
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. Other eligible industries include aviation or
15 maritime repair or maintenance; telecommunication switching and
16 delivery; information technology design and production; medical
17 research, clinical trials, and telemedicine; for-profit training



1 programs in international business management or environmental
2 remediation; biotechnology research, development, production, or
3 sales; repair or maintenance of assistive technology equipment
4 used by persons with disabilities; certain call centers; and
5 wind energy production.

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 innovations 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 activity by a local manufacturer made within
- 6 the enterprise zone;
- 7 (2) The processing of value-added agriculture products;
- 8 (3) The Hawaii food and product innovation network; and
- 9 (4) 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 three new definitions to be appropriately
14 inserted and to read:

15 "Hawaii food and product innovation network" means an
16 entity engaged in research, development, testing, production, or
17 commercialization of proprietary or novel food products,
18 including food processing technologies, value-added food
19 products derived from local agricultural crops, and food science
20 and nutrition research with commercial applications; provided
21 that the entity's primary business activity involves such



1 research, development, testing, production, or
2 commercialization.

3 "Tangible personal property" means property that can be
4 touched or felt and relocated. "Tangible personal property"
5 does not include electricity, real property, or intellectual
6 property.

7 "Value-added agricultural product" means a product that has
8 been processed, enhanced, or otherwise modified beyond its raw
9 state in a manner that increases its economic value and that
10 meets the criteria established for the seal of quality program
11 managed by the department of agriculture and biosecurity
12 pursuant to section 148-63."

13 2. By amending the definition of "eligible business
14 activity" to read:

15 ""Eligible business activity" means the:

16 (1) Manufacture of tangible personal property, the
17 wholesale sale of tangible personal property as
18 described in section 237-4, the sale of tangible
19 personal property manufactured and sold at retail in
20 an enterprise zone for consumption or use by the



- 1 purchaser and not for resale, or a service business as
2 defined in this section;
- 3 (2) Production of agricultural products where the business
4 is a producer as defined in section 237-5, or the
5 processing of agricultural products~~[7]~~ or value-added
6 agricultural products, all or some of which were grown
7 within an enterprise zone;
- 8 (3) Research, development, sale, or production of all
9 types of genetically-engineered medical, agricultural,
10 or maritime biotechnology products; ~~[e]~~
- 11 (4) Production of electric power from wind energy for sale
12 primarily to a public utility company for resale to
13 the public;
- 14 (5) Hawaii food and product innovation network; or
- 15 (6) The provision of professional services by health care
16 professionals in health care-related sectors,
17 including but not limited to home health care
18 agencies, specialized care practices, and health
19 coaching;



1 provided that medical cannabis dispensary activities pursuant to
2 chapter 329D shall not be considered an eligible business
3 activity for the purposes of this chapter."

4 PART II

5 SECTION 3. This part shall apply to business firms that
6 are designated as a qualified business for the purposes of
7 chapter 209E, Hawaii Revised Statutes, on or after July 1, 2026.

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

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

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

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

18 (3) Either:

19 (A) Increases its average annual number of full-time
20 employees employed at the business' establishment
21 or establishments within enterprise zones located



1 within the same county by at least ten per cent
 2 by the end of the first year of operation, and by
 3 at least fifteen per cent by the end of each of
 4 the fourth, fifth, sixth, [~~and~~] seventh, eighth,
 5 and ninth years of operation, and for businesses
 6 eligible for tax credits extending past the
 7 [~~seventh~~] ninth year, at least maintains that
 8 higher level of employment during each subsequent
 9 taxable year; provided that the percentage
 10 increase shall be based upon the employee count
 11 at the beginning of the initial year of operation
 12 within the enterprise zone or zones; or

13 (B) Increases its gross sales of agricultural crops
 14 produced, or agricultural products processed
 15 within enterprise zones located within the same
 16 county by two per cent annually."

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

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

20 "(a) The department shall certify annually to the
 21 department of taxation the applicability of the tax credit



1 provided in this chapter for a qualified business against any
2 taxes due the State. Except for the general excise tax, the
3 credit shall be eighty per cent of the tax due for the first tax
4 year, seventy per cent of the tax due for the second tax year,
5 sixty per cent of the tax due for the third tax year, fifty per
6 cent of the tax due for the fourth tax year, forty per cent of
7 the tax due for the fifth tax year, thirty per cent of the tax
8 due for the sixth tax year, and twenty per cent of the tax due
9 for each of the seventh [year-], eighth, and ninth tax years.

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

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

17 "(c) In addition to any tax credit authorized under this
18 section, any qualified business shall be entitled to a tax
19 credit against any taxes due the State in an amount equal to a
20 percentage of unemployment taxes paid. The amount of the credit
21 shall be equal to eighty per cent of the unemployment taxes paid



1 during the first tax year, seventy per cent of the taxes paid
2 during the second tax year, sixty per cent of the taxes paid
3 during the third tax year, fifty per cent of the taxes paid
4 during the fourth tax year, forty per cent of the taxes paid
5 during the fifth tax year, thirty per cent of the taxes paid
6 during the sixth tax year, and twenty per cent of the taxes paid
7 during each of the seventh [~~year-~~], eighth, and ninth tax years.

8 For qualified businesses engaged in the manufacturing of
9 tangible personal property or the producing or processing of
10 agricultural products, the credit shall continue after the
11 [~~seventh~~] ninth tax year in an amount equal to twenty per cent
12 of the taxes paid during each of the subsequent three tax
13 years."

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

16 "**§209E-11 State general excise exemptions.** The department
17 shall certify annually to the department of taxation that any
18 qualified business is exempt from the payment of general excise
19 taxes on the gross proceeds from an eligible business activity
20 as defined in this chapter; provided that agricultural
21 businesses other than those engaged in the production of



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

16 PART III

17 SECTION 7. Statutory material to be repealed is bracketed
18 and stricken. New statutory material is underscored.

19 SECTION 8. This Act shall take effect on July 1, 2050;
20 provided that:



- 1 (1) Section 5 shall apply to taxable years beginning after
- 2 December 31, 2026; and
- 3 (2) Section 6 shall take effect on January 1, 2028.



Report Title:

State Enterprise Zones; Qualified Business; State Business Tax Credit; General Excise Tax; Eligible Business Activities; Retail Sales; Value-Added Agricultural Products; Hawaii Food and Production Innovation Network; Health Care Services; Exemption; Extension

Description:

Amends the definition of "eligible business activity" for the purposes of the Enterprise Zone Program to include certain retail sales of tangible personal property, processing of certain value-added agricultural products, the Hawaii food and product innovation network, and the provision of certain professional services by health care professionals. For taxable years beginning after 12/31/2026, extends the eligibility period of the state business tax credit for qualified businesses within state enterprise zones. Beginning 1/1/2028, extends the eligibility period of the general excise tax exemption credit for qualified businesses within state enterprise zones. Effective 7/1/2050. (HD1)

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