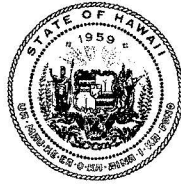


LATE TESTIMONY

LINDA LINGLE  
GOVERNOR

JAMES R. AIONA, JR.  
LT. GOVERNOR



KURT KAWAFUCHI  
DIRECTOR OF TAXATION

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HOUSE COMMITTEES ON ECONOMIC REVITALIZATION, BUSINESS &  
MILITARY AFFAIRS AND AGRICULTURE

TESTIMONY REGARDING SB 1248 SD 1  
RELATING TO STATE ENTERPRISE ZONES

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: MARCH 17, 2009

TIME: 10:30AM

ROOM: 312

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In addition to making technical amendments, this legislation extends the income tax credit and general excise tax exemption for qualified businesses engaged in the manufacturing of tangible personal property or in the production or processing of agricultural products within an enterprise zone for an additional seven years.

Given the current economic situation, the Department opposes the tax provisions in this measure due to their budgetary impact. The Department also offers comments on this legislation.

**FINANCIAL CONCERNS**—Under the current law, qualified businesses operating within an enterprise zone are given income tax credits ranging from 80% of their income tax liabilities in the first year of becoming a qualified business, to 20% in the seventh year (the percentage tax credit incrementally decreases by 10% per year for the second through the sixth years). Qualified businesses receive an additional income tax credit equal to a percentage of unemployment taxes paid during the first seven years of operations (using the same percentage schedule noted above). Moreover, subject to limited exceptions, qualified businesses are fully exempt from general excise tax for the first seven years of operating as a qualified business within an enterprise zone. This measure would extend the income tax credits (applying a 20% rate) and general excise tax exemption for qualified businesses that are manufacturers of tangible personal property or producers or processors of agricultural products for an additional seven years. The Department cannot support this measure at this time as the extension of such credits and exemption would result in significant revenue losses, exacerbating the budget shortfall.

**OTHER COMMENTS** – If this measure proceeds forward, the Department suggests that the amendment to subparagraph 3(A) of subsection (b), §209E-9, HRS, which addresses the extension of the credits, be clarified so that the "higher level of employment" that must be satisfied specifically references the level of employment attained in the seventh year of operating as a qualified business.

**REVENUE IMPACT AND METHODOLOGY**– This measure is projected to result in a revenue loss to the general fund of \$300,000.

Qualified companies in the State's enterprise zones received about \$1.5 million in tax credits in 2006 (preliminary DOTax data). It is assumed that the number of firms and business activities will remain the same, and this proposal would expand enterprise zone activities by 20%. ( $\$1.5 \text{ million} * 20\% = \$300,000$ ).



## LATE TESTIMONY

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March 16, 2009

The Honorable Rep. Clift Tsuji, Chair,  
Committee on Agriculture

The Honorable Rep. Angus L. K. McKelvey, Chair

Committee on Economic Revitalization, Business & Military Affairs (EDM)

Hawaii State House of Representatives

Hawaii State Capitol, Room 325

Honolulu, HI 96813

**Subject: Testimony on SB1248 ENTERPRIZE ZONE**

Dear Chair Tsuji, and Chair McKelvey, and House Members:

As a farm-business owner and behalf of the 150 Aloun Farms' employing members, we ask for your support to pass SB1248 on Extending the tax benefit to agri-businesses in the Enterprise Zone in Rural regions of the islands.

The benefit that comes with Enterprise zone will go a long way to help strengthen the various small businesses in the zone that are currently facing the economic troubled times. We are not asking for tax payers to put forth funds that were already collected in the State system. Those businesses in the Zone have built and survived the past 10 years after the demised of large track sugar and pineapple plantations, in part because of being in under the EZ plan. The State's exemption of the half percent excised tax is an extremely small portion to the state overall. However, that small portion has directly link and benefited back to the various businesses that continue to remain in operations and to continue to hire and create jobs. Base on the success of the EZ plan the last 10 years, the passage of SB1248 to allow businesses in EZ to renew for 7 years will be the smallest Government investment for the State's biggest return. Mahalo.

Sincerely,

Alec Sou,  
President/General Manager