THE SENATE
THIRTY-THIRD LEGISLATURE, 2025
STATE OF HAWAII

S.B. NO. 125 S.D. 2

A BILL FOR AN ACT

RELATING TO STATE ENTERPRISE ZONES.

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

PART I

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

The legislature further finds that the most common industries participating in the enterprise zone program are agricultural production or processing, manufacturing, and wholesaling and distribution. 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.

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

Accordingly, the purpose of this part is 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.

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

1. By adding two new definitions to be appropriately inserted and to read:

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

"Value-added agricultural product" means a product that has been processed, enhanced, or otherwise modified beyond its raw state in a manner that increases its economic value and that

meets the criteria established for the seal of quality program by the department of agriculture under section 148-63."

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

""Eligible business activity" means the:

(1) Manufacture of tangible personal property, the wholesale sale of tangible personal property as described in section 237-4, the 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, or a service business as defined in this section;

(2) Production of agricultural products where the business is a producer as defined in section 237-5, [~~or~~] the processing of agricultural products[~~,~~] or value-added agricultural products, all or some of which were grown within an enterprise zone;

(3) Research, development, sale, or production of all types of genetically-engineered medical, agricultural, or maritime biotechnology products; [~~or~~]

(4) Production of electric power from wind energy for sale primarily to a public utility company for resale to the public; or

(5) The 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;

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

PART II

SECTION 3. This part shall apply to business firms that are designated as a qualified business for the purposes of 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:

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

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

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

(3) Either:

(A) Increases its average annual number of full-time employees employed at the business' establishment or establishments within enterprise zones located within the same county by at least ten per cent by the end of the first year of operation, and by at least fifteen per cent by the end of each of the fourth, fifth, sixth, [~~and~~] seventh, eighth, and ninth years of operation, and for businesses eligible for tax credits extending past the [~~seventh~~] ninth year, at least maintains that higher level of employment during each subsequent taxable year; provided that the percentage increase shall be based upon the employee count at the beginning of the initial year of operation within the enterprise zone or zones; or

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

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

1. By amending subsection (a) to read:

"(a) The department shall certify annually to the department of taxation the applicability of the tax credit provided in this chapter for a qualified business against any taxes due the State. Except for the general excise tax, the credit shall be eighty per cent of the tax due for the first tax year, seventy per cent of the tax due for the second tax year, sixty per cent of the tax due for the third tax year, fifty per cent of the tax due for the fourth tax year, forty per cent of the tax due for the fifth tax year, thirty per cent of the tax due for the sixth tax year, and twenty per cent of the taxes due for each of the seventh [~~year.~~], eighth, and ninth tax years. For qualified businesses engaged in the manufacturing of tangible personal property or the producing or processing of agricultural products, the credit shall continue after the

[~~seventh~~] ninth tax year at the rate of twenty per cent of the tax due for each of the subsequent three tax years. Any tax credit not usable shall not be applied to future tax years."

2. By amending subsection (c) to read:

"(c) In addition to any tax credit authorized under this section, any qualified business shall be entitled to a tax credit against any taxes due the State in an amount equal to a percentage of unemployment taxes paid. The amount of the credit shall be equal to eighty per cent of the unemployment taxes paid during the first year, seventy per cent of the taxes paid during the second year, sixty per cent of the taxes paid during the third year, fifty per cent of the taxes paid during the fourth year, forty per cent of the taxes paid during the fifth year, thirty per cent of the taxes paid during the sixth year, and twenty per cent of the taxes paid during each of the seventh [~~year.~~], eighth, and ninth years. For qualified businesses engaged in the manufacturing of tangible personal property or the producing or processing of agricultural products, the credit shall continue after the [~~seventh~~] ninth year in an amount equal to twenty per cent of the taxes paid during each of the subsequent three tax years."

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

"**§209E-11 State general excise exemptions.** The department shall certify annually to the department of taxation that any qualified business is exempt from the payment of general excise taxes on the gross proceeds from an eligible business activity as defined in this chapter; provided that agricultural businesses other than those engaged in the production of genetically-engineered agricultural products shall not be exempt from the payment of general excise taxes on the gross proceeds of agricultural retail sales. The gross proceeds received by a contractor licensed under chapter 444 shall be exempt from the general excise tax for construction within an enterprise zone performed for a qualified business within an enterprise zone or a business that has been approved by the department to enroll into the enterprise zone program. The exemption shall extend for a period not to exceed [~~seven~~] nine years; provided that for qualified businesses engaged in the manufacturing of tangible personal property or the producing or processing of agricultural products, the exemption shall extend for a period not to exceed [~~ten~~] twelve years; provided further that if a force majeure

event occurs, then the period of time shall be tolled until the force majeure event ceases."

PART III

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

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

(1) Section 5 shall apply to taxable years beginning after December 31, 2025; and

(2) Section 6 shall take effect on January 1, 2027.

S.B. NO. 125 S.D. 2

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 7 years to 9 years. Extends the eligibility period of the 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 10 years to 12 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 take effect on 1/1/2027. Effective 7/1/2050. (SD2)

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