

**JOSH GREEN M.D.**  
GOVERNOR

**SYLVIA LUKE**  
LT. GOVERNOR



**GARY S. SUGANUMA**  
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DEPUTY DIRECTOR

STATE OF HAWAII  
**DEPARTMENT OF TAXATION**  
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**TESTIMONY OF  
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

**TESTIMONY ON THE FOLLOWING MEASURE:**

S.B. No. 302, S.D.2, Relating to Taxation

**BEFORE THE:**

House Committee on Higher Education & Technology

**DATE:** Friday, March 17, 2023

**TIME:** 3:35 p.m.

**LOCATION:** State Capitol, Room 309

Chair Perruso, Vice-Chair Kapela, and Members of the Committee:

The Department of Taxation ("Department") offers the following comments regarding S.B. 302, S.D.2, for your consideration.

S.B. 302, S.D.2, seeks to: (1) temporarily reinstate the technology infrastructure renovation tax credit; (2) add a definition for "data server"; and (3) amend the definition of "technology-enabled infrastructure" to include data servers. The measure has a defective effective date of January 1, 2050 and applies to taxable years beginning after December 31, 2022.

The Department will be able to implement this bill by the current effective date.

Thank you for the opportunity to provide comments on this measure.



Written Statement of  
**Len Higashi**  
Executive Director  
Hawaii Technology Development Corporation  
before the  
**House Committee On Higher Education & Technology**  
Friday, March 17, 2023  
3:35 p.m.  
Conference Room 309 & Videoconference

In consideration of  
**SB302, SD2**  
**RELATING TO TAXATION.**

Chair Perruso, Vice Chair Kapela, and Members of the Committee.

The Hawai'i Technology Development Corporation (HTDC) **supports** the intent of SB302, SD2 that temporarily reinstates the technology infrastructure renovation tax credit and expands the definition of "technology-enabled infrastructure" to include data servers.

HTDC supports initiatives aimed at growing tech and innovation jobs. As "cloud" software has become an essential part of every business, increasing the amount of technology infrastructure in Hawai'i helps to keep the funds and jobs in Hawai'i. HTDC defers to the department on the fiscal impacts of this measure.

Thank you for the opportunity to offer these comments.



March 17, 2023

**TESTIMONY IN SUPPORT OF SB 302, SD2  
RELATING TO TAXATION**

House Committee on Higher Education & Technology  
The Honorable Amy A. Perruso, Chair  
The Honorable Jeanne Kapela, Vice Chair

Friday, March 17, 2023; 3:35 p.m.  
Conference Room 309 & Videoconference  
State Capitol  
415 South Beretania Street

Chair Perruso, Vice Chair Kapela, and members of the Committee,

Thank you for this opportunity to offer our support for SB 302, SD2, Relating to Taxation. My name is Richard Zheng, President and CEO of Servpac.

As a locally owned company established in 2004, Servpac has evolved from a Hawaii telecommunications provider to an all-in-one cloud-based technology solution, offering high speed fiber internet, VoIP phones, cloud computing, data center colocation and managed IT services. We understand the unique challenges that Hawaii's businesses face and we provide customized solutions to keep them connected in a mission-critical world.

Data centers and fiber optic networks are driving forces that support the creation and growth of the high-tech sector in Hawaii. These facilities enable the creation of high paying jobs in the technology sector, thereby contributing to the diversification of Hawaii's economy.

The re-enactment of HRS section 235-110.51, the legislature by Act 221, SLH 2001, enacted a credit of 4% of the "high-technology" renovation costs incurred during the taxable year for a commercial building for costs incurred after December 31, 2000 but before January 1, 2006. Act 215, SLH 2004, extended the credit until December 31, 2010. SB 302, SD2 proposes to reestablish the technology infrastructure renovation tax credit for a finite time period but ending December 31, 2025.



Over the last decade, Hawaii has adopted various tax incentives to encourage the development of high-technology businesses in the state. The focus on high-technology is commendable and recognized policy direction that state investments will yield sweat investments from within and outside Hawaii's environment.

Mahalo for allowing Servpac to share our perspectives on SB 302, SD2.

# TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

**SUBJECT:** INCOME, Reinstate Technology Infrastructure Renovation Tax Credit, include data servers

**BILL NUMBER:** SB 302 SD 2

**INTRODUCED BY:** Senate Committee on Ways and Means

**EXECUTIVE SUMMARY:** Temporarily reinstates the nonrefundable technology infrastructure renovation tax credit. Expands the definition of "technology-enabled infrastructure" to include data servers.

**SYNOPSIS:** Amends section 235-110.51(h), HRS, to add language reinstating the credit for taxable years beginning after December 31, 2022, and before January 1, 2026.

Amends section 235-110.51(i), HRS, to add "data servers" to the definition of "technology-enabled infrastructure" eligible for creditable renovation costs. Adds a definition of "data server" as "a computer system used to hold large amounts of electronic data and provide database management and access services to client computers on a computer network."

**EFFECTIVE DATE:** January 1, 2050.

**STAFF COMMENTS:** The legislature by Act 221, SLH 2001, enacted a credit of 4% of the "high tech" renovation costs incurred during the taxable year for a commercial building for costs incurred after December 31, 2000, but before January 1, 2006. Act 215, SLH 2004, extended the credit until December 31, 2010. This measure proposes to reestablish the technology infrastructure renovation tax credit that expired on December 31, 2010.

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: 3/16/2023



Charter Communications  
Testimony of Rebecca Lieberman, Director of Government Affairs

**HOUSE COMMITTEE ON HIGHER EDUCATION & TECHNOLOGY**

Hawaii State Capitol  
Friday, March 17, 2023

**COMMENTS ON S.B. 302, S.D. 2 – RELATING TO TAXATION**

Chair Perruso, Vice Chair Kapela, and Members of the Committee.

Thank you for the opportunity to provide comments on S.B. 302, S.D. 2, a bill that would temporarily reinstate the technology infrastructure renovation tax credit.

As the largest broadband provider in the state, Charter supports efforts to expand broadband access and we **support the intent of this bill**, which reinstates the technology infrastructure renovation tax credit. Charter believes that every Hawaii resident should have reliable access to the Internet. We will continue to help bring the benefits of broadband and access to the internet to those who need it most.

Hawaii is slated to receive millions of dollars in federal grants for broadband infrastructure in the immediate future (via the Coronavirus Capital Project Fund and Broadband, Equity, Access, and Deployment Program). This is a unique opportunity for the state to partner with the private sector to connect many unserved residents in rural and remote areas throughout Hawaii. Expanding the existing technology infrastructure tax credit to include purchases of machinery and equipment used

to provide broadband and other communications services would increase network investment and broadband penetration. Providers can reinvest this savings into additional projects in unserved areas, maximizing the benefits of the federal aid. Additionally, the new economic activity generated by increased broadband network investment will generate substantial offsetting revenues for state and local governments as new employment and economic activity generates tax revenue.

In order to maximize the benefits of the federal aid as previously described, we offer the following amendments:

- Page 2, Section 2, Line 17, insert the following new language:

SECTION 2. Chapter 237 is amended by adding a new section as follows:

“There shall be exempted from, and excluded from the measure of, the taxes imposed by this chapter any amount arising from the sale of machinery and equipment used, in whole or in part, in a communications network by a provider of telecommunications services as described in section 237-13(6), Internet access as defined in 47 U.S.C. § 151, note, or any combination thereof.”

SECTION 3. Section 238-3, Hawaii Revised Statutes, is amended by a new subsection to read as follows:

“The tax imposed by this chapter shall not apply to any use of machinery and equipment used in a communications network exempted by Section 2 of this Act.”

In 2022 alone, Charter extended its network to reach an additional 7,000 homes and small businesses in Hawaii, investing more than \$99 million in the state. Additionally, Charter participated in the FCC's Emergency Broadband Benefit Program (EBB) and is now participating in the \$14.2 billion federal Affordable Connectivity Program (ACP). The EBB, and now the ACP, has helped connect over 40,000 eligible households in Hawaii with high-speed broadband during the ongoing COVID-19 pandemic. Broadband internet access is more important than ever, and the ACP offers a tremendous opportunity to help low-income families stay connected, providing eligible households a discount of up to \$30 per month toward broadband service and up to \$75 per month for households on the Hawaiian Home Lands.

Mahalo for the opportunity to provide suggested amendments to S.B. 302, S.D. 2.



Written Statement of  
**Jeannine Souki**  
Senior Manager – Government & Regulatory Affairs

**HOUSE COMMITTEE ON HIGHER EDUCATION & TECHNOLOGY**  
March 17, 2023 – 3:35 PM  
Conference Room 309, Hawai'i State Capitol

**COMMENTS FOR:**

**S.B. 302 SD2 – RELATING TO TAXATION**

To: Representative Amy Perruso, Chair  
Representative Jeanne Kapela, Vice Chair  
Members of the Committee on Higher Education & Technology

**Re: Testimony providing comments for SB 302 SD2 with requested amendment**

Aloha Honorable Chair, Vice-Chair, and Committee Members:

Thank you for this opportunity to provide testimony on SB 302 SD2, which would temporarily reinstate the technology infrastructure renovation tax credit.

Hawaiian Telcom supports the intent of this measure; however, the language as currently written does not adequately cover investments in building broadband network infrastructure in the state. As broadband internet is the catalyst for transforming and enabling many important business activities and government services to become more accessible, we respectfully request your Committee's consideration of the attached amendment to extend an exemption of the General Excise Tax on communications infrastructure that will help boost Hawai'i's economy and incentivize investments to build broadband infrastructure.

The lack of adequate broadband infrastructure, especially in rural areas, and digital disparities were laid bare as lockdowns imposed during the COVID-19 pandemic accelerated increased demand for broadband services. Broadband networks provide critical productivity benefits to government, businesses, and non-profit organizations that increasingly rely on technology to provide services, goods, and information to employees, customers, and various constituencies. Hawaiian Telcom's vision is to make a positive impact in Hawai'i by shrinking the digital divide and improving the quality of life by enabling all homes and businesses with fiber internet service.

Hawaiian Telcom continues to make significant investments to expand fiber internet across the state. In 2022, our company invested more than \$160 million to build fiber for 55,000 additional homes and businesses. Over the last 10 years, Hawaiian Telcom has invested more than \$1 billion to expand our

fiber network, and we plan to continue to expand fiber throughout the state to more than 60,000 additional locations in 2023. Fiber-optic cables have 10,000 times the bandwidth capacity than traditional copper cables, and our Fiopitics services currently provides up to one gigabit download speed and 500 megabits per second upload and at some of the lowest rates in the nation.

In November 2021, Congress approved \$65 billion to help states and U.S. territories close gaps in the digital divide through the federal Infrastructure Investment and Jobs Act (IIJA) and Broadband Equity, Access, and Deployment (BEAD) programs. The State stands to receive several hundreds of millions in federal funding for broadband deployment and services. While these federal dollars provide a temporary infusion of funding for broadband infrastructure and services, we support efforts for the State to further leverage federal IIJA and BEAD funds with private sector investments to address the digital divide, especially in unserved and underserved areas such as the neighbor islands where the cost to build is much higher than in metropolitan areas like Honolulu.

As the construction of fiber-enabled networks continues, more tax incentives and less regulation are considered the blueprint to stimulate and maximize private and public sector investments. A national Tax Foundation article noted that a light touch regulatory regime, and smart, pro-growth tax policy can play a role in strengthening private investment in infrastructure like broadband. And, Austan Goolsbee, former Obama administration Council of Economic Advisers chair, found that the efficiency costs of taxing new technology such as broadband are more harmful than those of most taxes, as they slow the diffusion of productivity-enhancing technology.<sup>1</sup>

For these reasons, Hawaiian Telcom urges your Committee's consideration to amend this bill as shown in the attachment. We stand ready to work with your Committee, the Hawai'i Department of Taxation, and other stakeholders to help further investments in technology that will in turn generate substantive revenue returns for our state with increased employment and economic activity driven by broadband infrastructure investments.

Thank you for the opportunity to provide testimony on SB 302 SD2.

Attachments: 1

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<sup>1</sup> ["What the Internet Can Teach Us About Capital Investment, Infrastructure, and Tax Policy,"](#) Alex Mureisanu, Tax Foundation, June 17, 2020, accessed on March 17, 2023.

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A BILL FOR AN ACT

RELATING TO TAXATION.

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

SECTION 1. Section 235-110.51, Hawaii Revised Statutes, is amended by amending subsections (h) and (i) to read as follows:

"(h) The tax credit allowed under this section shall **be available for taxable years beginning after:**

**(1) December 31, 2000, but shall** not be available for taxable years beginning after December 31, 2010[.]; **and**

**(2) December 31, 2022, but shall not be available for taxable years beginning after December 31, 2025.**

(i) As used in this section:

**"Data server" means a computer system used to hold large amounts of electronic data and provide database management and access services to client computers on a computer network.**

"Net income tax liability" means income tax liability reduced by all other credits allowed under this chapter.

"Renovation costs" means costs incurred after December 31, 2000, to plan, design, install, construct, and purchase technology-enabled infrastructure equipment to provide a commercial building with technology-enabled infrastructure.

"Technology-enabled infrastructure" means:

(1) **Either:**

**(A)** High speed telecommunications systems that provide Internet access, direct satellite communications access, and videoconferencing facilities; **or**

**(B) Data servers;**

(2) Physical security systems that identify and verify valid entry to secure spaces, detect invalid entry or entry attempts, and monitor activity in these spaces;

(3) Environmental systems to include heating, ventilation, air conditioning, fire detection and suppression, and other life safety systems; and

(4) Backup and emergency electric power systems."

**SECTION 2. Chapter 237 is amended by adding a new section as follows:**

**"There shall be exempted from, and excluded from the measure of, the taxes imposed by this chapter any amount arising from the sale of materials and equipment used, in whole or in part, in a communications network by a provider of telecommunications services as described in section 237-13(6), Internet access as defined in 47 U.S.C. § 151, note, or any combination thereof."**

SECTION 3. Section 238-3, Hawaii Revised Statutes, is amended by a new subsection to read as follows:

“The tax imposed by this chapter shall not apply to any use of materials and equipment used in a communications network exempted by Section 2 of this Act.”

SECTION ~~24~~. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION ~~35~~. This Act shall take effect on January 1, 2050, and shall apply to taxable years beginning after December 31, 2022; provided that the general excise and use tax exemptions in sections 2 and 3 of this Act shall take effect on January 1, 2024.