
A BILL FOR AN ACT

RELATING TO THE TAX CREDIT FOR RESEARCH ACTIVITIES.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. Section 235-110.91, Hawaii Revised Statutes, is
2 amended to read as follows:

3 "**§235-110.91 Tax credit for research activities.** (a)
4 Section 41 (with respect to the credit for increasing research
5 activities) and section 280C(c) (with respect to certain
6 expenses for which the credit for increasing research activities
7 are allowable) of the Internal Revenue Code shall be operative
8 for the purposes of this chapter as provided in this section;
9 provided that the federal tax provisions in section 41 of the
10 Internal Revenue Code, as that section was enacted on
11 December 31, 2011, irrespective of any subsequent changes to
12 section 41 of the Internal Revenue Code, shall remain in effect
13 for purposes of determining the state income tax credit under
14 this section; provided further that the federal tax provisions
15 in section 41 of the Internal Revenue Code, as enacted on
16 December 31, 2011, irrespective of any subsequent amendments to
17 section 41 of the Internal Revenue Code, shall apply only to



1 expenses incurred for qualified research activities after
2 December 31, 2012.

3 (b) All references to Internal Revenue Code sections
4 within sections 41 and 280C(c) of the Internal Revenue Code
5 shall be operative for purposes of this section; provided that
6 references to the base amount in section 41 of the Internal
7 Revenue Code shall not apply, and credit for all qualified
8 research expenses may be taken without regard to the amount of
9 expenses for previous years. In determining the allowable
10 credit, research funded by any grant, forgivable loan, or other
11 amounts not included in gross income for purposes of this
12 chapter shall not be qualified research expenses.

13 (c) There shall be allowed to each qualified high
14 technology business subject to the tax imposed by this chapter
15 an income tax credit for qualified research activities equal to
16 the credit for research activities provided by section 41 of the
17 Internal Revenue Code and as modified by this section; provided
18 that, in addition to any other requirements established in this
19 section, in order to qualify for the tax credit established in
20 this section, the qualified high technology business shall also
21 claim a federal tax credit for the same qualified research



1 activities under section 41 of the Internal Revenue Code, as
2 enacted on December 31, 2011, irrespective of any subsequent
3 amendments to section 41 of the Internal Revenue Code. The
4 credit shall be deductible from the taxpayer's net income tax
5 liability, if any, imposed by this chapter for the taxable year
6 in which the credit is properly claimed. Each taxpayer,
7 together with all of the taxpayer's related entities, as
8 determined under section 267(b) of the Internal Revenue Code,
9 and all business entities under common control, as determined
10 under sections 414(b), 414(c), and 1563(a) of the Internal
11 Revenue Code, shall not be eligible for more than \$1,500,000 in
12 tax credits provided by this section per taxable year.

13 (d) Every qualified high technology business shall be
14 registered to do business in the State.

15 [~~(d) Every~~] (e) To be eligible for the tax credit, every
16 qualified high technology business, [~~before March 31 of each~~
17 year] no later than the last day of the third month immediately
18 following the end of each taxable year in which qualified
19 research and development activity was conducted [~~in the previous~~
20 taxable year], shall submit [~~a written, certified statement]~~



1 each of the following, at minimum, to the department of
2 business, economic development, and tourism [~~identifying~~]:

- 3 (1) Qualified expenditures, if any, expended in the
4 previous taxable year; [~~and~~]
- 5 (2) The amount of tax credits claimed pursuant to this
6 section, if any, in the previous taxable year[~~;~~];
- 7 (3) The industry sector or sectors in which the qualified
8 high technology business conducts business, as set
9 forth in paragraphs (2) to (8) of the definition of
10 "qualified research" in section 235-7.3;
- 11 (4) The qualified high technology business' revenue and
12 expense data, including a breakdown of any licensing
13 royalty or other forms of income generated from
14 intellectual property;
- 15 (5) Employment and wage data relating to the qualified
16 high technology business' operations in the State,
17 including the numbers of full-time and part-time
18 employees retained, new positions created, temporary
19 positions created, external services procured, and
20 payroll taxes incurred by the qualified high
21 technology business;



1 (6) The number of filed intellectual property filings,
2 including invention disclosures, provisional patents,
3 and patents issued or granted;

4 (7) The number of new companies in the State that
5 separated from, or were established by, the qualified
6 high technology business to commercialize the
7 intellectual property owned by the qualified high
8 technology business; and

9 (8) A written declaration signed by an officer of the
10 qualified high technology business certifying that the
11 information that is submitted is true and correct as
12 to every material matter; provided that the
13 certification shall be subject to the penalties
14 provided in section 231-36, including monetary fines
15 and imprisonment.

16 Failure to meet the requirements of this subsection shall
17 constitute a waiver of the right to claim the tax credit.

18 The department of business, economic development, and
19 tourism shall request any specific information relating to the
20 categories identified in paragraphs (1) through (8) that the
21 department of business, economic development, and tourism deems



1 sufficient to measure the effectiveness of the tax credit under
2 this section. The department of business, economic development,
3 and tourism may request any additional information that the
4 department of business, economic development, and tourism deems
5 necessary to measure the effectiveness of the tax credit,
6 including additional information related to patents.

7 [~~e~~] (f) The department of business, economic
8 development, and tourism shall:

- 9 (1) Maintain records of the names and addresses of the
10 taxpayers claiming the credits under this section and
11 the total amount of the qualified research and
12 development activity costs upon which the tax credit
13 is based;
- 14 (2) Verify the nature of the qualifying research activity
15 and the amount of the qualifying costs or
16 expenditures;
- 17 (3) Total all qualifying and cumulative costs or
18 expenditures that the department certifies; and
- 19 (4) Certify the amount of the tax credit for each taxable
20 year and cumulative amount of the tax credit.



1 Upon each determination made under this subsection, the
2 department of business, economic development, and tourism shall
3 issue a certificate to the taxpayer verifying information
4 submitted to the department of business, economic development,
5 and tourism, including the qualifying costs or expenditure
6 amounts, the credit amount certified for each taxable year, and
7 the cumulative amount of the tax credit during the credit
8 period. The taxpayer shall file the certificate with the
9 taxpayer's tax return with the department of taxation.

10 Notwithstanding the authority of the department of business,
11 economic development, and tourism under this section, the
12 director of taxation may audit and adjust the tax credit amount
13 to conform to the facts.

14 The department of business, economic development, and
15 tourism may assess and collect a fee to offset the costs of
16 certifying tax credit claims under this section.

17 ~~[(f)]~~ (g) If in any ~~[taxable]~~ calendar year the annual
18 amount of certified credits reaches \$5,000,000 in the aggregate,
19 the department of business, economic development, and tourism
20 shall immediately discontinue certifying credits and notify the
21 department of taxation. In no instance shall the department of

1 business, economic development, and tourism certify a total
2 amount of credits exceeding \$5,000,000 per [~~taxable~~] calendar
3 year. To comply with this restriction, the department of
4 business, economic development, and tourism shall certify
5 credits on a [~~first come, first served~~] first-come, first-served
6 basis[-], which shall be based on the date of submission of the
7 written, certified statement; provided that if the total amount
8 of credits properly claimed by two or more qualified high
9 technology businesses on the same date would, if each certified,
10 cause the aggregate amount of certified credits to exceed
11 \$5,000,000, each qualified high technology business that submits
12 a certified statement on that date shall receive a proportionate
13 share of the remaining credit, calculated by multiplying the
14 total amount of remaining credit by a fraction, the numerator of
15 which is the amount of credit properly claimed by the qualified
16 high technology business and the denominator of which is the sum
17 of all credit properly claimed by all qualified high technology
18 businesses on that date.

19 The department of taxation shall not allow the aggregate
20 amount of credits claimed to exceed that amount per taxable
21 year.



1 ~~[(g)]~~ (h) If the tax credit for qualified research
2 activities claimed by a taxpayer exceeds the amount of income
3 tax payment due from the taxpayer, the excess of the tax credit
4 over payments due shall be refunded to the taxpayer; provided
5 that no refund on account of the tax credit allowed by this
6 section shall be made for amounts less than \$1.

7 ~~[(h)]~~ (i) All claims for a tax credit under this section
8 shall be filed on or before the end of the twelfth month
9 following the close of the taxable year for which the credit may
10 be claimed. Failure to properly claim the credit shall
11 constitute a waiver of the right to claim the credit.

12 ~~[(i)]~~ ~~A qualified high technology business that claims the~~
13 ~~credit under this section shall complete and file with the~~
14 ~~department of business, economic development, and tourism,~~
15 ~~through that department's website, an annual survey on~~
16 ~~electronic forms prepared and prescribed by the department of~~
17 ~~business, economic development, and tourism. The annual survey~~
18 ~~shall be filed before June 30 of each calendar year following~~
19 ~~the calendar year in which the credit may be claimed under this~~
20 ~~section. The department of business, economic development, and~~



1 ~~tourism may adjust the due date of the annual survey by rules~~
2 ~~adopted pursuant to chapter 91.~~

3 ~~(j) The annual survey under subsection (i) shall include~~
4 ~~the following information for the time period or periods~~
5 ~~specified by the department of business, economic development,~~
6 ~~and tourism:~~

7 ~~(1) Identification of the industry sector or sectors in~~
8 ~~which the qualified high technology business conducts~~
9 ~~business, as set forth in paragraphs (2) to (8) of the~~
10 ~~definition of "qualified research" in section 235-~~
11 ~~7.3(e);~~

12 ~~(2) Total expenditures and the qualified expenditures, if~~
13 ~~any, expended in the previous taxable year;~~

14 ~~(3) Revenue and expense data, including a breakdown of any~~
15 ~~licensing royalty or other forms of income generated~~
16 ~~from intellectual property;~~

17 ~~(4) Hawaii employment and wage data, including the numbers~~
18 ~~of full-time and part-time employees retained, new~~
19 ~~jobs, temporary positions, external services procured~~
20 ~~by the business, and payroll taxes;~~



1 ~~(5) Filed intellectual property, including invention~~
2 ~~disclosures, provisional patents, and patents issued~~
3 ~~or granted; and~~

4 ~~(6) The number of new companies spun out or established to~~
5 ~~commercialize the intellectual property owned by the~~
6 ~~qualified high technology business.~~

7 ~~The department of business, economic development, and~~
8 ~~tourism shall request information in each of these categories~~
9 ~~sufficient to measure the effectiveness of the tax credit under~~
10 ~~this section. The department of business, economic development,~~
11 ~~and tourism may request any additional information necessary to~~
12 ~~measure the effectiveness of the tax credit, such as information~~
13 ~~related to patents. In preparing the survey and requesting any~~
14 ~~additional information, the department of business, economic~~
15 ~~development, and tourism shall ensure that qualified high~~
16 ~~technology businesses are not subject to duplicative reporting~~
17 ~~requirements.~~

18 ~~(k)]~~ (j) The department of business, economic development,
19 and tourism shall use information collected under this section
20 and through its other reporting requirements to prepare summary
21 descriptive statistics by category. The information shall be



1 reported at the aggregate level to prevent compromising
2 identities of qualified high technology business investors or
3 other confidential information. The department of business,
4 economic development, and tourism shall also identify each
5 qualified high technology business that applies for or is the
6 beneficiary of tax credits claimed under this section. The
7 department of business, economic development, and tourism shall
8 report the information required under this subsection to the
9 legislature by September 1 of each year.

10 [~~(l)~~] (k) The department of business, economic
11 development, and tourism, in collaboration with the department
12 of taxation, shall use the information collected to study the
13 effectiveness of the tax credit under this section. The
14 department of business, economic development, and tourism shall
15 submit a report to the legislature on the following:

- 16 (1) The amount of tax credits claimed and total taxes paid
17 by qualified high technology businesses;
- 18 (2) The number of qualified high technology businesses in
19 each industry sector;
- 20 (3) The numbers and types of jobs created by qualified
21 high technology businesses;



- 1 (4) External services and materials procured by the
- 2 businesses;
- 3 (5) The compensation levels of jobs provided by qualified
- 4 high technology businesses;
- 5 (6) Qualified research activities; and
- 6 (7) Any other factors the department of business, economic
- 7 development, and tourism deems relevant.

8 The department of business, economic development, and tourism
 9 shall submit the report to the legislature by September 1 of
 10 each year.

11 [~~(m)~~] (l) The director of taxation may adopt any rules
 12 under chapter 91 and forms necessary to carry out this section.

13 [~~(n)~~] (m) This section shall not apply to taxable years
 14 beginning after December 31, [~~2024.~~] 2029.

15 [~~(o)~~] (n) As used in this section:

16 "Qualified high technology business" shall have the same
 17 meaning as in section 235-7.3(c).

18 "Qualified research" shall have the same meaning as in
 19 section 41(d) of the Internal Revenue Code.

20 "Qualified research expenses" shall have the same meaning
 21 as in section 41(b) of the Internal Revenue Code; provided that



1 it shall not include research expenses incurred outside of the
2 State."

3 SECTION 2. Act 261, Session Laws of Hawaii 2019, is
4 amended by amending section 5 to read as follows:

5 "SECTION 5. This Act shall take effect upon its approval;
6 provided that:

7 (1) Section 2 shall apply to taxable years beginning after
8 December 31, 2019; and

9 (2) Part II shall take effect on December 31, [~~2024.~~]
10 2029."

11 SECTION 3. Statutory material to be repealed is bracketed
12 and stricken. New statutory material is underscored.

13 SECTION 4. This Act shall take effect on July 1, 3000, and
14 shall apply to taxable years beginning after December 31, 2023.



Report Title:

DBEDT; Tax Credit for Research Activities; Requirements; Survey; Certification; Caps

Description:

Adds a cap for the amount of tax credits for research activities that an eligible taxpayer and the taxpayer's related entities may receive per taxable year. Consolidates the survey and certification requirements for tax credits for research activities. Excludes research funded by any grant, forgivable loan, or other amounts not included in gross income from qualified research expenses. Requires certification of the tax credits for research activities on a first-come, first-served basis to be based on the date that a complete application is received, subject to certain conditions. Extends from 12/31/2024 to 12/31/2029, the sunset date for tax credits for research activities. Effective 7/1/3000. (HD1)

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

