
A BILL FOR AN ACT

RELATING TO STATE ENTERPRISE ZONES.

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

1 PART I

2 SECTION 1. The legislature finds that the enterprise zone
3 program was established in 1986 for the purpose of stimulating
4 business, agricultural, and industrial growth in areas to
5 revitalize neighborhoods by providing public benefits to local
6 companies. In addition to stimulating business activity, the
7 enterprise zone program also promotes job preservation and job
8 creation in areas designated by the counties and approved by the
9 governor. Benefits for local companies include permitting and
10 zoning assistance, fee waivers, tax relief, and more.

11 The legislature further finds that the most common
12 industries participating in the enterprise zone program are
13 agricultural production or processing, manufacturing, and
14 wholesaling and distribution. Other eligible industries include
15 aviation or maritime repair or maintenance; telecommunications
16 switching and delivery systems; information technology design
17 and production; medical research and clinical trials; for-profit



1 training programs in international business management or
2 environmental remediation; biotechnology research, development,
3 production, or sales; repair or maintenance of assisted
4 technology equipment; certain call centers; and wind energy
5 producers.

6 The legislature additionally finds that, for decades, a
7 manufacturer of tangible products has only been eligible for
8 enterprise zone program benefits if over one-half of the gross
9 sales of its products are to wholesalers and the sale takes
10 place within the enterprise zone. This qualification was
11 established before modern revolutions in manufacturing and
12 retail sales. Since the program's establishment, business
13 models have significantly changed, and local manufacturers now
14 often skip selling to wholesalers and go directly to retail,
15 making those manufacturers ineligible to participate in the
16 enterprise zone program. Allowing local manufacturers that sell
17 directly to retail to be eligible for the enterprise zone
18 program will help lift local businesses and promote job creation
19 and job preservation for local families looking to thrive in
20 Hawaii.



1 Accordingly, the purpose of this part is to modernize the
2 enterprise zone program by allowing additional activities within
3 an enterprise zone to qualify for enterprise zone benefits,
4 specifically:

5 (1) Retail and wholesale activity by a local manufacturer
6 made within the enterprise zone;

7 (2) The processing of value-added agriculture products;
8 and

9 (3) The provision of professional services by health care
10 professionals in health-care related sectors.

11 SECTION 2. Section 209E-2, Hawaii Revised Statutes, is
12 amended as follows:

13 1. By adding a new definition to be appropriately inserted
14 and to read:

15 ""Tangible personal property" means property that can be
16 touched or felt and can be relocated. "Tangible personal
17 property" does not include electricity, real property, or
18 intellectual property."

19 2. By amending the definition of "eligible business
20 activity" to read:

21 ""Eligible business activity" means the:



- 1 (1) Manufacture of tangible personal property, the
2 wholesale sale of tangible personal property as
3 described in section 237-4, the sale of tangible
4 personal property manufactured and sold at retail in
5 the enterprise zone for consumption or use by the
6 purchaser and not for resale, or a service business as
7 defined in this section;
- 8 (2) Production of agricultural products where the business
9 is a producer as defined in section 237-5, ~~[or]~~ the
10 processing of agricultural products~~[r]~~ or value-added
11 agricultural products, all or some of which were grown
12 within an enterprise zone;
- 13 (3) Research, development, sale, or production of all
14 types of genetically-engineered medical, agricultural,
15 or maritime biotechnology products; ~~[or]~~
- 16 (4) Production of electric power from wind energy for sale
17 primarily to a public utility company for resale to
18 the public; or
- 19 (5) The provision of professional services by health care
20 professionals in health-care related sectors,
21 including but not limited to home health care



1 agencies, specialized care practices, and health
2 coaching;
3 provided that medical cannabis dispensary activities pursuant to
4 chapter 329D shall not be considered an eligible business
5 activity for the purposes of this chapter."

6 PART II

7 SECTION 3. This part shall apply to business firms that
8 are designated as a qualified business for the purposes of
9 chapter 209E, Hawaii Revised Statutes, on or after July 1, 2025.

SECTION 4. Section 209E-9, Hawaii Revised Statutes, is amended by amending subsection (b) to read as follows:

12 "(b) A business firm may also be eligible to be designated
13 a qualified business for purposes of this chapter if the
14 business:

15 (1) Is actively engaged in the conduct of a trade or
16 business in an eligible business activity in an area
17 immediately [~~prior to~~] before the area being
18 designated an enterprise zone;

19 (2) Meets the requirements of subsection (a) (2); and

20 (3) Either:



1 (A) Increases its average annual number of full-time
2 employees employed at the business' establishment
3 or establishments within enterprise zones located
4 within the same county by at least ten per cent
5 by the end of the first year of operation, and by
6 at least fifteen per cent by the end of each of
7 the fourth, fifth, sixth, ~~[and]~~ seventh, eighth,
8 and ninth years of operation, and for businesses
9 eligible for tax credits extending past the
10 ~~[seventh]~~ ninth year, at least maintains that
11 higher level of employment during each subsequent
12 taxable year; provided that the percentage
13 increase shall be based upon the employee count
14 at the beginning of the initial year of operation
15 within the enterprise zone or zones; or
16 (B) Increases its gross sales of agricultural crops
17 produced, or agricultural products processed
18 within enterprise zones located within the same
19 county by two per cent annually."

20 SECTION 5. Section 209E-10, Hawaii Revised Statutes, is
21 amended as follows:



1 1. By amending subsection (a) to read:

2 "(a) The department shall certify annually to the
3 department of taxation the applicability of the tax credit
4 provided in this chapter for a qualified business against any
5 taxes due the State. Except for the general excise tax, the
6 credit shall be eighty per cent of the tax due for the first tax
7 year, seventy per cent of the tax due for the second tax year,
8 sixty per cent of the tax due for the third tax year, fifty per
9 cent of the tax due for the fourth tax year, forty per cent of
10 the tax due for the fifth tax year, thirty per cent of the tax
11 due for the sixth tax year, and twenty per cent of the taxes due
12 for each of the seventh [~~year~~], eighth, and ninth tax years.

13 For qualified businesses engaged in the manufacturing of
14 tangible personal property or the producing or processing of
15 agricultural products, the credit shall continue after the
16 [~~seventh~~] ninth tax year at the rate of twenty per cent of the
17 tax due for each of the subsequent three tax years. Any tax
18 credit not usable shall not be applied to future tax years."

19 2. By amending subsection (c) to read:

20 "(c) In addition to any tax credit authorized under this
21 section, any qualified business shall be entitled to a tax



1 credit against any taxes due the State in an amount equal to a
2 percentage of unemployment taxes paid. The amount of the credit
3 shall be equal to eighty per cent of the unemployment taxes paid
4 during the first year, seventy per cent of the taxes paid during
5 the second year, sixty per cent of the taxes paid during the
6 third year, fifty per cent of the taxes paid during the fourth
7 year, forty per cent of the taxes paid during the fifth year,
8 thirty per cent of the taxes paid during the sixth year, and
9 twenty per cent of the taxes paid during each of the seventh
10 ~~[year-]~~, eighth, and ninth years. For qualified businesses
11 engaged in the manufacturing of tangible personal property or
12 the producing or processing of agricultural products, the credit
13 shall continue after the ~~[seventh]~~ ninth year in an amount equal
14 to twenty per cent of the taxes paid during each of the
15 subsequent three tax years."

16 SECTION 6. Section 209E-11, Hawaii Revised Statutes, is
17 amended to read as follows:

18 "**§209E-11 State general excise exemptions.** The department
19 shall certify annually to the department of taxation that any
20 qualified business is exempt from the payment of general excise
21 taxes on the gross proceeds from an eligible business activity



1 as defined in this chapter; provided that agricultural
2 businesses other than those engaged in the production of
3 genetically-engineered agricultural products shall not be exempt
4 from the payment of general excise taxes on the gross proceeds
5 of agricultural retail sales. The gross proceeds received by a
6 contractor licensed under chapter 444 shall be exempt from the
7 general excise tax for construction within an enterprise zone
8 performed for a qualified business within an enterprise zone or
9 a business that has been approved by the department to enroll
10 into the enterprise zone program. The exemption shall extend
11 for a period not to exceed [~~seven~~] nine years; provided that for
12 qualified businesses engaged in the manufacturing of tangible
13 personal property or the producing or processing of agricultural
14 products, the exemption shall extend for a period not to exceed
15 [~~ten~~] twelve years; provided further that if a force majeure
16 event occurs, then the period of time shall be tolled until the
17 force majeure event ceases."

18 PART III

19 SECTION 7. Statutory material to be repealed is bracketed
20 and stricken. New statutory material is underscored.



1 SECTION 8. This Act shall take effect on July 1, 2050;
2 provided that:
3 (1) Section 5 shall apply to taxable years beginning after
4 December 31, 2025; and
5 (2) Section 6 shall apply to taxable years beginning after
6 December 31, 2026.



Report Title:

State Enterprise Zones; Qualified Business; State Business Tax Credit; General Excise Tax; Eligible Business Activities; Retail Sales; Value-added Agricultural Products; Health Care Services; Exemption; Extension

Description:

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. Makes the extension of the state business tax credit eligibility period applicable to taxable years beginning after 12/31/2025. Makes the extension of the general excise tax exemption eligibility period applicable to taxable years beginning after 12/31/2026. Effective 7/1/2050. (SD1)

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