

# SB 3082

Establishes an income tax credit for taxpayers who incur certain expenses for manufacturing products in Hawaii. Applies to taxable years beginning after 12/31/2014. Sunset 01/01/2023.



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

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813  
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804  
Web site: [www.hawaii.gov/dbedt](http://www.hawaii.gov/dbedt)

Telephone: (808) 586-2355  
Fax: (808) 586-2377

NEIL ABERCROMBIE  
GOVERNOR

RICHARD C. LIM  
DIRECTOR

MARY ALICE EVANS  
DEPUTY DIRECTOR

Statement of  
**RICHARD C. LIM**  
Director

Department of Business, Economic Development, and Tourism  
before the

**SENATE COMMITTEE ON  
ECONOMIC DEVELOPMENT, GOVERNMENT OPERATIONS AND HOUSING**

**Monday, February 10, 2014  
2:45 p.m.  
State Capitol, Conference Room 16  
In consideration of**

**SB3082 RELATING TO TAXATION**

Chair Dela Cruz, Vice Chair Slom, and Members of the Committee.

Thank you for the opportunity to testify on SB 3082, 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) 587-1530  
FAX NO: (808) 587-1584

FREDERICK D. PABLO  
DIRECTOR OF TAXATION

JOSHUA WISCH  
DEPUTY DIRECTOR



To: The Honorable Donovan M. Dela Cruz, Chair  
and Members of the Senate Committee on Economic Development, Government  
Operations and Housing

Date: Monday, February 10, 2014  
Time: 2:45 p.m.  
Place: Room 016, State Capitol

From: Frederick D. Pablo, Director  
Department of Taxation

Re: S.B. No. 3082 Relating to Taxation

The Department of Taxation (Department) provides the following comments regarding S.B. 3082 for your consideration.

S.B. 3082 establishes a nonrefundable income tax credit for taxpayers who incur certain expenses for manufacturing products in Hawaii. Specifically, this measure would provide a non refundable 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 under subsection (e).

The Department notes that S.B. 3082 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 the 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 of the Internal Revenue Code.

Thank you for the opportunity to provide comments.

Written Statement of  
**ROBBIE MELTON**  
**Executive Director & CEO**  
High Technology Development Corporation  
before the  
**SENATE COMMITTEE ON**  
**ECONOMIC DEVELOPMENT, GOVERNMENT OPERATIONS AND HOUSING**

Monday, February 10, 2014  
2:45 p.m.  
State Capitol, Conference Room 16  
In consideration of

**SB 3082 RELATING TO TAXATION.**

Chairs Dela Cruz, Vice Chair Slom, and Members of the Committee on Economic Development.

The High Technology Development Corporation (HTDC) **supports** SB 3082 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.



HAWAII  
STRATEGIC  
DEVELOPMENT  
CORPORATION

Written Statement of

**KARL FOOKS**

**President**

Hawaii Strategic Development Corporation

Before the

**COMMITTEE ON ECONOMIC DEVELOPMENT, GOVERNMENT OPERATIONS & HOUSING**

**February 10, 2014**

**2:45 PM**

**State Capitol, Conference Room 16**

In consideration of

**SB 3082 RELATING TO TAXATION**

Chair Dela Cruz, Vice Chair Slom and Members of the Committee on Economic Development, Government Operations & Housing:

The Hawaii Strategic Development Corporation (HSDC) respectfully submits testimony in support of the intent of SB 3082.

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.

# TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

**SUBJECT:** INCOME, Manufacturing tax credit

**BILL NUMBER:** SB 3082

**INTRODUCED BY:** Ige, Baker, Espero, Green, Kidani, Ruderman and 2 Democrats

**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 credit 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.

SB 3082 - Continued

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 2/6/14





Executive Officers:  
Stanley Brown, ConAgra Foods - Chairperson  
John Schilf, RSM Hawaii - Vice Chair  
Derek Kurisu, KTA Superstores - Treasurer  
Lisa DeCoito, Aloha Petroleum - Secretary  
Lauren Zirbel, Executive Director

---

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

TO:  
SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, GOVERNMENT OPERATIONS, AND HOUSING  
Senator Donovan Dela Cruz, Chair  
Senator Sam Slom, Vice Chair

FROM: HAWAII FOOD INDUSTRY ASSOCIATION  
Lauren Zirbel, Executive Director

DATE: February 10, 2014  
TIME: 2:45pm  
PLACE: Conference Room 16

RE: SB 3082

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.



**Testimony to the Senate Committee on Economic Development, Government  
Operations and Housing  
Monday, February 10, 2014 at 2:45 P.M.  
Conference Room 016, State Capitol**

**RE: SENATE BILL 3082 RELATING TO TAXATION**

Chair Dela Cruz, Vice Chair Slom, and Members of the Committee:

**Allison Izu Song and the Cut Collective strongly supports SB 3082 Relating to Taxation.**

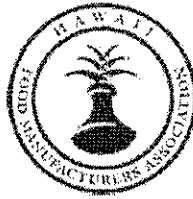
I support this bill as part of the Chamber of Commerce's economic development package. There are approximately 1000 active manufacturers in the state that employ almost 17,000 people at an average compensation rate of \$42,896 or over \$6,000 more than the average private non-farm employee. Manufacturers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



February 10, 2014

Senate Committee on Economic Development, Government Operations and  
Housing

Chair Dela Cruz, Vice Chair Slom, and Members of the Committee:

**RE: TESTIMONY IN SUPPORT OF SENATE BILL 3082**

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



**Testimony to the Senate Committee on Economic Development, Government  
Operations and Housing  
Monday, February 10, 2014 at 2:45 P.M.  
Conference Room 016, State Capitol**

**RE: SENATE BILL 3082 RELATING TO TAXATION**

Chair Dela Cruz, Vice Chair Slom, and Members of the Committee:

Green Ohana Recycling **strongly supports** SB 3082 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.



# Chamber of Commerce HAWAII

*The Voice of Business*

**Testimony to the Senate Committee on Economic Development, Government  
Operations and Housing  
Monday, February 10, 2014 at 2:45 P.M.  
Conference Room 016, State Capitol**

**RE: SENATE BILL 3082 RELATING TO TAXATION**

Chair Dela Cruz, Vice Chair Slom, and Members of the Committee:

The Chamber of Commerce of Hawaii ("The Chamber") **strongly supports** and asks for some **amendments** on SB 3082 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.

# ALLISON IZU

100% MADE IN HAWAII

**Testimony to the Senate Committee on Economic Development, Government  
Operations and Housing  
Monday, February 10, 2014 at 2:45 P.M.  
Conference Room 016, State Capitol**

**RE: SENATE BILL 3082 RELATING TO TAXATION**

Chair Dela Cruz, Vice Chair Slom, and Members of the Committee:

ALLISON IZU, LLC. **strongly supports** SB 3082 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.





**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

SB 3082, Relating to Taxation  
Senate EGH Committee – Monday, February 10, 2014  
2:45 pm - Room 16  
Written Testimony by: Dexter Yamada  
Position: Support

Chair Dela Cruz and Members of the Senate EGH 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.



**From:** [mailinglist@capitol.hawaii.gov](mailto:mailinglist@capitol.hawaii.gov)  
**To:** EGHTestimony  
**Cc:** [achung@navatekkt.com](mailto:achung@navatekkt.com)  
**Subject:** \*Submitted testimony for SB3082 on Feb 10, 2014 14:45PM\*  
**Date:** Thursday, February 06, 2014 11:05:54 AM

---

**SB3082**

Submitted on: 2/6/2014

Testimony for EGH on Feb 10, 2014 14:45PM in Conference Room 016

Submitted By	Organization	Testifier Position	Present at Hearing
ann chung	Individual	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.

Do not reply to this email. This inbox is not monitored. For assistance please email [webmaster@capitol.hawaii.gov](mailto:webmaster@capitol.hawaii.gov)

**Testimony to the Senate Committee on Economic Development, Government  
Operations and Housing  
Monday, February 10, 2014 at 2:45 P.M.  
Conference Room 016, State Capitol**

**RE: SENATE BILL 3082 RELATING TO TAXATION**

Chair Dela Cruz, Vice Chair Slom, and Members of the Committee:

Roger Epstein **strongly supports** SB 3082 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. I 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.

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

**ALAN S. HAYASHI**

207-4 Kawaihae Street  
Honolulu, Hawaii

**Testimony to the Senate Committee on Economic Development, Government  
Operations and Housing  
Monday, February 10, 2014 at 2:45 P.M.  
Conference Room 016, State Capitol**

**RE: SENATE BILL 3082 RELATING TO TAXATION**

Chair Dela Cruz, Vice Chair Slom, and Members of the Committee:

Alan Hayashi **strongly supports** SB 3082 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.

Alan S. Hayashi  
207-4 Kawaihae Street  
Honolulu, Hawaii 96825