DBEDT

STATE OF HAWAI'I • DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

STATE OF HAWAII

TAX CREDIT FOR RESEARCH ACTIVITIES (TCRA)



DBED Tax Credit Certifications

TAX CREDIT FOR RESEARCH ACTIVITIES

- The Hawaii Tax Credit for Research Activities (TCRA), also known as the Hawaii R&D Tax Credit, is a powerful financial incentive designed to support innovation in the state. It allows qualified businesses to claim credit against their corporate or personal incomes taxes for qualified research expenses.
- By reducing the cost of R&D, the TCRA plays a key role in encouraging technological advancement, product development, and economic growth throughout Hawaii.

ELIGIBILITY CRITERIA

- To qualify for the Hawaii Tax Credit for Research Activities (TCRA), businesses must meet the following requirements, based on HRS §235-110.91 and official guidance from the Department of Business, Economic Development & Tourism (DBEDT).
    a. Qualified Business Type
    b. Qualified Research Activity
    c. Application Process
    d. Credit Certification
    e. Filing for the Credit

QUALIFIED BUSINESS TYPE

- Must be a qualified high-technology business, which generally means:
    a. Engaged in high-tech tech activities, with a focus on innovation or scientific advancement.
    b. A small business with 500 or fewer employees
    c. Must be registered to do business in the State of Hawaii.
    d. The business must conduct more than 50% of its total activities in qualified research within Hawaii.

QUALIFIED RESEARCH ACTIVITY

- The business must conduct more than 50% of its total activities in qualified research within Hawaii.

- "Qualified research" follows the definition under section 41(d) of the Internal Revenue Code; but must be performed entirely within the State.

- "Qualified Research Expenses" shall have the same meaning as in section 41(b) of the Internal Revenue Code; provided that it shall not include research expenses incurred outside of the State of Hawaii.
- Expenditures must comply with the rules of Section 41 of the Internal Revenue Code, including base amount calculations – i.e., prior-year R&D spending is no longer disregarded.

APPLICATION PROCESS

- The application process consists of two parts:
  1. **Part A**: Submission of a completed and signed Form N-346A.
  2. **Part B**: Completion of an online questionnaire and submission of a required Excel (.xls) file detailing:
     - Qualified Research Expenses
     - Total Revenue
     - Intellectual Property Filings
     - Related Business Information

- Both parts must be fully submitted for the application to be considered complete. Incomplete or partial submissions are not eligible. Federal Form 6765 is required to be submitted as well.

- Application submission must be done on the DBEDT website at https://dbedt.hawaii.gov/taxcredits/

- The date/time a completed and signed N346a form is received by DBEDT will be considered the applicant's application date/time.

TAX CREDIT CERTIFICATION PROCESS

- Applications are reviewed and certified by DBEDT, in coordination with the High Technology Development Corporation (HTDC) and other agencies.

- To confirm that the following criteria are met, DBEDT has implemented a comprehensive review process as follows:
  1. Section 41 Compliance (per IRS.gov). According to the updated rules, the base amount defined in Section 41 of the Internal Revenue Code now applies. As a result, credit for all qualified research expenses may not be claimed without consideration of prior year's expenses.
  2. Qualified Research Activity in Hawaii – the company must conduct more than 50% of its total activities as qualified

research within the State of Hawaii and must be registered to do business in Hawaii.

3. Employee Limit – the company must have no more than 500 employees

- If approved, the applicant receives their submitted Form N-346A certificate which is signed by the DBEDT's Director. This form must be attached to the applicant's income tax return.

WHAT QUALIFIES AS RESEARCH COSTS?

- Qualified costs are those directly tied to conducting research activities in Hawaii and essential to developing new or improved products, processes, or technologies. These expenses must meet the definition of qualified research under Internal Revenue Code §41 and be incurred within the State.
- These expenses include:
  a. Payroll – wages paid to employees or contractors who are directly involved in performing qualified research tasks, such as scientists, engineers, and technical staff.
     - W-2 employees – If payroll is processed internally, no additional GET needed as filer should already registered. If payroll is processed by third-party, GET is required for the payroll company.
     - Contractors (1099 employees) – All reported 1099 contractors are required to have active GET# at the time the cost was incurred to the filer.
  b. Research Expenses
     - Supplies and materials consumed or used up in the research process, including lab supplies and prototypes.
     - Contract research expenses, which are payments to third-party organizations or individuals who conduct qualified research on behalf of your business within Hawaii.
     - Computer rental or leasing costs when used specifically for qualified research activities.

NOTES:

1. All costs must be subject to Hawaii General Excise Tax (GET). SUT must be paid for approved out-of-state vendors.
2. Hawaii GET costs cannot be claimed as Research Costs.