
A BILL FOR AN ACT

RELATING TO HIGH TECHNOLOGY.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature finds that fostering science,
2 technology, engineering, and mathematics education, commonly
3 referred to as STEM, in our public education system is
4 important. An education in these subjects and a culture of
5 innovation are essential to help grow and diversify Hawaii's
6 economic sectors with new products, services, and processes.
7 Each year, the legislature appropriates significant moneys to
8 fund initiatives that further science, technology, engineering,
9 and mathematics education at all levels of Hawaii's education
10 system.

11 However, the legislature further finds that each year, many
12 Hawaii residents leave the State for careers in science,
13 technology, engineering, and mathematics across the United
14 States and internationally. Many do not want to leave Hawaii,
15 but they have no choice because Hawaii has few career
16 opportunities in these subject areas.



1 The legislature also finds that funding science,
2 technology, engineering, and mathematics educational initiatives
3 alone does not ensure jobs in these fields for Hawaii's
4 residents. Educational efforts must be matched with initiatives
5 that help foster jobs in research and development, which is the
6 core of innovation. Innovative research and development helps
7 spur economic growth and supports diversity in our economy.
8 Additionally, it is the critical first step in the corporate and
9 product development cycle.

10 Innovation is essential for creating new jobs in the high
11 technology sector, as well as traditional sectors. In recent
12 years, innovation has led to new jobs in sectors as diverse as
13 defense or dual-use, software and information technology, life
14 sciences and biotechnology, and clean energy. At the same time,
15 these innovations ripple through the economy, by creating jobs
16 for workers building advanced infrastructure, installing
17 broadband networks, and utilizing new devices and products in
18 the service industries, such as education, healthcare, and
19 tourism. Innovation is also critical for sustaining the
20 vitality and resilience of Hawaii's economy.



1 The legislature further finds that, while future challenges
2 are impossible to predict, the State's economy will be able to
3 respond to challenges by diversifying and building upon the
4 current economic base, by adapting innovative processes,
5 practices, and mindsets, and thereby making industries in the
6 State less susceptible to economic shocks.

7 The income tax credit for research activities provides a
8 way for this innovation in Hawaii. The re-establishment of this
9 refundable tax credit has been useful in providing support for
10 early-stage research and development companies, because the
11 credit is only calculated on the increase of research and
12 development expenditures over those incurred in previous years
13 instead of on all qualified research expenditures. However,
14 small businesses that are not yet profitable have not been able
15 to use the law to commercialize their innovations. Hawaii's
16 many small research and development companies win competitive
17 federal small business research grants and bring millions of
18 dollars and science, technology, engineering, and mathematics
19 jobs to Hawaii. The proposed changes to the law would allow
20 Hawaii's small research and development companies to focus
21 resources on commercialization, which the federal government is



1 emphasizing as a key criteria for winning larger follow-up
2 federal funding, especially small business innovation research
3 funding.

4 The purpose of this Act is to amend the income tax credit
5 for qualified research activities in the State so that it would:

6 (1) Help bridge any funding gap between federal early
7 stage research funding and the critical product
8 development and validation stage, by including all
9 qualified research expenses incurred in the taxable
10 year instead of only the increase of expenses over
11 those incurred in the previous years; and

12 (2) Contribute to the diversification of Hawaii's economy
13 by creating and maintaining science, technology,
14 engineering, and mathematics jobs in the State.

15 SECTION 2. Section 235-110.91, Hawaii Revised Statutes, is
16 amended by amending subsection (a) to read as follows:

17 "(a) Section 41 (with respect to the credit for increasing
18 research activities) and section 280C(c) (with respect to
19 certain expenses for which the credit for increasing research
20 activities are allowable) of the Internal Revenue Code shall be
21 operative for the purposes of this chapter as provided in this



1 section; provided that references to the base amount shall not
 2 apply, and credit for all qualified research expenses may be
 3 taken without regard to the amount of expenses for previous
 4 years; provided further that the federal tax provisions in
 5 section 41 of the Internal Revenue Code, as that section was
 6 enacted on December 31, 2011, irrespective of any subsequent
 7 changes to section 41 of the Internal Revenue Code, shall remain
 8 in effect for purposes of determining the state income tax
 9 credit under this section; provided further that the federal tax
 10 provisions in section 41 of the Internal Revenue Code, as
 11 enacted on December 31, 2011, irrespective of any subsequent
 12 amendments to section 41 of the Internal Revenue Code, shall
 13 apply only to expenses incurred for qualified research
 14 activities after December 31, 2012."

15 SECTION 3. Statutory material to be repealed is bracketed
 16 and stricken. New statutory material is underscored.

17 SECTION 4. This Act shall take effect on July 1, 2015, and
 18 shall apply to taxable years beginning after December 31, 2015.

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INTRODUCED BY:

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H.B. NO. 1068

Report Title:

Tax Credit; High Technology

Description:

Allows for a credit for all qualified research expenses without regard to the amount of expenses for previous years.

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