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# 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 and send a clear signal that the State believes  
8 in its people and invests in their potential and in Hawaii's  
9 future.

10 The purpose of this Act is to amend the tax credit for  
11 research activities by:

12 (1) Allowing qualifying taxpayers to claim the credit for  
13 all qualified research expenses without regard to the  
14 amount of expenses for previous years;

15 (2) Amending from March 31 to March 1 the deadline for  
16 qualified high technology businesses to submit to the  
17 department of business, economic development, and  
18 tourism written, certified statements identifying  
19 qualified expenditures and the tax amount of tax  
20 credits claimed in the previous taxable year;



1 (3) For any taxable year in which the annual aggregate cap  
2 is reached, requiring the credit to be divided between  
3 all qualified high technology businesses in proportion  
4 to the amount of qualified research expenses claimed;

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

10 (5) Repealing the credit on January 1, 2029.

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 [~~department of~~  
13 ~~business, economic development, and tourism shall immediately~~  
14 ~~discontinue certifying credits and notify the department of~~  
15 ~~taxation.] \$5,000,000 shall be divided between all qualified  
16 high technology businesses for that year in proportion to the  
17 amount of qualified research expenses claimed by all qualified  
18 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 no more than \$5,000,000,  
10           each qualified high technology business shall receive  
11           the 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 with this~~  
16 ~~restriction, the department of business, economic development,~~  
17 ~~and tourism shall certify credits on a first come, first served~~  
18 ~~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 4. By amending subsection (n) to read:

2 "(n) This section shall not apply to taxable years  
3 beginning after December 31, [~~2029.~~] 2028."

4 SECTION 3. Act 261, Session Laws of Hawaii 2019, as  
5 amended by section 2 of Act 139, Session Laws of Hawaii 2024 is  
6 amended by amending section 5 to read as follows:

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

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

11 (2) Part II shall take effect on January 1, [~~2030.~~] 2029."

12 SECTION 4. Statutory material to be repealed is bracketed  
13 and stricken. New statutory material is underscored.

14 SECTION 5. This Act shall take effect on July 1, 3050, and  
15 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 qualifying taxpayers to claim the credit for all qualified research expenses without regard to the amount of expenses for previous years; amending from March 31 to March 1 the deadline for qualified high technology businesses to submit to the Department of Business, Economic development, and Tourism written, certified statements identifying qualified expenditures and the tax amount of tax credits claimed in the previous taxable year; for any taxable year the annual aggregate cap is reached, requiring the credit to be divided between all qualified high technology businesses in proportion to the amount of qualified research expenses claimed; 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. Repeals the credit on 1/1/2029. Effective 7/1/3050. (SD2)

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