2989

Honolulu, Hawaii

MAR 2 1 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

2014-1839 SSCR SMA.doc

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

2014-1839 SSCR SMA.doc

The Senate Twenty-Seventh Legislature State of Hawai'i

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

Members Ave Aye (WR) Nay Excuse DELA CRUZ, Donovan M. (C) SLOM, Sam (VC) BAKER, Rosalyn H. CHUN OAKLAND, Suzanne ENGLISH, J. Kalani THIELEN, Laura H. WAKAI, Glenn TOTAL Recommendation: Adopted Chair's or Designee's Signature: AWR Aye (WR) Nay Excuse Aye (WR) Nay Excuse Aye (WR) Nay Excuse Aye (WR) Nay Excuse Aye (WR) Nay Excuse Aye (WR) Nay Excuse Aye (WR) Nay Excuse Aye (WR) Nay Excuse Aye (WR) Nay Excuse Aye (WR) Nay Excuse Aye (WR) Nay Excuse Aye (WR) Nay Excuse Aye (WR) Nay Excuse Aye (WR) Nay Excuse Aye (WR) Nay Excuse Aye (WR) Nay Excuse Aye (WR) Nay Excuse Aye (WR) Nay Excuse Aye (WR) Nay Excuse Aye (WR) Nay Excuse Aye (WR) Nay Excuse Aye (WR) Nay Excuse Aye (WR) Nay Excuse Aye (WR) Aye (WR) Nay Excuse Aye (WR)	Bill / Resolution No.:*	Committee Referral: Date:					
The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: The Recommendation is: Pass, unamended 2312 2311 Members Ave Aye (WR) Nay Excuse DELA CRUZ, Donovan M. (C) SLOM, Sam (VC) BAKER, Rosalyn H. CHUN OAKLAND, Suzanne ENGLISH, J. Kalani THIELEN, Laura H. WAKAI, Gienn TOTAL Recommendation: Adopted Chair's or Designee's Signature: Advantage: Not Adopted Chair's or Designee's Signature: Advantage: Ave Aye (WR) Ave (WR)	HB2338 EGH, WAM 3/17/14						
The Recommendation is: Pass, unamended 2312 2311 2310 Recommit 2313 Members Ave Aye (WR) Nay Excuse DELA CRUZ, Donovan M. (C) SLOM, Sam (VC) BAKER, Rosalyn H. CHUN OAKLAND, Suzanne ENGLISH, J. Kalani THIELEN, Laura H. WAKAI, Glenn TOTAL Recommendation: Adopted Not Adopted Chairs or Designee's Signature: MMANAMENTAL Adopted Chairs or Designee's Signature: MMANAMENTAL Adopted	·						
Pass, unamended 2312 2311 Policy 2310 Recommit 2310 2313 Members Ave Aye (WR) Nay Excuse DELA CRUZ, Donovan M. (C) SLOM, Sam (VC) BAKER, Rosalyn H. CHUN OAKLAND, Suzanne ENGLISH, J. Kalani THIELEN, Laura H. WAKAI, Glenn TOTAL Recommit 2310 Recommit 2313 Ave Aye (WR) Nay Excuse 2313 Ave Aye (WR	If so, then the previous decision was to:						
Members Ave Aye (WR) Nay Excuse DELA CRUZ, Donovan M. (C) SLOM, Sam (VC) BAKER, Rosalyn H. CHUN OAKLAND, Suzanne ENGLISH, J. Kalani THIELEN, Laura H. WAKAI, Glenn TOTAL Recommendation: Adopted Chair's or Designee's Signature: AMMANAMANA Aye (WR) Nay Excuse Aye (WR) Nay	The Recommendation is:						
DELA CRUZ, Donovan M. (C) SLOM, Sam (VC) BAKER, Rosalyn H. CHUN OAKLAND, Suzanne ENGLISH, J. Kalani THIELEN, Laura H. WAKAI, Glenn TOTAL Recommendation: Adopted Chair's or Designee's Signature: MMMMMMMMMMMMMMMMMMMMMMMMMMMMMMMMMMM							
SLOM, Sam (VC) BAKER, Rosalyn H. CHUN OAKLAND, Suzanne ENGLISH, J. Kalani THIELEN, Laura H. WAKAI, Glenn TOTAL Recommendation: Adopted Chair's or Designee's Signature: MMMMM Missing Addition: Additional Add	Members	Ayş	Aye (WR)	Nay	Excused		
BAKER, Rosalyn H. CHUN OAKLAND, Suzanne ENGLISH, J. Kalani THIELEN, Laura H. WAKAI, Glenn TOTAL Recommendation: Adopted Chaip's or Designee's Signature: MMMMMMMMMMMMMMMMMMMMMMMMMMMMMMMMMMM	DELA CRUZ, Donovan M. (C)		N,				
CHUN OAKLAND, Suzanne ENGLISH, J. Kalani THIELEN, Laura H. WAKAI, Glenn TOTAL Recommendation: Adopted Chaip's or Designee's Signature: MARAINE AND	SLOM, Sam (VC)		X				
TOTAL Recommendation: Adopted Chair's or Designee's Signature: MAKAI, J. Kalani THIELEN, Laura H. X Adopted Not Adopted MAKAI, Glenn Adopted Not Adopted	BAKER, Rosalyn H.	· V			Λ		
THELEN, Laura H. WAKAI, Glenn TOTAL Recommendation: Adopted Chair's or Designee's Signature: MMMMM MMMM MMMM MMMM MMMM MMMM MMMM	CHUN OAKLAND, Suzanne			-			
WAKAI, Glenn TOTAL Recommendation: Adopted Chair's or Designee's Signature: Municipal States of Designee's Signature: Municipal States of Designee's Signature:	ENGLISH, J. Kalani		V			X	
TOTAL Recommendation: Adopted Chair's or Designee's Signature: Munul William	THIELEN, Laura H.	<u> </u>					
Recommendation: Adopted Not Adopted Chair's or Designee's Signature:	WAKAI, Glenn					X	
Recommendation: Adopted Not Adopted Chair's or Designee's Signature:		· · ·					
Recommendation: Adopted Not Adopted Chair's or Designee's Signature:							
Recommendation: Adopted Not Adopted Chair's or Designee's Signature:			·			-	
Recommendation: Adopted Not Adopted Chair's or Designee's Signature:							
Recommendation: Adopted Not Adopted Chair's or Designee's Signature:						:	
Recommendation: Adopted Not Adopted Chair's or Designee's Signature:							
Recommendation: Adopted Not Adopted Chair's or Designee's Signature:	the state of the s				.4		
Recommendation: Adopted Not Adopted Chair's or Designee's Signature:				·.	<u> </u>		
Recommendation: Adopted Not Adopted Chair's or Designee's Signature:							
Recommendation: Adopted Not Adopted Chair's or Designee's Signature:					- :		
Chair's or Designee's Signature: When the state of the s	TOTAL		H	P	0	3	
Chair's or Designee's Signature:							
Munt William							
Distribution: Original Yellow Pink Goldenrod File with Committee Report Clerk's Office Drafting Agency Committee File Copy							

*Only one measure per Record of Votes