

Honolulu, Hawaii

MAR 23 2022

RE: H.B. No. 1982
H.D. 2
S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Thirty-First State Legislature
Regular Session of 2022
State of Hawaii

Sir:

Your Committee on Energy, Economic Development, and Tourism,
to which was referred H.B. No. 1982, H.D. 2, entitled:

"A BILL FOR AN ACT RELATING TO TAXES,"

begs leave to report as follows:

The purpose and intent of this measure is to:

- (1) Require every person making payment to a loan-out company and claiming the motion picture, digital media, and film production income tax credit (film tax credit) to withhold payments to loan-out companies;
- (2) Prohibit the defense of erroneous claim for a refund or credit if the claim for refund was generated by a tax credit and sets the penalty for such case to ten percent;
- (3) Require the report by Department of Business, Economic Development, and Tourism to include the dollar amount claimed, name of the company, and name of the qualified production of the taxpayer;
- (4) Extend the period during which excess income tax credits may be claimed to December 31, 2032;



- (5) Require qualified taxpayers to withhold a certain amount and remit that amount;
- (6) Amend the use of the Tax Administration Special Fund; and
- (7) Authorize the Department of Taxation to establish four full-time equivalent tax auditor positions.

Your Committee received testimony in support of this measure from the Department of Business, Economic Development, and Tourism; University of Hawai'i System; and Motion Picture Association, Inc. Your Committee received testimony in opposition to this measure from one individual. Your Committee received comments on this measure from the Department of Taxation, Tax Foundation of Hawaii, Island Film Group, and one individual.

Your Committee finds that the film tax credit stimulates the economy and creates quality employment while promoting Hawaii as a premier destination for both the film industry and visitors. According to testimony from the Department of Business, Economic Development, and Tourism, 2021 was a record year for motion picture, digital media, and film production in the State with \$423,000,000 in direct expenditures and the creation of nearly four thousand five hundred new jobs. Your Committee further finds that amending certain criteria for the film tax credit will enable the State to continue this production momentum and diversify its economy.

Your Committee has amended this measure by:

- (1) Relocating the language of the tax withholding requirement and the definition of a loan-out company from chapter 235, Hawaii Revised Statutes, relating to income tax to chapter 237, Hawaii Revised Statutes, relating to general excise tax;
- (2) Reducing the withholding amount for persons that make payments to a loan-out company from ten to 4.5 percent of all payments made to the loan-out company;
- (3) Removing language that prohibits a taxpayer from invoking the defense against an erroneous claim for a



refund or credit if the claim or refund was generated by a tax credit;

- (4) Setting an application processing fee for the film tax credit at one-tenth of one percent of the film tax credit claimed by a qualified production; provided that the fee be capped at \$20,000;
- (5) Removing the requirement for productions to submit a verification review by a qualified certified public accountant when applying for the film tax credit;
- (6) Clarifying that the withholding amount for qualified productions that claim the income tax credit is 4.5 percent of the qualified production costs for services performed in the State; and
- (7) Making technical, nonsubstantive amendments for the purposes of clarity and consistency.

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. 1982, H.D. 2, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 1982, H.D. 2, 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

Bill / Resolution No.:	Committee Referral:	Date:		
HB 1982 HD2	EET, WAM	3/14/22		
<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	✓			
TOTAL	5	0	0	0
Recommendation:	<input checked="" type="checkbox"/> Adopted	<input type="checkbox"/> Not Adopted		
Chair's or Designee's Signature:	<i>Bennette E. Misalucha</i>			
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*Only one measure per Record of Votes