

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Tax credit for research activities

BILL NUMBER: HB 1172

INTRODUCED BY: Nishimoto

BRIEF SUMMARY: Amends HRS section 235-110.91 to reinsert the phrase “provided that references to the base amount shall not apply and credit for all qualified research expenses may be taken without regard to the amount of expenses for previous years.”

EFFECTIVE DATE: Tax years beginning after December 31, 2014

STAFF COMMENTS: The legislature by Act 270, SLH 2013, reestablished the income tax credit for qualified research activities that expired on 12/31/10. The prior version of that law, under Act 221, SLH 2001, offered a credit for qualified research activities that was a flat percentage of qualified research expenses in Hawaii without regard to the federal base amount (the federal credit is supposed to be an incentive to increase research activities, so the federal credit is based on incremental research expenses). When Act 270 brought the credit back, it did so as an incremental credit, similar to the federal credit. The proposed measure brings the Act 221 version of the research credit back, so all qualified research expenses in Hawaii (the restriction to Hawaii is not in the bill, but is in section 235-110.91(f) in the existing law) would be eligible for the credit regardless of any base amount. This change could result in a drain of the state’s financial resources.

Substantively, over the last decade, Hawaii has adopted various tax incentives to encourage the development of high technology businesses in the state. The acts provided investment and research credits as well as income exclusions providing tax relief to high tech businesses and individuals associated with high tech businesses. 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 plow money into such activities is the fact that the credit provides a way to avoid paying state taxes.

Digested 3/2/15

From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 2:50 PM
To: FINTestimony
Cc: ikitajima@oceanit.com
Subject: Submitted testimony for HB1172 on Mar 4, 2015 11:00AM

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Ian Kitajima	Oceanit	Support	No

Comments: Oceanit stands in **STRONG SUPPORT** to expand the Research and Development (R&D) Tax Credit to its previous form of 20% of the full R&D expenditure conducted in Hawaii. Small businesses do not have increasing R&D budgets to use current R&D law. Only 10 companies were able to use the law in 2014. And the first crop of STEM inspired students are coming back from college and are asking where are the jobs? Expanding the credit will create and keep well paying R&D jobs in Hawaii. We can't have an innovation based economy without R&D. Hawaii companies must first win and then spend \$5 in research and development in Hawaii **BEFORE** they can claim a \$1 credit. This bill provides flexible funding for product realization and startup activities that are not possible with Federal funds, and gets non-venture backed companies to breakout of the R&D cycle. Please support Hawaii's innovation based economy. 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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Written Statement of David G. Watumull

Before the
COMMITTEE ON FINANCE
March 4, 2015
11:00 a.m.
State Capitol, Room 308
In Support of
HB1172 RELATING TO RESEARCH ACTIVITIES

To: Chair Sylvia Luke, Vice Chair Scott Y. Nishimoto, and Members of the Committee

From: David G. Watumull, President and CEO of Cardax, Inc.

Testimony in Support of HB1172

Honorable Chair, Vice-Chair and Committee Members:

Thank you for the opportunity to submit testimony **in support of HB1172**

This Bill is important to the technology community for many reasons covered in the bill itself and in other testimony.

Cardax, Inc. is a Hawaii based biopharmaceutical company developing a new class of anti-inflammatory consumer and pharmaceutical products. It has raised more than \$36 million for its technology since 2002 and has recently gone public. Its partners include the world's largest chemical company, BASF, and Pfizer spin-out Capsugel.

But, an important consideration not often mentioned is that this credit provides a strong rationale to potential Mainland funding sources for conducting research in Hawaii. Why? Because it helps answer the question: "Why should this company be in Hawaii?" The research credit provides a concrete, measurable, and undeniable positive answer.

Written Statement of
ROBBIE MELTON
Executive Director & CEO
High Technology Development Corporation
before the
HOUSE COMMITTEE ON FINANCE
Wednesday, March 4, 2015
11:00 a.m.
State Capitol, Conference Room 308
In consideration of

HB1172 RELATING TO RESEARCH ACTIVITIES.

Chair Luke, Vice Chair Nishimoto, and Members of the Committee on Finance.

The High Technology Development Corporation (HTDC) **supports the intent** of HB 1172 which allows for a credit for all qualified research expenses without regard to the amount of expenses for previous years.

HB1172 proposes to expand the R&D tax credit to include all of a company's R&D expenditure in the State. In 2013, ten companies claimed the current credit and completed the required survey. They reported an aggregated expenditure of \$25.7 million in research activities in Hawaii. Among those, \$17.3 million (67.2%) were eligible for the research tax credit, and a total of \$1.1 million was reported as tax credit in the State of Hawaii. Significantly, over 75% of the 280 full time employees earned over \$60,000 and 35% earned over \$100,000. Expanding the credit would provide greater support to these companies and allow other companies to participate.

As part of HTDC's vision to create 80,000 new innovation jobs in Hawaii earning \$80,000 or more by 2030, HTDC is supportive of policies that extend benefits and incentives to R&D companies that are moving toward commercialization. The tax credit, as one part of a comprehensive economic development policy supporting innovation, can be effective. HTDC defers to the appropriate departments regarding the budget impact and administration of the credit.

Thank you for the opportunity to offer these comments.



Chamber of Commerce HAWAII

The Voice of Business

**Testimony to the House Committee on Finance
Wednesday, March 4, 2015 at 11:00 A.M.
Conference Room 308, State Capitol**

RE: HOUSE BILL 1172 RELATING TO RESEARCH ACTIVITIES

Chair Luke, Vice Chair Nishimoto, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **supports** HB 1172, which allows for a credit for all qualified research expenses without regard to the amount of expenses for previous years.

The Chamber is the largest business organization in Hawaii, representing about 1,000 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 members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

This bill provides crucial support to research and development companies within the state. The credit would provide more incentive for research and development companies to expend their resources within the state of Hawaii. HB 1172 would boost the state's economy and provide further support to the development of Hawaii's innovation industry.

Thank you for the opportunity to testify.

Hawaii Evolutionary Development, LLC
2221 Seaview Avenue
Honolulu, HI 96822

Written Statement of Dr. Takashi Sugimura

Before the
COMMITTEE ON FINANCE

Wednesday, March 4, 2015
11:00 AM
Conference Room 308
State Capitol
415 Beretania Street

In Support of

HB 1172 RELATING TO RESEARCH ACTIVITIES .

TO: Honorable Chair Sylvia Luke, Vice-Chair Scott Y. Nishimoto and Members of the Committee

FROM: Dr. Tak Sugimura, Hawaii Evolutionary Development, LLC

RE: Testimony in Support of HB1069

I am in STRONG SUPPORT for expansion of the Research and Development (R&D) Tax Credit to its previous form of 20% of the full R&D expenditure conducted in Hawaii. Small businesses do not have increasing R&D budgets to use the current R&D law. Only 10 companies were able to use the law in 2014. We can't have an innovation based economy without R&D. Hawaii companies must first win and then spend \$5 in research and development in Hawaii BEFORE they can claim a \$1 credit. This bill provides flexible funding for product realization and startup activities that are not possible with Federal funds, and gets non-venture backed companies to breakout of the R&D cycle. Please support Hawaii's innovation based economy.

finance1-Kim

From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 7:50 AM
To: FINTestimony
Cc: pcrabb@pacificshipyards.com
Subject: Submitted testimony for HB1172 on Mar 4, 2015 11:00AM

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Philip	Pacific Shipyards International	Support	No

Comments: I strongly support this bill. #HB1172

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From: mailinglist@capitol.hawaii.gov
Sent: Saturday, February 28, 2015 4:30 PM
To: FINTestimony
Cc: chung@navatekltd.com
Subject: Submitted testimony for HB1172 on Mar 4, 2015 11:00AM

HB1172

Submitted on: 2/28/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

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

Comments: Aloha Chair Luke, Vice Chair Nishimoto, and members of the Finance Committee: I am Ann Chung, representing Navatek, a research and development company for military and commercial applications. We strongly support HB1172. 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 major reductions in military funding, the R&D credit is very important to the success of our local R&D companies. 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. This bill will support building the R&D industry in Hawaii.

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Sent: Monday, March 02, 2015 9:10 AM
To: FINTestimony
Cc: chung@navatekltd.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Chuan	Navatek Ltd	Support	No

Comments:

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 11:17 AM
To: FINTestimony
Cc: kweatherly@navatekltd.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Keith Weatherly	Navatek	Support	No

Comments:

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 4:36 AM
To: FINTestimony
Cc: jtknight@umich.edu
Subject: Submitted testimony for HB1172 on Mar 4, 2015 11:00AM

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Joshua Knight	Navatek Ltd.	Support	No

Comments: I strongly support HB1172

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Sent: Monday, March 02, 2015 10:03 AM
To: FINTestimony
Cc: samanthaszafraneke@gmail.com
Subject: Submitted testimony for HB1172 on Mar 4, 2015 11:00AM

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Samantha Szafraneke	Navatek, Ltd.	Support	No

Comments: I strongly support bill #HB1172.

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 8:07 AM
To: FINTestimony
Cc: vnagahiro@lava.net
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
vicki nagahiro	Individual	Support	No

Comments:

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finance1-Kim

From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 7:29 AM
To: FINTestimony
Cc: zheshiki@navatekltd.com
Subject: Submitted testimony for HB1172 on Mar 4, 2015 11:00AM

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Zensho Heshiki	Navatek	Support	No

Comments: I strongly support HB1172.

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finance1-Kim

From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 3:55 AM
To: FINTestimony
Cc: jdoyle@navatekltd.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
William Doyle	Individual	Support	No

Comments:

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To: FINTestimony
Cc: wfoster@navatekltd.com
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HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
William Foster	Individual	Support	No

Comments:

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Sent: Monday, March 02, 2015 5:49 AM
To: FINTestimony
Cc: tzangle@navatekltd.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Troy Zangle	Navatek	Support	No

Comments:

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Sent: Monday, March 02, 2015 6:14 AM
To: FINTestimony
Cc: tjpeltzer@hawaii.rr.com
Subject: Submitted testimony for HB1172 on Mar 4, 2015 11:00AM

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Todd Peltzer	Individual	Support	No

Comments: I strongly support bill HB1172.

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 9:49 AM
To: FINTestimony
Cc: smatsuura@navatekltd.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Susan Matsuura	Individual	Support	No

Comments:

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 8:21 AM
To: FINTestimony
Cc: rcardano@pacificshipyards.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Ruby Cardano	Individual	Support	No

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 7:47 AM
To: FINTestimony
Cc: nyanagawa@pacificshipyards.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Nicole	Individual	Support	No

Comments:

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Sent: Monday, March 02, 2015 8:16 AM
To: FINTestimony
Cc: mmiller@pacificshipyards.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

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Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Marvin Miller	Individual	Support	No

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Sent: Monday, March 02, 2015 7:57 AM
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Cc: mdavies@pacificshipyards.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Mark Davies	Individual	Support	No

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To: FINTestimony
Cc: mcraig@navatekltd.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

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Submitted By	Organization	Testifier Position	Present at Hearing
Margaret Craig	Individual	Support	No

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Cc: lsdimaya@pacificshipyards.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

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Submitted By	Organization	Testifier Position	Present at Hearing
Leilani Sebastian-Dimaya	Individual	Support	No

Comments:

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Sent: Monday, March 02, 2015 8:13 AM
To: FINTestimony
Cc: lbishop@pacificshipyards.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Larry Bishop	Individual	Support	No

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From: mailinglist@capitol.hawaii.gov
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To: FINTestimony
Cc: iwood@pacificshipyards.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/1/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Iain Wood	Individual	Support	No

Comments:

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From: mailinglist@capitol.hawaii.gov
Sent: Saturday, February 28, 2015 3:50 PM
To: FINTestimony
Cc: klock@navatekltd.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 2/28/2015

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Submitted By	Organization	Testifier Position	Present at Hearing
Kacey Lock	Individual	Support	No

Comments:

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finance1-Kim

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To: FINTestimony
Cc: jpuletasi@pacificshipyards.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

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Submitted By	Organization	Testifier Position	Present at Hearing
Jonathan Puletasi	Individual	Support	No

Comments:

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Cc: jfrost@pacificshipyards.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

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Submitted By	Organization	Testifier Position	Present at Hearing
James Frost	Individual	Support	No

Comments:

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Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

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Submitted By	Organization	Testifier Position	Present at Hearing
Howard Cabral	Individual	Support	No

Comments:

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Cc: gfukushima@pacificshipyards.com
Subject: Submitted testimony for HB1172 on Mar 4, 2015 11:00AM

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Gene Fukushima	Individual	Support	No

Comments: I strongly support HB1172.

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Sent: Monday, March 02, 2015 9:00 AM
To: FINTestimony
Cc: gary@navatekltd.com
Subject: Submitted testimony for HB1172 on Mar 4, 2015 11:00AM

HB1172

Submitted on: 3/2/2015

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Submitted By	Organization	Testifier Position	Present at Hearing
Gary Shimosono	Individual	Support	No

Comments: I strongly support bill HB1172

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From: mailinglist@capitol.hawaii.gov
Sent: Sunday, March 01, 2015 2:51 PM
To: FINTestimony
Cc: eschiff5@gmail.com
Subject: Submitted testimony for HB1172 on Mar 4, 2015 11:00AM

HB1172

Submitted on: 3/1/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Eric Schiff	Individual	Support	No

Comments: I strongly support bill HB1172.

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 7:40 AM
To: FINTestimony
Cc: eodell@pacificshipyards.com
Subject: Submitted testimony for HB1172 on Mar 4, 2015 11:00AM

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Emily Odell	Individual	Support	No

Comments: Strongly Support

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 7:44 AM
To: FINTestimony
Cc: dcurtis@pacificshipyards.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Douglas Curtis	Individual	Support	No

Comments:

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 3:51 AM
To: FINTestimony
Cc: dpiro@navatekltd.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Dominic Piro	Individual	Support	No

Comments:

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 8:00 AM
To: FINTestimony
Cc: dbarbadillo@pacificshipyards.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
derek Barbadillo	Individual	Support	No

Comments:

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 8:06 AM
To: FINTestimony
Cc: cwhite@pacificshipyards.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Curtis White	Individual	Support	No

Comments:

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 12:14 PM
To: FINTestimony
Cc: clayton@unitekhawaii.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Clayton Murobayashi	Individual	Support	No

Comments:

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 9:26 AM
To: FINTestimony
Cc: cbradley@navatekltd.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Christian Bradley	Individual	Support	No

Comments:

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 8:07 AM
To: FINTestimony
Cc: bcuneo@navatekltd.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Brian Cuneo	Individual	Support	No

Comments:

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 8:03 AM
To: FINTestimony
Cc: bhare@pacificshipyards.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Bobby Hare	Individual	Support	No

Comments:

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 8:27 AM
To: FINTestimony
Cc: bnakaoka@pacificshipyards.com
Subject: Submitted testimony for HB1172 on Mar 4, 2015 11:00AM

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Ben Nakaoka	Individual	Support	No

Comments: I completely support this bill.

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 9:19 AM
To: FINTestimony
Cc: awhite@navatekltd.com
Subject: Submitted testimony for HB1172 on Mar 4, 2015 11:00AM

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Audra White	Individual	Comments Only	No

Comments: I strongly support HB1172.

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 6:07 PM
To: FINTestimony
Cc: lawsonns@icloud.com
Subject: Submitted testimony for HB1172 on Mar 4, 2015 11:00AM

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
William S Lawson	Individual	Support	No

Comments: I strongly support Hb 1172

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 4:27 PM
To: FINTestimony
Cc: wdanilczyk@gmail.com
Subject: Submitted testimony for HB1172 on Mar 4, 2015 11:00AM

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
William Danilczyk	Individual	Support	No

Comments: I strongly support bill #HB1172.

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finance1-Kim

From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 5:36 PM
To: FINTestimony
Cc: kkomori@lava.net
Subject: Submitted testimony for HB1172 on Mar 4, 2015 11:00AM

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Karen Komori	Individual	Support	No

Comments: I strongly support HB1172

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 5:30 PM
To: FINTestimony
Cc: jninomoto@lava.net
Subject: Submitted testimony for HB1172 on Mar 4, 2015 11:00AM

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
JULIE C. M. NINOMOTO	Individual	Support	No

Comments: I STRONGLY SUPPORT HB1172

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 4:46 PM
To: FINTestimony
Cc: hykim@navatekltd.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Hyunyul Kim	Individual	Support	No

Comments:

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 4:21 PM
To: FINTestimony
Cc: bkays@navatekltd.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Brian Kays	Individual	Support	No

Comments:

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 6:49 PM
To: FINTestimony
Cc: brosenthal@navatekltd.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Ben Rosenthal	Individual	Support	No

Comments:

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 3:40 PM
To: FINTestimony
Cc: alan.hayashi@baesystems.com
Subject: Submitted testimony for HB1172 on Mar 4, 2015 11:00AM

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
alan hayashi	Individual	Support	No

Comments: This measure HB1172 should make existing legislation much more applicable to small local research companies, and result in growth of the technology sector of the Hawaii economy. with a job multiplier of 5 to 1 (University of California study), this technology sector could create diversified jobs other than just in the technology sector. Thank you for your consideration.

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FIN-Jo

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, March 03, 2015 7:16 AM
To: FINTestimony
Cc: rroldan@lava.net
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/3/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
rena roldan	Individual	Support	No

Comments:

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FIN-Jo

From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 9:57 PM
To: FINTestimony
Cc: staketa@lava.net
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Sandra Taketa	Individual	Support	No

Comments:

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FIN-Jo

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, March 03, 2015 7:57 AM
To: FINTestimony
Cc: pnishida@lava.net
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/3/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Patti Nishida	Individual	Support	No

Comments:

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FIN-Jo

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, March 03, 2015 8:00 AM
To: FINTestimony
Cc: nicole.nakaoka@gmail.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/3/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Nicole nakaoka	Individual	Support	No

Comments:

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FIN-Jo

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, March 03, 2015 7:29 AM
To: FINTestimony
Cc: kchun@lava.net
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/3/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Kaleo Chun	Individual	Support	No

Comments:

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FIN-Jo

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, March 03, 2015 7:41 AM
To: FINTestimony
Cc: jimura@lava.net
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/3/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Joyce Imura	Individual	Support	No

Comments:

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FIN-Jo

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, March 03, 2015 7:36 AM
To: FINTestimony
Cc: jkmayeda@lava.net
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/3/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Jamie Mayeda	Individual	Support	No

Comments:

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FIN-Jo

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, March 03, 2015 8:43 AM
To: FINTestimony
Cc: dhirata@lava.net
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/3/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Debra Hirata	Individual	Support	No

Comments:

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finance1-Kim

From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 9:40 PM
To: FINTestimony
Cc: nakaoka@hawaiiantel.net
Subject: Submitted testimony for HB1172 on Mar 4, 2015 11:00AM

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Debbie Nakaoka	Individual	Support	No

Comments: I strongly support HB1172

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From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, March 03, 2015 7:49 AM
To: FINTestimony
Cc: gjohnson@navatekltd.com
Subject: Submitted testimony for HB1172 on Mar 4, 2015 11:00AM

HB1172

Submitted on: 3/3/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Gary Johnson	Individual	Support	No

Comments: I strongly support HB1172

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FIN-Jo

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, March 03, 2015 10:07 AM
To: FINTestimony
Cc: KATHY@NAVATEKLTD.COM
Subject: Submitted testimony for HB1172 on Mar 4, 2015 11:00AM

HB1172

Submitted on: 3/3/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
KATHY LOUI-YASUI	Individual	Support	No

Comments: I STRONGLY SUPPORT THIS BILL. THANK YOU.

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FIN-Jo

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, March 03, 2015 8:37 AM
To: FINTestimony
Cc: syamashita@navatekltd.com
Subject: Submitted testimony for HB1172 on Mar 4, 2015 11:00AM

HB1172

Submitted on: 3/3/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Scott Yamashita	Individual	Support	No

Comments: Strongly support bill HB1172

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From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 4:37 PM
To: FINTestimony
Cc: steve.schmitz@comcast.net
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Steve Schmitz	Individual	Support	No

Comments:

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LATE

From: mailinglist@capitol.hawaii.gov
Sent: Monday, March 02, 2015 4:32 PM
To: FINTestimony
Cc: cfield@navatekltd.com
Subject: *Submitted testimony for HB1172 on Mar 4, 2015 11:00AM*

HB1172

Submitted on: 3/2/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Charlie Field	Individual	Support	No

Comments:

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FIN-Jo

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, March 03, 2015 1:23 PM
To: FINTestimony
Cc: mitchel@navatekltd.com
Subject: Submitted testimony for HB1172 on Mar 4, 2015 11:00AM

HB1172

Submitted on: 3/3/2015

Testimony for FIN on Mar 4, 2015 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Mitchel Kagawa	Individual	Support	No

Comments: I strongly support HB1172!

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DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560



To: The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance

Date: Wednesday, March 4, 2015
Time: 11:00 A.M.
Place: Conference Room 308, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 1172, Relating to Research Activities

The Department of Taxation (Department) opposes this measure. Due to the complexity of this tax credit, the Department's ability to administer and enforce the provisions of the tax credit is severely hampered if the tax credit does not track the federal tax credit.

H.B. 1172 provides that sections 41 and 280C(c) of the Internal Revenue Code (IRC) shall be relied upon for calculating the State Tax Credit for Research Activities (TCRA), except that references to the base amount shall not apply and tax credit for all qualified research expenses may be taken without regard to the amount of expenses incurred for previous years. The measure is effective upon approval.

The federal TCRA is an incremental credit based on increases in research activities under IRC section 41(a). Taxpayers may choose to claim the credit under the Regular Research Credit (RRC) method or the Alternative Simplified Credit (ASC) method under IRC section 41(c)(5). The TCRA is a highly technical and extremely complex tax credit, such that the Department must rely on the expertise of the Internal Revenue Service (IRS) in determining whether a TCRA claim is justified.

For example, when the federal TCRA and the State TCRA were not in sync under Act 221, Session Laws of Hawaii 2000, the Department expended considerable audit resources to determine whether taxpayer claims for the TCRA were justified. Because the Hawaii TCRA is a refundable credit, the tendency is for taxpayers to be more aggressive in their approach as to what activities and expenditures fall within the parameters of the tax credit.

Validation of tax credit claims requires review of extremely detailed and technical information, and disputes concerning the credit are not easily resolved. Given that the Department does not have the personnel, resources and expertise to insure that claims for the credit are valid, the administration and enforcement of this tax credit is very difficult for the Department.

The TCRA is intended to encourage taxpayers to design, develop, and/or improve products, processes, techniques, formulas or software and intended to reward programs that pursue innovation. The ASC method allows taxpayers to claim research credits, even if research costs remain the same or when costs decline as compared to prior years. As such, it is not necessary to eliminate the reference to the base periods. Taxpayers are still eligible for the TCRA even when the amounts spent on qualified research decline from the previous year.

The RRC equals 20% of a taxpayer's current-year Qualified Research Expenses (QREs) that exceed a base amount, which is determined by applying the taxpayer's historical percentage of gross receipts spent on QREs (the fixed-base percentage) to the four most recent years' average gross receipts. The fixed-base percentage may not exceed 16%, and the base amount may not be less than half of the current-year QREs. The ASC equals 14% of the QREs for the taxable year that exceed 50% of the average QREs for the three taxable years preceding the taxable year for which the credit is being calculated. If the taxpayer has no QREs in any one of the three preceding tax years, the ASC rate equals 6% of the QREs for the taxable year.

Currently, under IRC sections 41(f)(1)(A)(ii) and 41(f)(1)(B)(ii), a taxpayer is required to allocate research credits to each controlled group member "on a proportionate basis to its share of the aggregate of the qualified research expenses, basic research payments, and amounts paid or incurred to energy research consortiums, taken into account by such controlled group for purposes of this section." Thus, the group credit is allocated to group members based on a member's share of qualified research expenses, basic research payments, and amounts paid or incurred to energy research consortiums, without regard to whether the member would have a stand-alone entity credit or what the amount of any such credit would be.

This measure would require substantial deviations in making this calculation for State tax purposes, as opposed to using the federal allocation, due to the deletion of the base periods that may be applicable to each taxpayer of the group. As a result, administration and enforcement of this tax credit will divert the Department's limited resources to administer and enforce a tax credit, rather than for revenue collection. The Department opposes this attempt to deviate from the federal TCRA.

Thank you for the opportunity to provide comments.