

FORM <b>N-346</b> (REV. 2020)	<h1 style="margin:0;">TAX CREDIT FOR RESEARCH ACTIVITIES</h1> Or fiscal year beginning _____, 20____, and ending _____, 20____	TAX YEAR <b>20</b> ____
-------------------------------------	--	-------------------------------

ATTACH TO FORM N-11, N-15, N-20, N-30, N-35, N-40, OR, N-70NP

Name(s) as shown on tax return	SSN or FEIN
--------------------------------	-------------

**NOTE: If you received a Schedule K-1 from a flow-through entity, skip lines 1 and 2 and start on line 3.**

**1** Enter the amount of your eligible research expenses reported on federal Form(s) 6765 for the tax year **and** the amount of your eligible research expenses attributable to research activity conducted IN HAWAII for the tax year: (See instructions. Attach a copy of federal Form(s) 6765).

		Column A Reported On federal Form 6765	Column B IN HAWAII	
<b>a</b> Certain amounts paid or incurred to energy consortia...	<b>1a</b>			
<b>b</b> Basic research payments to qualified organizations.....	<b>1b</b>			
<b>c</b> Wages for qualified services (do not include wages used in figuring the federal work opportunity credit).....	<b>1c</b>			
<b>d</b> Cost of supplies.....	<b>1d</b>			
<b>e</b> Rental or lease costs of computers.....	<b>1e</b>			
<b>f</b> Enter the applicable percentage of contract research expenses .....	<b>1f</b>			
<b>g</b> Total Eligible Research Expenses. Add lines 1a through 1f, and enter result....	<b>1g</b>			

**2** Tentative tax credit for research activities. Multiply the amount in line 1g, Column B by 0.20 (20%) .....

**2**

**3** Flow through of Hawaii tax credit for research activities received from other entities, if any. *Check the applicable box below.* Enter the name and Federal Employer I.D. No. of Entity:

- a** Partner — enter appropriate amount from Schedule K-1 (Form N-20) .....
- b** S Corp. shareholder — enter the appropriate amount from Schedule K-1 (Form N-35) .....
- c** Beneficiary — enter the appropriate amount from the Schedule K-1 (Form N-40) .....
- d** Patron — enter the amount from federal Form 1099-PATR.....

**3**

**4 Total credit allowed** — Add lines 2 and 3. Enter the result here, rounded to the nearest dollar, and on the appropriate line for the credit on Schedule CR. For Pass-through entities, enter this amount on the appropriate lines of your tax return. ....

**4**



## GENERAL INSTRUCTIONS

**Note:** In order to claim the Hawaii tax credit for research activities, you must also claim the federal tax credit for increasing research activities under section 41 of the Internal Revenue Code (IRC).

**Note:** The tax credit for research activities can only be claimed by qualified high technology businesses. "Qualified high technology business" is defined in section 235-7.3(c), Hawaii Revised Statutes.

Act 270, Session Laws of Hawaii (SLH) 2013 (Act 270), which reenacts the Hawaii tax credit for research activities (TCRA), applies to taxable years beginning after December 31, 2012, and sunsets for taxable years beginning after December 31, 2019.

In particular, Act 270 adopts IRC section 41 as of December 31, 2011, with the further requirement that eligible research expenses do not include research expenses incurred outside of Hawaii. If the amount of the Hawaii credit exceeds the amount of the taxpayer's Hawaii tax liability (if any) for the applicable tax year, the difference is refunded to the taxpayer.

Significantly, Act 270 adopts the base amount as set forth under IRC section 41(c), such that only the increasing incremental amounts are eligible for the credit. Act 270 also requires that in order for a taxpayer to claim the Hawaii TCRA, said taxpayer must also claim the federal tax credit for increasing research activities under IRC section 41. For more information, see Tax Information Release No. 2013-02.

Act 261, SLH 2019, amends the TCRA by extending the credit through 2024, allowing the credit to be claimed for all research expenses incurred in Hawaii without regard to the amount of expenses for previous years (base amount), and imposing an annual cap of \$5,000,000, effective for taxable years beginning after December 31, 2019.

### Purpose of Form

Use Form N-346 to figure and claim the TCRA under section 235-110.91, Hawaii Revised Statutes (HRS).

### Who May Claim the Credit

This credit may be claimed by a qualified high technology business (QHTB) as defined under section 235-7.3(c), HRS. Any partnership, S corporation, estate, trust, or cooperative that allocates this credit (including a pro rata share of the credit from a flow-through entity) must attach Form N-346, Form N-346A, and federal Form 6765 to its income tax return. Taxpayers claiming their pro rata share of the credit must also attach a copy of their Schedule K-1s.

### When the Credit May Not Be Claimed

This credit may not be claimed if either of the following apply to your tax situation:

- (1) you are not claiming the federal tax credit for research activities under IRC section 41.
- (2) You have no eligible Hawaii research expenses.

### Credit Requirements

To claim the credit, the following requirements must be satisfied:

- (1) The credit must be certified by the Department of Business, Economic Development and Tourism (DBEDT). See Form N-346A for more information.
- (2) The credit form (Form N-346), certification form (Form N-346A), federal Form 6765, Schedule K-1s (pro rata share credit claims), and Schedule CR (for tax returns for which Schedule CR is required) must be attached

to the taxpayer's income tax return.

- (3) The QHTB must complete an annual survey as prescribed by DBEDT. See DBEDT's website [dbedt.hawaii.gov](http://dbedt.hawaii.gov) for more information.

Failure to satisfy these requirements shall constitute a waiver of the right to claim the credit. The total amount of the certified tax credits is limited to \$5,000,000 in the aggregate for all taxpayers in every taxable year after December 31, 2019, provided that no claim for the tax credit shall be made for research expenses incurred after December 31, 2024. Certification is issued on a first-come, first-served basis.

### Calculation of the Hawaii TCRA

In order for a taxpayer to compute the amount of the Hawaii TCRA, it is necessary for the taxpayer to compute the amount of the eligible research expenses for research activities conducted in Hawaii. Calculate the Hawaii TCRA by multiplying the eligible Hawaii research expenses by 0.20 (20%).

### Deadline For Claiming the Credit

The deadline to claim the credit, including amended claims, is 12 months after the close of your taxable year. You cannot claim the credit after the deadline.

## SPECIFIC INSTRUCTIONS

**Note:** If you are claiming your share of the TCRA from a partnership, S corporation, estate, trust, or cooperative, skip lines 1 through 4 and start on line 5.

Enter your fiscal or short tax year in the space provided.

**Line 1a through 1f, Column A** — Enter in Column A the amount of the eligible research expenses reported on federal Form(s) 6765 for the tax year. Attach a copy of your federally filed Form 6765(s) for the tax year to Form N-346.

**Note:** The tax credit is allocated by DBEDT on a calendar year basis. This means that after tax year 2020, the tax credit allocated to a fiscal year taxpayer may cover eligible research expenses incurred by the taxpayer in the same year as the calendar year and in the previous tax year. In this case, the fiscal year taxpayer may need to attach federal Forms 6765 that were filed for more than one tax year.

**Lines 1a through 1f, Column B** — Enter in Column B the amount of the eligible research expenses attributable to research activity conducted IN HAWAII for the tax year and which are part of the amounts reported on lines 2a through 2f, Column A.

**Note:** Expenses attributable to research activities OUTSIDE HAWAII do not qualify for the credit.

**Line 2** — Multiply the amount on line 1g, Column B by 0.20 (20%). Enter the result here. This is your tentative TCRA.

**Line 3** — If you are claiming your share of the TCRA from a partnership, S corporation, estate, trust, or cooperative, then enter the amount here. Also, enter the name and federal employer identification number of any flow-through entity who has passed the TCRA through to you. If additional space is needed, include the information on an attached schedule.

**Line 4** — Add lines 2 and 3. This is your total TCRA allowed for the tax year. Enter the amount here, rounded to the nearest dollar, and on the appropriate line for the credit on Schedule CR. For pass-through entities, enter this amount on the appropriate lines of your tax return.