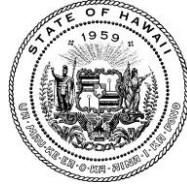


JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION

Ka 'Oihana 'Auhau

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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:

House Committee on Finance

DATE: Friday, February 23, 2024

TIME: 10:00 a.m.

LOCATION: State Capitol, Room 308

Chair Yamashita, Vice-Chair Kitagawa, 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 defective 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.

The Department notes that if this Committee intends to advance this measure with a functional effective date, 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.

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 Higher Education & Technology

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



February 23, 2024

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

House Committee on Finance
The Honorable Kyle T. Yamashita, Chair
The Honorable Lisa Kitagawa, Vice Chair

Friday, February 23, 2024; 10:00 a.m.
Conference Room 308 & Videoconference
Hawaii State Capitol; 415 South Beretania Street

Chair Yamashita, Vice Chair Kitagawa, 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.



**Hawaiian
Electric**

TESTIMONY BEFORE THE HOUSE COMMITTEE ON FINANCE

**HB 1784, HD1
Relating to Taxation**

Friday, February 23, 2024
10:00 AM
State Capitol, Conference Room 308

Ruthie Griffin
Director, Enterprise Architecture and Planning Division
Hawaiian Electric

Dear Chair Yamashita, Vice Chair Kitagawa, 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.