

Honolulu, Hawaii

MAR 24 2006

RE: H.B. No. 2421
H.D. 2
S.D. 1

Honorable Robert Bunda
President of the Senate
Twenty-Third State Legislature
Regular Session of 2006
State of Hawaii

Sir:

Your Committee on Media, Arts, Science, and Technology, to which was referred H.B. No. 2421, H.D. 2, entitled:

"A BILL FOR AN ACT RELATING TO PERFORMING ARTS BUSINESSES,"

begs leave to report as follows:

The purpose of this measure is to provide an alternative mechanism for funding performing arts qualified high technology businesses that qualify for an investment tax credit under section 235-110.9, Hawaii Revised Statutes.

Your Committee received testimony in support of this measure from the Department of Taxation and the Department of Business, Economic Development, and Tourism. Goodsill Anderson Quinn & Stifel, LLP, and the Tax Foundation of Hawaii submitted comments.

The film and television industry in Hawaii is at a critical stage and holds much promise for the economic future of the State. Hawaii is in competition with other states and foreign countries that provide better subsidies and tax incentives to the industry to lure production to their state or country. Under section 235-110.9, for a business to obtain funding for its operations, a business must attract investors who have Hawaii tax liability and can therefore use this type of tax credit. The search for investors can be time-consuming, expensive, high-risk, and speculative, and the business structure necessary to allocate these credits to the investors can be expensive and cumbersome. Therefore, some performing arts qualified high technology



businesses, particularly the large movie and television studios, prefer the option of receiving less money in exchange for not having to search for investors.

Your Committee finds that allowing performing arts qualified high technology businesses to sell their investment tax credits back to the Department of Taxation will enable the State to gain a competitive edge in luring film and television productions to Hawaii. Businesses that choose to exercise this option will receive in cash from the State twenty percent of the face value of the tax credit to be paid out over five years. In addition, the business must either waive or transfer to the State all motion picture and film production credits and capital goods excise tax credits under sections 235-17 and 235-110.7, Hawaii Revised Statutes, respectively. Furthermore, the business would also have to contribute 0.5 percent of its aggregate qualified investments to the Hawaii Television and Film Development Special Fund and report certain information to the Department of Business, Economic Development, and Tourism.

Your Committee has amended this measure by:

- (1) Requiring the performing arts qualified high technology businesses to provide their qualified research costs and local hire numbers to the Department of Taxation, instead of the Department of Business, Economic Development, and Tourism;
- (2) Deleting the provision that requires the performing arts qualified high technology businesses to contribute 0.5 percent of their aggregate qualified investments to the Hawaii Television and Film Development Special Fund, and adding a provision that requires the Legislature to annually appropriate an unspecified percentage of the total amount of the revenue generated as a result of the credits transferred for the previous tax year to the Hawaii Television and Film Development Special Fund;
- (3) Adding a provision that requires the Department of Taxation to submit a report to the Legislature on all of the performing arts qualified high technology business tax credits that were transferred to the Department and the total dollar amount of the revenue generated as a result of the buy-back for the previous taxable year;



- (4) Changing the effective date of this measure from July 1, 2020 to July 1, 2006; and
- (5) Making technical, nonsubstantive amendments for style and consistency.

As affirmed by the record of votes of the members of your Committee on Media, Arts, Science, and Technology that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 2421, H.D. 2, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 2421, H.D. 2, S.D. 1, and be referred to the Committee on Ways and Means.

Respectfully submitted on
behalf of the members of the
Committee on Media, Arts,
Science, and Technology,




CAROL FUKUNAGA, Chair



The Senate
Twenty-Third Legislature
State of Hawaii

Record of Votes of the
Committee on Media, Arts, Science and Technology
(Bills and Resolutions)

Measure:*	Committee Referral:	Date:
HB 2421 HDZ	MAT, WAM	3/22/06
<input type="checkbox"/> The committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____		
The Recommendation is to:		
<input type="checkbox"/> Pass, unamended (2312)	<input checked="" type="checkbox"/> Pass, with amendments (2311)	<input type="checkbox"/> Hold (2310)
<input type="checkbox"/> Recommit (2313)		
Members	Ayes	Ayes(WR)
Nays	Excused	
FUKUNAGA, Carol (C)	✓	
IGE, David Y. (VC)		✓
ENGLISH, J. Kalani		✓
IHARA, Jr., Les	✓	
HOGUE, Bob	✓	
TOTAL	3	0
0	0	2
Recommendation:		
<input checked="" type="checkbox"/> Adopted	<input type="checkbox"/> Not Adopted	
Chair's or Designee's Signature: 		
Distribution:	Original File with Committee Report	Yellow Clerk's Office
	Pink Drafting Agency	Goldenrod Committee File Copy

*Do not list more than one measure per Record of Votes.