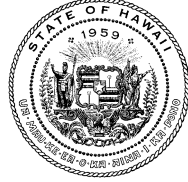


DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



RONA M. SUZUKI
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

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 Angus L.K. McKelvey, Chair;
The Honorable Lisa Kitagawa, Vice Chair;
and Members of the House Committee on Economic Development & Business

From: Rona M. Suzuki, Director
Department of Taxation

Re: H.B. 2138, Relating to Tax Credits

Date: Friday, January 31, 2020

Time: 8:30 A.M.

Place: Conference Room 309, State Capitol

The Department of Taxation (Department) provides the following comments regarding H.B. 2138. The measure increases the aggregate cap on the Tax Credit for Research Activities from its current \$5 million limitation to \$25 million. It is effective upon approval and applies to taxable years beginning after December 31, 2020.

This credit is certified and managed by the Department of Business, Economic Development, and Tourism (DBEDT). We appreciate that DBEDT would be required to notify our Department when it reaches the maximum credits to be certified.

Thank you for the opportunity to provide comments.



Written Statement of
Len Higashi
Acting Executive Director
Hawaii Technology Development Corporation
before the
House Committee on Economic Development and Business
Friday, January 31, 2020
9:30 a.m.
State Capitol, Conference Room 309

In consideration of
HB2138
RELATING TO TAX CREDITS.

Chair McKelvey, Vice Chair Kitagawa, and Members of the Committee.

The Hawaii Technology Development Corporation (HTDC) offers **comments** on HB2138 that increases the aggregate cap amount of the tax credit for research activities from \$5,000,000 to \$25,000,000. Applies to taxable years beginning after 12/31/2020.

As part of HTDC's vision to create 80,000 new innovation jobs in Hawaii earning \$80,000 or more by 2030, HTDC supports initiatives aimed at promoting technology and innovation jobs. HTDC believes tax credits can be an effective component of a comprehensive economic development plan. Thank you for the opportunity to offer these comments.



Written Statement of
DR. PATRICK K. SULLIVAN
PRESIDENT/CEO OCEANIT

Before the
HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS

January 31, 2020
8:30 a.m.
State Capitol, Conference Room 309
In Support of
HB2138 RELATING TO TAX CREDITS

To: Chair Angus McKelvey, Vice Chair Lisa Kitagawa and Members of the Economic Development & Business Committee

From: Dr. Patrick K. Sullivan, President/CEO

Re: Testimony in Support of HB2138

Honorable Chair, Vice-Chair and Committee Members:

*Thank you for the opportunity to submit testimony **in support of HB2138***

Oceanit is a home grown, Hawaii-based, **Mind to Market** company that develops technology from fundamental science and research, and drives original product offerings to markets in energy, aerospace and healthcare, creating spin-out companies and partnering with end users. We employ approximately 150 professionals and regularly host interns, school classes, and conduct numerous outreach activities for elementary thru college levels students to introduce them to science and engineering careers. We let the children of Hawai'i know that there are exciting, good paying jobs for them in right here in this State. Many of them have returned to the islands, equipped with college degrees, wanting to work in science and engineering. It is our hope that we can continue to offer an alternative to those who want to work in an industry that is growing nationally as well as internationally and to show them that world class technical work can thrive in Hawai'i.

R&D credits help start and foster Hawaii's tech industry, which is in its infancy. It has been responsible for job creation, as well as many long-term investments Oceanit has made that will set the stage for future growth. The reality is that without the R&D tax credit, Oceanit would not have been able to make these investments.

As a result of forward-looking nature of research, few R&D investments have short-term rewards. This bill would re-establish a temporary refundable R&D income tax credit for qualified research activities in the State of Hawai'i, to help provide longer-term continuity for an industry that is struggling to grow.

Thank you for your continued support of R&D. It's the underpinning of Hawaii's emerging tech and innovation economy, creating jobs in STEM fields that are essential to Hawaii's future.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Increase Aggregate Cap on Credit for Research Activities

BILL NUMBER: HB 2138; SB 2545

INTRODUCED BY: HB by MCKELVEY, HOLT, KITAGAWA, KONG, C. LEE, LOWEN, MCDERMOTT, NAKAMURA, NISHIMOTO, OHNO, TARNAS, WARD, WOODSON, Nakashima; SB by WAKAI (Introduced by request of another party)

EXECUTIVE SUMMARY: Increases the aggregate cap amount of the tax credit for research activities from \$5,000,000 to \$25,000,000. Applies to taxable years beginning after 12/31/2020.

SYNOPSIS: Amends section 235-110.91, HRS, to increase the aggregate cap on the tax credit for research activities from \$5 million to \$25 million per taxable year.

EFFECTIVE DATE: Taxable years beginning after 12/31/2020.

STAFF COMMENTS: The legislature by Act 270, SLH 2013, reestablished the income tax credit for qualified research activities that expired on Dec. 31, 2010. 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, like the federal credit. Act 261, SLH 2019, converted the credit back to the flat percentage of qualified research expenses in Hawaii without regard to the federal base amount.

Current law imposes a statewide aggregate cap of \$5 million on the credit. This bill would change that to \$25 million.

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.

Re: HB 2138

Page 2

At a minimum, lawmakers should carefully examine the results that have come out of this 20-year-old incentive to see if the State has gotten its money's worth. If it hasn't, can an extension or increase in the credit be justified?

Digested 1/28/2020



Chamber of Commerce HAWAII

The Voice of Business

**Testimony to the House Committee on Economic Development and Business
Friday, January 31, 2020 at 9:30 A.M.
Conference Room 309, State Capitol**

RE: HB 2138, RELATING TO TAX CREDITS

Chair McKelvey, Vice Chair Kitagawa, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **supports** HB 2138, which would increase the aggregate cap amount of the tax credit for research activities from \$5 million to \$25 million and applies to taxable years beginning after 12/31/2020.

The Chamber is Hawaii's leading statewide business advocacy organization, representing 2,000+ 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.

The Chamber continues to support the State's efforts to promote and foster innovation research and development in Hawaii. Innovation is a proven catalyst for economic growth and the creation of high-skilled and high-paying jobs. This bill would help to provide necessary capital to help assist businesses with their research and development activities, which will in turn support their ability to grow their businesses and compete globally.

Thank you for the opportunity to provide testimony in support of HB 2138.

HB-2138

Submitted on: 1/30/2020 8:30:16 AM

Testimony for EDB on 1/31/2020 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Hermann Kugeler	Makai Ocean Engineering, Inc.	Support	No

Comments:

Makai Ocean Engineering, Inc. **STRONGLY SUPPORTS HB2138**, which supports Hawaii's R&D companies enabling them to continue spending monies on wages, materials and subcontractors IN THE STATE OF HAWAII and recognizes the importance of Hawaii's innovation industries to our economy.



MAUI
CHAMBER OF COMMERCE
VOICE OF BUSINESS

LATE

**HEARING BEFORE THE HOUSE COMMITTEE ON
ECONOMIC DEVELOPMENT & BUSINESS
HAWAII STATE CAPITOL, HOUSE CONFERENCE ROOM 309
FRIDAY, JANUARY 31, 2020 AT 9:30 A.M.**

To The Honorable Angus L.K. McKelvey, Chair;
The Honorable Lisa Kitagawa, Vice Chair; and
Members of the Committee on Economic Development & Business;

TESTIMONY IN SUPPORT OF HB2138 RELATING TO TAX CREDITS

Aloha, my name is Pamela Tumpap and I am the President of the Maui Chamber of Commerce, with approximately 650 members. I am writing share our strong support of HB2138.

The Maui Chamber of Commerce supports HB2138 to increase the aggregate cap amount of the tax credit for research activities from \$5,000,000 to \$25,000,000. Research is critical to every industry and especially to innovation. Innovation and research attracts dollars to the state that create STEM and higher paying jobs, supporting further STEM education. This has been prevalent in the stellar results we have seen from the university in cancer research. As other states have incentives like this, we believe raising this threshold allows Hawaii to be more competitive to attract further research activities.

We appreciate the opportunity to testify on this matter and ask that this bill be passed.

Sincerely,

Pamela Tumpap

Pamela Tumpap
President

To advance and promote a healthy economic environment for business, advocating for a responsive government and quality education, while preserving Maui's unique community characteristics.