



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

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Statement of
James Kunane Tokioka
Director
Department of Business, Economic Development, and Tourism
before the
SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TOURISM

Thursday, January 30, 2025
1:00 PM
State Capitol, Conference Room 229

In consideration of
SB125
RELATING TO STATE ENTERPRISE ZONES.

Chair DeCoite, Vice Chair Wakai 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. The bill also 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. Lastly, the bill applies to taxable years beginning after December 31, 2025.

DBEDT recommends that this bill apply to all companies in the program as of July 1, 2025, and there be no provision for retroactivity.

DBEDT defers to the State Department of Taxation for the fiscal implications of this bill.

Thank you for the opportunity to testify.

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
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STATE OF HAWAII
DEPARTMENT OF TAXATION

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

TESTIMONY ON THE FOLLOWING MEASURE:

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

BEFORE THE:

Senate Committee on Economic Development and Tourism

DATE: Thursday, January 30, 2025

TIME: 1:00 p.m.

LOCATION: State Capitol, Room 229

Chair DeCoite, Vice-Chair Wakai, and Members of the Committee:

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

Section 1 of S.B. 125 amends section 209E-9, HRS, relating to the State Enterprise Zones, by extending the requirement of a qualified business to increase its average annual number of full-time employees by at least 15 per cent per year through 9 years rather than the 7 years currently required.

Section 2 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, 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 of 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, Section 3 of the bill amends section 209E-11, HRS, to extend the general excise tax (GET) exemption for contractors performing construction in an enterprise

zone for a qualified business from 7 years to 9 years, and 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 is effective upon approval for taxable years beginning after December 31, 2025. DOTAX requests that the effective date of the bill be amended so that section 2 of the bill applies to taxable years beginning after December 31, 2025 and section 3 of the bill is effective on January 1, 2026.

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

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

INTRODUCED BY: DECOITE, AQUINO, CHANG, HASHIMOTO, KANUHA, MCKELVEY, Kidani, Wakai

EXECUTIVE SUMMARY: 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, 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 of tangible personal property or producing or processing of agricultural products, the credit continues after the ninth year, currently seven 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: Upon approval, shall apply to taxable years beginning after December 31, 2025.

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.

Digested: 1/28/2025



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TO: Committee on Economic Development and Tourism

FROM: HAWAII FOOD INDUSTRY ASSOCIATION

Lauren Zirbel, Executive Director

DATE: January 30, 2025

TIME: 1pm

RE: SB125 Relating to 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.



LATE

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January 30, 2025

HEARING BEFORE THE
SENATE COMMITTEE ON ECONOMIC DEVELOPMENT AND TOURISM

TESTIMONY ON SB 125
RELATING TO STATE ENTERPRISE ZONES

Conference Room 229 & Videoconference
1:00 PM

Aloha Chair DeCoite, Vice-Chair Wakai, and Members of the Committees:

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, which extends the eligibility period of the State business tax credit and general excise tax exemption for qualified businesses within State Enterprise Zones (EZ).

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 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 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.



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Aloha Chair Decoite, Vice Chair Wakai, and Members of the Senate Economic Development and Tourism Committee,

The Hawai'i Farmers Union is a 501(c)(5) agricultural advocacy nonprofit representing a network of over 2,500 family farmers and their supporters across the Hawaiian Islands. **HFUU supports SB125.**

SB125 offers an essential extension of support for businesses operating within Hawaii's State Enterprise Zones, particularly benefiting those engaged in agriculture and manufacturing. By increasing the eligibility period for business tax credits and general excise tax exemptions from seven to nine years—and specifically from ten to twelve years for those producing or processing agricultural products—this bill will provide vital, continued relief. The extension acknowledges the unique challenges faced by these industries, allowing them more time to solidify their operations and expand their economic contributions.

Support from SB125 signifies a strong commitment to fostering a business environment that embraces growth, sustains local food systems, and supports farmers as they navigate economic fluctuations. This kind of legislative support ensures that agriculture remains a vibrant part of Hawaii's heritage and future, providing tangible opportunities for growth and sustainability for our islands.

Mahalo for the opportunity to testify.

Hunter Heavilin
Advocacy Director
Hawai'i Farmers Union