

NEIL ABERCROMBIE  
GOVERNOR

BRIAN SCHATZ  
LT. GOVERNOR



FREDERICK D. PABLO  
DIRECTOR OF TAXATION

RANDOLF L. M. BALDEMOR  
DEPUTY DIRECTOR

STATE OF HAWAII  
DEPARTMENT OF TAXATION  
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## HOUSE COMMITTEE ON FINANCE

### TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING HB 1642 HD 1 RELATING TO HIGH TECHNOLOGY

**TESTIFIER:** FREDERICK D. PABLO, DIRECTOR OF TAXATION (OR  
DESIGNEE)  
**COMMITTEE:** FIN  
**DATE:** MARCH 2, 2011  
**TIME:** 10:00AM  
**POSITION:** SUPPORT INTENT; CONCERNED WITH CAP

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This measure extends the Tax Credit for Research Activities (Research Credit) allowed under Section 235-110.91, Hawaii Revised Statutes (HRS), prior to December 31, 2010, by five years to 2015. This measure also caps the aggregate amount of credit available to all taxpayers per year.

The Department of Taxation (Department) **supports the intent** of this measure; however raises **concerns over the aggregate cap** anticipated by this measure.

**SUPPORT FOR RESEARCH & DEVELOPMENT INCENTIVES, GENERALLY**—In general, the Department supports the Legislature's efforts to expand the research and development industries in Hawaii through means of the Research Credit. The Research Credit was in effect for several years until its expiration on December 31, 2010. The Department supports the concept of the Research Credit because it is a credit that rewards scientific and technical innovation in a laboratory sense.

**STATISTICS SHOW RESEARCH & DEVELOPMENT INCENTIVES HELP THE LOCAL TECH INDUSTRY**—In a 2007 study released by Grant Thornton, LLP, statistics show that the Research Credit provides effective incentives through tax policy to expand Hawaii's tech industry. These statistics include:

- 81% of respondents indicated the Research Credit will increase high tech jobs in Hawaii; and
- 74% of respondents indicated that the Research Credit is more effective in attracting high tech jobs than other incentives.

Based upon this study, among other data regarding the credit from throughout the country, extending

the Research Credit is worth exploring.

**PREFERENCE FOR CONFORMITY**—The Department prefers that this incentive conforms to federal law. The Research Credit is based upon Section 41(d) of the Internal Revenue Code. Conforming to tax policies that are well settled based upon federal regulations and court cases greatly assists with the implementation of the credit.

**CONCERN FOR DOUBLE INCENTIVE**—However, the Department points out a general tax policy concern, which is the propriety of providing a "double incentive" for a program already being spearheaded by the federal government. With state revenues scarce and social service priorities growing, the Department questions whether already limited state general fund revenues should go toward programs already being funded by the federal government.

**CONCERN OVER AGGREGATE CAP**—The Department generally opposes aggregate caps, especially in this measure's form. There is no legislative guidance on how the cap is to be administered. Is the cap based on who files first? Do taxpayers need to apply for the credit? Should the credit be spread evenly amongst all taxpayers? All of these issues arise when an aggregate cap is instituted. These issues become even more concerning when there are a substantial number of taxpayer claiming the credit, such as with the Research Credit.

**DEFINITION OF QHTB**—The Department recommends defining the phrase "qualified high technology business" within HRS § 235-110.91 because the current definition cross-references HRS § 235-110.9, which while still an operative law, deals with a credit which has sunsetted.

**MAINTAIN THE N-317 SURVEY FOR POLICYMAKER INFORMATION**—The Department suggests adding language to the measure that ensures the N-317 QHTB survey form is maintained by those that receive this credit. This information provides useful information for policymakers. Because of the detailed information received on the Form N-317 and the accessibility of the Form N-317 information immediately after the Form N-317 due date, the Department recommends deleting the certification requirement. The certification was a pre-audit of the credit claim and served mainly as an information-gathering tool.

**REVENUE IMPACT**—This measure will result in an estimated revenue loss of \$10.9 million per year from FY 2012 to FY 2016. Based on historical data, the credit claims in the past were:

- Tax Year 2008: \$13.0 million
- Tax Year 2007: \$10.4 million
- Tax Year 2006: \$14.4 million
- Tax Year 2005: \$13.2 million
- Tax Year 2004: \$12.2 million

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

**SUBJECT:** INCOME, Extend tax credit for research activities

**BILL NUMBER:** HB 1642, HD-1

**INTRODUCED BY:** House Committee on Economic Revitalization & Business

**BRIEF SUMMARY:** Amends HRS section 235-110.91 to: (1) establish an annual maximum amount of credits that may be issued to all qualified taxpayers; and (2) extend the expiration of the tax credit for research activities from December 31, 2010 to December 31, 2015.

**EFFECTIVE DATE:** July 1, 2012

**STAFF COMMENTS:** The legislature by Act 178, SLH 1999, and Act 221, SLH 2001, enacted various tax incentives to encourage the development of high technology businesses in the state. These acts provided investment and research credits, as well as income exclusions, providing tax incentives to encourage high tech businesses and individuals associated with high tech businesses to locate in the state. While this measure would establish an aggregate limit of the amount of tax credits that is paid out annually for all qualified taxpayers, it also extends the tax credit for another five years to December 31, 2015, which will perpetuate the financial drain on the state's revenues. It should also be remembered that the research credit is a refundable tax credit. Thus, should the amount of the credit exceed the taxpayer's income tax liability, any excess credit is a cash payment out of the state treasury to the claimant.

While the focus on high technology in the last few years is commendable, it fails to recognize that investments are made with the prospect that the venture will yield a profit. If the prospects for making a profit are absent, no amount of tax credits will attract investment from outside Hawaii's capital short environment. People do not invest to lose money. It should be remembered that until Hawaii's high cost of living can be addressed, all the tax incentives in the world will not make a difference in attracting new investment to Hawaii. The only attractive aspect for resident investors to plough money into such activities is the fact that the credit provides a way to avoid paying state taxes.

A former Hawaii resident who has been a success in the field of high technology pointed out recently what will make Hawaii conducive to high tech businesses and they are: (1) entrepreneurs, not capital, that comes first; (2) entrepreneurs coming from engineering schools and technology companies; (3) building a world class engineering school in Hawaii; (4) supporting internships at technology companies; (5) allowing our best children to go away to get a worldwide perspective; (6) not broadband passing through Hawaii that is a selling point; (7) that people fly direct and therefore is Hawaii's location in the middle of the Pacific an advantage?; (8) learning the rules of the game; (9) looking at Israel and learning from them; and (10) doing your own thing, being a copy cat does not work. At the heart of his remarks was the fact that in order to produce a high technology industry in Hawaii, those companies need to have access to institutions of higher education that are producing the people needed

by the high technology industry. Without the academic synergy, Hawaii will never become a center for high technology activity. Thus, all of the tax incentives, like this measure embodies, will fall short of luring high technology firms to Hawaii.

Further, the tremendous tax burden, the draconian regulatory environment, and the dramatic increase in fees that go with the permitting process make Hawaii an unattractive place to do business. It should be remembered that while the high technology credits may look like a good incentive or enticement to undertake research activities in Hawaii, those who would conduct this research must live in the same high cost-of-living environment with which other taxpayers continue to struggle. Thus, the cost of maintaining those researchers will be higher than to do so where the cost of living is much lower. Let's not bet the farm on high technology without really understanding what makes this industry tick.

Obviously the authors of this proposal would like to ignore the evaluation of these tax incentives done by UHERO a few years ago which basically condemned the credits as a waste of state resources as there is little evidence that the current program of tax credits has created substantial new employment or on-going enterprises. It is truly amazing that given the dire condition of the state's financial condition that lawmakers would continue to support unbridled drains of resources while at the same time proposing that the tax burden be increased on all other taxpayers. With declining revenues, every program from education to corrections to health services will be severely curtailed. If the state doesn't have the money to put textbooks in the schools why then do we need the highly touted, high-paying jobs the advocates for the industry promise? The next generation may not even know how to read given the cuts to the education budget.

Again, lawmakers must ask themselves whether or not this incentive is appropriate in these dire financial times. Given that there are many other proposals in the legislature to hike tax rates for either the general excise or net income taxes, taxpayers will find the continuance of these targeted business tax credits frightening. Frightening because these very lawmakers are supposed to represent the best interest of their constituents. Raising taxes on constituents while still handing out money to favored groups will engender the ire of constituents. The finger of blame for these potential increases in the tax burden should not stop at lawmakers, but be placed squarely on those in the community who continue to push for these targeted tax credits. Perhaps those proponents should be asked to pick up the tab for this reckless expenditure of precious tax dollars.

Finally, it should be noted that this state credit basically tracks the federal tax credit for research activities, including the disqualification for the credit should any part of the cost of the research be supported by federal grants. It would be interesting to know how many of the claims for this state research credit were disqualified because all or a part of the research activities were paid for with funds from federal grants.

Digested 2/28/11

Written Statement of

**YUKA NAGASHIMA**  
**Executive Director & CEO**  
High Technology Development Corporation  
before the  
**HOUSE COMMITTEE ON FINANCE**  
March 2, 2011  
10:00 AM  
State Capitol, Conference Room 308

In consideration of  
**HB 1642 HD1 RELATING TO HIGH TECHNOLOGY**

Chair Oshiro, Vice Chair Lee, and Members of the Committee on Finance

The High Technology Development Corporation (HTDC) respectfully submits comments in support of HB 1642 HD1. The state tax credit for research activities sunset at the end of calendar year 2010. This tax credit program was an effective measure to support research and development activities, which in turn, foster and encourage the innovation essential to create high-wage job opportunities in our economy. Over the past nine years, the tax credit claims under this program averaged approximately \$11-\$12 million a year. As the credit can only be claimed for qualified research conducted in Hawaii and only for 20% of the qualified expenditures, the cost of the program is partially offset by taxes paid on expenditures and payroll.

HB 1642 HD1 renews the research and development tax credit contained in Section 235-110.91 HRS, but proposes adding an annual aggregate cap. HTDC agrees with the Dept. of Taxation that the cap is unnecessary. Setting a cap on a stable trend of claims only adds logistic complications to the measure, as well as added burden for monitoring the aggregate cap. Further, setting a cap too low would diminish the value of the very activities which the State is trying to incentivize because it is no longer certain that the businesses will be guaranteed these taxes before the expenditure is planned. If the cap is set too high, it means that the businesses are not going to reach that cap, so it wasn't necessary to begin with.

HTDC appreciates the legislature's concern regarding the State's exposure given the present economic conditions. However, HTDC feels that given the steady past track record of the R&D tax credit claims, and the fact that a great increase of the claims is highly unlikely, the cap is not needed. The credit claims is more controlled with this type of tax credit where the businesses must expend the monies first to receive the tax credit. It means that the businesses have already paid their payroll taxes, GET, income tax, etc. and the activities the State wanted to incentivize already taken place.

Thank you for the opportunity to submit testimony on this bill.



Written Statement of  
**Jan Sullivan**  
COO  
Oceanit  
before the  
**HOUSE COMMITTEE ON FINANCE**  
March 2, 2011  
10:00 AM  
State Capitol, Conference Room 308  
In Support of  
**HB 1642 HD1 RELATING TO HIGH TECHNOLOGY.**

TO: Chair Oshiro, Vice Chair Lee, and Members of the Committee

From: Jan Sullivan, COO, Oceanit

Re: Testimony in Support of HB1642 HD1

Honorable Chair, Vice-Chair and Committee Members:

Thank you for the opportunity to submit testimony in **support of HB1642 HD1.**

Oceanit currently employs about 160 scientists, engineers and support staff. We regularly host interns, school classes, and conduct numerous outreach activities for elementary thru college level kids to introduce them to science and engineering careers. We let kids know that there are exciting, decent paying jobs for them in Hawaii if they pursue these careers. Many of them have returned to us, equipped with college degrees, wanting to work in science and engineering. It is our hope that we can continue to offer an alternative to kids that want to work in an industry that is growing nationally as well as internationally - and to show them that world class technical work can thrive in Hawaii.

The R&D credit has helped to jump start an industry that is in its infancy in Hawaii. The R&D credit has been responsible for job creation, as well as many long term investments Oceanit has made that will set the stage for growth into the future. The reality is that without Hawaii's R&D tax credit, we would not have been able to make these investments, and in the future, we will be forced to severely curtail R&D infrastructure investments across the board.

Because of the forward-looking nature of research, few R&D investments have short term rewards. This bill would provide longer term continuity for an industry that is still in its infancy, and is struggling to grow. We urge you to maintain the momentum that has started and to keep this new sector of the economy growing at this critical juncture.

Thank you for your continued support of the R&D tax credit and for your support of the industry.

Sincerely,  
Jan N. Sullivan  
COO

Written Statement of

**KARL FOOKS**

**President**

Hawaii Strategic Development Corporation  
before the

**HOUSE COMMITTEE ON FINANCE**

March 2, 2011

10:00 AM

State Capitol, Conference Room 308

In consideration of

**HB 1642 HD 1 RELATING TO HIGH TECHNOLOGY**

Chair Oshiro, Vice Lee, and Members of the Committee on Finance:

The Hawaii Strategic Development Corporation (HSDC) respectfully submits comments in support of HB 1642 HD1. The state tax credit for research activities sunset at the end of calendar year 2010. This tax credit program was an effective measure to support research and development activities, which in turn, foster and encourage the innovation essential to create high-wage job opportunities in our economy. Over the past nine years, the tax credit claims under this program averaged approximately \$12 million a year. As the credit can only be claimed for qualified research conducted in Hawaii and only for 20% of the qualified expenditures, the cost of the program is partially offset by taxes paid on expenditures and payroll.

HB 1642 HD 1 renews the research and development tax credit contained in Section 235-110.91 HRS, but proposes adding an annual aggregate cap. HSDC does not believe a cap is necessary given the relative stability of claims over the years due to the fact that the tax credit is limited to claims by qualified high technology businesses. However, if an annual aggregate cap is deemed to be necessary for budgetary reasons, an appropriate mechanism needs to be established to administer the cap in a manner that benefits the largest number of potential claimants. HB 1642 HD1 contains references to definitions in HRS 235-110.9. This section sunset as of December 2010 and it may be prudent to incorporate the definitions directly in HB 1642 HD1 to avoid confusion in implementation at a later date.

Thank you for the opportunity to submit testimony on this bill.

**Testimony to the House Committee on Finance**  
**Wednesday, March 2, 2011**  
**10:00 a.m.**  
**Conference Room 308, State Capitol**  
**Agenda #1**

**RE: HOUSE BILL NO. 1642 HD1 RELATING TO HIGH TECHNOLOGY**

Chair Oshiro, Vice Chair Lee, and Members of the Committee:

The Chamber of Commerce of Hawaii ("The Chamber") supports **HB 1642 HD1** relating to High Technology with amendments.

The Chamber is the largest business organization in Hawaii, representing more than 1,100 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of its members, which employ more than 200,000 individuals, to improve the state's economic climate and to foster positive action on issues of common concern.

HB 1642 HD1 extends the income tax credit for qualified research activities for five years and places an annual aggregate cap on the tax credit.

The Chamber believes that an aggregate cap is not necessary given the relative stability of claims over the past nine years, which averaged at about \$11-\$12 million a year. Also, placing a cap may inhibit growth in this flourishing sector.

The tax credit can only be claimed for qualified research conducted in Hawaii and for 20% of the qualified expenditures. This refund occurs after the company files its tax return. So, R&D tax credits for 2011 would not be paid until 2012 and most of the payments will be in the latter half of the year. Therefore, the state receives the benefits of a business base now and doesn't pay for on average 18 months later.

Additionally, the cost of the credit is offset by taxes paid on expenditures and payroll. The tax is highly focused on wages for research activities. These jobs are typically high paying and result in significant income tax revenues and GET from the money spent by these employees within the State for goods and services, which help increase the State's revenues. Furthermore, as the R&D matures it creates product companies that increase the number of jobs and tax base significantly.

This is a prime opportunity to promote this growing sector in our state. This is the appropriate time to support our small local companies in the R&D industry so that it can continue to flourish and provide jobs for our talented citizens and ensure that our talented keiki have a viable option

to move back or stay in Hawaii and obtain quality jobs. Furthermore, this measure will strengthen the industry's effort to compete with other players in the national and international arena. Finally, supporting the R&D industry will help broaden and diversify Hawaii's economic base.

#### Role and Economic Impact of the Research and Development Industry in Hawaii

The large presence of all of the Nation's military services in Hawaii has spurred local companies to form and emerge into this industry. This has served as a source of funding and contracting opportunities for Hawaii's growing R&D sector, and there is considerable opportunity for even greater growth. There are literally millions of dollars that could be directed to Hawaii R&D businesses via military channels and through the prime defense contractors.

The Defense and Dual Use industry can and will play a vital role in stabilizing the state's economic climate. One of the best ways for the industry to help is to maintain and grow the workforce. Without job creation, cost cutting and tax increases will only create a downward spiral, requiring more costs and more tax increases. The State must maximize its return by spending money that generates multiples of increased spending, garnering the most return from the least amount of tax dollars.

Research and development is one of those areas. In comparing the R&D tax credit to other credits, we observe that the R&D tax credit is one of the most effective in generating and maintaining jobs per tax dollar, generating higher tax revenues for dollar spent, and stimulating measurably more economic activity in the state per dollar of tax credit.

The cost of the tax credit helps support qualified expenses in business expenditures in the state. Much of these expenditures come from imported dollars either from outside investors, the federal government or large mainland businesses. These expenditures result in income taxes and significant GET taxes.

#### Summary

In summary, the Hawaii R&D tax credit has been effective in generating new taxes, creating new companies and employing a number of residents. Therefore, it is important that a gap does not exist in the R&D tax credit while the 2011 legislature addresses the longer term impact of R&D on the state. Companies need to make long term plans when doing R&D. It is critical to the industry that the tax credit be in place long enough to encourage R&D and its commensurate high paying jobs, job growth, and its direct impact on the sustainability of the state's economy.

Therefore, we respectfully ask that the committee to **pass this measure**. Thank you for the opportunity to provide testimony.



Written Statement of  
**Nelson Kanemoto**  
President and CEO  
Before the  
**HOUSE COMMITTEE ON FINANCE**  
March 2, 2011  
10:00 a.m.  
State Capitol, Conference Room 308  
In Support of  
**HB1642 RELATING TO HIGH TECHNOLOGY**

TO: Chair Marcus Oshiro, Vice Chair Marilyn B. Lee, and Members of the Committee  
From: Nelson Kanemoto, President and CEO  
Re: Testimony in Support of HB1642

Honorable Chair, Madam Vice-Chair and Committee Members:

Thank you for the opportunity to submit testimony in support of **HB1642**.

Referentia Systems Incorporated is part of Hawaii's emerging defense and dual-use technology sector, one of the fastest growing segments of Hawaii's economy. Referentia is a Hawaii-based software innovation company committed to building a sustainable high technology company in Hawaii and providing interesting science and technology jobs today and in the future.

Our company employs a staff of 80+ computer scientists, engineers and support staff in Hawaii. We understand the difficult financial condition of the State and want to help by maintaining and growing our workforce. As a technology-based business, we know to accomplish this we need to continue to invest in research and development (R&D). The R&D tax credit has helped drive innovation, grow our industry and produce good paying jobs for our state.

In the past few years, we have successfully competed against powerhouse R&D businesses throughout the nation. R&D awards, along with the R&D credit, create long-term, valuable intellectual property for Referentia that will bring more economic growth and mainland partnerships here to Hawaii.

Without Hawaii's R&D credit, we may be forced to curtail our investment in R&D. Because of the forward-looking nature of research, few R&D investments have a payoff horizon shorter than one year. In order to continue to invest in R&D and grow our well-trained workforce, it is critical that we have visibility into the future financial implications of today's R&D investments.

By supporting the R&D tax credit, you will enable dual-use technology firms such as Referentia to keep investing in the future of our companies, our employees, and our State. You will also help keep one of the bright spots in our State's economy intact and growing.

We urge you to support the R&D tax credit through HB1642 HD1. Thank you for the opportunity to testify.

Sincerely

A handwritten signature in black ink, appearing to read "Nelson Kanemoto", written over a white background.

Nelson Kanemoto  
President and CEO



Written Statement of  
**Jill Takaezu Harper**  
VP Business Operations  
Before the  
**HOUSE COMMITTEE ON FINANCE**  
March 2, 2011  
10:00 a.m.  
State Capitol, Conference Room 308  
In Support of  
**HB1642 RELATING TO HIGH TECHNOLOGY**

TO: Chair Marcus Oshiro, Vice Chair Marilyn B. Lee, and Members of the Committee  
From: Jill Takaezu Harper, VP Business Operations  
Re: Testimony in Support of HB1642

Honorable Chair, Madam Vice-Chair and Committee Members:

Thank you for the opportunity to submit testimony in support of **HB1642**.

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We urge you to support the R&D tax credit through HB1642 HD1. Thank you for the opportunity to testify.

Sincerely

A handwritten signature in cursive script that reads "Jill Takaezu Harper".  
Jill Takaezu Harper

Written Statement of  
**Aaron Kagawa**  
Software Engineer  
Before the  
**HOUSE COMMITTEE ON FINANCE**  
March 2, 2011  
10:00 a.m.  
State Capitol, Conference Room 308  
In Support of  
**HB1642 RELATING TO HIGH TECHNOLOGY**

TO: Chair Marcus Oshiro, Vice Chair Marilyn B. Lee, and Members of the Committee  
From: Aaron Kagawa, Engineering Supervisor  
Re: Testimony in Support of HB1642

Honorable Chair, Madam Vice-Chair and Committee Members:

Thank you for the opportunity to submit testimony in **support of HB1642**.

Referentia Systems Incorporated is part of Hawaii's emerging defense and dual-use technology sector, one of the fastest growing segments of Hawaii's economy. Referentia is a Hawaii-based software innovation company committed to building a sustainable high technology company in Hawaii and providing interesting science and technology jobs today and in the future.

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Without Hawaii's R&D credit, we may be forced to curtail our investment in R&D. Because of the forward-looking nature of research, few R&D investments have a payoff horizon shorter than one year. In order to continue to invest in R&D and grow our well-trained workforce, it is critical that we have visibility into the future financial implications of today's R&D investments.

By supporting the R&D tax credit, you will enable dual-use technology firms such as Referentia to keep investing in the future of our companies, our employees, and our State. You will also help keep one of the bright spots in our State's economy intact and growing.

We urge you to support the R&D tax credit through HB1642 HD1. Thank you for the opportunity to testify.

Sincerely,



Aaron Kagawa



Written Statement of  
**Nancy Downes**  
**Program Manager**  
Before the  
**HOUSE COMMITTEE ON FINANCE**  
March 2, 2011  
10:00 a.m.  
State Capitol, Conference Room 308  
In Support of  
**HB1642 RELATING TO HIGH TECHNOLOGY**

TO: Chair Marcus Oshiro, Vice Chair Marilyn B. Lee, and Members of the Committee  
From: Nancy Downes, Program Manager  
Re: Testimony in Support of HB1642

Honorable Chair, Madam Vice-Chair and Committee Members:

Thank you for the opportunity to submit testimony in **support of HB1642**.

Referentia Systems Incorporated is part of Hawaii's emerging defense and dual-use technology sector, one of the fastest growing segments of Hawaii's economy. Referentia is a Hawaii-based software innovation company committed to building a sustainable high technology company in Hawaii and providing interesting science and technology jobs today and in the future.

Our company employs a staff of 80+ computer scientists, engineers and support staff in Hawaii. We understand the difficult financial condition of the State and want to help by maintaining and growing our workforce. As a technology-based business, we know to accomplish this we need to continue to invest in research and development (R&D). The R&D tax credit has helped drive innovation, grow our industry and produce good paying jobs for our state.

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We urge you to support the R&D tax credit through HB1642 HD1. Thank you for the opportunity to testify.

Sincerely

  
Nancy Downes

**Comments to the House Committee on Finance**  
**Wednesday, March 2, 2011**  
**10:00 a.m.**  
**Conference Room 308**

**RE: HOUSE BILL NO. 1642 RELATING TO HIGH TECHNOLOGY**

Chair Oshiro, Vice Chair Lee, and members of the committee:

My name is Ian Kitajima and I am the Convener of Hawaii Dual Use Network. I strongly support House Bill 1642 relating to High Technology. Here are three simple reasons:

- **Business must lead the recovery** – businesses must lead the recovery if it is to be meaningful and sustainable. HB1642 supports companies who bring outside Federal research funding to Hawaii but there is no free lunch - the companies must first win the work, and do the work in Hawaii.
- **Create high value STEM careers** – that means supporting R&D companies, and the career opportunities they create by solving the world's toughest problems. We will lose our children and our culture if we don't create STEM career opportunities that match STEM education. HB1642 creates and keeps promising STEM jobs and careers here in Hawaii for the next generation.
- **Get an ROI today** - a company must spend \$5 in qualified R&D within Hawaii before they can claim a \$1. And the incomes taxes, property taxes, and GE taxes paid by engineers and scientists are some of the highest.

For these reasons, I respectfully ask that you pass this measure.

Sincerely,  
Ian Kitajima, Convener  
Dual Use Network

The legislature has had the foresight to fund STEM programs, and the effort has now produced robotics programs in over 500 Hawaii schools...the numbers are growing! Our students compete favorably with any of their mainland counterparts as exemplified by the performance of our local teams in FIRST (robotics) national competition and the national first place wins by Iolani and Hanalani Schools in the Department of Energy sponsored national 2009 "Real World Design Challenge", and the 2010 Botball National Championship. Our kids just need a chance... and most want to be employed in Hawaii.

We need strong locally based companies to employ this growing inventory of bright young folks. We should not be educating them to move to the mainland for work. We need their skill sets to move our economy forward in this computer age where STEM skills are absolutely necessary!

The R&D technology industry is a business sector that is suffering like many others, but especially so because it is one the first areas of the economy to be impacted. The industry needs your support!

HB 1642 renews the research and development (R&D) tax credit contained in Section 235-110.91 HRS, but proposes adding an annual aggregate cap. I do not believe a cap is necessary given the relative stability of claims over the years and because the tax credit is limited to claims by qualified high technology businesses (QHTB). A cap would inhibit new business generation since more businesses will need a higher cap. If we truly believe the High Technology industry is one we want to keep in Hawaii, we want growth not limitations.

I suggest a query of DoTax to submit their annual credit amounts for the past 9 years to verify this industry growth stability. I am sure the past credit history will indicate a stable amount of exposure to the State.

Lastly, the larger defense companies rely on the existence of a thriving technology sector composed of many smaller companies, since many large/small corporate partnerships produce innovations that result in products that are produced and sold worldwide. We need the smaller companies to survive and grow!

Thank you for the opportunity to submit testimony on this bill and respectfully ask your support. If asked, I will be glad to answer any questions.

Mahalo,

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