
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 Hawaii is extremely
2 vulnerable to soaring prices or disruptions of its energy
3 imports, which can hinder, cripple, or even devastate the
4 State's economy and the well-being of its inhabitants. As the
5 most isolated land mass on Earth, Hawaii imports nearly ninety
6 per cent of its energy needs. The legislature further finds
7 that it is critical for Hawaii to ensure greater energy security
8 by becoming more self-sufficient with its energy supply.

9 The purpose of this Act is to:

- 10 (1) Establish a renewable fuels production tax credit to
11 achieve greater energy security for Hawaii; and
12 (2) Repeal the ethanol facility tax credit.

13 SECTION 2. Chapter 235, Hawaii Revised Statutes, is
14 amended by adding a new section to be appropriately designated
15 and to read as follows:

16 "§235- Renewable fuels production tax credit. (a) Each
17 year during the credit period, there shall be allowed to each
18 taxpayer subject to the taxes imposed by this chapter, a



1 renewable fuels production tax credit that shall be applied to
2 the taxpayer's net income tax liability, if any, imposed by this
3 chapter for the taxable year in which the credit is properly
4 claimed.

5 For each taxpayer producing qualifying renewable fuels, the
6 annual dollar amount of the renewable fuels production tax
7 credit during the credit period shall be equal to 20 cents per
8 one hundred fifteen thousand British thermal units of qualifying
9 renewable fuels using the lower heating value produced and sold
10 for distribution in Hawaii; provided that the taxpayer's
11 production of qualifying renewable fuels is at least fifteen
12 billion British thermal units per year; and provided further
13 that the amount of the tax credit claimed under this section by
14 a taxpayer shall not exceed \$ _____ per taxable year. No
15 other tax credit may be claimed under this chapter for the costs
16 related to qualifying renewable fuels production that are used
17 to properly claim a tax credit under this section for the
18 taxable year.

19 (b) As used in this section:

20 "Credit period" means a maximum period of five years
21 beginning from the first taxable year in which a taxpayer begins



1 qualifying renewable fuels production at a level of at least
2 fifteen billion British thermal units per year.

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

5 "Qualifying renewable fuels" means fuels produced within
6 the State from renewable feedstocks transported less than two
7 thousand miles from point of origin to the production facility
8 located within the State; provided that the fuels shall be sold
9 in the State as a fuel; provided further that the renewable
10 fuels meet the relevant ASTM International specifications for
11 the particular fuel or other industry specifications for liquid
12 or gaseous fuels, including but not limited to:

- 13 (1) Methanol, ethanol, or other alcohols;
- 14 (2) Hydrogen;
- 15 (3) Biodiesel or renewable diesel;
- 16 (4) Other biofuels; or
- 17 (5) Renewable jet fuel or renewable gasoline.

18 "Renewable feedstocks" means:

- 19 (1) Biomass crops;
- 20 (2) Agricultural residues;
- 21 (3) Oil crops, including algae, canola, jatropha, palm,
22 soybean, and sunflower;



- 1 (4) Other agricultural crops;
- 2 (5) Grease and waste cooking oil;
- 3 (6) Food wastes;
- 4 (7) Municipal solid wastes and industrial wastes;
- 5 (8) Water; and
- 6 (9) Animal residues and wastes,
- 7 that can be used to generate energy.

8 (c) The department of business, economic development, and
9 tourism shall:

- 10 (1) Verify the amount and type of qualifying renewable
11 fuels produced and sold, including the purpose for
12 which the fuel was produced;
- 13 (2) Certify the total amount of the tax credit for each
14 taxable year and the cumulative amount of the tax
15 credit during the credit period; and
- 16 (3) Total all qualifying renewable fuels production that
17 the department of business, economic development, and
18 tourism certifies for purposes of paragraph (2).

19 Upon each determination, the department of business, economic
20 development, and tourism shall issue a certificate to the
21 taxpayer verifying the amount of qualifying renewable fuels
22 produced, the credit amount certified for each taxable year, and



1 the cumulative amount of the tax credit during the credit
2 period. The taxpayer shall file the certificate with the
3 taxpayer's tax return with the department of taxation.
4 Notwithstanding the department of business, economic
5 development, and tourism's certification authority under this
6 section, the director of taxation may audit and adjust the
7 certification process to conform to the facts.

8 If in any year, the annual amount of certified credits
9 reaches \$ _____ in the aggregate, the department of business,
10 economic development, and tourism shall immediately discontinue
11 certifying credits and notify the department of taxation. In no
12 instance shall the total amount of certified credits exceed
13 \$ _____ per year. Notwithstanding any other law to the
14 contrary, this information shall be available for public
15 inspection and dissemination under chapter 92F.

16 (d) If the credit under this section exceeds the
17 taxpayer's income tax liability, the excess of credit over
18 liability may be used as a credit against the taxpayer's income
19 tax liability in subsequent years until exhausted. All claims
20 for a credit under this section shall be properly filed on or
21 before the end of the twelfth month following the close of the
22 taxable year for which the credit may be claimed. Failure to



1 comply with the foregoing provision shall constitute a waiver of
2 the right to claim the credit.

3 (e) Prior to production of any qualifying renewable fuels
4 for the year, the taxpayer shall provide written notice of the
5 taxpayer's intention to begin production of qualifying renewable
6 fuels. The information shall be provided to the department of
7 taxation and the department of business, economic development,
8 and tourism on forms provided by the department of business,
9 economic development, and tourism, and shall include information
10 on the taxpayer, facility location, facility production
11 capacity, anticipated production start date, and taxpayer's
12 contact information. Notwithstanding any other law to the
13 contrary, this information shall be available for public
14 inspection and dissemination under chapter 92F.

15 (f) The taxpayer shall provide written notice to the
16 director of taxation and the director of business, economic
17 development, and tourism within thirty days following the start
18 of production. The notice shall include the production start
19 date and expected qualifying renewable fuels production for the
20 next twelve months. Notwithstanding any other law to the
21 contrary, this information shall be available for public
22 inspection and dissemination under chapter 92F.



1 (g) Each calendar year during the credit period, the
2 taxpayer shall provide information to the director of business,
3 economic development, and tourism on the number of British
4 thermal units of qualifying renewable fuels produced and sold
5 during the previous calendar year, the type of fuels produced
6 and sold, feedstocks used for qualifying renewable fuels
7 production, the number of employees of the facility and each
8 employee's state of residency, and the projected number of
9 British thermal units of qualifying renewable fuels production
10 for the succeeding year.

11 (h) In the case of a partnership, S corporation, estate,
12 or trust, distribution and share of the tax credit for
13 qualifying renewable fuels production shall be determined
14 pursuant to section 704(b) (with respect to partner's
15 distributive share) of the Internal Revenue Code.

16 (i) Each taxpayer who claims a credit under this section
17 shall complete and file with the department of business,
18 economic development, and tourism, through that department's
19 website, an annual survey on electronic forms prepared and
20 prescribed by the department of business, economic development,
21 and tourism. The annual survey shall be filed before June 30 of
22 each calendar year following the calendar year in which the



1 credit may be claimed under this section. The department of
2 business, economic development, and tourism may adjust the due
3 date of the annual survey by rules adopted pursuant to chapter
4 91.

5 The annual survey shall include the following information
6 for the time period or periods specified by the department of
7 business, economic development, and tourism:

8 (1) The number, location, and production capacity of
9 qualifying renewable fuels production facilities in
10 the State;

11 (2) The total number of British thermal units of
12 qualifying renewable fuels, broken down by type of
13 fuel, produced and sold during the previous year;

14 (3) The projected number of British thermal units of
15 qualifying renewable fuels production for the
16 succeeding year; and

17 (4) Any other factors the department of business, economic
18 development, and tourism deems relevant.

19 The department of business, economic development, and
20 tourism, in collaboration with the department of taxation, shall
21 use the information collected to study the effectiveness of the
22 tax credit under this section. The director of business,



1 economic development, and tourism shall submit an annual report
2 to the governor and legislature regarding the effectiveness of
3 the tax credit and the production and sale of qualifying
4 renewable fuels.

5 (j) The director of taxation shall prepare any forms that
6 may be necessary to claim a credit under this section. The
7 director of taxation may also require the taxpayer to furnish
8 information to ascertain the validity of the claim for credit
9 made under this section and may adopt rules necessary to
10 effectuate the purposes of this section pursuant to chapter 91."

11 SECTION 3. Section 235-110.3, Hawaii Revised Statutes, is
12 repealed.

13 ~~["§235-110.3 Ethanol facility tax credit. (a) Each year~~
14 ~~during the credit period, there shall be allowed to each~~
15 ~~taxpayer subject to the taxes imposed by this chapter, an~~
16 ~~ethanol facility tax credit that shall be applied to the~~
17 ~~taxpayer's net income tax liability, if any, imposed by this~~
18 ~~chapter for the taxable year in which the credit is properly~~
19 ~~elaimed.~~

20 ~~For each qualified ethanol production facility, the annual~~
21 ~~dollar amount of the ethanol facility tax credit during the~~
22 ~~eight year period shall be equal to thirty per cent of its~~



1 ~~nameplate capacity if the nameplate capacity is greater than~~
2 ~~five hundred thousand but less than fifteen million gallons. A~~
3 ~~taxpayer may claim this credit for each qualifying ethanol~~
4 ~~facility; provided that:~~

- 5 ~~(1) The claim for this credit by any taxpayer of a~~
6 ~~qualifying ethanol production facility shall not~~
7 ~~exceed one hundred per cent of the total of all~~
8 ~~investments made by the taxpayer in the qualifying~~
9 ~~ethanol production facility during the credit period;~~
10 ~~(2) The qualifying ethanol production facility operated at~~
11 ~~a level of production of at least seventy five per~~
12 ~~cent of its nameplate capacity on an annualized basis;~~
13 ~~(3) The qualifying ethanol production facility is in~~
14 ~~production on or before January 1, 2017; and~~
15 ~~(4) No taxpayer that claims the credit under this section~~
16 ~~shall claim any other tax credit under this chapter~~
17 ~~for the same taxable year.~~

18 ~~(b) As used in this section:~~

19 ~~"Credit period" means a maximum period of eight years~~
20 ~~beginning from the first taxable year in which the qualifying~~
21 ~~ethanol production facility begins production even if actual~~



1 ~~production is not at seventy five per cent of nameplate~~
2 ~~capacity.~~

3 ~~"Investment" means a nonrefundable capital expenditure~~
4 ~~related to the development and construction of any qualifying~~
5 ~~ethanol production facility, including processing equipment,~~
6 ~~waste treatment systems, pipelines, and liquid storage tanks at~~
7 ~~the facility or remote locations, including expansions or~~
8 ~~modifications. Capital expenditures shall be those direct and~~
9 ~~certain indirect costs determined in accordance with section~~
10 ~~263A of the Internal Revenue Code, relating to uniform~~
11 ~~capitalization costs, but shall not include expenses for~~
12 ~~compensation paid to officers of the taxpayer, pension and other~~
13 ~~related costs, rent for land, the costs of repairing and~~
14 ~~maintaining the equipment or facilities, training of operating~~
15 ~~personnel, utility costs during construction, property taxes,~~
16 ~~costs relating to negotiation of commercial agreements not~~
17 ~~related to development or construction, or service costs that~~
18 ~~can be identified specifically with a service department or~~
19 ~~function or that directly benefit or are incurred by reason of a~~
20 ~~service department or function. For the purposes of determining~~
21 ~~a capital expenditure under this section, the provisions of~~
22 ~~section 263A of the Internal Revenue Code shall apply as it read~~



1 ~~on March 1, 2004. For purposes of this section, investment~~
2 ~~excludes land costs and includes any investment for which the~~
3 ~~taxpayer is at risk, as that term is used in section 465 of the~~
4 ~~Internal Revenue Code (with respect to deductions limited to~~
5 ~~amount at risk).~~

6 ~~"Nameplate capacity" means the qualifying ethanol~~
7 ~~production facility's production design capacity, in gallons of~~
8 ~~motor fuel grade ethanol per year.~~

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

11 ~~"Qualifying ethanol production" means ethanol produced from~~
12 ~~renewable, organic feedstocks, or waste materials, including~~
13 ~~municipal solid waste. All qualifying production shall be~~
14 ~~fermented, distilled, gasified, or produced by physical chemical~~
15 ~~conversion methods such as reformation and catalytic conversion~~
16 ~~and dehydrated at the facility.~~

17 ~~"Qualifying ethanol production facility" or "facility"~~
18 ~~means a facility located in Hawaii which produces motor fuel~~
19 ~~grade ethanol meeting the minimum specifications by the American~~
20 ~~Society of Testing and Materials standard D 4806, as amended.~~

21 ~~(c) In the case of a taxable year in which the cumulative~~
22 ~~claims for the credit by the taxpayer of a qualifying ethanol~~



1 ~~production facility exceeds the cumulative investment made in~~
2 ~~the qualifying ethanol production facility by the taxpayer, only~~
3 ~~that portion that does not exceed the cumulative investment~~
4 ~~shall be claimed and allowed.~~

5 ~~(d) The department of business, economic development, and~~
6 ~~tourism shall:~~

7 ~~(1) Maintain records of the total amount of investment~~
8 ~~made by each taxpayer in a facility;~~

9 ~~(2) Verify the amount of the qualifying investment;~~

10 ~~(3) Total all qualifying and cumulative investments that~~
11 ~~the department of business, economic development, and~~
12 ~~tourism certifies; and~~

13 ~~(4) Certify the total amount of the tax credit for each~~
14 ~~taxable year and the cumulative amount of the tax~~
15 ~~credit during the credit period.~~

16 ~~Upon each determination, the department of business,~~
17 ~~economic development, and tourism shall issue a certificate to~~
18 ~~the taxpayer verifying the qualifying investment amounts, the~~
19 ~~credit amount certified for each taxable year, and the~~
20 ~~cumulative amount of the tax credit during the credit period.~~

21 ~~The taxpayer shall file the certificate with the taxpayer's tax~~
22 ~~return with the department of taxation. Notwithstanding the~~



1 ~~department of business, economic development, and tourism's~~
2 ~~certification authority under this section, the director of~~
3 ~~taxation may audit and adjust certification to conform to the~~
4 ~~facts.~~

5 ~~If in any year, the annual amount of certified credits~~
6 ~~reaches \$12,000,000 in the aggregate, the department of~~
7 ~~business, economic development, and tourism shall immediately~~
8 ~~discontinue certifying credits and notify the department of~~
9 ~~taxation. In no instance shall the total amount of certified~~
10 ~~credits exceed \$12,000,000 per year. Notwithstanding any other~~
11 ~~law to the contrary, this information shall be available for~~
12 ~~public inspection and dissemination under chapter 92F.~~

13 ~~(c) If the credit under this section exceeds the~~
14 ~~taxpayer's income tax liability, the excess of credit over~~
15 ~~liability shall be refunded to the taxpayer; provided that no~~
16 ~~refunds or payments on account of the tax credit allowed by this~~
17 ~~section shall be made for amounts less than \$1. All claims for~~
18 ~~a credit under this section must be properly filed on or before~~
19 ~~the end of the twelfth month following the close of the taxable~~
20 ~~year for which the credit may be claimed. Failure to comply~~
21 ~~with the foregoing provision shall constitute a waiver of the~~
22 ~~right to claim the credit.~~



1 ~~(f) If a qualifying ethanol production facility or an~~
2 ~~interest therein is acquired by a taxpayer prior to the~~
3 ~~expiration of the credit period, the credit allowable under~~
4 ~~subsection (a) for any period after such acquisition shall be~~
5 ~~equal to the credit that would have been allowable under~~
6 ~~subsection (a) to the prior taxpayer had the taxpayer not~~
7 ~~disposed of the interest. If an interest is disposed of during~~
8 ~~any year for which the credit is allowable under subsection (a),~~
9 ~~the credit shall be allowable between the parties on the basis~~
10 ~~of the number of days during the year the interest was held by~~
11 ~~each taxpayer. In no case shall the credit allowed under~~
12 ~~subsection (a) be allowed after the expiration of the credit~~
13 ~~period.~~

14 ~~(g) Once the total nameplate capacities of qualifying~~
15 ~~ethanol production facilities built within the State reaches or~~
16 ~~exceeds a level of forty million gallons per year, credits under~~
17 ~~this section shall not be allowed for new ethanol production~~
18 ~~facilities. If a new facility's production capacity would cause~~
19 ~~the statewide ethanol production capacity to exceed forty~~
20 ~~million gallons per year, only the ethanol production capacity~~
21 ~~that does not exceed the statewide forty million gallon per year~~
22 ~~level shall be eligible for the credit.~~



1 ~~(h) Prior to construction of any new qualifying ethanol~~
2 ~~production facility, the taxpayer shall provide written notice~~
3 ~~of the taxpayer's intention to begin construction of a~~
4 ~~qualifying ethanol production facility. The information shall~~
5 ~~be provided to the department of taxation and the department of~~
6 ~~business, economic development, and tourism on forms provided by~~
7 ~~the department of business, economic development, and tourism,~~
8 ~~and shall include information on the taxpayer, facility~~
9 ~~location, facility production capacity, anticipated production~~
10 ~~start date, and the taxpayer's contact information.~~
11 ~~Notwithstanding any other law to the contrary, this information~~
12 ~~shall be available for public inspection and dissemination under~~
13 ~~chapter 92F.~~

14 ~~(i) The taxpayer shall provide written notice to the~~
15 ~~director of taxation and the director of business, economic~~
16 ~~development, and tourism within thirty days following the start~~
17 ~~of production. The notice shall include the production start~~
18 ~~date and expected ethanol fuel production for the next twenty-~~
19 ~~four months. Notwithstanding any other law to the contrary,~~
20 ~~this information shall be available for public inspection and~~
21 ~~dissemination under chapter 92F.~~



1 ~~(j) If a qualifying ethanol production facility fails to~~
2 ~~achieve an average annual production of at least seventy five~~
3 ~~per cent of its nameplate capacity for two consecutive years,~~
4 ~~the stated capacity of that facility may be revised by the~~
5 ~~director of business, economic development, and tourism to~~
6 ~~reflect actual production for the purposes of determining~~
7 ~~statewide production capacity under subsection (g) and allowable~~
8 ~~credits for that facility under subsection (a). Notwithstanding~~
9 ~~any other law to the contrary, this information shall be~~
10 ~~available for public inspection and dissemination under chapter~~
11 ~~92F.~~

12 ~~(k) Each calendar year during the credit period, the~~
13 ~~taxpayer shall provide information to the director of business,~~
14 ~~economic development, and tourism on the number of gallons of~~
15 ~~ethanol produced and sold during the previous calendar year, how~~
16 ~~much was sold in Hawaii versus overseas, feedstocks used for~~
17 ~~ethanol production, the number of employees of the facility, and~~
18 ~~the projected number of gallons of ethanol production for the~~
19 ~~succeeding year.~~

20 ~~(l) In the case of a partnership, S corporation, estate,~~
21 ~~or trust, the tax credit allowable is for every qualifying~~
22 ~~ethanol production facility. The cost upon which the tax credit~~



1 ~~is computed shall be determined at the entity level.~~
2 ~~Distribution and share of credit shall be determined pursuant to~~
3 ~~section 235-110.7(a).~~
4 ~~(m) Following each year in which a credit under this~~
5 ~~section has been claimed, the director of business, economic~~
6 ~~development, and tourism shall submit a written report to the~~
7 ~~governor and legislature regarding the production and sale of~~
8 ~~ethanol. The report shall include:~~
9 ~~(1) The number, location, and nameplate capacities of~~
10 ~~qualifying ethanol production facilities in the State;~~
11 ~~(2) The total number of gallons of ethanol produced and~~
12 ~~sold during the previous year; and~~
13 ~~(3) The projected number of gallons of ethanol production~~
14 ~~for the succeeding year.~~
15 ~~(n) The director of taxation shall prepare forms that may~~
16 ~~be necessary to claim a credit under this section.~~
17 ~~Notwithstanding the department of business, economic~~
18 ~~development, and tourism's certification authority under this~~
19 ~~section, the director may audit and adjust certification to~~
20 ~~conform to the facts. The director may also require the~~
21 ~~taxpayer to furnish information to ascertain the validity of the~~
22 ~~claim for credit made under this section and may adopt rules~~



1 ~~necessary to effectuate the purposes of this section pursuant to~~
2 ~~chapter 91."]~~

3 SECTION 4. There is appropriated out of the general
4 revenues of the State of Hawaii the sum of \$ or so
5 much thereof as may be necessary for fiscal year 2015-2016 for
6 administration of an annual survey on the tax credit established
7 by this Act.

8 The sum appropriated shall be expended by the department of
9 business, economic development, and tourism for the purposes of
10 this Act.

11 SECTION 5. If any provision of this Act, or the
12 application thereof to any person or circumstance, is held
13 invalid, the invalidity does not affect other provisions or
14 applications of the Act that can be given effect without the
15 invalid provision or application, and to this end the provisions
16 of this Act are severable.

17 SECTION 6. Statutory material to be repealed is bracketed
18 and stricken. New statutory material is underscored.

19 SECTION 7. This Act shall take effect on July 1, 2050, and
20 apply to taxable years beginning after December 31, 2014;
21 provided that section 4 of this Act shall take effect on July 1,
22 2015.



Report Title:

Income Tax Credit; Renewable Fuels; Ethanol Facility Tax Credit;
Appropriation

Description:

Establishes a renewable fuels production income tax credit.
Repeals the ethanol facility tax credit. Appropriates funds for
DBEDT to administer an annual survey on the tax credit.
Effective 7/1/2050. (SD2)

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