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# A BILL FOR AN ACT

RELATING TO ECONOMIC DEVELOPMENT.

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

1           SECTION 1. The legislature finds that job growth in the  
2 Kapolei region is a matter of community and state concern that  
3 affects employers and employees alike as households continue to  
4 outgrow the number of employment opportunities in the region.  
5 According to estimates from the department of planning and  
6 permitting of the city and county of Honolulu and from  
7 Permitting and Splash Econ Pacific LLC, there were 34,341  
8 households in the Kapolei region, with a total population of  
9 approximately 107,234 in 2015. These numbers are expected to  
10 increase to 56,344 households and a population of 164,556 by  
11 2035. This expansion in the number of households and the  
12 concomitant increase in population will create additional needs  
13 within the Kapolei region, including increased needs for goods  
14 and professional services. Without additional job growth and  
15 business opportunities for the people living in West Oahu, this  
16 population growth will result in increased traffic congestion



1 for residents of West Oahu as many will need to continue  
2 commuting to downtown Honolulu for work.

3 The legislature further finds that the state enterprise  
4 zone program is restrictive and participation has been  
5 relatively low, particularly in the Leeward enterprise zone.

6 The purpose of this Act is to establish a temporary Kapolei  
7 jobs initiative tax credit to increase the number of jobs in  
8 Kapolei by creating incentives for businesses to establish  
9 themselves or open new locations in the Kapolei region.

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

13 "§235- Kapolei jobs initiative tax credit. (a) There  
14 shall be allowed to each qualified business subject to the tax  
15 imposed by this chapter, a Kapolei jobs initiative tax credit,  
16 which shall be deductible from the taxpayer's net income tax  
17 liability, if any, imposed by this chapter for the taxable year  
18 in which the credit is properly claimed; provided that no more  
19 than twenty new qualified businesses may receive the credit per  
20 calendar year; provided further that no qualified business shall  
21 receive the credit after December 31, 2023.



- 1        (b) The amount of the tax credit shall:
- 2        (1) Include a percentage of any tax imposed by this  
3        chapter, as follows:
- 4            (A) For the first year, eighty per cent;  
5            (B) For the second year, seventy per cent;  
6            (C) For the third year, sixty per cent;  
7            (D) For the fourth year, fifty per cent; and  
8            (E) For the fifth year, forty per cent; and
- 9        (2) Include a percentage of the amount of unemployment  
10        insurance accrued and paid by an employer under  
11        chapter 383 as follows:
- 12            (A) For the first year, eighty per cent;  
13            (B) For the second year, seventy per cent;  
14            (C) For the third year, sixty per cent;  
15            (D) For the fourth year, fifty per cent; and  
16            (E) For the fifth year, forty per cent.
- 17        (c) Any qualified business having taxable income from an  
18        establishment's business activity within and without the  
19        designated geographic area shall allocate and apportion its  
20        taxable income attributable to the conduct of business. Tax  
21        credits provided for in this section shall only apply to taxable



1 income of a qualified business attributable to the conduct of  
2 business within the designated geographic area.

3 (d) All claims for a tax credit under this section,  
4 including amended claims, shall be filed on or before the end of  
5 the twelfth month following the close of the taxable year for  
6 which the tax credit may be claimed. Failure to comply with the  
7 foregoing provision shall constitute a waiver of the right to  
8 claim the tax credit.

9 (e) In the case of a partnership, S corporation, estate,  
10 or trust, the tax credit allowable is for the costs of a  
11 qualified business incurred to participate in the Kapolei jobs  
12 initiative for the taxable year. The cost upon which the tax  
13 credit is computed shall be determined at the entity level.  
14 Distribution and share of the tax credit shall be determined  
15 pursuant to section 704(b) (with respect to partner's  
16 distributive share) of the Internal Revenue Code.

17 (f) To receive the tax credit, the qualified business  
18 shall first prequalify for the credit by registering with the  
19 department of business, economic development, and tourism during  
20 the stage of business development in the designated geographic



1 area. Failure to comply with this provision may constitute a  
2 waiver of the right to claim the credit.

3 (g) No later than ninety days following the end of each  
4 taxable year in which business costs were expended and in which  
5 the tax credit can be claimed, every qualified business claiming  
6 a tax credit under this section shall submit a written, sworn  
7 statement to the department of business, economic development,  
8 and tourism identifying:

9 (1) Total expenditures incurred in the Kapolei jobs  
10 initiative and amount of expenditures applicable to  
11 the tax credit expended in the previous taxable year,  
12 if any;

13 (2) The amount of tax credits claimed pursuant to this  
14 section, if any, and the amount of total taxes paid,  
15 if any, in the previous taxable year;

16 (3) The amount of unemployment insurance accrued and paid  
17 by the qualified business in the previous taxable  
18 year;

19 (4) Hawaii employment and wage data, including the numbers  
20 of full-time and part-time employees retained, wages  
21 for each position, new jobs, temporary positions,



1 external services procured by the qualified business,  
2 and payroll taxes; and  
3 (5) Any other factors the department of business, economic  
4 development, and tourism deems relevant.

5 The above information may be reported from the department of  
6 business, economic development, and tourism to the legislature  
7 in redacted form pursuant to subsection (h) (4). The department  
8 of business, economic development, and tourism may request any  
9 additional information necessary to measure the effectiveness of  
10 the tax credit.

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

- 13 (1) Maintain records of the names of the qualified  
14 businesses claiming the tax credits;  
15 (2) Obtain and total the aggregate amounts of expenditures  
16 from all qualified businesses per taxable year;  
17 (3) Provide a letter to the director of taxation  
18 certifying the amount of the tax credit per qualified  
19 business for each taxable year that a tax credit is  
20 claimed and specifying the cumulative amount of the  
21 tax credit for all years claimed; and



1       (4) Submit a report to the legislature no later than  
2       twenty days prior to the convening of each regular  
3       session detailing the non-aggregated expenditures of  
4       qualified businesses that form the basis of the tax  
5       credit, itemized by qualified business, in a redacted  
6       format to preserve the confidentiality of the  
7       qualified businesses claiming the credit.

8       (i) The director of taxation shall prepare any forms that  
9       may be necessary to claim a credit under this section. The  
10       director of taxation may also require the taxpayer to furnish  
11       information to ascertain the validity of the claim for the tax  
12       credit made under this section and may adopt rules necessary to  
13       effectuate the purposes of this section pursuant to chapter 91.

14       (j) For the purposes of this section:

15       "Designated geographic area" means the regions represented  
16       by the zip codes of 96706 and 96707.

17       "Establishment" means a single physical location where  
18       business is conducted; provided that a business may include one  
19       or more establishments.

20       "Full-time employee" means any employee, including a leased  
21       employee and an employee under a joint employment arrangement,



1 for whom the employer is legally required to provide employee  
2 fringe benefits.

3 "Net income tax liability" means net income tax liability  
4 reduced by all other credits allowed under this chapter.

5 "Qualified business" means a business that:

- 6 (1) Establishes a new location within the designated  
7 geographic area or is already in existence in the  
8 designated geographic area and opens an additional  
9 location within the designated geographic area  
10 resulting in the net gain of at least one additional  
11 location for the business;
- 12 (2) If opening a new location within the designated  
13 geographic area, has a minimum of ten full-time  
14 employees working at the establishment in the  
15 designated geographic area; or, if already established  
16 in the designated geographic area and expanding or  
17 building a new establishment in the same area, has a  
18 net gain of ten full-time employees;
- 19 (3) Provides a gross annual salary of \$73,000 or more to  
20 each of at least half of its employees at the  
21 establishment in the designated geographic area;



1       (4) Earns at least half of its gross annual revenue from  
2           its establishment in the designated geographic area;  
3           and  
4       (5) Is not participating in the state enterprise zone  
5           program pursuant to chapter 209E;  
6       provided that a retail sales business shall not be a qualified  
7       business unless more than fifty per cent of its annual sales are  
8       to Hawaii general excise tax licensees."

9           SECTION 3. New statutory material is underscored.

10          SECTION 4. This Act shall take effect on July 1, 2112, and  
11 shall apply to taxable years beginning after December 31, 2018;  
12 provided that section 2 shall be repealed on December 31, 2028.



**Report Title:**

Kapolei Jobs Initiative Tax Credit; Qualified Business; DOTAX

**Description:**

Establishes a temporary Kapolei jobs initiative tax credit that offers incentives to increase the number of businesses willing to establish themselves or open new locations in the Kapolei region. For taxable years beginning after 12/31/2018. Effective 7/1/2112. (SD2)

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

