

JAN 22 2008

A BILL FOR AN ACT

RELATING TO TAXATION.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature finds that the welfare and
2 prosperity of the people in the State of Hawaii is positively
3 impacted through the encouragement and expansion of key economic
4 industries. The legislature further finds that targeting tax
5 incentives to focus on key growth industries is an important
6 business strategy to enhance the State's business environment.
7 The legislature acknowledges that the solar electric industry is
8 becoming a leader in the renewable energy field and that
9 attracting companies in that industry to locate or relocate to
10 Hawaii would have a positive effect on Hawaii's economy and
11 environment.

12 Therefore, the legislature intends to enact comprehensive
13 tax incentives that encourage companies in the solar electric
14 industry who manufacture and distribute solar energy systems to
15 be located in Hawaii. Providing tax incentives for companies in
16 the solar electric industry to be located in, or relocate to,
17 Hawaii is also an important step to retaining the few existing



1 businesses in Hawaii that are in the solar electric industry.
2 Implementation of the tax incentives in this Act strengthen the
3 likelihood that solar electric companies will expand to Hawaii
4 if they currently exist, or at least seriously consider being
5 headquartered in Hawaii if they are a startup company in the
6 solar electric industry. The establishment of solar electric
7 companies in Hawaii will have a positive impact on the economy
8 throughout Hawaii by creating jobs, inspiring our communities to
9 be environmentally friendly, and stimulating the economy.

10 SECTION 2. Chapter 235, Hawaii Revised Statutes, is
11 amended by adding three new sections to be appropriately
12 designated and to read as follows:

13 "§235-A Solar energy systems tax rate; definitions. (a)
14 Beginning October 1, 2008, upon every person engaging in the
15 business of manufacturing solar energy systems in Hawaii,
16 through the use of photovoltaic modules or silicon components,
17 shall be assessed a tax equal to the value of the product
18 manufactured, or in the case of processors for hire the gross
19 income of the business, multiplied by the rate of 0.2904 per
20 cent. If the manufacturing entity is located in an enterprise
21 zone established under chapter 209E, the rate of tax shall be
22 0.25 per cent.



1 (b) Beginning October 1, 2008, upon every person engaging
2 in the business of making sales of solar energy systems at
3 wholesale in Hawaii, through the use of photovoltaic modules or
4 silicon components, shall be assessed a tax equal to the gross
5 proceeds received from the sales of the solar energy systems,
6 multiplied by the rate of 0.2904 per cent. If the business
7 entity is located in an enterprise zone established under
8 chapter 209E, the rate of tax shall be 0.25 per cent.

9 (c) For purposes of this section, the following terms
10 shall have the following meanings:

11 "Module" means the smallest nondivisible self-contained
12 physical structure that houses interconnected photovoltaic cells
13 and provides a single direct current electrical output.

14 "Photovoltaic cell" means a device that converts light
15 directly into electricity without any moving parts.

16 "Solar energy system" means any device, or combination of
17 devices or elements, that rely upon direct sunlight as an energy
18 source for use in the generation of electricity.

19 (d) This section shall expire on December 31, 2014.

20 **§235-B Tax credits for out-of-state sellers of**
21 **manufacturing products.** (a) Taxpayers who are taxable under
22 this chapter for selling any of the following in Hawaii, shall



1 be allowed a tax credit against those taxes for any of the
2 following:

3 (1) Manufacturing taxes paid with respect to the
4 manufacturing of products in Hawaii that are
5 subsequently sold in Hawaii; or

6 (2) For taxes paid with respect to the extracting of
7 products, or ingredients of products, in Hawaii that
8 are subsequently sold in Hawaii. The extracting taxes
9 that are taken as tax credit under subsection (b) may
10 also be taken under this subsection, if otherwise
11 allowable under this subsection. The amount of the
12 tax credit shall not exceed the tax liability arising
13 under this chapter with respect to the sale of those
14 products.

15 (b) Taxpayers who are taxable under this chapter shall be
16 allowed a tax credit against those taxes for any extracting
17 taxes paid with respect to extracting the ingredients of the
18 products manufactured in Hawaii. The amount of the tax credit
19 shall not exceed the tax liability arising under this chapter
20 with respect to the manufacturing of those products.

21 (c) Taxpayers who are taxable under this chapter with
22 respect to extracting or manufacturing products in Hawaii shall



1 be allowed a tax credit against those taxes for any of the
2 following:

3 (1) Gross receipts taxes paid to another state with
4 respect to the sales of the products extracted or
5 manufactured in Hawaii;

6 (2) Manufacturing taxes paid with respect to the
7 manufacturing of products using ingredients extracted
8 in Hawaii; or

9 (3) Manufacturing taxes paid with respect to manufacturing
10 activities completed in another state for products
11 manufactured in Hawaii. The amount of the credit
12 shall not exceed the tax liability arising under this
13 chapter with respect to the extraction or
14 manufacturing of those products.

15 (d) For purposes of this section, the following terms
16 shall have the following meanings:

17 "Extracting tax" means a gross receipts tax imposed on the
18 act or privilege of engaging in business as an extractor, and
19 includes the tax imposed in subsection (c) and similar gross
20 receipts taxes paid to other states.

21 "Gross receipts tax" means a tax:



1 (1) That is imposed on or measured by the gross receipts
2 of the business, and in the determination of which the
3 deductions allowed would not constitute the tax an
4 income tax or value added tax; and

5 (2) That is also not, pursuant to law or industry custom,
6 separately stated from the sales price.

7 "Manufacturing tax" means a gross receipts tax imposed on
8 the act or privilege of engaging in business as a manufacturer,
9 and includes the following:

10 (1) The taxes imposed by subsections (a) and (b) of this
11 section and subsection (a) of section 235-A; and

12 (2) Similar gross receipts taxes paid to other states.

13 §235-C Annual reporting requirements. (a) A taxpayer who
14 reports taxes under section 235-A shall provide an annual report
15 to the department detailing the number of employees, wages, and
16 employer-provided health and retirement benefits per job at the
17 manufacturing site, however, the annual report shall not include
18 names of the employees. The annual report shall also detail the
19 total number of full-time, part-time, and temporary positions.
20 The first report filed under this subsection shall include the
21 number of employees, wages, and benefit information for the
22 twelve month period immediately before the first use of a



1 preferential tax rate under section 235-A. The annual report is
2 due by March 31st following any year in which a preferential tax
3 rate under section 235-A is used.

4 (b) If a taxpayer fails to submit an annual report under
5 subsection (a) of this section, the department shall declare the
6 amount of taxes reduced for the previous calendar year to be
7 immediately due and payable. Excise taxes payable under this
8 subsection are subject to interest, but not penalties, at the
9 rate provided for delinquent taxes, as provided under this
10 chapter. The department shall assess interest retroactively to
11 the date the preferential tax rate under section 235-A was used.
12 The interest shall be assessed at the rate provided for
13 delinquent excise taxes under this chapter and shall accrue
14 until the taxes for which the preferential tax rate was used are
15 repaid.

16 (c) The department shall report on the impact of this Act
17 to the legislature by December 31, 2013. The report shall
18 include the total number of solar energy system manufacturing
19 companies located in Hawaii, any change in the number of solar
20 energy system manufacturing companies in Hawaii since the
21 effective date of this Act, the number of jobs created for
22 residents of Hawaii, and any other factors the department deems



1 to be relevant to the purposes of determining the impact of this
2 Act."

3 SECTION 3. New statutory material is underscored.

4 SECTION 4. This Act, upon its approval, shall apply to
5 taxable years beginning after December 31, 2007.

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INTRODUCED BY: Russell Kohl

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Report Title:

Renewable Energy Tax Credits; Manufacturers Located in Hawaii

Description:

Provides tax credits for new renewable energy businesses that are located in Hawaii and provides enhanced tax credits for those new businesses that are located in economically depressed areas.

