

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



GARY S. SUGANUMA
DIRECTOR

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION

Ka 'Oihana 'Auhau
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**TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

TESTIMONY ON THE FOLLOWING MEASURE:

S.B. No. 125, S.D. 2, H.D. 1, Relating to State Enterprise Zones

BEFORE THE:

House Committee on Agriculture & Food Systems

DATE: Wednesday, March 19, 2025

TIME: 9:30 a.m.

LOCATION: State Capitol, Room 325

Chair Kahaloa, Vice-Chair Kusch, and Members of the Committee:

The Department of Taxation (DOTAX) offers the following comments regarding S.B. 125, S.D. 2, H.D. 1, for your consideration.

Part I, section 2 of S.B. 125, S.D. 2, H.D. 1, adds new definitions for (1) “tangible personal property,” and (2) “value-added agricultural product,” and amends the definition of “eligible business activity” within an enterprise zone under section 209E-2, Hawaii Revised Statutes (HRS), to include:

- (1) the retail sale of “tangible personal property,”
- (2) the processing of “value-added agricultural products,”
- (3) the providing of certain health care professional services,
- (4) the “use of advanced manufacturing to produce products,” and
- (5) the “development of cybersecurity technology.”

As a result, if these activities are performed in an enterprise zone, they would be entitled to the tax benefits associated with the enterprise zone program.

Part II, section 3 of the bill clarifies that the amendments under Part II would apply to chapter 209E qualified businesses on or after July 1, 2025.

Part II, section 4 of the bill amends section 209E-9, HRS, by extending the requirement of a qualified business to increase its average annual number of full-time employees by at least 15 percent per year through 9 years, rather than the 7 years currently required.

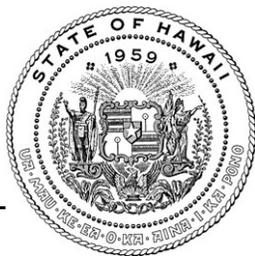
Part II, section 5 of the bill amends section 209E-10, HRS, to extend the timeframe that the Enterprise Zone Tax Credit may be claimed from 7 years to 9 years. The credits for years 7, 8, and 9 are set at 20 percent of a qualified business' taxes due in the State, and 20 percent of unemployment taxes paid. For qualified businesses engaged in the manufacturing of tangible personal property, or producing or processing agricultural products, the credit for years 10 through 12 are set at 20 percent of the taxes due, and 20 percent of unemployment taxes paid.

Finally, Part II, section 6 of the bill amends section 209E-11, HRS, to extend the general excise tax (GET) exemption for construction (contractors) performed for a qualified business within an enterprise zone, from 7 years to 9 years, and to extend the GET exemption for qualified businesses engaged in the manufacturing of tangible personal property, or the producing or processing of agricultural products, from 10 years to 12 years.

This measure has a defective effective date of July 1, 3000, with section 5 of the bill applicable to taxable years beginning after December 31, 2025, and section 6 effective on January 1, 2027.

DOTAX notes that it can administer the tax law changes in sections 5 and 6 of the measure with the stated effective dates.

Thank you for the opportunity to provide comments on this measure.



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**
KA 'OIHANA HO'OMOHALA PĀ'OIHANA, 'IMI WAIWAI
A HO'OMĀKA'IKA'I

JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR

JAMES KUNANE TOKIOKA
DIRECTOR

DANE K. WICKER
DEPUTY DIRECTOR

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Statement of
James Kunane Tokioka
Director
Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEE ON AGRICULTURE & FOOD SYSTEMS

Wednesday, March 19, 2025
9:30 AM
State Capitol, Conference Room 325

In consideration of
SB125 SD2 HD1
RELATING TO STATE ENTERPRISE ZONES.

Chair Kahaloa, Vice Chair Kusch, and members of the Committee. The Department of Business, Economic Development and Tourism (DBEDT) supports the intent of **SB125 SD2 HD1** which extends the eligibility period of the State business tax credit and general excise tax exemption for qualified businesses within State Enterprise Zones from seven years to nine years and manufacturers and agricultural producers from ten years to 12 years. The bill also 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.

DBEDT agrees that new manufacturing and agricultural production business models have evolved since the Enterprise Zones program was established. Specifically, many manufacturers and growers sell directly to consumers, i.e., direct to retail and thus do not benefit from this program even though they may be creating jobs in economically challenged areas of the state.

DBEDT understands that healthcare services are a growing sector of our economy and that supporting this sector with incentives might help provide our state with these vital services. Please note, cybersecurity companies would already most likely be admitted into the EZ program under the business activity of “information technology design and production services” and companies using advanced manufacturing to produce products would also most likely be admitted into the program as “manufacturers.” This latter classification would also allow such companies to receive the three (3) year extension.

Also, DBEDT would like to make you aware that **HB1369 HD1** proposes to repeal the EZ GET tax exemption which is in direct conflict with the intent of **SB125 SD2 HD1**.

The EZ program has been a successful program over the years. In 2023, EZ companies created or maintained 876 jobs in economically challenged areas of the state at a very low cost to taxpayers.

DBEDT defers to the State Department of Taxation for revenue implications, compliance, and administrative issues, e.g., the state tax form N-756 Enterprise Zone Tax Credit would need to be modified.

Thank you for the opportunity to testify.



holomua

COLLABORATIVE

OUR MISSION

To support and advance public policies that make Hawai'i affordable for all working families.

OUR VISION

Collaborative, sustainable, and evidence-based public policies that create a diverse and sustainable Hawai'i economy, an abundance of quality job opportunities, and a future where all working families living in Hawai'i can thrive.

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Alicia Moy
Ed Schultz

Josh Wisch
President & Executive Director

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HolomuaCollaborative.org

Page 1 of 2

Committee: House Committee on Agriculture and Food Systems
Bill Number: SB 125 SD2 HD1, Relating to State Enterprise Zones
Hearing Date and Time: March 19, 2025 at 9:30am (Room 325)
Re: Testimony of Holomua Collaborative in support

Aloha Chair Kahaloa, Vice Chair Kusch, and Committee Members:

We write in support of Senate Bill 125 SD2 HD1, Relating to State Enterprise Zones. The purpose of SB 125 SD2 HD1 is, in part, 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.

Holomua supports initiatives that help keep all local working families in Hawai'i by addressing issues of affordability. We are especially interested in fostering cross-sector collaboration and supporting policies that are evidence-based.

In order for Hawai'i to be affordable for local working families, we must ensure our local business community is provided with the opportunities necessary to expand and succeed in an uncertain economy. Only 21% of respondents in a recent survey of 1500 local residents agree that "Hawai'i is a good place to do business." This statement also shows a high percentage of disagreement, with 43 percent *disagreeing* Hawai'i is a good place to do business. A still larger portion of respondents agree that Hawai'i must recruit and retain critical workforce members.¹

One way to improve the business climate in Hawai'i—which should result in more opportunities for recruitment and retention for local employers—is through enhancing the Enterprise Zone program.

Currently, the Enterprise Zone program provides public benefits to local companies to stimulate business activity, job preservation, and job creation in areas where they are most appropriate or most needed. Benefits for local companies include permitting and zoning assistance, fee waivers, tax relief, and more—in geographic regions selected by the County and approved by the Governor.

¹ 2024 Affordability Survey, Holomua Collective.

The most common eligible industries currently in the Enterprise Zone Program are: Agricultural production or processing; Manufacturing; and Wholesaling/Distribution.² 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.

Local manufacturing (and society overall) has undergone a sea change since the law was first enacted in the late 1980s. In particular, the invention of the internet has altered business models for many local manufacturers. For decades, manufacturers of tangible products have only been eligible for Enterprise Zone benefits if 50.1% of the gross sales of their products are to wholesalers and the sale takes place within the Enterprise Zone. Now, manufacturers go directly to retail and miss out on these benefits of the program.

Additionally, farmers and agricultural producers are eligible for the Enterprise Zone Program, and most *but not all* value-added agricultural processing companies are accepted into the program. Clarifying specifically that the processing of value-added agricultural products is an eligible business activity for the Enterprise Zone Program will provide the certainty for our agricultural workers need to continue working on value-add products.

Expanding the impact of the Enterprise Zone Program is a cost-effective way to help local businesses thrive with a considerable return on investment. Small local businesses are key in keeping Hawaii's economy strong. They provide different ways for people to earn money, create job opportunities, and ensure that money stays within the community. Plus, they help support the special culture of Hawai'i.

We ask that you support SB 125 SD2 HD1.

Sincerely,



Josh Wisch
President & Executive Director

² Hawaii Enterprise Zones Program, Calendar Year Report for Tax Year 2023, Department of Business, Economic Development, and Tourism.



**TESTIMONY IN SUPPORT OF SB 125 SD2 HD1
Relating to State Enterprise Zones**

Committee on Agriculture & Food Systems
Representative Kirstin Kahaloe, Chair
Representative Matthias Kusch, Vice Chair

Wednesday, March 19, 2025 at 9:30 AM
Conference Room 325 & Videoconference
415 South Beretania Street

Chair Kahaloe, Vice Chair Kusch, and Members of the Committee:

The Hawaii Military Affairs Council ("MAC") **supports** SB 125 SD2 HD1 which amends the definition of "eligible business activity" for the State Enterprise Zone Program.

The MAC was established in 1985 when the Chamber was appointed by the State to serve as the liaison to the military. The MAC advocates on behalf of Hawaii's military, and is comprised of business leaders, academic institutions, State and County officials, members of the CODEL, community leaders, labor unions and organizations and retired U.S. flag and general officers. The MAC works to support Hawaii's location as a strategic U.S. headquarters in the Indo-Asia-Pacific region which is crucial for U.S. national and homeland security.

The defense industry is a vital economic driver for Hawaii, ranking as the state's second-largest industry after tourism. The MAC advocates for the integration of innovative technologies and advancements in cybersecurity to transform the fields of advanced manufacturing and digital security. These efforts could serve as powerful catalysts to further strengthen and diversify Hawaii's economy.

Thank you for the opportunity to offer testimony in support.



TO: HOUSE COMMITTEE ON AGRICULTURE AND FOOD SYSTEMS
The Honorable Kirstin Kahaloa, Chair
The Honorable Matthias Kusch, Vice Chair, and
Members of the Committee

FROM: Micah A. Kāne, CEO & President

DATE: March 19, 2025

RE: Testimony in Support for SB125 SD2 HD1, Relating to State Enterprise Zones
Date: Wednesday, March 19, 2025 at 9:30am
Place: Hearing Room 325

The Hawai'i Community Foundation (HCF) supports SB 125 SD2 HD1, which in part expands the Enterprise Zone Program to include 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.

HCF created the CHANGE Framework to better understand and address the most critical, complex challenges facing our community. By categorizing the needs of Hawai'i's people and places into six essential sectors, the community can identify how and where financial resources, expertise, and collective effort can make the most significant impact in improving outcomes across our state.

The "C" sector of the CHANGE Framework represents Community Centered Economy, and expanding the Enterprise Zone Program will lead to direct benefits for local businesses and consumers.

The Enterprise Zone Program was established in 1986 with the intent of creating and expanding jobs and businesses in local communities that need economic revitalization. The Program provides businesses in these designated areas with access to vital incentives, such as tax exemptions and priority permit processing. Expanding the Enterprise Zone Program to meet the modern needs of our economy and society, such as allowing manufacturers to sell directly to retail, encouraging the production of value-added agricultural products, or supporting health care professionals in struggling communities is an investment both in this economy and our people. This support will encourage investment and job creation in areas that need it most, fostering economic stability and improving the quality of life for residents. HCF strongly encourages the passage of this legislation to revitalize our communities and promote equitable economic development.

Statement of
Meli James and Brittany Heyd
Cofounders
Mana Up

SB 125 SD2 HD1, Relating to State Enterprise Zones

Aloha Chair Kahaloa, Vice Chair Kusch, and committee members,

We support SB 125 SD2 HD1, which expands the types of business activity which is eligible for the Enterprise Zone Program.

Mana Up is a statewide initiative that helps provide entrepreneurs in Hawai'i with the resources and tools to grow their business and scale globally. As these entrepreneurs continue to grow, they also help contribute to our expanding our local economy. As part of our mission, we aim to sustain the local economy through economic diversification, local job creation, community giveback, investment, and a regenerative culture of entrepreneurship – providing a better future for generations to come here in Hawai'i.

Since its inception in 1986, the Enterprise Zone Program has been a vital tool for stimulating business activity, revitalizing communities, and creating and preserving jobs. By offering benefits such as tax incentives, fee waivers, and permitting assistance, the program has successfully supported industries essential to Hawaii's economy, including agriculture, technology, and manufacturing. However, to remain effective, the program must evolve to reflect the realities of today's business environment.

A critical gap in the current law prevents many local manufacturers from accessing the program's benefits simply because they sell directly to consumers rather than through wholesalers. This outdated requirement does not reflect modern business practices, where e-commerce, direct-to-consumer sales, and small-scale retail operations are key to survival and growth. By updating the eligibility criteria to include manufacturers who sell directly to retail, the state can provide much-needed support to local businesses, ensuring they have the resources to expand, create jobs, and contribute to a stronger, more diversified economy. We urge you to pass this legislation and help Hawaii's manufacturers thrive.

Sincerely,

Meli James | Cofounder, Mana Up
Brittany Heyd | Cofounder, Mana Up



BUILDBETTER.LIVEBETTER.®

March 19, 2025

Committee: House Committee on Agriculture and Food Systems
Bill Number: SB 125 SD2 HD1, Relating to State Enterprise Zones
Hearing Date and Time: March 19, 2025, 9:30am
Re: Testimony of HPM Building Supply in Support

Dear Chair Kahaloa, Vice Chair Kusch, and Committee Members:

I would like to submit this testimony in support of SB 125 SD2 HD1, Relating to State Enterprise Zones. The purpose of SB 125 SD2 HD1 is, in part, to expand the eligibility for the Enterprise Zone Program to include direct to consumer manufacturer sales, the processing of value-added agricultural products, and the provision of professional services by health care professionals in health care related sectors.

HPM Building Supply is a 100% employee-owned company serving Hawaii's home improvement market and building industry for over 100 years since 1921. With 18 locations across Hawai'i and Washington State, HPM offers various services and products, including retail stores, building supply and lumber yards, home design centers, drafting and design services, and manufacturing facilities. HPM is dedicated to enhancing homes, improving lives, and transforming communities.

Hawai'i's economy is at a crossroads. As the cost of living continues to rise and businesses face mounting challenges, we must take action to support the industries that keep our local economy diverse and sustainable. By modernizing the Enterprise Zone Program, we provide businesses with the incentives that will help them expand, create jobs, and invest in their communities. SB 125 SD2 HD1 will help ensure that economic opportunity is available in all regions of the state, not just in urban centers.

In Hawai'i's competitive market, where costs can be extremely high, it's vital that we offer the support needed for businesses to launch and expand successfully. This support could create a significant positive impact, generating jobs and helping to strengthen the local economy from the ground up.

We ask that you support SB 125 SD2 HD1.

Sincerely,

Jason Fujimoto
Chairman & CEO



(808) 966-5466 • FAX (808) 966-7564
16-166 MELEKAHIWA STREET • KEAAU, HAWAII 96749

HPMHAWAII.COM



TORI RICHARD

March 19, 2025

Aloha Chair Kahaloha, Vice Chair Kusch, and members of the Committee,

We write in support SB 125 HD1 and the expansion of the Enterprise Zone Program.

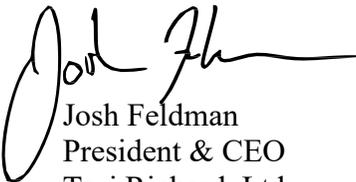
Tori Richard has manufactured in Honolulu for nearly 70 years, and we continue to proudly do so today. As a long-time medium-sized Hawai'i employer, we recognize the struggles facing new and expanding businesses.

Since it started in 1986, the Enterprise Zone Program has been important in helping local economies grow by giving businesses tax breaks and quicker approvals for permits. However, as businesses change, the program needs to change too. Nowadays, many manufacturers sell their products directly to consumers instead of through wholesalers, but they still miss out on these benefits. This new legislation is a smart way to promote job growth, support businesses, and help communities that need an economic boost.

Hawai'i has its own economic challenges, including high living and business costs. By expanding the Enterprise Zone Program to fit modern business practices, we can help small businesses thrive, keep and hire new employees, and strengthen the local economy. Without these updates, local manufacturers will continue missing opportunities to help them expand and flourish due to outdated limitations that don't match today's market. SB 125 HD1 is an important step to keep Hawai'i competitive and make sure economic opportunities are available throughout our state.

Please support this bill to help local businesses thrive in Hawai'i.

Sincerely,



Josh Feldman
President & CEO
Tori Richard, Ltd.

1891 NORTH KING STREET
HONOLULU, HAWAII 96819

TORIRICHARD.COM • MAIL@TORIRICHARD.COM • TEL: +1 808 847 7041



TITLE GUARANTY
HAWAII

March 19, 2025

Testimony in support of SB 125 HD1, Relating to State Enterprise Zones

Aloha Chair Kahaloe, Vice Chair Kusch, and Committee Members,

We write in support of SB 125 HD1, Relating to State Enterprise Zones, which modernizes the Enterprise Zone Program to reflect today's economic realities. This bill expands program eligibility to:

- (1) Local manufacturers engaging in retail and wholesale activities within an enterprise zone;
- (2) Businesses involved in processing value-added agricultural products;
- (3) Health care professionals offering essential services.

Title Guaranty of Hawai'i is the oldest and largest title company in the state. We have been owned and operated by a kama'āina family since 1896 and we are proud to employ over 250 residents who work in our branches across the state.

The Enterprise Zone Program was originally designed to create jobs and stimulate economic development in areas that need it most. However, outdated restrictions prevent many qualified businesses from benefiting, particularly local manufacturers who sell directly to retail customers. By updating the program, we can better support small businesses, strengthen Hawai'i's agricultural sector, and improve health care access in underserved communities. These changes will not only generate jobs but also ensure a more resilient and diversified economy.

Small businesses are the backbone of Hawai'i's economy, yet many face unnecessary hurdles that limit their ability to grow. The exclusion of direct-to-retail manufacturers from enterprise zone benefits is a clear example of how outdated policies can stifle economic progress. By passing SB 125 HD1, we can remove these barriers and allow businesses to adapt to modern market trends. This will not only help individual businesses succeed but will also contribute to a stronger, more self-sufficient Hawai'i. We respectfully urge the passage of SB 125 HD1 to help local businesses and communities thrive.

Sincerely,

Mike B. Pietsch
President and Chief Operating Officer
Title Guaranty of Hawai'i





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Joe Carter, Coca-Cola Bottling of Hawaii, *Advisor*
Eddie Asato, Pint Size Hawaii, *Advisor*
Gary Okimoto, Safeway, *Immediate Past Chair*

TO: Committee on Agriculture and Food Systems
FROM: HAWAII FOOD INDUSTRY ASSOCIATION
Lauren Zirbel, Executive Director

DATE: March 19, 2025

TIME: 9:30m

RE: SB125 SD2 HD1 Relating to State Enterprise Zones
Position: Support

The Hawaii Food Industry Association is comprised of two hundred member companies representing retailers, suppliers, producers, manufacturers and distributors of food and beverage related products in the State of Hawaii.

HFIA is in support of this measure. Increasing local manufacturing and diversifying our economy are important goals for our state. Unfortunately, Hawaii businesses face a heavy regulatory and tax burden. Extending the eligibility period for state business tax credits and general excise tax credit exemption for qualified businesses within State Enterprise Zones engaged in the manufacturing can provide some relief to these businesses and help them grow. We encourage the Committee to pass this measure.



HAWAII FOREST INDUSTRY ASSOCIATION (HFIA)
7192 Kalaniana'ole Hwy
Suite A-143A, #249
Honolulu, HI 96825
Phone: 808/933/9411
Email: hfia@hawaiiiforest.org

DATE: 03/17/25

TO: AGR Kahaloa, vice Chair Kusch and AGR Committee Members

FROM: the Hawai'i Forest Industry Association (HFIA)

SUBJECT: In Support of SB125 SD2 HD1 Relating to State Enterprise Zones

Dear Chair Kahaloa, Vice Chair Kusch and AGR Committee Members,

On behalf of the Directors and members of the Hawai'i Forest Industry Association (HFIA), please support SB125 SD2 HD1 Relating to State Enterprise Zones.

HFIA's membership includes individuals, small businesses, and corporations throughout the state of Hawai'i with a wide array of professional experience and expertise in agriculture and forestry.

The Hawai'i Enterprise Zone Program was established to incentivize the growth of business and increase employment in defined areas of the State. This program is one of the few that focuses efforts on improving the economy of our most rural communities where agriculture, including forestry, is often the main business activity. This measure SB125 SD2 HD1 will support Hawai'i's healthy and productive forests by expanding the definition of "eligible business activity" to include renewable energy and the processing of value-added agricultural products and providing the advantages of the program to more of our rural communities and businesses.

Sustainable management of our forest and agricultural lands is one of our State's top priorities and expanding the Enterprise Zone Program to include value-added agricultural products will support keeping our forests healthy, productive, and sustainable. Please support SB125 SD2 HD1.

Mahalo for your time and consideration,

Guy Cellier, Acting President
Hawaii Forest Industry Association

Established in 1989, HFIA's is a nonprofit organization founded by people committed to sustainable forest management. HFIA's mission is to promote healthy and productive forests and a sustainable forest industry through management, education, planning, information exchange, and advocacy. HFIA has over 130 members including woodworkers, landowners, sawyers, foundations, foresters, growers, educators, environmentalists, architects, millers, ranchers, and others interested in HFIA's mission and goals.

HFIA Board of Directors

Officers: President Guy Cellier, Vice-President Irene Sprecher, Secretary Taylor Coons, Treasurer Wade Lee, Directors: Jeremy Campbell, Doug Gordon, Nickolas Koch, Michael Sowards, Aileen Yeh



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e-mail info@hfbf.org; www.hfbf.org

March 19, 2025

HEARING BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE & FOOD SYSTEMS

TESTIMONY ON SB 125, SD2, HD1
RELATING TO STATE ENTERPRISE ZONES

Conference Room 325 & Videoconference
9:30 AM

Aloha Chair Kahaloa, Vice-Chair Kusch, and Members of the Committee:

I am Brian Miyamoto, Executive Director of the Hawai'i Farm Bureau (HFB). Organized since 1948, the HFB is comprised of 1,800 farm family members statewide and serves as Hawai'i's voice of agriculture to protect, advocate, and advance the social, economic, and educational interests of our diverse agricultural community.

The Hawai'i Farm Bureau supports SB 125, SD2, HD1, which amends the definition of "eligible business activity" for the Enterprise Zone (EZ) Program and extends the eligibility period of the State business tax credit and general excise tax exemption for qualified businesses within State Enterprise Zones.

The Hawai'i Enterprise Zone Program was established to stimulate certain types of business activity and increase employment in targeted areas of the State via tax and other incentives. The EZ program is one of the few State programs that incentivizes economic development in the most rural and distressed communities where agriculture is often the main business activity. Agricultural-related businesses account for roughly half of all businesses in the EZ program.

HFB has previously supported similar measures that sought to extend the EZ program's benefits to ensure long-term economic stability for agricultural businesses. SB 125, SD1 builds on those efforts and provides much-needed support for Hawai'i's farmers, ranchers, and agricultural processors.

Farming is a long-term endeavor requiring substantial investments in land, equipment, labor, and infrastructure. Extending EZ tax benefits to twelve years allows agricultural businesses the additional time needed to establish and expand their operations successfully.

Hawai'i's farmers and ranchers face unpredictable weather patterns, natural disasters, supply chain disruptions, and fluctuating markets. Extending EZ benefits provides a longer buffer period to help businesses adapt to these challenges.

SB 125, SD2, HD1 is a critical step toward strengthening Hawai'i's agricultural industry, supporting local food production, and expanding rural economic opportunities. By extending the eligibility period for tax credits and exemptions within State Enterprise Zones, this bill helps farmers, ranchers, and agricultural processors build sustainable businesses, invest in infrastructure, and increase Hawai'i's food security.

Thank you for the opportunity to testify on this important matter.

March 19, 2025, 9:30 a.m.
Hawaii State Capitol
Conference Room 325 and Videoconference

To: House Committee on Agriculture and Food Systems
Rep. Kirstin Kahaloa, Chair
Rep. Matthias Kusch, Vice Chair

From: Grassroot Institute of Hawaii
Ted Kefalas, Director of Strategic Campaigns

RE: SB125 SD2 HD1 — RELATING TO STATE ENTERPRISE ZONES

Aloha Chair Kahaloa, Vice-Chair Kusch and other members of the Committee,

The Grassroot Institute of Hawaii **supports** [SB125 SD2 HD1](#), which would expand Hawaii's enterprise zone program.

Hawaii's enterprise zone program provides tax reductions for businesses in a variety of industries that meet certain employment or sales metrics. The bill would make two important changes to the program.

First, it would increase the number of years that a business in the program could receive a reduction in unemployment, income and excise taxes — from seven years to nine years in most cases.

Second, the bill would expand the types of activities that are eligible for these tax reductions. The new list would include the production of value-added agricultural products, the sale of personal tangible property manufactured in the enterprise zone, certain healthcare services, advanced manufacturing and the development of cybersecurity technology.

Hawaii is already ranked among the worst states in which to start a business,¹ and Grassroot supports efforts to reduce the cost of doing business for Hawaii's entrepreneurs.

Thank you for the opportunity to testify.

Ted Kefalas
Director of Strategic Campaigns
Grassroot Institute of Hawaii

¹ Adam McCann, "[Best & Worst States to Start a Business \(2025\)](#)," WalletHub, Jan. 20, 2025.

**Testimony to the House Committee on Agriculture & Food Systems
Representative Kirstin Kahaloa, Chair
Representative Matthias Kusch, Vice Chair**

**Wednesday, March 19, at 9:30AM
Conference Room 325 & Videoconference**

RE: SB125 SD2 HD1 Relating to State Enterprise Zones

Aloha e Chair Kahaloa, Vice Chair Kusch, and Members of the Committee:

My name is Sherry Menor, President and CEO of the Chamber of Commerce Hawaii ("The Chamber"). The Chamber supports Senate Bill 125 Senate Draft 2 House Draft 1, which 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.

SB125 SD2 HD1 aligns with our 2030 Blueprint for Hawaii: An Economic Action Plan, specifically under the policy pillar for Business Services. This bill promotes policies that drive economic growth, enhance workforce opportunities, and improve the quality of life for Hawaii's residents.

There is an urgent need to update Hawaii's enterprise zone program to reflect modern business practices and stimulate local economic growth. Originally established in 1986 to revitalize neighborhoods by supporting business, agricultural, and industrial growth, the program's outdated requirement—mandating that over half of a manufacturer's sales be through wholesalers—now excludes many local manufacturers who sell directly to retail. The legislature recognizes that by broadening the eligible activities to include direct retail sales, processing of value-added agricultural products, health care services, advanced manufacturing, and cybersecurity technology, the program can better promote job creation and business expansion in today's economy.

The legislation amends Chapter 209E by redefining eligible business activities, updating tax credit and exemption provisions, and setting clear performance benchmarks for qualified businesses operating within enterprise zones. These changes are designed to foster integrated business models, increase employment, and enhance investment in Hawaii's agricultural and industrial sectors while maintaining a supportive regulatory framework. The Chamber supports

this legislation because it modernizes a critical economic tool, encourages local innovation, and drives sustainable growth for Hawaii's communities.

The Chamber of Commerce Hawaii is the state's leading business advocacy organization, dedicated to improving Hawaii's economy and securing Hawaii's future for growth and opportunity. Our mission is to foster a vibrant economic climate. As such, we support initiatives and policies that align with the 2030 Blueprint for Hawaii that create opportunities to strengthen overall competitiveness, improve the quantity and skills of available workforce, diversify the economy, and build greater local wealth.

We respectfully ask to pass Senate Bill 125 Senate Draft 2 House Draft 1. Thank you for the opportunity to testify.



MAUI

CHAMBER OF COMMERCE

VOICE OF BUSINESS

HEARING BEFORE THE HOUSE COMMITTEE ON AGRICULTURE & FOOD SYSTEMS
HAWAII STATE CAPITOL, HOUSE CONFERENCE ROOM 325
Wednesday, March 19, 2025, 9:30 A.M.

To The Honorable Kirstin Kahaloa, Chair
The Honorable Matthias Kusch, Vice Chair
Members of the committee on Agriculture & Food Systems

SUPPORT SB125 SD2 HD1 RELATING TO STATE ENTERPRISE ZONES

The Maui Chamber of Commerce **SUPPORTS SB125 SD2 HD1** which 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 seven years to nine years; and extends the eligibility period of the State business tax credit and 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 ten years to twelve years.

The Chamber has consistently advocated the creation of enterprise zones to encourage business development and fully support increasing the tax exemptions from seven years to nine years. We would encourage the Legislature to increase the exemptions even further.

For these reasons we **SUPPORT SB125 SD2 HD1**.

Sincerely,

Pamela Tumpap
President

To advance and promote a healthy economic environment for business, advocating for a responsive government and quality education, while preserving Maui's unique community characteristics.

TAX FOUNDATION OF HAWAII

735 Bishop Street, Suite 417

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, NET INCOME, UNEMPLOYMENT, Extend Qualification Period for State Enterprise Zones

BILL NUMBER: SB 125 SD 2 HD 1

INTRODUCED BY: House Committee on Economic Development & Technology

EXECUTIVE SUMMARY: 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.

SYNOPSIS: Amends section 209E-2, HRS, to define "Tangible personal property" as property that can be touched or felt and can be relocated. "Tangible personal property" does not include electricity, real property, or intellectual property.

Further defines "value-added agricultural product" as 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 for the seal of quality program by the department of agriculture under section 148-63.

Amends the definition of "eligible business activity" to add the following:

- 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.
- Production of value-added agricultural products, all or some of which were grown within an enterprise zone.
- 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.
- Use of advanced manufacturing to produce products.
- Development of cybersecurity technology.

Defines "Value-added agricultural product" as 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.

Amends section 209E-9, HRS, to extend the eligibility period of the state Enterprise zone tax benefits by two years.

Amends section 209E-9(b), HRS, requirement for qualified businesses to increase the average annual number of full-time employees from seven to nine years.

Amends section 209E-10(a), HRS, to extend the twenty per cent tax credit in the seventh year to the eighth and ninth years. For qualified businesses engaged in manufacturing tangible personal property or producing or processing of agricultural products, the credit continues after the ninth year, to the tenth through twelfth years.

Amends section 209E-10(c), HRS, to extend the twenty per cent unemployment tax credit in the seventh year to the eighth and ninth year and for qualified businesses engaged in manufacturing of tangible personal property or producing or processing of agricultural products, the credit continues after the ninth year, currently seven years.

Amends section 209E-11, HRS, to extend the State general excise tax exemption from seven to nine years and for qualified businesses engaged in manufacturing of tangible personal property or producing or processing of agricultural products, the exemption shall not exceed twelve years, currently ten years.

EFFECTIVE DATE: July 1, 3000; provided that Section 5 of this act shall apply to taxable years beginning after December 31, 2025 and Section 6 shall take effect on January 1, 2027.

STAFF COMMENTS: The enterprise zone program was enacted as a cooperative program between the state and the counties to promote jobs in areas of high unemployment. Certain areas are designated as enterprise zones through joint action of the state and counties. In a zone, the state offers an income tax credit for the tax attributable to the eligible business conducted in the zone, which is normally applied on a sliding scale – 80% for the first year, 70% for the second, and so on until the credit is 20% for the seventh and last year in the program. It also offers an unemployment tax credit for the tax attributable to employees doing the eligible business in the zone, on the same sliding scale. Finally, the state offers a general excise tax exemption for the eligible business attributed to the zone. The counties also offer incentives, which vary by county. In return, the business commits to either maintain or increase the number of employees in the zone doing the eligible activity, depending on whether it was already in the zone upon designation or moved to the zone.

As business incentives go, the enterprise zone program is better than most. The incentive applies to a specific activity (here, creating and maintaining employment) targeted to the problem the program seeks to address. The incentive tapers off over time and then stops. It requires accountability, namely required reports to DBEDT for a business to retain its eligibility. The business itself may need a different kind of assistance, such as financing, but the state is here focusing on creating and maintaining jobs in areas that need them.

One criticism of the program is that the designated eligible activities do not seem to have a common thread running through them except that the various activities seem to have been the Flavor of the Month at one time or other. Eligible activities at present are:

- Agricultural production or processing
- Manufacturing
- Wholesaling/Distribution
- Aviation or maritime repair or maintenance
- Telecommunications switching and delivery systems
- Information technology design and production
- Medical research, clinical trials, and telemedicine
- 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 types of call centers
- Wind energy producers

The enterprise zone program has been around since 1986. Has there been a comprehensive evaluation of the program and do lawmakers know exactly how much bang they have gotten for their bucks? If the program works, great; extend the tax benefits; if it doesn't work, scrap it. In either event, concurrent efforts must be made to improve Hawaii's business climate to enhance the economic prospects for all businesses.

In addition, we have technical comments as follows:

We note that "medical and health care services" is already an eligible activity because it is included in the existing definition of "service business," and "service business" is an eligible activity under paragraph (1) of the existing definition of "eligible business activity." Adding "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" introduces redundancy. It would be better to refine the existing definition of "service business" to add the additional eligible activities, if any, that are intended by this bill.

Digested: 3/17/2025

SB-125-HD-1

Submitted on: 3/16/2025 7:37:52 PM

Testimony for AGR on 3/19/2025 9:30:00 AM

Submitted By	Organization	Testifier Position	Testify
Jacob Wiencek	Individual	Support	Written Testimony Only

Comments:

Aloha Committee Members,

I am glad to see this bill continue to advance through our legislative process. Hawaii has a notoriously poor business climate and consistently ranks as one of the most uncompetitive states in the country. We've got to change that dynamic. The lack of socioeconomic opportunity is a key driver pushing so many working- and middle-class families out of state.

I believe this bill will help us turn the corner and set the stage for us to become more economically competitive. I urge this Committee to SUPPORT this bill!

SB-125-HD-1

Submitted on: 3/17/2025 2:22:31 PM

Testimony for AGR on 3/19/2025 9:30:00 AM

Submitted By	Organization	Testifier Position	Testify
Douglass Adams	Individual	Support	Written Testimony Only

Comments:

Aloha Chair Kahaloa, Vice Chair Kusch and Members of the Committee on Agriculture and Food Systems:

Thank you for the opportunity to testify in STRONG support of SB125 SD2 HD1, which 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. This legislation, which has been amended several times since its initial introduction, addresses systemic issues with a program that has been reasonably successful over the past forty years. The amendments to the definition of "eligible business activity" take into account changes to small business and entrepreneurial activities since 1986, and the extensions of the state business tax credit and general excise tax exemptions eligibility periods support applicants during the particularly onerous economic conditions anticipated for the rest of the decade.

I strongly encourage the Committee to support SB125 SD2 HD1 and move it to the Committee on Finance with a favorable recommendation.

respectfully,

Douglass S. Adams

Hilo

SB-125-HD-1

Submitted on: 3/17/2025 7:23:56 PM

Testimony for AGR on 3/19/2025 9:30:00 AM

Submitted By	Organization	Testifier Position	Testify
Glen Kagamida	Individual	Support	Written Testimony Only

Comments:

Good idea that will help a wide range of different enterprises. Mahalo!