



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**
KA 'OIHANA HO'OMOHALA PĀ'OIHANA, 'IMI WAIWAI
A HO'OMĀKA'IKAI

JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR

JAMES KUNANE TOKIOKA
DIRECTOR

DANE K. WICKER
DEPUTY DIRECTOR

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Statement of
James Kunane Tokioka
Director
Department of Business, Economic Development, and Tourism
before the
SENATE COMMITTEE ON WAYS AND MEANS

Tuesday, February 18, 2025
10:01 AM
State Capitol, Conference Room 211

In consideration of
SB125 SD1
RELATING TO STATE ENTERPRISE ZONES.

Chair Dela Cruz, Vice Chair Moriwaki, and members of the Committee. The Department of Business, Economic Development and Tourism (DBEDT) supports the intent of **SB125** which extends the eligibility period of the State business tax credit and general excise tax exemption for qualified businesses within State Enterprise Zones from seven years to nine years and manufacturers and agricultural producers from ten years to 12 years. The bill also amends the definition of "eligible business activity" for enterprise zone program purposes to include retail sales of tangible personal property manufactured and sold in the enterprise zone that is to be used or consumed by the purchaser and not for resale, the processing of value-added agricultural products grown within an enterprise zone, and the provision of professional services by health care professionals in health care related sectors.

DBEDT agrees that new manufacturing and agricultural production business models have evolved since the Enterprise Zones program was established. Specifically, many manufacturers and growers sell directly to consumers, i.e., direct to retail and thus do not benefit from this program even though they may be creating jobs in economically challenged areas of the state.

DBEDT understands that healthcare services are a growing sector of our economy and that supporting this sector with incentives might help provide our state with these vital services.

The EZ program has been a successful program over the years. In 2023, EZ companies created or maintained 876 jobs in economically challenged areas of the state at a very low cost to taxpayers.

DBEDT defers to the State Department of Taxation for revenue implications, compliance, and administrative issues, e.g., the state tax form N-756 Enterprise Zone Tax Credit would need to be modified.

Thank you for the opportunity to testify.

JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



WENDY GADY
EXECUTIVE DIRECTOR

STATE OF HAWAII
AGRIBUSINESS DEVELOPMENT CORPORATION
HUI HO'OULU AINA MAHIAI

TESTIMONY OF WENDY L. GADY
EXECUTIVE DIRECTOR
AGRIBUSINESS DEVELOPMENT CORPORATION

BEFORE THE SENATE COMMITTEE ON WAYS AND MEANS
Tuesday, February 18, 2025
10:01 AM
Conference Room 211 & Videoconference
State Capitol
415 South Beretania Street

SENATE BILL NO. 125, SD1
RELATING TO STATE ENTERPRISE ZONES

Chairperson Dela Cruz, Vice Chair Moriwaki, and Members of the Committee:

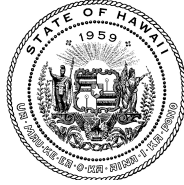
Thank you for the opportunity to testify in support of Senate Bill No. 125, SD1, which amends the definition of "eligible business activity" for Enterprise Zone Program purposes to include the processing of value-added agricultural products grown within an enterprise zone.

ADC defers to the State Department of Taxation for fiscal implications however ADC is supportive of any favorable tax benefits that support agricultural businesses and their development.

We support this bill provided that its passage does not replace or adversely impact priorities indicated in our Executive Budget. Thank you for your consideration of our testimony.

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
Ka 'Oihana 'Auhau
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

GARY S. SUGANUMA
DIRECTOR

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

**TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

TESTIMONY ON THE FOLLOWING MEASURE:

S.B. No. 125, S.D. 1, Relating to State Enterprise Zones

BEFORE THE:

Senate Committee on Ways and Means

DATE: Tuesday, February 18, 2025

TIME: 10:01 a.m.

LOCATION: State Capitol, Room 211

Chair Dela Cruz, Vice-Chair Moriwaki, and Members of the Committee:

The Department of Taxation (DOTAX) offers the following comments regarding S.B. 125, S.D.1, for your consideration.

Part I, section 2 of S.B. 125, S.D. 1, adds a new definition for “tangible personal property,” and amends the definition of “eligible business activity” within an enterprise zone under section 209E-2, Hawaii Revised Statutes (HRS), to include:

- (1) the retail sale of “tangible personal property,”
- (2) the processing of “value-added agricultural products,” and
- (3) the providing of certain health care professional services.

As a result, if these activities are performed in an enterprise zone, they would be entitled to the tax benefits associated with the enterprise zone program.

Part II, section 3 of the bill clarifies that the amendments under Part II would apply to chapter 209E qualified businesses on or after July 1, 2025.

Part II, Section 4 of the bill amends section 209E-9, HRS, by extending the requirement of a qualified business to increase its average annual number of full-time employees by at least 15 percent per year through 9 years, rather than the 7 years currently required.

Part II, Section 5 of the bill amends section 209E-10, HRS, to extend the timeframe that the Enterprise Zone Tax Credit may be claimed from 7 years to 9 years. The credits for years 7, 8, and 9 are set at 20 percent of a qualified business' taxes due in the State, and 20 percent of unemployment taxes paid. For qualified businesses engaged in the manufacturing of tangible personal property, or producing or processing agricultural products, the credit for years 10 through 12 are set at 20 percent of the taxes due, and 20 percent of unemployment taxes paid.

Finally, Part II, Section 6 of the bill amends section 209E-11, HRS, to extend the general excise tax (GET) exemption for construction (contractors) performed for a qualified business within an enterprise zone, from 7 years to 9 years, and to extend the GET exemption for qualified businesses engaged in the manufacturing of tangible personal property, or the producing or processing of agricultural products, from 10 years to 12 years.

This measure has a defective effective date of July 1, 2050, with section 5 of the bill applicable to taxable years beginning after December 31, 2025, and section 6 applicable to taxable years beginning after December 31, 2026.

DOTAX estimates an expected revenue loss as follows (\$ millions):

FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
-13.5	-16.6	-19.2	-22.0	-25.1	-26.8

DOTAX notes that it can administer the tax law changes in sections 5 and 6 of the measure with the stated effective dates.

Thank you for the opportunity to provide comments on this measure.



MAUI
CHAMBER OF COMMERCE
VOICE OF BUSINESS

LATE

**HEARING BEFORE THE SENATE COMMITTEE ON WAYS AND MEANS
HAWAII STATE CAPITOL, SENATE CONFERENCE ROOM 211
Tuesday, February 18, 2025 AT 10:01 A.M.**

To The Honorable Senator Donovan M. Dela Cruz, Chair
The Honorable Senator Sharon Y. Moriwaki, Vice Chair
Members of the committee on Ways and Means

SUPPORT SB125 SD1 RELATING TO STATE ENTERPRISE ZONES

The Maui Chamber of Commerce **SUPPORTS SB125 SD1** which amends the definition of "eligible business activity" for Enterprise Zone Program purposes to include retail sales of tangible personal property manufactured and sold in the enterprise zone that is to be used or consumed by the purchaser and not for resale, the processing of value-added agricultural products grown within an enterprise zone, and the provision of professional services by health care professionals in health-care related sectors; extends the eligibility period of the State business tax credit and general excise tax exemption for qualified businesses within State Enterprise Zones from seven years to nine years; and extends the eligibility period of the State business tax credit and general excise tax exemption for qualified businesses within State Enterprise Zones engaged in the manufacturing of tangible personal property or the producing or processing of agricultural products from ten years to twelve years.

The Chamber has consistently advocated the creation of enterprise zones to encourage business development and fully support increasing the tax exemptions from seven years to nine years. We would encourage the Legislature to increase the exemptions even further.

For these reasons we **SUPPORT SB125 SD1**.

Sincerely,

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.



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Phone: (808) 848-2074; Fax: (808) 848-1921
e-mail info@hfbf.org; www.hfbf.org

February 18, 2025

HEARING BEFORE THE
SENATE COMMITTEE ON WAYS AND MEANS

TESTIMONY ON SB 125, SD1
RELATING TO STATE ENTERPRISE ZONES

Conference Room 211 & Videoconference
10:01 AM

Aloha Chair Dela Cruz, Vice-Chair Moriwaki, and Members of the Committee:

I am Brian Miyamoto, Executive Director of the Hawai'i Farm Bureau (HFB). Organized since 1948, the HFB is comprised of 1,800 farm family members statewide and serves as Hawai'i's voice of agriculture to protect, advocate, and advance the social, economic, and educational interests of our diverse agricultural community.

The Hawai'i Farm Bureau supports SB 125, SD1, which amends the definition of "eligible business activity" for the Enterprise Zone (EZ) Program and extends the eligibility period of the State business tax credit and general excise tax exemption for qualified businesses within State Enterprise Zones.

The Hawai'i Enterprise Zone Program was established to stimulate certain types of business activity and increase employment in targeted areas of the State via tax and other incentives. The EZ program is one of the few State programs that incentivizes economic development in the most rural and distressed communities where agriculture is often the main business activity. Agricultural-related businesses account for roughly half of all businesses in the EZ program.

HFB has previously supported similar measures that sought to extend the EZ program's benefits to ensure long-term economic stability for agricultural businesses. SB 125, SD1 builds on those efforts and provides much-needed support for Hawai'i's farmers, ranchers, and agricultural processors.

Farming is a long-term endeavor requiring substantial investments in land, equipment, labor, and infrastructure. Extending EZ tax benefits to twelve years allows agricultural businesses the additional time needed to establish and expand their operations successfully.

Hawai'i's farmers and ranchers face unpredictable weather patterns, natural disasters, supply chain disruptions, and fluctuating markets. Extending EZ benefits provides a longer buffer period to help businesses adapt to these challenges.

SB 125, SD1 is a critical step toward strengthening Hawai'i's agricultural industry, supporting local food production, and expanding rural economic opportunities. By extending the eligibility period for tax credits and exemptions within State Enterprise Zones, this bill helps farmers, ranchers, and agricultural processors build sustainable businesses, invest in infrastructure, and increase Hawai'i's food security.

Thank you for the opportunity to testify on this important matter.

OUR MISSION

To support and advance public policies that make Hawai'i affordable for all working families.

OUR VISION

Collaborative, sustainable, and evidence-based public policies that create a diverse and sustainable Hawai'i economy, an abundance of quality job opportunities, and a future where all working families living in Hawai'i can thrive.

BOARD MEMBERS

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Meli James, *Board Chair*
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Josh Feldman
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President & Executive Director

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HolomuaCollaborative.org

Committee: Senate Committee on Ways and Means
Bill Number: SB 125 SD1, Relating to State Enterprise Zones
Hearing Date and Time: February 18, 2025 at 10:01am (Room 211)
Re: Testimony of Holomua Collaborative in support

Aloha Chair Dela Cruz, Vice Chair Moriwaki, and Committee Members:

We write in support of Senate Bill 125 SD1, Relating to State Enterprise Zones. The purpose of SB 125 SD1 is, in part, to modernize the enterprise zone program by allowing additional activities within an enterprise zone to qualify for enterprise zone benefits, specifically:

- (1) Retail *and* wholesale activity by a local manufacturer made within the enterprise zone;
- (2) The processing of value-added agriculture products; and
- (3) The provision of professional services by health care professionals in health care related sectors.

Holomua supports initiatives that help keep all local working families in Hawai'i by addressing issues of affordability. We are especially interested in fostering cross-sector collaboration and supporting policies that are evidence-based.

In order for Hawai'i to be affordable for local working families, we need to ensure that our local business community is provided with the opportunities necessary to expand and succeed in an uncertain economy. Only 21% of respondents in a recent survey of 1500 local residents agree that "Hawai'i is a good place to do business." This statement also shows a high percentage of disagreement, with 43 percent *disagreeing* that Hawai'i is a good place to do business. A still larger portion of respondents agree that Hawai'i needs to recruit and retain critical workforce members.¹

One way to improve the business climate in Hawai'i—which should result in more opportunities for recruitment and retention for local employers—is through enhancing the Enterprise Zone program.

Currently, the Enterprise Zone program provides public benefits to local companies to stimulate business activity, job preservation, and job creation in areas where they are most appropriate or most needed. Benefits for local companies include permitting and zoning assistance, fee waivers, tax relief, and more—in geographic regions selected by the County and approved by the Governor.

¹ 2024 Affordability Survey, Holomua Collective.

The most common eligible industries currently in the Enterprise Zone Program are: Agricultural production or processing; Manufacturing; and Wholesaling/Distribution.² Other eligible industries include: Aviation or maritime repair or maintenance; Telecommunications switching and delivery systems; Information technology design and production; Medical research and clinical trials; For-profit training programs in international business management or environmental remediation; Biotechnology research, development, production, or sales; Repair or maintenance of assisted technology equipment; Certain call centers; and Wind energy producers.

Local manufacturing (and society overall) has undergone a sea change since the law was first enacted in the late 1980s. In particular, the invention of the internet has altered business models for many local manufacturers. For decades, manufacturers of tangible products have only been eligible for Enterprise Zone benefits if 50.1% of the gross sales of their products are to wholesalers and the sale takes place within the Enterprise Zone. Now, manufacturers go directly to retail and miss out on these benefits of the program.

Additionally, farmers and agricultural producers are eligible for the Enterprise Zone Program, and most *but not all* value-added agricultural processing companies are accepted into the program. Clarifying specifically that the processing of value-added agricultural products is an eligible business activity for the Enterprise Zone Program will provide the certainty for our agricultural workers need to continue working on value-add products.

Expanding the impact of the Enterprise Zone Program is a cost-effective way to help local businesses thrive with a considerable return on investment. Small local businesses are key in keeping Hawaii's economy strong. They provide different ways for people to earn money, create job opportunities, and ensure that money stays within the community. Plus, they help support the special culture of Hawai'i. We ask that you support SB 125 SD1.

Sincerely,



Josh Wisch
President & Executive Director

² Hawaii Enterprise Zones Program, Calendar Year Report for Tax Year 2023, Department of Business, Economic Development, and Tourism.

Statement of
Meli James and Brittany Heyd
Cofounders
Mana Up



SB 125 SD1, Relating to State Enterprise Zones

Aloha Chair Dela Cruz, Vice Chair Moriwaki, and committee members,

We support SB 125 SD1, which expands the types of business activity which is eligible for the Enterprise Zone Program.

Mana Up is a statewide initiative that helps provide entrepreneurs in Hawai'i with the resources and tools to grow their business and scale globally. As these entrepreneurs continue to grow, they also help contribute to our expanding our local economy. As part of our mission, we aim to sustain the local economy through economic diversification, local job creation, community giveback, investment, and a regenerative culture of entrepreneurship – providing a better future for generations to come here in Hawai'i.

Since its inception in 1986, the Enterprise Zone Program has been a vital tool for stimulating business activity, revitalizing communities, and creating and preserving jobs. By offering benefits such as tax incentives, fee waivers, and permitting assistance, the program has successfully supported industries essential to Hawaii's economy, including agriculture, technology, and manufacturing. However, to remain effective, the program must evolve to reflect the realities of today's business environment.

A critical gap in the current law prevents many local manufacturers from accessing the program's benefits simply because they sell directly to consumers rather than through wholesalers. This outdated requirement does not reflect modern business practices, where e-commerce, direct-to-consumer sales, and small-scale retail operations are key to survival and growth. By updating the eligibility criteria to include manufacturers who sell directly to retail, the state can provide much-needed support to local businesses, ensuring they have the resources to expand, create jobs, and contribute to a stronger, more diversified economy. We urge you to pass this legislation and help Hawaii's manufacturers thrive.

Sincerely,

Meli James | Cofounder, Mana Up
 Brittany Heyd | Cofounder, Mana Up



HAWAI'I COMMUNITY FOUNDATION

Testimony in Support of SB 125 SD1 Relating to State Enterprise Zones

From: Micah Kāne, Chief Executive Officer & President - Hawai'i Community Foundation

Re: Support for Expanding the State Enterprise Zone Program

The Hawai'i Community Foundation (HCF) supports SB 125 SD1, which in part expands the Enterprise Zone Program to include additional activities within an enterprise zone to qualify for enterprise zone benefits, specifically:

- (1) Retail and wholesale activity by a local manufacturer made within the enterprise zone;
- (2) The processing of value-added agriculture products; and
- (3) The provision of professional services by health care professionals in health care related sectors.

HCF created the CHANGE Framework to better understand and address the most critical, complex challenges facing our community. By categorizing the needs of Hawai'i's people and places into six essential sectors, the community can identify how and where financial resources, expertise, and collective effort can make the most significant impact in improving outcomes across our state.

The "C" sector of the CHANGE Framework represents Community Centered Economy, and expanding the Enterprise Zone Program will lead to direct benefits for local businesses and consumers.

The Enterprise Zone Program was established in 1986 with the intent of creating and expanding jobs and businesses in local communities that need economic revitalization. The Program provides businesses in these designated areas with access to vital incentives, such as tax exemptions and priority permit processing. Expanding the Enterprise Zone Program to meet the modern needs of our economy and society, such as allowing manufacturers to sell directly to retail, encouraging the production of value-added agricultural products, or supporting health care professionals in struggling communities is an investment both in this economy and our people. This support will encourage investment and job creation in areas that need it most, fostering economic stability and improving the quality of life for residents. HCF strongly encourages the passage of this legislation to revitalize our communities and promote equitable economic development.



TITLE GUARANTY
HAWAII

February 18, 2025

Testimony in support of SB 125 SD1, Relating to State Enterprise Zones

Aloha Chair Dela Cruz, Vice Chair Moriwaki, and Committee Members,

We write in support of SB 125 SD1, Relating to State Enterprise Zones, which modernizes the Enterprise Zone Program to reflect today's economic realities. This bill expands program eligibility to:

- (1) Local manufacturers engaging in retail and wholesale activities within an enterprise zone;
- (2) Businesses involved in processing value-added agricultural products;
- (3) Health care professionals offering essential services.

Title Guaranty of Hawai'i is the oldest and largest title company in the state. We have been owned and operated by a kama'āina family since 1896 and we are proud to employ over 250 residents who work in our branches across the state.

The Enterprise Zone Program was originally designed to create jobs and stimulate economic development in areas that need it most. However, outdated restrictions prevent many qualified businesses from benefiting, particularly local manufacturers who sell directly to retail customers. By updating the program, we can better support small businesses, strengthen Hawai'i's agricultural sector, and improve health care access in underserved communities. These changes will not only generate jobs but also ensure a more resilient and diversified economy.

Small businesses are the backbone of Hawai'i's economy, yet many face unnecessary hurdles that limit their ability to grow. The exclusion of direct-to-retail manufacturers from enterprise zone benefits is a clear example of how outdated policies can stifle economic progress. By passing SB 125 SD1, we can remove these barriers and allow businesses to adapt to modern market trends. This will not only help individual businesses succeed but will also contribute to a stronger, more self-sufficient Hawai'i. We respectfully urge the passage of SB 125 SD1 to help local businesses and communities thrive.

Sincerely,

Mike B. Pietsch
President and Chief Operating Officer
Title Guaranty of Hawai'i





February 18, 2025

Committee: Senate Committee on Ways and Means
Bill Number: SB 125 SD1, Relating to State Enterprise Zones
Hearing Date and Time: February 18, 2025, 10:01am
Re: Testimony of HPM Building Supply in Support

Dear Chair Dela Cruz, Vice Chair Moriwaki, and Committee Members:

I would like to submit this testimony in support of SB 125 SD1, Relating to State Enterprise Zones. The purpose of SB 125 SD1 is, in part, to expand the eligibility for the Enterprise Zone Program to include direct to consumer manufacturer sales, the processing of value-added agricultural products, and the provision of professional services by health care professionals in health care related sectors.

HPM Building Supply is a 100% employee-owned company serving Hawaii's home improvement market and building industry for over 100 years since 1921. With 18 locations across Hawai'i and Washington State, HPM offers various services and products, including retail stores, building supply and lumber yards, home design centers, drafting and design services, and manufacturing facilities. HPM is dedicated to enhancing homes, improving lives, and transforming communities.

Hawai'i's economy is at a crossroads. As the cost of living continues to rise and businesses face mounting challenges, we must take action to support the industries that keep our local economy diverse and sustainable. By modernizing the Enterprise Zone Program, we provide businesses with the incentives that will help them expand, create jobs, and invest in their communities. SB 125 SD1 will help ensure that economic opportunity is available in all regions of the state, not just in urban centers.

In Hawai'i's competitive market, where costs can be extremely high, it's vital that we offer the support needed for businesses to launch and expand successfully. This support could create a significant positive impact, generating jobs and helping to strengthen the local economy from the ground up.

We ask that you support SB 125 SD1.

Sincerely,

Jason Fujimoto
Chairman & CEO



TORI RICHARD

February 18, 2025

Aloha Chair Dela Cruz, Vice Chair Moriwaki, and members of the Committee,

We write in support SB 125 SD1 and the expansion of the Enterprise Zone Program.

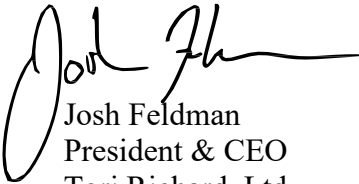
Tori Richard has manufactured in Honolulu for nearly 70 years, and we continue to proudly do so today. As a long-time medium-sized Hawai'i employer, we recognize the struggles facing new and expanding businesses.

Since it started in 1986, the Enterprise Zone Program has been important in helping local economies grow by giving businesses tax breaks and quicker approvals for permits. However, as businesses change, the program needs to change too. Nowadays, many manufacturers sell their products directly to consumers instead of through wholesalers, but they still miss out on these benefits. This new legislation is a smart way to promote job growth, support businesses, and help communities that need an economic boost.

Hawai'i has its own economic challenges, including high living and business costs. By expanding the Enterprise Zone Program to fit modern business practices, we can help small businesses thrive, keep and hire new employees, and strengthen the local economy. Without these updates, local manufacturers will continue missing opportunities to help them expand and flourish due to outdated limitations that don't match today's market. SB 125 SD1 is an important step to keep Hawai'i competitive and make sure economic opportunities are available throughout our state.

Please support this bill to help local businesses thrive in Hawai'i.

Sincerely,



Josh Feldman
President & CEO
Tori Richard, Ltd.

1891 NORTH KING STREET
HONOLULU, HAWAII 96819

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TAX FOUNDATION OF HAWAII

735 Bishop Street, Suite 417

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, NET INCOME, UNEMPLOYMENT, Extend Qualification Period for State Enterprise Zones

BILL NUMBER: SB 125 SD 1

INTRODUCED BY: Senate Committee on Economic Development and Tourism

LATE

EXECUTIVE SUMMARY: Amends the definition of "eligible business activity" for Enterprise Zone Program purposes to include retail sales of tangible personal property manufactured and sold in the enterprise zone that is to be used or consumed by the purchaser and not for resale, the processing of value-added agricultural products grown within an enterprise zone, and the provision of professional services by health care professionals in health-care related sectors. Extends the eligibility period of the State business tax credit and general excise tax exemption for qualified businesses within State Enterprise Zones from seven years to nine years. Extends the eligibility period of the State business tax credit and general excise tax exemption for qualified businesses within State Enterprise Zones engaged in the manufacturing of tangible personal property or the producing or processing of agricultural products from ten years to twelve years.

SYNOPSIS: Amends section 209E-2, HRS, to define "Tangible personal property" as property that can be touched or felt and can be relocated. "Tangible personal property" does not include electricity, real property, or intellectual property.

Also amends the definition of "eligible business activity" to add the following:

- Sale of tangible personal property manufactured and sold at retail in the enterprise zone for consumption or use by the purchaser and not for resale.
- Production of value-added agricultural products, all or some of which were grown within an enterprise zone.
- Provision of professional services by health care professionals in health-care related sectors, including but not limited to home health care agencies, specialized care practices, and health coaching.

Amends section 209E-9, HRS, to extend the eligibility period of the state Enterprise zone tax benefits by two years.

Amends section 209E-9(b), HRS, requirement for qualified businesses to increase the average annual number of full-time employees from seven to nine years.

Amends section 209E-10(a), HRS, to extend the twenty per cent tax credit in the seventh year to the eighth and ninth years. For qualified businesses engaged in manufacturing tangible personal property or producing or processing of agricultural products, the credit continues after the ninth year, to the tenth through twelfth years.

Amends section 209E-10(c), HRS, to extend the twenty per cent unemployment tax credit in the seventh year to the eighth and ninth year and for qualified businesses engaged in manufacturing of tangible personal property or producing or processing of agricultural products, the credit continues after the ninth year, currently seven years.

Amends section 209E-11, HRS, to extend the State general excise tax exemption from seven to nine years and for qualified businesses engaged in manufacturing of tangible personal property or producing or processing of agricultural products, the exemption shall not exceed twelve years, currently ten years.

EFFECTIVE DATE: July 1, 2050. The eligibility period change shall apply to taxable years beginning after December 31, 2025. The general excise tax exemption change shall apply to taxable years beginning after December 31, 2026.

STAFF COMMENTS: The enterprise zone program was enacted as a cooperative program between the state and the counties to promote jobs in areas of high unemployment. Certain areas are designated as enterprise zones through joint action of the state and counties. In a zone, the state offers an income tax credit for the tax attributable to the eligible business conducted in the zone, which is normally applied on a sliding scale – 80% for the first year, 70% for the second, and so on until the credit is 20% for the seventh and last year in the program. It also offers an unemployment tax credit for the tax attributable to employees doing the eligible business in the zone, on the same sliding scale. Finally, the state offers a general excise tax exemption for the eligible business attributed to the zone. The counties also offer incentives, which vary by county. In return, the business commits to either maintain or increase the number of employees in the zone doing the eligible activity, depending on whether it was already in the zone upon designation or moved to the zone.

As business incentives go, the enterprise zone program is better than most. The incentive applies to a specific activity (here, creating and maintaining employment) targeted to the problem the program seeks to address. The incentive tapers off over time and then stops. It requires accountability, namely required reports to DBEDT for a business to retain its eligibility. The business itself may need a different kind of assistance, such as financing, but the state is here focusing on creating and maintaining jobs in areas that need them.

One criticism of the program is that the designated eligible activities do not seem to have a common thread running through them except that the various activities seem to have been the Flavor of the Month at one time or other. Eligible activities at present are:

- Agricultural production or processing
- Manufacturing
- Wholesaling/Distribution
- Aviation or maritime repair or maintenance
- Telecommunications switching and delivery systems
- Information technology design and production
- Medical research, clinical trials, and telemedicine

- For-profit training programs in international business management or environmental remediation
- Biotechnology research, development, production, or sales
- Repair or maintenance of assisted technology equipment
- Certain types of call centers
- Wind energy producers

The enterprise zone program has been around since 1986. Has there been a comprehensive evaluation of the program and do lawmakers know exactly how much bang they have gotten for their bucks? If the program works, great; extend the tax benefits; if it doesn't work, scrap it. In either event, concurrent efforts must be made to improve Hawaii's business climate to enhance the economic prospects for all businesses.

In addition, we have technical comments as follows:

We note that "medical and health care services" is already an eligible activity because it is included in the existing definition of "service business," and "service business" is an eligible activity under paragraph (1) of the existing definition of "eligible business activity." Adding "provision of professional services by health care professionals in health-care related sectors, including but not limited to home health care agencies, specialized care practices, and health coaching" introduces redundancy. It would be better to refine the existing definition of "service business" to add the additional eligible activities, if any, that are intended by this bill.

We are not sure if "value-added agriculture" is well defined, and a broad interpretation of the term may defeat the intent of the measure. Suppose, for example, a company not located in an enterprise zone sells instant coffee (which appears to be a value-added agriculture product). If the company's store in Ala Moana Center (which is in an enterprise zone) buys 1% of its coffee beans from a farmer in Waialua (which is in an enterprise zone) and sells the coffee at retail, is that intended to be an eligible activity?

Digested: 2/15/2025



1050 Bishop St. PMB 235 |

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P: 808-533-1292 | e:

info@hawaiiifood.com

Executive Officers

Maile Miyashiro, C&S Wholesale Grocer, *Chair*

Kit Okimoto, Okimoto Corp., *Vice Chair*

Jayson Watts, Mahi Pono, *Secretary/Treasurer*

Lauren Zirbel, HFIA, *Executive Director*

Paul Kosasa, ABC Stores, *Advisor*

Derek Kurisu, KTA Superstores, *Advisor*

Toby Taniguchi, KTA Superstores, *Advisor*

Joe Carter, Coca-Cola Bottling of Hawaii, *Advisor*

Eddie Asato, Pint Size Hawaii, *Advisor*

Gary Okimoto, Safeway, *Immediate Past Chair*

TO: Committee on Ways and Means

FROM: HAWAII FOOD INDUSTRY ASSOCIATION

Lauren Zirbel, Executive Director

DATE: February 18, 2025

TIME: 10:01am

RE: SB125 SD1 Relating to State Enterprise Zones

Position: Support

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

HFIA is in support of this measure. Increasing local manufacturing and diversifying our economy are important goals for our state. Unfortunately, Hawaii businesses face a heavy regulatory and tax burden. Extending the eligibility period for state business tax credits and general excise tax credit exemption for qualified businesses within State Enterprise Zones engaged in the manufacturing can provide some relief to these businesses and help them grow. We encourage the Committee to pass this measure.