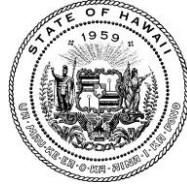


JOSH GREEN M.D.
GOVERNOR

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

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

TESTIMONY ON THE FOLLOWING MEASURE:

H.B. No. 1957, H.D. 1, Relating to Research Activities.

BEFORE THE:

House Committee on Finance

DATE: Thursday, February 22, 2024

TIME: 10:00 a.m.

LOCATION: State Capitol, Room 308

Chair Yamashita, Vice-Chair Kitagawa, and Members of the Committee:

The Department of Taxation ("Department") offers the following comments regarding H.B. 1957, H.D. 1 for your consideration.

H.B. 1957, H.D. 1 makes several changes to section 235-110.91, Hawaii Revised Statutes (HRS), which governs the tax credit for research activities. The measure raises the credit's annual aggregate cap from \$5,000,000 to \$15,000,000 and restricts credit eligibility only to small businesses registered in the State, with "small business" meaning a company with no more than 500 employees, including affiliates; the measure also extends the credit's sunset date in session law to December 31, 2029. H.B. 1957, H.D. 1 has a defective effective date of July 1, 3000, and would apply to taxable years beginning after December 31, 2023.

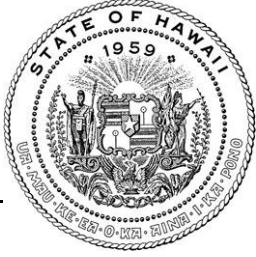
The Department defers to the Department of Business, Economic Development, and Tourism on its ability to continue certifying this credit with the measure's proposed changes. However, the Department requests that this certification requirement be maintained. The Department does not have sufficient subject-matter expertise to properly certify this credit.

The Department notes that if this Committee wishes to insert a functional effective date and advance this measure, the Department would be able to administer

Department of Taxation Testimony
HB 1957, H.D. 1
February 22, 2024
Page 2 of 2

H.B. 1957, H.D. 1, if made effective upon approval for taxable years beginning after December 31, 2023.

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



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**
KA 'OIHANA HO'OMOHALA PĀ'OIHANA, 'IMI WAIWAI
A HO'OMĀKA'IKĀ'I

JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR

JAMES KUNANE TOKIOKA
DIRECTOR

DANE K. WICKER
DEPUTY DIRECTOR

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813
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Statement of
JAMES KUNANE TOKIOKA
Director
Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEE ON FINANCE

Thursday, February 22, 2024
10:00 AM
State Capitol, Conference Room # 308

In consideration of
HB1957 HD1
RELATING TO TAX CREDIT FOR RESEARCH ACTIVITIES.

Chair Yamashita, Vice Chair Kitagawa and members of the Committee.

The Department of Business, Economic Development and Tourism (DBEDT) supports HB1957 HD1 which narrows the qualifying criteria for research activities tax credits to applicants who are small businesses registered in the State, increases the maximum amount of tax credits that can be certified per year and extends the sunset date of the research activities tax credit by five years.

Research activities have been shown to be effective in stimulating regional or state technology, research, and development sectors. For the past two years, the existing \$5,000,000 cap was reached almost as soon as the online applications were opened on March 1st each year. The cap limits the ability to accelerate research activity in the state with companies unable to claim the credit due to the method of allocation.

In 2022, [READ report](#) shared a total of 26 filers who spent \$59.4 million in the state, and a total \$11.9 million in tax credit claim exceeding the cap. The first come, first served methodology to allot credits in order of date and time they were received, limited the credit to only 9 companies.

We support HB1957 as it will provide the Hawai'i Technology Development Corporation (HTDC) with the ability to better serve its constituency, increasing the number of R&D companies who can qualify for the credit and benefits small business in the research sector. Thank you for the opportunity to testify.



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Toby Taniguchi, KTA Superstores, *Advisor*
Joe Carter, Coca-Cola Bottling of Hawaii, *Advisor*
Eddie Asato, Pint Size Hawaii, *Immediate Past Chair*

TO: Committee on Finance

FROM: HAWAII FOOD INDUSTRY ASSOCIATION
Lauren Zirbel, Executive Director

DATE: February 22, 2024
TIME: 10am
PLACE: Room 308

RE: HB1957 HD1 Relating to Research Activities

Position: Support

The Hawaii Food Industry Association is comprised of two hundred member companies representing retailers, suppliers, producers, manufacturers and distributors of food and beverage related products in the State of Hawaii.

Dear Chair Yamashita, Vice Chair Kitagawa, and Members of the Committee,

HFIA is in support of this measure. This measure supports our small businesses in their efforts to innovate and grow. Increasing the amount of tax credits that these businesses can certify each year is an investment in companies that are making progress and finding ways to drive their industries forward.

We believe this measure will encourage business growth, innovation, and economic diversification for our state. We encourage the committee to vote yes and we thank you for the opportunity to testify.

HB-1957-HD-1

Submitted on: 2/20/2024 3:04:24 PM

Testimony for FIN on 2/22/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Myles Nomura	VisionSafe Corporation	Comments	Written Testimony Only

Comments:

Aloha,

We are the FAA certified manufacturing in Hawaii for emergency vision assurance systems (EVAS). We previously were able to received R&D credit from the State of Hawaii but in the past 3 years, we have been cut off from being considered for any R&D due to the current form of first-come, first serve. This is so unfair as we have been submitting our application within 10 minutes from when the DBEDT website opens on March 1st at 9am for the past 3 years. Believe we were as quick as possible to file with no luck. Assume some big boy company had claimed all the \$5mil before us small fry got any chance.

Would like the you to strongly consider prorating the available \$5mil to all parties who fill within the application submission period as previously done in the past so us small business can get alitte piece of this credit.

We continue to invest in R&D to improve our product and develop new enhancement to our product line but even if we are not a formal research & development business.

Accordingly, please consider the following: 1) prorate allocation of funding credit to all business who submit application within the acceptance period. 2) As long as R&D are legitiment, it should be open to all Hawaii base businesses. Not only to R&D businesses.

Mahalo,

Myles Nomura, Controller for VisionSafe Corporation

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME TAX; Tax Credit for Research Activities; Limit to Small Business

BILL NUMBER: HB 1957 HD 1

INTRODUCED BY: House Committee on Economic Development

EXECUTIVE SUMMARY: Narrows the qualifying criteria for research activities tax credits to applicants who are small businesses registered in the State. Increases the maximum amount of tax credits that can be certified per year. Extends the sunset date of the research activities tax credit by five years.

SYNOPSIS:

Amends section 235-110.91((f) to increase the annual certified credits to \$15 million from \$5 million.

Amends section 235-110.91(n) sunset date from years beginning after December 31, 2024 to 2029.

Amends section 235-110.91(o) definition of a “qualified high technology business” as a small business that conducts more than 50% of its activities in qualified research in the State and is registered to do business in the State.

Amends section 235-110.91(o) to define “small business” as a company with no more than 500 employees, including affiliates.

EFFECTIVE DATE: July 1, 3000; applicable to taxable years beginning after December 31, 2023.

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, like the federal credit.

Act 261, SLH 2019, amended the credit by reinserting 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.”

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.

While this proposal narrows the incentive to small businesses, 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, how can an extension or increase in the credit be justified?

As a technical matter, the concept of "affiliates" in the new definition of small business is unclear. In the Internal Revenue Code, for example, differing definitions of affiliates appear in different places such as section 267(b), 414(c), 1504, and 1563.

Digested: 2/20/2024



Hawaii Technology Development Corporation
521 Ala Moana Blvd, Ste 255 | 808-539-3806
Honolulu, Hawaii 96813 | www.htdc.org

JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR

Written Statement of
Wayne Inouye
Interim Director
Hawaii Technology Development Corporation
before the
HOUSE COMMITTEE ON FINANCE

Thursday, February 22, 2024
10:00 AM
State Capitol, Conference Room #308

In consideration of
HB1957 HD1
RELATING TO RESEARCH ACTIVITIES.

Chair Yamashita, Vice Chair Kitagawa, and members of the Committee.

The Hawaii Technology Development Corporation (HTDC) strongly supports HB1957 HD1 that narrows the qualifying criteria for research activities tax credits to applicants who are small businesses registered in the State. Increases the maximum amount of tax credits that can be certified per year. Extends the sunset date of the research activities tax credit by five years.

HTDC supports the cultivation and support of the research and development industry in Hawaii. Research activities have been effective in stimulating the economy and creating quality jobs in the State. For the past two years, the \$5,000,000 cap for the income tax credit for research activities was reached almost as soon as the online applications were opened. This is expanded on in DBEDT's Report on Hawaii Tax Credit for Research Activities for 2022 (https://files.hawaii.gov/dbedt/economic/data_reports/HawaiiResearchTaxCredit_TaxYear2022.pdf). By supporting the amendments outlined in the bill HTDC hopes to see a wider distribution of tax credits to qualified companies for a longer period.

Thank you for the opportunity to testify.



Written Statement of
MATTHEW SULLIVAN
DIRECTOR OF PRODUCT COMMERCIALIZATION, OCEANIT

Before the
HOUSE COMMITTEE ON FINANCE

Thursday, February 22, 2024, 10:00 a.m.
State Capitol, Conference Room 308 & Videoconference

In Support of
HB1957 HD1 RELATING TO TAX CREDIT FOR RESEARCH ACTIVITIES

To: Representative Kyle T. Yamashita, Chair, Representative Lisa Kitagawa, Vice Chair,
and Members of the Committee
From: Matthew Sullivan, Director of Product Commercialization
Re: Testimony in Support of HB1957 HD1

Honorable Chair, Vice-Chair and Committee Members: Thank you for the opportunity to submit testimony in **Support of HB1957 HD1**. I am submitting this testimony in my capacity as Director of Product Commercialization at Oceanit.

Oceanit is one of the largest local science and engineering companies in the State of Hawaii and has been around for over 39 years. We employ over 100 local scientists and engineers in specialized fields such as artificial intelligence and nanomaterials, addressing global problems such as climate change and energy transformation.

We support HB1957 HD1 as Hawaii's R&D tax credit is one of the few state policies to support the local tech industry.

What is the Hawaii R&D tax credit?

- Act 261 provides a narrowly focused tax credit for local firms conducting R&D (Research and Development).
- Eligibility of the State R&D tax credit is based on the Federal R&D tax credit which is enforced by the Internal Revenue Service (IRS) regarding eligibility and amount claimed.
- Hawaii is one of 37 States in the U.S. that offers an R&D tax credit.
- DBEDT is required to submit an annual report to the State disclosing the impact of the R&D tax credit on the local economy including information on revenue, number of jobs created, wage data, and intellectual property created from recipient companies.

How does the State R&D tax credit benefit Hawaii's locals?

- In 2022 the Hawaii R&D industry employed over 1,000 scientist and engineers in cutting edge fields including life sciences, aerospace, and artificial intelligence, among many others.
- The industry supports a local industry that pays a living wage. Average annual wage was \$88,612 for the 28 companies that applied for the credit in 2022.¹
- It helps to stem the “brain drain” of our best and brightest scientific minds leaving the state.
- Local high-tech companies are invested in the long-term health of our community and are important local resources to help Hawaii navigate through the challenges ahead of us such as sea level rise, water scarcity, invasive species, climate change induced disasters, etc.
- Every \$1 in tax credits claimed generates an additional \$1-2 in additional spending in the State by private firms.²

We encourage the State to continue to support the Hawaii R&D tax credit:

1. **Increase the annual cap:** In 2022, 26 companies applied for the Hawaii tax credit but only 9 received it due to the \$5 million annual cap. Increasing the cap will allow more of the Hawaii R&D companies that applied to benefit.
2. **Extend the date:** The current legislation sunsets in 2024. Extend it by 5 years to give local companies more confidence to invest in our future.
3. **Tighten the qualification requirements:** Limit the tax credit to only local R&D companies in Hawaii.

¹ DBEDT Report on Hawaii Tax Credit for Research Activities for Tax Year 2022, Table A- 1

² UHERO report *The Hawaii Research Activity Tax Credit: Is It Effective and How Can It Be Improved?*



Chamber of Commerce HAWAII

The Voice of Business

**Testimony to the House Committee on Finance
Thursday, February 22, 2024, at 10AM
Conference Room 308**

RE: HB1957 HD1 Relating to Research Activities

Aloha Chair Yamashita, Vice Chair Kitagawa, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **supports HB1957 HD1**, which narrows the qualifying criteria for research activities tax credits to applicants to registered small businesses, increases the maximum amount of tax credits that can be certified per year, and extends the sunset date of the research activities tax credit by five years.

As advocates for innovation, the Chamber endorses the allocation of funds for research and development purposes, especially for small businesses struggling to find the financial support needed to prosper in our state. Investing in these endeavors not only propels scientific progress but also supports small businesses and the local workforce. By supporting R&D, we pave the way for groundbreaking discoveries, technological advancements, and economic growth, ensuring a more lucrative future for our state.

To diversify Hawaii's economy and help Hawaii's economic recovery, the state needs to support Hawaii companies who are stuck between research and product realization. This bill will enable more small businesses to apply for the tax credit. In addition, it will narrow the qualifying criteria to encourage Hawaii-based R&D and will extend the program for an additional 5 years.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 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.

Thank you for the opportunity to testify.