

# FilmHawaii

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## Royalties Tax Exemption

Amounts received by an individual or "qualified high technology business" as royalties, copyright, and trade secrets, are excluded from gross income, adjusted gross income and taxable income on the taxpayer's Hawaii state income tax filing. With respect to "performing arts products," this exclusion extends to:

- The authors of performing arts products, or parts thereof, with or without regard to the application of the work for hire doctrine under United States copyright law.
- The assignors, licensors, and licensees of any copyright rights in performing arts products, or any parts thereof.

### Definitions:

- **Qualified High Technology Business (QHTB):**
  - A business employing or owning capital or property or maintaining an office in Hawaii, provided that:
    - More than 50% of the total business activities are "qualified research" and that the business conducts more than 75% of its qualified research in Hawaii, or,
    - More than 75% of its gross income is derived from qualified research and that this income is received from products sold from, manufactured in, or produced in Hawaii, and services performed in Hawaii.
  - In certain cases, a company's transactions must have "economic substance" (i.e., significantly change a taxpayer's economic position and have a substantial non-tax purpose) to qualify as QHTB.
- **Qualified Research:**
  - Development and design of computer software for ultimate commercial sale, lease, license or to be otherwise marketed, for economic consideration. With respect to the software's development and design, the business shall have substantial control and retain substantial rights to the resulting intellectual property.
  - Biotechnology
  - Performing arts products [Definition below]
  - Sensor and optic technologies
  - Ocean sciences
  - Astronomy
  - Non-fossil fuel energy-related technology
- **Performing Arts Products:**
  - Audio files, video files, audio-video files, computer animation, and other entertainment products perceived by or through the operation of a computer; and
  - Commercial television and film products for sale or license, and reuse or residual fee payments from these products.

### References:

- General: Department of Taxation: <http://www.state.hi.us/tax/>
- Statute: Hawaii Revised Statutes (HRS) Section 235-7.3:  
[http://www.capitol.hawaii.gov/hrscurrent/Vol04\\_Ch0201-0257/HRS0235/HRS\\_0235-0007\\_0003.htm](http://www.capitol.hawaii.gov/hrscurrent/Vol04_Ch0201-0257/HRS0235/HRS_0235-0007_0003.htm)

For further information, contact the Hawaii Film Office at 808-586-2570 (<http://www.hawaiifilmoffice.com>) or the Hawaii Department of Taxation's Rules Office at 808-587-1577 (<http://www.state.hi.us/tax/index.htm>).