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Subject: LATE TESTIMONY - Testimony for SB753 on 3/15/2011 8:00:00 AM

Testimony for ERB 3/15/2011 8:00:00 AM SB753

Conference room: 312
Testifier position: support
Testifier will be present: No
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Submitted on: 3/15/2011

Comments:

Chair and members of the committee----Thank you for the opportunity to testify on this measure. I am testifying as an individual due to lack of corporate approval time.

I support the concept of a R&D tax credit as it is revenue positive (over \$300M in out of state revenues) and will assist the smaller firms to continue their Research & Development efforts in Hawaii. There are some modifications that I would suggest to focus and clarify this measure. These modifications are contained in the testimony of the Chamber of Commerce (Sherry Menor- McNamara). However, if there are any questions, I will be glad to answer them by appointment at your offices, as I cannot be there to testify in person today. Thank you for your consideration of my comments. Aloha, Alan S. Hayashi

**Testimony to the House Committee on Economic Revitalization & Business
Tuesday, March 15, 2011
8:00 a.m.
State Capitol - Conference Room 312**

RE: SENATE BILL NO. 753 SD2 RELATING TO HIGH TECHNOLOGY

Chair McKelvey, Vice Chair Choy, and members of the committee:

The Chamber of Commerce of Hawaii ("The Chamber") **strongly supports** SB 753 SD2 relating to High Technology.

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 bill extends the research and development (R&D) tax credit to 2015 and adds reporting requirements to measure the effectiveness of the tax credit for research activities.

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. For example, the success of Digital Island and, more recently, Sopogy, Inc are major examples of Hawaii's proven capabilities.

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.

Role and Economic Impact of the Research and Development Industry in Hawaii

The large presence of all of the Nation's military services in Hawaii has spurred local companies to form and emerge into this industry. This has served as a source of funding and contracting

opportunities for Hawaii's growing R&D sector, and there is considerable opportunity for even greater growth. There are literally millions of dollars that could be directed to Hawaii R&D businesses via military channels and through the prime defense contractors. Furthermore, the presence of a strong R&D community is important and is what helps sustain larger defense contractors in Hawaii.

The Defense and Dual Use 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 tax revenue. 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.

Also, the cost of the tax credit helps support qualified expenses in business expenditures in the state. Much of these expenditures come from imported dollars either from outside investors, the federal government or large mainland businesses. These expenditures result in income taxes and significant GET taxes.

R&D tax credit requires a company to expend its funds for which it receives a percentage (has been 20% of wages) of qualified work. 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. The tax is highly focused on wages for research activities. These jobs are typically high paying and result in significant income tax revenues and GET from the money spent by these employees.

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 a 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 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.

With the loss of federal support that helped sustain R&D companies in a high-cost environment, the importance of a refundable R&D tax credit is even more prevalent and which will help keep existing businesses viable in Hawaii.

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. Therefore, it is important that a gap does not exist in the R&D tax credit while the 2011 legislature addresses the longer term impact of R&D on the state. 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 respectfully ask that the committee to **pass this measure**. Thank you for the opportunity to provide testimony.