

KBKG TAX INSIGHT: HAWAII SENATOR JARRETT KEOHOKALOLE SEEKS TO INCREASE ANNUAL CAP FOR STATE'S RESEARCH CREDIT

Authors: *Paul McVoy* and *Mike Kniss*

On January 21, 2022, Hawaii State [Senator Jarrett Keohokalole](#) introduced Senate Bill (SB) 2599, revising the certification requirements and increasing the annual aggregate cap for the State of Hawaii's tax credit for research activities ("[Hawaii R&D tax credit](#)"). The proposed Section 235-110.91 revisions would first and foremost triple the aggregate cap of research credits available from \$5,000,000 to \$15,000,000 per calendar year for taxpayers who apply for and receive a certification to claim this incentive. The bill will also impose an annual claim cap per taxpayer and related entities of \$2,500,000, including all subsidiaries or business entities with common ownership structures. By expanding the available credit pool and limiting the amount that can be claimed by large corporations and entities under common control, it appears that the State legislation intends to provide significant funding to small businesses and startups within the qualified high technology business industries. This is especially true given the refundable nature of the credit, as taxpayers need not have any state income tax liability to monetize this benefit.

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However, the application process is still highly competitive, as [the Hawaii Department of Business, Economic Development, and Tourism \("DBEDT"\)](#) certifies credit claims on a first-come, first-serve basis. SB 2599 will also consolidate the annual survey and certification process into a single application, which will once be evaluated once all required information has been submitted, which includes the following:

- Qualified expenditures, if any, from the previous tax year;
- The amount of Hawaii R&D tax credits claimed, if any, in the previous tax year;
- The industry sector(s) in which the qualified high technology business conducts business, defined under "qualified research" in Section 235-7.3(c);
- Revenue and expense data, including a breakdown of any licensing royalty or other forms of income generated from intellectual property;
- Hawaii employment and wage data, including the numbers of full-time and part-time employees
- retained, new jobs, temporary positions, external services procured by the business, and payroll taxes;
- The number of filed intellectual property, including invention disclosures, provisional patents, and patents issued or granted;
- The number of new companies spun out or established in Hawaii to commercialize the intellectual property owned by the qualified high technology business; and
- A written declaration signed by an officer of the business certifying that the information that is submitted is true and correct as to every material matter.

The Hawaii DBEDT begins accepting applications on March 1, 2022, at 9 am local time for the 2021 tax year and will not accept applications after March 31, 2022. If all \$15,000,000 in available credits have not been certified in the first twenty-four hours of the application window, the remaining credits will be allocated to the rest of the applicants on a pro-rata basis.



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KBKG Insight:

Given the first-come, first-serve basis of the certification process, taxpayers must submit their complete applications as soon as the application window opens to maximize their benefit.

Opportunity

Should this bill pass, qualified high technology businesses in Hawaii, especially small businesses and startups, will have a much greater opportunity to take advantage of this lucrative refundable tax incentive.

To learn more about the R&D Tax Credit, contact our [experts](#).

About the Authors



Paul McVoy – Principal

[New York](#)

Paul McVoy is a Principal for KBKG's [R&D Tax Credit Consulting practice](#), overseeing the practice from our [New York office](#). In this role, Paul devotes his time to consulting companies in maximizing their R&D tax credit claims. Prior to joining KBKG, Paul was a manager at a Big Four accounting firm out of the Philadelphia, San Diego, and Los Angeles offices. [» Full Bio](#)



Mike Kniss - Manager

[Pasadena](#)

Mike Kniss is a R&D Tax Credit Manager at KBKG. Mike started his career in the biotech industry manufacturing pharmaceuticals for Fortune 500 companies such as Amgen and Baxter. By applying this industry-specific knowledge, Mike has been able to provide his clients with valuable insight into the details of their research expenses. [» Full Bio](#)

