



LATE

Written Recommendation for Amendment

James P Karins, PhD
President, Pukoa Scientific
before the

HOUSE COMMITTEE ON CONSUMER PROTECTION AND COMERCE

February 11, 2013

3:30 PM

State Capitol, Conference Room 325

In consideration of

HB 329 RELATING TO THE GENERAL EXCISE TAX

Chair McKelvey, Vice Chair Kawakami, 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 by local small businesses 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 for R&D contracts outside the state.

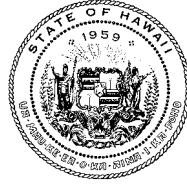
Additionally, the proposed mechanism of allowing the tax exemption up to the amount of the qualified expenses for the R&D tax credit would be impossible to calculate in the time frames required to submit the GET taxes.

Therefore, we urge the committee to **hold this measure**. As an alternative, we urge the committee to amend the bill to exempt scientific contracts conducted within the state that are exported to federal agencies outside the state. Thank you for the opportunity to express our views.

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LATE

To: The Honorable Angus L.K. McKelvey, Chair
and Members of the House Committee on Consumer Protection and Commerce

Date: Monday, February 11, 2013
Time: 3:30 p.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 (GET) exemption for certain scientific contracts with the United States, and offers the following comments for the Committee's consideration.

Currently, the scientific contracts exemption allows the gross receipts arising from the performance of any "scientific work," derived by a contractor or subcontractor under a contract with the United States, an exemption from general excise tax. 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 which gross receipts may be applicable for purposes of the exemption. 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.

H.B. 329 amends the scientific contracts exemption from the GET 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 the Department's 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 gross receipts claimed and allowed for the research credit under Internal Revenue Code section 41. This type of conformity or parallel alignment generally promotes administrative efficiency for the Department and provides certainty for the taxpayer.

Thank you for the opportunity to provide comments.