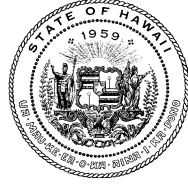


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January 27, 2021

DEPARTMENT OF TAXATION ANNOUNCEMENT NO. 2021-03

RE: Department of Business, Economic Development, and Tourism – Certification of the Income Tax Credit for Research Activities

Act 261, Session Laws of Hawaii 2019, amended the Income Tax Credit for Research Activities (Research Credit) established under Hawaii Revised Statutes section 235-110.91. The amendments to the Research Credit apply to taxable years beginning after December 31, 2019. The Research Credit is set to be repealed on December 31, 2024. Among other changes to the Research Credit, two significant modifications were made to the Credit's certification process.

First, the Department of Business, Economic Development, and Tourism (DBEDT) will be certifying the credit. Under prior law, certifications were performed by the Department of Taxation. Second, the Research Credit now has an aggregate cap for all taxpayers of \$5 million. Therefore, DBEDT must cease certifying credits once \$5 million of credit has been certified for the year.¹

For taxable years beginning after December 31, 2019 (i.e., the 2020 tax year), each taxpayer eligible for the Research Credit must submit their application to DBEDT no later than March 31st following the taxable year in which the activities were conducted.² DBEDT is required to certify the Research Credit on a first-come first-served basis.³

APPLICATION & CERTIFICATION PROCESS

DBEDT will begin accepting applications for the Research Credit by online submission only for the 2020 tax year on March 1, 2021 at 9:00 a.m. Applications will only be accepted through the DBEDT tax credit webpage at <https://dbedt.hawaii.gov/taxcredits/>. Applications for the 2020 tax year will not be accepted after March 31, 2021. There are two mandatory steps to the application process.

Step 1 consists of submitting a fully completed and executed [Form N-346A](#). The order in which a fully complete and executed Form N-346A is received by DBEDT will determine the order in which credits are allocated. Incomplete or non-executed forms will be rejected. In these cases, taxpayers may resubmit Form N-346A, but their credit allocation priority will be based on

¹ Hawaii Revised Statutes (HRS) §235-110.91(f).

² HRS §235-110.91(d).

³ HRS §235-110.91(f).

the date and time that the resubmission is received.

Step 2 of the application process requires taxpayers to complete an online questionnaire no later than March 31, 2021 for the 2020 tax year. The information required for the questionnaire is the information previously required as part of the Research Credit survey administered by DBEDT. Credits will not be allocated to any taxpayer who fails to complete the questionnaire by the deadline. A sample questionnaire in PDF format can be obtained from the DBEDT tax credit webpage at <https://dbedt.hawaii.gov/taxcredits/>.

DBEDT will begin reviewing applications after March 31, 2021. After reviewing all applications and information submitted, DBEDT will return Form N-346A to qualifying taxpayers, specifying the amount of Research Credit that the taxpayer has been certified to receive. Taxpayers who do not qualify for the Research Credit or for whom credits cannot be certified because the \$5 million aggregate cap has already been exceeded will be notified in writing.

Tax forms, including Form N-346A, and information are available on the Department's website at tax.hawaii.gov. If you have any questions regarding the Research Credit certification process, please contact DBEDT by email at dbedt.tcra@hawaii.gov.

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