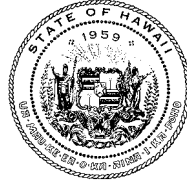


NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1530
FAX NO: (808) 587-1584

FREDERICK D. PABLO
DIRECTOR OF TAXATION

JOSHUA WISCH
DEPUTY DIRECTOR

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

Date: Tuesday, March 19, 2013
Time: 9:00 a.m.
Place: Conference Room 312, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: S.B. 1349 S.D. 2, Relating to Economic Development

The Department of Taxation (Department) **appreciates the intent** of S.B. 1349 S.D. 2, and offers the following information and comments for your consideration.

S.B. 1349 S.D. 2, re-enacts the tax credit for qualified research activities to apply to taxable years from 2013 to 2017; amends the definitions of "qualified high technology business" and "qualified research"; establishes new reporting requirements; and requires that in order to claim the credit, taxpayers must also claim the federal tax credit under section 41 of the Internal Revenue Code (IRC).

The Department recognizes the importance of encouraging research and development, which in turn creates new jobs and greater prosperity for the State. However, as the Legislature is aware, administration and proper enforcement of this tax credit created numerous difficulties for the Department in the past. For these reasons, the Department recommends the following amendments to this measure.

The Department strongly supports the requirement that a taxpayer be required to claim the federal credit, under IRC section 41, as a prerequisite to claim the State tax credit. Because the Internal Revenue Service (IRS) has far greater expertise in the subject matter and the resources to determine and resolve which expenses qualify for this tax credit, the prerequisite of claiming the federal tax credit will assist the State in determining whether the State tax credit claims are meritorious. However, this prerequisite of claiming the federal credit will not be ultimately effective where the taxpayer's federal credit amount does not match the qualified Hawaii amount because of expenses incurred in other jurisdictions.

Additionally, the Department recommends that subsection (g) be amended to a nonrefundable tax credit, as follows:

(g) ~~[If the tax credit for qualified research activities claimed by a taxpayer exceeds the amount of income tax payment due from the taxpayer, the excess of the tax credit over payments shall be refunded to the taxpayer; provided that no refund on account of the tax credit allowed by this section shall be made for amounts less than \$1]~~ The credit allowed under this section shall be claimed against net income tax liability for the taxable year. A tax credit under this section which exceeds the taxpayer's income tax liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted.

The research tax credit is prone to abuse and very intensive litigation over the credit requirements. For example, although the federal research credit was first allowed for internal use software in 1986, and despite numerous attempts by the IRS to define what internal use software is, it has yet to issue final regulations on the issue. The result is extremely protracted litigation as to whether software is internal use or not. It is not uncommon for IRS litigation to exceed ten years before a final court decision on the matter can be made. For all of these reasons, the Department strongly recommends the above-noted amendments be made to SB1349 SD2.

Thank you for the opportunity to provide comments.



HAWAII
STRATEGIC
DEVELOPMENT
CORPORATION



Written Statement of

KARL FOOKS

President

Hawaii Strategic Development Corporation

and

Yuka Nagashima

Executive Director and CEO

High Technology Development Corporation

Before the

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS

In consideration of

SB 1349 SD2 RELATING TO ECONOMIC DEVELOPMENT.

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

The Hawaii Strategic Development Corporation (HSDC) and the High Technology Development Corporation (HTDC) respectfully submit comments on SB 1349 SD2. The state tax credit for research activities sunset at the end of calendar year 2010. This tax credit program was an effective measure to support research and development activities, which in turn, foster and encourage the innovation essential to create high-wage job opportunities in our economy.

SB 1349 SD2 proposes to amend the definition of a Qualified High Technology Business (QHTB) for the purposes of this credit. We recommend using the definition of a QHTB contained in Section 235-7.3(c), HRS. This will maintain consistency with Section (j)(1) of HB 1401 (page 8, line1) and with previous data collected under past tax credit programs.

SB 1349 SD2 includes important requirements to collect data and provide metrics on the effectiveness of the proposed research tax credit. We recommend that resources be appropriated to the Department of Taxation order that they are able to collect the data, analyze the impacts and report their findings.

Finally, the objective of SB 1349 SD2 is to promote economic development in the State. Supporting research activities alone will not accomplish this objective. We recommend the Committees also consider a comprehensive policy that support the continuum of entrepreneurialism, commercialization and business formation capabilities needed to foster high growth businesses. As part of an entrepreneurial ecosystem, a research tax credit program can be effective in creating sustainable high wage jobs.

Thank you for the opportunity to submit testimony on this bill

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Tax credit for research activities

BILL NUMBER: SB 1349, SD-2

INTRODUCED BY: Senate Committee on Ways and Means

BRIEF SUMMARY: Amends HRS section 235-110.91 to provide that the federal tax provisions in section 41 of the Internal Revenue Code (IRC) as that section was enacted on December 31, 2011, shall remain in effect for purposes of determining the state income tax credit under this section. The federal tax provisions in IRC section 41, as enacted on December 31, 2011, shall apply only to expenses incurred for qualified research activities after December 31, 2010. Stipulates that in order to claim the proposed credit, a qualified high technology business shall also claim the federal tax credit for the same qualified research activities.

Adds a definition of qualified research expenses to provide that it shall have the same meaning as in IRC section 41(b) provided it shall not include research expenses incurred outside of the state.

Requires a qualified high technology business that claims the credit under this section to complete and file with the director of business, economic development and tourism (DBEDT), through the department's website, an annual survey on electronic forms prepared and prescribed by the department. Requires the survey to be filed before June 30 of each year following the calendar year in which the credit is claimed under this section. Permits the department to adjust the due date of the annual survey by rule.

The survey shall include: (1) identification of the industry sector in which the qualified high technology business conducts business; (2) total and qualified expenditures; (3) revenue and expense data; (4) Hawaii employment and wage data including the number of full and part-time employees retained, new jobs, temporary positions, external services procured by the business, and payroll taxes; (5) filed intellectual property, including invention disclosures, provisional patents, and patents issued or granted; and (6) the number of new companies spun out or established to commercialize the intellectual property owned by the qualified high technology business.

DBEDT may request any additional information necessary to measure the effectiveness of the tax credit, such as information related to patents. DBEDT shall use information collected under this section and through its other reporting requirements to prepare summary descriptive statistics by category. The information shall be reported at the aggregate level to prevent compromising identities of qualified high technology business investors or other confidential information. DBEDT shall also identify each qualified high technology business that is the beneficiary of tax credits claimed under this section. DBEDT shall report the information required under this subsection to the legislature by September 1 of each year.

Directs DBEDT, in collaboration with the department of taxation, to use the information collected to study the effectiveness of the tax credit under this section and report on the amount of tax credits claimed and total taxes paid by qualified high technology businesses; the number of qualified high technology businesses in each industry sector; jobs created; external services and materials procured by the businesses; compensation levels; qualified research activities; and any other factor DBEDT deems relevant. DBEDT shall report the results of its study to the legislature by December 1 of each year.

This section shall not apply to taxable years beginning after December 31, 2017.

EFFECTIVE DATE: July 1, 2050; applicable to tax years beginning after December 31, 2013

STAFF COMMENTS: The legislature by Act 178, SLH 1999, and Act 221, SLH 2001, enacted various tax incentives to encourage the development of high technology businesses in the state. These acts provided investment and research credits, as well as income exclusions and tax incentives, to encourage high tech businesses and individuals associated with high tech businesses to locate in the state.

While the focus on high technology in the last few years is commendable, it fails to recognize that investments are made with the prospect that the venture will yield a profit. If the prospects for making a profit are absent, no amount of tax credits will attract investment from outside Hawaii's capital short environment. People do not invest to lose money. It should be remembered that until Hawaii's high cost of living can be addressed, all the tax incentives in the world will not make a difference in attracting new investment to Hawaii. The only attractive aspect for resident investors to plough money into such activities is the fact that the credit provides a way to avoid paying state taxes.

Given the fiasco of Act 221 which amounted to nothing more than an outright give away of precious state tax dollars on a dollar-for-dollar basis, this proposal and all others proposing additional business-targeted tax credits should give lawmakers reason for pause before heading down the same disastrous path again.

If, indeed, the goal is to attract more research activities, then the state should concentrate its resources on enhancing the academic synergy implicit in the pursuit of research activities. While investors are important for research activities, if there is no promise that the environment is fertile to foster and nurture the creativity and initiative vital to sound research, no amount of money is going to attract such activities. Thus, the tax credit just becomes another throw away of taxpayer dollars. If the federal credit is insufficient to attract research to Hawaii, then a state tax credit cannot surmount the hurdle.

Digested 3/18/13

**Testimony to the House Committee on Economic Development and Business
Tuesday, March 19, 2013 at 9:00 A.M.
Conference Room 312, State Capitol**

RE: SENATE BILL 1349 SD2 RELATING TO ECONOMIC DEVELOPMENT

Chair Tsuji, Vice Chair Ward, and Members of the Committee:

The Chamber of Commerce of Hawaii ("The Chamber") **supports SB 1349, SD 2 Relating to Economic Development.**

The Chamber is the largest business organization in Hawaii, representing more than 1,100 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of its members, which employ more than 200,000 individuals, to improve the state's economic climate and to foster positive action on issues of common concern.

This bill will create and retain jobs while increasing the state's revenues. We cannot afford to overlook the prime opportunity to promote this growing sector in our state. This is the opportune time to support our small local companies in the R&D industry so that it can continue to flourish and provide jobs for our talented citizens. Furthermore, this measure will strengthen the industry's effort to compete with other players in the national and international arena. Finally, supporting the R&D industry will help broaden and diversify Hawaii's economic base.

Research and development is a highly critical component to a sustainable economy. R&D provides well-paying jobs to highly-educated employees. These employees pay significant taxes back to the state and spend considerable amounts of income within the state for goods and services. Furthermore, as the R&D matures it creates product companies that increase the number of jobs and tax base significantly.

Thank you for this opportunity to express our views.



Written Testimony

James P Karins, PhD
President, Pukoa Scientific
before the

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS

March 19, 2013

9:00 AM

State Capitol, Conference Room 312

In consideration of

SB 1349 SD2 RELATING TO ECONOMIC DEVELOPMENT

Chair Tsuji, Vice Chair Ward, and Members of the Committees

Pukoa Scientific strongly supports SB 1349 SD2 as the preferred vehicle for the R&D tax credit..

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. The proposed extension of the R&D tax credit helps put Hawaii based companies on a level playing field to mainland companies that have lower costs of business and their own R&D tax credits.

Pukoa requests that the committee consider changing the act to apply to taxable years beginning after December 31, 2012 instead of December 31, 2013. The December 31, 2013 date means that the small businesses will see no tax credit until mid-year 2014.

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

James P. Karins, PhD
Karins@pukoa.com
(407)694-4485

March 17, 2013

TESTIMONY IN SUPPORT OF SB1349 SD2 RELATING TO ECONOMIC DEVELOPMENT

HEARING DATE: Tuesday, March 19, 2013 TIME:9:00 a.m. PLACE:Conference Room 312

COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS

Rep. Clift Tsuji, Chair

Rep. Gene Ward, Vice Chair

Aloha Chair Tsuji, Vice Chair Ward and EDB Committee members:

I am Martin Kao, President of Navatek, a research and development company for military and commercial applications. We strongly support SB1349 SD2 and urge your committee to pass this measure.

Even in the looming shadow of the “Fiscal Cliff,” on January 2, 2013 the Federal government again agreed to extend the R&D tax credit. “We can’t keep cutting things like basic research and new technology and still expect to succeed in a 21st-century economy,” said President Obama. The popular 1981 law to incentivize research-oriented hiring has been extended annually for its 30-year existence, and there’s good evidence that the tax credit really does spur innovation. In 2005, the Congress Budget Office concluded. Don’t trust me! Do a simple Google search of this Congress Budget report and you can read it yourself. Moreover, 35 States now have a R&E credit and the others, with the exception of Hawaii have some form of credit via activities in innovation and research. The benefits of the R&E credit are indisputable. This is fact....just because the Department does not know how to efficiently administer the R&D credit does not change this fact.

Opponents of the R&E credit like to argue their misguided claims of the “cost” of the credit. To put into context most people in Hawaii can understand. It now costs \$20,000 a year to send a child to Punahou. Yet thousands of families hope for the opportunity to incur this cost. Why? The answer is because the \$20,000 in tuition is NOT a cost, but indeed an INVESTMENT. The same is true for the R&D credit. It is an investment in Hawaii’s future and the potential returns are limitless.

We recognize that the legislature has been very supportive of the technology industry in the past and continues to recognize the importance of Hawaii’s innovation industries to our economy. With major reductions in military funding, the R&E credit is very important to the success of our local R&E companies. A critical issue is being lost in the discussions. The R&D credit is based on qualified expenses SPENT IN THE STATE OF HAWAII. Supporting this credit incentivizes R&D companies to spend monies on wages, materials and subcontractors IN THE STATE OF HAWAII.

With the previous R&D credit, Hawaii companies used to require new hires to move to Hawaii and would make active decisions to buy materials and hire subcontractors IN THE STATE OF HAWAII. Since the sunset of the R&D credit, companies are now willing to allow new hires to stay on the mainland and use more economical materials and subcontractors from out of the state.

Our industry has suffered a number of hardships since 2010: sunset of previous state R&D credit, elimination of federal earmarks, decline of federal contracts – and with the recent passing of Senator Inouye and Sequestration – now is a critical time to support local R&D companies and help us continue to create high-paying, high-skilled jobs for our future.

Mahalo for your support,
Martin Kao
Navatek Ltd

edbtestimony

From: mailinglist@capitol.hawaii.gov
Sent: Sunday, March 17, 2013 8:52 AM
To: edbtestimony
Cc: achung@navatekltd.com
Subject: Submitted testimony for SB1349 on Mar 19, 2013 09:00AM

SB1349

Submitted on: 3/17/2013

Testimony for EDB on Mar 19, 2013 09:00AM in Conference Room 312

Submitted By	Organization	Testifier Position	Present at Hearing
Ann Chung	Navatek Ltd.	Support	Yes

Comments: Aloha Chair Tsuji, Vice Chair Ward and EDB Committee members: I am Ann Chung, Director of Special Projects for Navatek, a research and development company for military and commercial applications. We strongly support SB1349 SD2 and strongly urge your committee to pass this measure. We recognize that the legislature has been very supportive of the technology industry in the past and continues to recognize the importance of Hawaii's innovation industries to our economy. With major reductions in military funding, the R&E credit is very important to the success of our local R&E companies. A critical issue is being lost in the discussions. The R&D credit is based on qualified expenses SPENT IN THE STATE OF HAWAII. Supporting this credit incentivizes R&D companies to spend monies on wages, materials and subcontractors IN THE STATE OF HAWAII. With the previous R&D credit, Hawaii companies used to require new hires to move to Hawaii and would active decisions to buy materials and hire subcontractors IN THE STATE OF HAWAII. Since the sunset of the R&D credit, companies are now willing to allow new hires to stay on the mainland and use more economical materials and subcontractors from out of the state. Our industry has suffered a number of hardships since 2010: sunset of previous state R&D credit, elimination of federal earmarks, decline of federal contracts – and with the recent passing of Senator Inouye and Sequestration – NOW is a critical time to support local R&D companies and help us continue to create high-paying, high-skilled jobs for our future.

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.

Do not reply to this email. This inbox is not monitored. For assistance please email webmaster@capitol.hawaii.gov



Written Statement of
Dr. Patrick K. Sullivan
Founder & Chairman
Oceanit
before the
HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS
March 19, 2013, 9:00 AM
State Capitol, Conference Room 312
In Support of
SB1349 SD2 Relating to Economic Development

To: Chair Tsuji, Vice Chair Ward, and Members of the Committee
From: Dr. Patrick K. Sullivan, Founder & Chairman, Oceanit
Re: **Testimony in Support of SB1349 SD2 Relating to Economic Development**

Honorable Chair, Vice-Chair and Committee Members:

Thank you for the opportunity to submit comments in **support** of **SB1349 SD2**.

Oceanit currently employs about 160 scientists, engineers and support staff. We regularly host interns, school classes, and conduct numerous outreach activities for elementary thru college level keiki to introduce them to science and engineering careers. We let keiki know that there are exciting, decent paying jobs for them in Hawai'i if they pursue these careers. Many of them have returned to us, equipped with college degrees, wanting to work in science and engineering. It is our hope that we can continue to offer an alternative to keiki who want to work in an industry that is growing nationally as well as internationally, and to show them that world class technical work can thrive in Hawai'i.

The R&D credit has helped to jump start an industry that is in its infancy in Hawai'i. It has been responsible for job creation, as well as many long-term investments Oceanit has made that will set the stage for growth into the future. The reality is that without Hawai'i's R&D tax credit, Oceanit would not have been able to make these investments.

Because of the forward-looking nature of research, few R&D investments have short-term rewards. These bills would re-establish a temporary R&D income tax credit for qualified research activities in the State of Hawai'i, to help provide longer-term continuity for an industry that is struggling to grow. We urge you to maintain the momentum that you started.

Thank you for your continued support of R&D as the stimulant to an innovative Hawai'i STEM economy that our keiki can be a part of.

Sincerely,

Dr. Patrick K. Sullivan
Founder & Chairman



Cardax Pharmaceuticals, Inc.

2800 Woodlawn Drive, Suite 129, Honolulu, HI 96822

telephone 808.457.1400 fax 808.237.5901

www.cardaxpharma.com

Testimony in Support of SB1349 SD2
Relating to Economic Development

Committee on Economic Development and Business
Rep. Clift Tsuji, Chair
Rep. Gene Ward, Vice-Chair

March 19, 2013
9:00 AM Room 312

This is David G. Watumull, President and CEO of Cardax Pharmaceuticals, Inc. ("Cardax"). We strongly **support** SB1349 SD2 with amendments.

Cardax is developing a new class of powerful anti-inflammatory compounds with the efficacy of aspirin and steroids but with the safety of food. We have been fortunate to raise more than \$25 million for our company but start-ups in the life science industry, in Hawaii and elsewhere, face a daunting task to find sufficient financing.

While many people, including many economists, believe that all or most "good" companies with important breakthroughs will be funded by the "market," reality suggests a far different picture. Across the globe, hundreds of promising "early stage" companies or technologies, particularly in the life science arena, are not being funded by traditional venture capital and pharmaceutical company sources. Instead, most of this funding goes to "late stage" companies. To counteract this dynamic, many states, cities, and foundations across the country and around the world are contributing to the creation and support of "early stage" life science companies. To be competitive, Hawaii must do the same if it wants to participate in what many consider to be the largest growth opportunity of the 21st century.

In particular, the *SD1349 SD2* is a good start. It will provide an R&D tax credit modeled modeled after Federal legislation that help Hawaii, with its high cost of living and distance from major scientific employment centers, compete on a more level playing field. We propose that its provisions allow the credit to be claimed beginning with Tax Year 2011. Passing this bill will help to create high growth businesses, including life science companies, and provide new opportunities to grow and diversify Hawaii's economy. Most importantly, the R&D tax credit outlined in this bill is an important part of an entrepreneurial ecosystem that creates high wage jobs, keeps talented people here, and brings talented kamaaina home.

Sincerely,

David G. Watumull
President and CEO, Cardax Pharmaceuticals, Inc.
2800 Woodlawn Dr. Suite 129
(808) 457-1375
dwatumull@cardaxpharma.com



Cardax Pharmaceuticals, Inc.

2800 Woodlawn Drive, Suite 129, Honolulu, HI 96822

telephone 808.457.1400	fax 808.237.5901
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www.cardaxpharma.com



March 18, 2013

**COMMENTS TO THE COMMITTEE ON ECONOMIC DEVELOPMENT AND
BUSINESS**

March 19, 2013

9:00 AM

**Conference ROOM 312
HAWAII STATE CAPITOL**

RE: SB 1349 SD2, RELATING TO ECONOMIC DEVELOPMENT

CORPORATE OFFICE

1001 Bishop Street
Suite 2950
Honolulu, Hawaii 96813
808.441.3600
808.441.3601 fax

CALIFORNIA OPERATIONS

12675 Danielson Court
Suite 406
Poway, California 92064
858.376.0185
858.376.0190 fax

FINANCE OFFICE

1001 Bishop Street
Suite 2950
Honolulu, Hawaii 96813
808.441.3600
808.441.3601 fax

Dear Chair Tsuji, Vice Chair Ward and members of the committee:

I am writing to you to express my strong support for SB 1349 which seeks to reinstate the research and development (R&D) tax credit that has proven so successful in the past. This bill is extremely important and affects a large number of individuals and organizations in the State of Hawaii that perform R&D work.

This bill will enable broad sectors of R&D activities in the State to continue by incentivizing this type of work. R&D activities in the State produce the very kinds of jobs that are desired here, high paying technology sector jobs. The type of personnel that perform this kind of activity are also the same entrepreneurs that start additional new companies that ultimately yield even more revenues, jobs and provide tremendous upside potential in Hawaii.

R&D work is critical to the future growth in Hawaii industry and education and should be supported as this bill would do.

One critical edit to the language would be for the bill to be effective starting 2012 or sooner, rather than starting in 2014 as it is now written. Starting in 2014 is a long way off for small business to be looking at 2015 before any practical result is really seen.

Please feel free to contact me at any time if you have other questions or comments.

Sincerely,

Rick E. Holasek, Ph.D.
President and CEO
NovaSol
1001 Bishop Street, Suite 2950
Honolulu, HI 96813
(808) 441-3666
rick@nova-sol.com



MAKAI OCEAN ENGINEERING, INC.

P.O. BOX 1206 KAILUA, OAHU, HAWAII 96734 USA

Testimony To
House Committee on Economic Development and Business

Relating To
S.B. 1349 SD2
Relating to Economic Development

By
Billy Pieper, Makai Ocean Engineering

Date: March 19, 2013, 9:00AM
State Capitol, Conference Room 312

To: Chair Tsuji, Vice Chair Ward, and Members of the Committee

Re: Testimony in Support of SB 1349 SD2 Relating to Economic Development

Honorable Chair, Vice-Chair and Committee Members,

Thank you for the opportunity to submit comments in **strong support** of **SB1349 SD2**. The R&D tax credit has helped to jump start an industry that is in its infancy in Hawai'i. It has been responsible for job creation, as well as many long-term investments tech companies have made that will set the stage for growth into the future. Because of the forward-looking nature of research, few R&D investments have short-term rewards. This bill would re-establish a temporary R&D income tax credit for qualified research activities in the State of Hawai'i, to help provide longer-term continuity for an industry that is struggling to grow. We urge you to maintain the momentum that you started.

Thank you for your continued support of R&D as the stimulus to an innovative economy that the people of Hawai'i can be proud of.

Best Regards,

Billy Pieper
Vice President
Makai Ocean Engineering

Written Statement of
Gabriel David Peckham, Ph.D.
before the
HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT AND BUSINESS
MARCH 19, 2013, 9:00 AM
State Capitol, Conference Room 312
In Support of
SB1349 SD2 Relating to Economic Development

To: Chair Tsuji, Vice Chair Ward, and Members of the Committee
From: Gabriel D. Peckham, Ph.D., Principal Investigator, Black Ivory Biotech, Inc.
Re: **Testimony in Support of SB1349 SD2 Relating to Economic Development**

Honorable Chair, Vice-Chair and Committee Members:

Thank you for the opportunity to submit comments in **strong support** of **SB1349 SD2**.

The R&D tax credit has helped to jump start an industry that is in its infancy in Hawai'i. It has been responsible for job creation, as well as many long-term investments tech companies have made that will set the stage for growth into the future.

Because of the forward-looking nature of research, few R&D investments have short-term rewards. This bill would re-establish a temporary R&D income tax credit for qualified research activities in the State of Hawai'i, to help provide longer-term continuity for an industry that is struggling to grow. We urge you to maintain the momentum that you started.

Thank you for your continued support of R&D as the stimulant to an innovative Hawai'i STEM economy that our keiki can be a part of.

Sincerely,



Gabriel D. Peckham
Principal Investigator



Written Statement of
Stephen Brennan, Vice President
Concentris Systems LLC
before the
HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT AND BUSINESS
MARCH 19, 2013, 9:00 AM
State Capitol, Conference Room 312
In Support of
SB1349 SD2 Relating to Economic Development

To: Chair Tsuji, Vice Chair Ward, and Members of the Committee
From: Stephen Brennan, Vice President, Concentris Systems LLC
Re: **Testimony in Support of SB1349 SD2 Relating to Economic Development**

Honorable Chair, Vice-Chair and Committee Members:

Thank you for the opportunity to voice our **strong support** of **SB1349 SD2**.

Over the past decade, Hawaii's research and development (R&D) tax credit successfully helped fuel growth in the technology sector by enabling local companies to win Federal research and development contracts, and to make investments in basic and applied research that are the key to economic growth in a global innovation economy. These R&D investments not only stimulate the creation of high-paying jobs for scientists and engineers, they help Hawaii companies solve problems in the arenas of defense, energy, agriculture, environmental science and information technology.

Concentris Systems is one such company. Founded in 2006, Concentris has successfully brought in research and development projects from the US Army RDECOM, DARPA, the Department of Energy, and others. Based in Manoa, our wireless mesh systems are used worldwide, and we frequently work with faculty of the University of Hawaii and employ UH students in our research.

SB1349 bill would re-establish a temporary R&D income tax credit for qualified research activities in the State of Hawai'i, to help provide longer-term continuity for an industry that must flourish in order for Hawaii to compete globally in the 21st Century. It is worth noting that most states that have successfully attracted high-tech businesses have adopted similar tax credits because their legislators recognize the vital importance of R&D to the tech industry.

I urge you to maintain the momentum in Hawaii's tech industry by voting AYE for SB1349.

Sincerely,

A handwritten signature in black ink, appearing to be "S. Brennan", followed by a long horizontal line extending to the right.

Stephen V. Brennan
Vice President of Business Development

Written Statement of
Vatche Martirosian, Aloha Medical Supply of the Pacific, Inc.
before the
HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT AND BUSINESS
MARCH 19, 2013, 9:00 AM
State Capitol, Conference Room 312
In Support of
SB1349 SD2 Relating to Economic Development

To: Chair Tsuji, Vice Chair Ward, and Members of the Committee
From: Vatche Martirosian, CEO, Aloha Medical Supply of the Pacific, Inc.
Re: **Testimony in Support of SB1349 SD2 Relating to Economic Development**

Honorable Chair, Vice-Chair and Committee Members:


I am writing to express my **strong support** of **SB1349 SD2**.

The R&D tax credit is extremely important for our growing economy. To date, it has helped to fuel an industry that is in its infancy in Hawai'i. It has been responsible for not only job creation, but for long-term investments that tech companies have made. Job creation, coupled with these investments, have set the stage for growth into the future. I ask for your full and continued support of R&D so that our State can invest in an economy that's not merely reliant on tourism.

Your continued support is imperative for any possibility of growth through R&D. Because of the forward-looking nature of research, few R&D investments have short-term rewards. This bill would re-establish a temporary R&D income tax credit for qualified research activities in the State of Hawai'i. This would help provide long-term continuity for an industry that is struggling to grow.

We urge you to maintain the momentum that you started.

Sincerely,



Vatche Martirosian
CEO
Aloha Medical Supply of the Pacific, Inc.



Written Statement of
Arthur Martirosian, AMS Naturals

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT AND BUSINESS

March 19, 2013, 9:00 AM
State Capitol, Conference Room 312

In Support of
SB1349 SD2 Relating to Economic Development

To: Chair Tsuji, Vice Chair Ward, and Members of the Committee
Re: **Testimony in Support of SB1349 SD2 Relating to Economic Development**

Aloha Honorable Chair, Vice-Chair and Committee Members:

Thank you for the opportunity to submit the following comments reflecting my **strong support** of **SB1349 SD2**.

The R&D tax credit has proven to be imperative for Hawai'i's economy. It has created new jobs and has already set the foundation for strong growth in our State's revenue. Your continued support of this bill would ensure that our tech companies continue investing their time and money within the boundaries of our State. Research and development is a critical aspect of a sustainable economy, an economy that cannot be reliant solely on revenue from tourism.

The passage of this bill would mean the continuation and growth of a high tech industry in Hawaii. It would also mean that we would not be grooming our brightest keiki to use their skills outside our community out of pure necessity. We cannot afford to have an absent high-tech industry.

Thank you for continuing to recognize R&D as a stimulant to our economy that our keiki can be a part of.

Signed:

Arthur Martirosian
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edbtestimony

From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 18, 2013 9:21 AM
To: edbtestimony
Cc: alan.hayashi@baesystems.com
Subject: Submitted testimony for SB1349 on Mar 19, 2013 09:00AM

SB1349

Submitted on: 3/18/2013

Testimony for EDB on Mar 19, 2013 09:00AM in Conference Room 312

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

Comments: ALAN S. HAYASHI 207-4 Kawaihae Street Honolulu, Hawaii 96825 TESTIMONY TO THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT AND BUSINESS Tuesday, March 19, 2013 @ 9:00 am Conference Room #312 SB 1349 SD2 "RELATING TO ECONOMIC DEVELOPMENT" Chair Tsuji, Vice Chair Ward, and members of the 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 support of SB 1349 SD2. There might be some misperceptions regarding the technology industry and the impact of this bill, if passed. The money is spent and earned locally and will come back into the Hawaii economy. It is a "refundable" credit ...t he companies must pay 100% of qualified costs, prior to claiming the credit. The credit will go to the actual companies performing the research, and development (R&D) work...not middlemen (agents). It is a clean high paying industry that can accommodate many of our STEM graduates. With the recent downturn of the defense industry (Sequestration and CR impacts), Hawaii needs to diversify to more than Tourism, Defense, and Film. Technology will enable you to do that. Lastly, I respectfully feel that DoTax assumed projection of the R&D tax credit impact is incorrect for 2010 and forward. The DoTax amount of \$13.4 is a ten year average from years 2000 to 2009....these were the "go go" years with money claimed by a lot of Act #221 companies, and funding infused by Sen. Dan Inouye. Since the 2008 international economic downturn, and termination of the R&D tax credits, the R&D has lost much in sales and lost companies (closing, move to mainland offices, etc.). We in the industry have since recently conducted a poll and the 2013 forward value should be under \$5M until the industry regains sustainable growth. 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....there are others that I have not listed. 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 re-instatement of a tax credit, or some incentive, not additional burdens. Thank you for consideration of my position on the issue and for the opportunity to present testimony. I will be glad to answer any questions you might have. Mahalo!

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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