

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



GARY S. SUGANUMA
DIRECTOR

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

STATE OF HAWAII'
DEPARTMENT OF TAXATION

Ka 'Oihana 'Auhau

P.O. BOX 259

HONOLULU, HAWAII'1 96809

PHONE NO: (808) 587-1540

FAX NO: (808) 587-1560

**TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

TESTIMONY ON THE FOLLOWING MEASURE:

H.B. No. 2546, H.D.1, Relating to Tax Credit for Research Activities

BEFORE THE:

House Committee on Finance

DATE: Monday, March 2, 2026

TIME: 2:00 p.m.

LOCATION: State Capitol, Room 308

Chair Todd, Vice-Chair Takenouchi, and Members of the Committee:

The Department of Taxation (DOTAX) offers the following comments regarding H.B. 2546, H.D.1, for your consideration.

H.B. 2546, H.D.1, amends section 235-110.91(b), regarding the tax credit for research activities, to partially decouple from conformity to Internal Revenue Code (IRC) section 41 by providing "that references to the base amount in section 41 of the Internal Revenue Code shall not apply," and allowing a credit for all qualified research expenses "without regard to the amount of expenses for previous years."

The bill also amends section 235-110.91(f) by increasing the aggregate cap from \$5,000,000 to \$15,000,000 per taxable year. The bill also provides that the tax credit is to be distributed in proportion to the amount of qualified research expenses claimed by all qualified high technology businesses if the annual statewide cap is reached, instead of on a first-come, first-served basis.

The bill further provides that the annual application period shall end on March 1 of each year and the Department of Business, Economic Development, and Tourism (DBEDT) shall notify each qualified taxpayer of the credit amount certified by May 31 of each year.

The bill has a defective effective date of July 1, 3000, and retroactively applies to taxable years beginning after December 31, 2024.

First, DOTAX notes that the March 1 deadline on page 5, line 11 of the bill appears to conflict with section 235-110.91(d), HRS, which requires qualified high technology business to submit a certified statement to DBEDT by March 31. To avoid ambiguity, DOTAX recommends amending subsection (d) by changing March 31 to March 1.

Second, DOTAX recommends amending page 6, line 5 of the bill, by replacing the \$5,000,000 with \$15,000,000 to be consistent with the amendments to the cap on page 5, lines 2 and 5.

Third, DOTAX defers to DBEDT regarding its ability to retroactively certify the credit for tax year 2025, but notes that a retroactive effective date may require taxpayers to amend their returns and may result in a disallowance of the credit if the taxpayer fails to file or amend their claim on or before the twelfth month following the close of the taxable year, as required by section 235-110.91(h), HRS.

To avoid these potential complications, DOTAX recommends that the effective date of the bill be amended to apply to “costs incurred” after December 31, 2025.

Thank you for the opportunity to provide comments on this measure.

Written Statement of
Trung Lam, Executive Director

before the
House Committee on Finance

Monday, March 2, 2026
2:00 pm
Conference Room 308 & Videoconference

In consideration of
HB2546, HD1
RELATING TO TAX CREDIT FOR RESEARCH ACTIVITIES

Chair Todd, Vice Chair Takenouchi, and Members of the Committee:

HTDC is committed to advancing Hawai'i as a premier technology innovation hub, particularly in the space and ocean sectors. This bill is of significant interest to HTDC because it directly impacts the research and development ecosystem that underpins the growth of high technology businesses in the state. By enhancing the research activities tax credit, the measure supports the development and commercialization of innovative technologies that align with HTDC's mission and legislative priorities, including the blue economy, advanced manufacturing, and aerospace.

Allowing taxpayers to claim all qualified research expenses without regard to prior-year expenses removes a key barrier for emerging companies, particularly startups and small businesses that may not have consistent year-over-year R&D expenditures. This change encourages sustained investment in research and innovation, fostering a more dynamic technology sector. Additionally, increasing the annual cap on the credit and implementing a proportional distribution mechanism ensures broader access to these incentives, reducing uncertainty for businesses planning multi-year R&D projects.

The inclusion of a pro-rata clause in Section 1 (3), requiring the credit to be divided between all qualified high technology businesses for that calendar year in proportion to the amount of qualified research expenses claimed if the annual statewide cap is reached, is an important addition to ensure fairness in how the tax credit is distributed.

HTDC urges the committee to support HB2546, HD1. Mahalo for this opportunity to testify.



**Testimony to the House Committee on Finance
Representative Chris Todd, Chair
Representative Jenna Takenouchi, Vice Chair**

**Monday, March 2, 2026, at 2:00PM
Conference Room 308 & Videoconference**

RE: HB2546 HD1 Relating to Tax Credit for Research Activities

Aloha e Chair Todd, Vice Chair Takenouchi, and Members of the Committee:

My name is Sherry Menor, President and CEO of the Chamber of Commerce Hawaii ("The Chamber"). The Chamber supports House Bill 2546 House Draft 1 (HB2546 HD1), which strengthens Hawaii's Research Activities Tax Credit by expanding eligibility and increasing the annual cap on credits certified by the Department of Business, Economic Development & Tourism.

HB2546 HD1 aligns with our 2030 Blueprint for Hawaii: An Economic Action Plan, specifically under the policy pillar for Military & Defense. This bill catalyzes innovation-driven economic activity, strengthens Hawaii's strategic role in research, technology, and defense-related industries, and improves national defense.

A robust R&D ecosystem expands opportunities for local companies to participate in federal and defense-aligned research contracts, including industries such as cybersecurity, ocean technologies, communications systems, and advanced materials. By increasing the credit cap, HB 2546 HB1 helps more local technology companies lower the cost barriers for firms engaging in innovation, enabling Hawaii-based organizations to compete for federal defense and technology grants and contracts that have multiplier effects on local jobs and investment.

A strong R&D climate in Hawaii attracts and retains scientists, engineers, technologists, and defense-related professionals, roles that not only diversify our economic base but also contribute to the state's military readiness. As federal defense spending continues to be a major economic driver in the state, strengthening the local innovation ecosystem ensures that more of those funds translate into value for local professionals and businesses.

The Chamber of Commerce Hawaii is the state's leading business advocacy organization, dedicated to improving Hawaii's economy and securing Hawaii's future for growth and opportunity. Our mission is to foster a vibrant economic climate. As such, we support initiatives and policies that align with the 2030 Blueprint for Hawaii that create opportunities to strengthen overall competitiveness, improve the quantity and skills of available workforce, diversify the economy, and build greater local wealth.

We respectfully ask to pass House Bill 2546 House Draft 1. Thank you for the opportunity to testify.

TAX FOUNDATION OF HAWAII

735 Bishop Street, Suite 417

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Makes Tax Credit for Research Activities Apply to Gross, Not Incremental, Research Expenses

BILL NUMBER: HB 2546 HD1

INTRODUCED BY: ECD

EXECUTIVE SUMMARY: 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. (HD1)

SYNOPSIS: Amends section 235-110.91, HRS, by providing that references to the base amount in section 41 of the Internal Revenue Code shall not apply for purposes of computing the state credit, and a credit for all qualified research expenses may be taken without regard to the amount of expenses for previous years.

Also raises the aggregate cap on the credit from \$5 million to \$15 million per year. The \$15,000,000 shall be divided between all qualified high technology businesses for that year in proportion to the amount of qualified research expenses claimed by all qualified high technology businesses; provided that: (1) DBEDT shall establish an annual application period ending on March 1 of each year at 5:00 p.m. Hawaii Standard Time; provided that the department shall determine the opening date of the application period by rule; (2) By May 31 of each year the department of business, economic development, and tourism shall notify each qualified high technology business applicant of the credit amount certified; and (3) If the total credits applied for by all qualified high technology businesses are \$15,000,000 or less, each qualified high technology business shall receive the full amount of the credit applied for, subject to verification of qualified research expenses.

EFFECTIVE DATE: Taxable years beginning after December 31, 2025.

STAFF COMMENTS: The legislature by Act 270, SLH 2013, reestablished the income tax credit for qualified research activities that expired on 12/31/10. The prior version of that law, under Act 221, SLH 2001, offered a credit for qualified research activities that was a flat percentage of qualified research expenses in Hawaii without regard to the federal base amount (the federal credit is supposed to be an incentive to increase research activities, so the federal credit is based on incremental research expenses). When Act 270 brought the credit back, it did so as an incremental credit, like the federal credit.

Act 261, SLH 2019, amended the credit by reinserting the phrase “provided that references to the base amount shall not apply and credit for all qualified research expenses may be taken without regard to the amount of expenses for previous years.”

Act 139, SLH 2024, deleted the phrase that was inserted by Act 261, SLH 2019, thereby reinstating conformity to the federal tax credit in that it once again became an incremental credit. As indicated above, the base amount requires a lookback to determine incremental research activities eligible for the tax credits. Additionally, Act 139 narrowed the credit eligibility to small business (less than 500 employees).

This bill is proposed to undo the 2024 deletion.

Substantively, over the last decade, Hawaii has adopted various tax incentives to encourage the development of high technology businesses in the state. The acts provided investment and research credits as well as income exclusions providing tax relief to high tech businesses and individuals associated with high tech businesses. While the focus on high technology in the last few years is commendable, it fails to recognize that investments are made with the prospect that the venture will yield a profit. If the prospects for making a profit are absent, no amount of tax credits will attract investment from outside Hawaii’s capital short environment. People do not invest to lose money. It should be remembered that until Hawaii’s high cost of living can be addressed, all the tax incentives in the world will not make a difference in attracting new investment to Hawaii. The only attractive aspect for resident investors to plow money into such activities is the fact that the credit provides a way to avoid paying state taxes.

At a minimum, lawmakers should carefully examine the results that have come out of this 20-year-old incentive to see if the State has gotten its money’s worth. If it hasn’t, how can an extension or increase in the credit be justified?

As a technical comment, we note that the last sentence of amended subsection (f) still reads: “In no instance shall the department of business, economic development, and tourism certify a total amount of credits exceeding \$5,000,000 per taxable year.” The amount needs to be changed to \$15 million to be consistent with the other components of the subsection.

Digested: 2/28/2026



Written Statement of
DR. PATRICK SULLIVAN
FOUNDER & CEO, OCEANIT

Before the
HOUSE FINANCE COMMITTEE

Monday, March 2, 2026
2:00 p.m.
State Capitol, Conference Room 308 and Videoconference

In Support of
HB2546 HD1 RELATING TO THE TAX CREDIT FOR RESEARCH ACTIVITIES

To: Chair Representative Chris Todd, Vice Chair Representative Jenna Takenouchi,
and Members of the Committee

From: Dr. Patrick Sullivan, Founder & CEO

Re: Testimony in Support of HB2546 HD1

Chair Todd, Vice Chair Takenouchi, and Members of the Committee:

Oceanit Laboratories, Inc. strongly supports HB2546 HD1, which removes the base amount limitation on Hawai'i's research activities tax credit, increases the annual statewide cap to \$15 million, adopts pro-rata distribution, and applies these changes retroactively to the 2025 tax year. The Economic Development & Technology Committee's HD1 reflects careful work that addresses most of the structural problems that undermined this credit under Act 139. For over 40 years, Oceanit has been a Hawai'i-based science and engineering company employing over 100 local scientists and engineers in AI, nanomaterials, climate resilience, and national defense.

The data in support for Qualified High-Tech Businesses (QHTBs) here is clear: DBEDT's 2024 report shows that 18 certified QHTBs employed 879 people, 97% Hawai'i residents, at an average research salary of \$117,972, well above the state median. Those employees generate income tax revenue, pay GET on local purchases, and reduce demand for social services. The companies themselves spent \$3.8 million on local contractors and services in a single year. A fully utilized \$15 million credit supporting this level of economic activity is not a subsidy, it is an investment with measurable, compounding returns in tax revenue, workforce retention, and economic diversification.

Act 139 (2024) reverted to an incremental-only formula that was intended to target credits toward new research spending. In practice, it gutted the program. DBEDT's August 2025 report documents the results: the average credit per company fell from \$0.45–\$0.56 million to just \$0.15 million, a 70% decline, and

\$2.4 million of the \$5 million cap went unclaimed. The State collected less revenue from a weaker credit, not more, because the credit was no longer large enough to influence the investment decisions it was designed to incentivize. Eight fewer companies applied. From a fiscal standpoint, Act 139 produced the worst possible outcome: reduced economic activity with no offsetting revenue gain.

The EDT Committee's amendments are well-crafted and address the core structural problems. Removing the base amount limitation restores the 20% calculation on total qualified research expenses, making the credit meaningful again for companies with sustained R&D programs. The \$15 million cap reflects demonstrated demand, the prior \$5 million cap was exhausted in seconds from 2020–2023, and positions Hawai'i competitively against states like Florida (\$9M), Maryland (\$12M), and Michigan (\$100M). Pro-rata distribution replaces the chaotic first-come, first-served system with proportional allocation based on each company's share of total statewide qualified research expenses, ensuring fairness, predictability, and full utilization. Retroactive application to the 2025 tax year recovers a year already lost to Act 139's flawed formula and sends an immediate signal that Hawai'i is serious about competing for R&D investment.

We did want to point out one technical note about the HD1: There appears to be a drafting inconsistency on page 6, line 5, the "in no instance" clause still references "\$5,000,000" rather than the \$15,000,000 cap established elsewhere in the bill. We flag this for the Committee's attention so it can be corrected.

This legislation represents a sound fiscal investment in the diversified, high-wage economy that Hawai'i's families need. UHERO's February 2026 report confirms what the data already shows: Hawai'i's affordability crisis cannot be solved by reducing costs alone; we must also grow industries that pay well. The research activities tax credit is one of the most direct tools available to do that. With the addition of refundability, HB2546 HD1 would be a complete and effective piece of legislation.

Oceanit urges the Committee to pass HB2546 HD1.



Small Kine Farm

PO Box 600, Kailua, HI 96734

808-262-2724

smallkinefarm@gmail.com

www.smallkinefarm.com

Statement of
Fung Yang President Small Kine Farm
before the
ECD

Monday, Mar 2nd, 2026

2:00 PM

State Capitol, Conference Room 308 & Videoconference

In consideration of

HB2546

RELATING TO HAWAII TECHNOLOGY DEVELOPMENT CORPORATION

Chair Todd, Vice Chair Takenouchi, and Members of the Committee.

Small Kine Farm **supports** HB2546 that appropriates monies to HTDC for positions in support of this bill to establish the HTDC Revolving Fund to provide state matching funds for federal grants awarded to HTDC that support innovation, technology, research, and manufacturing initiatives.

HTDC core programs develop infrastructure, capital, and talent to facilitate the development of technology and manufacturing jobs in Hawai'i. Following their mission, HTDC programs aim to provide technical and financial support for innovative small businesses from the startup stage through growth and export.

My company is the only USDA Certified organic mushroom farm in the State. HTDC has helped us to start and stay competitive from the very beginning. I am hoping to see more small businesses who can benefit from their help with more staff and more funding. They are playing an important role in our economy. I am currently employing 5 full time and 1 part time workers at the farm. Last year revenue was \$350,000.

Thank you for the opportunity to offer these comments.



AI.FISH

TO: Representative Todd, Chair, Committee on Finance
Representative Takenouchi, Vice Chair, Committee on Finance
FROM: Jimmy Freese, CEO, Ai.Fish
RE: H.B. 2546 HD1 – Relating to Tax Credit for Research Activities
HEARING DATE: March 2, 2026

Chair Todd, Vice Chair Takenouchi, and Members of the Committee on Finance,

I am Jimmy Freese, CEO of Ai.Fish, a Hawai‘i-based ocean technology company with fifteen employees that uses AI-powered computer vision and electronic monitoring systems for fisheries management and marine conservation. Ai.Fish strongly supports HB2546 HD1.

Two provisions in this bill are especially important for small technology companies like ours. First, replacing the first-come, first-served allocation with proportional distribution is a critical fix. Under the current system, the \$5 million annual cap is exhausted almost immediately when the application window opens. Larger companies with dedicated compliance and grant-writing staff can submit within minutes. A fifteen-person company where the CEO is also writing the applications simply cannot compete on that timeline. Over time, this dynamic discourages small companies from even applying — not because they lack qualified research, but because the process is structured in a way that favors scale over substance. Proportional distribution ensures that every qualified company receives a fair share.

Second, removing the federal base-amount calculation levels the playing field for growing companies. Under the current rules, credits are tied to prior-year spending, which penalizes companies that are expanding their R&D investment year over year — exactly what the State wants us to do. A small company scaling up its research gets a smaller credit relative to its effort than a large company with a stable, predictable R&D budget. This bill corrects that by allowing credits for all qualified research expenses regardless of prior years. Combined with tripling the cap from \$5 million to \$15 million, these changes mean small companies can receive a meaningful allocation rather than being crowded out.

Ai.Fish is committed to building its workforce in Hawai‘i. We employ multiple University of Hawai‘i graduates, have hosted many UH interns, and actively track local students who leave for the mainland so we can recruit them back home. But we are also a cutting-edge AI and computer vision company. Our research requires specialized talent, and sometimes the best candidate is on the mainland or in Europe. The reality for a small Hawai‘i tech company is that we need both — local hires to anchor our team and specialized experts to push our technology forward. As we grow, the balance shifts toward more local positions in operations, deployment, data analysis, and project management. But to get there, we need the resources to grow. R&D tax credits are one of the tools that make that growth possible in Hawai‘i rather than somewhere with lower costs and easier access to capital.

If the State wants small technology companies to grow here, hire locally, and contribute to economic diversification, then the incentive structure needs to account for our reality. Small companies are the ones most likely to add their next hire from UH, to bring a Hawai‘i-raised engineer back from the mainland, and to keep their headquarters here as they scale. But that only happens if the support programs are accessible to us — not structured in ways that consistently favor larger, better-resourced firms. HB2546 HD1 makes meaningful progress on that front.

We urge the Committee to pass HB2546 HD1. Mahalo for the opportunity to submit testimony.

Sincerely,

Jimmy Freese
CEO and Co-Founder
Ai.Fish



Statement of
Valerie Harmon
Founder and CEO
Namaka Algae, Inc.
before the
House Committee on Finance

Monday, March 2, 2026
2 PM
State Capitol, Conference Room 308 & Videoconference

In consideration of
HB 2546 D1
RELATING TO THE HAWAI'I TECHNOLOGY DEVELOPMENT CORPORATION

Chair Chris Todd, Vice Chair Jenna Takenouchi, and Members of the Committee on Finance.

Namaka Algae, Inc. strongly **SUPPORTS** HB2546 D1 as the proposed amendments to the research activities tax credit directly impact the capacity of local technology businesses to invest in research and development, a cornerstone of economic growth and innovation in Hawai'i's technology ecosystem. Allowing taxpayers to claim all qualified research expenses without regard to prior-year expenses removes a key barrier for emerging and expanding technology companies. This change aligns with best practices in fostering a robust R&D environment, enabling businesses to scale innovation efforts without being penalized for growth or fluctuations in annual expenditures.

Namaka Algae, Inc. is a technology first company focused on low-cost algae biomass for fish superfoods. We produce in Hawaii for Hawaii markets and plan to expand to the US mainland and globally for larger market access and profitability. Aquaculture has the potential to provide efficient, low carbon footprint protein to feed our growing populations, and at Namaka we aim to support the growth of this industry by providing quality, reliable and nutritious feed ingredients made from microalgae. We support HTDCs programs which benefit our company greatly. The focus on Marine and Ocean tech and industries is vital to continue the growth and expansion of our industries to support job growth, and ultimately improved food security for our Islands.

Thank you for the opportunity to offer these comments.



Aloha,

Valerie Harmon

Valerie Harmon



Statement of
Bernard Mendez
Co-Founder
Black Sand Solutions LLC
before the
House Committee on Finance

Monday, March 2, 2026
2:00 PM
State Capitol, Conference Room 308 & Videoconference

In consideration of
HB2546 HD1
RELATING TO HAWAI'I TECHNOLOGY DEVELOPMENT CORPORATION

Chair Todd, Vice Chair Takenouchi, and Members of the Committee on Finance.

Black Sand Solutions LLC SUPPORTS HB2546 HD1 as the proposed amendments to the research activities tax credit directly impact the capacity of local technology businesses to invest in research and development, a cornerstone of economic growth and innovation in Hawai'i's technology ecosystem. Allowing taxpayers to claim all qualified research expenses without regard to prior-year expenses removes a key barrier for emerging and expanding technology companies. This change aligns with best practices in fostering a robust R&D environment, enabling businesses to scale innovation efforts without being penalized for growth or fluctuations in annual expenditures.

Black Sand Solutions LLC is a small software engineering and R&D company. We build AI enabled software for Space and Defense, often in Python and C++ programming languages that help government and commercial teams rapidly prototype, evaluate, and transition new capabilities.

A meaningful share of our work is research driven: iterative experimentation, performance benchmarking, and validation in realistic environments. That R&D requires sustained investment in high skill engineering labor, cloud compute, secure build tooling, and subcontracted technical support.

The research activities tax credit is one of the few state level tools that directly reduces the cost of taking technical risk early. Importantly for small companies, R&D spending does not grow in a smooth line, it spikes when a new prototype effort begins or when a program scales. By allowing taxpayers to claim all qualified research expenses without the prior year comparison, HB2546 HD1 makes the credit more predictable and usable for growing firms and better supports sustained R&D investment in Hawai'i's innovation ecosystem.



**BLACK SAND
SOLUTIONS**

Statement of
Jesse Rodriguez
Founder
Neuromuse LLC
before the
House Committee on Finance

Monday, March 2, 2026

2:00 PM

State Capitol, Conference Room 308 & Videoconference

In consideration of

HB2546 HD1

RELATING TO HAWAI'I TECHNOLOGY DEVELOPMENT CORPORATION

Chair Todd, Vice Chair Takenouchi, and Members of the Committee on Finance.

NeuroMuse LLC SUPPORTS HB2546 HD1 as the proposed amendments to the research activities tax credit directly impact the capacity of local technology businesses to invest in research and development, a cornerstone of economic growth and innovation in Hawai'i's technology ecosystem. Allowing taxpayers to claim all qualified research expenses without regard to prior-year expenses removes a key barrier for emerging and expanding technology companies. This change aligns with best practices in fostering a robust R&D environment, enabling businesses to scale innovation efforts without being penalized for growth or fluctuations in annual expenditures.

NeuroMuse LLC is a Hawai'i-based technology company developing advanced augmented reality (AR) smartglass platforms and workforce innovation tools through the ELARA™ system and MuseOS™ platform. Our work focuses on workforce training, emergency response, logistics, healthcare support, and STEM education applications that align directly with Hawai'i's innovation and economic diversification goals.

HTDC programs and SBIR matching support are critical for small technology companies like ours to compete for federal research funding. These programs enable local startups to remain in Hawai'i while building high-technology solutions, creating skilled workforce opportunities, and collaborating with local educational institutions such as Kapi'olani Community College and University of Hawai'i partners.

Through participation in SBIR pathways and workforce development initiatives, NeuroMuse LLC is actively engaging Hawai'i students in applied engineering, prototyping, and advanced manufacturing experiences leading up to public demonstrations and workforce training events. Support for HB2546 HD1 strengthens Hawai'i's innovation ecosystem by helping local companies transition research into real-world products, attract federal investment, and create future-ready jobs within the state.

For these reasons, NeuroMuse LLC strongly supports HB2546 HD1 and respectfully urges the Committee to pass this measure.

Thank you for the opportunity to offer these comments.

HB-2546-HD-1

Submitted on: 3/2/2026 5:49:29 AM

Testimony for FIN on 3/2/2026 2:00:00 PM

Submitted By	Organization	Testifier Position	Testify
Joel Bongco	eWorld Enterprise Solutions, Inc.	Support	Written Testimony Only

Comments:

My name is Joel Bongco and I am the VP/CXO at eWorld Enterprise Solutions. We are writing today to express our strong support for the following measures aimed at bolstering Hawai‘i’s technology and manufacturing sectors through the Hawai‘i Technology Development Corporation (HTDC):

1. HB1613 HD1 (Funding for Positions) Critical infrastructure requires human capital. Funding positions in Advanced Manufacturing, Cybersecurity, and Marketing is essential to ensure HTDC has the specialized expertise to guide local businesses through the modern industrial landscape.
2. HB1614 HD1 & HB2546 HD1 (HTDC Revolving Funds / R&D) Establishing a Revolving Fund is a strategic move for fiscal sustainability. By providing state matching funds for federal grants, the State effectively "unlocks" millions in federal dollars that would otherwise go to other states, directly fueling local innovation and research.
3. HB1615 HD1 (Ocean Cluster & Marine Affairs) Hawai‘i is uniquely positioned to lead the global Blue Economy. Formalizing the State as an "ocean cluster" and establishing the Office of Marine Affairs provides the necessary coordination to sustainably scale our maritime and marine-tech industries.
4. HB2545 HD1 (HSBIR Program & STEM Outreach) The SBIR Matching Program is a proven catalyst for high-growth startups. Furthermore, we strongly support the integration of STEM education outreach and the creation of an economic diversification strategic plan to ensure our workforce is ready for the defense and tech ecosystems of tomorrow.

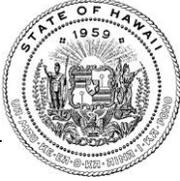
Conclusion These bills represent a cohesive vision for a diversified, resilient Hawai‘i economy. By investing in HTDC’s capacity, we are investing in high-paying local jobs and a future where our youth do not have to leave the islands to find careers in tech and manufacturing.

We respectfully urge the committee to **PASS** these measures. Thank you for the opportunity to testify.

Mahalo,

Joel Bongco

joel@eworlds.com



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**
KA 'OIHANA HO'OMOHALA PĀ'OIHANA, 'IMI WAIWAI
A HO'OMĀKA'IKA'I

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
Web site: dbedt.hawaii.gov

JOSH GREEN, M.D.
GOVERNOR
SYLVIA LUKE
LT. GOVERNOR
JAMES KUNANE TOKIOKA
DIRECTOR
DANE K. WICKER
DEPUTY DIRECTOR

Telephone: (808) 586-2355
Fax: (808) 586-2377

Statement of
GEORJA SKINNER
Administrator, Creative Industries Division
Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEE ON FINANCE

Monday, March 2, 2026
2:00 PM
State Capitol, Conference Room 308

In consideration of
HB2546 HD1
RELATING TO TAX CREDIT FOR RESEARCH ACTIVITIES

Chair Todd, Vice Chair Takenouchi, and members of the Committee. The Department of Business, Economic Development and Tourism (DBEDT) supports HD2546 HD1, which strengthens the Research Activities Tax Credit — a key incentive that encourages research and development (R&D) investment in Hawai'i. This credit helps attract and retain innovation-oriented businesses while creating high-paying jobs for Hawai'i residents. HB2546 HD1 proposes to remove the federal base-amount calculation that currently limits the credit, increase the annual statewide cap from \$5 million to \$15 million, and allow businesses to claim credits for all qualified in state R&D spending.

From 2022–2024, the credit supported consistent R&D investment. In 2022, 27 filers reported \$53.6 million in spending and claimed \$10.7 million in credits, with 37% of filers awarded credits. In 2023, 32 filers reported \$63.5 million in spending and claimed \$12.7 million in credits, with 34% awarded.

In 2024, 23 filers reported \$43.3 million in spending and claimed \$3.9 million in credits, with \$2.6 million awarded and 78% of filers receiving credits, leaving \$2.4 million of the \$5 million cap unclaimed. The reduction in credits claimed in 2024 was

due to the way the Section 41 base-amount had to be calculated, which lowered credits for larger companies while allowing a higher percentage of filers to receive a portion of the cap.

Job growth from 2022 through 2024 reflects the following full-time and part-time employment totals by tax year: In 2022, total employment across all areas was 1,008 positions, increasing to 1,104 in 2023 before declining to 879 in 2024. Within the Research & Development area, employment totaled 628 positions in 2022, decreased to 526 in 2023, and further declined to 397 in 2024.

HB2546 HD1 proposes to amend how the credit is calculated and allocated among qualified awardees to be more equitable, supporting job growth in the state.

Each company would calculate their credit as 20% of its qualified Hawai'i R&D expenses.

Commented [GS1]: David - is this correct based on the HD1 language? Please cross check.

After the application period closes, DBEDT reviews all qualified company's applications and distribute the \$15 million cap proportionally, calculated by dividing its Hawai'i R&D qualified spending by the total qualified spending of all applicants and then multiplying that fraction by the annual R&D tax credit cap.

This ensures all qualified companies receive an equitable share of the total credit available, with larger investors receiving proportionally more. The method is straightforward, predictable, fully utilizes available funds, and directly supports investment in Hawai'i's R&D ecosystem.

Thank you for the opportunity to provide testimony on this measure.



TESTIMONY IN SUPPORT OF H.B. No. 2546
RELATING TO RESEARCH ACTIVITIES TAX CREDIT
House Committee on Economic Development & Technology

Nalu Scientific

DATE: Monday, March 2, 2026

TIME: 2:00 p.m.

PLACE: VIA VIDEOCONFERENCE

Conference Room 308

State Capitol

415 South Beretania Street

Aloha Chair Ilagan, Vice Chair Hussey, and Members of the Committee,
Nalu Scientific supports H.B. No. 2546 to restore Hawai'i's research activities tax Credit. I summarize the reasons for my support in the following points:

1. Hawai'i's economy cannot run on tourism alone. Tourism spending peaked in 1989 adjusted for inflation. R&D companies create high-wage jobs rooted in innovation, not visitor volume—jobs that persist through downturns.
2. R&D spending ripples through the whole economy. Certified QHTBs spent \$3.8M on local contractors and services in 2024. When R&D companies grow, electricians, construction firms, accountants, and service providers grow with them.
3. We're losing the talent we invest in. Hawai'i educates its young people, then watches them leave. R&D employers pay an average of \$117,972 for research positions—careers that keep families here. 97% of QHTB employees are Hawai'i residents.
4. The cost of inaction exceeds the cost of the credit. A \$15M credit supporting 900+ high-wage jobs generate tax revenue and local spending. A weakened credit that leaves \$2.4M on the table will generate nothing.
5. Pro-rata distribution makes the program fair. Every qualified company gets a proportional share—no more racing to click "submit" in the first second the portal opens.

We respectfully urge the Committee to pass H.B. No. 2546. Thank you for the opportunity to testify.

Respectfully submitted,

Isar Mostafanezhad
Founder and CEO at Nalu Scientific