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**HOUSE COMMITTEES ON ECONOMIC DEVELOPMENT & BUSINESS CONCERNS
AND TOURISM & CULTURE**

**TESTIMONY REGARDING SB 2273 SD 2
RELATING TO DIGITAL MEDIA**

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)

DATE: MARCH 10, 2008

TIME: 10:30AM

ROOM: 325

This legislation modifies the existing motion picture tax credit provided under HRS § 235-17, to include an additional component comprised of a credit equal to 5% of qualified production costs if certain local hiring requirements are met.

The Committee on Economic Development amended the measure by providing the 5% additional credit.

The Committee on Ways & Means amended the measure by clarifying the resident below-the-line hiring requirement.

The Senate passed the measure on third reading.

The Department of Taxation **supports the intent** of the measure; however **requests amendments** in order for the bill to properly function.

I. STRONG SUPPORT FOR THE MOTION PICTURE INDUSTRY

The Department strongly supports the existing tax incentives for the motion picture industry and the economic activity this incentive has brought to Hawaii. Likewise, the Department also recognizes that additional incentives could help even further with continuing to build up Hawaii's talent and labor forces that provide services to this industry. However, the Legislature must ensure that the Hawaii Film Office, which implements a majority of this credit, is sufficiently staffed to carry out any extension of the existing credit.

II. NEED TO COMPETE WITH OTHER JURISDICTIONS

The Department recognizes that in order for Hawaii to remain competitive in the worldwide marketplace of filming locations, its tax incentives must remain attractive. Labor costs associated with filmmaking can be a large production cost, including the labor costs in Hawaii. The Department understands that other states, such as New Mexico, have created labor incentive programs.

III. CLARIFICATION ON CREDIT CALCULATION

The Department currently reads this measure to provide an "additional" 5% credit if the resident hiring requirements are satisfied. However, the current technical reading of the bill does not allow for a discernable claim for credit for only resident wages paid that participate in the training program.

The current provisos in the bill are confusing. Assuming the intent is to provide a "bonus" credit for satisfying hiring requirements, the Department suggests that the language for calculating the credit could be clearer for taxpayers and tax administrators if amended as follows—

- (1) Fifteen per cent of the qualified production costs incurred by a qualified production in any county of the State with a population of over seven hundred thousand; or
- (2) Twenty per cent of the qualified production costs incurred by a qualified production in any county of the State with a population of seven hundred thousand or less[-]; **and in addition to the credit allowed under paragraph (1) or (2), there shall be allowed an additional**
- (3) **Five per cent of the qualified production costs incurred by a qualified production representing wages or salary of cast, crew, or musicians allowed under the definition of "qualified production costs" under subsection (1), in any county of the State; provided that the qualified production employs _____ per cent of its cast and crew as workers who satisfy the following requirements:**
 - (A) Is a Hawaii resident;
 - (B) Is paid a base rate of \$200 per day (as calculated on the industry standard ten-hour day and excluding overtime rates), or \$1,000 per week, as a comparable amount not to exceed _____ per week;
 - (C) Participates in on-the-job training, or completes a motion picture, digital media, or film production training course established under section 394-8(c)

or approved by the film industry branch of the department of business, economic development, and tourism; and

(D) Is certified as a trainee by the film industry branch of the department of business, economic development, and tourism[;

~~provided further that any credit claimed under this paragraph shall first be applied to a qualified production's qualified production costs prior to calculating any credit under paragraph (1) or (2).]~~

The foregoing technical amendments will properly allow for a claim for an additional "bonus credit" for wages paid to residents that receive training pursuant to the training program.

IV. REVENUE ESTIMATE

AS WRITTEN—Annual revenue loss is estimated at \$2.05 million for FY 2009 (1/2 yr impact), and \$4.1 million for FY 2010 to FY 2016. The general fund expenditure will increase by an unspecified amount in FY 2009. According to the Hawaii Data Book 2006, motion picture and TV production expenditures amounted to \$164.0 million in 2004. We assumed 50% of the expenditures qualified for the 5% tax credit (\$164 million X 50% X 5%).

REVENUE NEUTRAL, IF AMENDED—Assuming the bill is amended as requested, based on the fact that the additional 5% credit will only be applied to the approved wage portion of the production costs only for residents that receive training, rather than total production costs, this legislation will be revenue neutral. The impact of the additional tax credit will be offset by the decline in production costs (*i.e.* reduction in higher paid out-of-state labor costs, per diem, travel costs, etc.), as a result of higher portion local hired employees in the film industry.

However, if the interpretation of the bill indicates 5% additional tax credit will be applied to total production costs, there will be revenue loss impact as discussed above.

HAWAII FILM & ENTERTAINMENT BOARD



HOUSE COMMITTEE ON TOURISM & CULTURE
and
HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT AND BUSINESS CONCERNS

March 10, 2008 - 10:30am - Committee Room 325

RE SB 2273 SD2 RELATING TO DIGITAL MEDIA

*Brenda Ching, Chair
Screen Actors Guild*

Chris Conybeare, Esq.

*Donovan Ahuna
I.A.T.S.E., Local 665*

*Benita Brazier
Maui Film Commission*

*Walea Constantinou
Honolulu Film Office*

*Donne Dawson
Hawaii Film Office*

*Jeanne Ishikawa
Teamsters, Local 996*

*Leroy Jenkins
H.I.F.A.*

*John Mason
Big Island Film Office*

*Brien Matson
A.F.M., Local 677*

*Stephanie Spangler
F.A.V.A.H.*

*Art Umezu
Kauai Film Commission*

*Randall Young
I.B.E.W., Local 1260*

The Hawaii Film and Entertainment Board (HFEB), whose members include all of Hawaii's film unions, film commissions and leading industry associations thanks the legislature for its visionary support of Hawaii's film industry. **HFEB unanimously supports the intent of SB 2273 SD2 but opposes it as written.**

We support the intent of the portion of the bill that seeks to drive workforce development with a wage credit enhancement of five percent, but believe that there are technical errors that unintentionally broaden which production expenditures qualify for the enhancement and at the same time severely limit the number of Hawaii residents who would be eligible to qualify. We recommend revising the bill to reflect:

- the incentive apply to **Hawaii resident wages only** and not all production expenditures
- the enhancement be applied to Hawaii residents who make a **minimum of \$200 per day** as calculated on an industry standard per-day-rate, excluding overtime, and not to only those who make \$200 per day
- include a per person per production **cap of \$500,000** as the maximum amount the wage credit may be calculated

The goal of the industry's proposed language is to create an enhancement to the credit that incents production to hire Hawaii residents in positions of greater responsibility and authority and by doing so, stimulate the most ideal workforce development in the industry, on-the-job training. We are speaking with DoTax and a labor economist to assess the impact of the credit. Preliminary research indicates it will most likely be minimal since it will mainly shift existing monies already assumed in the credit expenditure amounts. We welcome and encourage a continued dialog with the legislature so as to develop the most effective and cost-efficient measure possible.

Additionally, HFEB **strongly opposes the certification and training language** because:

- The industry is best learned through on-the-job training and as such, the most effective workforce development initiative we can develop is one that drives local hires
- the idea of certifying industry workers above and beyond standard industry and union practices is inappropriate
- DLIR has testified that training monies and the mechanism to access them are currently available

Thank you for the opportunity to provide these comments.

manahan1-Haylee

From: Shawn Christensen [shawnc@pdchawaii.com]
Sent: Sunday, March 09, 2008 7:12 PM
To: TACtestimony
Subject: SB 2273 SD 2

Representative Marcus Oshiro, Chair
Representative Marilyn B. Lee Vice- Chair
Committee on Tourism and Culture
March 10, 2008 Room 325 10:30am

SB 2273 SD 2 Relating to Digital Media:

In strong Support there of:

Aloha Chair Oshiro, Vice Chair Lee and members of the committee,

We the International Alliance of Theatrical and Stage Employees Local 665 with over 500 members statewide are strongly in support of this measure and ask for the committees support. We are the people on set, seldom seen but without whom a show could not go on. we are grips, camera people, prop masters, lighting technicians and hair and make up artists just to give you an idea of some of the things we do.

We support this measure for the opportunities for enhanced employment for the people of the state of Hawaii and the potential this measure has for those who will be the next generation of Hawaii's film and stage technicians.

We ask for your support and would be more than willing to answer any questions you may have.

Aloha and Mahalo

Shawn Christensen
Planning and Development
IATSE Local 665

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