

**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**
KA 'OIHANA HO'OMOHALA PĀ'OIHANA, 'IMI WAIWAI
A HO'OMĀKA'IKĀ'I

JOSH GREEN, M.D.
GOVERNOR

CHRIS J. SADAYASU
DIRECTOR

DANE K. WICKER
DEPUTY DIRECTOR

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Statement of
CHRIS J. SADAYASU
Director
Department of Business, Economic Development, and Tourism
before the
HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

Friday, February 10, 2023
10:30 AM
State Capitol, Conference Room 423

In consideration of
HOUSE BILL 932
**RELATING TO THE MOTION PICTURE, DIGITAL MEDIA,
AND FILM PRODUCTION INCOME TAX CREDIT.**

Chair Holt, Vice Chair Lamosao and members of the Committee. The Department of Business, Economic Development and Tourism (DBEDT) offers comments on HB 932, which seeks to change the current \$50M cap on tax credits annually for §235-17 HRS Motion Picture, Digital Media and Film Production Tax Credit to an unspecified amount.

DBEDT supports the idea of increasing the existing \$50M credit ceiling however it is currently unclear whether this measure intends to do so. With the 2022 estimated production spend exceeding prior years, and initiatives underway to build workforce and infrastructure, a reliable incentive program is critical to increasing business in this important sector of Hawai'i's creative economy.

The film credit program under §235-17 HRS is a critical tool to keep Hawai'i competitive on a global scale. It has achieved what the Legislature intended as evidenced by the more than quadrupling the size of Hawai'i's film industry since the program was first established in 2006 and until 2019, when no cap was in place. Since 2017, through 2022, the existing \$50M cap has been exceeded, borrowing from future subsequent years.

We support the idea of increasing this spending cap to continue to attract production to our shores, accelerate job opportunities for residents to succeed in careers in the creative sector and for local small businesses to thrive.

It's important to remember that if productions do not take advantage of our credit program because of limitations, then Hawai'i misses out on the extended economic benefits these productions would enable.

Thank you for the opportunity to testify.

JOSH GREEN M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
Ka 'Oihana 'Auhau
P.O. BOX 259
HONOLULU, HAWAII 96809
PHONE NO: (808) 587-1540
FAX NO: (808) 587-1560

GARY S. SUGANUMA
DIRECTOR

KRISTEN M.R. SAKAMOTO
DEPUTY DIRECTOR

**TESTIMONY OF
GARY S. SUGANUMA, DIRECTOR OF TAXATION**

TESTIMONY ON THE FOLLOWING MEASURE:

H.B. No. 932, Relating to the Motion Picture, Digital Media, and Film Production Income Tax Credit

BEFORE THE:

House Committee on Economic Development

DATE: Friday, February 10, 2023

TIME: 10:30 a.m.

LOCATION: State Capitol, Room 423

Chair Holt, Vice-Chair Lamosao, and Members of the Committee:

The Department of Taxation ("Department") offers the following comments regarding H.B. 932 for your consideration.

H.B. 932 seeks to amend section 235-17, Hawaii Revised Statutes, relating to the motion picture, digital media, and film production income tax credit, by amending the annual cap from \$50,000,000 to an unspecified amount. This bill is effective upon approval and applies to taxable years beginning after December 31, 2022.

The Department recommends amending the effective date of the bill to apply to qualified expenses incurred after December 31, 2022.

Thank you for the opportunity to provide comments on this measure.



UNIVERSITY OF HAWAII SYSTEM

‘ŌNAEHANA KULANUI O HAWAII

Legislative Testimony

Hō'ike Mana'o I Mua O Ka 'Aha'ōlelo

Testimony Presented Before the
House Committee on Economic Development
Friday, February 10, 2023 at 10:30 a.m.
by

Christopher P. Lee, Founder/Director
Academy for Creative Media System
on behalf of

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

HB 932 – RELATING TO THE MOTION PICTURE, DIGITAL MEDIA, AND FILM PRODUCTION INCOME TAX CREDIT

Chair Holt, Vice Chair Lamosao, and Members of the Committee:

The University of Hawai'i (UH) supports the intent of HB 932 to enhance Hawai'i's successful motion picture/television/streaming production industry with changes to the current film production tax credit. In particular, UH strongly supports raising the current annual cap from \$50,000,000 in recognition of the success of the film, television and streaming content production industry in diversifying our economy with living wage jobs for local workers.

A stable, reliable credit is essential to continuing the growth of this vital diversification of state's economy. The Hawai'i's Film Production Tax Credit has been a success. As Sumner La Croix and James Mak concluded in their March 2021 UHERO report, *Understanding the Role of the Hawaii Film/TV/Digital Production Tax Credit in Diversifying the Hawaii Economy*: "... Since the passage of the film credit in 2006, spending in Hawai'i on TV/film productions has soared, with inflation-adjusted spending increasing by 116 percent between 2007 (\$164.5 million) and 2019 (\$355.6 million). This is much larger than the overall increase in Hawai'i real gross domestic product over the same period, a modest 17 percent..."

Thanks to the foundational and continuing support of the Legislature, the Academy for Creative Media at UH now supports 16 programs across all ten campuses. Students and graduates from ACM on every island are contributing to the creative economy with living wage jobs here in Hawai'i. HB 932 will help to keep them here and contribute to diversification of the state's economy.

Thank you for the opportunity to testify today.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Increase Annual Cap of Film and TV Production Credit

BILL NUMBER: HB 932

INTRODUCED BY: LAMOSAO, BELATTI, CHUN, GANADEN, GARRETT, HOLT, KAHALOA, KITAGAWA, MATAYOSHI, MIZUNO, PERRUSO, POEPOE, TAKENOUCI, Amato, Kobayashi

EXECUTIVE SUMMARY: Changes the total amount of motion picture, digital media, and film production income tax credits allowed per year from \$50,000,000 to an unspecified amount.

SYNOPSIS: Amends the total credit cap in section 235-17(n), HRS, from \$50 million to \$_____.

EFFECTIVE DATE: Taxable years beginning after December 31, 2022.

STAFF COMMENTS: This credit was enacted as Act 107, SLH 1997, as a percentage 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.

Act 217, SLH 2022, changed the credit percentages to 22% in Honolulu and 27% in any other county.

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 to justify continued redirection of resources to these credits while those resources 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: 2/8/2023

IATSE LOCAL 665

FILM, TELEVISION, STAGE, PROJECTION AND TRADESHOWS

Since 1937

INTERNATIONAL ALLIANCE OF THEATRICAL STAGE EMPLOYEES, MOVING PICTURE TECHNICIANS, ARTISTS AND ALLIED CRAFTS
OF THE UNITED STATES, ITS TERRITORIES AND CANADA, AFL-CIO, CLC

Thirty-Second Legislature, State of Hawai'i
House Committee on Economic Development

Testimony by IATSE 665

February 09, 2023

H.B. 932 - RELATING TO THE MOTION PICTURE, DIGITAL MEDIA, AND FILM PRODUCTION INCOME TAX CREDIT

Aloha Chair Holt, Vice Chair Lamosao and members of the House Committee,

My name is Tuia'ana Scanlan, president of IATSE Local 665, the union representing technicians in the entertainment industry in Hawai'i. **Local 665 would like to offer comments on HB932.**

We depend on the motion picture, digital media, and film production income tax credit to remain competitive in the global market. As the bill reads, it changes the current film tax incentive to an unspecified amount. If this is to mean that the cap on the film tax incentive is to be removed, then it will require a good deal of administrative support to ensure the equitable and ethical distribution of these public funds. If executed efficiently, this could create exponential economic growth for the state of Hawai'i and job security for the approximately 5000 local Film and TV industry workers.

Conversely, we are concerned that this could potentially be a vehicle to lower the motion picture, digital media, and film production income tax credit via future amendments, which would be incredibly detrimental to our industry and the local workers who make this industry possible. In an economic impact study created by the Los Angeles Economic Development Corporation, it is noted that the primary factor affecting the potential creation and economic benefits of new/returning films and TV shows is the viability of the state's tax incentive program and that a lack of available funds drove companies to produce these projects elsewhere or prevented their creation entirely.

((https://laedc.org/wp-content/uploads/2022/03/LAEDC-Report_CA-Film-TV-Tax-Credit-Program-2.0_FINAL_2022.03.14.pdf - page 19)

We hope that this insight will help to inform the committee of the significance of this cornerstone piece of the Film and TV industry. In order to strengthen the positive impacts of the Film and TV industry in Hawai'i, IATSE Local 665 asks the committee to consider these comments on HB 932. Thank you for the opportunity to testify.

In Solidarity,

A handwritten signature in black ink, appearing to read "Tuia'ana Scanlan". The signature is fluid and cursive, with the first name "Tuia" and the last name "Scanlan" clearly distinguishable.

Tuia'ana Scanlan
President, IATSE 665
he/him/his

Testimony of Walea Constantinou,
Film Commissioner, Honolulu Film Office
City and County of Honolulu

COMMITTEE ON ECONOMIC DEVELOPMENT

February 10, 2023

10:30 AM

State Capitol, via Videoconference and Conference Room 423

**RE: HB932
RELATING TO THE MOTION PICTURE, DIGITAL MEDIA, AND FILM
PRODUCTION INCOME TAX CREDIT**

Dear Chair Holt, Vice-chair Lamosao, and members of the committees:

The Honolulu Film Office **supports the intent of the measure to increase the cap** on the current Hawaii Production Tax Credit and respectfully requests that the cap be increased to \$75 million, the amount recommended in the 2021 UHERO film industry brief. <https://uhero.hawaii.edu/understanding-the-role-of-the-hawaii-film-tv-digital-production-tax-credit-in-diversifying-the-hawaii-economy/>

The credit is the fuel that drives the engine that powers the current and future development of Hawaii's film industry. In 2022 the film industry spent approximately \$488 million in Hawaii on goods, services and labor generating an economic output of over \$800 million, doing so with broad based spending in significant amounts that is diversifying our economy. The current cap creates a ceiling that is hindering the job growth and infrastructure development.

The industry can be a Billion Dollar industry in Hawaii with the proper nurturing. Increasing the cap is a critical step towards achieving that goal.

Thank you for your kind attention and the opportunity to provide these comments.



House of Representatives
The Thirty-Second Legislature
Regular Session of 2023

COMMITTEE ON ECONOMIC DEVELOPMENT
Rep. Daniel Holt, Chair
Rep. Rachele F. Lamosao, Vice Chair

RE: HB 932 RELATING TO THE MOTION PICTURE, DIGITAL MEDIA, AND
FILM PRODUCTION INCOME TAX CREDIT

Date: Friday, February 10, 2023
Time: 10:30 a.m.
VIA VIDEOCONFERENCE
Conference Room 423
State Capitol
415 South Beretania Street

February 9, 2023

From: Roy Tjioe and Ricardo Galindez
Island Film Group
99-1245 Halawa Valley St.
Aiea, HI 96701
808-536-7955

Aloha Chair Holt, Vice Chair Lamosao, and Members of the Committee:

Our Background

Island Film Group is a locally owned and operated production company. We began working in Hawaii's film and television industry in 2001 as attorneys at Goodwill Anderson Quinn & Stifel, where we represented filmmakers and other production companies. 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 a variety of commercial productions.

We SUPPORT HB 932.


In addition to the amendments contained in HB 932, we humbly suggest the following additional amendments to Section 235-17, Hawaii Revised Statutes that will greatly provide the support needed to grow our local, Hawaii-based film production companies and create more local production jobs. In addition, with the exponential growth and skyrocketing popularity of digital media and streaming services, film/media products are distributed in multiple ways reaching numerous audiences.

- Increase the program cap.
 - Although a program cap may be necessary for budget purposes, it should be high enough to cover all annual tax credit claims and adjusted each session as necessary. The current system of “borrowing” from future year allocations is administratively burdensome and reduces the value of the incentive by making production wait 2-3 years to receive the tax credit.
- Add the word “online” to distribution to include websites (like YouTube), streaming platforms and social media and eliminate the prohibition of advertising messages with internet-only distribution.
- Include “print campaigns” in the definition of production to encourage high-budget still shoots for catalogs and social media advertising that showcase Hawaii.
- Include costs paid to related entities provided that such payments are commercially reasonable.
- Define taxpayers that incur qualified production costs as manufacturers for purposes of GE tax under Chapter 237.
 - This was the position taken by the Department of Taxation prior to 2019 for over a decade, which took into account the difficulty of categorizing film and television production as a product or service, and provided for a uniform 0.5% General Excise Tax rate that did not substantially reduce the production tax credit incentive. The current rate of 4.5% applied to film and television effectively cripples the incentive.
- Eliminate the GE withholding requirement for loan-out corporations.
 - The withholding requirement imposes an unfair burden on productions that should be the responsibility of the loan-out itself.

-Noncompliance can result in the production being unfairly denied the production tax credit despite good faith efforts to provide the State with vendor information for enforcement of tax laws against such vendor.

-We propose instead that Taxpayers may claim the tax credit for payments made to vendors without GE numbers provided that the taxpayer provides, the name, address, contact information (email and/or telephone number) and FEIN for all such vendors to the HFO/DoTax.

Me ke aloha,

Handwritten signatures of Roy Tjioe and Ricardo Galindez.

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

HB-932

Submitted on: 2/10/2023 10:38:00 AM

Testimony for ECD on 2/10/2023 10:30:00 AM

Submitted By	Organization	Testifier Position	Testify
James Terrell Trice	NuWayve Unlimited	Oppose	Written Testimony Only

Comments:

Strongly oppose

LATE

LATE

LATE

COMMITTEE ON ECONOMIC DEVELOPMENT

Rep. Daniel Holt, Chair
Rep. Rachele F. Lamosao, Vice Chair
Friday, February 10, 2023, 10:30AM
Conference Room 423
State Capitol
415 South Beretania Street
Honolulu, HI 96813

LATE

LATE

LATE

Aloha Representative Holt, Chair, Representative Rachele F. Lamosao, Vice Chair and Committee Members.

Mahalo for the opportunity to provide testimony on today's bill.

The Teamsters Local 996 are here to today to champion the protections of our valued workforce and to ensure a robust economy for Hawaii. We mahalo Representative Lamosao and her fellow Representatives for their leadership and foresight to raise the annual motion picture, digital media, and film production income tax credit from \$50,000,000 to \$75,000,000. This increase will definitely allow for more productions to be done here in Hawaii. HB932 is a good start, but there are a few critical labor and vendor protections that need to be included to ensure the film tax credit will also benefit our local workers and vendors.

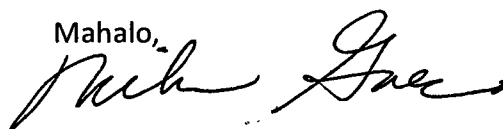
The Teamsters Local 996 support HB932 with amendments.

The amendments for your consideration are as follows:

1. All qualified productions must have no less than 75% local union hires.
2. All qualified productions will utilize 100% local vendors. If local vendors do not have the inventory on-hand or in the State of Hawaii, then:
 - a. Productions must allow any local vendor first opportunity to import any equipment, materials and supplies before outsourcing to an out of state company.
 - b. Local vendors must be extended an adequate and reasonable time frame to allow for shipping to the State of Hawaii within 15 days of confirmed production and no later than 30 days prior to shoot date.
3. All qualified productions must submit a notarized list out-of-state hires and vendors that were utilized for a production and the reasons why local union workers and vendors were not utilized.

Without these protections, listed as targets for the production companies wanting the State of Hawaii Tax Credit, we will continue to provide an opening for imported labor and vendor services. We need to grow and support our local workforce and small businesses. We humbly and respectfully ask for your support to include these critical amendments.

Mahalo,



Mike Gueso
Teamsters Local 996

HB-932

Submitted on: 2/8/2023 9:26:01 PM

Testimony for ECD on 2/10/2023 10:30:00 AM

Submitted By	Organization	Testifier Position	Testify
Will Caron	Individual	Oppose	Written Testimony Only

Comments:

The film industry is great, but I don't think the credit needs to be expanded. We have other more important things to fund, like affordable housing, climate resiliency, and tax credits for working families—the bedrock of our economy. The film industry will continue to thrive with or without a tax credit. Please defer this bill.

LATE

HB-932

Submitted on: 2/9/2023 4:46:43 PM

Testimony for ECD on 2/10/2023 10:30:00 AM

Submitted By	Organization	Testifier Position	Testify
Bryan Spicer	Individual	Support	Written Testimony Only

Comments:

To the Senate Committee on Energy, Economic Development and Tourism,
 My name is Bryan Spicer, and I'd like to draw upon forty years of film industry experience to offer a unique perspective in regards to the current tax incentive conversation.
 Twelve years ago, my career brought me to Hawaii, and I have proudly called it home ever since. After directing and producing Hawaii 5-0, as well as Magnum P.I., I've redirected my knowledge and expertise to benefit this dynamic state, and the creative talent it houses. Film is more than just my job - it's my passion. With the help of my own production company and film studio here, I have been working over the last decade to empower, educate, and expand all the creative industries on island. We have a wealth of untapped talent in Hawaii; my goal is to see that talent developed and utilized locally to increase our local work force.
 Each large-scale production that films here creates hundreds of high-paying jobs and generates 100's million dollars of state revenue each year. Unfortunately, we are actively losing some of those productions to other states and countries due to our current restrictive tax incentive laws, which directly impede our economic growth and development. Hawaii currently offers \$50 million per year in incentives, with a \$15 million cap; a deterrent to large productions looking for filming support. If we shift that figure to a more competitive \$75-100 million and remove the cap, it would incentivize more Hawaii-based productions. Over time, this would generate more revenue than any initial perceived loss, while creating economic growth and diversification through a sizable, sustainable local workforce.
 Hawaii is beginning to take the stage as a multifaceted, world-class creative hub with tremendous opportunities and advantages for digital media projects. My hope is to discover, train, and ultimately hire local talent as a creative resource for future productions. This leads to a sustainable growth model as we expand Hawaii's influence and global impact within the film industry.
 With the right tax laws, we can ensure the continuance of this exciting upward trajectory, and in doing so, generate hundreds of jobs, and hundreds of millions in tax revenue, each year. In short, by investing in the film industry, we invest in ourselves.
 Thank you for your consideration. Sincerely yours,
 Bryan Spicer
 DGA Director/Producer
 Magnum P.I. Director/Producer Hawaii 5-0 Director/Producer Owner/CEO
 Sight & Sound Productions Point Panic Studios
 Island Sound Studio