

Honolulu, Hawaii

FEB 14 , 2020

RE: H.B. No. 1685
H.D. 1

Honorable Scott K. Saiki
Speaker, House of Representatives
Thirtieth State Legislature
Regular Session of 2020
State of Hawaii

Sir:

Your Committee on Economic Development & Business, to which was referred H.B. No. 1685 entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose of this measure is to establish an income tax credit for investments in qualified businesses that develop cybersecurity and artificial intelligence.

Your Committee received comments on this measure from the Department of Taxation, Hawaii Technology Development Corporation, and Tax Foundation of Hawaii.

Your Committee finds that cybersecurity and artificial intelligence are technologies with great potential for the State. This measure incentivizes investment in qualified businesses developing cybersecurity and artificial intelligence technologies through an income tax credit.

Your Committee has amended this measure by:

- (1) Changing the amount of the income tax credits, the percentage of the recapture of the income tax credit, and the percentage of various activities that qualify a



business as a "qualified business" to unspecified percentages;

- (2) Changing its effective date to July 1, 2112, to encourage further discussion; and
- (3) Making technical, nonsubstantive amendments for the purposes of clarity, consistency, and style.

Should your Committee on Finance decide to hear this measure, your Committee respectfully requests that it determine the appropriate percentages to apply to the amounts of the income tax credits allowed, the recapture percentage of the income tax credit, and the percentages of various activities that qualify a business as a "qualified business". Your Committee notes that this measure is structured similarly to the infamous Act 221, Session Laws of Hawaii 2001 (Act 221) tax credit, which presented the State with many fiscal and oversight challenges. Your Committee further respectfully requests that your Committee on Finance examine whether the tax credit in this measure, if enacted, would cause the same types of issues as the tax credit in Act 221.

As affirmed by the record of votes of the members of your Committee on Economic Development & Business that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 1685, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 1685, H.D. 1, and be referred to your Committee on Finance.

Respectfully submitted on
behalf of the members of the
Committee on Economic
Development & Business,



ANGUS L.K. MCKELVEY, Chair



