A BILL FOR AN ACT

RELATING TO MANUFACTURING.

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

SECTION 1. The legislature finds that Hawaii's economy has been greatly impacted by the COVID-19 pandemic. Hawaii has some of the highest levels of unemployment in the country as joblessness rose to Great Depression-levels in the spring following shutdown orders that were issued. During the April-July 2020 period, the average unemployment rate, not seasonally adjusted, was 18.5 per cent. Hawaii experienced a net loss of 115,000 non-agriculture payroll jobs during the April-July period as compared with the same period a year ago and the leisure and hospitality sector accounted for 58.7 per cent of the total job loss at 67,500.

The legislature further finds that the State's tourism industry has been profoundly impacted by the pandemic. Roughly 30,000 people arrived in Hawaii every day during 2019 with peak arrivals exceeding 40,000 during the summer travel season. That number has declined dramatically since the onset of the...
pandemic. During the initial lockdowns in the spring, the number of daily arrivals dropped below 500.

The legislature further finds that the food manufacturing industry in Hawaii can help the State's food security by strengthening the link between farmers and other agricultural producers and Hawaii's small business people who process raw fruits, vegetables, grains, meats, and dairy products into finished goods ready for the grocer or wholesaler to sell to households, restaurants, or institutional food services. In 2015, Act 215 created the manufacturing development program that provides assistance to manufacturing businesses in the State through grants. The further development of the food manufacturing industry in the State will prevent food waste and broaden and diversify the economy away from its heavy reliance on tourism.

The purpose of this Act is to establish an income tax credit to incentivize the development of the food manufacturing industry in the State.

SECTION 2. Chapter 235, Hawaii Revised Statutes, is amended by adding a new section to be appropriately designated and to read as follows:
"§235- Manufacturing development tax credit.  (a) There shall be allowed to each qualified taxpayer subject to the tax imposed under this chapter, an income tax credit that shall be deductible from the qualified taxpayer's net income tax liability, if any, imposed by this chapter for the taxable year in which the credit is properly claimed.

(b) The amount of the tax credit shall be equal to the qualified expenses of the qualified taxpayer up to a maximum of $____ in any taxable year.

(c) In the case of a partnership, S corporation, estate, or trust, the tax credit allowable is for qualified expenses incurred by the entity for the taxable year. The expenses upon which the tax credit is computed shall be determined at the entity level. Distribution and share of credit shall be determined pursuant to section 704(b) of the Internal Revenue Code.

(d) The amount of the tax credits allowed under this section shall not exceed $____ for all qualified taxpayers in any taxable year; provided that any qualified taxpayer who is not eligible to claim the credit in a taxable year due to the $____ tax credit cap being reached for that taxable year
shall be eligible to claim the credit in the subsequent taxable year.

(e) By March 31 of each year, each qualified taxpayer claiming the tax credit for the previous taxable year, shall submit a written, certified statement to the chairperson of the board of agriculture identifying:

(1) Qualified expenses incurred in the previous year; and
(2) The amount of the tax credit claimed by the qualified taxpayer pursuant to this section, if any, in the previous taxable year.

(f) The department of agriculture shall:

(1) Maintain records of the names and addresses of the qualified taxpayers claiming the credits under this section and the total amount of the qualified expenses upon which the tax credits are based;
(2) Verify the nature and amount of the qualified expenses;
(3) Total all qualified and cumulative expenses that the corporation certifies; and
(4) Certify the amount of the tax credit for each qualified taxpayer of each taxable year and the cumulative amount of the tax credit.

Upon each determination made under this subsection, the department of agriculture shall issue a certificate to the qualified taxpayer verifying information submitted to the corporation, including amounts of qualified expenses, the credit amount certified for the qualified taxpayer for each taxable year, and the cumulative amount of tax credits certified. The qualified taxpayer shall file the certificate with the qualified taxpayer's tax return with the department of taxation.

The department of agriculture may assess and collect a fee to offset the costs of certifying tax credit claims under this section.

(g) The director of taxation:

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

(2) May require the qualified taxpayer to furnish reasonable information to ascertain the validity of the claim for the tax credit made under this section; and
(3) May adopt rules under chapter 91 necessary to
effectuate the purposes of this section.

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

(i) As used in this section:
"Net income tax liability" means income tax liability
reduced by all other credits allowed under this chapter.
"Qualified expenses" means expenses incurred by a qualified
taxpayer for:

(1) The purchasing of food manufacturing equipment;

(2) Training of employees on the use of food manufacturing
equipment;
(3) Improving existing energy efficiency manufacturing equipment or the purchase of improved energy efficiency equipment in the food manufacturing process; or

(4) Studying or planning the implementation of a new food manufacturing facility.

"Qualified taxpayer" means any person or business entity engaged in the food manufacturing industry in the State."

SECTION 3. New statutory material is underscored.

SECTION 4. This Act shall take effect upon its approval; provided that section 2 of this Act shall apply to taxable years beginning after December 31, 2020.

INTRODUCED BY: [Signature]
Report Title:
Food Manufacturing Development; Income Tax Credit

Description:
Creates an income tax credit to incentivize the food manufacturing industry in the State. Applies to taxable years beginning after December 31, 2020.

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