STAND. COM. REP. NO. 236 -24

Honolulu, Hawaii

MAR 22  $^{\prime}$  2024

RE: S.B. No. 2497

S.D. 2 H.D. 1

Honorable Scott K. Saiki Speaker, House of Representatives Thirty-Second State Legislature Regular Session of 2024 State of Hawaii

## Sir:

Your Committee on Economic Development, to which was referred S.B. No. 2497, S.D. 2, entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose of this measure is to amend the tax credit for research activities by:

- (1) Changing the total amount of certified credits to an unspecified sum;
- (2) Extending the sunset date of the tax credit; and
- (3) Narrowing the qualifying criteria for the tax credit to qualified high technology businesses that are small businesses registered in the State.

Your Committee received testimony in support of this measure from the Department of Business, Economic Development, and Tourism; Hawaii Technology Development Corporation; Makai Ocean Engineering, Inc.; H Nu Photonics LLC; Oceanit; Chamber of Commerce Hawaii; Hawaii Food Industry Association; and one individual. Your Committee received comments on this measure from the Department of Taxation and Tax Foundation of Hawaii.

Your Committee finds that research activities have been shown to be effective in stimulating regional or state technology and research and development sectors. Your Committee further finds that for the past two years, the existing maximum amount of \$5,000,000 for the tax credit for research activities is often reached very quickly after applications for the tax credit open, leaving many eligible businesses unable to take advantage of the tax credit. This measure will amend the maximum amount of the tax credit for research activities while narrowing the qualifying criteria for the tax credit to small businesses to allow for more research and development companies to qualify for the credit and benefit small businesses in the research sector.

Your Committee has amended this measure by:

- (1) Repealing the provision that excluded the applicability of the base amount in the Internal Revenue Code in determining qualified research expenses;
- (2) Amending the definition of "qualified high technology business";
- (3) Inserting a definition for "small business";
- (4) Changing the effective date to July 1, 3000, to encourage further discussion; and
- (5) Making technical, nonsubstantive amendments for the purposes of clarity, consistency, and style.

Your Committee respectfully requests your Committee on Finance, should it deliberate on this measure, to consider amending the maximum aggregate amount of tax credits for research activities that can be certified per year to \$15,000,000.

As affirmed by the record of votes of the members of your Committee on Economic Development that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 2497, S.D. 2, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 2497, S.D. 2, H.D. 1, and be referred to your Committee on Finance.

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Respectfully submitted on behalf of the members of the Committee on Economic Development,

DANIEL HOLT, Chair

## State of Hawaii House of Representatives The Thirty-second Legislature

HSCR 1286-24

## **Record of Votes of the Committee on Economic Development**

	e Referral:	D	Date: 3/19/2024		
The committee is reconsidering its previous decision on the measure.					
The recommendation is to:  Pass, unamended (as is)  Pass, with amendments (HD)  Hold  Pass short form bill with HD to recommit for future public hearing (recommit)					
ECD Members	Ayes	Ayes (WR)	Nays	Excused	
1. HOLT, Daniel (C)	V				
2. LAMOSAO, Rachele F. (VC)	\ X				
3. HUSSEY-BURDICK, Natalia			051	XH	
4. KONG, Sam Satoru				X	
5. LA CHICA, Trish	X				
6. NAKAMURA, Nadine K.	The state of the s				
7. QUINLAN, Sean	X				
		Best III			
8. PIERICK, Elijah	χ				
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TOTAL (8)	1				
The recommendation is:    Adopted   Not Adopted					
Vice Chair's or designee's signature:					
Distribution: Original (White) – Committee Duplicate (Yellow) – Chief Clerk's Office Duplicate (Pink) – HMSO					