

**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
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
Web site: dbedt.hawaii.gov

Telephone: (808) 586-2355
Fax: (808) 586-2377

Statement of
JAMES KUNANE TOKIOKA
Director
Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEE ON FINANCE

Tuesday, April 2, 2024
2:30 PM
State Capitol, Conference Room # 308

In consideration of
SB2497 SD2 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 SB2497 SD2 HD1, amends section (b) in 235-110.91, to repeal the provision related to the Internal Revenue Code, sections 41 and 280C (c) as no longer applicable, narrows the qualifying criteria for research activities tax credits to applicants who are small businesses registered in the State, amends the maximum amount of tax credits that can be certified per year to an unspecified amount and extends the sunset date of the research activities tax credit to 12/31/29, effective 7/1/3000.

The tax credit for research activities has been effective for the growth of the tech sector in the state and creating quality jobs. These amendments provide room for growth of companies and businesses across the spectrum of research and development. For the past two years, the \$5,000,000 cap was reached almost as soon as the online applications were opened. In 2022, DBEDT Research and Economic Analysis Division (READ) annual report showed 26 filers reporting \$59.4 million in spend, and \$11.9 million in tax credit claim. However, only 9 filers were able to claim the research tax credit due to how quickly filers submitted and the current tax credit cap of \$5 million. The department requests your consideration of raising the current cap, dependent upon the review of other current fiscal impacts on the state budget.

Amendments outlined in the bill will create clearer guidelines, add a more structured review process, expand the potential number of qualified filers claiming the tax credit on an annual basis, and include provisions which offer tax credit opportunities for smaller research businesses. Thank you for the opportunity to testify.

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



GARY S. SUGANUMA
DIRECTOR

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

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

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

TESTIMONY ON THE FOLLOWING MEASURE:

S.B. No. 2497, S.D. 2, H.D.1, Relating to Taxation

BEFORE THE:

House Committee on Finance

DATE: Tuesday, April 2, 2024

TIME: 2:30 p.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 S.B. 2497, S.D. 2, H.D. 1 for your consideration.

SB 2497, S.D. 2, H.D. 1 makes several changes to section 235-110.91, Hawaii Revised Statutes (HRS), which governs the tax credit for research activities, including:

- (1) Amending section 235-110.91(b), HRS, to conform to base amount requirements set forth in section 41(c) of the Internal Revenue Code;
- (2) Amending the aggregate annual cap on certified credits from \$5,000,000 per year to an unspecified amount per year;
- (3) Amending the definition of "qualified high technology business" eligible for the credit from "a business that conducts more than fifty per cent of its activities in qualified research" to a small business (i.e., a company with no more than five hundred employees, including affiliates) that conducts more than fifty per cent of its activities in qualified research in the State and is registered to do business in the State; and

(4) Extending the sunset provision to December 1, 2029.

The bill has a placeholder effective date of July 1, 3000 and applies 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 certify this credit with the proposed changes, but notes that if the committee advances S.B. 2497, S.D. 2, H.D. 1 with a functional effective date and a specified aggregate annual cap on certified credits, the Department can administer the measure as drafted.

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



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

Tuesday, April 2, 2024
2:30 PM
State Capitol, Conference Room #308

In consideration of
SB2497 SD2 HD1
RELATING TO TAXATION.

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

The Hawaii Technology Development Corporation (HTDC) strongly supports SB2497 SD2 HD1 that amends the tax credit for research activities by: (1) increasing the amount of the credit to \$10,000,000; (2) extending the sunset date of the credit to 12/31/29; and (3) amending the definition of qualified high technology businesses that are eligible to claim the credit.

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. 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. Please see the Research and Economic Analysis, Division's (READ) report on the research and development income tax credit (https://files.hawaii.gov/dbedt/economic/data_reports/HawaiiResearchTaxCredit_TaxYear2022.pdf)

Thank you for the opportunity to testify.



1050 Bishop St. PMB 235 | Honolulu, HI 96813
P: 808-533-1292 | e: info@hawaiiifood.com

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 Finance

FROM: HAWAII FOOD INDUSTRY ASSOCIATION
Lauren Zirbel, Executive Director

DATE: April 2, 2024
TIME: 2:30pm
PLACE: Room 308

RE: SB2497 SD2 HD1 Relating to Taxation

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.

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

HFIA in support of this measure. For 30 years HFIA has proudly produced the Made in Hawaii Festival, we know first hand the tremendous potential of local manufacturing. Many local businesses have made great use of the tax credits that are available. Unfortunately, the current cap is often reached very quickly after applications open, leaving many eligible businesses unable to take advantage of this program, leaving many businesses unable to participate. Passing this measure means more local businesses could make use of this program to innovate and grow.

We encourage the Committee to pass this measure and we 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 SB2497 and its amendments which represent: (1) increasing the total amount of certified credits to an unspecified amount; (2) extending the sunset date of the credit to 12/31/2029; and (3) amending the definition of a Hawaii qualified high technology business as one that conduct more than 50% of its activity in qualified research in the state and is registered to do business in the state.

I started Nalu Scientific, LLC in 2016. Since then, Nalu Scientific has grown from 2 employees to 18 and has received over 25 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 of operation, 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.

Nalu Scientific enthusiastically supports an extension of the aggregate tax credit cap from \$5M to an unspecified greater amount because it will allow more Hawaii high technology businesses to receive competitive tax credits. Secondly, we value the extension of the sunset date for this bill to 12/31/2029 as this will foster healthy business growth within the state for the remainder of this decade. Furthermore, because tax credits are certified on a first-come first-serve basis that makes being selected very difficult, Nalu Scientific strongly approves the state's refinement of its definition of qualified high technology businesses. Together, the factors proposed by SB2497 will enhance the odds for Hawaii's high technology businesses to scale up and corner growth in a global industry that is poised to grow exponentially. Thus, Nalu Scientific firmly supports SB2497 because it will help to foster an ecosystem that keeps skilled workers and a healthy high tech business community in the state.

Once again, 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



Written Statement of
MATTHEW SULLIVAN
DIRECTOR OF PRODUCT COMMERCIALIZATION, OCEANIT

Before the
HOUSE COMMITTEE ON FINANCE

Tuesday, April 2, 2024
State Capitol, Conference Room 308 & Videoconference

In Support of
SB2497 SD2 HD1 RELATING TO TAXATION

To: Representative Rep. Kyle T. Yamashita, Chair, Rep. Lisa Kitagawa, Vice Chair and Members of the Committee
From: Matthew Sullivan, Director of Product Commercialization
Re: Testimony in Support of SB2497 SD2 HD1

Honorable Chair, Vice-Chair and Committee Members: Thank you for the opportunity to submit testimony in **Support of SB2497 SD2 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 SB2497 SD2 HD1 as it narrows the qualifying requirement and extends the sunset date, which are crucial to supporting Hawaii's high-tech industry.

However, we request the committee reconsider the changes added to *repeal the provision making references to the base amount in the Internal Revenue Code inapplicable to the research activities tax credit and allowed credits for all qualified research expenses to be taken without regard to previous years' expenses.*

This change would significantly reduce the positive impact of Hawaii's State R&D tax credit for local companies. Hawaii tech companies, as compared with their mainland competitors, lack the access to the private and public capital required to achieve high YoY growth rates of qualified research expenses due to local capital formation constraints. If this change were allowed to be enacted, local companies and the staff they support would suffer. We encourage the committee to further dialog with local companies to identify a suitable pathway forward to responsibly administer Hawaii's R&D tax credit while continuing to support our local 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

Tuesday, April 2, 2024, at 2:30PM

Conference Room 308 & Video Conference

RE: SB2497 SD2 HD1 Relating to Taxation

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

The Chamber of Commerce Hawaii Supports (“The Chamber”) **supports SB2497 SD2 HD1**, which amends the tax credit for research activities by increasing the amount of the credit, extending the sunset date, and amending the definition of qualified high technology businesses.

As advocates for innovation, the Chamber endorses the allocation of funds for research and development purposes. 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 increase the aggregate cap so that more technology companies will be able 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
Hermann Kugeler
Vice President of Business Development
Makai Ocean Engineering, Inc.
before the
House Committee on Finance
Tuesday, April 2, 2024
2:30 pm
Videoconference
State Capitol, Conference Room 308

In consideration of
SB2497
RELATING TO TAXATION.

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

Makai Ocean Engineering, Inc. **SUPPORTS SB2497**, with a request to add lines 6-10 on page 1, back into the bill's text. We support this bill extending the R&D tax credit to 12/31/29.

Makai is a locally-owned and operated technology company based in Hawai'i for 50 years. We are currently performing R&D on a variety of exciting ocean technology projects, including Machine Learning software, autonomous underwater vehicles, ocean thermal energy conversion (OTEC) and seawater air conditioning (SWAC) systems, and subsea cable systems.

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.

Makai has an agreement with the University of Hawaii (UH) for research and development partnerships, and internships. Makai's agreement supports up to 5 undergraduate or graduate UH student internships. This agreement is being led on the UH side by Brennon Morioka. The R&D tax credit supports Makai's involvement in this agreement with UH, and helps train the next generation of engineers entering Hawaii's workforce.

This bill allows 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 helps 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 **SUPPORT SB2497**, with a request to add lines 6-10 on page 1, back into the bill's text. We support this bill extending the R&D tax credit to 12/31/29. This bill enables

Page | 1 of 2



these businesses 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.

SB-2497-HD-1

Submitted on: 4/1/2024 1:03:35 PM

Testimony for FIN on 4/2/2024 2:30:00 PM

Submitted By	Organization	Testifier Position	Testify
Daniel OConnell	H Nu Photonics LLC - Maui	Support	Written Testimony Only

Comments:

Aloha Hawaii Legislature,

H Nu Photonics LLC is a research and development business on Maui since 2007.

We employ Maui residents who form a team of scientists, engineers and software developers. We serve NASA, Army, Navy and DARPA contracts. Each year, the R&D tax credits are integral to our financial survival. The cap of 5 Million is not adequate to serve all the Hawaii research development each year with the intended impact, and we believe it should be raised to 10 million. Hawaii needs to expand support for research and development and export new technology breakthroughs.

In addition, the tax credit lottery should be limited to a maximum of \$250,000 for each company. It is not equitable for one or two large companies to grab the entire pool of research funds with the 9 AM rush to upload. We have been hurt by this March 1st upload where “the fastest finger” or fastest server or fastest internet provider wins the majority of funds.

The State should consider returning to the prior approach where each QHTB submits estimated research investment and are funded based on the N346A signed approval. This enables businesses to continue to budget and pay employees for much needed Research and Development the following year.

We appreciate your thoughtful consideration to help R&D Hawaii businesses flourish.

Daniel O'Connell

CEO, founder

SB-2497-HD-1

Submitted on: 4/1/2024 1:27:12 PM

Testimony for FIN on 4/2/2024 2:30:00 PM

Submitted By	Organization	Testifier Position	Testify
Charlie Field	PacMar Technologies	Support	Written Testimony Only

Comments:

PacMar Technologies strongly supports SB 2497 as the research credit provides important support for the local R&D industry. Small, innovative companies such as ours need a extension of the credit. Page 1, lines 6-10, of the bill should be reinstated.

**TESTIMONY ON SENATE BILL NO. 2497 / SSCR 3040, RELATING TO
THE HAWAII TAX CREDIT FOR RESEARCH ACTIVITIES**

Position: **Strong Support**

To the Honorable Rep. Kyle T. Yamashita, Chair, Rep. Lisa Kitagawa, Vice Chair; and Members of the Committee:

Please accept this testimony in **strong support** of this bill, to raise the cap and expand the effectiveness of this tax credit for supporting high technology research by Hawaii small businesses.

Simonpietri Enterprises LLC is an O'ahu-based small business developing new ways to divert waste from landfilling in Hawaii and recycle it into sustainable aviation fuel, renewable natural gas, green hydrogen, organic fertilizer, green cement, and other beneficial recycled-material products. We strongly support the R&D tax credit, as a powerful way to multiply the federal grant awards we have won to fund our development, and cover some of the investments we are making to employ people and develop new technologies to solve these local waste management and energy problems. The R&D tax credit has been a prudent way to leverage federal agency technical expertise and reward innovation while maintaining a level playing field.

We are now designing a small manufacturing facility, the Aloha Sustainable Materials Recycling and Fertilizer Facility (Aloha SMRFF) in Campbell Industrial Park in Kapolei, to divert over 200 tons per day of construction and demolition waste from the state's only C&D landfill, and remanufacture that waste to displace over 10,000 tons per year of imported fossil fuels, fertilizers, and building materials. This facility is the first step to demonstrating our Aloha Carbon manufacturing process to make pipeline-quality renewable natural gas by gasifying solid waste generated in Honolulu.

In the 3.5 years since launching our small business innovation research efforts, we have applied for the R&D tax credit each year, but only "won the lottery" once, with an application for \$9,300 in tax credits for 2021 applied against the over \$800,000 we brought into the state in federal research funding and \$200,000 our company invested out of its own funds that year. If we are able to actually rely upon the credit to make investments, we will be able to convert more of our part-time research positions to full time, and hire more people through our University of Hawaii undergraduate internship program.

We have now been selected for our first-ever federal manufacturing grant, to construct the fertilizer manufacturing line of our Aloha SMRFF project. State matching funds like the R&D tax credit are critical to allow us to actually bring in these federal funds and build the facility to employ 3 dozen skilled workers.

We appreciate the opportunity to testify on this measure, and urge your support for this bill.

Sincerely,



Marie-Joelle Simonpietri
President

About Simonpietri Enterprises LLC

Simonpietri Enterprises is a Kailua, Hawaii-based woman- and veteran-owned small business with ten employees, focused on technical innovation and first-of-kind project development of emerging clean and renewable technologies. Since founding in 2006, we have helped dozens of small and large industrial companies in Hawaii, the continental U.S., Australia, and Canada improve the environmental and economic sustainability of their operations through technical and business advice in renewable energy conversion, waste reduction and re-use, and greenhouse gas lifecycle impact reduction. 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). Simonpietri Enterprises' founder and employees have participated in the strategy, planning, design, financing, development, construction, and energy efficiency/greenhouse gas reduction/sustainability renovation for over \$400 million in new renewable and first-of-kind sustainable fuel projects over the past 15 years. Since launching the Aloha Carbon waste-to-fuel technical development process in August 2020, Simonpietri Enterprises is now developing renewable fuel production facilities in its own right, starting with the Aloha Sustainable Materials Recycling and Fertilizer Facility (SMRFF) and Aloha Carbon projects in Kapolei, Hawaii to divert wastes generated in Honolulu from landfilling and transform it to renewable fuel, organic fertilizer, and recycled-material building products.

TESTIMONY ON SENATE BILL NO. 2497 / SSCR 3040, RELATING TO
THE HAWAII TAX CREDIT FOR RESEARCH ACTIVITIES

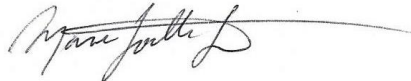
Position: **Strong Support**

To the Honorable Rep. Kyle T. Yamashita, Chair, Rep. Lisa Kitagawa, Vice Chair; and Members of the Committee:

Please accept this testimony in **strong support** of this bill, to raise the cap and expand the effectiveness of this tax credit for supporting high technology research by Hawaii small businesses.

The R&D Tax Credit is vital for small businesses like ours, who are doing research to develop local solutions for local problems. Attached for an example is an article on the work we are doing to turn wildfire-prone invasive species into organic fertilizer for local farmers. This work has been funded by the U.S. Department of Energy and U.S. Department of Agriculture through competitive federal research grants. We need state matching funds, like the R&D tax credit, to be able to compete for these grants.

Sincerely,



Marie-Joelle Simonpietri
Member