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DEPARTMENT OF TAXATION

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**TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

TESTIMONY ON THE FOLLOWING MEASURE:

H.B. No. 1784, H.D. 1, Relating to Taxation.

BEFORE THE:

Senate Committee on Labor and Technology

DATE: Wednesday, March 13, 2024

TIME: 3:00 p.m.

LOCATION: State Capitol, Room 224

Chair Aquino, Vice-Chair Moriwaki, and Members of the Committee:

The Department of Taxation ("Department") offers the following comments regarding H.B. 1784, H.D. 1 for your consideration.

H.B. 1784, H.D. 1 amends section 235-110.51, Hawaii Revised Statutes (HRS), to temporarily reinstate the Technology Infrastructure Renovation Tax Credit. The bill also expands the definition of "technology-enabled infrastructure" to include data servers, which are computer systems that are "designed and configured for the process, storage, retrieval, and management of electronic data and provide database management and access services to client computers on a computer network." The bill has a placeholder effective date of December 31, 3000 and applies to taxable years beginning after December 31, 2023, but will not be available for taxable years beginning after December 31, 2026.

If this Committee intends to advance this measure, the Department requests that the effective date be set with the tax credit available to taxable years beginning after December 31, 2024. This will provide the Department with sufficient time to make the necessary form, instruction, and computer system changes while educating taxpayers about this reinstated credit.

Thank you for the opportunity to provide comments on this measure.



March 13, 2024

**SUPPORT OF HB 1784, HD1
RELATING TO TAXATION**

Senate Committee on Labor and Technology
The Honorable Henry J.C. Aquino, Chair
The Honorable Sharon Y. Moriwaki, Vice Chair

Wednesday, March 13, 2024 at 3:00 p.m.
Conference Room 224 & Videoconference
Hawaii State Capitol; 415 South Beretania Street

Chair Aquino, Vice Chair Moriwaki, and members of the Committee,

Thank you for this opportunity to offer our support for HB 1784, HD1, Relating to Taxation. My name is Richard Zheng, President and CEO of Servpac.

As a locally owned company established in 2004, Servpac has evolved from a Hawaii telecommunications provider to an all-in-one cloud-based technology solution, offering high speed fiber internet, VoIP phones, cloud computing, data center colocation and managed IT services. We understand the unique challenges that Hawaii's businesses face and we provide customized solutions to keep them connected in a mission-critical world.

Data centers and fiber optic networks are key contributors to the development and expansion of Hawaii's high-tech sector. These infrastructures facilitate the creation of high-paying jobs in the technology industry, thereby diversifying Hawaii's economy.

The 4% tax credit, although temporary, can have enduring effects as Hawaii strives to establish itself as a leader in the digital economy. With the growing demand for data, equipment becomes a vital component of every business, thereby retaining funds and jobs within Hawaii.

The state's emphasis on high-technology is praiseworthy. The policy direction suggests that state investments will attract further investments both locally and internationally, enhancing Hawaii's economic environment.

Mahalo for allowing Servpac to share our perspectives on HB 1784, HD1.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Reinstate Technology Infrastructure Renovation Tax Credit, include data servers

BILL NUMBER: HB 1784 HD 1

INTRODUCED BY: House Committee on Finance

EXECUTIVE SUMMARY: For taxable years beginning after December 31, 2023, temporarily reinstates the Technology Infrastructure Renovation Tax Credit and expands the definition of "technology-enabled infrastructure" to include data servers.

SYNOPSIS: Amends section 235-110.51(h), HRS, to add language reinstating the credit for taxable years beginning after December 31, 2023, and not available for taxable years beginning after December 31, 2026.

Amends section 235-110.51(i), HRS, to add "data servers" to the definition of "technology-enabled infrastructure" eligible for creditable renovation costs. Adds a definition of "data server" as "a computer system designed and configured for the process, storage, retrieval and management of electronic data and provide database management and access services to client computers on a computer network."

Makes a conforming amendment to the definition of "technology-enabled infrastructure."

EFFECTIVE DATE: July 1, 3000; applicable to taxable years beginning after December 31, 2023.

STAFF COMMENTS: The legislature by Act 221, SLH 2001, enacted a credit of 4% of the "high tech" renovation costs incurred during the taxable year for a commercial building for costs incurred after December 31, 2000, but before January 1, 2006. Act 215, SLH 2004, extended the credit until December 31, 2010. This measure proposes to reestablish the technology infrastructure renovation tax credit that expired on December 31, 2010.

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.

If this bill should move forward, consideration should be given to amending section 235-110.51(b) to remove the reference to commercial building in "...4% of the renovation costs incurred during the taxable year *for each commercial building* located in Hawaii". As redefined, renovation costs may not always be associated or related to a commercial building, leading to confusion.

Digested: 2/21/2024



**TESTIMONY BEFORE THE SENATE COMMITTEE ON
LABOR & TECHNOLOGY**

**HB 1784, HD1
Relating to Taxation**

Wednesday, March 13, 2024
3:00 PM
State Capitol, Conference Room 224

Ruthie Griffin
Director, Enterprise Architecture and Planning Division
Hawaiian Electric

Dear Chair Acquino, Vice Chair Moriwaki, and Members of the Committee,

My name is Ruthie Griffin and I am testifying on behalf of Hawaiian Electric in **support** of HB 1784, HD1, Relating to Taxation. This bill will temporarily reinstate the technology infrastructure renovation tax credit and expand the definition of “technology-enabled infrastructure” to include data servers with a clear definition.

Hawaiian Electric strives to provide resilient services to our community, which requires us to keep our technology infrastructure modernized and to implement effective systems to protect us from growing cybersecurity threats and from physical damage caused by weather-related events. Reinstating the tax credits makes these efforts more cost effective for Hawaiian Electric, thereby increasing our ability to provide more cost-effective services to our customers and the community.

Accordingly, Hawaiian Electric supports HB 1784, HD1. Thank you for this opportunity to testify.



Chamber of Commerce HAWAII

The Voice of Business

Testimony to the House Committee on Labor and Technology
Wednesday, March 13, 2024, at 3:00PM
Conference Room 224

RE: HB1784 HD1 Relating to Taxation

Chair Aquino, Vice Chair Moriwaki, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **submits comments on HB1784 HD1**, which would temporarily reinstate the technology infrastructure renovation tax credit.

The Chamber **supports** the intent of this measure and **requests the bill be amended to include investments to construct broadband facilities in Hawaii**. It's imperative to emphasize the transformative power that access to high-speed fiber internet and related services holds in addressing the digital equity requirements of every household. Broadband is an indispensable tool for facilitating essential functions across various sectors, including commerce, governance, healthcare, education, remote employment, and social connectivity. By ensuring widespread access to robust broadband infrastructure, we take significant strides towards bridging the digital divide, particularly in regions such as rural areas and Hawaiian Homelands. Regulatory burdens and the cost to bring in machinery and equipment to Hawaii is significantly higher compared to other states. These barriers impede progress and underscore the urgency of implementing measures to alleviate such burdens, thereby fostering greater accessibility and inclusivity in our digital landscape.

Congress took a significant step forward by allocating \$65 billion to assist states and U.S. territories in narrowing the digital divide, primarily through the federal Infrastructure Investment and Jobs Act (IIJA) and the Broadband Equity, Access, and Deployment (BEAD) programs in November 2021. Hawaii stands to benefit from over \$300 million in federal funding earmarked for broadband deployment and services. While these federal funds offer a temporary injection of resources for broadband infrastructure and services, we support efforts for the State to further leverage federal IIJA and BEAD funds in conjunction with private sector partnerships.

This would be particularly crucial in addressing the digital gap in underserved regions such as Leeward and Windward Oahu and the neighbor islands, where access to broadband is significantly lower than metropolitan areas like Honolulu. Additionally, the temporary reintroduction of tax credits for infrastructure renovations plays a pivotal role in seizing this once-in-a-generation opportunity to extend broadband infrastructure to areas currently lacking services. By strategically combining federal resources, private sector collaboration, and supportive tax incentives, we can ensure that no community is left behind in the digital age.



Chamber of Commerce HAWAII

The Voice of Business

For these reasons, The Chamber urges the committee to consider the requested amendments. We are prepared to collaborate with your Committee, the Hawai'i Department of Taxation, and other relevant stakeholders to advance investments in technology. These investments promise significant returns for our state, not only through enhanced revenue but also through the creation of employment opportunities and increased economic activity stimulated by broadband infrastructure investments.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 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.

Thank you for the opportunity to testify.



Charter Communications
Testimony of Rebecca Lieberman, Director of Government Affairs

SENATE COMMITTEE ON LABOR AND TECHNOLOGY

Hawaii State Capitol
Wednesday, March 13, 2024

COMMENTS ON H.B. 1784, H.D. 1 – RELATING TO TAXATION

Chair Aquino, Vice Chair Moriwaki, and Members of the Committee.

Thank you for the opportunity to provide comments on H.B. 1784, H.D. 1, a bill that would temporarily reinstate the technology infrastructure renovation tax credit.

As the largest broadband provider in the state, Charter supports efforts to expand broadband access and **supports the intent of this bill with proposed amendments**, which reinstates the technology infrastructure renovation tax credit. Charter believes that every Hawaii resident should have reliable access to the Internet. We will continue to help bring the benefits of broadband and access to the internet to those who need it most.

Hawaii is slated to receive millions of dollars in federal grants for broadband infrastructure in the immediate future (via the Coronavirus Capital Project Fund and Broadband, Equity, Access, and Deployment Program). This is a unique opportunity for the state to partner with the private sector to connect many unserved residents in rural and remote areas throughout Hawaii. Expanding the existing technology infrastructure tax credit beyond commercial buildings would increase network

investment and broadband penetration. Providers can reinvest this savings into additional projects in unserved areas, maximizing the benefits of the federal aid. Additionally, the new economic activity generated by increased broadband network investment will generate substantial offsetting revenues for state and local governments as new employment and economic activity generates tax revenue.

In order to maximize the benefits of the federal aid as previously described, we offer the following proposed amendments to Section 2, which were accepted in H.B. 1784's Senate companion, S.B. 2527:

SECTION 2. Section 235-110.51, Hawaii Revised Statutes, is amended by amending subsections (b), (c), (h) and (i) to read as follows:

"(b) The amount of the credit shall be four percent of the renovation costs incurred during the taxable year ~~[for each commercial building located]~~ in Hawaii.

(c) In the case of a partnership, S corporation, estate, trust, or ~~[any developer of a commercial building]~~ other entity taxed as a partnership for federal income tax purposes, the tax credit allowable is for renovation costs incurred by the entity for the taxable year. The cost upon which the tax credit is computed shall be determined at the entity level. Distribution and share of credit shall be determined pursuant to section 235-110.7(a).

(h) The tax credit allowed under this section shall ~~[not]~~ be available for taxable years beginning after ~~[December 31, 2010]~~:

(1) December 31, 2000, but shall not be available for taxable years beginning after December 31, 2010; and

(2) December 31, 2023, but shall not be available for taxable years beginning after December 31, 2026.

(i) As used in this section:

"Data server" means a computer system used to hold large amounts of electronic data and provide database management and access services to client computers on a computer network.

"Net income tax liability" means income tax liability reduced by all other credits allowed under this chapter.

"Renovation costs" means costs incurred after December 31, 2000, to: plan, design, install, construct, repair, replace, monitor, test ~~[and]~~ or purchase technology-enabled infrastructure machinery and equipment; or ~~[to]~~ provide a commercial building with technology-enabled infrastructure.

"Technology-enabled infrastructure" means:

(1) Either:

~~[(1)]~~ (A) High speed telecommunications systems that provide, in whole or in part, ~~[Internet]~~ internet access,

direct satellite communications access, and
videoconferencing facilities; or

(B) Data Servers;

(2) Physical security systems that identify and verify valid entry to secure spaces, detect invalid entry or entry attempts, and monitor activity in these spaces;

(3) Environmental systems to include heating, ventilation, air conditioning, fire detection and suppression, and other life safety systems; and

(4) Backup and emergency electric power systems.”

In 2021 and 2022, Charter extended its network to reach an additional 27,000 homes and small businesses in Hawaii, investing more than \$200 million across the state. Charter is a member of DBEDT’s weekly Broadband Hui to assist in strategic broadband planning and closing the digital divide. Additionally, Charter participated in the FCC’s Emergency Broadband Benefit Program (EBB) and is now participating in the \$14.2 billion federal Affordable Connectivity Program (ACP). The EBB, and now the ACP, helped connect over 59,000 eligible households in Hawaii with high-speed broadband during the COVID-19 pandemic.

Mahalo for the opportunity to provide suggested amendments to H.B. 1784, H.D. 1.

LATE

Written Statement of
Jeannine Souki
Senior Manager – Government & Regulatory Affairs

SENATE COMMITTEE ON HIGHER EDUCATION & TECHNOLOGY
March 13, 2024, 3 PM
Conference Room 224, Hawai'i State Capitol

COMMENTS FOR:

HB 1784, H.D.1 – RELATING TO TAXATION

To: Sen. Henry Aquino, Chair
Sen. Sharon Moriwaki, Vice Chair
Members of the Committee on Labor & Technology

Re: Testimony providing comments for HB 1784, HD1 with requested amendment

Aloha Honorable Chair, Vice-Chair, and Committee Members:

Thank you for this opportunity to provide testimony on HB 1784, HD1, which would temporarily reinstate the technology infrastructure renovation tax credit.

Hawaiian Telecom supports the intent of this measure. However, we support the language contained in the Senate companion of this bill, SB 2527, SD1, which your committee amended to include investments to construct broadband facilities in Hawai'i. Therefore, we respectfully request that this language be included in HB 1784, HD1.

Having a high-speed fiber internet connection and services to address the digital equity needs of all households opens up a world of opportunity. Broadband is essential for business and government operations, delivering telemedicine, education, remote work, staying in touch with family and friends, and so much more. The availability of adequate broadband infrastructure helps to close digital gaps, especially in rural areas and Hawaiian Homelands. Regulatory burdens and the cost to bring in machinery and equipment to Hawai'i is significantly higher compared to other states.

As the construction of fiber-enabled networks continues, adequate tax incentives and streamlining regulation are the blueprint to stimulate and maximize private and public sector investments. A national Tax Foundation article noted that a light touch regulatory regime, and smart, pro-growth tax policy can help strengthen private investment in infrastructure like broadband. Austan Goolsbee, former Obama administration Council of Economic Advisers chair, found that taxing new technology such as

broadband is more harmful than those of most taxes because the taxes slow the diffusion of productivity-enhancing technology.¹

In November 2021, Congress approved \$65 billion to help states and U.S. territories close gaps in the digital divide through the federal Infrastructure Investment and Jobs Act (IIJA) and Broadband Equity, Access, and Deployment (BEAD) programs. Hawai'i will have over \$300 million in federal funding for broadband deployment and services. While these federal dollars provide a temporary infusion of funding for broadband infrastructure and services, we support efforts for the State to further leverage federal IIJA and BEAD funds with private sector investments to address the digital divide, especially in unserved and underserved areas such as the neighbor islands where the cost to build is much higher than in metropolitan areas like Honolulu. The temporary reinstatement of infrastructure renovation tax credits is critical to maximizing this once-in-a-generation opportunity to extend broadband infrastructure to areas lacking services.

For these reasons, Hawaiian Telcom urges your Committee to consider the requested amendment. We stand ready to work with your Committee, the Hawai'i Department of Taxation, and other stakeholders to help further investments in technology, which will, in turn, generate substantive revenue returns for our state with increased employment and economic activity driven by broadband infrastructure investments.

Thank you for the opportunity to provide testimony on HB 1784, HD1.

¹ ["What the Internet Can Teach Us About Capital Investment, Infrastructure, and Tax Policy,"](#) Alex Mureisanu, Tax Foundation, June 17, 2020, accessed February 9, 2024.