

Honolulu, Hawaii

MAR 30 2026

RE: H.B. No. 2546
H.D. 2
S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Thirty-Third State Legislature
Regular Session of 2026
State of Hawaii

Sir:

Your Committee on Economic Development and Tourism, to which was referred H.B. No. 2546, H.D. 2, entitled:

"A BILL FOR AN ACT RELATING TO TAX CREDIT FOR RESEARCH ACTIVITIES,"

begs leave to report as follows:

The purpose and intent of this measure is to amend the tax credit for research activities, retroactive to taxable years beginning after December 31, 2024, by:

- (1) Allowing taxpayers to claim credits for all qualified research expenses without regard to prior-year expenses;
- (2) Increasing the annual statewide cap amount for the tax credit;
- (3) 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
- (4) 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.

Your Committee received testimony in support of this measure from the Creative Industries Division of the Department Business, Economic Development, and Tourism; Hawai'i Technology Development Corporation; Makai Ocean Engineering, Inc.; Maui Chamber of Commerce; Simonpietri Enterprises LLC; Oceanit Laboratories, Inc.; Nalu Scientific; and six individuals.

Your Committee received comments on this measure from the Department of Taxation, Tax Foundation of Hawaii, and one individual.

Your Committee finds that the income tax credit for research activities supports innovation, technology-driven research and development investment, and high-wage employment opportunities in the State. Your Committee further finds, however, that the current structure of the tax credit presents challenges for startups and small businesses, particularly those without consistent year-to-year research expenditures. Your Committee also finds that the existing first-come, first-served allocation of the tax credit creates uncertainty and may result in the inequitable distribution of credits among eligible applicants. This measure improves the accessibility, predictability, and usability of the research activities tax credit to enable broader participation and support continued investment in research and development activities in the State.

Your Committee acknowledges the concern raised in testimony by the Department of Taxation (DoTax) that the March 31 application deadline for the tax credit may conflict with the March 31 deadline by which each qualified high technology business that conducted qualified research and development activity in the previous taxable year must submit a written, certified statement to the Department of Business, Economic Development, and Tourism (DBEDT) identifying its qualified expenditures and research activities tax credits claimed in the previous taxable year. Your Committee further notes the concerns raised by DoTax and DBEDT that retroactive application of this measure may require DBEDT to re-review all submissions made in 2025, may require taxpayers to amend their returns, and may result in disallowance of the credit if they fail to timely file or amend the claim. Therefore,



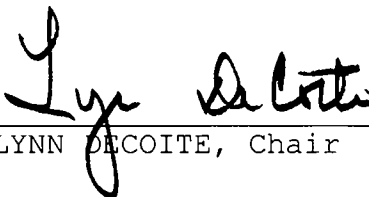
amendments to this measure are necessary to address these concerns.

Your Committee has amended this measure by:

- (1) Inserting language to amend the deadline for qualified high technology businesses to submit the required written, certified statement to DBEDT from March 31 to March 1;
- (2) Making it apply to costs incurred after December 31, 2025, rather than retroactive to taxable years beginning after December 31, 2024;
- (3) Inserting an effective date of July 1, 3050, to encourage further discussion; and
- (4) Making technical, nonsubstantive amendments for the purposes of clarity and consistency.

As affirmed by the record of votes of the members of your Committee on Economic Development and Tourism that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 2546, H.D. 2, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 2546, H.D. 2, S.D. 1, and be referred to your Committee on Ways and Means.

Respectfully submitted on
behalf of the members of the
Committee on Economic
Development and Tourism,


LYNN DECOITE, Chair



