Pricing Business Out of Paradise

Produced by the **Permitted Action Group on Business Cost**
For the **Business Revitalization Task Force**

April 10, 2025

Seth Colby, Department of Taxation
Alec Sou, Aloun Farms
Jimmy Chan, Hawai'ian Chip Company
Roseann Freitas, Building Industry Association of Hawai'i
Tina Yamaki, Retail Merchant of Hawai’i
Lauren Zirbel, Hawai’i Food Industry Association

Pricing Business Out of Paradise

Hawaii has the highest cost of doing business in the nation. **CNBC ranked the state as the worst place to do business in 2024**. These costs harm business activity and threaten the economic prosperity that the state requires to meet the needs of its people.

This report highlights the major sources of the state's high cost of doing business. **Many of the costs result from existing policies and procedures that can be changed and improved if the political will exists**. These include burdensome regulations, social policies that increase labor costs, and high levels of taxation.

Costs Type	Hawaii Ranking	Source
Overall Business Costs	**50th**	**CNBC**
Labor/ Human Capital		
Wage	11th (nominal)/ 43rd (PPP)	USA Facts
Labor Participation Rate	38th	BLS
Mandated Fringe Benefits	50th	Independent Research
Unemployment Insurance Tax	49th	Tax Foundation
Regulations		
Permitting Speed	50th	Independent Research
Regulatory Restrictiveness	50th	UHERO
Taxation		
Overall state and local burden	48th	Tax Foundation
GET	Lowest rate/ broadest scope	Tax Foundation
Individual Income*	49th	DOTAX
Corporate Income	23rd	Tax Foundation
Estate Tax	50th	Tax Foundation
Other Costs		
Rents/land cost	48-50th	Commercialcafe.com
Shipping	49-50th	HI DOT
Utilities	50th	CNBC

*The 2024 tax cut bill will significantly lower the income tax burden by 2031 if fully implemented

Why Business Costs Matter

Profit Margins

When costs rise—whether from labor expenses, rent increases, or regulatory compliance—profit margins naturally contract, limiting a company's ability to reinvest in growth initiatives or weather economic downturns.

Economic Growth

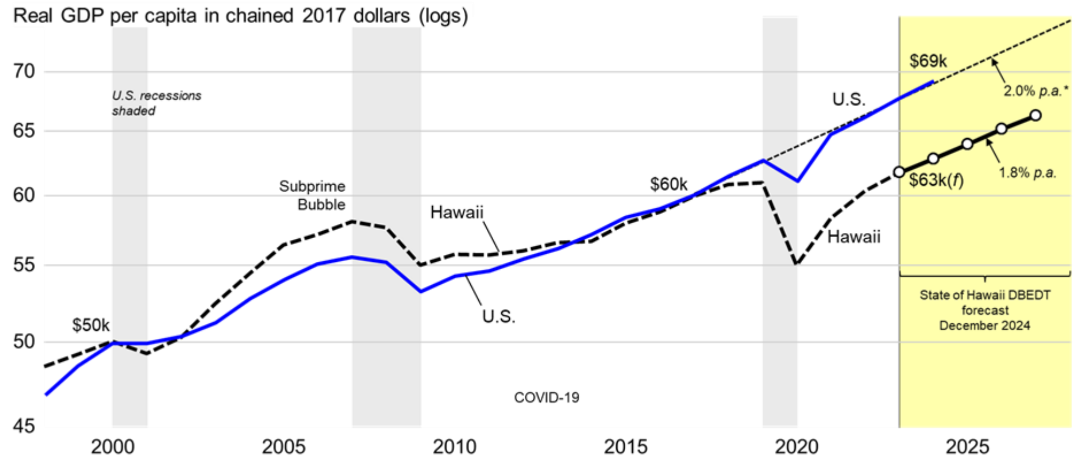
The health of the business sector is a key driver of economic growth. A thriving business sector provides employment and generates the bulk of tax revenue required for vital social services.

Source: TZ Economics

Business Migration

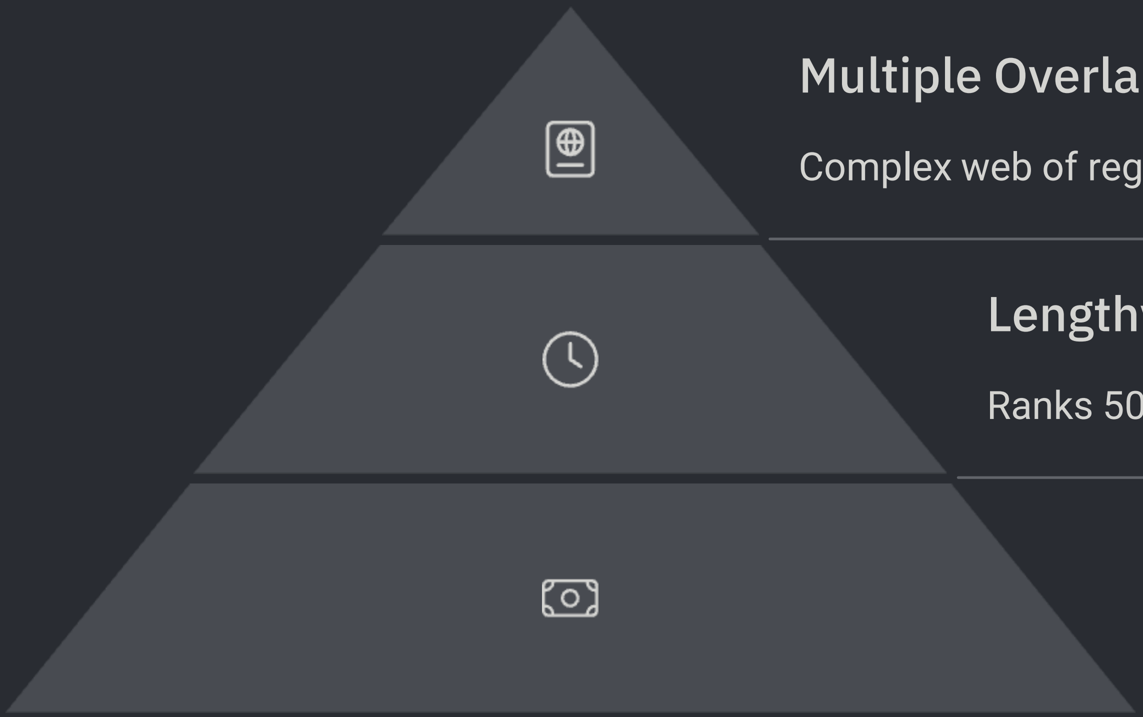
High costs discourage entrepreneurs from starting businesses in Hawaii, make it harder for existing businesses to invest and grow, and incentivize existing businesses to leave the state.

Figure 1: Hawaii and U.S. per capita real GDP matched, traded places over pre-pandemic decades; risk of persistent Hawaii shortfall in 2020s



Source: Prepared by Paul Brewbaker, TZ Economcis. U.S. Bureau of Economic Analysis, (https://www.bea.gov/data/gdp/gdp-state). *Stationary trend regression on U.S. real per capita GDP, 2017-2023. Hawaii real per capita GDP forecast growth rate calculated from Hawaii DBEDT (December 4, 2024) *Quarterly Statistical & Economic Report: Outlook for the Economy* (https://dbedt.hawaii.gov/economic/qser/outlook-economy/). Annual U.S. data for 2024 GDP scheduled for release January 30, 2025, and GDP by state data for 2024

Regulatory Burden



Multiple Overlapping Reviews

Complex web of regulatory bodies unmatched on mainland

Lengthy Approval Times

Ranks 50th nationally in processing times

High Economic Cost

$3.5 billion annually (3.5% of state GDP)

Hawaii has the worst regulatory environment in the country. While some regulations are necessary for a healthy economy, the complex and byzantine framework that currently exists goes beyond what is needed. **The state ranks 50th in the nation in regulatory burden and 50th in the nation in processing times.**

Labor Costs and Availability

High Costs, Low Value

Hawaii's average weekly wage ranks **11th highest in the country**, but its wage value **plummets to 43rd when adjusted for cost of living**.

This creates a paradox where wage costs are high for employers but low value to workers, making it difficult to recruit and retain qualified employees.

Mandated Benefits

Fringe benefits add 20-30% to the cost of labor.

The Prepaid Health Care Act requires employer-provided health insurance for employees working 20+ hours weekly (vs. 30+ hours federally). Hawaii also has the second-highest unemployment insurance tax in the country, adding thousands per worker.

Work Disincentives

Hawaii ranks 38th in labor participation rate nationwide.

The structure of income-based public assistance programs creates "benefits cliffs" that can impose an effective tax rate of close to 100% on each additional dollar earned by some low-income families. This discourages work and taking on more hours,.

Taxation Landscape

Hawaii has the 2nd highest tax burden, but that is about to change.

General Excise Tax (GET)

Unlike a traditional sales tax that only applies to tangible goods, the GET applies to nearly all business transactions.

While the retail rate of 4.0% is the lowest in the country, its broad scope generates significantly more revenue than other states' sales taxes.

Income Tax

Hawaii has one of the highest income tax burdens, but the 2024 tax cut bill will help.

A family of four earning the median income of $97,000 will go from having the 2nd highest to 4th lowest burden in the country

Estate Tax

Hawaii's estate tax is the highest in the country at 20% (in addition to the federal 40%), with a relatively low exemption of $5.49 million.

This places a unique burden on family-run firms, often forcing owners to sell strategic assets or entire businesses.

Other Significant Costs

Rents and Land

Honolulu's commercial rents rival major mainland metropolitan areas at about $37.50 per square foot per year—18% higher than the U.S. average and comparable to Los Angeles and Washington, D.C.

Shipping

Shipping a standard container from the West Coast to Hawaii costs 30-50% more than similar mainland shipments. The Jones Act restricts competition in shipping.

Utilities

Hawaii's electricity rates are the highest in the nation, roughly two to three times the U.S. average, significantly impacting businesses with high energy needs.

Roadmap for Reform

Costs Type	Hawaii Ranking	Comparative Cost	Local Control	Priority Intervention	Comments
Labor/ Human Capital					
Wage	11th (nominal)/ 43rd (PPP)	High	Med	Med	Lower cost of living increase wage value
Labor Participation Rate	38th	High	Med	Med	Structure social policies to support work
Mandated Fringe Benefits	50th	Med	High	Med	State can change laws/ hard politics
Unemployment Insurance Tax	49th	Med	High	Med	State can change laws/ hard politics
Regulations					
Permitting Speed	50th	High	High	High	No-brainer
Regulatory Restrictiveness	50th	High	High	High	State can change laws/ hard politics
Taxation					
Overall state and local burden	48th	High	High	In Progress	
GET	Lowest rate/ broadest scope	Low	High	Low	
Individual Income*	49th	High	HIgh	In Progress	2024 tax cut law addresses the issue
Corporate Income	23rd	Low	High	Low	
Estate Tax	50th	Med	High	Med	Would help local businesses
Other Costs					
Rents/land cost	48-50th	High	Med	Med	Rezone and build
Shipping	49-50th	High*	Low	Low	Jones Act is a federal issue
Utilities	50th	High	Med	Med	Prioritize low rates over other things

*The 2024 tax cut bill will significantly lower the income tax burden by 2031 if fully implemented

The findings of this report are sobering, but they are not cause for despair. The state has an opportunity to create an environment where local firms can grow and thrive. If Hawaii's leaders make business revitalization a priority, the road to reform involves a set of problems that are well understood and have proven solutions.

A Choice for Hawaii's Future

Hawaii faces a choice: either it must fundamentally reform the regulatory environment affecting businesses, which is the costliest in the nation, or it must accept the lackluster performance of the private sector and the consequences of anemic economic growth.

The 2024 tax cut bill represents a bright spot and demonstrates that positive change is possible. By building on this success and implementing the recommendations in this report, Hawaii can create an environment where local businesses can compete nationally and internationally while preserving the state's commitment to its people, land, and culture.

For more information, see Business Cost PIG report

Pricing Business Out of Paradise

Produced by the **Permitted Action Group on Business Cost**

For the **Business Revitalization Task Force**

April 10, 2025

Business Cost PIG Members:
Seth Colby, Department of Taxation
Alec Sou, Aloun Farms
Jimmy Chan, Hawai'ian Chip Company
Roseann Freitas, Building Industry Association of Hawai'i
Tina Yamaki, Retail Merchant of Hawai’i
Lauren Zirbel, Hawai’i Food Industry Association

Table of Contents

Executive Summary

Hawaii has the highest cost of doing business in the nation. *CNBC ranked the state as the worst place to do business in 2024. These costs harm business activity and threaten the economic prosperity that the state requires to meet the needs of its people. Hawaii is falling behind the rest of the country in terms of growth, a trend that will likely worsen if the issues addressed in this report are not resolved.*

This report highlights the major sources of the state's high cost of doing business*. Many of the costs result from existing policies and procedures that can be changed and improved if the political will exists. These include burdensome regulations that drive up costs, social policies that increase labor costs and disincentivize work, and high levels of taxation. Many of the costs imposed on businesses reflect values and priorities.* ***However, the way that certain values and priorities are currently expressed in the existing regulatory framework is incompatible with a thriving business sector.*** *The costs of these policies are highlighted in this report so decision-makers can be aware of their impact on the state's economic health.*

Compared to the rest of the country, Hawaii businesses face the most restrictive regulations, the slowest approval processes, the highest logistics costs, the highest utilities, some of the highest rents and land costs, and one of the highest tax burdens*. Because of the state's high cost of living and laws mandating the most generous fringe benefits in the country, businesses are burdened with high labor costs while simultaneously lacking access to qualified labor. Prevailing wages are higher than the average on the mainland, but the value of these wages is among the lowest in the country. As a result, businesses struggle to attract qualified workers while bearing abnormally high labor costs.*

*There is a bright spot on the horizon****. In 2024, the Legislature approved a tax cut bill that will significantly lower the tax burden placed on business owners and increase the state's economic competitiveness.*** *This report recommends that state leaders build on this success and embark on a reform agenda that allows Hawaii businesses to compete nationally and internationally.*

Hawaii faces a choice: either it must fundamentally reform the regulatory environment affecting businesses, which is the costliest in the nation, or it must accept the lackluster performance of the private sector and the consequences of anemic economic growth.

Business Cost Ranking for Hawaii

Costs Type	Hawaii Ranking	Source
Overall Business Costs	**50th**	**CNBC**
Labor/ Human Capital		
Wage	11th (nominal)/ 43rd (PPP)	USA Facts
Labor Participation Rate	38th	BLS
Mandated Fringe Benefits	50th	Independent Research
Unemployment Insurance Tax	49th	Tax Foundation
Regulations		
Permitting Speed	50th	Independent Research
Regulatory Restrictiveness	50th	UHERO
Taxation		
Overall state and local burden	48th	Tax Foundation
GET	Lowest rate/ broadest scope	Tax Foundation
Individual Income*	49th	DOTAX
Corporate Income	23rd	Tax Foundation
Estate Tax	50th	Tax Foundation
Other Costs		
Rents/land cost	48-50th	Commercialcafe.com
Shipping	49-50th	HI DOT
Utilities	50th	CNBC

*The 2024 tax cut bill will significantly lower the income tax burden by 2031 if fully implemented

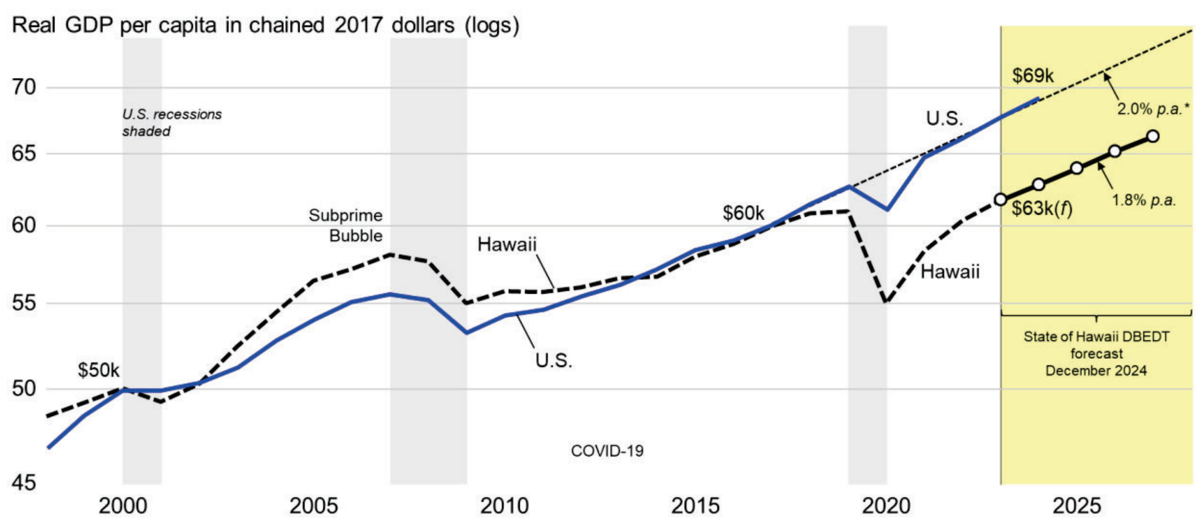
Why Costs Matter:

Business costs affect an enterprise's profitability, growth trajectory, and ultimate survival. When costs rise—whether from labor expenses, rent increases, or regulatory compliance—profit margins naturally contract, limiting a company's ability to reinvest in growth initiatives or weather economic downturns.

Conversely, when businesses successfully manage their costs while maintaining quality and output, the resulting profits serve as powerful signals to entrepreneurs, drawing them into markets where returns appear most promising. This profit mechanism efficiently directs entrepreneurial talent and investment capital toward sectors where consumer demand is strongest relative to production costs.

The health of the business sector is a key driver of economic growth. A thriving business sector does not only benefit owners but also provides employment and generates the bulk of the tax revenue required for vital social services. **Hawaii's economy is falling behind the rest of the United States with no clear path to recovery** (see Figure 1). Creating an environment where local businesses can grow and prosper is essential for the state's economic future.

Figure 1: Hawaii and U.S. per capita real GDP matched, traded places over pre-pandemic decades; risk of persistent Hawaii shortfall in 2020s



Source: Prepared by Paul Brewbaker, TZ Economcis. U.S. Bureau of Economic Analysis, (https://www.bea.gov/data/gdp/gdp-state). *Stationary trend regression on U.S. real per capita GDP, 2017-2023. Hawaii real per capita GDP forecast growth rate calculated from Hawaii DBEDT (December 4, 2024) *Quarterly Statistical & Economic Report: Outlook for the Economy* (https://dbedt.hawaii.gov/economic/qser/outlook-economy/). Annual U.S. data for 2024 GDP scheduled for release January 30, 2025, and GDP by state data for 2024

Hawaii's businesses bear the highest costs in the country, putting them at a distinct disadvantage. High costs discourage entrepreneurs from starting businesses in Hawaii, make it harder for existing businesses to invest and grow, and incentivize existing businesses to leave the state. **Hawaii should expect anemic business activity until this burden is significantly reduced.**

Some costs are difficult or impossible to change. Hawaii is a small and isolated island chain that will always struggle with high shipping costs, small economies of scale, and high land costs. However, **most costs derive from policies and decisions that can be amended and adjusted if the political will exists.**

Some recommendations, like speeding up the permitting review process, are "no-brainers" that require few trade-offs. Other recommendations will require leaders to confront difficult governance trade-offs. Current policies aim to solicit high levels of community input, promote worker protection, ensure environmental safeguards, and preserve cultural heritage, but they also significantly raise the cost of doing business in the state. As a result, local businesses burdened by this unique cost structure cannot compete with mainland firms.

If revitalizing business is a priority, Hawaii's leaders will need to fundamentally alter the current regulatory environment to reduce the costs imposed on private sector activity. **Any reform should reflect Hawaii's commitment to its people, its land, and its culture, but it also needs to support a system where local entrepreneurs can take risks, grow, and thrive.**

This report identifies common elements that contribute to a typical business cost structure and compares them to the rest of the United States. In most categories, Hawaii businesses face the highest costs in the country.

Assessing Hawaii's Business Costs

Access to and Cost of Labor

- **Local employers face high labor costs and struggle to attract and retain qualified employees because of the state's high cost of living.**
- **State mandates require more fringe benefits than any other state, increasing labor costs**
- **The state's social safety net discourages earning and working more at lower income levels, partly explaining the low labor participation rate.**

Why is it important?

Labor expenses are one of the largest components of an operational budget, directly impacting pricing strategies and profit margins. In regions facing labor shortages or skill gaps, businesses may experience production constraints or increased recruitment costs that challenge their competitive standing.

How does Hawaii rank?

The cost and availability of labor are often cited as the number one problem facing employers in the state.[1] Hawaii's high cost of living creates a unique problem for businesses: they have to offer relatively high wages, which drive up costs, but those wages have reduced purchasing power for local workers. **Hawaii's average weekly wage ranks the 11th highest in the country, but its wage value plummets to 43rd in the nation when adjusted for the cost of living.[2]** This creates a paradox where wage costs are high for employers but low value to workers, making it very difficult to recruit and retain qualified employees.

Businesses confront labor costs that exceed wages by an additional 20-30%. **The relative cost of fringe benefits is the highest in the nation.** The Prepaid Health Care Act of 1974 mandates employer-provided health insurance for employees working 20 hours or more a week. Every other state follows the federal guidelines, which define a full-time employee as someone working at least 30 hours or more per week. The cost of providing health care is highest for lower-wage employees because the health care benefits make up a larger percentage of their overall compensation package compared to higher-wage employees. These employer mandates harm the competitiveness of businesses that work in sectors like agriculture, manufacturing, and retail that have a higher percentage of low-wage employees.

---

[1] National Association of Home Builders
[2] U.S. Bureau of Labor Statistics

Local Business Owner's Perspective

Laws Forcing Local Businesses to Provide Social Services Harms Competitiveness

"It is extremely difficult to run many small manufacturing businesses in Hawaii, and every raise to the minimum wage works against it. Another increase would jeopardize the viability of our business, as would other proposed measures like putting the burden of childcare on employers. The state needs to stop putting the burden of managing other costs outside of compensation for labor on businesses."

– James Chan, Hawaii Chip Company

Hawaii's generous unemployment insurance (UI) benefits represent another component of non-wage labor costs. **The state has the second-highest UI tax in the country, which can amount to an additional cost of several thousand dollars per worker.** [3]

Sectors like hospitality and construction that are highly unionized have wages and fringe benefits that are even higher than average, further raising the cost for businesses.

Hawaii ranks 38th in labor participation rate nationwide. The labor force participation rate is the percentage of people who are working or actively seeking work, divided by the working-age population. Given the state's high cost of living, one would expect the labor participation rate to be above the national average, not below.

One reason why people may be hesitant to take on additional employment is that they would lose access to valuable social services. Figure 2 below shows the dollar value of public assistance programs at different levels of income for a family of four with two young children. The assistance programs include housing vouchers, SNAP benefits, and federal EITC tax credits. The value of these programs peaks around $58,000 at $22,000 of annual income.

[3] Tax Foundation

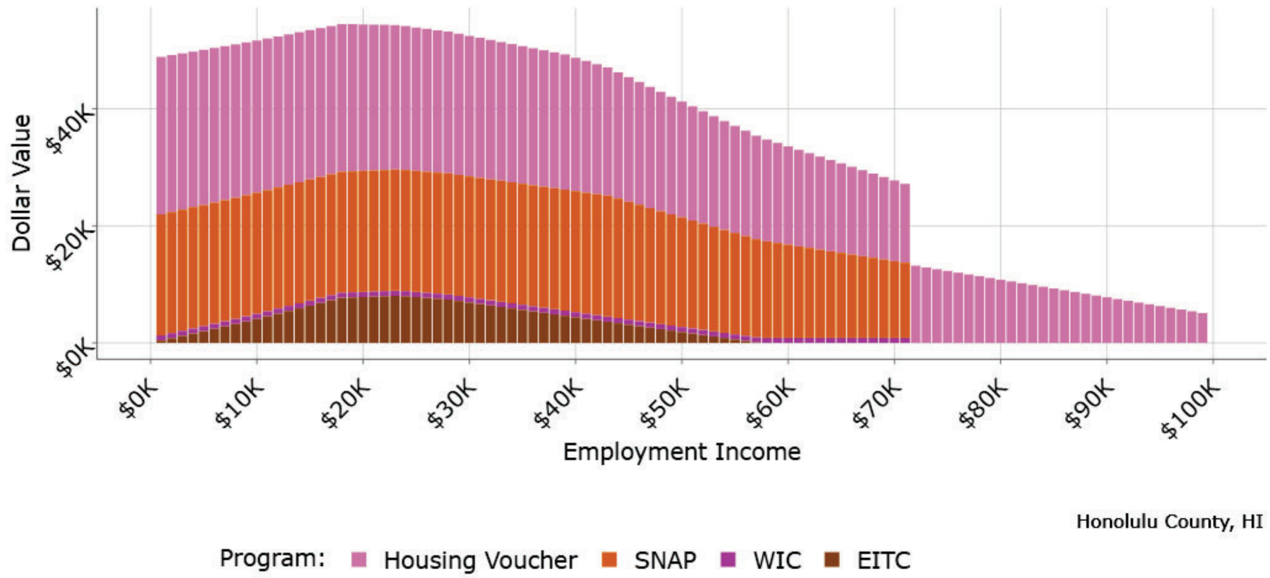


Figure 2 shows the value of social services over different income ranges. The dollar value of the programs peaks around $22,000 and then declines. For some incomes, the value of the benefits decreases faster than income increases. The fact that families are worse off from working more discourages work and labor force participation. Source: [Atlanta Federal Reserve]

Figure 3 shows that families earning between $40,000 and $100,000 experience a decline in the value of the social services that exceeds the financial gain from increased income. This means that the families are effectively poorer—net financial resources are less than before—as they start to earn more. Families rarely participate in all benefit programs they are eligible for, so this is not a typical case. Economic work done at the University of Hawaii finds that 10% of households in the lower half of the income distribution face an effective marginal rate of 80%.[4] Losing access to housing vouchers is the biggest resource loss.

These benefits cliffs occur across the country, but they are particularly acute in Hawaii where the value of benefits is higher due to cost-of-living adjustments. The structure of public assistance discourages people from working more and earning more over a wide range of income. At some incomes, there is a cliff where the loss of benefits is very large. If state support were included in this analysis, the issue would be even worse.

---

[4] Dylan Moore. *Ultra-High Marginal Tax Rates in HI*. University of Hawaii Brief. March 2025.

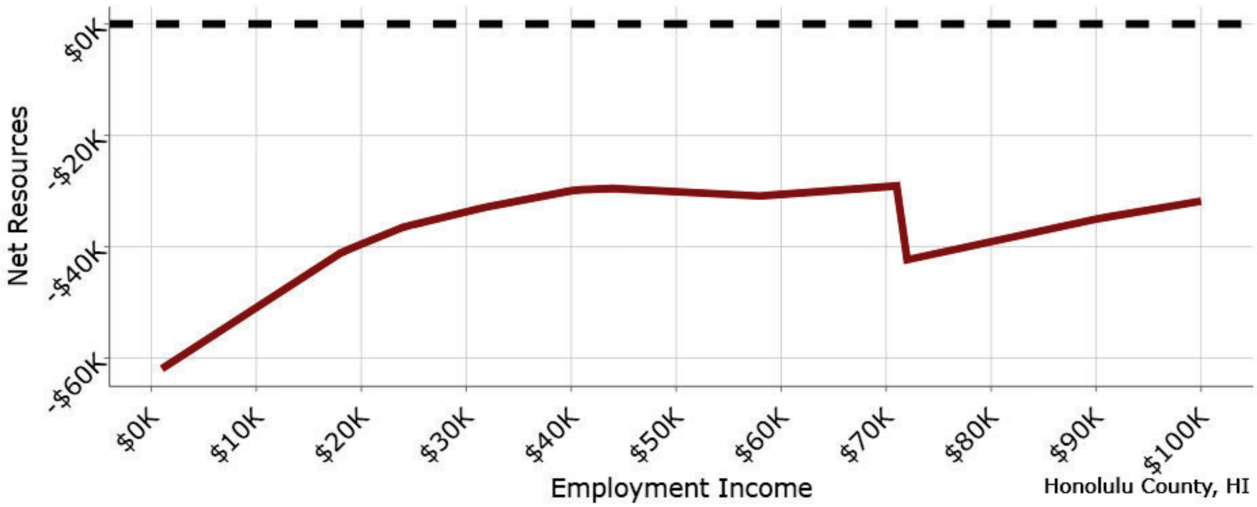


Figure 3 shows a family's net financial resources (income + public assistance - taxes - expenses). A family making $40,000 would have to earn at least $100,000 before they are better off than they were at $40,000 due to the loss of public assistance. A family increasing earnings from $40,000 to $70,000 is slightly worse off. After $70,000, the family is much worse off due to a sharp benefits cliff. Restructuring social assistance programs to encourage work could boost labor force participation. Source: Atlanta Federal Reserve

Potential Solutions

Reducing the high cost of living in the state would increase the value of wages and help employers attract the talent they need to succeed. This requires lowering the cost of housing by boosting supply. Taking measures to reduce the fringe benefits mandated by law would lower labor costs.

Another approach is to restructure Hawaii's social safety net programs to remove disincentives for earning and working more.

Local Business Owner's Perspective
The loss of benefits discourages work

"Many of my lower-wage employees request fewer hours or think about quitting altogether so as not to lose government benefits like subsidized housing and food stamps due to the strict income limits set on those benefits. This increases employee turnover and decreases the chances of advancement for talented staff."

– James Chan, Hawaii Chip Company

Regulations

- **Hawaii ranks last (50th) in regulatory costs imposed on businesses and 50th in approval times.**
- **Slow approval cycles cost Hawaii businesses an estimated $3.5 billion every year—the equivalent of 3.5% of annual GDP.**
- **The state has a mix of overlapping regulatory reviews that create significant uncertainty not found elsewhere in the country.**

Why is it important?

State regulations are one of the biggest costs facing Hawaii businesses: 1) They significantly increase project timelines, raising operational costs and harming project viability. 2) They restrict what businesses can do, making operations potentially less efficient. 3) The many hurdles and veto points embedded in the regulatory process create high levels of uncertainty. Particularly burdensome are regulations that create compounding effects when multiple agencies impose overlapping or even contradictory requirements, leading to greater inefficiencies that compound expenses.

How does Hawaii rank?

Hawaii has the worst regulatory environment in the country. While some regulations are necessary for a healthy economy, the complex and byzantine framework that currently exists goes beyond what is needed. **The state ranks 50th in the nation in regulatory burden and 50th in the nation in processing times**, imposing enormous costs and uncertainty on local businesses.[5]

Hawaii is notorious for lengthy permitting processes for development or construction. **On Oahu, permitting delays cost an estimated $3.5 billion per year (or 3.5% of state GDP)** in capital costs and lost construction activity.[6] Developers and business owners face long wait times for everything from building renovations to new construction. Those delays translate into higher costs – e.g. added carrying costs on land and loans while waiting, inflated project costs, and lost revenue from deferred openings. Local contractors and business groups frequently complain that Honolulu's Department of Planning and Permitting is understaffed and uses outdated systems, further slowing approvals.

Hawaii businesses are subject to a complex web of regulatory bodies unmatched on the mainland. Projects requiring approval from different agencies face significantly higher

---

[5] Inafuku, Rachel, Justin Tyndall, and Carl Bonham. (April 2022) "Measuring the Burden of Housing Regulation in Hawaii." UHERO Briefs

[6] Zirbel, Lauren. *The Economic Benefits from Streamlined Permitting*.

operational risks because it is difficult for businesses to determine in advance if a project will pass regulatory muster. High levels of community input required by law add costs, create delays, and increase uncertainty.

Hawaii's environmental regulations, shaped by HRS 343 and other stringent laws, are more detailed and time-intensive than in other states. Projects must undergo scoping, public input, and specialized studies. Hawaii has strong laws protecting Native Hawaiian cultural and historic sites that require a cultural or archaeological survey before a project can proceed.

Unlike most states where zoning is handled entirely at the local level, Hawaii also has statewide land use districts. The Hawaii Land Use Commission (LUC) oversees district boundary amendments (DBAs) for large parcels (generally over 15 acres) to reclassify land use. This is a lengthy process that often involves Environmental Impact Statements (EISs), public hearings, and potentially contested case hearings.

State-specific EITS requirements, special management area permits, cultural resource assessments, and other procedures add significant costs to projects in Hawaii.

Potential Solutions

The state and local governments should make an explicit goal of improving Hawaii's national ranking in regulatory burdens. Leaders should commit to regulatory reform until the state captures a spot in the mid-thirties—a significant improvement from being the country's worst. Hawaii can protect its cultural and environmental heritage, but it must acknowledge that the current arrangement is actively hurting local businesses.

Creative thinking and political will be necessary to reform the state's regulatory environment. The first step is to accelerate the permitting review times. Slow approval processes do little to protect the public good while imposing significant costs on projects. A second phase of reform should focus on restructuring the approval processes to make them more centralized, faster, and more reliable. This could include the creation of a single commission to streamline reviews of major projects, serving as a one-stop approval center. Such a system would create a more efficient process. New laws and regulations should be reviewed and potentially rescinded.

Taxation

- **Hawaii has one of the highest tax burdens across multiple tax types.**
- **Thanks to the 2024 tax cut bill, the state's tax burden will decrease considerably.**
- **Hawaii has the highest estate tax in the country, placing a financial strain on local family-owned firms.**

Why is it important?

Taxation involves a tradeoff where the government takes money away from people to give to fund public services. Taxes are necessary for a functional government, but the appropriate level depends on government efficiency and the level of services voters expect from their government. If taxes are too low, the government will lack funds to deliver basic services. Taxes that are too high discourage economic activity. Business owners and companies are responsive to levels of taxation. High tax rates lead people to leave the state.[7]

How does Hawaii rank?

Hawaii has one of the highest tax burdens in the country. The state ranks 48th in overall state and local tax burden.[8]

The General Excise Tax (GET) is the state's largest source of tax revenue. Unlike a traditional sales tax that only applies to tangible goods, the GET applies to nearly all business transactions. **While the retail rate of 4.0%—the lowest in the country—its broad scope generates significantly more revenue than other states' sales taxes.** Although the GET is usually passed on to the purchaser, it still imposes costs on businesses.

Excise taxes can lead to tax pyramiding, where the same goods or services are taxed multiple times along the production chain. **The Department of Taxation estimates that Hawaii's effective tax rate is 4.72%.** Pyramiding creates an extra 0.72% of taxation on top of the nominal 4.0% state rate. The low effective rate is due to a relatively low retail rate, a special rate of 0.5% for wholesale transactions, and the structure of state economy, which involves minimal manufacturing and product assembly. Additionally, the GET allows Hawaii to export part of its tax burden, as 30% of GET revenues come from non-residents. Like all consumption taxes, there are concerns about the regressivity of the GET. However, the refundable food/excise tax credit addresses this issue for low-income households.

The individual income tax is the second largest source of state revenue. It features a high rate that applies to relatively low levels of income. Research by the Department of Taxation found

[7] Rauh, Joshua, and Ryan Shyu. 2024. "Behavioral Responses to State Income Taxation of High Earners: Evidence from California." *American Economic Journal: Economic Policy* 16 (1): 34–86.

[8] Tax Foundation

that **a family of four earning the median income of $97,000 faces the second-highest income tax burden in the country.** Only Oregon, which has no sales tax, ranks higher. When the individual income tax is combined with the GET, Hawaii taxpayers face the largest state tax burden in the country.

Recent legislation aims to alleviate this burden. In 2024, Governor Green and the state legislature passed the largest tax cut bill in the state's history. The act will reduce the effective income tax rate over six years. When fully implemented, a family of four making the median income will have the 4th lowest income tax burden in the country (see Figure 4).[9] Higher-income taxpayers will also receive tax relief to a lesser extent. **Thanks to the tax cut bill, Hawaii will go from having some of the highest state income taxes to having amongst the lowest for most taxpayers.**

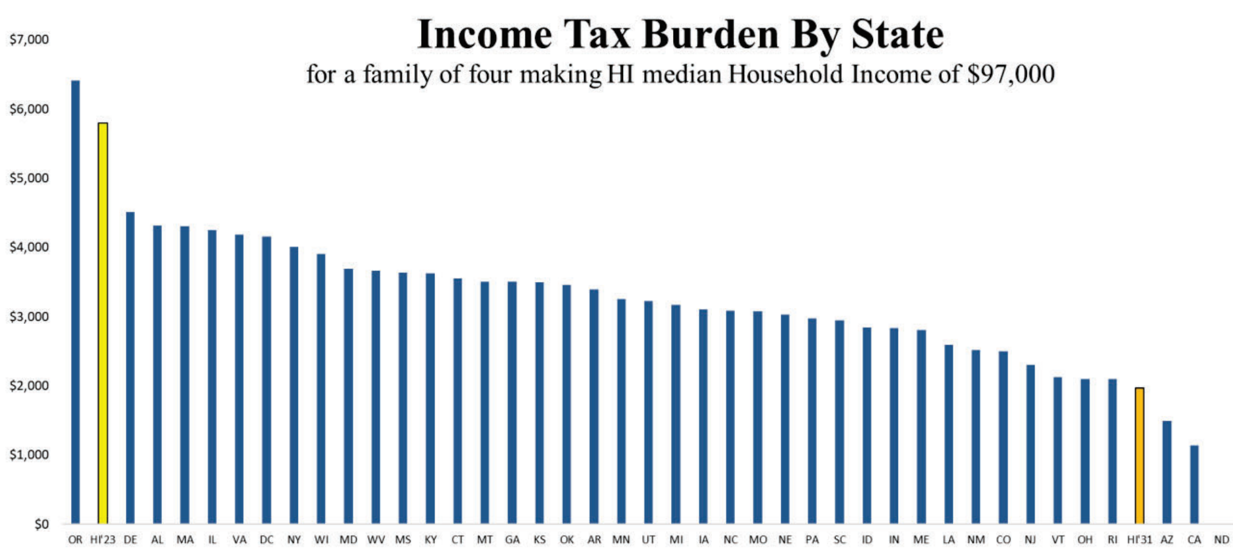


Figure 4. A ranking of income tax burdens for a family of four making the Hawaii median income. The analysis accounts for tax rates, the standard deduction, the personal exemption, and income-based tax credits of each state. The ranking is only for taxpayers taking the standard deduction.

[9] The ranking compares the 41 states and the District of Columbia that levy tax on wage income. The rankings do not include the impact of any scheduled changes to the individual income tax code in states other than Hawaii.

Hawaii Income Tax Burden Ranking among 41 States plus DC with Income Tax

Starting from state AGI, minus standard deduction, personal exemptions

Then calculated using tax rate schedule net of tax credits

Single	HI Before	GAP I	GAP II 2031
$25,000	2	4	40
$50,000	2	2	38
$75,000	2	2	27
$100,000	2	2	21
$150,000	2	2	10
$200,000	2	2	7
$500,000	1	1	5
Married Filing Jointly	**HI Before**	**GAP I**	**GAP II 2031**
$50,000	3	12	41
$100,000	2	2	39
$150,000	2	2	29
$200,000	3	3	23
$300,000	3	3	11
$400,000	2	2	8
$1,000,000	1	1	6

* Ranging from 1 to 42, smaller number indicates higher tax liability.

Note: only Oregon has higher income tax than Hawaii.

Figure 5. A comparison of how Hawaii's income tax burden ranks in relation to other states at different levels of income. HI Before shows the rates prior to the passage of the 2024 tax cut bill and a 2023 tax bill that increases credits to low-income taxpayers, known as GAP I. GAP II 2031 shows how Hawaii will rank when all the changes to the tax brackets and standard deduction have gone into full effect. The ranking does not account for future changes to the tax code in other states.

Eighty-two percent of businesses in the state are structured as S-corps, partnerships, or sole proprietorships. These entities report their business income on their individual tax records. **A reduction in individual tax rates is a reduction in business tax rates for most companies.**

Hawaii imposes a 6.4% corporate income tax rate, ranking it 23rd highest nationally. This tax rate is average compared to the rest of the country. It contributes only a small portion of tax collections.

Hawaii's estate tax is the highest in the country and places a unique burden on family-run firms. The top marginal rate is 20% in addition to the top federal rate of 40%, and the exemption amount is relatively low at $5.49 million. Unlike public companies, small firms cannot easily sell shares of their businesses. This means that owners may have to sell strategic assets to pay the estate tax. It is often difficult for firms to sell assets without undermining the operational efficiency of the entire firm. For example, a manufacturer cannot sell just 20% of a factory. Given the high tax burden, owners are often forced to sell their entire business to pay the tax. Businesses may also have to pay high premiums for life insurance to defer the cost of the estate tax. This affects how family-run businesses organize themselves and limits the ability to be family-run for more than one generation.

What about tax credits?

Governments often use tax credits to encourage certain industries and specific economic activities, but the track record is mixed. *In some cases, targeted credits have helped emerging industries mature and grow until they can compete on their own without any further assistance. In other cases, targeted credits do not fundamentally alter business decisions and simply act as a fiscal transfer to a politically connected industry or firm.*

The underlying goal of a business tax credit is to encourage a firm to engage in desired activities that it otherwise would not pursue*. Tax credits that give money to businesses for actions that they would already be doing are a waste of public funds. The economic literature is clear about best practices in this area.* ***Economically useful credits should be targeted, time-limited, and require firms or users to bear most of the cost.***

This means that a tax credit should be structured to target a specific economic behavior rather than be excessively broad, ensuring the credit is used for its original intention. It should be offered for a limited period so that firms do not become dependent on the credit. Generally, businesses should have most of the "skin in the game" when it comes to investment decisions. Excessively generous credits can encourage businesses to make unsound investments

An inherent risk of tax credits is that they create political constituencies that make them hard to discontinue even when they have outlived their economic use. *Governments that use tax credits need to develop objective mechanisms to measure their economic value. A good way to evaluate the success of the credit is to verify that the new economic activity persists after the credit has expired.*

The State of Hawaii has a mixed track record in using tax credits to produce lasting economic benefits. The High-Technology Business Investment Tax Credit cost the state $950 million while producing no lasting increase to the State's technology sector. ***In general, the best policy is one that allows all businesses to compete on a level playing field. Tax credits that favor certain industries and businesses should address a clearly articulated market failure and be subject to independent evaluation.***

Potential Solutions

The state is on a good track toward reducing its income tax burden due to the 2024 tax cut bill. The state should ensure that all reductions are implemented and maintained. Additionally, it should also consider reducing or eliminating the estate tax to support locally owned businesses.

Other Costs

- **Local businesses face some of the highest rents and land costs in the country**
- **Given Hawaii's geography, shipping and logistics costs are the highest in the country. However, some policies exacerbate these costs.**
- **Hawaii utility rates are two to three times higher than on the mainland.**

Rents and Land Costs

Why is it important?

Land costs and rents expenses that affect virtually all businesses, whether through direct ownership costs or lease arrangements. For businesses requiring physical space—from retail to manufacturing to office operations—these location-based expenses often constitute one of the largest fixed costs on their balance sheets. High rents force businesses to either operate in smaller spaces or pay a premium for a location – a significant overhead cost each month.

How does Hawaii rank?

Honolulu's commercial rents rival those of major mainland metropolitan areas. As of 2023, the average office lease rate in Honolulu was about $37.50 per square foot per year. This is about 18% higher than the U.S. average office rent and is on par with expensive markets like Los Angeles and Washington, D.C. Retail and industrial spaces are similarly pricey. For example, prime retail spaces in tourist hubs (Waikiki, Ala Moana) command top-tier rents comparable to Manhattan or San Francisco in terms of dollars per square foot.

Potential Solutions

High rents are an inescapable reality in small island economies where land is scarce, and demand is high. However, restrictive zoning regulations artificially create even more land scarcity. One potential solution is to rezone more land for industrial and commercial use and allow for greater density.

Shipping and Logistics

Why is it important?

Shipping and logistics expenses directly influence a business's ability to move products through supply chains and reach customers efficiently. These costs are particularly significant for businesses in remoted locations that on dependent on importing materials or exporting finished goods.

How does Hawaii rank?

Because actual freight rates vary by carrier, route, and commodity, there is no single standardized percentage difference. However, multiple industry sources and anecdotal data consistently show that **shipping costs for goods bound to or from Hawaii run significantly higher than comparable shipments between mainland cities.**

Shipping a standard container from the West Coast to Hawaii can cost 30–50% more than a similarly distanced shipment on the mainland (e.g., from Los Angeles to Seattle). Maui, Kauai, and the Big Island require inter-island shipments, effectively adding a second leg to the journey, increasing rates by another 10-20%.

Less-Than-Container or parcel shipments to Hawaii can be anywhere from 20% to over 60% more expensive, depending on the carrier. For example, major parcel services like UPS and FedEx often charge a significant "Hawaii surcharge." This adds $8–$15+ extra per parcel (sometimes more) compared to a similar mainland route, which can translate in a 20–30% price increase for smaller/lighter items and even higher percentages for heavier shipments. Air freight to Hawaii can be 50–100% more compared to a cross-country air shipment on the mainland, depending on weight, speed, and handling requirements.

Potential Solutions

Hawaii is the most isolated island chain in the world. Shipping and logistics costs will always be higher, given its geography. **However, some policies could boost competition and reduce costs in this sector.** The Merchant Marine Act of 1920 (Jones Act) mandates that goods transported between U.S. ports must be on ships that are U.S.-built, -owned, and -crewed. Reforming the Jones Act could increase the number of carriers that service the state.

Utilities

What is it important?

Utility costs—including electricity, water, gas, and telecommunications—are an essential operational expense for virtually all enterprises. For businesses with significant energy needs (e.g., manufacturing and cold storage), utility bills in Hawaii add another cost layer far above what businesses pay in other states.

How does Hawaii rank?

Hawaii's electricity rates are the highest in the nation, roughly two to three times the U.S. average. Residents and businesses bear the highest utility costs in the country.

Potential Solutions

The Public Utilities Commission should make reducing utility costs a main priority for Hawaii’s energy policy.

A Roadmap for Action

- **Given the task at hand, leaders need to prioritize actions**
- **The policy interventions with the biggest impact on business revitalization include speeding up the permitting process and reducing regulatory barriers.**
- **Other impactful interventions include lowering the high cost of living, restructuring social policies to increase labor participation, eliminating the estate tax, and easing zoning restrictions.**

The findings of this report are sobering, but they are not cause for despair. The state has an opportunity to create an environment where local firms can grow and thrive. What needs to be done is well known**. If Hawaii's leaders make business revitalization a priority, the road to reform involves a set of problems that are well understood and have proven solutions**. Since there is much to do, it is impossible to tackle every issue at once. Leaders must prioritize certain interventions over others.

The table below offers a rubric to guide and prioritize action. It recognizes that local leaders do not have control over all costs facing Hawaii's businesses. Therefore, it is better to focus on the issues that Hawaii can control. For each cost discussed in the report, the authors use the ranking of the cost and combine it with the amount of control local leaders have over the issue to assign a score that ranks the urgency of the intervention. The table categorizes priority interventions as high, medium, or low. **Addressing high-priority interventions yields the highest cost-benefit ratio, followed by medium-priority and then low-priority.**

Actions that address permitting speed and regulatory restrictiveness offer the biggest bang for the buck, as they are both ranked high priority. Ensuring that the 2024 tax cut bill is fully implemented would also significantly boost to the state's economic competitiveness.

Policies that lower the cost of living, reduce labor costs, and increase incentives to work would further support business revitalization. Other interventions scored at medium include reducing or eliminating the estate tax, engaging in rezoning efforts to lower rents, and adopting a state energy policy that prioritizes rate reductions.

Interventions with a low priority include amending the GET and the corporate income tax, as neither is a major driver of business costs in Hawaii. Reducing shipping costs with policies that increase competition requires law changes at the federal level and receives a low score because the state has relatively little control over this issue.

A Roadmap to Reform: Prioritizing Measures that Improve Hawaii's Business Climate

Costs Type	Hawaii Ranking	Comparative Cost	Local Control	Priority Intervention	Comments
Labor/ Human Capital					
Wage	11th (nominal)/ 43rd (PPP)	High	Med	Med	Lower cost of living increase wage value
Labor Participation Rate	38th	High	Med	Med	Structure social policies to support work
Mandated Fringe Benefits	50th	Med	High	Med	State can change laws/ hard politics
Unemployment Insurance Tax	49th	Med	High	Med	State can change laws/ hard politics
Regulations					
Permitting Speed	50th	High	High	High	No-brainer
Regulatory Restrictiveness	50th	High	High	High	State can change laws/ hard politics
Taxation					
Overall state and local burden	48th	High	High	In Progress	
GET	Lowest rate/ broadest scope	Low	High	Low	
Individual Income*	49th	High	HIgh	In Progress	2024 tax cut law addresses the issue
Corporate Income	23rd	Low	High	Low	
Estate Tax	50th	Med	High	Med	Would help local businesses
Other Costs					
Rents/land cost	48-50th	High	Med	Med	Rezone and build
Shipping	49-50th	High*	Low	Low	Jones Act is a federal issue
Utilities	50th	High	Med	Med	Prioritize low rates over other things

*The 2024 tax cut bill will significantly lower the income tax burden by 2031 if fully implemented