

LINDA LINGLE  
GOVERNOR



LINDA L. SMITH  
SENIOR POLICY ADVISOR

**STATE OF HAWAII**  
**GOVERNOR'S POLICY OFFICE**  
EXECUTIVE CHAMBERS  
HONOLULU, HAWAII 96813

Testimony of Linda L. Smith  
Senior Policy Advisor to the Governor

Before the

House Committee on Economic Revitalization, Business, & Military Affairs

February 19, 2009

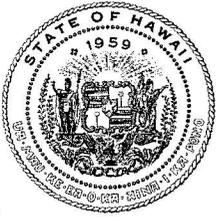
**HB 1082 HD1, RELATING TO THE SCIENCE, TECHNOLOGY, ENGINEERING, AND  
MATH INCOME TAX CREDIT**

Chair McKelvey, Vice-Chair Choy, and Members of the Committee. Thank you for the opportunity to provide testimony on H.B.1082, Relating to the Science, Technology, Engineering, and Math Income Tax Credit, an administration proposal that encourages partnerships between schools and the community through the creation of an income tax credit for donations given to science, technology, engineering, and math (STEM) programs in schools.

Since 2007, the Legislature, Governor Lingle, Department of Education, University of Hawaii Community Colleges, Department of Human Services, and the Department of Business, Economic Development, and Tourism have worked collaboratively to create an educational focus on STEM programs in public schools. STEM programs help students develop analytical and problem-solving skills and increase their exposure to advanced technology and other innovative learning tools. STEM programs create an educational environment where students develop twenty-first century skill sets that will make them employable in the future.

House Bill 1082 allows fifty percent of every contribution made to a STEM program to be claimed as an income tax credit. The bill caps the total amount of tax credit that may be claimed in a given year at \$500,000. By creating this tax credit, individuals and businesses are incentivized to assist the State in improving the quality of educational programs for Hawaii's students.

Your consideration of this Administration proposal is appreciated. Thank you for the opportunity to testify in strong support of House Bill 1082.



**DEPARTMENT OF BUSINESS,  
ECONOMIC DEVELOPMENT & TOURISM**

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Statement of  
**THEODORE E. LIU**  
Director

Department of Business, Economic Development, and Tourism  
before the  
**COMMITTEE ON ECONOMIC REVITALIZATION, BUSINESS,  
& MILITARY AFFAIRS**

Thursday, February 19, 2009  
9:30 a.m.

State Capitol, Conference Room 312

in consideration of  
**HB 1082, HD1**  
**RELATING TO THE SCIENCE, TECHNOLOGY, ENGINEERING, AND MATH  
INCOME TAX CREDIT.**

Chair McKelvey, Vice Chair Choy, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) strongly supports HB 1082, HD1 which would provide an income tax credit for donations made to qualifying science, technology, engineering, and math academies.

Our Department continues to advocate for the need to enhance Hawaii's ability to provide an education for all Hawaii students that includes the development of strong skills in science, technology, engineering and math (STEM). This tax credit would enable the State to leverage scarce public resources with private funding to create a supportive partnership.

Since 2007, the Legislature, Governor Lingle, the Department of Education (DOE), the Department of Human Services (DHS), the University of Hawaii (UH) Community Colleges, and DBEDT have cooperated to establish STEM academies in seven public high schools. These

academies are operated cooperatively by the Department of Education and the University of Hawaii Community Colleges, under the direction of the Director of Academies at Honolulu Community College. Additional funding from the private sector would provide added value to these academies, and perhaps allow expansion of the program to other volunteer high schools.

HB 1082, HD1 clarifies that the tax credit is applicable to donations to qualifying STEM programs, rather than only STEM academies. This broad definition opens the program to a much larger number of programs; including the robotics and Research Experience for Teachers programs operated by the UH College of Engineering and funded by Act 111 (SLH 2007), Project EAST funded by Act 271 (SLH 2007), and potentially many other STEM programs throughout the State.

Under these circumstances, we would like to recommend that if this measure is adopted, there will need to be a clarification of the process of certification, including a clear definition of the criteria used to determine eligible programs. We appreciate that the process of certification has been amended to include a representative of the DOE Career and Technical Education Program and would like to suggest that the reference to the University of Hawaii Community Colleges be amended to simply the University of Hawaii since many of the STEM programs are administered through the College of Engineering. We also would like to recommend that the certification process be developed with ease of administration in mind, since no staff resources are provided to take on this new task.

Thank you for the opportunity to provide these comments.

LINDA LINGLE  
GOVERNOR

JAMES R. AIONA, JR.  
LT. GOVERNOR



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**HOUSE COMMITTEE ON ECONOMIC REVITALIZATION, BUSINESS & MILITARY  
AFFAIRS  
TESTIMONY REGARDING HB 1082 HD 1  
RELATING TO THE SCIENCE, TECHNOLOGY, ENGINEERING, AND MATH  
INCOME TAX CREDIT**

**TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)**  
**DATE: FEBRUARY 19, 2009**  
**TIME: 9:30AM**  
**ROOM: 312**

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This measure provides a nonrefundable income tax credit for donations to a qualifying science, technology, engineering, and math academy (STEM) at a school.

The House Committees on Education and Higher Education amended the measure by requiring the Department of Business, Economic Development & Tourism to work with the Department of Education on implementation of the credit program. The committees also made the technical amendment requested by the Department.

The Department of Taxation (Department) **supports this Administration measure and recommends passage of this bill.**

**STRONG SUPPORT FOR THE FUTURE TECHNOLOGY LEADERS**—The Administration and the Department strongly support this budgeted tax incentive to encourage donations to qualifying STEM academies. Studies in science, technology, engineering, and math are the future of Hawaii's developing technology sector. By providing an incentive to contribute to these programs, these programs will be better funded to advance at the necessary pace as technology grows. This measure is patterned after the innovative 3R's school repair and maintenance credit that already exists.

**BUDGETED INCENTIVES**—The Department appreciates that this measure has already been funded into the executive budget and financial plan as a high priority to assist in the investment of educating Hawaii's youth. This measure will result in a known revenue loss of \$500,000 per year.

**DBEDT ADMINISTRATION**—The Department also supports that DBEDT administers the

certification of this credit to ensure proper claims of donations.

**LIMITED CARRY-FORWARD**—This measure only allows credits to be carried forward for five years. This too is positive tax policy to ensure the budget is not unduly burdened by this incentive.

Date of Hearing: February 19, 2009

Committee: House Economic Revitalization,  
Business and Military Affairs

Department: Education

Person Testifying: Patricia Hamamoto, Superintendent

Title: H.B. No. 1082, H.D. 1 (HSCR 241), Relating to the Science, Technology, Engineering, and Math Income Tax Credit

Purpose: Provides an income tax credit for donations made to qualifying science, technology, engineering, and math programs at Hawaii public schools.

Department's Position: The Department supports this bill and its potential to directly help schools fund academies related to science, technology, engineering, and mathematics programs by allowing individuals and businesses who donate money directly to receive tax credit. Donations can only be made to Hawaii schools as certified by the Department of Business, Economic Development, and Tourism, in consultation with the Department of Education's Career and Technical Education program office, and the University of Hawaii community colleges.



# UNIVERSITY OF HAWAII SYSTEM

## Legislative Testimony

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Written Testimony Presented Before the  
House Committee on  
Economic Revitalization, Business, & Military Affairs  
February 19, 2009 at 9:30 a.m.

by  
John Morton  
Vice President for Community Colleges, University of Hawai'i

### HB 1082, HD1 – RELATING TO THE SCIENCE, TECHNOLOGY, ENGINEERING, AND MATH INCOME TAX CREDIT

Chair McKelvey, Vice Chair Choy, and Members of the Committee:

The relatively low performance on assessments of mathematics and science by a significant number of Hawaii high school graduates have proven to be barriers to their ability to either become employed in high skilled jobs, or complete the postsecondary education programs designed to secure such employment. The University of Hawai'i stands in support of the desire expressed in HB 1082, HD1 to increasing private sector financial support for science, technology, engineering, and math (STEM) academies established within our public schools. However, we don't feel qualified to determine the measure's impact on either private revenue support for the academies, or its impact on state revenues and finances.

Through a contract the Department of Human Services, and with the coordination provided by the Department of Business, Economic Development, and Tourism, the University of Hawai'i Community Colleges began a pilot of the Hawaii Excellence in Science and Technology (HiEST) academy in the fall of 2008. The participation of the high schools as well as the colleges was voluntary. At present, there are HiEST academies located in seven high schools across the state, involving more than 600 students.

We believe that successful implementation and expansion of the HiEST Academies if they prove to be successful, coupled with other similar initiatives, are vital to the future success of Hawai'i's economy. Our future success, separate from the current economic downturn, is dependent upon our ability to increase the number of young people who have the mathematics, scientific, and technical skills, as well as the formal education, that are being required for a growing number of jobs in Hawaii. We expect this demand to accelerate as an increasing number of our aging population leave the workforce during the next decade.

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Education tax credits

BILL NUMBER: HB 1082, HD-1

INTRODUCED BY: House Committees on Education and Higher Education

**BRIEF SUMMARY:** Adds a new section to HRS chapter 235 to allow a taxpayer to claim a tax credit for 50% of the amount donated to a qualifying science, technology, engineering, and math program. The amount of the credit shall be: \$\_\_\_\_ for individuals; \$\_\_\_\_ for persons filing a joint return; and \$\_\_\_\_ for corporations. In the case of a partnership, S corporation, or estate or trust, the tax credit is allowable for cash donated by the entity and shall not exceed \$\_\_\_\_. Allocations of the tax credit shall be determined under the income tax rules governing allocations of credits and subject to limitations in paragraphs (1), (2), (3), and (4).

Requires the department of business, economic development, and tourism (DBEDT) to maintain records and certify the total amount of the donations eligible for the credit made during the taxable year, including donations made to a qualifying science, technology, engineering, and math program. Donations eligible for the credit shall be verified by DBEDT in consultation with the department of education, career and technical education program office and the University of Hawaii community colleges. DBEDT shall issue a certificate to the taxpayer certifying the amount of the donations eligible to be claimed as a credit. The taxpayer shall file the certificate with the taxpayer's tax return. DBEDT shall certify no more than \$1,000,000 in donations in the aggregate for all taxpayers for each taxable year. When the total amount of certified donations reaches \$1,000,000, DBEDT shall immediately discontinue certifying donations and notify the department of taxation.

Defines "qualifying science, technology, engineering, and math program" as a program at a primary, middle, or high school operated by the department of education that has been approved by DBEDT in collaboration with the department of education, career and technical education program office, and the University of Hawaii community colleges to participate in its science, technology, engineering, and math educational programs.

If the tax credit claimed by a taxpayer exceeds the taxpayer's income tax liability, any excess tax credit may be used as a credit against the taxpayer's income liability up to five consecutive taxable years following the year of the donation until exhausted. If the credit is not exhausted within the five consecutive taxable years following the year of the donation, the credit expires.

If a deduction is taken under IRC section 170 (with respect to charitable contributions and gifts) on the taxpayer's federal or state income tax return for the amount donated to a qualifying science, technology, engineering, and math program, no tax credit shall be allowed for that portion of the donation for which the deduction was taken.

Claims for the credit, including amended claims, must be filed on or before the end of the 12th month

following the close of the taxable year. The director of taxation may adopt rules pursuant to HRS chapter 91 and prepare necessary forms to claim the credit and require proof of the claim for the credit.

EFFECTIVE DATE: Tax years beginning after December 31, 2008

STAFF COMMENTS: This was an administration measure submitted by the Office of the Governor, GOV-03(09). The legislature by Act 309, SLH 2001, proposed a pilot project to allow contractors, pest control operators, architects, surveyors, and engineers to claim a credit for contributions of in-kind services made for the repair and maintenance of public schools. This measure proposes another tax credit for individuals who contribute in support of science, technology, engineering, and math programs in the public schools. If this measure is enacted, it would allow the same taxpayers who are able to claim the existing tax credit for school repair and maintenance as provided for by Act 309, SLH 2001, to claim the proposed credit as there is no prohibition against claiming both tax credits.

It should also be remembered that there is already a tax preference for such contributions to schools in the form of a deduction which, while not as generous as the dollar-for-dollar return that a tax credit provides, is nonetheless already available to donors of goods or services to a government agency, in this case public schools. The deduction is also available to private schools and, therefore, maintains parity in the tax treatment of such donations. The proposed credit is therefore discriminatory, extending the tax benefit only for donations to public schools.

While this measure provides another incentive to a select group of taxpayers, it should be remembered that the tax system is not an efficient means to accomplish this goal.

As pointed out when Act 309 was proposed, while these credits would be granted only for contributions to public schools in the state, it discriminates against non-public institutions of learning. Rather than perpetuate the drain on precious state funds, consideration should be given to repealing Act 309, SLH 2001.

Digested 2/18/09