

**edbttestimony**

**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Monday, February 04, 2013 6:02 PM  
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**Subject:** Submitted testimony for HB329 on Feb 5, 2013 09:00AM

**HB329**

Submitted on: 2/4/2013

Testimony for EDB on Feb 5, 2013 09:00AM in Conference Room 312

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Alan Hayashi	Individual	Oppose	Yes

Comments: ALAN S. HAYASHI 207-4 Kawaihae Street Honolulu, Hawaii 96825 TESTIMONY TO THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT AND BUSINESS Tuesday, February 5, 2013 @ 9:00 am Conference Room #312 RE: HB 329 "RELATING TO THE GENERAL EXCISE TAX" Chair Tsuji, Vice Chair Ward, and members of the House EDB Committee: My name is Alan Hayashi and I am testifying as an individual employed by a large defense contractor involved in research and development, and as the representative of the ED&I Committee of the Chamber of Commerce. My testimony is in OPPOSITION to the intent of HB 329.. 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 in Hawaii. 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 in 2011 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 (IP), firms are transportable beyond geographic boundaries...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. Senator Inouye provided some much need R&D funding, but that is no longer available. 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 from Hawaii. The window of opportunity is closing for a viable technology community to survive. The brightest and best of our technology folks will leave Hawaii for opportunities elsewhere. The intent of HB 329 will make federal government scientific contract costs escalate at a time when all are attempting to decrease costs...the threat of sequestration, and draconian budget cuts have already had impacts on the economy. Scientific contracts have been exempted under past law Section 237-26. The company I work for does not include the cost of GET in our contracts with the Federal government. To include this GET cost will decrease the scientific work product that can be performed....in these times of reduced budgets this directly reduces the scientific product to help our warfighters in the war against terrorism. I'm sure the federal government would not be in favor of this transfer of costs from State to Federal governments and could transfer scientific work to other states that have kept the scientific exemption. Imposing this burden on the scientific sector, will surely be a negative to any federal contract administrator And contractor. If you value the technology sector and innovation...this is not a good conceptual. Thank you for consideration of my position on the issue

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and for the opportunity to present testimony. I will be glad to answer any questions you might have.

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# TAXBILLSERVICE

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SUBJECT: GENERAL EXCISE, Exemption for scientific contracts

BILL NUMBER: HB 329

INTRODUCED BY: Choy

**BRIEF SUMMARY:** Amends HRS section 237-26 to provide that the gross proceeds received under a contract or subcontract entered into with the United States (including any agency or instrumentality thereof but not including national banks) equal to qualified research expenses for the taxable year over the base amount, basic research payments determined under IRC section 41(e)(1)(A), and amounts paid or incurred by the taxpayer in carrying on any trade or business of the taxpayer during the taxable year (including as contributions) to an energy research consortium for energy research, shall not be subject to the general excise tax. The gross proceeds exempted under this section shall not exceed the amount claimed and allowable under section 41 of the Internal Revenue Code (IRC) for the same taxable period.

Defines “qualified research expenses for the taxable year of the base amount” for purposes of the measure.

EFFECTIVE DATE: January 1, 2014

STAFF COMMENTS: It appears when this exemption was initially enacted it was to allow local businesses to compete with out-of-state companies in bidding for scientific contracts with the U.S. since the out-of-state compa

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nies  
were  
not  
subject  
to the  
general  
excise  
tax.

This measure is similar to the department of taxation administration measure. The purpose clause of this measure states that 98% of all federal contracts are held by out-of-state companies who pay no tax due to the exemption and the tax loss is estimated to be between \$20 to \$40 million. The department of taxation has also indicated that to verify the existing exemption creates an administrative burden to their audit staff. By amending the exemption to that of the parameters set under IRC section 41 it would allow a more efficient administration of the exemption. While it appears that by updating the exemption to the federal IRC provisions, the revenue loss would not be as large, it is questionable how much the overall economic impact to the state will be due to the tightening up of the exemption - in other words - what is the end result to the state financially under the existing exemption as compared to the proposed exemption.

If, in fact, as the department points out that most of the scientific contracts are being successfully bid by out-of-state firms, then validity of perpetuating the exemption no longer exists as there few, if any, locally based bidders of these contracts. And what few there are do not seem disadvantaged as a result of the general excise impost.

Digested 2/4/13