
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; and
18 (2) Increasing the annual statewide cap from \$5,000,000 to
19 \$15,000,000 to meet demonstrated demand and support an
20 economy in which Hawaii's families can thrive.



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

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

4 "(b) All references to Internal Revenue Code sections
5 within sections 41 and 280C(c) of the Internal Revenue Code
6 shall be operative for purposes of this section[–]; provided
7 that references to the base amount in section 41 of the Internal
8 Revenue Code shall not apply, and a credit for all qualified
9 research expenses may be taken without regard to the amount of
10 expenses for previous years."

11 2. By amending subsection (f) to read:

12 "(f) If in any taxable year the annual amount of certified
13 credits reaches [\$5,000,000] \$15,000,000 in the aggregate, the
14 department of business, economic development, and tourism shall
15 immediately discontinue certifying credits and notify the
16 department of taxation. In no instance shall the department of
17 business, economic development, and tourism certify a total
18 amount of credits exceeding [\$5,000,000] \$15,000,000 per taxable
19 year. To comply with this restriction, the department of
20 business, economic development, and tourism shall certify



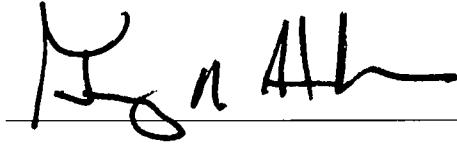
1 credits on a ~~first come, first served~~ first-come, first-served
2 basis.

3 The department of taxation shall not allow the aggregate
4 amount of credits claimed to exceed that amount per taxable
5 year."

6 SECTION 3. Statutory material to be repealed is bracketed
7 and stricken. New statutory material is underscored.

8 SECTION 4. This Act, upon its approval, shall apply to
9 taxable years beginning after December 31, 2025.

10

INTRODUCED BY: 



S.B. NO. 3213

Report Title:

Tax Credit; Research Activities

Description:

Restores the provision that makes references to the Internal Revenue Code's base-amount requirement inapplicable to the Research Activities Tax Credit, allowing all qualified research expenses to be claimed without regard to prior-year expenses. Increases the annual cap for the Research Activities Tax Credit.

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