
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 with the recent
2 economic turmoil and recovering economy, it is important for
3 Hawaii to diversify its economy. A more diversified economy
4 would lead to more stability, as an over-reliance on the tourism
5 industry and federal money leaves the State more vulnerable when
6 those sources are no longer robust.

7 One possible area for development and expansion in Hawaii
8 is manufacturing. Only 2.2 per cent of those employed in the
9 State are in the manufacturing industry - the lowest percentage
10 in the country. A larger-scale manufacturing industry would
11 lead to: an increase in jobs; a larger number of exportable
12 goods, which in turn leads to more money coming into the State;
13 and a boost in other sectors of the economy as well. Every
14 dollar in manufacturing sales supports \$1.34 in output in other
15 sectors that is added to the economy. This is the highest
16 multiplier of any sector.

17 The purpose of this Act is to promote and support
18 manufacturing in Hawaii by establishing a temporary income tax



1 credit for taxpayers who incur expenses for manufacturing
2 products in Hawaii.

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

6 "§235- Manufacturing tax credit. (a) There shall be
7 allowed to each taxpayer subject to the tax imposed by this
8 chapter, an income tax credit, which shall be deductible from
9 the taxpayer's net income tax liability, if any, imposed by this
10 chapter for the taxable year in which the credit is properly
11 claimed, provided that the taxpayer has operated in the State
12 and manufactured tangible personal property in the State for not
13 less than one year prior to claiming the credit.

14 (b) The amount of the credit shall be twenty per cent of
15 the qualified manufacturing costs incurred during the taxable
16 year; provided that the taxpayer's qualified manufacturing costs
17 for the taxable year are at least \$50,000 and the total credit
18 claimed per taxpayer shall not exceed \$200,000.

19 In the case of a partnership, S corporation, estate, or
20 trust, the tax credit allowable is for qualified manufacturing
21 costs incurred by the entity for the taxable year. The cost



1 upon which the tax credit is computed shall be determined at the
2 entity level. Distribution and share of credit shall be
3 determined by section 704 of the Internal Revenue Code.

4 If a deduction is taken under section 179 (with respect to
5 election to expense certain depreciable business assets) of the
6 Internal Revenue Code, no tax credit shall be allowed for those
7 costs for which the deduction is taken.

8 The basis of eligible property for depreciation or
9 accelerated cost recovery system purposes for state income taxes
10 shall be reduced by the amount of credit allowable and claimed.

11 (c) If the tax credit under this section exceeds the
12 taxpayer's income tax liability, the excess of the tax credit
13 over liability may be used as a credit against the taxpayer's
14 income tax liability in subsequent years until exhausted. Every
15 claim, including amended claims, for a tax credit under this
16 section shall be filed on or before the end of the twelfth month
17 following the close of the taxable year for which the credit may
18 be claimed. Failure to comply with the foregoing provision
19 shall constitute a waiver of the right to claim the credit.

20 (d) The director of taxation:



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

3 (2) May require the taxpayer to furnish information to
4 ascertain the validity of the claim for credit made
5 under this section; and

6 (3) May adopt rules pursuant to chapter 91 to effectuate
7 the purposes of this section.

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

10 (1) Maintain records of the total amount of qualified
11 manufacturing costs for each taxpayer claiming a
12 credit;

13 (2) Verify the amount of the qualified manufacturing costs
14 claimed;

15 (3) Total all qualified manufacturing costs claimed; and

16 (4) Certify the total amount of the tax credit for each
17 taxable year.

18 Upon each determination, the department of business,
19 economic development, and tourism shall issue a certificate to
20 the taxpayer verifying the qualified manufacturing costs and the
21 credit amount certified for each taxable year.



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

7 (f) The credit received under this section is subject to
8 recapture if the property or manufacturing business for which
9 the tax credit was received is disposed of, or converted to,
10 other than business use. The amount of the credit subject to
11 recapture is one hundred per cent of the credit in the first
12 year and fifty per cent of the credit on the second year. This
13 subsection shall not apply in cases on which an entire facility
14 is sold.

15 (g) As used in this section:

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

18 "Qualified manufacturing costs" means expenditures for:

19 (1) Costs incurred to purchase equipment or buildings to
20 be used by the taxpayer in manufacturing tangible
21 personal property in the State and which is placed in



1 service within one year after the date of purchase;
2 provided that the credit under this section has not
3 been previously claimed by any taxpayer in the State
4 on the equipment; and provided further that these
5 costs shall not include vehicles or land on which a
6 qualified building is constructed; and
7 (2) Costs incurred to train employees to manufacture
8 tangible personal property in the State;
9 provided that "qualified manufacturing costs" does not include
10 any costs related to the production of electricity or for which
11 another credit is claimed under this chapter."

12 SECTION 3. There is appropriated out of the general
13 revenues of the State of Hawaii the sum of \$250,000 or so much
14 thereof as may be necessary for fiscal year 2016-2017 for
15 certification of claims for the tax credit established by this
16 Act.

17 The sum appropriated shall be expended by the department of
18 business, economic development, and tourism for the purposes of
19 this Act.

20 SECTION 4. New statutory material is underscored.



1 SECTION 5. This Act shall take effect upon approval;
2 provided that:

3 (1) Section 2 shall apply to taxable years beginning after
4 December 31, 2015;

5 (2) Section 3 shall take effect on July 1, 2016; and

6 (3) This Act shall be repealed on January 1, 2024.
7

INTRODUCED BY:





JAN 23 2015



H.B. NO. 634

Report Title:

Manufacturing Tax Credit; Appropriation

Description:

Establishes an income tax credit for taxpayers who incur certain expenses for manufacturing products in Hawaii. Appropriates funds for DBEDT to certify claims for the tax credit. Effective upon approval, with appropriation effective 7/1/16 and tax credit applicable to taxable years after 12/31/15. Repeals 1/1/2024.

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

