
A BILL FOR AN ACT

RELATING TO TAX CREDIT FOR RESEARCH ACTIVITIES.

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

1 SECTION 1. The legislature finds that Hawaii must
2 diversify its economy by encouraging and promoting research and
3 development activities. These efforts will help attract and
4 retain technology companies in the State and provide high-paying
5 jobs that are necessary for residents to thrive in Hawaii.

6 The legislature further finds that Hawaii has an
7 opportunity to create careers that allow its young people to
8 build their futures at home. When local graduates can find work
9 that matches their education and ambition, they are more likely
10 to remain in the State, raise families, start businesses, and
11 strengthen the communities that raised them. Research and
12 development jobs offer these meaningful careers rooted in
13 imagination and skill.

14 The legislature also finds that while tourism remains vital
15 to Hawaii's economy, the State can and should build additional
16 engines of growth. An economy grounded in research and
17 innovation creates value from ideas - drawing on the creativity,



1 education, and talent of its people. This approach increases
2 economic resilience by ensuring that when one sector faces
3 disruption, as tourism did during the COVID-19 pandemic and
4 following the Lahaina wildfire, other industries can help
5 sustain families and communities.

6 The legislature additionally finds that economic research
7 supports this approach. The 2018 Nobel Prize in Economic
8 Sciences was awarded for research demonstrating that sustained
9 economic growth comes from investing in people and ideas. The
10 2025 Nobel Prize in Economic Sciences further showed how
11 innovation drives long-term growth by creating new technologies,
12 products, and production methods that replace old ones.
13 Economies that support research and development grow from
14 within, generating prosperity that compounds over generations.

15 The legislature further finds that Hawaii's research
16 activities tax credit has proven its value, as demand
17 consistently exceeds available funding. For the past three
18 years, the \$5,000,000 annual cap has been reached almost
19 immediately upon opening applications, demonstrating strong
20 interest from companies ready to invest in Hawaii.
21 Additionally, removing the federal base-amount calculation will



1 encourage companies to expand their research activities year
2 after year without being penalized for prior investments and
3 eliminates the uncertainty for businesses planning multi-year
4 research investments in Hawaii.

5 The legislature also finds that strengthening this credit
6 will position Hawaii to compete more effectively for innovation-
7 driven companies. Other states like Florida, Maryland, and
8 Michigan have made significant commitments to research
9 incentives, with annual caps ranging from \$9,000,000 to
10 \$100,000,000. Increasing Hawaii's cap and simplifying the
11 credit will send a clear signal that the State believes in its
12 people and invests in their potential.

13 The purpose of this Act is to strengthen the research
14 activities tax credit and invest in Hawaii's future by:

- 15 (1) Allowing taxpayers to claim credits for all qualified
16 research expenses without reduction for prior-year
17 spending;
- 18 (2) Increasing the annual statewide cap to meet
19 demonstrated demand and support an economy in which
20 Hawaii's families can thrive;



1 (3) Requiring the credit to be divided between all
2 qualified high technology businesses for that calendar
3 year in proportion to the amount of qualified research
4 expenses claimed if the annual statewide cap is
5 reached; and

6 (4) Requiring the department of business, economic
7 development, and tourism to establish an annual
8 application period and notify each qualified high
9 technology business applicant of the credit amount
10 certified.

11 SECTION 2. Section 235-110.91, Hawaii Revised Statutes, is
12 amended as follows:

13 1. By amending subsection (b) to read:

14 "(b) All references to Internal Revenue Code sections
15 within sections 41 and 280C(c) of the Internal Revenue Code
16 shall be operative for purposes of this section[+]; provided
17 that references to the base amount in section 41 of the Internal
18 Revenue Code shall not apply, and a credit for all qualified
19 research expenses may be taken without regard to the amount of
20 expenses for previous years."

21 2. By amending subsection (d) to read:



1 "(d) Every qualified high technology business, before
2 March [31] 1 of each year in which qualified research and
3 development activity was conducted in the previous taxable year,
4 shall submit a written, certified statement to the department of
5 business, economic development, and tourism identifying:

- 6 (1) Qualified expenditures, if any, expended in the
7 previous taxable year; and
8 (2) The amount of tax credits claimed pursuant to this
9 section, if any, in the previous taxable year."

10 3. By amending subsection (f) to read:

11 "(f) If in any taxable year the annual amount of certified
12 credits reaches [~~\$5,000,000~~] \$ _____ in the aggregate, the
13 [~~department of business, economic development, and tourism shall~~
14 ~~immediately discontinue certifying credits and notify the~~
15 ~~department of taxation.~~] \$ _____ shall be divided between
16 all qualified high technology businesses for that year in
17 proportion to the amount of qualified research expenses claimed
18 by all qualified high technology businesses; provided that:

- 19 (1) The department of business, economic development, and
20 tourism shall establish an annual application period
21 ending on March 1 of each year at 5:00 p.m. Hawaii



1 Standard Time; provided further that the department
2 shall determine the opening date of the application
3 period by rule;

4 (2) By May 31 of each year the department of business,
5 economic development, and tourism shall notify each
6 qualified high technology business applicant of the
7 credit amount certified; and

8 (3) If the total credits applied for by all qualified high
9 technology businesses are \$ _____ or less, each
10 qualified high technology business shall receive the
11 full amount of the credit applied for, subject to
12 verification of qualified research expenses.

13 In no instance shall the department of business, economic
14 development, and tourism certify a total amount of credits
15 exceeding ~~[\$5,000,000]~~ \$ _____ per taxable year. ~~[To comply~~
16 ~~with this restriction, the department of business, economic~~
17 ~~development, and tourism shall certify credits on a first come,~~
18 ~~first served basis.]~~

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



1 SECTION 3. Statutory material to be repealed is bracketed
2 and stricken. New statutory material is underscored.

3 SECTION 4. This Act shall take effect on July 1, 3050, and
4 shall apply to costs incurred beginning after December 31, 2025.



Report Title:

DBEDT; Tax Credit; Research Activities; Qualified High Technology Businesses; Annual Cap; Tax Credit Distribution; Certification

Description:

Amends the tax credit for research activities by: allowing taxpayers to claim credits for all qualified research expenses without regard to prior-year expenses; amending from March 31 to March 1, the deadline for qualified high technology businesses to submit a written, certified statement to the Department of Business, Economic Development, and Tourism identifying its qualified expenditures and research activities tax credits claimed in the previous taxable year; increasing the annual statewide cap amount for the tax credit; requiring the tax credit to be divided between all qualified high technology businesses for that year on a proportional basis if the annual statewide cap is reached; and requiring DBEDT to establish an annual application period and notify each qualified high technology business applicant of the credit amount certified. Applies to costs incurred beginning after 12/31/2025. Effective 7/1/3050. (SD1)

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