

DAVID Y. IGE
GOVERNOR

SHANTSUTSUI
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
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MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

JOSEPH K. KIM
DEPUTY DIRECTOR

To: The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance

Date: February 26, 2016

Time: 11:00 A.M.

Place: Conference Room 308 State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 2610, H.D. 1, Relating to Income Tax Credits.

The Department of Taxation (Department) defers to the Department of Business Economic Development and Tourism on the merits of H.B. 2610, H.D. 1, and offers the following comments for your consideration.

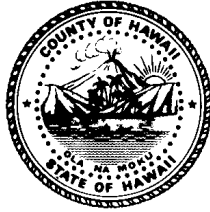
H.B. 2610, H.D. 1, amends section 235-17(d), Hawaii Revised Statutes (HRS), to require a production company claiming the motion picture, digital media, and film production income tax credit (film tax credit) to make reasonable efforts to hire at least 60% of the production's talent and crew from the county in which the qualified production costs are incurred, provided certain individuals are exempted from this provision. The bill also requires the production company to verify the county of residency of local hires. The bill applies to taxable years beginning after December 31, 2015.

The Department notes that production companies that already began their productions prior to this measure becoming law may have difficulty meeting the requirement. Therefore, it may be more feasible to change the effective date to taxable years beginning after December 31, 2016.

This measure does not have an impact on the Department's administration of the film tax credit and notes the importance of the Hawaii Film Office's role in the administration of the film tax credit. The Hawaii Film Office acts as a gatekeeper of the film tax credit, by pre-qualifying productions, certifying qualified production costs, and certifying the amount of film tax credits claimed by qualified productions for each taxable year. The Department supports a continued partnership with the Hawaii Film Office in the administration of the film tax credit.

Thank you for the opportunity to provide comments.

William P. Kenoi
Mayor



Randall M. Kurohara
Acting Managing Director

County of Hawai'i Office of the Mayor

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February 26, 2016

The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance
Hawai'i State Capitol, Room 308
415 South Beretania Street
Honolulu, Hawai'i 96813

RE: House Bill 2610 HD 1, RELATING TO INCOME TAX CREDITS

Aloha, Chair Luke and Committee Members:

Mahalo for this opportunity to express our support of HB 2610 HD 1. This measure will continue the growth of our film and media production industry, and further extend the benefits of the industry to families on Hawai'i Island and across the state. Hawai'i's motion picture, digital media, and film production income tax credit is highly regarded amongst incentive programs nationwide, and is especially helpful for attracting productions to the neighbor islands.

In FY 2014-15, Hawai'i County hosted 82 film productions, accounting for \$13 million in spending on the island. Highlights for that period include 20 episodes of Wheel of Fortune (\$6 million), a season of the MTV reality show Are You The One? (\$5 million), and an episode of Hawai'i Five-0 (\$350,000), along with many smaller productions. The County of Hawai'i has also partnered with the Department of Business, Economic Development, and Tourism in the GVS Transmedia Accelerator to help Hawai'i's creative entrepreneurs build their businesses and create content for a global market.

This measure raises the bar to which productions will aim when hiring local crew members, encouraging incoming filmmakers to take advantage of our experienced workforce. We further encourage our industry partners and labor unions to train and grow the crew base on the neighbor islands so that the goal of 60% local hires can be realized.

Mahalo for your support of HB 2610 HD 1.

Aloha,

William P. Kenoi
MAYOR

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Hiring Requirements for Movie/TV Production Tax Credit

BILL NUMBER: HB 2610, HD-1

INTRODUCED BY: House Committee on Economic Development & Business

EXECUTIVE SUMMARY: Generally requires a production seeking this credit to hire at least 60% of talent and crew from the county in which qualified production costs are incurred, and to verify the county of residency of local hires.

BRIEF SUMMARY: Amends HRS section 235-17(d)(4) so that a qualified production must provide evidence of reasonable efforts to hire at least sixty per cent of the production's talent and crew from the county in which the qualified production costs are incurred; provided that this requirement shall not apply to hired individuals who principally add to the creative direction, process, voice, and narrative of the production, including but not limited to the screenwriter, producer, director, and on-camera, mic, or voice-over talent.

Amends HRS section 235-17(h)(3) to provide that the taxpayer shall verify the county of residency of local hires.

EFFECTIVE DATE: Applies to taxable years beginning after 12/31/2015.

STAFF COMMENTS: 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. 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. Act 89, SLH 2013, increased the motion picture, digital media, and film production tax credit from 15% to 20% for the costs incurred in a county with a population over 700,000 and from 20% to 25% for costs incurred in a county with a population of 700,000 or less; and increased the total tax credits that may be claimed per qualified production from \$8 million to \$15 million. The act also extended the motion picture, digital media and film production credit from 12/31/15 to 12/31/18.

Sponsors try to make an argument that Hawaii needs to enact such incentives to compete for this type of business, but one has to ask, "At what price?" 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. Yet lawmakers are willing to subsidize film production, as proposed in this measure, and tighten the screws on everyone else to fund the subsidies.

While film producers may moan that they will lose money without the proposed tax credits, how do they share the wealth when the film makes millions? 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, Hawaii could be a competitive film destination with fewer tax incentives. From permitting to skilled labor to facilitating transportation of equipment, there are ways to address the current drawbacks 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.

Certainly, the film industry promises increased opportunities. Some of them certainly have materialized. But chasing these opportunities needs to be balanced against the cold hard reality of solving the problems at hand. Lawmakers need to ask whether production tax credits create sustainable economic development. It's well known that most productions shoot for a while and then wrap; the crew that supports the production then jumps to the next one. A case may be made for the production credits if they keep the productions rolling in and contributing to the economy. But the people need to see that case. If not, the resources that are now directed to the credits could instead lower the overall tax burden not only for families but for the businesses that provide long-term employment for Hawaii's people.

Digested 2/24/2016

Re: H.B. 2610, Relating to Film Media Industry Development.

H.B. 2610 amends section 235-17 (d), Hawaii Revised Statutes, to require a production company claiming the motion picture, digital media, and film production income tax credit to hire at least 60% of the production's talent and crew from the county in which the qualified production costs are incurred, provided certain individuals are exempted from this provision. H.B. 2610 also requires the production company to verify the county of residency of local hires. H.B. 2610 applies to taxable years beginning after December 31, 2015.

My name is Brad Starks and I am the owner of Brad Starks Photography LLC based on the island of Maui. I do still photography but also work behind the scenes as freelance production assistant and line producer, etc. I also work with a grass roots organization called NMITC & Neighbor Island Film Group. We interact with more than over 500+ local film industry crew members and other entertainment professionals here.

This measure does not have an impact on the Department's administration of the film tax credit and notes the importance of the Hawaii Film Office's role in the administration of the film tax credit. The Hawaii Film Office acts as a gatekeeper of the film tax credit, by pre-qualifying productions, certifying qualified production costs, and certifying the amount of film tax credits claimed by qualified productions for each taxable year. The Department supports a continued partnership with the Hawaii Film Office in the administration of the film tax credit.

Along with other local film and entertainment workers living & working in the neighbor islands on Maui, I support the efforts of our elected officials with H.B. 2610 and would like to see more opportunities come to our community as a result. Thank you for the opportunity to provide comments on H.B. 2610.

Mahalo!

Brad Starks / Brad Starks Photography LLC

4450 Kula Hwy Kula HI 96753-1327

Kula HI 96753-1327

From: mailinglist@capitol.hawaii.gov
Sent: Wednesday, February 24, 2016 8:54 PM
To: FINTestimony
Cc: augiemail@me.com
Subject: Submitted testimony for HB2610 on Feb 26, 2016 11:00AM

HB2610

Submitted on: 2/24/2016

Testimony for FIN on Feb 26, 2016 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Augie T	Individual	Support	No

Comments: Aloha, I am writing in support of HB 2610 HD 1 as a means to grow our film and media production industry, and to further extend the economic benefits of the industry to families across Hawai'i. Our state's production tax credit is strong and highly regarded amongst tax incentives nationwide. The additional 5% incentive afforded to neighbor islands has undoubtedly helped attract productions. By encouraging and fostering the growth of crew on Kaua'i, Hawai'i, and in Maui County, filming in those jurisdictions becomes an even better value. As a working member of Hawai'i's creative community, and as a friend of many people in the film production industry, I urge you to support HB 2610 HD 1. Mahalo, Augie T

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From: mailinglist@capitol.hawaii.gov
Sent: Thursday, February 25, 2016 8:01 AM
To: FINTestimony
Cc: Schuidian@gmail.com
Subject: Submitted testimony for HB2610 on Feb 26, 2016 11:00AM

HB2610

Submitted on: 2/25/2016

Testimony for FIN on Feb 26, 2016 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Sasha chuidian	Individual	Support	No

Comments: Along with other local film and entertainment workers living & working in the neighbor island of Maui, I support the efforts of our elected officials on H.B. 2610 and would like to see more opportunities come to our community as a result. Mahalo Sasha chuidian

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From: mailinglist@capitol.hawaii.gov
Sent: Thursday, February 25, 2016 1:37 PM
To: FINTestimony
Cc: dwbh1@hotmail.com
Subject: Submitted testimony for HB2610 on Feb 26, 2016 11:00AM

HB2610

Submitted on: 2/25/2016

Testimony for FIN on Feb 26, 2016 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Rosalind	Individual	Comments Only	No

Comments: Along with many other local film and entertainment workers living & working in the neighbor island of Maui, I support the efforts of our elected officials on H.B. 2610 and would like to see more work opportunities come to our community as a result. Mahalo for the opportunity to provide positive comments on passing H.B. 2610 for the benefit of all on Hawaii. Rosalind Modica

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From: mailinglist@capitol.hawaii.gov
Sent: Thursday, February 25, 2016 2:53 PM
To: FINTestimony
Cc: richmond.branscombe@yahoo.com
Subject: Submitted testimony for HB2610 on Feb 26, 2016 11:00AM

HB2610

Submitted on: 2/25/2016

Testimony for FIN on Feb 26, 2016 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
branscombe richmond	Individual	Support	No

Comments: 97% of all filming is on Oahu NOT FAIR ,, PERIOD SHOULD THE NEIGHBOR ISLANDS BE A SEPERATE STATE ?????? BECAUSE IT SURE LOOKS LIKE THAT AND FEELS LIKE THAT AND IS MADE UP LIKE THAT ,, OR IS HAWAII WAITING FOR 100% OF ALL FILMING ON OAHU ,, GREED .. SELFISH ...SMELLS LIKE U KNOW WHAT ,, 50 TH STATE OF OAHU NOT THE 50TH STATE OF HAWAII

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Along with other local film and entertainment workers living & working in the neighbor island of Maui, I support the efforts of our elected officials on H.B. 2610 and would like to see more opportunities come to our community as a result. Thank you, Kim Mosley

From: mailinglist@capitol.hawaii.gov
Sent: Thursday, February 25, 2016 2:51 PM
To: FINTestimony
Cc: marino_johnson@hotmail.com
Subject: Submitted testimony for HB2610 on Feb 26, 2016 11:00AM

HB2610

Submitted on: 2/25/2016

Testimony for FIN on Feb 26, 2016 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Patricia Marino	Individual	Support	No

Comments: Along with many other local film and entertainment workers living & working in the neighbor island of Maui, I support the efforts of our elected officials on H.B. 2610 and would like to see more work opportunities come to our community as a result. Mahalo for the opportunity to provide positive comments on passing H.B. 2610 for the benefit of all on Hawaii. Patricia Johnson

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From: mailinglist@capitol.hawaii.gov
Sent: Thursday, February 25, 2016 3:23 PM
To: FINTestimony
Cc: kidstunts@hotmail.com
Subject: Submitted testimony for HB2610 on Feb 26, 2016 11:00AM

HB2610

Submitted on: 2/25/2016

Testimony for FIN on Feb 26, 2016 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Michael Munoz	Individual	Support	No

Comments: Along with other local film and entertainment workers living & working in the neighbor island of Maui, I support the efforts of our elected officials on H.B. 2610 and would like to see more opportunities come to our community as a result. Mahalo for the opportunity to provide comments on H.B. 2610. Michael Munoz

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DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

DAVID Y. IGE
GOVERNOR

LUIS P. SALAVERIA
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

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Statement of
Luis P. Salaveria
Director

Department of Business, Economic Development, and Tourism
HOUSE COMMITTEE ON FINANCE

Friday, February 26, 2016

11:00 AM

State Capitol, Conference Room 308

LATE

In consideration of
HB2610, HD1
RELATING TO INCOME TAX CREDITS.

Chair Luke, Vice Chair Nishimoto, and Members of the House Committee on Finance.

The Department of Business, Economic Development and Tourism (DBEDT) supports the intent of HB2610, HD1, which requires productions to show evidence of reasonable efforts to hire a majority of the production's crew from the county in which the qualified production costs are incurred.

We support the idea of productions hiring more local residents, but we do have concerns about attaching a numerical value to these efforts and do not want to inadvertently add additional cost to productions who use this successful tax credit program. The program is performing as the Legislature intended: attracting new film business to Hawaii and the neighbor islands—more than \$400 million in economic activity in 2015; and creating well-paying jobs for island residents—on average 2,500 jobs annually.

DBEDT would recommend inclusion of above-the-line creative talent in the proposed measure as we want to be supportive of the growth and expertise of Hawaii's talent pool and can do so if these creative positions are allowed to grow along with a qualified crew base. The department also supports the tracking of additional data which would provide valuable information on how many of our local residents, by county, are working on these productions.

We very much support the building of a neighbor island qualified crew base, however, we defer to our film industry labor unions as to the current state of neighbor island capacity. We also are in support of their efforts to continue workforce training programs within the neighbor island counties to strengthen that crew base.

Thank you for the opportunity to testify on this measure.

LATE

From: mailinglist@capitol.hawaii.gov
Sent: Thursday, February 25, 2016 6:48 PM
To: FINTestimony
Cc: brenda.ching@sagaftra.org
Subject: Submitted testimony for HB2610 on Feb 26, 2016 11:00AM

HB2610

Submitted on: 2/25/2016

Testimony for FIN on Feb 26, 2016 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
SAG-AFTRA Hawaii Local	SAG-AFTRA Hawaii Local; I.A.T.S.E. Local 665, AFM, Local 677; Teamsters Local 996	Comments Only	No

Comments: Comments on HB 2610, HD1: To legislate quotas may be unconstitutional, in that the definition of a “qualified production cost” favors Hawaii residents, in that the Equal Protection Clause of the United States Constitution prohibits discrimination against non-residents based solely on residency. This matter has been discussed in conjunction with prior legislative attempts to favor Hawaii residents in the definition of qualified production costs. See legislative history of H.B. 607 in 2005. In addition, we have experienced that production companies do make reasonable efforts to hire more than 60% of local residents as defined in this legislation, since to do otherwise is simply not cost effective. We feel that the best way to achieve the goals of this legislation is to work with industry and entertainment unions to insure a workforce that can respond to production demands in each county. Our existing tax credit already provides an incentive for neighbor island production, and does so without risking challenges based on constitutionality, and without trying to legislate supply and demand requirements that may not be feasible at any particular time. Thank you for the opportunity to provide these comments.

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From: mailinglist@capitol.hawaii.gov
Sent: Thursday, February 25, 2016 5:19 PM
To: FINTestimony
Cc: threetomake2@hotmail.com
Subject: Submitted testimony for HB2610 on Feb 26, 2016 11:00AM



HB2610

Submitted on: 2/25/2016

Testimony for FIN on Feb 26, 2016 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Bob Silva	Individual	Support	No

Comments: I along with many other local film industry workers living in Maui County support the efforts of our elected officials on HB 2610. This is a win-win for the ENTIRE state of Hawaii. Please share the Aloha.

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