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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. 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 (f) to read:



1           "(f) If in any taxable year the annual amount of certified  
2 credits reaches [~~\$5,000,000~~] \$ \_\_\_\_\_ in the aggregate, the  
3 [~~department of business, economic development, and tourism shall~~  
4 ~~immediately discontinue certifying credits and notify the~~  
5 ~~department of taxation.~~] \$ \_\_\_\_\_ shall be divided between  
6 all qualified high technology businesses for that year in  
7 proportion to the amount of qualified research expenses claimed  
8 by all qualified high technology businesses; provided that:

9           (1) The department of business, economic development, and  
10           tourism shall establish an annual application period  
11           ending on March 1 of each year at 5:00 p.m. Hawaii  
12           Standard Time; provided that the department shall  
13           determine the opening date of the application period  
14           by rule;

15           (2) By May 31 of each year the department of business,  
16           economic development, and tourism shall notify each  
17           qualified high technology business applicant of the  
18           credit amount certified; and

19           (3) If the total credits applied for by all qualified high  
20           technology businesses are \$ \_\_\_\_\_ or less, each  
21           qualified high technology business shall receive the



1           full amount of the credit applied for, subject to  
2           verification of qualified research expenses.

3 In no instance shall the department of business, economic  
4 development, and tourism certify a total amount of credits  
5 exceeding [~~\$5,000,000~~] \$ \_\_\_\_\_ per taxable year. [~~To comply~~  
6 ~~with this restriction, the department of business, economic~~  
7 ~~development, and tourism shall certify credits on a first come,~~  
8 ~~first served basis.~~]

9           The department of taxation shall not allow the aggregate  
10 amount of credits claimed to exceed that amount per taxable  
11 year."

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 Statutory material to be repealed is bracketed  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

14           SECTION 4. This Act shall take effect on July 1, 3000, and  
15 shall apply retroactive to taxable years beginning after  
16 December 31, 2024.



**Report Title:**

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

**Description:**

Amends the tax credit for research activities by: allowing taxpayers to claim all qualified research expenses without regard to prior-year expenses; increasing the annual cap; requiring the tax credit to be divided on a proportional basis if the annual statewide cap is reached; and requiring the Department of Business, Economic Development, and Tourism to establish an annual application period and notify each qualified high technology business applicant of the credit amount certified. Applies retroactive to taxable years beginning after 12/31/2024. Effective 7/1/3000. (HD2)

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