

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

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

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

TESTIMONY ON THE FOLLOWING MEASURE:

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

BEFORE THE:

House Committee on Economic Development

DATE: Tuesday, March 19, 2024

TIME: 10:00 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 S.B. 2497, S.D. 2 for your consideration.

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

- (1) Raising the aggregate annual cap on certified credits from \$5,000,000 per year to an unspecified amount per year;
- (2) 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 for-profit corporation, limited liability company, partnership, limited partnership, sole proprietorship, or other legal entity that is registered to do business in the State; is independently owned and operated; employs fewer than five hundred full-time or part-time employees in the State; and conducts more than fifty per cent of its activities in qualified research; and

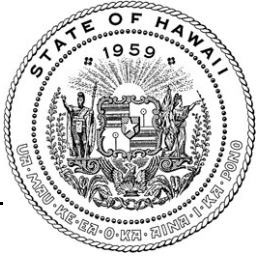
(3) Extends the sunset provision to December 31, 2029.

The bill has a placeholder effective date of January 1, 2060 and applies to taxable years beginning after December 31, 2023. On December 31, 2029, section 1 of this the bill will be repealed and section 235-110.91, HRS, reenacted as it was prior to the effective date of this bill.

The Department requests that the Department of Business, Economic Development, and Tourism (DBEDT) continue certifying this credit, as the Department lacks sufficient subject-matter expertise in this regard. However, The Department defers to DBEDT on its ability to continue certifying this credit considering the bill's proposed changes.

If the committee advances S.B. 2497, S.D. 2 with a functional effective date and a specified aggregate annual cap on certified credits, the Department can administer it as 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'IKA'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 ECONOMIC DEVELOPMENT

Tuesday, March 19, 2024
10:00 AM
State Capitol, Conference Room # 423

In consideration of
SB2497 SD2
RELATING TO TAX CREDIT FOR RESEARCH ACTIVITIES.

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

The Department of Business, Economic Development and Tourism (DBEDT) supports SB2497 SD2, that amends the tax credit for research activities by increasing the total amount of certified credits to an unspecified amount; extends the sunset date of the credit to 12/31/29; and amends 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 was reached almost as soon as the online applications were opened. In 2022, [READ report](#) shared a total of 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. Amendments outlined in the bill will create clearer guidelines for filers to follow, add a more structured review process, expand the potential number of qualified filers claiming the tax credit on an annual basis, and include offering tax credit opportunities for smaller businesses.

Thank you for the opportunity to testify.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME TAX, Extension of Tax Credit for Research Activities

BILL NUMBER: SB 2497 SD 2

INTRODUCED BY: Senate Committee on Ways and Means

EXECUTIVE SUMMARY: Amends the tax credit for research activities by: (1) increasing the amount of the credit to an unspecified amount; (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.

SYNOPSIS: Amends section 235-110.91(f), HRS, to increase the annual cap from \$5 million to \$[unspecified amount].

Amends section 235-110.91(n), HRS, to extend the sunset date of the credit for five years to December 31, 2029.

Amends section 235-110.91(o), HRS, to change the definition of “qualified high technology business” as a for-profit corporation, limited liability company, partnership, limited partnership, sole proprietorship, or other legal entity that: (1) Is registered to do business in the State; (2) Is independently owned and operated; (3) Employs fewer than five hundred full-time or part-time employees in the State and (4) Conducts more than fifty per cent of its activities in qualified research.

Makes other technical and conforming amendments.

EFFECTIVE DATE: January 1, 2060, shall apply to taxable years beginning after December 31, 2023; provided that on December 31, 2029, section 1 shall be repealed.

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.

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?

Digested: 3/14/2024



Statement of
Hermann Kugeler
Vice President of Business Development
Makai Ocean Engineering, Inc.
before the
House Committee on Economic Development
Tuesday, March 19, 2024
10:00 am
Videoconference
State Capitol, Conference Room 423
In consideration of
SB2497
RELATING TO TAXATION.

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

Makai Ocean Engineering, Inc. **STRONGLY SUPPORTS SB2497** that amends the tax credit for research activities.

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.

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 **STRONGLY SUPPORT SB2497**, that amends the tax credit for research activities by: (1) increasing the total amount of certified credits to an unspecified amount; (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. This bill enables 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-SD-2

Submitted on: 3/15/2024 2:37:58 PM

Testimony for ECD on 3/19/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Michael Reiley	H NU Photonics LLC	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 intregal 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.

State of Hawaii 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.

Please sign the SB2497 legislature and upgrade the credits to 10 million for only Hawaii based local companies. These funds should not be going outside to major businesses who are not brick and mortar businesses hiring Hawaii based employees in Hawaii.

Sincerely,

Michael Reiley, President and Member



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 ECONOMIC DEVELOPMENT

Tuesday, March 19, 2024
10:00 AM
State Capitol, Conference Room #423

In consideration of
SB2497 SD2
RELATING TO TAXATION.

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

The Hawaii Technology Development Corporation (HTDC) strongly supports SB2497 SD2 that amends the tax credit for research activities by: (1) increasing the total amount of certified credits to an unspecified amount; (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. Effective 1/1/2060. (SD2)

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.



Written Statement of
MATTHEW SULLIVAN
DIRECTOR OF PRODUCT COMMERCIALIZATION, OCEANIT

Before the
HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

Tuesday, March 19, 2024
State Capitol, Conference Room 423 & Videoconference

In Support of
SB2497 SD2 RELATING TO TAXATION

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

From: Matthew Sullivan, Director of Product Commercialization

Re: Testimony in Support of SB2497 SD2

Honorable Chair, Vice-Chair and Committee Members: Thank you for the opportunity to submit testimony in **Support of SB2497 SD2**. 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 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?*



**Testimony to the House Committee on Economic Development
Tuesday, March 19, 2024, at 10AM
Conference Room 423 & Video Conference**

RE: SB2497 SD2 Relating to Taxation

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

The Chamber of Commerce Hawaii Supports (“The Chamber”) **supports SB2497 SD2**, 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.

On behalf of The Chamber, thank you for this opportunity to testify.



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

Executive Officers

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Maile Miyashiro, C&S Wholesale Grocer, *Vice Chair*
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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: March 19, 2024
TIME: 10am
PLACE: Room 423

RE: SB2497 SD1 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 Holt, Vice Chair Lamosao, 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.

SB-2497-SD-2

Submitted on: 3/18/2024 9:11:04 AM

Testimony for ECD on 3/19/2024 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Glen Kagamida	Individual	Support	Written Testimony Only

Comments:

STRONG SUPPORT!

MAHALO!