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LATE TESTIMONY

HOUSE COMMITTEE ON ECONOMIC REVITALIZATION & BUSINESS

TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING HB 1308 RELATING TO DIGITAL MEDIA

WRITTEN TESTIMONY ONLY

TESTIFIER: FREDERICK D. PABLO, INTERIM DIRECTOR OF TAXATION (OR DESIGNEE)
COMMITTEE: ERB
DATE: FEBRUARY 15, 2011
TIME: 8:00AM

POSITION: OPPOSED TO ASSIGNABLE CREDITS; DEFER TO DBEDT ON MERITS

This measure establishes digital media enterprise subzones surrounding the University of Hawaii campus, which includes certain tax benefits.

The Department of Taxation (Department) **opposes the provision allowing assignment of credits**. The Department is strongly opposed to any provision that allows Hawaii tax credits to be sold, assigned, or transferred from one taxpayer to another. Allowing taxpayers to market or sell their tax credits is fundamentally poor tax policy. Selling tax credits can be subject to abuse and suspect motivation by parties involved.

The Department's fundamental and primary concerns regarding credit transfers are the following:

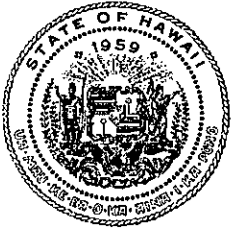
- The transferability rewards a separate taxpayer unrelated to the taxpayer that generated the credit, which is fundamentally poor tax policy for encouraging behavior and directly rewarding that behavior;
- The Department is not setup to regulate credit transfers. Will

the Department be required to establish a "Bureau of Credit Conveyances" in order to track transfers? If this is the case, resources will have to be dedicated to this;

- Abuse relating tax credit transfer prices will be problematic. The State will be out a \$1 when taxpayers will be transferring this \$1 for pennies;
- And, there will be problems on audit. The taxpayer being audited may have sold the credit to another taxpayer. It is also unclear whether the tax credit is refundable or nonrefundable.

DEFERRAL TO DBEDT—The Department defers to the Department of Business, Economic Development & Tourism on whether the enterprise zone incentives should be expanded to include this program.

CONCERN OVER AGGREGATE CAP—The Department generally opposes aggregate caps, especially in this measure's form. There is no legislative guidance on how the cap is to be administered. Is the cap based on who files first? Do taxpayers need to apply for the credit? Should the credit be spread evenly amongst all taxpayers? All of these issues arise when an aggregate cap is instituted. These issues become even more concerning when there are a substantial number of taxpayer claiming the credit.



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GOVERNOR

RICHARD C. LIM
INTERIM DIRECTOR

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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LATE TESTIMONY

Statement of

RICHARD C. LIM

Interim Director

Department of Business, Economic Development & Tourism
before the

HOUSE COMMITTEE ON ECONOMIC REVITALIZATION AND BUSINESS

Tuesday, February 15, 2011

8:00 a.m.

State Capitol, Conference Room 312
in consideration of

HB1308

RELATING TO DIGITAL MEDIA

Chair McKelvey, Vice Chair Choy and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) offers the following comments and recommendations regarding HB1308. The measure proposes the establishment of a new digital media enterprise zone and a digital media infrastructure tax credit incentive. We defer to Department of Taxation as to the fiscal impacts of the measure and any impacts to their operations/staffing created by this new tax credit.

Regarding establishing a digital media enterprise zone, we estimate that for each \$1 million dollars spent by a digital media company, it will create 5.31 direct jobs at an average annual wage of \$59,572. We also estimate that the total direct, indirect and induced tax to be realized will be \$109, 679.

This bill also provides for funding which can then be used by DBEDT for operations, including repairs and maintenance of the Hawaii Film Studio, personnel and programs that accelerate the growth and sustainability of Hawaii's creative sectors. However, it should be

noted that the Hawaii Television and Film Development board is currently inactive. The department does not believe that changing the board name will affect the status/activity level of the board. The department respectfully requests amending the language in 201-112 and 201-113 HRS to provide the director of DBEDT the ability to designate the use of these funds.

Thank you for the opportunity to provide these comments and recommendations.



Testimony of C. Mike Kido
External Affairs
The Pacific Resource Partnership

House Committee on Economic Revitalization & Business
Representative Angus L.K. McKelvey, Chair
Representative Isaac W. Choy, Vice Chair

HB 1308 – RELATING TO DIGITAL MEDIA
Tuesday, February 15, 2011
8:00 am
Conference Room 312

Chair McKelvey, Vice Chair Choy and members of the House Committee on Economic Revitalization & Business:

My name is C. Mike Kido, External Affairs of the Pacific Resource Partnership (PRP), a labor-management consortium representing over 240 signatory contractors and the Hawaii Carpenters Union.

PRP strongly supports the intent and purpose of HB 1308 – Relating to Digital Media which leverages the unique opportunities for the digital media industry development in Hawaii.

The purpose of this bill is to establish digital media enterprise subzones as unspecified geographic areas surrounding University of Hawaii campuses that are also designated as enterprise zones. This bill also establishes Digital Media Infrastructure Tax Credit and Digital Media Enterprise Subzone Workforce Development Tax Credit for infrastructure development and operation.

With our economy in recession, stimulus and other initiatives are needed to counteract the negative impact on our state. Construction and tax credits can provide excellent means to boost Hawaii's tourism and construction industries.

PRP would like to thank you for the opportunity to share our views with you and respectfully ask for your support on HB 1308 – Relating to Digital Media.