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## LATE TESTIMONY

To: The Honorable Sylvia Luke, Chair  
and Members of the House Committee on Finance

Date: Thursday, February 14, 2013  
Time: 3:30 p.m.  
Place: Conference Room 308, State Capitol

From: Frederick D. Pablo, Director  
Department of Taxation

Re: H.B. No. 964 H.D.1 Relating to General Excise Tax Exemption for Certain Scientific Contracts with the United States

The Department of Taxation (Department) strongly supports H.B. 964 H.D.1, an administration 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