarely on those in the community who continues to push for these targeted tax credits. Perhaps those proponents should be asked to pick up the tab for this reckless expenditure of precious tax dollars.

While it is gratifying to know that lawmakers have finally realized that they need to evaluate the effectiveness of some of these tax incentives, it comes a tad late, but better later than never. What is appalling is that lawmakers wish to continue the credit before the evaluation is made. So no matter what the evaluation finds, the credit will go on without further review. Rather than extending it for an irrelevant period of time, the extension should be made co-terminus with the submission of the study so that policymakers can have the evaluation and recommendations before them before they decide the fate of the credit.

Finally, it should be noted that this state credit basically tracks the federal tax credit for research activities, including the disqualification for the credit should any part of the cost of the research be supported by federal grants. It would be interesting how many of the claims for this state research credit were disqualified because all or a part of the research activities were paid for with funds from federal grants.