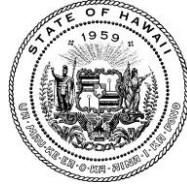


JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



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DEPARTMENT OF TAXATION

Ka 'Oihana 'Auhau

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

TESTIMONY ON THE FOLLOWING MEASURE:

S.B. No. 338, Relating to Taxation

BEFORE THE:

Senate Committee on Labor and Technology

DATE: Friday, February 7, 2025

TIME: 3:00 p.m.

LOCATION: State Capitol, Room 224

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

The Department of Taxation (DOTAX) offers the following comments regarding S.B. 338 for your consideration.

S.B. 338 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 "designed and configured for the process, storage, retrieval, and management of electronic data and that provides database management and access services to client computers on a computer network."

The bill also expands the definition of renovation costs to include costs to "repair, replace, monitor, or test" technology-enabled infrastructure. The bill further expands the credit by deleting the limitation that costs be incurred for commercial buildings.

The bill takes effect July 1, 2025, and applies to taxable years beginning after December 31, 2025, but shall not be available for taxable years beginning after December 31, 2027.

DOTAX can administer this bill as written. Thank you for the opportunity to provide comments on this measure.



SUPPORT OF SB 338 RELATING TO TAXATION

Senate Committee on Labor and Technology
The Honorable Henry J.C. Aquino, Chair
The Honorable Chris Lee, Vice Chair

Friday, February 7, 2025 at 3:00 p.m.
Conference Room 224 & Videoconference
Hawaii State Capitol; 415 South Beretania Street

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

Thank you for this opportunity to offer our support for SB 338, 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.

SB 338 reinstates the Technology Infrastructure Renovation Tax Credit and expands the definition of "technology-enabled infrastructure" to include data servers.

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 proposed 4% tax credit, although temporary, can have enduring effects as Hawaii strives to establish itself as a leader in the digital economy.

Investing in local data center infrastructure, amid ongoing discussions on tariffs and trade policies, could give Hawaii a competitive edge. By incentivizing local development, we can reduce dependence on mainland or international data centers, enhancing self-reliance and shielding businesses from global supply chain disruptions.

The state's emphasis on high technology is commendable. This policy direction is likely to attract further local and international investments, enriching Hawaii's economic landscape.

Mahalo for the opportunity to express our support for SB 338.

TAX FOUNDATION OF HAWAII

735 Bishop Street, Suite 417

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME TAX; Reinstates the Technology Infrastructure Tax Credit

BILL NUMBER: SB 338

INTRODUCED BY: AQUINO, CHANG, FEVELLA, Fukunaga

EXECUTIVE SUMMARY: For taxable years beginning after December 31, 2025, 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(b) and (c), HRS to delete the requirement that costs be incurred for commercial buildings.

Amends section 235-110.51(h), HRS, to add language reinstating the credit for taxable years beginning after December 31, 2025, and before January 1, 2027.

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."

Amends definition of "renovation costs" in section 235-110.51(i), HRS, to add costs to: repair, replace, monitor, test or purchase technology-enabled infrastructure machinery and equipment.

Makes conforming amendments.

EFFECTIVE DATE: July 1, 2025 and shall apply to taxable years beginning after December 31, 2025.

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

Re: SB 338

Page 2

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.

Digested: 2/5/2025



Charter Communications
Testimony of Rebecca Lieberman, Director of Government Affairs

SENATE COMMITTEE ON LABOR AND TECHNOLOGY

Hawaii State Capitol
Friday, February 7, 2025

COMMENTS ON S.B. 338 – RELATING TO TAXATION

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

Thank you for the opportunity to provide comments on S.B. 338, 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 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 Page 3, Section 2:

2. By amending subsections (h), ~~and (i)~~, and (j) to read:

"(h) The tax credit allowed under this section shall ~~[not]~~ be available for taxable years beginning after ~~[December 31, 2010.]~~2025, but shall not be available for taxable years beginning after December 31, 2027.

(i) As used in this section:

"Data server" means a computer system that is designed and configured for the process, storage, retrieval, and management of electronic data and that provides 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, [and] repair, replace, monitor,

test, or purchase technology-enabled infrastructure machinery and equipment~~[tø]~~; or provide a commercial building with technology-enabled infrastructure.

“Technology-enabled infrastructure” means:

(1) Either:

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

(j) No taxpayer that claims a credit under this section shall claim any other credit under this Chapter for tax years beginning before January 1, 2026.”

In 2023, Charter extended its network to reach an additional 9,000 homes and small businesses in Hawaii, investing \$96 million across the state. Charter participated in the FCC’s Emergency

Broadband Benefit Program (EBB) and Affordable Connectivity Program (ACP), which helped connect over 59,000 eligible households in Hawaii with high-speed broadband. Broadband internet access is more important than ever and Charter offers a variety of affordable high-speed internet packages to meet all the connectivity and budget needs of our customers. With Spectrum Internet Assist, qualifying low-income families and seniors can receive high-speed internet for only \$15 per month.

Mahalo for the opportunity to provide suggested amendments to S.B. 338.

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

SENATE COMMITTEE ON LABOR & TECHNOLOGY
February 7, 2025, 3 PM
Conference Room 224, Hawai'i State Capitol

SUPPORT FOR:

SB 338 – RELATING TO TAXATION

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

Re: Testimony providing support for SB338

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

Thank you for the opportunity to provide testimony in support of SB 338, which aims to temporarily reinstate the technology infrastructure renovation tax credit.

Hawaiian Telcom supports tax credits for investments in constructing broadband facilities and technology infrastructure in Hawai'i. Lessons from the pandemic have shown us that broadband service is essential for daily business and government functions, enabling telemedicine, online learning, e-commerce, remote work, staying in touch with family and friends, and much more. Additionally, areas with high-speed fiber internet facilities and services open a world of opportunities to stimulate innovation and economic success, bridging the digital equity gap for traditionally underserved communities. However, Hawai'i's burdensome regulatory environment and high construction, materials, and equipment costs make doing business here significantly more challenging than in other states. Thus, incentivizing investment in technology and broadband infrastructure helps leverage and accelerate private investment, making technology more affordable and available to consumers.

As Hawaiian Telcom's construction of fiber-enabled networks continues to ramp up, adequate tax incentives and streamlined regulations are crucial for stimulating and maximizing private and public sector investments. A National Tax Foundation article noted that a light-touch regulatory regime and smart, pro-growth tax policy help strengthen private investment in infrastructure like broadband.¹

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.

The temporary reinstatement of state technology infrastructure renovation tax credits is needed now more than ever. Since President Trump was sworn into his second term, his administration has slowed federal spending, which is predicted to impact the Biden-era bipartisan federal Infrastructure Investment and Jobs Act (IIJA) of 2021. This act provided \$65 billion toward Broadband Equity, Access, and Deployment (BEAD) programs to close the digital divide. Consequently, Hawai'i's share of more than \$300 million in federal funding for broadband deployment and services is in limbo as Trump's administration continues its heavy scrutiny of all federally funded grant programs.

While IIJA's BEAD dollars provide a short-term infusion of funding for broadband infrastructure and services, it is incumbent upon the state to prime the pump for private capital to attract long-term investments in technology and broadband infrastructure. Therefore, the temporary reinstatement of infrastructure renovation tax credits is even more critical to attract and optimize investment opportunities for our state.

For these reasons, Hawaiian Telcom respectfully urges your support for the passage of SB 338.