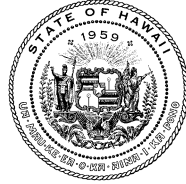


DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



RONA M. SUZUKI
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
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To: The Honorable Angus L.K. McKelvey, Chair;
The Honorable Lisa Kitagawa, Vice Chair;
and Members of the House Committee on Economic Development & Business

From: Rona M. Suzuki, Director
Department of Taxation

Re: H.B. 2080, Relating to Taxation

Date: Friday, January 31, 2020

Time: 9:30 A.M.

Place: Conference Room 309, State Capitol

The Department of Taxation (Department) offers the following comments on H.B. 2080. This measure seeks to incentivize Hawaii's manufacturing industry by creating a new refundable income tax credit for qualified manufacturing costs incurred during a taxable year. The credit is equal to twenty percent of a taxpayer's qualified manufacturing costs, as long as those qualified manufacturing costs are at least \$50,000, and capped at \$200,000 per taxpayer.

"Qualified manufacturing costs" is defined as expenditures incurred to purchase equipment or buildings to be used by the taxpayer in manufacturing tangible personal property in the State, or costs incurred to train employees to manufacture tangible personal property in the State. The equipment must be placed in service within one year of purchase to qualify; vehicles, land, and electricity production are all prohibited from being included as costs. The measure directs the Department of Business, Economic Development, and Tourism (DBEDT) to certify the credit and appropriates funds for it to do so. The new tax credit applies to taxable years beginning after December 31, 2020 and repeals on January 1, 2029.

The Department defers to DBEDT on the economic development merits of the proposal and its ability to certify the credit, but requests that the certification provision be maintained. The Department does not have the knowledge or expertise necessary to certify this credit.

The \$200,000 per taxpayer cap, as proposed, may not limit the credit as expected. For example, partners in a partnership could claim the credit separately and each get the maximum \$200,000 credit. The Department suggests amending the cap to apply per tax map key number or the like so that each manufacturing facility will only receive one credit, and would allow a taxpayer who opens multiple manufacturing facilities to claim more than one credit.

The Department notes that the definition of "qualified manufacturing costs" is quite broad and ambiguous. As currently written, the credit amount may be based on expenses for the purchase of any and all equipment and buildings used in manufacturing, however tangentially related to the actual manufacturing process, as long as the costs do not include expenses for land, vehicles, or

electricity production. There are also no restrictions on the type of employee training expenses which may qualify. The Department suggests being more specific as to the expenses that should qualify for the credit.

Finally, the Department is able to administer this new credit for taxable years beginning after December 31, 2020.

Thank you for the opportunity to provide comments.



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

DAVID Y. IGE
GOVERNOR

MIKE MCCARTNEY
DIRECTOR

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813
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Statement of
Mike McCartney
Director
Department of Business, Economic Development and Tourism
before the
HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS
Friday, January 31, 2020
9:30 AM
State Capitol, Conference Room 309

In consideration of
HB 2080
RELATING TO TAXATION

Chair McKelvey, Vice Chair Kitagawa and members of the House Committee on Economic Development and Business.

The Department of Business, Economic Development and Tourism (DBEDT) appreciates the intent and provides the following comments for HB2080, which would establish an income tax credit for taxpayers who incur certain expenses for manufacturing products in Hawaii and appropriates funds to DBEDT to certify the claims.

DBEDT supports growing our manufacturing sector in Hawaii. In order to certify qualifying manufacturing costs and determine the credit amount, DBEDT would need funding as specified in Section 3 in order to implement this program. We support this bill provided that its passage does not replace or adversely impact priorities indicated in our Executive Budget.

Section 3 references fiscal year 2016-2017, which should be corrected.

We defer to the Departments of Taxation and Budget and Finance for the fiscal impact of this measure.

Thank you for the opportunity to offer these comments.



Written Statement of
Len Higashi
Acting Executive Director
Hawaii Technology Development Corporation
before the
House Committee on Economic Development and Business
Friday, January 31, 2020
9:30 a.m.
State Capitol, Conference Room 309

In consideration of
HB2080
RELATING TO TAXATION.

Chair McKelvey, Vice Chair Kitagawa, and Members of the Committee.

The Hawaii Technology Development Corporation (HTDC) offers **comments** on HB2080 that establishes an income tax credit for taxpayers who incur certain expenses for manufacturing products in Hawaii.

As part of HTDC's vision to create 80,000 new innovation jobs in Hawaii earning \$80,000 or more by 2030, HTDC supports initiatives aimed at growing Hawaii's manufacturing sector. HTDC's federally funded Innovate Hawaii program provides direct assistance to Hawaii manufacturers. In addition, since 2016, Innovate Hawaii has administered the state Manufacturing Assistance Program providing matching grants to Hawaii manufacturers for qualifying expenses. HTDC suggests that clarifying language may prevent duplicative incentives. HTDC prefers grant programs over tax credits to ensure the economic development objectives are aligned with awards. However, every year there are more qualified applicants than available funds. A tax credit policy could offer a broader reach. HTDC believes tax credits can be an effective component of a comprehensive economic development plan. The wrap around support services that Innovate Hawaii provides for the Manufacturing Assistance Program are equally important. HTDC defers to DBEDT regarding administration of the program.

Thank you for the opportunity to offer these comments.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Manufacturing Tax Credit

BILL NUMBER: HB 2080

INTRODUCED BY: WARD

EXECUTIVE SUMMARY: Establishes a nonrefundable 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.

SYNOPSIS: Adds a new section to chapter 235, HRS, to establish a nonrefundable manufacturing tax credit. The amount of the credit shall be twenty per cent of the qualified manufacturing costs incurred during the taxable year; provided that the taxpayer's qualified manufacturing costs for the taxable year are at least \$50,000 and the total credit claimed per taxpayer shall not exceed \$200,000. The taxpayer must have operated in the State and manufactured tangible personal property in the State for not less than one year prior to claiming the credit.

Defines "qualified manufacturing costs" as expenditures for:

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

(2) Costs incurred to train employees to manufacture tangible personal property in the State; provided that "qualified manufacturing costs" does not include any costs related to the production of electricity or for which another credit is claimed under the Income Tax Law.

For a partnership, S corporation, estate, or trust, the cost upon which the credit is computed shall be determined at the entity level and the distribution and share of the tax credit shall be determined pursuant to section 704(b) of the Internal Revenue Code.

The basis of eligible property for depreciation or accelerated cost recovery system purposes for state income taxes shall be reduced by the amount of credit allowable and claimed. If a deduction is taken under section 179 (with respect to election to expense certain depreciable business assets) of the Internal Revenue Code, no tax credit shall be allowed for those costs for which the deduction is taken.

Requires the director of taxation to prepare any forms necessary to claim a credit, may require a taxpayer to furnish reasonable information to validate a claim for the credit and adopt rules pursuant to HRS chapter 91. Requires claims for the credit, including any amended claims, to be

filed on or before the end of the twelfth month following the taxable year for which the credit is claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim the tax credit.

Provides that the credit received is subject to recapture if the property or manufacturing business for which the tax credit was received is disposed of, or converted to, other than business use. The amount of the credit subject to recapture is one hundred per cent of the credit in the first year and fifty per cent of the credit in the second year. Recapture does not apply when an entire facility is sold.

Requires DBEDT to (1) maintain records of the total amount of qualified manufacturing costs for each taxpayer claiming a credit; (2) verify the amount of the qualified manufacturing costs claimed; (3) total all qualified manufacturing costs claimed; and (4) certify the total amount of the tax credit for each taxable year.

EFFECTIVE DATE: The credit shall apply to taxable years beginning after 12/31/2020. The Act is repealed on 1/1/2029.

STAFF COMMENTS: Utilizing tax credits to drive economic policy in this manner is of a questionable benefit relative to the cost for all taxpayers. A direct appropriation of grant funding to producers would be more accountable and transparent. At least we would know the amount of the appropriation, while the fiscal impact of the credit would be a great big question mark.

Furthermore, the additional credit would require changes to tax forms and instructions, reprogramming, staff training, and other costs that could be massive in amount compared to the benefit expected to accrue because of the creditable activity.

Digested 1/28/2020

HB-2080

Submitted on: 1/30/2020 8:27:47 AM

Testimony for EDB on 1/31/2020 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Hermann Kugeler	Makai Ocean Engineering, Inc.	Support	No

Comments:

Makai Ocean Engineering, Inc. **STRONGLY SUPPORTS HB2080**. Makai has historically been an engineering services provider, but has now diversified into low-volume manufacturing. Makai has been involved in marine-related engineering in Hawaii for over 45 years, and recently began a heat exchanger R&D program. Now, we are ramping up production a small manufacturing plant for heat exchangers on the Big Island of Hawaii, which is sustaining approximately 8 highly-skilled, high-paying STEM / engineering jobs in rural Kona. We have a strategic advantage for developing and manufacturing low-volumes of these components in Hawaii for two reasons: the U.S. Navy and Air Force's presence in Hawaii, and Makai already owns and operates a marine heat exchanger test facility and marine corrosion lab on the Big Island. As an example, Makai was recently awarded a contract to design a new heat exchanger for the U.S. Air Force's next generation aircraft, including the new F-35 fighter jet, and we hope to be manufacturing units over the coming years.

Because this is a tax credit, a manufacturer is eligible only if they are already making an investment in the local community and providing jobs. The program amplifies these efforts, and shows the State's support for local manufacturers willing to make the investment and commitment to adding jobs, and growing their businesses and the industry in Hawaii.



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Beau Oshiro, C&S Wholesale Grocers, *Advisor*
Toby Taniguchi, KTA Superstores, *Advisor*

TO:
Committee on Economic Development and Business
Rep. Angus L.K. McKelvey, Chair
Rep. Lisa Kitagawa, Vice Chair

FROM: HAWAII FOOD INDUSTRY ASSOCIATION
Lauren Zirbel, Executive Director

DATE: January 31, 2020
TIME: 9:30am
PLACE: Conference Room

RE: HB2080 Relating to Taxation

Position: Support

The Hawaii Food Industry Association is comprised of two hundred member companies representing retailers, suppliers, producers, and distributors of food and beverage related products in the State of Hawaii.

Diversifying Hawaii's economy is a goal we all share. There is room for growth in our manufacturing sector and this bill is a great example of the positive support our Hawaii businesses need from our government in order to thrive. Manufacturing in Hawaii presents many challenges like high labor costs and the distance from other markets. This bill can help to offset those challenges and promote growth in the manufacturing sector. We urge you to vote yes on this measure and we thank you for the opportunity to testify.

LATE

HB-2080

Submitted on: 1/30/2020 3:39:21 PM
Testimony for EDB on 1/31/2020 9:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Megan Blazak	Individual	Support	No

Comments:



MAUI
CHAMBER OF COMMERCE
VOICE OF BUSINESS

LATE

**HEARING BEFORE THE HOUSE COMMITTEE ON
ECONOMIC DEVELOPMENT & BUSINESS
HAWAII STATE CAPITOL, HOUSE CONFERENCE ROOM 309
FRIDAY, JANUARY 31, 2020 AT 9:30 A.M.**

To The Honorable Angus L.K. McKelvey, Chair;
The Honorable Lisa Kitagawa, Vice Chair; and
Members of the Committee on Economic Development & Business,

TESTIMONY IN SUPPORT OF HB2080 RELATING TO TAXATION

Aloha, my name is Pamela Tumpap and I am the President of the Maui Chamber of Commerce, with approximately 650 members. I am writing share our support of HB2080.

The Maui Chamber of Commerce supports HB2080 to establish an income tax credit for taxpayers who incur certain expenses for manufacturing products in Hawaii. At this time when we are seeking higher living wages, growing the manufacturing industry is valuable as they typically have higher wage jobs and diverse positions. However, manufacturers face many difficulties in our island state including the high cost of shipping to get larger, specialized equipment and training employees for specific skillsets. Therefore, we support this tax credit to help offset the cost of purchasing manufacturing equipment, buildings and training employees. We appreciate the support for local manufacturers.

Additionally, we would also recommend including modifying, renovating and constructing a building in this tax credit. Often the USDA requires particular kinds of facilities that cost more to construct, so including this in the bill would be helpful. Further, manufacturers renovating or constructing buildings also contributes to creating additional construction industry jobs.

We appreciate the opportunity to testify on this matter and ask that this bill be passed.

Sincerely,

Pamela Tumpap

Pamela Tumpap
President

To advance and promote a healthy economic environment for business, advocating for a responsive government and quality education, while preserving Maui's unique community characteristics.