

JAN 25 2017

A BILL FOR AN ACT

RELATING TO INCOME TAX BENEFITS FOR SEAWATER AIR CONDITIONING.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature finds that seawater air
2 conditioning is a cost-effective way to help reduce the high
3 cost of cooling large commercial buildings. Seawater air
4 conditioning is a technology that uses cold, deep, seawater that
5 is pumped from deep offshore to a cooling station located near
6 buildings. The cold seawater at the cooling station chills
7 fresh water which is then pumped to buildings that use the
8 chilled water for cooling. The slightly warmed seawater is
9 returned to the ocean at a level where it matches the ambient
10 temperature of the surrounding waters.

11 The legislature further finds that the ocean coastline
12 provides access to naturally cold water that is as cold as or
13 colder than the water used in conventional air conditioning
14 systems. If this water can be tapped, then the significant
15 electrical power requirements for operating mechanical chillers
16 can be eliminated. This process reduces:



- 1 (1) Electrical usage significantly with a renewable
- 2 resource;
- 3 (2) Ozone-depleting chlorofluorocarbon refrigerants; and
- 4 (3) Reliance on fossil fuels and emission of green house
- 5 gases.

6 The legislature further finds that seawater air
7 conditioning benefits consumers by:

- 8 (1) Providing price-competitive service with stable energy
- 9 costs;
- 10 (2) Keeping fuel dollars in the local economy;
- 11 (3) Eliminating the need for chillers and cooling towers;
- 12 (4) Saving space in the mechanical room of buildings;
- 13 (5) Eliminates the burning of oil to produce energy; and
- 14 (6) Provides a model of sustainability that is built to
- 15 operate for seventy-five to one hundred years.

16 The legislature additionally finds that traditional air
17 conditioning systems require barrels of oil and
18 gallons of potable water per year to chill one large building.
19 Seawater air conditioning systems would reduce electricity
20 consumption by twenty to thirty per cent and would reduce



1 potable water consumption by per cent to chill one large
2 building.

3 Seawater air conditioning can help cool large commercial
4 buildings, especially in downtown Honolulu, can reduce Hawaii's
5 dependence on fossil fuels, and help the State meet its one
6 hundred per center renewable energy goal by 2045.

7 The legislature finds that constructing a seawater air
8 conditioning system is expensive. A project of this magnitude
9 requires private investment capital. The legislature further
10 finds that incentives are needed to encourage private businesses
11 to purchase chilled seawater for their air conditioning systems
12 and to incentivize private investors to invest in seawater air
13 conditioning systems. Special purpose revenue bonds are one
14 means of assisting private enterprise financially. Another
15 means is to offer tax benefits for users and investors through
16 tax credits.

17 The purpose of this Act is to create a tax credit to:

- 18 (1) Encourage private businesses to purchase chilled
19 seawater for use in seawater air conditioning systems;
20 and



1 (2) Incentivize private investment in seawater air
2 conditioning systems.

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-A Seawater air conditioning system income tax
7 credit; purchase costs. (a) For taxable years ending before
8 January 1, , each taxpayer who files an income tax return
9 for a taxable year, may claim a seawater air conditioning system
10 income tax credit under this section against their net income
11 tax liability. The tax credit may be claimed for the actual
12 cost of purchasing chilled water that is to be used by an air
13 conditioning system. The tax credit may be claimed in an amount
14 not to exceed twenty per cent of the actual cost of the purchase
15 of the chilled water for an air conditioning system that
16 utilizes seawater for cooling purposes. The credit shall be
17 claimed against any net income tax liability for the taxable
18 year in which the chilled water is purchased.

19 (b) Tax credits which exceed the taxpayer's income tax
20 liability may be used as a credit against the taxpayer's income
21 tax liability in subsequent years until exhausted.



1 (c) Tax credits shall apply only to the actual cost of the
2 purchase of chilled water that is to be used in an air
3 conditioning system, and shall not include the cost of consumer
4 incentive premiums unrelated to the operation of the air
5 conditioning system or offered with the sale of electricity
6 produced therefrom.

7 (d) In the case of multiple tenants in a building in which
8 the owner of the building or other entity purchases the chilled
9 water for use in an air conditioning system, the owner of the
10 building may claim a tax credit in an amount not to exceed
11 \$ for each taxable year.

12 (e) In the case of multiple tenants in a building in which
13 each tenant purchases chilled water for use in an air
14 conditioning system, each tenant may claim a tax credit in an
15 amount not to exceed \$ for each taxable year.

16 (f) The director of taxation shall prepare such forms as
17 may be necessary to claim a credit under this section. The
18 director may also require the taxpayer to furnish reasonable
19 information to ascertain the validity of the claim for credit
20 made under this section and may adopt rules necessary to
21 effectuate the purposes of this section pursuant to chapter 91.



1 (g) For purposes of this section, "air conditioning
2 system" means a technology that uses cold, deep, seawater that
3 is pumped from deep offshore to a cooling station to chill fresh
4 water which is then used for cooling."

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

8 **"§235-B Seawater air conditioning system investment tax**
9 **credit.** (a) There shall be allowed to each taxpayer subject to
10 the taxes imposed by this chapter a seawater air conditioning
11 system investment tax credit that shall be deductible from the
12 taxpayer's net income tax liability, if any, imposed by this
13 chapter for the taxable year in which the investment was made
14 and the following four years provided the credit is properly
15 claimed. The amount of the income tax credit shall be twenty
16 per cent of the investment made by the taxpayer in each seawater
17 air conditioning system business up to a maximum amount of
18 \$ _____ per investment.

19 (b) If the tax credit under this section exceeds the
20 taxpayer's net income tax liability, the excess of the credit
21 over liability shall be refunded to the taxpayer; provided that



1 no refund on account of the tax credit allowed by this section
2 shall be made for amounts less than \$1.

3 (c) If at the close of any taxable year in the five-year
4 period in subsection (a):

5 (1) The qualified seawater air conditioning system
6 business no longer qualifies as a seawater air
7 conditioning system business; or

8 (2) The qualified seawater air conditioning system
9 business or an interest in the business has been sold
10 or withdrawn by the taxpayer;

11 the credit claimed under this section shall be recaptured. The
12 amount of the credit recaptured shall apply only to the
13 investment in the particular qualified seawater air conditioning
14 system business that meets the requirements of paragraphs (1) or
15 (2). The amount of the recaptured tax credit determined shall
16 be added to the taxpayer's tax liability for the taxable year in
17 which the recapture occurs under this subsection.

18 (d) Every taxpayer claiming a tax credit under this
19 section, shall submit a written, certified statement to the
20 director of taxation specifically identifying the qualified
21 seawater air conditioning system business.



- 1 (e) The department shall:
- 2 (1) Maintain records of the names and addresses of the
- 3 taxpayers claiming the credits under this section and
- 4 the total amount of the qualified investment costs
- 5 upon which the tax credit is based;
- 6 (2) Verify the nature and amount of the qualifying
- 7 investments; and
- 8 (3) Total all qualifying and cumulative investments that
- 9 the department certifies.

10 Upon each determination made under this subsection, the
11 department shall issue a certificate to the taxpayer verifying
12 information submitted to the department, including qualifying
13 investment amounts, the credit amount certified for the taxable
14 year, and the cumulative amount of the tax credit during the
15 credit period. The taxpayer shall file the certificate with the
16 taxpayer's tax return with the department.

17 The director of taxation may assess and collect a fee to
18 offset the costs of certifying tax credits claims under this
19 section. All fees collected under this section shall be
20 deposited into the tax administration special fund established
21 under section 235-20.5.



1 (f) As used in this section:

2 "Qualified seawater air conditioning system business" means
3 a business, employing or owning capital or property, or
4 maintaining an office, in this State to produce or provide
5 seawater air conditioning systems; provided that more than
6 seventy-five per cent of its gross income is derived from
7 producing or providing seawater air conditioning system;
8 provided further that this income is received from:

9 (1) Producing or providing seawater air conditioning
10 systems sold from, manufactured in, or produced in
11 this State; or

12 (2) Related services performed in this State.

13 "Seawater air conditioning system" has the same meaning as
14 in section 235-A."

15 SECTION 4. Section 235-20.5, Hawaii Revised Statutes, is
16 amended by amending subsection (a) to read as follows:

17 "(a) There is established a tax administration special
18 fund, into which shall be deposited:

19 (1) Fees collected under sections 235-20, 235-110.9,
20 [and], 235-110.91[+], and 235-B;



- 1 (2) Revenues collected by the special enforcement section
- 2 pursuant to section 231-85; provided that in each
- 3 fiscal year, of the total revenues collected by the
- 4 special enforcement section, all revenues in excess of
- 5 \$700,000 shall be deposited into the general fund; and
- 6 (3) Fines assessed pursuant to section 237D-4."

7 SECTION 5. In codifying the new statutory sections in this
 8 Act, the revisor of statutes shall substitute appropriate
 9 section numbers for the letters used in this Act.

10 SECTION 6. Statutory material to be repealed is bracketed
 11 and stricken. New statutory material is underscored.

12 SECTION 7. This Act shall take effect upon its approval;
 13 provided that section 2 shall apply to taxable years beginning
 14 after ; provided further that section 3 of this Act
 15 shall apply to taxable years beginning after , for
 16 investments made on or after the effective date of this Act.

17

Mike Gabb
Will Z...

INTRODUCED BY: *[Signature]*

Thomas [Signature]
Breene [Signature]
DC [Signature]

S.B. NO. 1056

Report Title:

Seawater Air Conditioning; Investment; Tax Credit

Description:

Encourages purchase of chilled water for use in an air conditioning system and investment in seawater air conditioning systems by providing tax credits.

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

