

STAND. COM. REP. NO.

237

Honolulu, Hawaii

February 17, 2015

RE: H.B. No. 1454

H.D. 1

Honorable Joseph M. Souki
Speaker, House of Representatives
Twenty-Eighth State Legislature
Regular Session of 2015
State of Hawaii

Sir:

Your Committee on Economic Development & Business, to which was referred H.B. No. 1454 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 Chamber of Commerce of Hawaii, Hawaii Food Industry Association, KYD, Inc. dba: K. Yamada Distributors, and Meadow Gold Dairies, Hawaii Farm Bureau, and a concerned individual testified in support of this bill. The Department of Business, Economic Development, and Tourism (DBEDT) and High Technology Development Center testified in support of the intent of this measure. 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 90 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

HB1454 HD1 HSCR EDB HMS 2015-1674



consumer products. Second, exporting more products made in-state could lead to greater economic development.

According to the Chamber of Commerce of Hawaii, Hawaii has over 1,000 active manufacturers employing approximately 17,000 workers. Hawaii's manufacturing industry contributes to the economy by exporting manufactured goods. 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.

However, your Committee understands the concerns raised by the Department of Taxation regarding the broad definition of "qualified manufacturing costs". Your Committee also understands the concerns raised by DBEDT that it currently lacks the ability to verify the amount of the qualified manufacturing costs claimed as required under this measure. Accordingly, your Committee has amended this measure by:

- (1) Stipulating that qualified manufacturing costs eligible for the tax credit qualify for a deduction under section 167 (with respect to depreciation) of the Internal Revenue Code, as amended;
- (2) Stipulating that qualified manufacturing costs do not include any costs related to the production of electricity;
- (3) Stipulating that DBEDT obtain information on self-verified qualified manufacturing costs claimed rather than verifying the amount claimed;
- (4) Requiring that equipment eligible for the tax credit be placed in service within one year after the date of purchase;
- (5) Prohibiting equipment from qualifying for the manufacturing tax credit if it has been previously claimed by any taxpayer in this State for the tax credit; and
- (6) Specifying that costs incurred to train employees to manufacture tangible personal property that are eligible for the tax credit be reasonable and necessary and do not include professional and personal services.



Technical, nonsubstantive amendments were also made for purposes of clarity, consistency, and style.

Finally, your Committee realizes that this bill is a work in progress. However, your Committee finds that it is in the best interest of the State that accurate and relevant information be obtained in order to determine the effectiveness of this tax credit. Accordingly, your Committee suggests that all interested parties work together to determine what constitutes the minimum information necessary for certification to evaluate the effectiveness of the credit and present any amendments determined to be necessary to future committees as this measure continues through the legislative process. Furthermore, your Committee also suggests that when determining minimum informational requirements, all interested parties consider the applicability of consent waivers with respect to confidential information.

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. 1454, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 1454, 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,



DEREK S.K. KAWAKAMI, Chair



