

STAND. COM. REP. NO. **3252**

Honolulu, Hawaii

**APR 03 2014**

RE: H.B. NO. 1704  
H.D. 1  
S.D. 1

Honorable Donna Mercado Kim  
President of the Senate  
Twenty-Seventh State Legislature  
Regular Session of 2014  
State of Hawaii

Madam:

Your Committee on Ways and Means, to which was referred H.B. No. 1704, H.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO RESEARCH ACTIVITIES,"

begs leave to report as follows:

The purpose and intent of this measure is to clarify the method of calculating the state tax credit for research activities.

More specifically, this measure provides that, notwithstanding contrary provisions of the Internal Revenue Code, the amount of the state tax credit for research activities shall be calculated based on all qualified research expenses for the taxable year, instead of on the increase in expenses over those incurred in past years.

The High Technology Development Corporation; The Chamber of Commerce of Hawaii; Cardax, Inc.; Oceanit Laboratories Inc.; nine individuals on behalf of Navatek, Ltd.; and sixty-six individuals provided testimony in support of this measure. The Department of Taxation provided testimony in opposition to this measure. The Tax Foundation of Hawaii and one individual provided comments.

Your Committee finds that Act 270, Session Laws of Hawaii 2013, reinstated the state tax credit for research activities. However, Act 270 deleted language from section 235-110.91, Hawaii Revised Statutes, related to the calculation of the tax credit.

HB1704 SD1 SSCR LRB 14-2280-1.doc



This measure is intended to clarify the method for calculating the tax credit. Your Committee notes that the Department of Taxation has expressed concerns that this measure will make administering the tax credit more difficult and complex and that the department may lack the personnel and resources to address this increased complexity.

Your Committee has amended this measure by:

- (1) Appropriating funds for the Department of Taxation to establish one full-time, permanent compliance specialist position to assist with the administration of the tax credit; and
- (2) Making technical nonsubstantive amendments for the purposes of consistency, clarity, and style.

As affirmed by the record of votes of the members of your Committee on Ways and Means that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 1704, H.D. 1, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 1704, H.D. 1, S.D. 1, and be placed on the calendar for Third Reading.

Respectfully submitted on  
behalf of the members of the  
Committee on Ways and Means,

  
\_\_\_\_\_  
DAVID Y. IGE, Chair



The Senate  
Twenty-Seventh Legislature  
State of Hawai'i

**Record of Votes**  
**Committee on Ways and Means**  
**WAM**

Bill / Resolution No.:* <b>HB 1704, HD 1</b>	Committee Referral: <b>WAM</b>	Date: <b>3-28-14</b>		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
IGE, David Y. (C)	✓			
KIDANI, Michelle N. (VC)	✓			
CHUN OAKLAND, Suzanne				✓
DELA CRUZ, Donovan M.	✓			
ENGLISH, J. Kalani	✓			
ESPERO, Will	✓			
KAHELE, Gilbert	✓			
KEITH-AGARAN, Gilbert S.C.	✓			
KOUCHI, Ronald D.	✓			
RUDERMAN, Russell E.	✓			
THIELEN, Laura H.	✓			
TOKUDA, Jill N.	✓			
SLOM, Sam	✓			
	<b>12</b>	<b>0</b>	<b>0</b>	<b>1</b>
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: <div style="text-align:center; font-family: cursive; font-size: 1.2em;">Michelle N. Kidani</div>				
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\*Only one measure per Record of Votes