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## A BILL FOR AN ACT

RELATING TO MANUFACTURING.

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

1           SECTION 1. The legislature finds that Hawaii's economy has  
2    been greatly impacted by the COVID-19 pandemic. However, during  
3    the first nine months of 2022, roughly 6,800,000 visitors  
4    arrived in Hawaii, representing eighty-eight per cent recovery  
5    from the same period in 2019. International visitors arriving  
6    by air recovered 36.7 per cent.

7           The legislature further finds that overall for 2022, the  
8    average annual unemployment rate is estimated to be 3.6 per  
9    cent, and is projected to decrease to 3.5 per cent in 2023, 3.2  
10   per cent in 2024, and 2.9 per cent in 2025. These rates remain  
11   higher than Hawaii's average unemployment rate of 2.5 per cent  
12   from 2017 to 2019.

13          Despite signs of recovery, the legislature also finds that  
14   Hawaii's consumer inflation rate, as measured by the Honolulu  
15   consumer price index for all urban consumers, is estimated to  
16   increase 6.5 per cent in 2022, with a projected increase of 3.1



1 per cent in 2023, 2.3 per cent in 2024, and 2.1 per cent in  
2 2025.

3 The legislature further finds that the food manufacturing  
4 industry in Hawaii can help the State's food security by  
5 strengthening the link between farmers and other agricultural  
6 producers and Hawaii's small business people who process raw  
7 fruits, vegetables, grains, meats, and dairy products into  
8 finished goods ready for the grocer or wholesaler to sell to  
9 households, restaurants, or institutional food services. In  
10 2015, Act 215 created the manufacturing development program that  
11 provides assistance to manufacturing businesses in the State  
12 through grants. The further development of the food  
13 manufacturing industry in the State will prevent food waste and  
14 broaden and diversify the economy away from its heavy reliance  
15 on tourism.

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

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



1            "§235-            Manufacturing development tax credit.    (a)

2   There shall be allowed to each qualified taxpayer subject to the  
3   tax imposed under this chapter, an income tax credit that shall  
4   be deductible from the qualified taxpayer's net income tax  
5   liability, if any, imposed by this chapter for the taxable year  
6   in which the credit is properly claimed.

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

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

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



1 shall be eligible to claim the credit in the subsequent taxable  
2 year.

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

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

11 (f) The department of agriculture shall:

12 (1) Maintain records of the names and addresses of the  
13 qualified taxpayers claiming the credits under this  
14 section and the total amount of the qualified expenses  
15 upon which the tax credits are based;

16 (2) Verify the nature and amount of the qualified  
17 expenses;

18 (3) Total all qualified and cumulative expenses that the  
19 corporation certifies; and



1       (4) Certify the amount of the tax credit for each  
2           qualified taxpayer of each taxable year and the  
3           cumulative amount of the tax credit.

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

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

15       (g) The director of taxation:

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

18       (2) May require the qualified taxpayer to furnish  
19           reasonable information to ascertain the validity of  
20           the claim for the tax credit made under this section;

21       and



1       (3) May adopt rules under chapter 91 necessary to  
2           effectuate the purposes of this section.

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

13       (i) As used in this section:

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

16       "Qualified expenses" means expenses incurred by a qualified  
17 taxpayer for:

18       (1) The purchasing of food manufacturing equipment;

19       (2) Training of employees on the use of food manufacturing  
20 equipment;



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- 1        (3) Improving existing energy efficiency manufacturing  
2        equipment or the purchase of improved energy  
3        efficiency equipment in the food manufacturing  
4        process; or  
5        (4) Studying or planning the implementation of a new food  
6        manufacturing facility.

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

9        SECTION 3. New statutory material is underscored.

10       SECTION 4. This Act shall take effect upon its approval;  
11 provided that section 2 of this Act shall apply to taxable years  
12 beginning after December 31, 2022.

13

INTRODUCED BY: 

JAN 25 2023



# H.B. NO. 1384

**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, 2022.

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

