

**NEIL ABERCROMBIE**  
GOVERNOR

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To: The Honorable Clift Tsuji, Chair  
and Members of the House Committee on Economic Development and Business

Date: Tuesday, February 5, 2013  
Time: 9:00 a.m.  
Place: Conference Room 312, State Capitol

From: Frederick D. Pablo, Director  
Department of Taxation

Re: H.B. No. 329 Relating to General Excise Tax Exemption for Certain Scientific Contracts with the United States

The Department of Taxation (Department) strongly supports H.B. 329, a measure which amends the general excise tax exemption for certain scientific contracts with the United States.

Currently, the scientific contracts exemptions allows for the gross receipts arising from the performance of any "scientific work" derived by a contractor or subcontractor under a contract with the United States. Gross receipts received from the sale of tangible personal property are also exempt if the tangible personal property is affixed or becomes a physical or integral part of the scientific facility. For the purpose of this exemption, "scientific work" is work primarily involving the research and development for, or the design, manufacture, instrumentation, installation, maintenance or operation of the scientific facility.

Many issues arise as to which contracts qualify as a scientific contract and whether the exemption of gross receipts are allowable. The Department believes that the exemption is currently being claimed by taxpayers in a manner that is beyond its original intent and therefore, requires an amendment.

This bill amends the scientific contracts exemption so that the gross receipts exempted would be calculated based on the research expenses allowable under Internal Revenue Code Section 41. This will ease the administrative burden placed on the Department by the current version of the scientific contracts exemption. The Department estimates that at least 10% of audit staff hours are being used to evaluate claims for this exemption.

If approved, the Department could simply verify the allowable general excise tax exemption amount by looking at the claimed and allowed for the research credit under Internal Revenue Code section 41. This type of conformity or parallel alignment generally promotes

administratively efficiency for the Department.

Thank you for the opportunity to provide comments.



Written Recommendation for Amendment

James P Karins, PhD  
President, Pukoa Scientific  
before the

**HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS**

February 5, 2013

9:00 AM

State Capitol, Conference Room 312

In consideration of  
**HB 329 RELATING TO THE GENERAL EXCISE TAX**

Chair Tsuji, Vice Chair Ward, and Members of the Committee on Economic  
Development & Business:

Pukoa Scientific strongly opposes HB 329.

Pukoa like most of the other DoD research and development contractors, has suffered over the past couple of years through significant reductions in available funding while withstanding increased costs due to lost R&D tax credits, increased unemployment insurance and other taxes. This proposed change to the GET will increase the cost of conducting R&D in the state by adding GET to some portion of the R&D contracts. This puts the Hawaii based companies at a significant disadvantage to mainland companies that do not pay the tax, especially for SBIRs and other small business research and development contracts..

Additionally, the proposed mechanism of allowing the tax exemption up to the amount of the qualified expenses for the R&D tax credit would be impossible to calculate in the time frames required to submit the GET taxes.

Therefore, we urge the committee to **hold this measure**. Thank you for the opportunity to express our views.

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