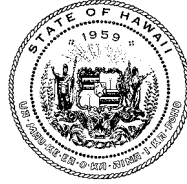


LATE TESTIMONY

NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
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FREDERICK D. PABLO
INTERIM DIRECTOR OF TAXATION

RANDOLF L. M. BALDEMOR
DEPUTY DIRECTOR

LATE

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT & TECHNOLOGY

TESTIMONY OF THE DEPARTMENT OF TAXATION REGARDING SB 1411 RELATING TO TAXATION

TESTIFIER: FREDERICK D. PABLO, INTERIM DIRECTOR OF
TAXATION (OR DESIGNEE)

COMMITTEE: EDT

DATE: FEBRUARY 11, 2011

TIME: 1:15pm

POSITION: COMMENTS; CONCERNED WITH COSTS

This measure provides a tax credit for live theatrical and music performances in Hawaii.

The Department of Taxation (Department) **defers** to the Department of Business, Economic Development & Tourism on whether a credit is needed for live musical and theatrical performance. The Department is **opposed to the provision that provides for the transferability of these tax credits.**

The Department must be cognizant of the biennium budget and financial plan. This measure has not been factored into either. Given the forecasted decrease in revenue projections, this measure would add to the budget shortfall.

This measure will result in an indeterminate revenue loss due to the measure's blank cumulative cap.

Committee on Economic Development and Technology
Senator Carol Fukunaga, Chairperson
Senator Glenn Wakai, Vice Chair and
Committee Members

LATE

Ben Shafer
IATSE Local 665, Legislative Liaison
875 Waimanu Street Suite 610
Honolulu, HI 96813
(808) 222.3138

February 10, 2011

RE: **In Support of SB 1411**

Aloha Kakou Senator Fukunaga, Senator Wakai and member of the Economic and Technology Committee;

As a member of the International Alliance of Theatrical and Stage Employees (IATSE), Local 665, I would first like to share my mahalo to this committee for hearing SB 1411.

IATSE the Union behind Entertainment was established here in Hawaii in 1937 is a "Mix Local," meaning we have many crafts under one umbrella.

In the area of film production we have the following technicians locally:

DP, Film Camera Operator	Sign Painter
Camera Assistant, Still Photographer	Prop Master, Assistant Props
Videographer, Video Camera Operator	Greens Handler
Sound Mixer	Make-up
Boom, Cable, Audio Assistant	Hairdresser
Electrician	Script Supervisor
Grip	Special Effects
Art Decorator	Paramedic
Set Dresser	Craft Services
Wardrobe, Costumer	Video Assistant
Construction, Prop-Maker	Projectionist
Laborer	Marin
Painter	

On Stage, we have the following technicians locally:

Carpenter	Hairdresser
Flyman	Wardrobe
Rigger	Painter
Electrician	Pyrotechnician
Props	Audio-Visual Technician
Sound	Truck Loader
Make-up	Scenic Artist

On Conventions and Tradeshow, we have the following technicians

Installation/Dismantle
MIS
Pole & Drape/Carpet
Loaders/Cleaners
Forklift
Driver Class #

In the area of Movie Projectionist, we have technicians locally:

Technician
Operator

These are all specialized training utilizing our local talents.

On the film side of our business, Act 88 and 221 allows investors tax credit to create film productions in the State of Hawaii. Lost, Hawaii 5'0, Off the Map, Descendants, Battleship, Journey to the Center, Pirates of the Caribbean and many other episodic and feature films were shoot because of these tax incentives created investment opportunities which created jobs for us locally.

SB 1411 allows tax credits for investments on the stage side of the entertainment business. One of the biggest hurdles for any stage event coming to Hawaii is transportation expenditures. Lion King, probably one of the premier stage events on Hawaii's history spent close to 1 million dollars on transportation cost. They stayed here four months and hired many local hires who worked 6 days a week.

This is a good industry, with lots of potential for growth. I urge you to support SB 1411.

Mahalo nui loa Kakou,

From: cazimero@gmail.com on behalf of [RK Caz](#)
To: [EDTTestimony](#)
Subject: support of SB1411
Date: Friday, February 11, 2011 8:41:44 AM

LATE

I am writing to urge your support for the SB1411. Essential support would provide tax credit toward the **Hawaii Music** and **Creative** community. Given the current economic strain on all arts-related funding sources, severe cuts would be damaging. As your constituent, I urge you to support and protect the Hawaii Music Industry and Creative Community. A substantial cut would be devastating to Hawaii and communities such as ours. *Tax credits in the arts strengthen our local economy and improves the quality of life in our community.* Thank you for your support!

Roland Cazimero

TAXBILLSERVICE

126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Live music or theatrical production tax credit

BILL NUMBER: SB 1411

LATE

INTRODUCED BY: Galuteria

BRIEF SUMMARY: Allows a taxpayer to claim an income tax credit of: (1) a base investment tax credit for expenditures on a qualified live musical or theatrical production or a qualified musical or theatrical facility infrastructure project in the amount of: (a) 10% of the total base investment for amounts greater than \$100,000 and up to \$300,000; (b) 20% of the total base investment for amounts greater than \$300,000 and up to \$1,000,000; and (c) 25% of the total base investment for amounts over \$1,000,000; provided that no single qualified musical or theatrical facility infrastructure project shall receive more than \$_____ in credits in any taxable year; (2) a transportation expenditure tax credit for transportation expenditures purchased from a company that has a significant business presence in the state in the amount of: (a) 100% for expenditures incurred from January 1, 2012 through December 31, 2012; (b) 50% for expenditures incurred from January 1, 2013 through December 31, 2013; and (c) 25% for expenditures incurred from January 1, 2014 through December 31, 2014; (3) a college student compensation tax credit of one-tenth of one percent for the costs related to compensating students enrolled in a program of study related to musical or theatrical productions in a college, university, or vocational-technical school in the state who are employed to work on a qualified live musical or theatrical production; and (4) a resident payroll tax credit when base investment is used to employ residents to work on either a qualified live musical or theatrical production or qualified musical or theatrical facility infrastructure project that is equal to 10% of the resident's compensation provided that the payroll tax credit is limited to the first \$_____ compensated to each resident.

No more than \$_____ in cumulative tax credits shall be granted per taxable year on a first-come, first-served basis. If the credits applied for in any particular year exceed the aggregate amount allowed in that taxable year, then the excess shall be treated as having been applied for on the first day of the subsequent taxable year. Delineates further qualifications for the claiming of the credit and certification by the department of business, economic development, and tourism (DBEDT).

Credits in excess of a taxpayer's net income tax liability may be used as a tax credit against the taxpayer's net income tax liability in subsequent years until exhausted. All claims for a tax credit, including amended claims, shall be filed on or before the end of the twelfth month following the close of the taxable year for which the tax credit may be claimed. No other tax credit may be claimed under this chapter for the qualified costs used to properly claim a tax credit under this section for the taxable year. In the case of a partnership, S corporation, estate, or trust, the tax credits allowable are for the qualified costs incurred by the entity for the taxable year with the cost upon which the tax credits are computed determined at the entity level. Distribution and share of the tax credit shall be determined pursuant to section 704(b) (with respect to partners' distributive share) of the Internal Revenue Code of 1986, as amended.

Permits a taxpayer, on a one-time basis, to transfer the tax credits that the taxpayer is eligible to claim; provided that the transferee claims the credit in the same taxable year that the expenditures eligible for the credit were expended and the department of taxation receives written notice of the transfer.

Requires the taxpayer to submit to DBEDT a report of the final amount of expenditures qualifying for the tax credits during the taxable year, prior to claiming any qualified live musical or theatrical production or musical or theatrical facility infrastructure project tax credits. DBEDT shall review the report and shall issue a tax credit certification letter, certifying the tax credits that the taxpayer is eligible to claim for the taxable year. Upon approval, DBEDT shall certify that a live musical or theatrical production or musical or theatrical facility infrastructure project is qualified and send notice to the applicant and the department of taxation. Directs DBEDT to study the dynamic economic impact of the tax credit in this section and prepare an annual report for the governor and the legislature.

Requires the director of taxation to prepare any forms that may be necessary to claim a credit, may require the taxpayer to furnish information to ascertain the validity of the claim for the credits, and may adopt rules necessary to effectuate the purposes of this section pursuant to HRS chapter 91.

Defines “base investment,” “expended in the state,” “expenditures in the state,” “live musical or theatrical production,” “payroll,” “production expenditures,” “qualified live musical or theatrical production,” “qualified musical or theatrical infrastructure project,” “resident” and “transportation expenditures” for purposes of the measure.

EFFECTIVE DATE: Tax years beginning after December 31, 2011

STAFF COMMENTS: This measure proposes an incentive in the form of various tax credits to encourage live musical and theatrical productions to debut in Hawaii. While this measure proposes tax credits for expenditures incurred for the production costs or capital costs of the musical or theatrical production while in Hawaii, it also includes transportation costs incurred to bring the production to Hawaii. The measure also proposes a tax credit for the costs of compensating college students enrolled in a program of study related to musical or theatrical production who work on a live musical or theatrical production and a resident payroll tax credit for residents employed to work on a production.

The adoption of this measure would set a very dangerous precedent as there, no doubt, will be other worthy events that will want a subsidy of some kind. Given the severe fiscal crisis of the state, this is hardly a time to hand out subsidies of public funds.

If it is the comprehensive cost involved of bringing such productions to Hawaii as well as employees of such productions, why shouldn't high technology firms or movie productions also ask for similar subsidies of their workers or for that matter why not subsidize the salaries of construction workers as these industries have received other favorable tax treatments in recent years. It is incredulous how lawmakers can bemoan the fact that there are insufficient resources to keep the schools and libraries open this year and yet are willing to throw public resources at a subsidy of live musical and theatrical productions.

It should be noted that tax credits are designed to reduce the tax burden by providing relief for taxes paid. Tax credits are justified on the basis that taxpayers with a lesser ability to pay should be granted relief for state taxes imposed. While the sponsors try to make an argument that Hawaii needs to enact

such an incentive to compete for this type of business, one has to ask “at what price?” Unfortunately, they come at the expense of all taxpayers and industries struggling to survive in Hawaii. At a time when the state government is searching for new sources of revenue, it is unthinkable that proposals that would deplete state funds are still being proposed. If there are any businesses state government should be helping with what limited resources it has, it should be the businesses already here in the state who are struggling to stay above water. Those folks have already made an investment in Hawaii, but because of the bad economy and Hawaii’s heavy burden of taxes and regulations they are struggling to survive.

Digested 2/11/11