
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 support local businesses and promote job
19 creation and preservation for local families looking to thrive
20 in 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 (3) The provision of professional services by health care
- 9 professionals in health-care-related sectors;
- 10 (4) The use of advanced manufacturing to produce products;
- 11 and
- 12 (5) The development of cybersecurity technology.

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

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

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



1 "Value-added agricultural product" means a product that has
2 been processed, enhanced, or otherwise modified beyond its raw
3 state in a manner that increases its economic value and that
4 meets the criteria established for the seal of quality program
5 by the department of agriculture under section 148-63."

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

8 "'Eligible business activity" means the:

- 9 (1) Manufacture of tangible personal property, the
10 wholesale sale of tangible personal property as
11 described in section 237-4, the sale of tangible
12 personal property manufactured and sold at retail in
13 the enterprise zone for consumption or use by the
14 purchaser and not for resale, or a service business as
15 defined in this section;
- 16 (2) Production of agricultural products where the business
17 is a producer as defined in section 237-5, [~~or~~] the
18 processing of agricultural products[~~7~~] or value-added
19 agricultural products, all or some of which were grown
20 within an enterprise zone;



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

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

7 (5) Provision of professional services by health care
8 professionals in health-care-related sectors,
9 including but not limited to home health care
10 agencies, specialized care practices, and health
11 coaching;

12 (6) Use of advanced manufacturing to produce products; or

13 (7) Development of cybersecurity technology.

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

17 PART II

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



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

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

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

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

11 (3) Either:

12 (A) Increases its average annual number of full-time
13 employees employed at the business' establishment
14 or establishments within enterprise zones located
15 within the same county by at least ten per cent
16 by the end of the first year of operation, and by
17 at least fifteen per cent by the end of each of
18 the fourth, fifth, sixth, [~~and~~] seventh, eighth,
19 and ninth years of operation, and for businesses
20 eligible for tax credits extending past the
21 [~~seventh~~] ninth year, at least maintains that



1 higher level of employment during each subsequent
 2 taxable year; provided that the percentage
 3 increase shall be based upon the employee count
 4 at the beginning of the initial year of operation
 5 within the enterprise zone or zones; or
 6 (B) Increases its gross sales of agricultural crops
 7 produced, or agricultural products processed
 8 within enterprise zones located within the same
 9 county by two per cent annually."

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

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

13 "(a) The department shall certify annually to the
 14 department of taxation the applicability of the tax credit
 15 provided in this chapter for a qualified business against any
 16 taxes due the State. Except for the general excise tax, the
 17 credit shall be eighty per cent of the tax due for the first tax
 18 year, seventy per cent of the tax due for the second tax year,
 19 sixty per cent of the tax due for the third tax year, fifty per
 20 cent of the tax due for the fourth tax year, forty per cent of
 21 the tax due for the fifth tax year, thirty per cent of the tax



1 due for the sixth tax year, and twenty per cent of the taxes due
2 for each of the seventh [~~year~~], eighth, and ninth tax years.

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

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

10 "(c) In addition to any tax credit authorized under this
11 section, any qualified business shall be entitled to a tax
12 credit against any taxes due the State in an amount equal to a
13 percentage of unemployment taxes paid. The amount of the credit
14 shall be equal to eighty per cent of the unemployment taxes paid
15 during the first year, seventy per cent of the taxes paid during
16 the second year, sixty per cent of the taxes paid during the
17 third year, fifty per cent of the taxes paid during the fourth
18 year, forty per cent of the taxes paid during the fifth year,
19 thirty per cent of the taxes paid during the sixth year, and
20 twenty per cent of the taxes paid during each of the seventh
21 [~~year~~], eighth, and ninth years. For qualified businesses



1 engaged in the manufacturing of tangible personal property or
2 the producing or processing of agricultural products, the credit
3 shall continue after the [~~seventh~~] ninth year in an amount equal
4 to twenty per cent of the taxes paid during each of the
5 subsequent three tax years."

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

8 "**§209E-11 State general excise exemptions.** The department
9 shall certify annually to the department of taxation that any
10 qualified business is exempt from the payment of general excise
11 taxes on the gross proceeds from an eligible business activity
12 as defined in this chapter; provided that agricultural
13 businesses other than those engaged in the production of
14 genetically-engineered agricultural products shall not be exempt
15 from the payment of general excise taxes on the gross proceeds
16 of agricultural retail sales. The gross proceeds received by a
17 contractor licensed under chapter 444 shall be exempt from the
18 general excise tax for construction within an enterprise zone
19 performed for a qualified business within an enterprise zone or
20 a business that has been approved by the department to enroll
21 into the enterprise zone program. The exemption shall extend



1 for a period not to exceed [~~seven~~] nine years; provided that for
2 qualified businesses engaged in the manufacturing of tangible
3 personal property or the producing or processing of agricultural
4 products, the exemption shall extend for a period not to exceed
5 [~~ten~~] twelve years; provided further that if a force majeure
6 event occurs, then the period of time shall be tolled until the
7 force majeure event ceases."

8 PART III

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

11 SECTION 8. This Act shall take effect on July 1, 3000;
12 provided that:

- 13 (1) Section 5 shall apply to taxable years beginning after
14 December 31, 2025; and
15 (2) Section 6 shall take effect on January 1, 2027.



Report Title:

State Enterprise Zones; Qualified Business; Tax Incentives;
Eligible Business Activities; Retail Sales; Value-Added
Agricultural Products; Health Care Services; Advanced
Manufacturing; Cybersecurity

Description:

Amends the definition of "eligible business activity" for State Enterprise Zone Program purposes to include retail sales of tangible personal property manufactured and sold in the enterprise zone to the final consumer, the processing of value-added agricultural products grown within an enterprise zone, the provision of professional services by health care professionals in health-care-related sectors, the use of advanced manufacturing to produce products, or the development of cybersecurity technology. 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 7/1/3000. (HD1)

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