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**HOUSE COMMITTEE ON HEALTH
TESTIMONY REGARDING HB 699
RELATING TO TAX CREDITS**

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: JANUARY 30, 2009

TIME: 8:30AM

ROOM: 329

This legislation provides a tax credit for medical technology research costs. This bill defines medical technology.

The Department of Taxation (Department) **opposes the tax provision in this measure due to the budget impact.**

DEFERRAL TO DEPARTMENT OF HEALTH ON THE SUBSTANCE—The Department defers to the Department of Health on the need for providing a tax incentive for medical technology research.

IS THERE A NEED FOR THIS INCENTIVE?—The Department questions the need for this tax credit. A tax credit should be utilized for broad-based application amongst hundreds or thousands of taxpayers. The Department cannot conceive more than a dozen medical technology research taxpayers in Hawaii. Where the volume of an incentive diminishes, a grant program is the more logical choice.

THERE ALREADY IS A CREDIT—The Department has concerns with the definition of "medical technology" because it is overbroad and unascertainable. The Department points out that if the intent of this measure is to promote "true laboratory research," the State already has a very generous refundable credit for research costs under the Tax Credit for Research Activities found at HR § 235-110.91.

IMPACT ON THE BUDGET—The Department cannot support the tax provision in this measure because it is not factored into the budget. The Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either. And, given the forecasted decrease in revenue projections, this measure would add to the budget shortfall.

This measure is projected to result in an indeterminate revenue loss to the general fund because the percentage of costs is blank.

There would be no loss to any special fund.

HMSA



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January 29, 2009

The Honorable Ryan Yamane, Chair
The Honorable Scott Nishimoto, Vice Chair
House Committee on Health

Re: HB 699 – Relating to Tax Credits

Dear Chair Yamane, Vice Chair Nishimoto and Members of the Committee:

The Hawaii Medical Service Association (HMSA) appreciates the opportunity to testify in support of HB 699 which would provide a tax credit for costs related to conducting medical technology research.

Although the entire nation is facing dire economic forecasts for the immediate future, health care has emerged as a bright spot when it comes to hiring and employment. According to the Bureau of Labor statistics, health care saw a net gain of 419,000 jobs in 2008 and its growth outlook continues to be strong through 2016. Many individuals working in fields negatively impacted by the economy are turning towards the health care field for steady and dependable employment.

With this type of rosy outlook for health care employment in general, offering a tax credit for medical research which could potentially increase the number of employment opportunities makes good sense. Encouraging both individuals and corporate entities to engage in medical research could not only provide breakthroughs in medicine but also assist in stimulating the local economy.

Thank you for the opportunity to testify today. We would respectfully urge the Committee's support of this measure.

Sincerely,

A handwritten signature in black ink, appearing to read "JD".

Jennifer Diesman
Assistant Vice President, Government Relations

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SUBJECT: INCOME, Credit for medical technology research

BILL NUMBER: SB 590; HB 699 (Identical)

INTRODUCED BY: SB by Ige; HB by Yamane, Tsuji, Yamashita

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow taxpayers to claim a medical technology tax credit which shall be deductible from the taxpayer's net income tax liability for the tax year in which the credit is properly claimed. The tax credit shall be _____ percent of the costs related to conducting medical technology research.

Defines "medical technology" as research conducted to benefit children and the elderly with respect to acute health problems, health care in rural areas of the state, and disease prevention.

In order to claim the credit, the taxpayer must be in compliance with all applicable federal, state, and county statutes, rules and regulations. Credits in excess of a taxpayer's income tax liability shall be refunded provided such amounts are over \$1. Claims for the credit, including any amended claims, must be filed on or before the end of the twelfth month following the close of the taxable year. The director of taxation may adopt rules pursuant to HRS chapter 91 and prepare the necessary forms to claim the credit and may require proof of the claim for the credit.

This act shall be repealed on December 31, 2010.

EFFECTIVE DATE: Tax years beginning after December 31, 2008

STAFF COMMENTS: This measure proposes an incentive in the form of an income tax credit to encourage taxpayers to perform medical technology research in Hawaii. Tax credits generally are designed to alleviate an undue burden on those who are unable to carry that burden, largely the poor and low income. An example is the 4% general excise tax food credit for purchases made by the poor. Inasmuch as there is absolutely no relationship between the cost of conducting clinical trials in Hawaii and the taxpayer's tax burden, there is little justification for granting this tax preference that would amount to a subsidy of such research by state government.

It should be remembered that giving tax breaks to one select group of taxpayers comes at the expense of all other taxpayers. As such, it is an insult to all other taxpayers that they are not deserving of such tax preferences. Rather than singling out a particular group for tax relief, concurrent efforts must be made to improve Hawaii's business climate to enhance the economic prospects for all businesses.

At a time when the state government is searching for new sources of revenue, it is unthinkable that proposals which would deplete state funds are being proposed.

Digested 1/28/09