

Honolulu, Hawaii
February 14, 2014

RE: H.B. No. 2626
H.D. 1

Honorable Joseph M. Souki
Speaker, House of Representatives
Twenty-Seventh State Legislature
Regular Session of 2014
State of Hawaii

Sir:

Your Committee on Economic Development & Business, to which was referred H.B. No. 2626 entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose of this measure is to increase economic development in the State through promotion of manufacturing by establishing a temporary nonrefundable income tax credit for qualified manufacturing costs incurred for manufacturing products in Hawaii.

The Department of Business, Economic Development, and Tourism; Hawaii Food Manufacturers Association; Manufacturers Collective; Rumi Murakami Womenswear; High Technology Development Corporation; Kauai Chamber of Commerce; Hawaii Food Industry Association; Meadow Gold Dairies; KYD, Inc. dba: K. Yamada Distributors; and Enterprise Honolulu testified in support of this measure. The Chamber of Commerce of Hawaii and Hawaii Strategic Development Corporation testified in support of the intent of this bill. The Department of Taxation and Tax Foundation of Hawaii provided comments.

As one of the most isolated land masses on Earth, Hawaii must import approximately ninety percent of all products consumed annually. However, manufacturers in Hawaii produce goods that are in demand across the United States and around the world. Thus, developing and supporting manufacturing in Hawaii could serve two



purposes. First, in-state manufacturing could reduce Hawaii's need to import consumer products. Second, Hawaii could export more products made in-state leading to greater economic development.

According to the Chamber of Commerce of Hawaii, Hawaii has over 1,000 active manufacturers employing approximately 17,000 workers and contributing to the economy by exporting manufactured goods. The Chamber estimates that in 2012, nearly \$570,000,000 in manufactured goods were exported from Hawaii. Providing a manufacturing tax credit would provide financial benefits to these manufacturers, thereby increasing their growth. The tax credit would also encourage other manufacturers to begin operations in Hawaii, thereby strengthening Hawaii's economy.

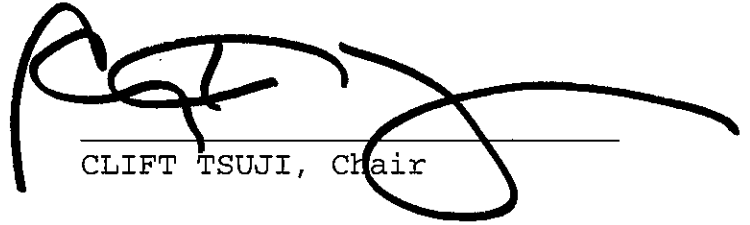
Your Committee has amended this measure by:

- (1) Specifying that the income tax credit for qualified manufacturing costs shall not include costs for which another tax credit is claimed;
- (2) Making amendments regarding the allocation of credits to a partnership, S corporation, estate, or trust to conform to section 704(b) of the Internal Revenue Code;
- (3) Changing the tax credit from a nonrefundable tax credit to a refundable tax credit;
- (4) Changing its effective date to January 20, 2050, to facilitate further discussion; and
- (5) Making technical, nonsubstantive amendments for clarity, consistency, and style.

As affirmed by the record of votes of the members of your Committee on Economic Development & Business that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 2626, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 2626, H.D. 1, and be referred to the Committee on Finance.



Respectfully submitted on
behalf of the members of the
Committee on Economic
Development & Business,



CLIFT TSUJI, Chair



