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# 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 there is a great  
2 need for Hawaii to develop and support manufacturing in the  
3 State. Hawaii imports over ninety per cent of the products  
4 consumed each year. At the same time, there is a great demand  
5 outside the State for products that are made in Hawaii.

6           The purpose of this Act is to promote manufacturing in  
7 Hawaii by establishing a temporary income tax credit for  
8 taxpayers who incur expenses for manufacturing products in  
9 Hawaii.

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-    Manufacturing tax credit. (a) There shall be  
14 allowed to each taxpayer subject to the tax imposed by this  
15 chapter, a manufacturing income tax credit, which shall be  
16 deductible from the taxpayer's net income tax liability, if any,



1 imposed by this chapter for the taxable year in which the credit  
2 is properly claimed.

3 (b) The amount of the tax credit allowed under subsection  
4 (a) shall be \_\_\_\_\_ per cent of the qualified manufacturing costs  
5 incurred during the taxable year; provided that:

6 (1) The total credit claimed per taxpayer shall not exceed  
7 \$ \_\_\_\_\_ ;

8 (2) The qualified manufacturing costs qualify for a  
9 deduction under section 167 (with respect to  
10 depreciation) of the Internal Revenue Code, as  
11 amended; and

12 (3) The qualified manufacturing costs do not include any  
13 costs related to the production of electricity.

14 In the case of a partnership, S corporation, estate, or  
15 trust, the tax credit allowable is for qualified manufacturing  
16 costs incurred by the entity for the taxable year. The cost  
17 upon which the tax credit is calculated shall be determined at  
18 the entity level. Distribution and share of credit shall be  
19 determined by rule.

20 If a deduction is taken under section 179 (with respect to  
21 election to expense certain depreciable business assets) of the



1 Internal Revenue Code of 1986, as amended, no tax credit shall  
2 be allowed for those costs for which the deduction is taken.

3 The basis for eligible property for depreciation or  
4 accelerated cost recovery system purposes for state income taxes  
5 shall be reduced by the amount of the credit allowable and  
6 claimed.

7 (c) If the tax credit under this section exceeds the  
8 taxpayer's net income tax liability, the excess of the tax  
9 credit over liability may be used as a credit against the  
10 taxpayer's net income tax liability in subsequent years until  
11 exhausted. Every claim, including amended claims, for a tax  
12 credit under this section shall be filed on or before the end of  
13 the twelfth month following the close of the taxable year for  
14 which the credit may be claimed. Failure to comply with the  
15 foregoing provision shall constitute a waiver of the right to  
16 claim the credit.

17 (d) The director of taxation:

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



1       (2) May require the taxpayer to furnish additional  
2       information to ascertain the validity of the claim for  
3       credit made under this section; and

4       (3) May adopt rules pursuant to chapter 91 to effectuate  
5       this section.

6       (e) The department of business, economic development, and  
7       tourism shall, for each taxpayer claiming a credit under this  
8       section:

9       (1) Maintain records of the total amount of qualified  
10       manufacturing costs claimed;

11       (2) Obtain information on self-verified qualified  
12       manufacturing costs claimed;

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

14       (4) Certify the total amount of the tax credit for each  
15       taxable year.

16       Upon each certification, the department of business,  
17       economic development, and tourism shall issue a certificate to  
18       the taxpayer verifying the qualified manufacturing costs and the  
19       credit amount certified for each taxable year.

20       The taxpayer shall file the certificate with the taxpayer's  
21       tax return with the department of taxation. Notwithstanding the



1 department of business, economic development, and tourism's  
2 certification authority under this section, the director of  
3 taxation may audit and adjust the certification to conform to  
4 the facts.

5 (f) As used in this section:

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

8 "Qualified manufacturing costs" means expenditures for:

9 (1) Costs incurred to purchase equipment to be used by the  
10 taxpayer in manufacturing tangible personal property  
11 in the State and that is placed in service within one  
12 year after the date of purchase; provided that the  
13 credit under this section has not been previously  
14 claimed by any taxpayer in this State on such  
15 equipment; and

16 (2) Reasonable and necessary costs incurred to train  
17 employees to manufacture tangible personal property in  
18 the State; provided that tangible personal property  
19 shall not include professional and personal services."

20 SECTION 3. New statutory material is underscored.



1 SECTION 4. This Act shall take effect upon its approval  
2 and shall apply to taxable years beginning after December 31,  
3 2015; provided that this Act shall be repealed on January 1,  
4 2023.



**Report Title:**

Manufacturing; Income Tax Credit

**Description:**

Establishes an income tax credit for taxpayers who incur certain expenses for manufacturing products in Hawaii. Applies to taxable years beginning after December 31, 2015. Sunsets January 1, 2023. (HB1454 HD2)

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

