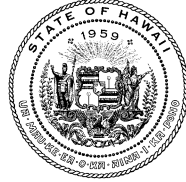


DAVID Y. IGE
GOVERNOR

JOSH GREEN M.D.
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809
Phone: (808) 587-1540 / Fax: (808) 587-1560
Email: Tax.Directors.Office@hawaii.gov

RONA M. SUZUKI
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

To: The Honorable Angus L.K. McKelvey, Chair;
The Honorable Lisa Kitagawa, Vice Chair;
and Members of the House Committee on Economic Development & Business

From: Rona M. Suzuki, Director
Department of Taxation

Re: H.B. 2075, Relating to Film Tax Credit

Date: Wednesday, February 5, 2020

Time: 9:35 A.M.

Place: Conference Room 309, State Capitol

The Department of Taxation (Department) provides the following comments on H.B. 2075. This measure proposes to increase the annual cap for the motion picture, digital media, and film production tax credit (film credit) from \$50 million to \$70 million. The measure is effective upon its approval.

The Department of Business, Economic Development, and Tourism (DBEDT) is responsible economic development activities related to the film credit and for allocating and certifying the film credits. The Department is responsible for administering the credits claimed on returns.

The Department notes that credits are tentatively allocated by the Hawaii Film Office on a first-come-first-served system. Credits will have already been tentatively allocated to taxpayers for the 2020 calendar year. To avoid confusion, the Department suggests applying the increase to the cap beginning on January 1, 2021.

Thank you for the opportunity to provide comments.



DAVID Y. IGE
GOVERNOR

MIKE McCARTNEY
DIRECTOR

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
Web site: dbedt.hawaii.gov

Telephone: (808) 586-2355
Fax: (808) 586-2377

Statement of
MIKE MCCARTNEY
Director

Department of Business, Economic Development, and Tourism
before the

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT & BUSINESS

Wednesday, February 5, 2020

9:35 AM

State Capitol, Conference Room 309

In consideration of
HB2075
RELATING TO FILM TAX CREDIT.

Chairs McKelvey, Vice Chair Kitagawa, and Members of the House
Committee on Economic Development & Business

The Department of Business, Economic Development and Tourism (DBEDT) appreciates the intent and offers **comments** on HB2075, which seeks to increase the annual cap for the motion picture, digital media, and film production income tax credit from \$50 million to \$70 million.

Under the new Act 275, SLH 2019, nearly 50 applicants registered for the tax credit program for film productions that took place during the 2019 calendar year. The estimated spend of these productions on wages, rentals, buying local goods and services was \$340 million, generating an estimated \$588 million in overall economic activity. Hawaii state tax revenue to be generated is estimated at \$37 million. With a state tax credit cap of \$50 million in 2019, the net cost to the state is \$13 million to stimulate half a billion dollars in economic activity and more than 3,200 jobs.

The tax credit was established in 2006 by the Legislature and supported by the Administration as a way to grow our film industry and provide well-paying jobs in the creative sector for our residents. The institution of an overall spending cap has created administrative challenges for DBEDT's Film Office and uncertainty for the industry. Consequently, new film business to the state is anticipated to drop off significantly.

In order to grow this economic and tourism driver for our state, uncertainty due to the new \$50 million cap also compromises the potential of attracting investors to build a new studio complex, which will have an adverse effect on infrastructure development to grow the industry and provide jobs for graduates of our universities.

The current sunset date of December 31, 2025 must also be addressed in order to assure the industry that Hawaii is serious about the long-term viability of its film, media and new emerging forms of digital media.

The motion picture, digital media, and film production tax credit is the driver for our future workforce and infrastructure development. The synergistic relationship between film production and the visitor industry, as well as our UH Academy for Creative Media and related programs at other universities coupled with creative workforce development initiatives is critical to paving the way for new infrastructure development and the jobs it will bring for Hawaii's budding media makers in the years ahead.

We defer to the Departments of Taxation and Budget and Finance on the fiscal impacts of this bill.

Thank you for the opportunity to testify on this measure.



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Written Testimony Presented to the
House Committee on Economic Development & Business
Wednesday, February 5, 2020 at 9:35 a.m.

by
Vassilis L. Syrmos
Vice President for Research and Innovation
University of Hawai'i System

HB 2075 – RELATING TO FILM TAX CREDIT

Chair McKelvey, Vice Chair Kitagawa and Members of the Committee:

The University of Hawai'i (UH) supports the intent of this measure, with reservations.

The Film Production Income Tax Credit is a valuable incentive that encourages a continuous pipeline of film production in Hawai'i and supports a vibrant diversified industry for the state.

House Bill 2075 proposes to increase the allowable annual cap for the Film Production Income Tax Credit from \$50,000,000 to \$70,000,000. The cap was raised to \$50,000,000 in 2019, the result of Act 275 in the same year.

However, Act 275, Session Laws of Hawai'i (SLH) 2019, included language in Section 3, that land at UH-West O'ahu should be transferred from UH to Hawai'i Technology Development Corporation for the development of a film production studio. The University of Hawai'i has been working with the Governor's Office and the Department of Business Economic Development & Tourism on a "best approach" towards the development of a film production studio. As a result, UH will be taking the lead at finding an appropriate studio developer.

Therefore, UH recommends that Section 3 from Act 275, SLH 2019, be repealed as part of any revision to the Film Production Income Tax Credit.

Thank you for the opportunity to testify on this measure.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Increase Rolling Cap on Film Tax Credit

BILL NUMBER: HB 2075

INTRODUCED BY: WARD, HAR, MCDERMOTT, MIZUNO, NISHIMOTO, OHNO, SAY, TARNAS, TOKIOKA, WILDBERGER, Okimoto

EXECUTIVE SUMMARY: Increases the annual rolling cap for the Motion Picture, Digital media and Film Production Income Tax Credit.

SYNOPSIS: Amends section 235-17(l), HRS, to increase the annual cap from \$50 million to \$70 million. The existing statute states that if the total amount of credits applied for in any particular year exceeds the annual cap, the excess shall be treated as having been applied for in the subsequent year and shall be claimed in such year; provided that no excess shall be allowed to be claimed after December 31, 2025.

EFFECTIVE DATE: This Act, upon its approval, shall apply to taxable years beginning after December 31, 2019.

STAFF COMMENTS: This credit was enacted as Act 107, SLH 1997, as a of the costs incurred in the State in the production of motion picture or television films. As enacted, the credit was 4% of regular production costs plus 6% of transient accommodations, mirroring the GET and TAT rates at the time. Act 156, SLH 1988, raised the TAT credit to 7.25% while also raising the TAT rate to 7.25%.

After a period where this credit took a back seat to the qualified high tech business program enacted by Act 221, SLH 2001, this credit was next amended by Act 88, SLH 2006, which added credits for digital media and replaced the GET and TAT bifurcation with a unified credit of 15% of qualified production costs incurred in the C&C of Honolulu and 20% in any other county. The act added a per-production cap of \$8 million and sunset the credit on Jan. 1, 2016.

Act 89, SLH 2013, changed the credit percentages to 20% in Honolulu and 25% in any other county; raised the per-production limit to \$15 million; and extended the sunset date to Jan. 1, 2019.

Act 143, SLH 2017, extended the sunset date for the credit to Jan. 1, 2026, and first imposed an aggregate cap of \$35 million.

Act 275, SLH 2019, raised the aggregate cap to \$50 million.

We in Hawaii have had our production credit since 1997, so it's been more than twenty years. Have there been any studies about what the program has done for Hawaii's economy or Hawaii's tax revenue? None were cited to the Legislature when the Hawaii production tax credit was increased in 2013. Maybe we don't care as much about the hard dollars as we do about other intangible effects like local jobs, the development of a skilled workforce, or robust media

education programs that simply weren't around at the turn of the century. Even if so, lawmakers should have data on these intangibles, and other cost-benefit information, so they can make intelligent decisions on this matter.

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 2/3/2020

LATE



The House of Representatives
The Thirtieth Legislature
Regular Session of 2020

COMMITTEE ON ECONOMIC DEVELOPMENT AND BUSINESS
Rep. Angus L.K. McKelvey, Chair
Rep. Lisa Kitagawa, Vice Chair

RE: HB 2075, RELATING TO FILM TAX CREDIT

Date: Wednesday, February 5, 2020
Time: 9:35 AM
Conference Room 309
State Capitol
415 South Beretania Street

February 4, 2020

From: Ricardo Galindez and Roy Tjioe
Island Film Group
99-1245 Halawa Valley St.
Aiea, HI 96701

Aloha Chair McKelvey, Vice Chair Kitagawa and Members of the Committee:

We support the intent of HB 2075, which seeks to increase the annual cap for motion picture, digital media, and film production tax credit to \$70,000,000.

The Proposed Cap is Still Too Low

For 2019, film, television and commercial tax credit claims are projected to be in excess of \$71,000,000, down from \$ 76,400,000 in 2018. This \$5,100,000 reduction in tax credit claims represents more than \$27,000,000 in Hawaii production expenditures, the loss of which directly affects our local employees and vendors.

Our Background

We are the largest local production company in Hawaii. We have been working in Hawaii's film and television industry since 2001, starting as partners at the Hawaii law firm of Goodsill Anderson Quinn & Stifel where we represented local, independent and studio clients alike (including the hit ABC series "Lost" and the Fox series "North Shore"). Since our formation of Island Film Group in 2007, we have been working full-time as producers of feature films such as "Princess Ka'iulani" and "Soul Surfer", network and cable television movies and series, as well as local, national and international commercial productions. Island Film Group has been involved with well over 150 projects to date. Island Film Group, in association with its business partner Hawaii Media Inc., Hawaii's largest local film equipment rental company, also operates the largest privately-owned film, television and commercial production studio in Hawaii, located in Halawa Valley.

Me ke aloha,



Ricardo Galindez and Roy Tjioe
Co-Founders
Island Film Group
Honolulu, Hawaii