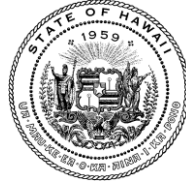


DAVID Y. IGE
GOVERNOR
JOSH GREEN M.D.
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

RONA M. SUZUKI
DIRECTOR OF TAXATION
DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

To: The Honorable Sylvia Luke, Chair;
The Honorable Ty J.K. Cullen, Vice Chair;
and Members of the House Committee on Finance

From: Rona M. Suzuki, Director
Department of Taxation

Re: H.B. 2138 H.D. 1, Relating to Tax Credits

Date: Wednesday, February 26, 2020

Time: 12:00 P.M.

Place: Conference Room 308, State Capitol

The Department of Taxation (Department) provides the following comments regarding H.B. 2138, H.D. 1. Originally, H.B. 2138 proposed to increase the aggregate cap on the Tax Credit for Research Activities provided under section 235-110.91, Hawaii Revised Statutes, from \$5 million to \$25 million. The House Committee on Economic Development & Business amended the measure to set the cap at an unspecified amount. H.B. 2138, H.D. 1, has a defective effective date of July 1, 2112 and otherwise applies to taxable years beginning after December 31, 2020.

Because this measure only changes the aggregate cap amount, it does not have a significant administrative impact on the Department. As such, the Department will be able to administer this measure as it is currently written, provided that a functional effective date is inserted.

Thank you for the opportunity to provide comments



Written Statement of
Len Higashi
Acting Executive Director
Hawaii Technology Development Corporation
before the
House Committee on Finance
Wednesday, February 26, 2020
12:00 p.m.
State Capitol, Conference Room 308

In consideration of
HB2138, HD1
RELATING TO TAX CREDITS.

Chair Luke, Vice Chair Cullen, and Members of the Committee.

The Hawaii Technology Development Corporation (HTDC) offers **comments** on HB2138, HD1 that amends the aggregate cap amount of the tax credit for research activities. Applies to taxable years beginning after 12/31/2020.

As part of HTDC's vision to create 80,000 new innovation jobs in Hawaii earning \$80,000 or more by 2030, HTDC supports initiatives aimed at growing tech and innovation jobs. A total of fourteen Qualified High Technology Businesses (QHTBs) completed the survey with the State Department of Business, Economic Development and Tourism (DBEDT) for the Hawaii research tax credit for the tax year 2018. About 75% of full-time employees in the QHTBs were paid \$60,000 and more annually, of which about half were paid more than \$100,000 annually. The R&D credit will bring more jobs to Hawaii as well as many long-term investments to Hawaii's economy. This bill would re-establish a refundable R&D income tax credit for qualified research activities in the State of Hawai'i, to help provide longer-term continuity for Hawaii's tech industry. HTDC believes tax credits are effective as one component of a comprehensive economic development policy.

Thank you for the opportunity to offer these comments.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Increase Aggregate Cap on Credit for Research Activities

BILL NUMBER: HB 2138, HD-1

INTRODUCED BY: House Committee on Economic Business & Development

EXECUTIVE SUMMARY: Increases the aggregate cap amount of the tax credit for research activities from \$5,000,000 to \$25,000,000. Applies to taxable years beginning after 12/31/2020.

SYNOPSIS: Amends section 235-110.91, HRS, to increase the aggregate cap on the tax credit for research activities from \$5 million to \$25 million per taxable year.

EFFECTIVE DATE: July 1, 2112; applies to taxable years beginning after December 31, 2020.

STAFF COMMENTS: Act 270, SLH 2013, reestablished the income tax credit for qualified research activities that expired on Dec. 31, 2010. The prior version of that law, under Act 221, SLH 2001, offered a credit for qualified research activities that was a flat percentage of qualified research expenses in Hawaii without regard to the federal base amount (the federal credit is based on incremental research expenses). When Act 270 brought the credit back, it did so as an incremental credit, like the federal credit. Act 261, SLH 2019, converted the credit back to the flat percentage of qualified research expenses in Hawaii without regard to the federal base amount.

Current law imposes a statewide aggregate cap of \$5 million on the credit. This bill would change that to \$25 million. However, there appears to be no testimony addressing the adequacy (or lack thereof) of the \$5 million cap.

Substantively, over the last decade, Hawaii has adopted various tax incentives to encourage the development of high technology businesses in the state. The acts provided investment and research credits as well as income exclusions providing tax relief to high tech businesses and individuals associated with high tech businesses. 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 plow money into such activities is the fact that the credit provides a way to avoid paying state taxes.

At a minimum, lawmakers should carefully examine the results that have come out of this 20-year-old incentive to see if the State has gotten its money's worth. If it hasn't, can an extension or increase in the credit be justified?

Digested 2/24/2020



MAUI
CHAMBER OF COMMERCE
VOICE OF BUSINESS

**HEARING BEFORE THE HOUSE COMMITTEE ON FINANCE
HAWAII STATE CAPITOL, HOUSE CONFERENCE ROOM 308
WEDNESDAY, FEBRUARY 26, 2020 AT 12:00 P.M.**

To The Honorable Sylvia Luke, Chair;
The Honorable Ty J.K. Cullen, Vice Chair; and
Members of the Committee on Finance;

TESTIMONY IN SUPPORT OF HB2138 RELATING TO TAX CREDITS

Aloha, my name is Pamela Tumpap and I am the President of the Maui Chamber of Commerce, with approximately 650 members. I am writing share our strong support of HB2138.

The Maui Chamber of Commerce supports HB2138 to increase the aggregate cap amount of the tax credit for research activities. Research is critical to every industry and especially to innovation. Innovation and research attracts dollars to the state that create STEM and higher paying jobs, supporting further STEM education. This has been prevalent in the stellar results we have seen from the university in cancer research. As other states have incentives like this, we believe raising this threshold allows Hawaii to be more competitive to attract further research activities.

We appreciate the opportunity to testify on this matter and ask that this bill be passed.

Sincerely,

Pamela Tumpap

Pamela Tumpap
President

To advance and promote a healthy economic environment for business, advocating for a responsive government and quality education, while preserving Maui's unique community characteristics.



Written Statement of
DR. PATRICK K. SULLIVAN
PRESIDENT/CEO OCEANIT

Before the
HOUSE COMMITTEE ON FINANCE

February 26, 2020
12:00 p.m.
State Capitol, Conference Room 308

In Support of
HB2138 RELATING TO TAX CREDITS

To: Chair Sylvia Luke, Vice Chair Ty J.K. Cullen and Members of the Finance Committee

From: Dr. Patrick K. Sullivan, President/CEO

Re: Testimony in Support of HB2138

Honorable Chair, Vice-Chair and Committee Members:

*Thank you for the opportunity to submit testimony **in support of HB2138***

Oceanit is a home grown, Hawaii-based, **Mind to Market** company that develops technology from fundamental science and research, and drives original product offerings to markets in energy, aerospace and healthcare, creating spin-out companies and partnering with end users. We employ approximately 150 professionals and regularly host interns, school classes, and conduct numerous outreach activities for elementary thru college levels students to introduce them to science and engineering careers. We let the children of Hawai'i know that there are exciting, good paying jobs for them in right here in this State. Many of them have returned to the islands, equipped with college degrees, wanting to work in science and engineering. It is our hope that we can continue to offer an alternative to those who 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 Hawai'i.

R&D credits help start and foster Hawaii's tech industry, which is in its infancy. It has been responsible for job creation, as well as many long-term investments Oceanit has made that will set the stage for future growth. The reality is that without the R&D tax credit, Oceanit would not have been able to make these investments.

As a result of forward-looking nature of research, few R&D investments have short-term rewards. This bill would re-establish a temporary refundable R&D income tax credit for qualified research activities in the State of Hawai'i, to help provide longer-term continuity for an industry that is struggling to grow.

Thank you for your continued support of R&D. It's the underpinning of Hawaii's emerging tech and innovation economy, creating jobs in STEM fields that are essential to Hawaii's future.



Written Statement of
Edward H. Rau

Before the
HOUSE COMMITTEE ON FINANCE

February 26, 2020
12:00 p.m.
State Capitol, Conference Room

In Support of
HB2138 RELATING TO TAX CREDITS

To: Representative Sylvia Luke, Chair, Representative Ty J.K. Cullen, Vice Chair
and Members of the Committee on Finance

From: Edward H. Rau

Re: Testimony in Support of HB2138

Honorable Chair, Vice-Chair and Committee Members:

I am the founder and president of *Sustainable Bioresources, LLC* located in Naalehu, Hawai'i. We are a service-disabled, veteran-owned small business engaged in R&D of new plant cultivars for sustainable agriculture, and novel, high value products such as biopesticides to be produced from plant derived materials. These products are intended to have direct applications in Hawai'i as new niche crops for sustainable agriculture, and in controlling dengue, rat lungworm, and other pests and diseases of great contemporary importance. All of our research activities are carried out in Hawai'i, and almost all of our equipment, materials and contract labor is obtained from local sources.

I would like to express my strong support for HB2138. As a very small business engaged in R&D of products that take many years to develop, are prone to intellectual property theft, face many regulatory hurdles, and have uncertain prospects for sales and profitability it is very difficult to obtain sources of outside funding. We have to largely self-fund our operations. The refundable R&D income tax credit for qualified research has been one of the few options

available to help with these expenses and we have received credits through the program in past years.

We urge you to re-establish the R&D income tax credit and increase the aggregate cap of the credits to \$25,000,000 as proposed here and in the companion SB2545. The products from this modest investment in research will bring long term economic and health benefits the People of Hawai'i.

Thank you for the opportunity to submit testimony in support of HB2138.

Sincerely,

Edward H. Rau, MS, LEHS
President
Sustainable Bioresources, LLC

PO Box 350
Naalehu, HI 96772-0350
USA

Phone: 808-339-7325
Mobile: 808-747-4838
Fax: 609-379-8531

E-mail: edrau@sustainablebioresources.com

Website: www.sustainablebioresources.com

Statement of
Hermann Kugeler
Business Development Manager
Makai Ocean Engineering, Inc.
before the
House Committee on Finance
Wednesday, February 26, 2020
12:00pm
State Capitol, Conference Room 308
In consideration of
HB2138
RELATING TO TAXATION.

Chair Luke, Vice Chair Cullen, and Members of the Committee

Makai Ocean Engineering, Inc. **STRONGLY SUPPORTS HB2138** that increases the aggregate cap amount of the tax credit for research activities.

Makai is a locally-owned and operated technology company based in Hawai'i for over 45 years. We are currently performing R&D on a variety of exciting ocean technology projects, including autonomous underwater vehicles, ocean thermal energy conversion (OTEC) and seawater air conditioning (SWAC) systems, submarine and subsea cable systems, and a Department of Energy project to grow and harvest macroalgae offshore in Hawaiian waters to produce a renewable biofuel alternative for transportation.

Makai has been successful in bringing in tens of millions of dollars in R&D funds from federal and international sponsors to Hawai'i, helping to stem the tide of "brain drain" of talented kama'aina kids going to the mainland. Makai is not unique among Hawaii technology companies in this. There is a tech community here that has made a strong economic impact in terms of high paying jobs, and demonstrated success in commercializing R&D, which has increased taxable revenue for the state, and brought home kama'aina scientists and engineers.

This bill would enhance the ability of Hawaii companies like Makai to outshine mainland peers in competitive federal R&D projects, bring home R&D dollars that greatly exceed the initial investment, and create a critical mass and a truly vibrant industry of innovative R&D companies in Hawaii. It would expand and diversify Hawaii's economy, and enable our tech industry to support high-paying, highly-skilled professional jobs for our keiki here at home.

This is why we **STRONGLY SUPPORT HB2138**, which supports Hawaii's R&D companies enabling them to continue spending monies on wages, materials and subcontractors IN THE STATE OF HAWAII and recognizes the importance of Hawaii's innovation industries to our economy.

HB-2138-HD-1

Submitted on: 2/25/2020 9:41:44 AM

Testimony for FIN on 2/26/2020 12:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Todd Robertson	Hyperspective Studios, Inc.	Support	No

Comments:

Hyperspective supports HB2138 and we request that the Committee approves the bill.

This Research and Development tax credit will help to start and foster Hawaii's tech industry. It has been responsible for job creation as well as long term investments. This bill will help Hawaii's small businesses of all kinds to grow and compete nationally as well as internationally. The credit is attractive because (1) companies must do at least 50% of the R&D in Hawaii, (2) must do the work first before they can claim the credit and (3) to qualify as R&D is determined by the IRS and certified by DBEDT, which reduces the load on State DoTax.

Thank you for your consideration,

Todd Robertson

Written Statement of
Jeffrey Frank, CEO Hoana Medical Inc

Before the
HOUSE COMMITTEE ON FINANCE

February 26, 2020
12:00 p.m.
State Capitol, Conference Room

In Support of
HB2138 RELATING TO TAX CREDITS

To: Representative Sylvia Luke, Chair, Representative Ty J.K. Cullen, Vice Chair and Members of the Committee on Finance

From: Jeffrey Frank, CEO Hoana Medical Inc.

Re: Testimony in Support of HB2138

Honorable Chair, Vice-Chair and Committee Members:

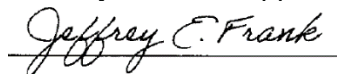
I am writing in strong support of passage for bill HB2138. As Chief Executive Officer of Hoana Medical, a Honolulu-based medical device company that was built from research and development done here in Hawaii, I can attest to the vital importance of this research and development tax credit.

Throughout its lifespan, Hoana Medical, has raised more than \$45 million in investment that has gone directly into the Hawaii economy bringing jobs and manufacturing to our state. If it were not for tax credits such as HB2138, Hoana Medical and other startup companies would have a greater incentive to leave the state.

The research and development supported by HB2138 is the backbone of a sustainable state economy because it helps generate the innovative technologies that will create more business, more jobs, and a brighter future for Hawaii's economy.

In summary, it's my belief that the R&D credit supported in HB2138 will bring more jobs to Hawaii as well as many long-term investments to Hawaii's economy. This bill would re-establish a refundable R&D income tax credit for qualified research activities in the State of Hawai'i, to help provide longer-term continuity for Hawaii's tech industry.

Thank you for the opportunity to submit testimony **in support of HB2138**



Jeffrey Frank
CEO, Hoana Medical Inc.

HB-2138-HD-1

Submitted on: 2/24/2020 1:43:36 PM

Testimony for FIN on 2/26/2020 12:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Eric Schiff	Individual	Support	No

Comments:

I strongly support HB2138.

HB-2138-HD-1

Submitted on: 2/24/2020 6:17:21 PM

Testimony for FIN on 2/26/2020 12:00:00 PM

Submitted By	Organization	Testifier Position	Present at Hearing
Andrea Quinn	Individual	Support	No

Comments:



Chamber of Commerce HAWAII

The Voice of Business

**Testimony to the House Committee on Finance
Wednesday, February 26, 2020 at 12:00 P.M.
Conference Room 308, State Capitol**

LATE

RE: HB 2138 HD1, RELATING TO TAX CREDITS

Chair Luke, Vice Chair Cullen, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **supports** HB 2138 HD1, which would amend the aggregate cap amount of the tax credit for research activities and applies it to taxable years beginning after December 31, 2020.

The Chamber is Hawaii's leading statewide business advocacy organization, representing 2,000+ 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 members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

The Chamber continues to support the State's efforts to promote and foster innovation research and development in Hawaii. Innovation is a proven catalyst for economic growth and the creation of high-skilled and high-paying jobs. This bill would help to provide necessary capital to help assist businesses with their research and development activities, which will in turn support their ability to grow their businesses and compete globally.

Thank you for the opportunity to provide testimony in support of HB 2138 HD1.