

STAND. COM. REP. NO

416

Honolulu, Hawaii

FEB 18 2011

RE: S.B. No. 753
S.D. 1

Honorable Shan S. Tsutsui
President of the Senate
Twenty-Sixth State Legislature
Regular Session of 2011
State of Hawaii

Sir:

Your Committee on Economic Development and Technology, to which was referred S.B. No. 753 entitled:

"A BILL FOR AN ACT RELATING TO HIGH TECHNOLOGY,"

begs leave to report as follows:

The purpose of this measure is to establish a tax credit for ten percent of qualified research and development labor costs and to extend the tax credit for research activities for an additional five years. The intent of this measure is to provide incentives to expand the growth of Hawaii's technology industries.

Your Committee received testimony in support of this measure from The Chamber of Commerce of Hawaii, Hawaii Venture Capital Association, Puko'a Scientific, Oceantronics, TeraSys Technologies LLC, and Oceanit. The Department of Taxation, Hawaii Strategic Development Corporation, High Technology Development Corporation, and Tax Foundation of Hawaii submitted comments.

Your Committee finds that, in comparing the research and development tax credit to other credits, the research and development credit is the most efficient in terms of generating and maintaining jobs per tax dollar, generating higher tax revenues for dollars spent, and stimulating more economic activity in the State per dollar of tax credit. The cost of the tax credit - which is roughly \$10,000,000 to \$15,000,000 per year - helps support \$50,000,000 to \$75,000,000 in qualified expenses, which represents \$100,000,000 to \$150,000,000 in business expenditures in the State. As pointed out by The Chamber of Commerce in its

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testimony, much of the expenditures come from imported dollars from outside investors, the federal government, or large mainland businesses. Since imported funds generate about a factor of two in economic activity in the State, the research and development efforts generate about \$200,000,000 to \$300,000,000 in economic activity.

Moreover, the research and development tax credit requires a company to expend its own funds first, and is thereafter eligible for a percentage refund (e.g., twenty percent of wages) of qualified work after the company files its tax return. As such, research and development tax credits for 2011 will not be paid until 2012, and most of the payments will not be until the latter half of the year. In the meantime, the State receives the benefits of a business base - one resulting in significant income tax revenues and general excise tax revenues from the monies spent by these employees - that it does not have to pay for until eighteen months later. As noted in other testimonies on this measure, the cost of the program is partially offset by the taxes paid on expenditures and payroll.

Your Committee welcomes the joint participation of the Department of Taxation and the Department of Business, Economic Development, and Tourism in identifying the type of data that will assist the State of Hawaii in evaluating the cost benefits of the research and development credit. With a more comprehensive view of the economic benefits associated with a strong research and development sector in Hawaii, your Committee is confident that the investments made in these credits will be shown to represent good value for the amounts of tax dollar allocations made.

Your Committee has amended this measure by:

- (1) Deleting the proposed tax credit for ten percent of qualified research and development labor costs;
- (2) Adding extensive reporting requirements for the state research and development tax credit, including an annual survey identifying the industry sector or sectors in which the qualified high technology business conducts business, qualified expenditures, revenue and expense data, Hawaii employment and wage data, and filed intellectual property, including invention disclosures, provisional patents, and patents issued or granted;

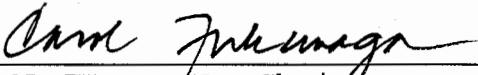


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- (3) Requiring the Department of Taxation to use the annual survey data to prepare summary descriptive statistics and report to the Legislature by September 1 of each year, and to study the effectiveness of the tax credit and report to the Legislature by December 1 of each year; and
- (4) Making technical, nonsubstantive amendments for the purposes of clarity and consistency.

As affirmed by the record of votes of the members of your Committee on Economic Development and Technology that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 753, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 753, S.D. 1, and be referred to the Committee on Ways and Means.

Respectfully submitted on
behalf of the members of the
Committee on Economic
Development and Technology,


CAROL FUKUNAGA, Chair



The Senate
 Twenty-Sixth Legislature
 State of Hawai'i

Record of Votes
Committee on Economic Development and Technology
EDT

Bill / Resolution No.:* SB 753	Committee Referral: EDT, WAM	Date: 2/9/11		
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
FUKUNAGA, Carol (C)	✓			
WAKAI, Glenn (VC)	✓			
BAKER, Rosalyn H.	✓			
SOLOMON, Malama	✓			
SLOM, Sam	✓			
TOTAL	5	0	0	0
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature:				
Distribution: Original Yellow Pink Goldenrod File with Committee Report Clerk's Office Drafting Agency Committee File Copy				

*Only one measure per Record of Votes