

JOSH GREEN M.D.  
GOVERNOR

SYLVIA LUKE  
LT. GOVERNOR



STATE OF HAWAII  
**DEPARTMENT OF TAXATION**

Ka 'Oihana 'Auhau

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

**TESTIMONY ON THE FOLLOWING MEASURE:**

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

**BEFORE THE:**

House Committee on Economic Development

**DATE:** Wednesday, February 7, 2024

**TIME:** 10:30 a.m.

**LOCATION:** State Capitol, Room 423

Chair Holt, Vice-Chair Lamosao, and Members of the Committee:

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

H.B. 1957 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 would apply to taxable years beginning after December 31, 2023.

The Department defers to the Department of Business, Economic Development, and Tourism (DBEDT) 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 is able to administer H.B. 1957 as currently written. 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 ECONOMIC DEVELOPMENT**

Wednesday, February 7, 2024  
10:30 AM  
State Capitol, Conference Room #423

In consideration of  
**HB1957**  
**RELATING TO RESEARCH ACTIVITIES.**

Chair Holt, Vice Chair Lamosao and members of the Committee.

The Department of Business, Economic Development and Tourism (DBEDT) supports HB1957 which narrows the qualifying criteria for HRS 235-110.91, the Hawai'i Research Tax Credit, to applicants who are small businesses registered in the State, defines the minimum employee count for a small business, increases the maximum amount of tax credits to \$15,000,000 that can be certified per year and extends the sunset date of the research activities tax credit by five years to December 31, 2029.

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.



Written Statement of  
**MATTHEW SULLIVAN**  
**DIRECTOR OF PRODUCT, OCEANIT**

Before the  
**HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT**

Wednesday, February 7, 2024, 10:30 a.m.  
State Capitol, Conference Room 423 & Videoconference

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

To: Representative Daniel Holt, Chair, Representative Rachele F. Lamosao, Vice Chair  
and Members of the Committee

From: Matthew Sullivan, Director of Product

Re: Testimony in Support of HB1957

Honorable Chair, Vice-Chair and Committee Members: Thank you for the opportunity to submit testimony in **Support of HB1957**. I am submitting this testimony in my capacity as Director of Product 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 as Hawaii's R&D tax credit is one of the few state policies to support the local tech industry.

**The Hawaii R&D tax credit is a good investment for the State; therefore, the sunset date should be extended to 2030.**

According to a 2021 UHERO report titled *The Hawaii Research Activity Tax Credit: Is It Effective and How Can It Be Improved?*, every \$1 in tax credits claimed generates an additional \$1-2 in additional spending in the State by private firms.

According to the *Report on Hawaii Tax Credit for Research Activities for Tax Year 2022* prepared by DBEDT, the average annual wage was \$88,612 for the 26 Qualified High Technology Businesses (QHTB) that applied for the Hawaii tax credit for research activities for the tax year 2022. In addition, 37 of 50 states in the U.S. offer an R&D tax credit. Hawaii's R&D tax credit enables Hawaii companies to compete with other states to recruit and retain more local talent to stem Hawaii's "Brain Drain".

**To grow our local tech industry, the annual \$5 million cap should be increased.**

In 2022, 26 companies applied for the Hawaii tax credit but only 9 received it due to the \$5 million annual cap. In aggregate, the 26 QHTBs generated a total of \$262.4 million in revenue from all goods and services produced in Hawaii, \$227.9 million as operating costs, and paid a total of \$101.1 million as payroll. A \$10 million cap should allow all Hawaii Qualified High Technology Businesses to receive the credit.

THE HOUSE  
THE THIRTY-FIRST LEGISLATURE SESSION OF 2024  
**TESTIMONY ON HOUSE BILL NO. 1957, RELATING TO THE HAWAII RESEARCH AND  
DEVELOPMENT TAX CREDIT**

Position: **Support with Comments**

To the Honorable Rep. Daniel Holt, Chair; Rep. Rachele F. Lamosao, Vice Chair; and Members of the Committee:

Please accept this testimony in **Strong Support** of this bill, to

1. Extend the sunset date from December 31, 2024 to December 31, 2029
2. Increase the aggregate cap from \$5M to \$10M
3. Narrows eligible applicants to small businesses registered in the State

Please also consider amending the “first come, first served” structure of the tax credit so that it is more effective and reliable for Hawaii’s small businesses investing in research, i.e. add this provision to allocate the tax credit on a pro-rata basis:

“(f) If in any taxable year the annual amount of certified credits reaches \$~~5~~10,000,000 in the aggregate, the department of business, economic development, and tourism shall ~~immediately discontinue certifying credits~~ calculate the total amount of credits claimed and notify the department of taxation. In no instance shall the department of business, economic development, and tourism certify a total amount of credits exceeding \$~~5~~10,000,000 per taxable year. To comply with this restriction, the department of business, economic development, and tourism shall pool all eligible credits from qualifying high-technology business and certify credits on a first come, first served basis as a pro-rata share of credits to each applicant.

Our company is an Oahu-based small business developing new ways to recycle waste generated in Hawaii into sustainable aviation fuel, green hydrogen, organic fertilizer, green cement, and other beneficial products. We have been developing our “Aloha Carbon” process to divert construction and demolition debris from landfilling in Nanakuli, Hawaii, and instead convert it to renewable fuel and recycled-material building products, since August 2020. We have applied for the R&D tax credit each year since 2020, but only actually received an allocation of the credit in one of those years (2022), the year we were able to submit the application within 3 seconds of the form opening, due to the “first come, first served” basis of this process before the annual cap was reached. All of the R&D tax credit funds we received went to pay salaries of our employees, all of whom are Hawaii residents and taxpayers. In 2024 we have budgeted our 2023 R&D tax credit funds to hire University of Hawaii at Manoa and at West Oahu undergraduate interns for paid internships in Science, Technology, Engineering, and Math (STEM) projects.

Sincerely,



Marie-Joelle Simonpietri  
President

### *About Simonpietri Enterprises*

Simonpietri Enterprises LLC is a Kailua-based woman and veteran-owned small business developing innovative industrial processes and projects to manufacture renewable fuel, organic fertilizer, and sustainable building materials. Our focus is on fuel and products for local use inside Hawaii, made from waste stream generated inside Hawaii, and displace both imports of fossil fuels and exports of greenhouse gas emissions. Our Aloha Carbon, Aloha Sustainable Materials Recycling and Fertilizer Facility (Aloha SMRFF), and Aloha Fertilizer manufacturing facility under development in Campbell Industrial Park in Kapolei will divert over 500 tons per day of waste that is currently going into the state's only C&D landfill, and displace over 10,000 tons per year of imported fossil fuels and building materials. Simonpietri Enterprises serves as an industry advisory committee member of the Federal Aviation Administration's Aviation Sustainability Center of Excellence on renewable aviation fuel production and certification ([www.ascent.aero](http://www.ascent.aero)). Simonpietri Enterprises' executive members have participated in the strategy, planning, design, financing, development, construction, and renovation for over \$40 million in new renewable and first-of-kind sustainable fuel projects over the past 15 years.

# 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

**INTRODUCED BY:** HOLT, KILA, LAMOSAO, MARTEN, MATAYOSHI, MIYAKE, WOODSON

**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(d) to add the requirement that every qualified high technology business be a small business registered in the State. “Small business” is defined as a company with no more than 500 employees, including affiliates.

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

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

**EFFECTIVE DATE:** Upon approval, 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: 2/5/2024



# Chamber of Commerce HAWAII

*The Voice of Business*

**Testimony to the House Committee on Economic Development  
Wednesday, February 7, 2024, at 10:30AM  
Conference Room 423**

**RE: HB1957 Relating to Research Activities**

Chair Holt, Vice Chair Lamosao, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **supports HB1957**, 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 cultivates a culture of creativity and problem-solving. 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.





Statement of Isar Mostafanezhad, Ph.D.  
Founder of Nalu Scientific, LLC

I am writing to express my support for HB1957, which grants tax credits to Hawaii technology small businesses for research and development-related expenditures.

I started Nalu Scientific, LLC in 2016. Since then, Nalu Scientific has grown from 2 employees to 18 and has received over 20 Federal Small Business Innovation Research (SBIR) awards to design sensors and microchips for the DOE, DOD, NOAA, NIH, and NASA. Our technology is now used in national labs active in areas such as basic energy research and plasma and matter interactions with the purpose of sensing invisible particles in order to understand their behavior which impacts areas such as material science, medicine and environmental monitoring.

During the past 8 years, Nalu Scientific has benefited greatly from the tax credits generously granted by the State of Hawaii. In the microelectronics development sector, where Nalu Scientific does business, the time and cost variables of scaling and commercializing can be arduous. Although Nalu Scientific has received multiple awards from various federal agencies, we have not fully commercially developed our suite of high technology sensor products and thus continue to operate at a small scale, economically. In this business stage, we rely on state R&D tax credits to stay afloat during financially precarious circumstances as we move to forge business partnerships and invest in the ability to commercialize and manufacture our products.

In conclusion, I am very grateful for the support that Nalu Scientific receives from the State of Hawaii and I want to stress that this continued support is essential for the growth of my business and many others like mine in Hawaii.

Sincerely,

Isar Mostafanezhad

**HB-1957**

Submitted on: 2/6/2024 7:41:58 PM

Testimony for ECD on 2/7/2024 10:30:00 AM

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Testify</b>
Barbara De Lucca	Hispanic Chamber of Commerce Hawaii	Support	Written Testimony Only

Comments:

The Hispanic Chamber of Commerce Hawaii is in favor of HB1957, a bill that refines the eligibility for research activities tax credits to only include registered small businesses. It also proposes to raise the yearly cap on tax credits and prolongs the validity of the research activities tax credit program by five years. Many of our members are engaged in research and development (R&D), and as proponents of innovation, we fully support funding for R&D, particularly for small businesses that face challenges in securing the necessary financial backing to thrive in our state. Investing in R&D not only advances scientific knowledge but also fosters an environment of creativity and problem-solving. Our endorsement of R&D funding is a commitment to fueling breakthroughs, technological progress, and economic expansion, which in turn promises a more prosperous future for our state.

February 7, 2024  
10:30 a.m.  
Room 423

Senate Committee on Economic Development  
Senator Holt, Chair  
Senator Lamosao, Vice Chair

Aloha Chair Holt, Vice Chair Lamosao, and Members of the Committee,

I am a local business owner at Ho`onui LLC and I strongly support HB1957 relating to narrowing the qualifying criteria for research activities tax credits to applicants to registered small businesses, increasing the maximum amount of tax credits that can be certified per year, and extend the sunset date of the research activities tax credit by 5 years.

Dedicating financial resources to research and development is essential, especially for small businesses facing challenges in securing the necessary funding to thrive in our state. The investment will forward scientific advancements and fosters innovation and problem-solving. Supporting R&D can lead to groundbreaking discoveries, technological processes, economic expansion, and diversifying our state's economy, which will strengthen our state's future economic foundation.

Additionally, through the passage of this bill, it will:

- allow for small businesses to apply and benefit from the tax credit
- narrow the qualifying criteria to foster increased R&D
- extend the program for an additional 5 years

Mahalo for your consideration,

Karen (Chang) Barr  
Ho`onui LLC Founder and Small and Mobile Food Business Consultant



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#### Executive Officers

**Gary Okimoto**, Safeway Hawaii, *Chair*  
**Maile Miyashiro**, C&S Wholesale Grocer, *Vice Chair*  
**Kit Okimoto**, Okimoto Corp., *Secretary/Treas.*  
**Lauren Zirbel**, HFIA, *Executive Director*  
**Paul Kosasa**, ABC Stores, *Advisor*  
**Derek Kurisu**, KTA Superstores, *Advisor*  
**Toby Taniguchi**, KTA Superstores, *Advisor*  
**Joe Carter**, Coca-Cola Bottling of Hawaii, *Advisor*  
**Eddie Asato**, Pint Size Hawaii, *Immediate Past Chair*

TO: Committee on Economic Development

FROM: HAWAII FOOD INDUSTRY ASSOCIATION  
Lauren Zirbel, Executive Director

DATE: February 7, 2024

TIME: 10:30am

PLACE: Room 423

RE: HB1960 Relating to an Economic Development District Planning Organization

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 Holt, Vice Chair Lamosao, and Members of the Committee,

HFIA is in support of this measure. As this measure notes, “designation of an area as an economic development district by the United States Economic Development Administration (EDA) offers an opportunity to advance coordinated and locally developed goals that leverage and build upon interrelated community assets, such as its workforce, infrastructure, and housing.”

Workforce development, businesses and food systems infrastructure, and housing are areas where investment can have tremendous positive impacts in or state. Creating this lasting partnership will help strengthen and diversify our state’s economic foundations now, and promote growth for the future.

We encourage you to vote yes on this measure and we thank you for the opportunity to testify.



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

Thursday, February 7, 2024  
10:30 AM  
State Capitol, Conference Room #423

In consideration of  
**HB1957**  
**RELATING TO RESEARCH ACTIVITIES.**

Chair Holt, Vice Chair Lamosao, and members of the Committee.

The Hawaii Technology Development Corporation (HTDC) strongly supports HB1957 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.

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](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.