

---

---

# 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)

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

