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LATE

To: The Honorable Cliff Tsuji, Chair
and Members of the House Committee on Economic Development & Business

Date: Tuesday, February 12, 2013
Time: 9:00 a.m.
Place: Conference Room 312, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. 566 Relating to Digital Media Infrastructure

The Department of Taxation (Department) defers to the Department of Business, Economic Development, and Tourism (DBEDT) on the merits of H.B. 566 and the Department of Budget and Finance on the impact of this bill on the State's financial plan. The Department provides the following comments for the committee's consideration.

H.B. 566 adds a new section to Chapter 235, Hawaii Revised Statutes, to create a media infrastructure project tax credit. The credit is a nonrefundable tax credit equal to 25% of the qualified infrastructure costs. The Department is concerned that it allows for a broad range of costs (the development, construction, renovation, or operation of a film, video, television, or media production or post-production facility, or any other facility that supports the project, including a movie theater or other commercial exhibition facility) to qualify for the credit.

The measure also requires the Department to: (1) certify the expenditures for the project, including a detailed description of the project, a preliminary budget, a complete detailed business plan and market analysis, an estimated start and completion dates, and a letter from the mayor and council of the county, and (2) issue a final tax credit certification letter indicating the amount of tax credits certified for the infrastructure project to the investors. The Department is unable to comply with requirements of this provision. We believe DBEDT is the more appropriate agency to do any certifications relating to this credit.

Furthermore, the measure requires the taxpayers claiming the media infrastructure credit to file an annual report with DBEDT, including information on the amount of GET and TAT paid. The Department notes that the GET on the construction of the infrastructure project is most likely paid by the contractors, and the TAT is most likely paid by the hotels, likely not the taxpayers claiming the media infrastructure credit.

Thank you for the opportunity to provide comments.