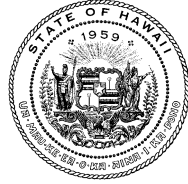


DAVID Y. IGE
GOVERNOR
JOSH GREEN M.D.
LT. GOVERNOR



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

RONA M. SUZUKI
DIRECTOR OF TAXATION
DAMIEN A. ELEFANTE
DEPUTY DIRECTOR



To: Honorable Donovan M. Dela Cruz, Chair;
Honorable Gilbert S.C. Keith-Agaran, Vice Chair;
and Members of the Senate Committee on Ways and Means

From: Rona M. Suzuki, Director
Department of Taxation

Re: **S.B. 2545, Relating to Tax Credits**
Date: Tuesday, February 25, 2020
Time: 12:25 P.M.
Place: Conference Room 211, State Capitol

The Department of Taxation (Department) provides the following comments regarding S.B. 2545.

S.B. 2545 increases the aggregate cap amount of the tax credit for research activities provided under section 235-110.91, Hawaii Revised Statutes, from \$5,000,000 to \$25,000,000. S.B. 2545 is effective for taxable years beginning after December 31, 2020.

Because this measure only changes the aggregate cap amount, it does not have a significant administrative impact on the Department. As such, the Department will be able to administer this measure as it is currently written.

Thank you for the opportunity to provide comments.



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

Before the
SENATE COMMITTEE ON WAYS AND MEANS

February 25, 2020
12:25 p.m.
State Capitol, Conference Room 211

In Support of
SB2545 RELATING TO TAX CREDITS

To: Chair Donovan Dela Cruz, Vice Chair Gilbert Keith-Agaran. and Members of the Ways and Means Committee

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

Re: Testimony in Support of SB2545

Honorable Chair, Vice-Chair and Committee Members:

*Thank you for the opportunity to submit testimony **in support of SB2545***

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.





Statement of
Hermann Kugeler
Business Development Manager
Makai Ocean Engineering, Inc.
before the
Senate Committee on Ways and Means
Tuesday, February 25, 2020
12:25pm
State Capitol, Conference Room 211
In consideration of
SB2545
RELATING TO TAXATION.

Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Committee

Makai Ocean Engineering, Inc. **STRONGLY SUPPORTS SB2545** that increases the aggregate cap amount of the tax credit for research activities.

Makai is a locally-owned and operated technology company based in Hawai'i for over 45 years. We are currently performing R&D on a variety of exciting ocean technology projects, including autonomous underwater vehicles, ocean thermal energy conversion (OTEC) and seawater air conditioning (SWAC) systems, submarine and subsea cable systems, and a Department of Energy project to grow and harvest macroalgae offshore in Hawaiian waters to produce a renewable biofuel alternative for transportation.

Makai has been successful in bringing in tens of millions of dollars in R&D funds from federal and international sponsors to Hawai'i, helping to stem the tide of "brain drain" of talented kama'aina kids going to the mainland. Makai is not unique among Hawaii technology companies in this. There is a tech community here that has made a strong economic impact in terms of high paying jobs, and demonstrated success in commercializing R&D, which has increased taxable revenue for the state, and brought home kama'aina scientists and engineers.

This bill would enhance the ability of Hawaii companies like Makai to outshine mainland peers in competitive federal R&D projects, bring home R&D dollars that greatly exceed the initial investment, and create a critical mass and a truly vibrant industry of innovative R&D companies in Hawaii. It would expand and diversify Hawaii's economy, and enable our tech industry to support high-paying, highly-skilled professional jobs for our keiki here at home.

This is why we **STRONGLY SUPPORT SB2545**, 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.



Written Statement of
Len Higashi
Acting Executive Director
Hawaii Technology Development Corporation
before the
Senate Committee on Ways and Means
Tuesday, February 25, 2020
12:25 p.m.
State Capitol, Conference Room 211

In consideration of
SB2545
RELATING TO TAX CREDITS.

Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Committee.

The Hawaii Technology Development Corporation (HTDC) offers **comments** on SB2545 that increases the aggregate cap amount of the tax credit for research activities from \$5,000,000 to \$25,000,000 and 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 growing tech and innovation jobs. A total of fourteen Qualified High Technology Businesses (QHTBs) completed the survey with the State Department of Business, Economic Development and Tourism (DBEDT) for the Hawaii research tax credit for the tax year 2018. About 75% of full-time employees in the QHTBs were paid \$60,000 and more annually, of which about half were paid more than \$100,000 annually. The R&D credit will bring more jobs to Hawaii as well as many long-term investments to Hawaii's economy. This bill would re-establish a refundable R&D income tax credit for qualified research activities in the State of Hawai'i, to help provide longer-term continuity for Hawaii's tech industry. HTDC believes tax credits are effective as one component of a comprehensive economic development policy.

Thank you for the opportunity to offer these comments.

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: SB 2545

INTRODUCED BY: WAKAI by request

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.

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 2/21/2020

Written Statement of
Edward H. Rau

Before the
SENATE COMMITTEE ON WAYS AND MEANS

February 25, 2020
12:25 p.m.
State Capitol, Conference Room 211

In Support of
SB2545 RELATING TO TAX CREDITS

To: Chair Donovan Dela Cruz, Vice Chair Gilbert Keith-Agaran and
Members of the Ways and Means Committee and
Members of the Agriculture Committee

From: Edward H. Rau

Re: Testimony in Support of SB2545

Honorable Chair, Vice-Chair and Committee Members:

I am the founder and president of *Sustainable Bioresources, LLC* located in Naalehu, Hawai'i. We are a service-disabled, veteran-owned small business engaged in R&D of new plant cultivars for sustainable agriculture, and novel, high value products such as biopesticides to be produced from plant derived materials. These products are intended to have direct applications in Hawai'i as new niche crops for sustainable agriculture, and in controlling dengue, rat lungworm, and other pests and diseases of great contemporary importance. All of our research activities are carried out in Hawai'i, and almost all of our equipment, materials and contract labor is obtained from local sources.

I would like to express my strong support for SB2545. As a very small business engaged in R&D of products that take many years to develop, are prone to intellectual property theft, face many regulatory hurdles, and have uncertain prospects for sales and profitability it is very difficult to obtain sources of outside funding. We have to largely self-fund our operations. The refundable R&D income tax credit for qualified research has been one of the few options

available to help with these expenses and we have received credits through the program in past years.

We urge you to re-establish the R&D income tax credit and increase the aggregate cap of the credits to \$25,000,000 as proposed. The products from this modest investment in research will bring long term economic and health benefits the People of Hawai'i.

Thank you for the opportunity to submit testimony in support of SB2545.

Sincerely,

Edward H. Rau, MS, LEHS
President
Sustainable Bioresources, LLC

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Naalehu, HI 96772-0350
USA

Phone: 808-339-7325
Mobile: 808-747-4838
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Website: www.sustainablebioresources.com

SB-2545

Submitted on: 2/22/2020 11:40:35 AM

Testimony for WAM on 2/25/2020 12:25:00 PM

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

Comments:

I strongly support SB2545.