STAND. COM. REP. NO.

1312

Honolulu, Hawaii APR 092009

RE: H.B. No. 1451 H.D. 2 S.D. 2

Honorable Colleen Hanabusa President of the Senate Twenty-Fifth State Legislature Regular Session of 2009 State of Hawaii

Madam:

Your Committee on Ways and Means, to which was referred H.B. No. 1451, H.D. 2, S.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose of this measure is to extend the technology infrastructure renovation tax credit, high technology business investment tax credit, and tax credit for research activities to December 31, 2012.

The measure also:

- (1) Establishes a limit of \$10,000,000 on the aggregate of high technology business investment tax credits that may be claimed by taxpayers in a taxable year for investments in a single qualified high technology business;
- (2) Establishes a limit of \$100,000,000 on the aggregate of high technology business investment tax credits claimed in a taxable year by all taxpayers for investments in qualified high technology businesses for each of the following periods:
 - (A) From July 1, 2009, through December 31, 2009;
 - (B) From January 1, 2010, through December 31, 2010;

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(C) From January 1, 2011, through December 31, 2011; and

(D) From January 1, 2012, through December 31, 2012

- (3) Clarifies that if a recapture event occurs during the five-year period applicable to the high technology business investment tax credit, then one hundred per cent of the tax credit is disallowed in the year of the recapture event and each year thereafter during the five-year period;
- (4) Requires a qualified high technology business that constitutes a "drop-down subsidiary" to obtain a comfort letter ruling from the Department of Taxation prior to qualifying for the high technology business investment tax credit; and
- (5) Extends the date of the repeal and reenactment of Act 206, Session Laws of Hawaii 2007, relating to evaluating the high technology business investment tax credit from January 1, 2011, to January 1, 2013.

Your Committee received four written comments on this measure. The written comments may be reviewed on the Legislature's website.

Your Committee finds that the technology infrastructure renovation tax credit has gone virtually unused and should be repealed. Your Committee also finds that the high technology business investment tax credit and the tax credit for research activities have proven very costly to the State in terms of tax revenue. However, these tax credits have also generated investment in Hawaii's economy. Therefore, your Committee believes that it is advisable to neither repeal nor extend these tax credits at this time. Your Committee also believes it is reasonable to require high technology businesses to increase their workforce, thereby aiding the State's economy by creating jobs, in order to continue claiming the high technology business investment tax credit.

Your Committee has amended this measure by:



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- Requiring a high technology business to increase its workforce to continue claiming the tax credit for research activities;
- (2) Deleting the extensions of time to claim the high technology business investment, research activities, and technology infrastructure renovation tax credits;
- (3) Deleting the extension of the date of repeal and reenactment of Act 206, Session Laws of Hawaii 2007;
- (4) Repealing the technology infrastructure renovation tax credit;
- (5) Changing the effective date of this measure to July 1, 2090, to facilitate further discussion on the measure; and
- (6) 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 Ways and Means that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 1451, H.D. 2, S.D. 1, as amended herein, and recommends that it pass Third Reading in the form attached hereto as H.B. No. 1451, H.D. 2, S.D. 2.

> Respectfully submitted on behalf of the members of the Committee on Ways and Means,

DONNA MERCADO KIM, Chair



The Senate Twenty-Fifth Legislature State of Hawaii

Record of Votes Committee on Ways and Means WAM

Bill / Resolution No.:*	Committee Referral:			Date: APPIL 6,2009	
The committee is reconsidering its previous decision on this measure.					
The Recommendation is:					
Pass, unamended Pass, with amendments Hold Recommit 2312 2311 2310 2313					
Members		Aye	Aye (WR)	Nay	Excused
KIM, Donna Mercado (C)		/			
TSUTSUI, Shan S. (VC)		\checkmark			
CHUN OAKLAND, Suzanne		1			1
ENGLISH, J. Kalani		1			
FUKUNAGA, Carol				D MARRIED MARRIED V VI or London and According	entreentreeset
GALUTERIA, Brickwood					
HEE, Clayton		<u> </u>			
HOOSER, Gary L. KIDANI, Michelle N.					
KOKUBUN, Russell S.					
TOKUDA, JIII N.		· /			
HEMMINGS, Fred		1			
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TOTAL		12			
Recommendation:					
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