

**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

NEIL ABERCROMBIE
GOVERNOR

RICHARD C. LIM
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
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Statement of
RICHARD C. LIM
Director

Department of Business, Economic Development, and Tourism
before the

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT AND BUSINESS

Tuesday, February 11, 2014
9:00 a.m.
State Capitol, Conference Room 312
In consideration of

HB 2626
RELATING TO TAXATION.

Chair Tsuji, Vice Chair Ward, and Members of the Committee.

Thank you for the opportunity to testify on HB 2626, a bill that establishes an income tax credit for taxpayers who incur certain expenses for manufacturing products in Hawaii.

DBEDT supports this bill, but notes that it does not currently have the staffing or funding to fulfill the obligation in Section 235(e) that requires DBEDT to “maintain records” for each taxpayer, “verify” the amounts, and “certify” the amount of the tax credits.

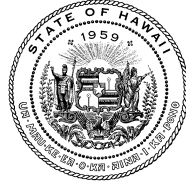
DBEDT does not have access to the Department of Taxation’s information on taxpayers and we do not have the ability to maintain confidential taxpayer records.

DBEDT defers to the Department of Taxation on the tax implications and fiscal impacts on their programs in carrying out this initiative.

Thank you for the opportunity to comment.

NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

FREDERICK D. PABLO
DIRECTOR OF TAXATION

JOSHUA WISCH
DEPUTY DIRECTOR

To: The Honorable Clift Tsuji, Chair
and Members of the House Committee on Economic Development and Business

Date: Tuesday, February 11, 2014
Time: 9:00 A.M.
Place: Conference Room 312, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. 2626, Relating to Taxation

The Department of Taxation (Department) provides the following comments regarding H.B. 2626 for your consideration.

H.B. 2626 establishes a nonrefundable income tax credit for taxpayers who incur certain expenses for manufacturing products in Hawaii. Specifically, this measure would provide a nonrefundable tax credit of twenty percent of the costs incurred to purchase equipment to be used in the manufacture of tangible personal property in the State, as well as costs incurred to train employees in the manufacturing process. The credit, as proposed, applies to taxable years beginning after December 31, 2014 and is repealed on January 1, 2023.

The Department defers to the Department of Business, Economic Development, and Tourism regarding the certification and reporting requirements proposed under subsection (e).

The Department notes that H.B. 2626 overlaps with the Capital Goods Excise Tax Credit provided under section 235-110.7, Hawaii Revised Statutes (HRS). Under section 235-110.7, HRS, taxpayers are entitled to claim a refundable tax credit of four percent of the cost of eligible depreciable tangible personal property placed in service during the taxable year. The Department suggests remedying this overlap by amending subsection (b) to read:

(b) The amount of the credit shall be twenty per cent of the qualified manufacturing costs incurred during the taxable year; provided that the total credit claimed per taxpayer shall not exceed \$200,000. Qualified manufacturing costs shall not include any

costs for which another credit is claimed under this chapter.

The Department also suggests a technical amendment to the last paragraph in subsection (b) regarding distribution of the credit. Hawaii conforms to Internal Revenue Code section 704 regarding allocation of credits. The paragraph can be amended to read:

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

Thank you for the opportunity to provide comments.

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Manufacturing tax credit

BILL NUMBER: HB 2626

INTRODUCED BY: Tsuji, Choy, Hashem, Ichiyama, Ito, Nakashima, Oshiro, Tokioka, Yamashita and 1 Democrat

BRIEF SUMMARY: Adds a new section to HRS chapter 235 to allow taxpayers to claim an income tax credit of 20% of the qualified manufacturing costs incurred in a taxable year provided that the total credit claimed per taxpayer shall not exceed \$200,000.

In the case of a partnership, S corporation, estate, or trust the tax credit allowable is for qualified manufacturing costs incurred by the entity for the taxable year with distribution and share of the credit to be determined by rule. If a deduction is taken under IRC section 179 (with respect to election to expense depreciable business assets), no credit shall be allowed for that portion for which the deduction is taken. The basis of eligible property for depreciation or accelerated cost recovery system purposes for state income tax purposes shall be reduced by the amount of credits allowable and claimed.

Credits in excess of a taxpayer's income tax liability may be applied to subsequent income tax liability. Claims for the credit, including any amended claims, must be filed on or before the end of the twelfth month following the close of the taxable year. The director of taxation may adopt rules pursuant to HRS chapter 91 and prepare the necessary forms to claim the credit and may require proof of the claim for the credit. Requires the director of business, economic development, and tourism (DBEDT) to: (1) maintain records of the total amount of the qualified manufacturing costs for each taxpayer claiming the credit; (2) verify the amount of the qualified manufacturing costs claimed; (3) total all qualified manufacturing costs claimed; and (4) certify the total amount of the tax credit for each taxable year. DBEDT shall issue a certificate to the taxpayer verifying the qualified manufacturing costs and the credit amount certified for each taxable year. Requires the taxpayer to file the certificate with the taxpayer's tax return with the department of taxation.

Defines "qualified manufacturing costs" as costs incurred to: (1) purchase equipment to be used in manufacturing tangible personal property in the state; and (2) train employees to manufacture tangible personal property in the State.

This act shall be repealed on January 1, 2023.

EFFECTIVE DATE: Tax years beginning after December 31, 2014

STAFF COMMENTS: It appears that this measure is intended to provide an incentive in the form of an income tax credit to encourage manufacturing in the state. It should be noted that tax credits generally are designed to reduce the tax burdens of certain groups by refunding a portion of taxes paid on

purchases of essential items and services. This credit of 20% of qualified manufacturing costs amounts to nothing more than a partial subsidy of state funds as there is no obvious undue burden of taxes.

It should be remembered that giving tax breaks to a select group of taxpayers comes at the expense of all other taxpayers. As such, it is an insult to all other taxpayers that they are not deserving of such tax preferences. Rather than singling out a particular group for tax relief, concurrent efforts must be made to improve Hawaii's business climate to enhance the economic prospects for all businesses.

Digested 2/10/14



HAWAII
STRATEGIC
DEVELOPMENT
CORPORATION

Written Statement of

KARL FOOKS
President

Hawaii Strategic Development Corporation

Before the
COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS

February 11, 2014
9:00 AM
State Capitol, Conference Room 312

In consideration of
HB 2626 RELATING TO TAXATION

Chair Tsuji, Vice Chair Ward and Members of the Committee on Economic Development & Business:

The Hawaii Strategic Development Corporation (HSDC) respectfully submits testimony in support of the intent of HB 2626.

A vibrant manufacturing sector will be important to grow a viable and sustainable export economy. HSDC supports efforts that can help to develop Hawaii's manufacturing capacity.

We recommend the Legislature consider a comprehensive strategy to link support for the manufacturing sector with entrepreneurial development and investment capital to stimulate an entire ecosystem that supports the goal of this legislation of building a globally competitive manufacturing sector.

Thank you for the opportunity to provide testimony.

Late

Written Statement of
ROBBIE MELTON
Executive Director & CEO
High Technology Development Corporation
before the
HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS

Tuesday, February 11, 2014
9:00 a.m.
State Capitol, Conference Room 312
In consideration of

HB 2626 RELATING TO TAXATION.

Chair Tsuji, Vice Chair Ward, and Members of the Committee on Economic Development & Business.

The High Technology Development Corporation (HTDC) **supports** HB 2626 relating to Taxation. HTDC supports the growth of manufacturing in Hawaii and this bill has the potential to financially benefit businesses and incent others to manufacture products in Hawaii. Hawaii needs more “Made in Hawaii” to decrease our dependence on imported goods as well as export revenues.

Thank you for the opportunity to offer these comments.

Thank you for the opportunity to offer these comments.



Chamber of Commerce HAWAII

The Voice of Business

Testimony to the House Committee on Economic Development and Business Tuesday, February 11, 2014 at 9:00 A.M. Conference Room 312, State Capitol

RE: HOUSE BILL 2626 RELATING TO TAXATION

Chair Tsuji, Vice Chair Ward, and Members of the Committee:

The Chamber of Commerce of Hawaii ("The Chamber") **strongly supports** and asks for some **amendments** on HB 2626 Relating to Taxation.

The Chamber is the largest business organization in Hawaii, representing over 1,000 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

The Chamber supports this bill as part of its economic development package. There are approximately 1,000 active manufacturers in the state that employ almost 17,000 people at an average compensation rate of \$42,896 or over \$6,000 more than the average private non-farm employee. Manufacturers helped Hawaii's economy by contributing nearly \$570 million in manufactured goods exported in 2012.

The bill gives a 20% tax credit to companies on their expenditures for manufacturing equipment and the training of their employees. We believe that this credit will help fuel manufacturing in Hawaii to grow and provide more products for both local consumption and export. There is movement to begin to manufacture more back in the U.S. At the same time Hawaii still has some competitive disadvantages. This credit will help companies in Hawaii to start or grow their operations.

According to the National Association of Manufacturers, every new manufacturing job created adds another 1.6 jobs to the local service economy, and for every dollar in manufacturing sales, another \$1.34 is added to the economy. Investments in manufacturing have a stronger impact than investments in most other economic sectors.

We ask that one amendment be made to clarify that the credit is refundable. We ask that you replace the first sentence in subsection (c) on page 2 of the bill with the following:



Chamber of Commerce HAWAII

The Voice of Business

If the tax credit under this section exceeds the taxpayer's income tax liability, the excess of credits over liability shall be refunded to the taxpayer; provided that no refunds or payment on account of the tax credits allowed by this section shall be made for amounts less than \$1.

Thank you for the opportunity to testify on this matter. Mahalo.

ward2-Robin

From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 10, 2014 9:21 AM
To: edbtestimony
Cc: randy@kauaichamber.org
Subject: *Submitted testimony for HB2626 on Feb 11, 2014 09:00AM*

HB2626

Submitted on: 2/10/2014

Testimony for EDB on Feb 11, 2014 09:00AM in Conference Room 312

Submitted By	Organization	Testifier Position	Present at Hearing
Randall Francisco	Kauai Chamber of Commerce	Support	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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Lauren Zirbel, Executive Director

1050 Bishop St. PMB 235
Honolulu, HI 96813
Fax : 808-791-0702
Telephone : 808-533-1292

TO:
HOUSE COMMITTEE
Rep. Clift Tsuji, Chair
Rep. Gene Ward, Vice Chair

FROM: HAWAII FOOD INDUSTRY ASSOCIATION
Lauren Zirbel, Executive Director

DATE: February 11, 2014
TIME: 9am
PLACE: Conference Room 312

RE: HB 2626

Position: Support

The Hawaii Food Industry Association is comprised of two hundred member companies representing retailers, suppliers, producers and distributors of food and beverage related products in the State of Hawaii.

The tax credit proposed in this bill would help grow and diversify our economy, keep more dollars in Hawaii, decrease our dependence on imports, and grow and strengthen the Made in Hawaii brand.

Research has shown that a diversified economy and a business friendly tax climate are both key factors in keeping unemployment low. This bill could allow current manufacturers in our state to grow their businesses and can open the door for even more production here in Hawaii. This means more jobs and a stronger economy for the entire state.

Increasing manufacturing will also mean we are less reliant on imported goods. We currently import over 90% of the products we use here in the state. This situation leaves us vulnerable to any supply chain interruptions, adds shipping cost to almost all goods, and sends millions of dollars a year out of the state. Importing less and making more can have wide reaching positive impacts for everyone from the manufacturers to the consumers.

This bill will also open the door for more products to earn the distinction of being Made in Hawaii. The products we currently make here in the state have a worldwide reputation for quality and excellence. There is strong demand both in and out of the state for more products of that high caliber, and this bill can help grow our manufacturing industry to meet that demand.

For these reasons we ask that you please vote yes on this measure.

Thank you for the opportunity to testify.



Meadow Gold Dairies



HB2626, Relating to Taxation
Hse EDB Hearing
Tuesday, Feb. 11, 2014
9:00 am – Room 312

Written Testimony By: Glenn Muranaka

Position: Support

Chair Tsuji and Members of the House EDB Committee:

My name is Glenn Muranaka, President and General Manager of Meadow Gold Dairies. Our company has been in Hawaii since 1897—117 years, providing Hawaii consumers with a variety of milk products and juices. Meadow Gold's long history has not come without effort. We continually adapt to our customers' and consumers' ever-changing needs, and we constantly evolve along with our industry, our community and our market. Over the years, this has required that we struggle, tighten our belts, innovate and work extremely hard, making us a better company in the process. The foundation of this work rests with the 330 employees that are committed to providing superior quality products.

I support this bill as part of the Chamber of Commerce's economic development package. There are approximately 1000 active manufacturers in the state that employ almost 17,000 people at an average compensation rate of \$42,896 or over \$6,000 more than the average private non-farm employee. Manufacturers helped Hawaii's economy by contributing nearly \$570 million in manufactured goods exported in 2012.

The bill gives a 20% tax credit to companies on their expenditures for manufacturing equipment and the training of their employees. We believe that this credit will help fuel manufacturing in Hawaii to grow and provide more products for both local consumption and export. There is movement to begin to manufacture more back in the U.S. At the same time Hawaii still has some competitive disadvantages. This credit will help companies in Hawaii to start or grow their operations.

We support language that will clarify that the tax credit is refundable. Your support of this measure and suggested clarification is appreciated. Thank you for the opportunity to submit testimony. I can be reached at 944-5958 if there are any questions.



KYD, Inc. dba k. yamada distributors

An independent leader in packaging and wholesale distribution

P.O. BOX 29669, Honolulu, Hawaii 96820 Phone: (808) 836-3221 Fax: (808) 833-8995

HB2626, Relating to Taxation
House EDB Committee – Tuesday, February 11, 2014
9:00 am- Room 312
Written Testimony by: Dexter Yamada
Position: Support

Chair Tsuji and Members of the House EDB Committee:

I am Dexter Yamada, President of KYD, Inc. dba: K. Yamada Distributors. KYD, Inc. is a local family run business that originated in the 1940's as a florist and florist supply distributor, and in 1958, evolved into a packaging company. Today, KYD, Inc and its sister company, Hawaii Foam Products, LLC, employ about 100 employees and contribute to Hawaii's economy through taxes and payroll based on \$35 million annual revenue. Our companies manufacture packaging materials such as food-grade EPS (Expanded Polystyrene) food containers, and distribute a variety of supplies, to include compostable containers, for food processors, food establishments, supermarkets, hotels hospitals and other institutions.

We appreciate this measure that supports Hawaii's manufacturing industry. Locally manufactured products contribute to import replacement, and help with local job creation. The temporary tax credit will encourage companies to invest in equipment purchases and train employees to manufacture locally made products. This in turn, lends to greater efficiency and reduction in the cost of products to customers.

Thank you for the opportunity to testify.





**Testimony to the House Committee on Economic Development and Business
Tuesday, February 11, 2014 at 9:00 A.M.
Conference Room 312, State Capitol**

RE: HOUSE BILL 2626 RELATING TO TAXATION

Chair Tsuji, Vice Chair Ward, and Members of the Committee:

Enterprise Honolulu strongly supports HB 2626 Relating to Taxation.

I support this bill as part of the Chamber of Commerce's economic development package. There are approximately 1000 active manufacturers in the state that employ almost 17,000 people at an average compensation rate of \$42,896 or over \$6,000 more than the average private non-farm employee. Manufacturers helped Hawaii's economy by contributing nearly \$570 million in manufactured goods exported in 2012.

The bill gives a 20% tax credit to companies on their expenditures for manufacturing equipment and the training of their employees. This credit will help companies in Hawaii to start or grow their operations.

We humbly ask your support of this measure. Thank you for the opportunity to testify on this matter. If you have any question please call on me.

Mahalo,

Pono Shim
President & CEO
Enterprise Honolulu, Oahu Economic Development Board





February 11, 2014

House Committee on Economic Development and Business

Chair Tsuji, Vice Chair Ward and Members of the Committee:

RE: TESTIMONY IN SUPPORT OF HOUSE BILL 2626

The Hawaii Food Manufacturers Association and our 120 members **strongly support** the measure to offer tax credits for manufacturers in the State.

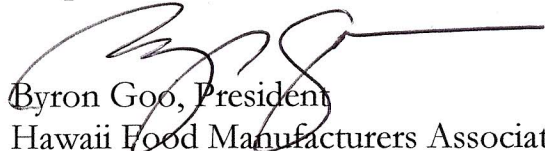
There are advantages to continue to develop and upgrade food manufacturing in the State. Hawaii imports over 90% of products consumed each year and developing our manufacturing infrastructure will reduce our dependence on imports.

At the same time, demand outside the State for locally made food products affords us the opportunity to repatriate revenue back to Hawai'i from sales on the mainland and in foreign market.

Food manufacturing contributes significantly to the state's economy generating over \$500 million in annual sales and employing an annual payroll of over \$161 million.

Passage of this bill will encourage investment to upgrade and expand food manufacturing in Hawai'i.

Respectfully submitted,


Byron Goo, President
Hawaii Food Manufacturers Association

ward2-Robin

From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 10, 2014 6:31 PM
To: edbtestimony
Cc: jlee@cochawaii.org
Subject: Submitted testimony for HB2626 on Feb 11, 2014 09:00AM

HB2626

Submitted on: 2/10/2014

Testimony for EDB on Feb 11, 2014 09:00AM in Conference Room 312

Submitted By	Organization	Testifier Position	Present at Hearing
Jenny Lee	Manufacturers Collective	Support	No

Comments: This testimony is submitted on behalf of Rengo Packaging, Inc., Pacific Allied Products, Allison Izu, LLC, and The Cut Collective. Mahalo.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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**Testimony to the House Committee on Economic Development and Business
Tuesday, February 11, 2014 at 9:00 A.M.
Conference Room 312, State Capitol**

RE: HOUSE BILL 2626 RELATING TO TAXATION

Chair Tsuji, Vice Chair Ward, and Members of the Committee:

Rumi Murakami Robertson, owner/designer of Rumi Murakami Womenswear **strongly supports** HB 2626 Relating to Taxation.

I support this bill as part of the Chamber of Commerce's economic development package. There are approximately 1000 active manufacturers in the state that employ almost 17,000 people at an average compensation rate of \$42,896 or over \$6,000 more than the average private non-farm employee. Manufacturers helped Hawaii's economy by contributing nearly \$570 million in manufactured goods exported in 2012.

The bill gives a 20% tax credit to companies on their expenditures for manufacturing equipment and the training of their employees. We believe that this credit will help fuel manufacturing in Hawaii to grow and provide more products for both local consumption and export. There is movement to begin to manufacture more back in the U.S. At the same time Hawaii still has some competitive disadvantages. This credit will help companies in Hawaii to start or grow their operations.

According to the National Association of Manufacturers, every new manufacturing job created adds another 1.6 jobs to the local service economy, and for every dollar in manufacturing sales, another \$1.34 is added to the economy. Investments in manufacturing have a stronger impact than investments most other economic sector.

I ask that amendments be made to clarify that the credit is refundable.

We humbly ask your support of this measure. Thank you for the opportunity to testify on this matter. Mahalo.