

Honolulu, Hawaii

MAR 25 2021

RE: H.B. No. 1174
H.D. 1
S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Thirty-First State Legislature
Regular Session of 2021
State of Hawaii

Sir:

Your Committee on Energy, Economic Development, and Tourism,
to which was referred H.B. No. 1174, H.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose and intent of this measure is to:

- (1) Amend the motion picture, digital media, and film
production income tax credit by:
 - (A) Reducing the cap amount and aggregate cap amount
the credit;
 - (B) Establishing a maximum amount of above-the-line
costs that may be used to claim the credit;
 - (C) Reducing the minimum amount of qualified production
costs needed to claim the credit;
 - (D) Requiring qualified production costs to be incurred
through a qualified vendor;
 - (E) Requiring at least seventy-five percent of a
qualified production to be filmed in the State if



the taxpayer claims a credit in excess of \$5,000,000 in a single taxable year; and

- (F) Requiring that the State receive a percentage of the worldwide gross revenues of a qualified production if the taxpayer claims credits in excess of an aggregate amount of \$15,000,000 in two taxable years;
- (2) Defining "above-the-line costs" and "qualified vendor"; and
- (3) Extending the repeal date of the tax credit from January 1, 2026, to January 1, 2033.

Prior to decision making on this measure, your Committee made available for public review a proposed S.D. 1 of this measure. The proposed S.D. 1, in addition to the original contents of the measure:

- (1) Amends the motion picture, digital media, and film production income tax credit by:
 - (A) Adjusting the general excise tax from 4% percent to .5% percent for qualified productions costing less than \$3,000,000 per qualified production; and
 - (B) Allowing the tax credit for qualified productions costing less than \$3,000,000 to be carried over and applied to the taxpayer's future state tax liability; and
- (2) Reduces the cap amounts of the renewable energy technologies income tax credit.

Your Committee received testimony in support of this measure from Island Film Group, Tritium 3 Renewable Ventures LLC, and one individual. Your Committee received testimony in opposition to this measure from Department of Taxation; Hawaiian Electric Company, Inc.; Hawaii PV Coalition; Hawaii Solar Energy Association; Inter-Island Solar Supply; and Tesla. Your Committee received comments on this measure from the Department of Business, Economic Development, and Tourism; Hawaii State Energy Office;



Hawaii Green Infrastructure Authority; Kaua'i Island Utility Cooperative; Tax Foundation of Hawaii; Holu Hou Energy; and Ulupono Initiative.

Your Committee finds that the film industry in Hawaii is an important component of a diversified economy and that the motion picture, digital media, and film production income tax credit is an effective means of stimulating the economy and creating quality employment while promoting Hawaii as a premier destination for the both the film industry and visitors. Amending certain criteria for the motion picture, digital media, and film production income tax credit will provide stability and predictable economic incentives for the film industry and individuals employed in the film industry in Hawaii.

Your Committee further finds that smart renewable energy policy is critical to Hawaii's economic growth. Hawaii's renewable tax credit has empowered residents and businesses alike to install rooftop solar which, in turn, has become a large contributor of renewable energy in Hawaii helping it achieve its renewable energy goals. The tax credits are an important part of procuring lower cost energy from commercial developers eligible for the tax credit, which is sorely needed if Hawaii is to reach its one hundred percent renewable energy goals in a cost-effective manner.

Your Committee heard testimony from stakeholders who suggested that the measure could be improved by including amendments to provide incentives in a balanced approach that aligns with the measure's intent. Therefore, your Committee has amended this measure by:

- (1) Removing the provision that allowed qualified productions costing less than \$3,000,000 from receiving a reduction in general excise tax;
- (2) Removing the tax credit for qualified productions costing less than \$3,000,000 to apply to a taxpayer's future state tax liability;
- (3) Clarifying that the publication of the names of qualified productions and the amount of tax credits must be certified per qualified production filing year by the



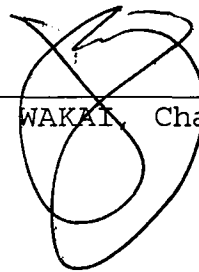
Department of Business, Economic Development, and
Tourism;

- (4) Deleting the reduction of the annual aggregate cap on the tax credit to \$45,000,000 from \$50,000,000;
- (5) Changing the sunset date for claiming excess tax credits from December 31, 2025, to December 31, 2026;
- (6) Increasing the cap amount of the renewable energy technologies income tax credit from \$250,000 to \$500,000 for community-based renewable energy projects on commercial property; and
- (7) Changing the taxable year to begin after December 31, 2021.

As affirmed by the record of votes of the members of your Committee on Energy, Economic Development, and Tourism that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 1174, H.D. 1, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 1174, H.D. 1, S.D. 1, and be referred to your Committee on Ways and Means.

Respectfully submitted on
behalf of the members of the
Committee on Energy, Economic
Development, and Tourism,

GLENN WAKAI, Chair



The Senate
Thirty-First Legislature
State of Hawai'i

Record of Votes
Committee on Energy, Economic Development, and Tourism
EET

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|--|---------------------|----------|-----|---------|
| Bill / Resolution No.:* | Committee Referral: | Date: | | |
| HB 1174 HD1 | EET, WAM | 3/22/21 | | |
| <input type="checkbox"/> The Committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____ | | | | |
| The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313 | | | | |
| Members | Aye | Aye (WR) | Nay | Excused |
| WAKAI, Glenn (C) | ✓ | | | |
| MISALUCHA, Bennette E. (VC) | ✓ | | | |
| LEE, Chris | | ✓ | | |
| RIVIERE, Gil | ✓ | | | |
| FEVELLA, Kurt | | | | ✓ |
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| TOTAL | 3 | 1 | 0 | 1 |
| Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted | | | | |
| Chair's or Designee's Signature: <div style="text-align:center; font-family: cursive; font-size: 1.2em;">Bennette E. Mendick</div> | | | | |
| Distribution: Original Yellow Pink Goldenrod File with Committee Report Clerk's Office Drafting Agency Committee File Copy | | | | |

*Only one measure per Record of Votes