
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:

3 (1) Allowing additional activities within an enterprise
4 zone to qualify for enterprise zone benefits,
5 specifically:

6 (A) Retail activity by a local manufacturer made
7 within the enterprise zone;

8 (B) The processing of value-added agriculture
9 products;

10 (C) Research, development, sale, or production of all
11 types of medical products and medical and health
12 care services;

13 (D) Activities of the Hawaii food and product
14 innovation network;

15 (E) The provision of professional services by health
16 care professionals in health care-related
17 sectors;

18 (F) Research and development of aerospace technology;
19 and

20 (G) Information technology design and production
21 services;



1 (2) Authorizing the department of business, economic
2 development, and tourism to declare up to two census
3 tracts on state land that contain an innovation
4 enterprise to be designated as an enterprise zone,
5 subject to the governor's approval; and

6 (3) Requiring the department of business, economic
7 development, and tourism to conduct a comprehensive
8 review, in consultation with the department of
9 taxation, of the state enterprise zones program and
10 report to the legislature.

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

13 1. By adding four 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 agricultural crops, and food science and
20 nutrition research with commercial applications; provided that



1 the entity's primary business activity involves such research,
2 development, testing, production, or commercialization.

3 "Innovation enterprise" means an area located on property
4 owned by the State that is intended to support, or currently
5 contains, businesses primarily engaged in space domain
6 awareness; information technology design and production
7 services; aerospace, medical technology, biomedical, or life
8 sciences research and development; clinical trials; or
9 pharmaceutical manufacturing.

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

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

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

19 ""Eligible business activity" means the:

20 (1) Manufacture of tangible personal property, the
21 wholesale sale of tangible personal property as



1 described in section 237-4, the sale of tangible
2 personal property manufactured and sold at retail in
3 an enterprise zone for consumption or use by the
4 purchaser and not for resale, or a service business as
5 defined in this section;

6 (2) Production of agricultural products where the business
7 is a producer as defined in section 237-5, or the
8 processing of agricultural products~~[7]~~ or value-added
9 agricultural products, all or some of which were grown
10 within an enterprise zone;

11 (3) Research, development, sale, or production of ~~[all]~~:
12 (A) All types of [genetically-engineered] medical,
13 agricultural, or maritime biotechnology products;
14 [or] and
15 (B) Medical and health care services;

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

19 (5) Activities of the Hawaii food and product innovation
20 network;



1 (6) The provision of professional services by health care
2 professionals in health care-related sectors,
3 including but not limited to home health care
4 agencies, specialized care practices, and health
5 coaching;

6 (7) Research and development of aerospace technology; or

7 (8) Information technology design and production services;

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

11 SECTION 3. Section 209E-4, Hawaii Revised Statutes, is
12 amended to read as follows:

13 "**§209E-4 Enterprise zone designation.** (a) The governing
14 body of any county may apply in writing to the department to
15 have an area declared to be an enterprise zone. The application
16 shall include a description of the location of the area or areas
17 in question, and a general statement identifying proposed local
18 incentives to complement the state and any federal incentives.

19 (b) The governor, upon the recommendation of the director,
20 shall approve the designation of up to six areas in each county
21 as enterprise zones for a period of twenty years. Any such area



1 shall be located in one United States census tract or two or
2 more contiguous United States census tracts in accordance with
3 the most recent decennial United States Census. The census
4 tract or tracts within which each enterprise zone is located
5 also shall meet at least one of the following criteria:

6 (1) Twenty-five per cent or more of the population have
7 incomes below eighty per cent of the median family
8 income of the county; or

9 (2) The unemployment rate is 1.5 times the state average.

10 (c) The department may declare up to two census tracts on
11 state land that contain an innovation enterprise to be
12 designated as an enterprise zone, subject to the governor's
13 approval; provided that, notwithstanding any other provision of
14 this section, the designation of census tracts pursuant to this
15 subsection may be made without regard to county application
16 requirements, geographic limitations, or eligibility criteria
17 otherwise applicable to enterprise zones under this chapter."

18 SECTION 4. (a) The department of business, economic
19 development, and tourism, in consultation with the department of
20 taxation, shall conduct a comprehensive review of the state



1 enterprise zones program established under chapter 209E, Hawaii
2 Revised Statutes.

3 (b) The comprehensive review shall include:

4 (1) An evaluation of the economic impact of the program,
5 including the number of jobs created and the types of
6 industries supported;

7 (2) An assessment of whether existing enterprise zones
8 continue to meet the statutory eligibility criteria
9 for designation; and

10 (3) Revenues generated by participating companies for each
11 county.

12 (c) The department of business, economic development, and
13 tourism shall submit a report of its findings to the legislature
14 no later than twenty days prior to the convening of the regular
15 session of 2027.

16 PART II

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

20 SECTION 6. Section 209E-9, Hawaii Revised Statutes, is
21 amended by amending subsection (b) to read as follows:



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

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

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

9 (3) Either:

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



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

8 SECTION 7. Section 209E-10, Hawaii Revised Statutes, is
9 amended as follows:

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

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



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

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

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

20 For qualified businesses engaged in the manufacturing of
21 tangible personal property or the producing or processing of



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

5 SECTION 8. Section 209E-11, Hawaii Revised Statutes, is
6 amended to read as follows:

7 "**§209E-11 State general excise exemptions.** The department
8 shall certify annually to the department of taxation that any
9 qualified business is exempt from the payment of general excise
10 taxes on the gross proceeds from an eligible business activity
11 as defined in this chapter; provided that agricultural
12 businesses other than those engaged in the production of
13 genetically-engineered agricultural products shall not be exempt
14 from the payment of general excise taxes on the gross proceeds
15 of agricultural retail sales. The gross proceeds received by a
16 contractor licensed under chapter 444 shall be exempt from the
17 general excise tax for construction within an enterprise zone
18 performed for a qualified business within an enterprise zone or
19 a business that has been approved by the department to enroll
20 into the enterprise zone program. The exemption shall extend
21 for a period not to exceed [~~seven~~] nine years; provided that for



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

7 PART III

8 SECTION 9. This Act shall apply to all qualified
9 businesses, as defined in section 209E-2, Hawaii Revised
10 Statutes, that join the enterprise zone program on or after the
11 effective date of this Act.

12 SECTION 10. Statutory material to be repealed is bracketed
13 and stricken. New statutory material is underscored.

14 SECTION 11. This Act shall take effect on July 1, 2026;
15 provided that:

16 (1) Section 7 shall apply to taxable years beginning after
17 December 31, 2026; and

18 (2) Section 8 shall take effect on January 1, 2028.



Report Title:

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

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; research development, sale, or production of all types of medical products and medical and health care services; activities of the Hawaii Food and Product Innovation Network; the provision of certain professional services by health care professionals; aerospace research and development activities; and information technology design and production services. Authorizes the Department of Business, Economic Development, and Tourism to declare up to two census tracts on state land that contain an innovation enterprise to be designated as an enterprise zone, subject to the Governor's approval and notwithstanding certain conditions. Requires DBEDT to conduct a comprehensive review, in consultation with the Department of Taxation, of the State Enterprise Zones Program and to submit a report to the Legislature. 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 for qualified businesses within state enterprise zones. Applies to qualified businesses who join the Enterprise Zone Program on or after 7/1/2026. (CD1)

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