

Honolulu, Hawaii

MAR 20 2023

RE: H.B. No. 1193
H.D. 1
S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Thirty-Second State Legislature
Regular Session of 2023
State of Hawaii

Sir:

Your Committee on Energy, Economic Development, and Tourism,
to which was referred H.B. No. 1193, H.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO THE TAX CREDIT FOR RESEARCH
ACTIVITIES,"

begs leave to report as follows:

The purpose and intent of this measure is to:

- (1) Extend the repeal date of the tax credit for research activities for an additional five years;
- (2) Add a maximum amount on the tax credit for research activities that may be claimed by a taxpayer and its related entities;
- (3) Consolidate the survey and certification requirements for the tax credit for research activities;
- (4) Change the annual aggregate cap amount of the tax credit for research activities to an unspecified amount;
- (5) Require certification of the tax credit for research activities on a first-come, first-served basis to be based on the date that a complete application is received, subject to certain conditions; and



- (6) Require a qualified high technology business and at least seventy-five percent of its employees to occupy a business address and location in the State to qualify for the tax credit for research activities.

Your Committee received testimony in support of this measure from the Hawaii Technology Development Corporation; Chamber of Commerce Hawaii; Makai Ocean Engineering, Inc.; Oceanit; and Maui Chamber of Commerce. Your Committee received comments on this measure from the Department of the Attorney General, Department of Taxation, and Tax Foundation of Hawaii.

Your Committee finds that the Small Business Innovation Research (SBIR) Program is a highly competitive federal program that encourages domestic small businesses to engage in federal research and development that has the potential for commercialization. Through the Hawaii SBIR Program, Hawaii-based companies receive matching funds that can help them to enhance their project development, compete for more lucrative awards, and ultimately reach successful commercialization. However, many businesses are unable to access the program. For example, in 2022, the entire \$5,000,000 cap for the Hawaii SBIR Program was claimed in the first twenty-three seconds after the applications opened. Your Committee believes that providing a maximum amount of tax credits that a taxpayer and its related entities may be eligible for and changing the annual aggregate cap amount of tax credits allowed in a calendar year will enable more Hawaii-based companies to access the tax credit for research activities. Your Committee further finds that streamlining certain procedures and requirements for the collection of information and approval of applications for the tax credit for research activities will improve the process and allow more businesses to participate in the program. This measure will allow the Hawaii Technology Development Corporation to continue to provide the necessary support to local businesses in the State through a commercialization assistance program.

Your Committee has amended this measure by:

- (1) Inserting language clarifying that, in determining the allowable credit, research that has been funded by a

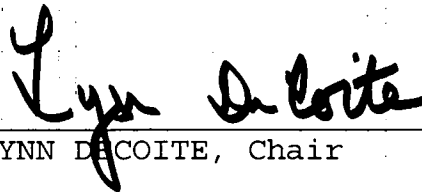


grant, forgivable loan, or other amounts not included in gross income shall not be eligible research;

- (2) Amending the certification deadline to March 31 of each calendar year;
- (3) Deleting language that would have required a qualified high technology business to occupy a business location and address in the State where at least seventy-five percent of the business's employees are located; and
- (4) 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 Energy, Economic Development, and Tourism that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 1193, H.D. 1, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 1193, H.D. 1, S.D. 1, and be referred to your Committee on Ways and Means.

Respectfully submitted on
behalf of the members of the
Committee on Energy, Economic
Development, and Tourism,



LYNN DECOITE, Chair



