

JAN 21 2011

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# A BILL FOR AN ACT

RELATING TO HIGH TECHNOLOGY.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. Research and Development (R&D) is the core of  
2 innovation and without innovation there is no technology  
3 industry and the subsequent growth of our economy is stunted  
4 with no new products, services, or processes. R&D is the  
5 critical first step in the product development cycle. During  
6 the R&D stage, ideas and theories are tested to determine  
7 feasibility. Due to the increasing interconnected and  
8 competitive global economy, fostering and encouraging innovation  
9 is essential to a comprehensive economic strategy for our State.  
10 The key to developing more jobs and more prosperity will be to  
11 create and deploy new products, services, and processes. Some  
12 of the jobs do not exist today.

13           Innovation is essential for creating new jobs in high tech  
14 and traditional sectors. In recent years, innovation has led to  
15 new jobs in many different sectors as diverse as  
16 defense/dual-use, software and information technology, life  
17 sciences and biotechnology, and clean energy. At the same time,  
18 innovations ripple through the economy, creating jobs for



1 workers building advanced infrastructure (clean energy  
2 solutions), installing broadband networks, and utilizing new  
3 devices and products in the service industries, such as health-  
4 care and tourism.

5 Innovation is also critical for sustaining the vitality and  
6 resilience of our economy. Future challenges (natural or man-  
7 made) are impossible to predict, but what is certain is that an  
8 economy better able to respond to such events by adapting  
9 innovative solutions and re-deploying old activities, jobs, and  
10 industries will be least susceptible to adversity.

11 Innovation is the key to remaining competitive globally,  
12 new and better jobs, and a resilient economy. The legislature  
13 recognizes this and supports R&D as the stimulant to our  
14 innovation economy.

15 The current law parallels, with enhancements tailored to  
16 Hawaii's unique position, the Internal Revenue Code, providing  
17 support for scientific experimentation at twenty per cent of the  
18 cost of the qualified research. The program cost to the State  
19 has averaged about \$11,000,000 per year over the last nine  
20 years, and in 2006, provided funding to over four hundred  
21 companies. This tax credit has been a great source of support  
22 for local companies, especially to the R&D companies that are



1 still in the start-up and early stage, and is seen as helping to  
2 level the playing field of our high cost State, as Hawaii  
3 companies compete with national and international competition.  
4 It has also been useful in providing support for early-stage R&D  
5 companies that are not yet profitable, and have few sources of  
6 funding. Further, the refundable element is helping to attract  
7 new technology companies to Hawaii.

8 In addition, in 2010, the senate committee on economic  
9 development and technology and the house committee on economic  
10 revitalization, business, and military affairs convened an  
11 informal small business discussion group to address the most  
12 critical issues facing the small business sectors within  
13 Hawaii's economy. Representatives from the Chamber of Commerce  
14 of Hawaii, construction and trades industries, community  
15 nonprofits, the agricultural sector, food and restaurant  
16 industries, retailing, the science and technology sector, the  
17 commercial transportation industry, and interested stakeholders  
18 developed a package of bills that address the most pressing  
19 problems facing Hawaii's small business community.

20 The purpose of this Act is to support the findings of the  
21 small business working group and recommendations to extend the  
22 income tax credit for qualified research activities for an



1 additional five years and to add a ten per cent labor costs tax  
2 credit.

3 SECTION 2. Section 235-110.91, Hawaii Revised Statutes, is  
4 amended as follows:

5 1. By amending subsection (c) to read:

6 "(c) There shall be allowed to each qualified high  
7 technology business subject to the tax imposed by this chapter  
8 an income tax credit for [qualified]:

9 (1) Qualified research activities equal to the credit for  
10 research activities provided by section 41 of the  
11 Internal Revenue Code and as modified by this  
12 section[-]; and

13 (2) Ten per cent of the qualified labor costs.

14 The credit shall be deductible from the taxpayer's net income  
15 tax liability, if any, imposed by this chapter for the taxable  
16 year in which the credit is properly claimed."

17 2. By amending subsection (f) to read:

18 "(f) As used in this section:

19 "Basic research" under section 41(e) of the Internal  
20 Revenue Code shall not include research conducted outside of the  
21 State.



1 "Qualified high technology business" means the same as in  
2 section 235-110.9.

3 "Qualified research" under section 41(d)(1) of the Internal  
4 Revenue Code shall not include research conducted outside of the  
5 State.

6 "Qualified labors costs" means the costs incurred by a  
7 qualified high technology business that are attributable to  
8 wages or salaries paid by the qualified high technology business  
9 for the first twelve months of employment of any full-time  
10 employee or any part-time employee who is also full-time  
11 student, and who is a resident of the State of Hawaii."

12 3. By amending subsection (j) to read:

13 "(j) This section shall not apply to taxable years  
14 beginning after December 31, [~~2010~~] 2015."

15 SECTION 3. Statutory material to be repealed is bracketed  
16 and stricken. New statutory material is underscored.

17 SECTION 4. This Act, upon its approval, shall apply to  
18 taxable years beginning after December 31, 2010.

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**Report Title:**

High Technology; R&D Income Tax Credit

**Description:**

Establishes a tax credit for ten per cent of qualified labor costs; extends the tax credit for qualified research activities for five years.

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