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SYLVIA LUKE
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STATE OF HAWAII'
DEPARTMENT OF TAXATION

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

TESTIMONY ON THE FOLLOWING MEASURE:

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

BEFORE THE:

House Committee on Economic Development and Technology

DATE: Friday, February 13, 2026

TIME: 8:30 a.m.

LOCATION: State Capitol, Room 423

Chair Ilagan, Vice-Chair Hussey, and Members of the Committee:

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

H.B. 2546 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 takes effect upon approval and shall apply to taxable years beginning after December 31, 2025.

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.



Statement of
Hermann Kugeler
Vice President of Business Development
Makai Ocean Engineering, Inc.
before the
HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & TECHNOLOGY
Friday, February 13, 2026
8:30 am
In consideration of
HB2546
RELATING TO TAX CREDIT FOR RESEARCH ACTIVITIES.

Chair Ilagan, Vice Chair Hussey, and Members of the Committee

Makai Ocean Engineering, Inc. (Makai) **SUPPORTS HB2546** and respectfully requests the removal of the first-come, first-served provision in favor of a fairer distribution method.

We ask the committee to consider removing the first come, first served basis from the grant. Many of the Qualified High Technology Business (QHTB) were not able to receive the credits in prior years, because all of the funding was allocated in the first 23 seconds that the application was open. Makai believes that including a provision allowing all businesses that submit their applications within the first 24 hours to receive a prorated share of the \$15,000,000 would provide broader support for Hawaii's tech community.

This approach ensures that both startups and established businesses have an equal opportunity to access funding, rather than favoring only those who can submit within seconds.

Makai supports this bill's efforts to address key issues with the current research credit, including:

- Increasing the annual cap, to allow more applicants to receive the tax credit.
- Removing the reference to the base amount in IRS Section 41, which currently limits eligibility for many innovative tech firms.

About Makai Ocean Engineering

Makai is a locally-owned and operated technology company that has been based in Hawai'i for over 50 years. We are currently performing R&D on a variety of exciting ocean technology projects, including Machine Learning software, autonomous underwater vehicles, ocean thermal energy conversion (OTEC), seawater air conditioning (SWAC), and subsea cable systems.

Makai has been successful in bringing in tens of millions of dollars in R&D funds from federal and international sponsors to Hawai'i, helping to stem the tide of "brain drain" of talented kama'aina kids going to the mainland. Makai is not unique among Hawaii technology companies in this. There is a tech community here that has made a strong economic impact in terms of high paying jobs, and demonstrated success in commercializing R&D, which has increased taxable revenue for the state, and brought home kama'aina scientists and engineers.



Why HB2546 Matters

This bill allows Hawaii companies like Makai to outshine mainland peers in competitive federal R&D projects, bring home R&D dollars that greatly exceed the initial investment, and create a critical mass and a truly vibrant industry of innovative R&D companies in Hawaii. It helps expand and diversify Hawaii's economy, and enable our tech industry to support high-paying, highly-skilled professional jobs for our keiki here at home.

Conclusion

This is why we **SUPPORT HB2546**, and urge the committee to adopt a prorated allocation system to ensure fair access to funding for all qualified high-tech businesses.



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

Before the
HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & TECHNOLOGY

Friday, February 13, 2026
8:30 a.m.
State Capitol, Conference Room 423 and Videoconference

In Support of
HB2546 RELATING TO TAX CREDIT FOR RESEARCH ACTIVITIES

To: Chair Representative Gregg Ilagan, Vice Chair Representative Ikaika Hussey,
and Members of the Committee
From: Dr. Patrick Sullivan, Founder & CEO, OCEANIT
Re: Testimony in Support of HB2546

Chair Ilagan, Vice Chair Hussey, and Members of the Committee:

Oceanit Laboratories, Inc. strongly supports HB2546, which removes the base amount limitation and increases the annual cap for Hawai'i's research activities tax credit from \$5 million to \$15 million. To address fairness concerns while ensuring the credit functions as intended, we recommend two amendments: restoring refundability and adopting pro-rata distribution. 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. We have direct experience with the research activities tax credit and have seen firsthand how Act 139's changes have undermined its effectiveness.

The Economic Stakes: Hawai'i's economy remains dangerously dependent on tourism, an industry that UHERO confirms peaked in real spending in 1989. The February 2026 UHERO report makes clear that Hawai'i's affordability crisis is driven by the combination of high costs and stagnant wages: the solution requires creating high-productivity jobs. R&D companies deliver exactly that. DBEDT's 2024 report shows certified Qualified High-Tech Businesses employ 879 people, 97% Hawai'i residents, at an average research salary of \$117,972, and spend \$3.8 million annually on local contractors and services. Every year, talented graduates leave Hawai'i because the local economy cannot match their skills with opportunity. A strong R&D credit gives them a reason to stay.

A Program That Was Working: From 2020 to 2023, the research activities tax credit demonstrated extraordinary demand. The \$5 million statewide cap was exhausted almost immediately each year, with 26 to 40 companies applying and

many qualified firms turned away. The credit was doing what it was designed to do: incentivizing companies to locate and sustain research operations in Hawai'i, creating high-wage local jobs, and generating downstream economic activity throughout the community.

What Went Wrong: Act 139 (2024) reverted to an incremental-only formula under federal IRS standards. The results, documented in DBEDT's August 2025 report, have been severe: 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. But the real damage is not unused dollars; it is what happens when the credit no longer influences business decisions. A company whose credit drops from \$500,000 to \$150,000 does not simply absorb the difference, it defers hires, cancels equipment purchases, and evaluates whether competing states with stronger incentives are a better fit. For companies like Oceanit that have invested consistently in Hawai'i-based R&D for decades, the incremental formula is especially perverse: it reduces our credit precisely because we have maintained a sustained commitment to this State.

What HB2546 Does: The bill's two core provisions, removing the base amount limitation and tripling the cap to \$15 million, are both essential. Removing the base amount on total qualified research expenses, making the credit meaningful again for sustained R&D programs. The \$15 million cap reflects demonstrated demand and positions Hawai'i competitively against states like Florida (\$9M), Maryland (\$12M), and Michigan (\$100M) that are actively recruiting R&D investment.

Recommended Amendments: We recognize that Act 139 responded to legitimate concerns about the prior first-come, first-served system, which exhausted the cap in seconds and rewarded speed over substance. Rather than returning to that system, we recommend two amendments. First, restore refundability so that early-stage companies investing heavily in R&D can actually use the credit; not just established firms with existing tax liability. Second, adopt pro-rata distribution, allocating the \$15 million cap proportionally based on each company's share of total statewide qualified research expenses. Pro-rata ensures every qualified company receives a fair, predictable credit; eliminates the application race; and guarantees full utilization of the cap.

This legislation, with the recommended amendments, represents a commitment to building an economy where Hawai'i's families can thrive—one based on innovation, high-wage careers, and industries that grow from the talent and imagination of our people.

Oceanit urges the Committee to pass HB2546 with amendments to restore refundability and adopt pro-rata distribution.



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

JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
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DIRECTOR

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

Friday, February 13, 2026
8:30 AM
State Capitol, Conference Room 423

In consideration of
HB2546
RELATING TO TAX CREDIT FOR RESEARCH ACTIVITIES

Chair Ilagan, Vice Chair Hussey, and members of the Committee. The Department of Business, Economic Development and Tourism (DBEDT) supports HB2546, 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 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.

DBEDT recommends the improvements in HB2546 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.

After the application period closes, DBEDT would review all qualified company's applications and distribute the \$5 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.

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, SB 3213

INTRODUCED BY: HB by NAKAMURA, HARTSFIELD, ILAGAN, KEOHOKAPU-LEE LOY, KITAGAWA, KUSCH, MIYAKE, MORIKAWA, PERRUSO, TEMPLO; SB by HASHIMOTO

EXECUTIVE SUMMARY: 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.

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.

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?

Digested: 2/11/2026

Written Statement of
Trung Lam, Executive Director

before the
House Committee on Economic Development & Technology

Friday, February 13, 2026
8:30 am
Conference Room 423 & Videoconference

In consideration of
HB2546
RELATING TO TAX CREDIT FOR RESEARCH ACTIVITIES

Chair Ilagan, Vice Chair Hussey, and Members of the Committee.

Thank you for the opportunity to provide comments on HB2546 relating to the Hawai'i Technology Development Corporation and the associated tax credit framework.

HTDC supports the intent of the measure to incentivize investment and strengthen Hawai'i's technology and innovation ecosystem. Predictable, well-structured incentives can play an important role in catalyzing private capital, encouraging local ownership, and accelerating commercialization of high-growth companies aligned with the State's economic diversification goals.

HTDC respectfully offers comments regarding the allocation methodology of the tax credit.

If the total value of tax credits authorized each year is capped, HTDC strongly recommends that credits be allocated on a pro-rated basis to all eligible applicants who submit complete applications within the designated time window, rather than on a first-come, first-served basis.

A first-come, first-served structure can unintentionally create several challenges:

First, it advantages applicants with greater administrative capacity or access to legal and accounting resources, rather than those with the strongest economic impact. Early submission timing does not necessarily correlate with job creation, commercialization potential, or alignment with state priorities.

Second, it introduces unnecessary volatility and uncertainty into the market. If credits are exhausted within minutes of an application window opening, smaller investors and companies may be effectively excluded. This dynamic can undermine the policy objective of broad participation across Hawai'i's innovation ecosystem.



Third, it may encourage rushed or incomplete applications since it can prioritize speed over quality and compliance, increasing administrative burden on the State.

A pro-rated allocation model, by contrast, provides:

- Equity — All qualified applicants within the defined window are treated proportionally and fairly.
- Predictability — Applicants know that submission within the window ensures participation, even if credits must be scaled proportionally.
- Administrative stability — The reviewing agency can evaluate applications on substance rather than order of receipt.
- Market confidence — Investors can plan around a defined process rather than competing in a “first click wins” scenario.

Under a pro-rated approach, if total eligible credits exceed the statutory cap, each approved applicant would receive a proportional share based on their qualified investment amount. This preserves fiscal discipline while ensuring broad participation..

For Hawai'i's innovation economy — particularly in capital-intensive sectors such as ocean technology, advanced manufacturing, space, and health — policy design details such as allocation structure can materially affect outcomes.

HTDC appreciates the Legislature's leadership in strengthening tools that support technology-driven diversification and stands ready to assist with implementation considerations.

Mahalo for the opportunity to provide comments.





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

Nalu Scientific

DATE: Friday, February 13, 2026

TIME: 8:30 am

PLACE: VIA VIDEOCONFERENCE

Conference Room 423

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

**TESTIMONY ON HOUSE BILL NO 2546, RELATING TO
RESEARCH ACTIVITIES TAX CREDIT**

Position: **Support**

To Representative Greggor Ilagan, Chair; Representative Ikaika Hussey, Vice Chair; and Members of the Committee on Economic Development & Technology

Please accept this testimony in **support** of this bill, to restore Hawai'i's research activities tax credit.

- **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.
- **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.
- **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.
- **The cost of inaction exceeds the cost of the credit.** A \$15M credit supporting 900+ high-wage jobs generates tax revenue and local spending. A weakened credit that leaves \$2.4M on the table generates nothing.
- **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.

Simonpietri Enterprises LLC is an O'ahu-based small business that has been researching and developing innovative ways to recycle some of the most challenging wastes generated in Hawai'i into a variety of products for use in Hawai'i. Along the way we have hosted 5+ years of paid STEM internships providing education and training to the next generation of skilled technical and innovative research workers and bills like this are one of the reasons a small company like ours can continue to do so.

We appreciate the opportunity to testify on this measure, and urge your support for HB2546.

Sincerely,



Marie-Joelle Simonpietri
President

[About Simonpietri Enterprises LLC](#)

Simonpietri Enterprises is a Kailua, Hawaii-based woman- and veteran-owned small business with ten employees, focused on technical innovation and first-of-kind project development of emerging clean and renewable technologies. Since founding in 2006, we have helped dozens of small and large industrial companies in Hawaii, the continental U.S., Australia, and Canada improve the environmental and economic sustainability of their operations through technical and business advice in renewable

energy conversion, waste reduction and re-use, and greenhouse gas lifecycle impact reduction. Simonpietri Enterprises' founder and employees have participated in the strategy, planning, design, financing, development, construction, and energy efficiency/greenhouse gas reduction/sustainability renovation for over \$400 million in new renewable and first-of-kind sustainable fuel projects over the past 15 years. Since launching the Aloha Carbon waste-to-fuel technical development process in August 2020, Simonpietri Enterprises is now developing renewable fuel production facilities in its own right, starting with the Aloha Sustainable Materials Recycling and Fertilizer Facility (SMRFF) in Kapolei, Hawaii to divert wastes generated in Honolulu from landfilling and transform it to renewable fuel, organic fertilizer, and recycled-material building products.



**Testimony to the House Committee on Economic Development & Technology (ECD)
Representative Greggor Ilagan, Chair
Representative Ikaika Hussey, Vice Chair**

**Friday, February 13, 2026, at 8:30AM
Conference Room 423 & Videoconference**

RE: HB2546 Relating to Tax Credit for Research Activities

Aloha e Chair Ilagan, Vice Chair Hussey, 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 (HB2546), 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 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 areas such as cybersecurity, ocean technologies, communications systems, and advanced materials. By increasing the credit cap, HB 2546 helps 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 local careers and businesses, rather than out-of-state contractors.

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. Thank you for the opportunity to testify.