



Written Statement of
Len Higashi
Executive Director
Hawaii Technology Development Corporation
before the
Senate Committee On Labor And Technology
Monday, January 30, 2023
3:00 p.m.
Conference Room 224 & Videoconference

In consideration of
SB302
RELATING TO TAXATION.

Chair Moriwaki, Vice Chair Lee, and Members of the Committee.

The Hawai'i Technology Development Corporation (HTDC) **supports** the intent of SB302 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 of Taxation on the implementation of this measure.

Thank you for the opportunity to offer these comments.

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION

Ka 'Oihana 'Auhau
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

GARY S. SUGANUMA
DIRECTOR OF TAXATION

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

**TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

TESTIMONY ON THE FOLLOWING MEASURE:

S.B. No. 302, Relating to Taxation

BEFORE THE:

Senate Committee on Labor and Technology

DATE: Monday, January 30, 2023

TIME: 3:00 p.m.

LOCATION: State Capitol, Room 224

Chair Moriwaki, Vice-Chair Lee, and Members of the Committee:

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

S.B. 302 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 is effective upon approval and applies to taxable years beginning after December 31, 2022.

Section 1 of the bill amends section 235-110.51(h), Hawaii Revised Statutes (HRS) to provide:

- (h) The tax credit allowed under this section shall not be available for taxable years:
- (1) Beginning after December 31, 2010, and ending before January 1, 2023; or
 - (2) Beginning after December 31, 2025.

Accordingly, pursuant to section 235-110.51(h), HRS, the tax credit will be

temporarily available for taxable years beginning after January 1, 2022.¹ Section 3 of the bill, however, provides that the Act "shall apply to taxable years beginning after December 31, 2022."

To avoid ambiguity for fiscal-year taxpayers whose taxable years begin in 2022 and end in 2023, and to be consistent with section 3 of the bill, the Department recommends amending section 235-110.51(h)(1) to read: "Beginning after December 31, 2010, and ending before December 31, 2023."

Further, due to the number of bills with tax law changes that have been introduced this year, the Department may not have the resources to implement all measures passed this session in time for tax year 2023. The Department will continue to monitor the status of proposed legislation and will advise whether some changes will require a later effective date.

¹ A taxable year that begins on January 2, 2022 would end on January 1, 2023, and would therefore not be subject to section 235-110.51(h)(1), HRS.

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

INTRODUCED BY: DELA CRUZ, AQUINO, CHANG, INOUE, KANUHA, LEE, MCKELVEY, Ihara, Kidani, Moriwaki

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 in 2023, 2024, and 2025.

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: Taxable years beginning after December 31, 2022.

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: 1/26/2023



January 30, 2023

**TESTIMONY IN SUPPORT OF SENATE BILL 302
RELATING TO TAXATION**

Senate Committee on Labor and Technology
The Honorable Sharon Y. Moriwaki, Chair
The Honorable Chris Lee, Vice Chair

Monday, January 30, 2023, 3:00 p.m.

Conference Room 224 & Videoconference
State Capitol
415 South Beretania Street

Chair Moriwaki, Vice Chair Lee, and members of the Committee,

Thank you for this opportunity to offer our support for Senate Bill 302 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. This measure proposes to reestablish the technology infrastructure renovation tax credit for a finite time period beginning January 1, 2023 and 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 Senate Bill 302.