
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.



1 The purpose of this Act is to promote and support
2 manufacturing in Hawaii by establishing a temporary income tax
3 credit for taxpayers who incur expenses for manufacturing
4 products in Hawaii.

5 SECTION 2. 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- Manufacturing tax credit. (a) There shall be
9 allowed to each taxpayer subject to the tax imposed by this
10 chapter, an income tax credit, which shall be deductible from
11 the taxpayer's net income tax liability, if any, imposed by this
12 chapter for the taxable year in which the credit is properly
13 claimed, provided that the taxpayer has operated in the State
14 and manufactured tangible personal property in the State for not
15 less than one year prior to claiming the credit.

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



1 In the case of a partnership, S corporation, estate, or
2 trust, the tax credit allowable is for qualified manufacturing
3 costs incurred by the entity for the taxable year. The cost
4 upon which the tax credit is computed shall be determined at the
5 entity level. Distribution and share of credit shall be
6 determined by section 704 of the Internal Revenue Code.

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

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

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



1 be claimed. Failure to comply with the foregoing provision
2 shall constitute a waiver of the right to claim the credit.

3 (d) The director of taxation:

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

6 (2) May require the taxpayer to furnish information to
7 ascertain the validity of the claim for credit made
8 under this section; and

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

11 (e) The department of business, economic development, and
12 tourism shall:

13 (1) Maintain records of the total amount of qualified
14 manufacturing costs for each taxpayer claiming a
15 credit;

16 (2) Verify the amount of the qualified manufacturing costs
17 claimed;

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

19 (4) Certify the total amount of the tax credit for each
20 taxable year.



1 Upon each determination, the department of business,
2 economic development, and tourism shall issue a certificate to
3 the taxpayer verifying the qualified manufacturing costs and the
4 credit amount certified for each taxable year.

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

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

19 (g) As used in this section:

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



1 "Qualified manufacturing costs" means expenditures for:

2 (1) Costs incurred to purchase equipment or buildings to
3 be used by the taxpayer in manufacturing tangible
4 personal property in the State and which is placed in
5 service within one year after the date of purchase;
6 provided that the credit under this section has not
7 been previously claimed by any taxpayer in the State
8 on the equipment; and provided further that these
9 costs shall not include vehicles or land on which a
10 qualified building is constructed; and

11 (2) Costs incurred to train employees to manufacture
12 tangible personal property in the State;
13 provided that "qualified manufacturing costs" does not include
14 any costs related to the production of electricity or for which
15 another credit is claimed under this chapter."

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



1 The sum appropriated shall be expended by the department of
2 business, economic development, and tourism for the purposes of
3 this Act.

4 SECTION 4. New statutory material is underscored.

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

7 (1) Section 2 shall apply to taxable years beginning after
8 December 31, 2020;

9 (2) Section 3 shall take effect on July 1, 2021; and

10 (3) This Act shall be repealed on January 1, 2029.

11

INTRODUCED BY:



JAN 17 2020



H.B. NO. 2080

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.

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