

Honolulu, Hawaii

February 2, 2018

RE: H.B. No. 1328
H.D. 1

Honorable Scott K. Saiki
Speaker, House of Representatives
Twenty-Ninth State Legislature
Regular Session of 2018
State of Hawaii

Sir:

Your Committee on Economic Development & Business, to which was referred H.B. No. 1328 entitled:

"A BILL FOR AN ACT RELATING TO FILM AND DIGITAL MEDIA
INDUSTRY DEVELOPMENT,"

begs leave to report as follows:

The purpose of this measure is to continue to stimulate Hawaii's motion picture, digital media, and film production industry by:

- (1) Amending certain qualifications necessary to be eligible for the motion picture, digital media, and film production income tax credit (Film Tax Credit);
- (2) Requiring taxpayers claiming the Film Tax Credit to obtain and submit a verification review by a qualified certified public accountant of the statement of qualified production costs submitted to the Department of Business, Economic Development and Tourism; and
- (3) Extending the sunset date of the Film Tax Credit to January 1, 2024.

The Department of Business, Economic Development and Tourism,
University of Hawaii, Hawaii County Film Office, Oahu County



Committee Legislative Priorities of the Democratic Party of Hawaii, Sight & Sound Studios, LLC, Motion Picture Association of America, Inc., Global Virtual Studio Transmedia Accelerator, Kona Snow Pictures, Screen Actors Guild - American Federation of Television and Radio Artists, and numerous individuals testified in support of this measure. The Honolulu Film Office, Office of Economic Development of the County of Kauai, and International Alliance of Theatrical Stage Employees, Moving Picture Technicians, Artists and Allied Crafts, Local 665, testified in support of the intent of this measure. The Department of Taxation and Tax Foundation of Hawaii provided comments.

Your Committee finds that Hawaii's film and television industry is a significant economic driver for the State, both in the numerous high-quality jobs that large productions entail and in the positive media image projected around the globe of Hawaii as a tourist destination, and the provision of the Film Tax Credit has been effective in stimulating this industry. According to the Department of Business, Economic Development and Tourism, in 2017, forty-eight productions registered to potentially claim \$55,000,000 in tax credits based on expenditures of \$268 million in production costs that resulted in \$464,000,000 in sales generated, \$107,000,000 in direct household economic impact, and an estimated \$29,000,000 in tax revenues.

The importance of the Film Tax Credit was recognized during the Regular Session of 2017, with the passage of H.B. No. 423, C.D. 1, enacted as Act 143, Session Laws of Hawaii 2017 (Act 143). While Act 143 contains many of the provisions contained in this measure, it also contains an aggregate tax credit cap of \$35,000,000, and carryover provisions for claims in excess of the \$35,000,000 cap. However, according to various testifiers, including the Honolulu Film Office, industry analysis has shown that this tax credit cap and additional carryover provisions are a strong hinderance to the growth and stability of the film industry in Hawaii.

Accordingly, your Committee has amended this measure by:

- (1) Deleting language and making technical amendments to reflect statutory changes to the Film Tax Credit already enacted by Act 143 including language:




- (A) Requiring the third-party verification review of qualified production costs by a certified public accountant;
 - (B) Requiring a production to submit evidence that reasonable efforts were unsuccessful to secure and use comparable products or services within Hawaii when making a claim for products or services acquired or rendered outside of Hawaii; and
 - (C) Extending the sunset date of the Film Tax Credit to January 1, 2024, as that date was already extended to January 1, 2026;
- (2) Inserting language changing the aggregate tax credit cap of \$35,000,000 to an unspecified amount;
 - (3) Changing its effective date to July 1, 2112, to facilitate further discussion; and
 - (4) Making technical, nonsubstantive amendments for clarity, consistency, and style.

Your Committee understands that adjustments made to the aggregate tax cap will have fiscal impacts to the State's overall financial plan. However, your Committee notes that industry experts testified that increasing or removing the tax cap could result in tremendous economic potential for the State. Should the Committee on Finance deliberate on this measure further, your Committee on Economic Development and Business respectfully requests that it consider increasing the aggregate tax cap or deleting the tax cap in its entirety.

As affirmed by the record of votes of the members of your Committee on Economic Development & Business that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 1328, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 1328, H.D. 1, and be referred to your Committee on Finance.



Respectfully submitted on
behalf of the members of the
Committee on Economic
Development & Business,



CINDY EVANS, Chair



