LATE TESTIMONY

L E G I S L A T I V E

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SUBJECT: INCOME, Extend motion picture, digital media and film production credit

BILL NUMBER: HB 2225

INTRODUCED BY: Ward, Ching, Fontaine, Johanson, Marumoto, Riviere, Thielen

BRIEF SUMMARY: Amends Act 88, SLH 2006, to extend its repeal date from January 1, 2016 to January1, 2021.

EFFECTIVE DATE: Upon approval

STAFF COMMENTS: The legislature by Act 107, SLH 1997, enacted an income tax credit of 4% for costs incurred as a result of producing a motion picture or television film in the state and 7.25% for transient accommodations rented in connection with such activity. The credit was adopted largely to address the impost of the state's general excise tax on goods and services used by film producers. The exclusion of income received from royalties was initially established by Act 178, SLH 1999, as an incentive to attract high technology businesses to Hawaii. The original proposal would have applied to royalties and other income received from high technology businesses. This section of the law was later amended in 2000 by Act 297 which added the inclusion of royalties from "performing arts products" and again amended by Act 221, SLH 2001, to include authors of "performing arts products."

The legislature by Act 88, SLH 2006, increased the 4% credit to 15% in a county with a population over 700,000 and to 20% in a county with a population of 700,000 or less. Act 88 also repealed the income tax credit for transient accommodations and expanded the credit to include commercials and digital media productions and limited the credit to $8 million per qualified production. While Act 88, SLH 2006, is scheduled to sunset on January 1, 2016, this measure extends the repeal date to January 1, 2021.

The motion picture, digital media and film production credits have been morphing and expanding into full-blown tax credits since they "got their foot in the door" in 1997. It should be remembered that the perpetuation and expansion of motion picture credits are a drain on the state treasury. It is incredulous how lawmakers can bemoan the fact that there are insufficient resources to catch up on the backlog of school repairs and maintenance, to fund social programs and not being able to provide tax relief to residents and yet legislators are willing to throw additional public resources at a subsidy of film production and media infrastructure as proposed in this measure. Even national observers of the film tax credit movement across the nation note that these incentives create on fleeing economic activity, do not create permanent jobs or industries, and provide payroll to largely nonresident professionals and other staffers. As hard times befell government across the nation, many of the film tax credits have either been dropped or severely curtailed.

There is absolutely no rational basis for continuing these tax credits other than that other states are offering similar tax credits. Then again, those states can't offer paradise, year-round good weather during which to film. Instead of utilizing back door subsidies through tax credits, film industry advocates need to promote the beauty that is synonymous with Hawaii.

Income 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. Sponsors try to make an argument that Hawaii needs to enact such incentives to compete for this type of business, one has to ask "at what price?" Promoters of the film industry obviously don't give much credit to Hawaii's natural beauty and more recently its relative security. Just ask the actors of "Lost" or "Hawaii 5-0" who have bought homes here if they would like to work elsewhere. While film producers may moan that they will lose money without the proposed tax credits, is there any offer to share the wealth when a film makes millions of dollars? If promoters of the film industry would just do their job in outlining the advantages of doing this type of work in Hawaii and address some of the costly barriers by correcting them, such tax incentives would not be necessary. From permitting to skilled labor to facilitating transportation of equipment, there are ways that could reduce the cost of filming in Hawaii. Unless these intrinsic elements are addressed, movie makers will probably demand subsidies, such as this incentive. Unfortunately, they come at the expense of all taxpayers and industries struggling to survive in Hawaii. While lawmakers look like a ship of fools, movie producers and promoters are laughing all the way to the bank and the real losers in this scenario are the poor taxpayers who continue to struggle to make ends meet, a scenario akin to the bread and circus of ancient Rome.

So while there may be the promise of a new industry and increased career opportunities, lawmakers must return to the cold hard reality of solving the problems at hand. The long and short of it is that due in large part to the irresponsibility of handling state finances in the past, taxpayers cannot afford proposals like this. Thanks to the gushing generosity of those lawmakers who gave the state's bank away in all sorts of tax incentive schemes in recent years, taxpayers have had to bear increasing tax burdens.

Instead of creating sustainable economic development incentives, the film tax credits waste moneys that could otherwise create an environment that is nurturing for all business activity, activity that lasts more than the six or eight months of a production. The overall tax burden could be lowered not only for families but for the businesses that provide long-term employment for Hawaii's people.

Digested 2/8/12

The Chamber of Commerce of Hawaii
The Voice of Business in Hawaii

Testimony to the House Committee on Economic Revitalization and Business
Thursday, February 9, 2012
8:30 a.m.
State Capitol - Conference Room 312

RE: HOUSE BILL NO. 1758, 2869, 2225

Chair McKelvey, Vice Chair Choy, and members of the committee:

The Chamber of Commerce of Hawaii ("The Chamber") respectfully requests that the committee pass HB 1758, 2869 and 2225 for further discussion.

The Chamber is the largest business organization in Hawaii, representing more than 1,000 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of its members, which employ more than 200,000 individuals, to improve the state's economic climate and to foster positive action on issues of common concern.

The Chamber supports initiatives and industries that will attract business and jobs to our State. One of the industries that appear to have a growing presence is film. This industry has steadily been establishing a job base, marketing and exposing Hawaii to an international audience, and providing commerce to many of our businesses, especially small ones.

As such, the Chamber supports legislation that provides incentives to attract, retain and grow industries in Hawaii. The extension provided in these bills will help generate and maintain a higher number of jobs per tax dollar, generate higher tax revenues for dollar spent, and stimulate significantly more economic activity in the state per dollar of tax credit. Also, the credit will strengthen the State's effort to compete with other destinations in the national and international arena, and help broaden and diversify Hawaii's economic base.

Thank you for the opportunity to provide comments.