

Honolulu, Hawaii

MAR 21 2014

RE: H.B. No. 2338
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 Economic Development, Government Operations
and Housing, to which was referred H.B. No. 2338 entitled:

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

begs leave to report as follows:

The purpose and intent of this measure is to:

- (1) Clarify that the tax credit for research activities is not available for research conducted outside of the State;
- (2) Eliminate the requirement that the Department of Taxation certify all research credit claims; and
- (3) Clarify that failure of the taxpayer to submit the required survey to the Department of Business, Economic Development, and Tourism is a waiver of the right to claim the research credit.

Your Committee received testimony in support of this measure from the Department of Taxation and High Technology Development Corporation. Your Committee received comments on this measure from the Tax Foundation of Hawaii.

Your Committee finds that Act 270, Session Laws of Hawaii 2013, reenacted the Hawaii tax credit for research activities for taxable years from 2013 to 2019. Act 270 required that a cost be



incurred in Hawaii in order to qualify for the tax credit. However, requiring research costs to be incurred in Hawaii does not necessarily require research to be conducted in Hawaii. For example, a contract that is negotiated and signed in Hawaii can be classified as incurred in Hawaii, even if the research conducted pursuant to the contract is performed in another state. This measure clarifies Act 270 so that any qualified research must be conducted in the State in order to qualify for the tax credit.

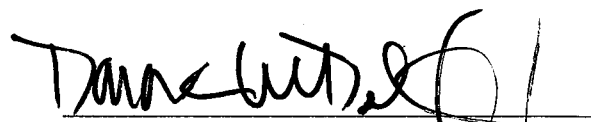
Your Committee further finds that this measure eliminates the requirement that the taxpayer obtain a certification from the Department of Taxation concerning its claim for the credit because the certification requirement can create a false impression that by certifying the credit, the Department has audited and validated the taxpayer's claims. Instead, this measure imposes a substantive penalty for not providing the mandatory survey from the taxpayer to the Department of Business, Economic Development, and Tourism.

Your Committee has amended this measure by:

- (1) Inserting an effective date of July 1, 2050, to encourage further discussion; and
- (2) Making technical amendments for the purposes of clarity and consistency.

As affirmed by the record of votes of the members of your Committee on Economic Development, Government Operations and Housing that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 2338, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 2338, S.D. 1, and be referred to the Committee on Ways and Means.

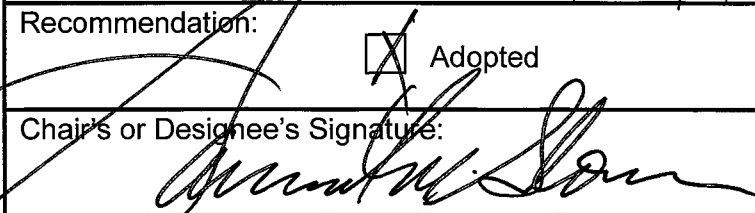
Respectfully submitted on
behalf of the members of the
Committee on Economic
Development, Government
Operations and Housing,


DONOVAN M. DELA CRUZ, Chair



The Senate
Twenty-Seventh Legislature
State of Hawai'i

Record of Votes
Committee on Economic Development, Government Operations and Housing
EGH

Bill / Resolution No.:*	Committee Referral:	Date:		
HB2338	EGH, WAM	3/17/14		
<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
DELA CRUZ, Donovan M. (C)	X			
SLOM, Sam (VC)	X			
BAKER, Rosalyn H.	X			X
CHUN OAKLAND, Suzanne	X			
ENGLISH, J. Kalani	X			X
THIELEN, Laura H.	X			
WAKAI, Glenn				X
TOTAL	4	0	0	3
Recommendation:				
<input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature:				
				
Distribution:				
Original	Yellow	Pink	Goldenrod	
File with Committee Report	Clerk's Office	Drafting Agency	Committee File Copy	

*Only one measure per Record of Votes