

INSTRUCTIONS FOR FORM N-346A

CERTIFIED STATEMENT OF RESEARCH AND DEVELOPMENT COSTS INCURRED BY A
QUALIFIED HIGH TECHNOLOGY AND CLAIM OF THE TAX CREDIT FOR RESEARCH ACTIVITIES

CHANGES TO NOTE

Act 139, Session Laws of Hawaii 2024, amends the Hawaii tax credit for research activities (credit) for taxable years beginning after December 31, 2023 by (1) repealing the provision that previously made the base amount in the Internal Revenue Code inapplicable to the credit and allowed credits for all qualified research expenses to be taken without regard to previous year expenses; (2) amending the definition of "qualified high technology business" (QHTB) to a small business that conducts more than 50 percent of its activities in qualified research in Hawaii and is registered to do business in Hawaii; (3) adding the definition of small business to mean a company with no more than five hundred employees; and (4) extending the sunset date of the credit to December 31, 2029.

GENERAL INSTRUCTIONS

Purpose of Form N-346A — To claim the credit, the QHTB, or if the QHTB is a flow-through entity for income tax purposes (a partnership, S corporation, estate, trust, or cooperative), the partners, shareholders, beneficiaries or patrons, must attach a certificate issued by Department of Business, Economic Development, and Tourism (DBEDT) to their tax return verifying the amount of credit that may be claimed. Form N-346A allows the QHTB to submit the required information to DBEDT and to request the certificate for itself or, if it is a flow-through entity, for its partners, shareholders, beneficiaries, or patrons.

Certification Filing Requirements — Every taxpayer claiming the credit must attach Part II of Form N-346A (the certificate) that has been signed by DBEDT to the Hawaii income tax return. If the QHTB is a flow-through entity, both the QHTB and its partners, shareholders, beneficiaries, or patrons must attach a certificate to their Hawaii income tax return to claim the credit. In addition, the partners, shareholders, beneficiaries or patrons must each attach a copy of the Schedule K-1 issued by the QHTB, showing the share of the total credit allowed for the QHTB.

When and Where to File — To obtain the certificate, Part I of Form N-346A must be completed, signed, and submitted by an authorized person of the QHTB to DBEDT on or before March 30 of each year showing the eligible research expenses in the previous calendar year.

See Department of Taxation Announcement No. 2021-03, "Department of Business, Economic Development, and Tourism - Certification of the Income Tax Credit for Research Activities," which provides Instructions on how to submit Part I of Form N-346A to DBEDT.

If a properly completed Form N-346A is submitted, DBEDT will send the signed certificate to the QHTB at the mailing address listed on the face of Form N-346A. If the QHTB is a flow-through entity, the QHTB will send copies of the certificate to its partners, shareholders, beneficiaries, or patrons and they must each attach the certificate behind Form N-346, along with a copy of the applicable Schedule K-1, when filing the income tax return with the Department of Taxation. If the QHTB is not a flow-through entity, it must attach the certificate behind Form N-346 when it files its income tax return with the Department of Taxation.

Fee for Certifying Amounts for the Credit — DBEDT charges a fee for certifying credit amounts for the credit. The fee structure is as follows:

\$500 — Where the represented claim of credit on the Form N-346A submitted by the QHTB is \$25,000 or more.

\$0 (No fee) — Where the represented claim of credit on the Form N-346A submitted by the QHTB is less than \$25,000. However, the QHTB is still subject to the certification requirements and is required to submit Form N-346A.

Note: Checks for the fee should be made payable to the Director of Finance.

SPECIFIC INSTRUCTIONS

For all dollar entries, round off amounts to the nearest whole dollar.

Top of Page 1 of Form N-346A — At the top of Page 1, fill in the QHTB's name, identifying number, mailing address, and contact information.

Part I

Lines 1a through 1f — Enter, in the appropriate column, the amount of eligible research expenses reported on federal Form(s) 6765 for the calendar year **and** the amount of eligible research expenses attributable to the research activity conducted IN HAWAII for the calendar year.

Note: The tax credit is allocated by DBEDT on a calendar year basis. This means that after tax

year 2024, the credit allocated to a fiscal year taxpayer may cover eligible research expenses incurred by the taxpayer in the same tax year as the calendar year and in the previous tax year. In this case, the fiscal year taxpayer may need to include amounts reported on federal Forms 6765 for more than one tax year.

Expenses attributed to research activities OUTSIDE HAWAII do not qualify for the credit.

Line 1g — Add lines 1a through 1f and enter the Total Eligible Research Expenses.

Line 2 — Divide line 1g, Column B by line 1g, Column A. Enter the result here rounded to six (6) decimal places. This is the percentage of the eligible research expenses for research conducted in Hawaii.

Line 3 — Enter the amount of your federal tax credit for increasing research activities calculated on federal Form 6765. Attach a copy of your federally filed Form(s) 6765 for the tax year.

Line 4 — Multiply line 2 by line 3. Enter the result here. This is your tentative tax credit for research activities.

Line 6 — If you are a partnership, S corporation, estate, trust, or cooperative for income tax purposes, attach a list of (a) the partners', shareholders', beneficiaries', or patrons' names and identifying numbers (SSN or FEIN) and (b) each partner's, shareholder's, beneficiary's, or patron's allocated or distributive share of the credit.

Top of Page 2 of Form N-346A — At the top of Page 2, fill in the name and identifying number of the QHTB claiming the credit.

Part II Certification

Line 2 — Enter the amount of eligible research expenses attributable to the research activity conducted IN HAWAII for the calendar year (Part I, line 1g).

Line 3 — Enter the amount of credit for the tax year (Part I, line 4).

DBEDT, and not the QHTB, will sign Part II (Page 2 of Form N-346A) if DBEDT finds that the Form N-346A is properly completed.

Upon completion, DBEDT will mail Part II (the certificate) to the QHTB at the address reported on the face of Form N-346A. If the QHTB is a flow-through entity, the QHTB is responsible for mailing copies of the certificate to the taxpayers claiming the credit.