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# 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 there is a great  
2 need for Hawaii to develop and support manufacturing in the  
3 State. Hawaii imports over ninety per cent of the products  
4 consumed each year. At the same time, there is a great demand  
5 outside the State for products that are made in Hawaii.

6 The purpose of this Act is to promote manufacturing in the  
7 State by establishing a temporary income tax credit for  
8 taxpayers who incur expenses for manufacturing products in the  
9 State.

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

13 "§235- Manufacturing tax credit. (a) There shall be  
14 allowed to each taxpayer subject to the taxes imposed by this  
15 chapter, an income tax credit for qualified manufacturing costs  
16 that shall be deductible from the taxpayer's net income tax  
17 liability, if any, imposed by this chapter for the taxable year  
18 in which the credit is properly claimed.



1       (b) The amount of the credit shall be twenty per cent of  
2 the qualified manufacturing costs incurred during the taxable  
3 year; provided that the total credit claimed per taxpayer shall  
4 not exceed \$200,000. Qualified manufacturing costs shall not  
5 include any costs for which another credit is claimed under this  
6 chapter.

7       In the case of a partnership, S corporation, estate, or  
8 trust, the tax credit allowable is for qualified manufacturing  
9 costs incurred by the entity for the taxable year. The cost  
10 upon which the tax credit is computed shall be determined at the  
11 entity level. Distribution and share of credit shall be  
12 determined by section 704(b) of the Internal Revenue Code.

13       If a deduction is taken under section 179 (with respect to  
14 election to expense depreciable business assets) of the Internal  
15 Revenue Code of 1986, as amended, no tax credit shall be allowed  
16 for those costs for which the deduction is taken.

17       The basis for eligible property for depreciation of  
18 accelerated cost recovery system purposes of state income taxes  
19 shall be reduced by the amount of credit allowable and claimed.

20       (c) If the tax credit under this section exceeds the  
21 taxpayer's income tax liability, the excess of the tax credit



1 over liability shall be refunded to the taxpayer; provided that  
2 no refunds or payment on account of the tax credits allowed by  
3 this section shall be made for amounts less than \$1. Every  
4 claim, including amended claims, for a tax credit under this  
5 section shall be filed on or before the end of the twelfth month  
6 following the close of the taxable year for which the credit may  
7 be claimed. Failure to comply with the foregoing provision  
8 shall constitute a waiver of the right to claim the credit.

9 (d) The director of taxation:

10 (1) Shall prepare any forms that may be necessary to claim  
11 a credit under this section;

12 (2) May require the taxpayer to furnish information to  
13 ascertain the validity of the claim for credit made  
14 under this section; and

15 (3) May adopt rules pursuant to chapter 91 to effectuate  
16 this section.

17 (e) The department of business, economic development, and  
18 tourism shall:

19 (1) Maintain records of the total amount of qualified  
20 manufacturing costs for each taxpayer claiming a  
21 credit;



- 1        (2) Verify the amount of the qualified manufacturing costs
- 2                claimed;
- 3        (3) Total all qualified manufacturing costs claimed; and
- 4        (4) Certify the total amount of the tax credit for each
- 5                taxable year.

6        Upon each determination, the department of business,  
7 economic development, and tourism shall issue a certificate to  
8 the taxpayer verifying the qualified manufacturing costs and the  
9 credit amount certified for each taxable year.

10        The taxpayer shall file the certificate with the taxpayer's  
11 tax return with the department of taxation. Notwithstanding the  
12 certification authority of the department of business, economic  
13 development, and tourism under this section, the director of  
14 taxation may audit and adjust certification to conform to the  
15 facts.

16        (f) As used in this section:  
17        "Net income tax liability" means income tax liability  
18 reduced by all other credits allowed under this chapter.

19        "Qualified manufacturing costs" means expenditures for:



- 1        (1) Costs incurred to purchase equipment to be used in  
2                    manufacturing tangible personal property in the State;  
3                    and  
4        (2) Costs incurred to train employees to manufacture  
5                    tangible personal property in the State."

6        SECTION 3. New statutory material is underscored.

7        SECTION 4. This Act shall take effect on January 20, 2050;  
8 provided that:

- 9        (1) Section 2 shall apply to taxable years beginning after  
10                    December 31, 2014; and  
11        (2) This Act shall be repealed on January 1, 2023.



**Report Title:**

Income Tax Credit; Manufacturing

**Description:**

Establishes an income tax credit for taxpayers who incur certain expenses for manufacturing products in Hawaii. Applies to taxable years beginning after December 31, 2014. Repealed on January 1, 2023. Effective January 20, 2050. (HB2626 HD1)

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

