

# HB964 HD1

Amends general excise tax exemption for scientific contracts with the United States. (HB964 HD1)



Written Recommendation for Amendment

James P Karins, PhD  
President, Pukoa Scientific  
before the

**SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, GOVERNMENT  
OPERATIONS AND HOUSING**

March 11, 2013

2:45 PM

State Capitol, Conference Room 16

In consideration of  
**HB 964 HD 1 RELATING TO THE GENERAL EXCISE TAX**

Chair Dela Cruz, Vice Chair Slom, and Members of the Committee:

Pukoa Scientific strongly opposes HB 964 HD 1.

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 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, businesses that have signed long-term fixed-price or time and material contracts to conduct scientific efforts will unfairly have a significant cost added to the work without the potential of recouping that cost from the federal government.

Therefore, we urge the committee to **hold this measure until it can be further studied**. Thank you for the opportunity to express our views.

Sincerely,

James P. Karins, PhD  
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## Dane Wicker

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**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Saturday, March 09, 2013 4:08 PM  
**To:** EGHTestimony  
**Cc:** alan.hayashi@baesystems.com  
**Subject:** Submitted testimony for HB964 on Mar 11, 2013 14:45PM

### **HB964**

Submitted on: 3/9/2013

Testimony for EGH on Mar 11, 2013 14:45PM in Conference Room 016

Submitted By	Organization	Testifier Position	Present at Hearing
Alan Hayashi	Individual	Oppose	Yes

Comments: ALAN S. HAYASHI 207-4 Kawaihae Street Honolulu, Hawaii 96825 TESTIMONY TO THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, GOVERNMENT OPERATIONS AND HOUSING Monday, March 10, 2013 @ 2:45 pm Conference Room #016 RE: HB 964 HD1 "RELATING TO ECONOMIC DEVELOPMENT" Chair Dela Cruz, Vice Chair Slom, and members of the Senate EDGO &H Committee: My name is Alan Hayashi and I am testifying as an individual employed by a large international 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 respectful opposition to HB 964 HD1. It is my belief that an unintended consequence of the redrafted bill (HB 964 HD1) includes the local R&D Technology companies. Section #1 of HB 964 HD#1 refers to 98% of contracts being "held by out of state entities who pay no tax pursuant to this provision", and refers to contracts in excess of \$800M and tax loss of \$20M to \$40M per year. I do not believe these figures are correct and provide you an inaccurate picture of the Hawaii Technology R&D industry. Further, our company and all the other locally based companies (I know of) pay all the required State and Federal taxes, including the R&D tax. Additionally, I don't know of any contract that was ever worth \$800M, or in excess of that amount...the entire industry reported only \$65M TOTAL per year average from 2000 to 2009...the best years for the technology industry, prior to the 2008 national / international economic crash. Using the State's own 2010 DoTax estimate of R&D 20% refundable tax revenues (average years 2000 to 2009 = \$13M), the annual qualified gross tax revenues reported would approximate \$65M, of which \$13M was refundable to the companies... not the \$20 to \$40 stated in Section 1 of HB 964, HD1. Unless I am mistaken, these numbers are in error and should be re-examined. 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. Additionally, the suspension in 2011 of the Hawaii 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), the firms are transportable beyond geographic boundaries. Large factories are not necessary. Unless you assist the technology sector with an environment for success, it too will disappear to other locations on the continental US, or in the world. 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 their leaders 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

needed federal R&D funding, but that is no longer available due to his untimely passing. Unless Hawaii offers a competitive economic environment for companies, many will leave and the dream of a large society of smart young folks solving problems and innovating will forever disappear from Hawaii. The window of opportunity is rapidly closing for a viable technology community to survive. The brightest and best of our technology folks will leave Hawaii for opportunities elsewhere. Hawaii has approximately 500 active STEM robotics teams competing in varying forms of robotics.... from underwater robots, to the large "FIRST" land robots. Our Hawaii teams have proven their capability and excellence at the national and international levels by winning, or placing very high in the competitions. Our Hawaii students take a "backseat" to no one....we have some of the brightest and best right here! Wailua, McKinley, Waiakea, Baldwin, Iolani, and Hanalani are schools that always produce great STEM and robotics teams and students. All they need is a chance! These same bright STEM trained students are just starting to work their way thru the university systems and will need jobs in industry. These bright Hawaii students will have to go elsewhere for employment and will boost the economies in other locals with their expertise. Is this what we are educating them for....to contribute to other Cities economic growth?? If the Legislature values the High Technology capability, I urge you to support the industry with relief from certain taxes (GET and R&D), not additional burdens. Thank you for consideration of my comments on the issue and for the opportunity to present testimony. I will be glad to answer any questions you might have.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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