

SB 2790

Measure Title: RELATING TO FILM AND DIGITAL MEDIA INDUSTRY DEVELOPMENT.

Report Title: Film; Digital Media Industry; Tax Credit

Description: Extends the sunset date of the motion picture, digital media, and film production income tax credit for an additional five years.



DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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LUIS P. SALAVERIA
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

Statement of
Luis P. Salaveria
Director

Department of Business, Economic Development, and Tourism
**SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, ENVIRONMENT, AND
TECHNOLOGY**

Friday, February 05, 2016
1:15 PM
State Capitol, Conference Room 414

In consideration of
SB2790
RELATING TO FILM AND DIGITAL MEDIA INDUSTRY DEVELOPMENT.

Chair Wakai, Vice Chair Slom, and Members of the Senate Committee on
Economic Development, Environment, and Technology.

The Department of Business, Economic Development and Tourism
(DBEDT) strongly supports the intent of SB2790, which would extend the sunset
date of the Motion Picture, Digital Media, and Film Production Income Tax Credit
program for an additional five years. However, DBEDT prefers SB2826, an
Administration bill, which eliminates the sunset date.

Act 88/89, which was established in July 2006 and enhanced in 2013, has
met the goals intended by the Legislature to ensure Hawaii's competitive
advantage in the industry. To date, the program has generated an estimated
\$3.7 billion in overall economic activity in the State since 2006, creating an
average of 2,500 industry jobs annually.

DBEDT supports SB2826 which seeks to eliminate the sunset date
because we believe that making the credit program permanent sends the
strongest message to the industry that Hawaii is committed to growing film and
digital media activity to become an even greater driver of our State's economy.
Certainly eliminating or extending the sunset date provides industry with the
predictability necessary for planning purposes.

Hawaii must take this step in order to remain competitive on a global
scale.

Thank you for the opportunity to testify on this measure.

DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



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JOSEPH K. KIM
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To: The Honorable Glenn Wakai, Chair
and Members of the Senate Committee on Economic Development, Environment,
and Technology

Date: February 5, 2016
Time: 1:15 P.M.
Place: Conference Room 414, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: **S.B. 2790**, Relating to Film Media Industry Development.

The Department of Taxation (Department) **supports the intent** of S.B. 2790, and offers the following comments for your consideration.

S.B. 2790 amends Act 88, Session Laws of Hawaii (SLH) 2006, which was amended by Act 89, SLH 2013, by extending the sunset date of the motion picture, digital media, and film production income tax credit (film tax credit) for qualified production costs incurred on or before January 1, 2019 to qualified production costs incurred on or before January 1, 2024. S.B. 2790 is effective on July 1, 2016.

The Department is able to implement this measure, and notes the importance of the Hawaii Film Office's role in the administration of the film tax credit. The Hawaii Film Office acts as a gatekeeper of the film tax credit, by pre-qualifying productions, certifying qualified production costs, and certifying the amount of film tax credits claimed by qualified productions for each taxable year. The Department supports a continued partnership with the Hawaii Film Office in the administration of the film tax credit.

Thank you for the opportunity to provide comments.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

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SUBJECT: INCOME, Extend Movie/TV Production Tax Credit

BILL NUMBER: SB 2790

INTRODUCED BY: WAKAI, INOUE, Harimoto, Ihara, Kim, Riviere, Slom, Taniguchi

EXECUTIVE SUMMARY: Extends the motion picture, television, and digital media production credit for five years, to January 1, 2024. It may be possible to make the case that the benefits have outweighed the costs, and proponents of this measure should be given the chance to put the proof into their pudding.

BRIEF SUMMARY: Amends Act 89, SLH 2013, and Act 88, SLH 2006, to extend the sunset date of the credit in HRS section 235-17, so that the credit is repealed on January 1, 2024.

EFFECTIVE DATE: July 1, 2016.

STAFF COMMENTS: Act 107, SLH 1997, enacted an income tax credit of 4% for costs incurred as a result of producing a motion picture or television film in the state and 7.25% for transient accommodations rented in connection with such activity. The credit was adopted largely to address the impost of the state's general excise tax on goods and services used by film producers. Act 88, SLH 2006, increased the 4% credit to 15% in a county with a population over 700,000 and to 20% in a county with a population of 700,000 or less. Act 88 also repealed the income tax credit for transient accommodations and expanded the credit to include commercials and digital media productions, and limited the credit to \$8 million per qualified production. Act 89, SLH 2013, increased the motion picture, digital media, and film production tax credit from 15% to 20% for the costs incurred in a county with a population over 700,000 and from 20% to 25% for costs incurred in a county with a population of 700,000 or less; and increased the total tax credits that may be claimed per qualified production from \$8 million to \$15 million. The act also extended the motion picture, digital media and film production credit from 12/31/15 to 12/31/18.

Sponsors try to make an argument that Hawaii needs to enact such incentives to compete for this type of business, but one has to ask, "At what price?" There are insufficient resources to catch up on the backlog of school repairs and maintenance, to fund social programs and not being able to provide tax relief to residents. Yet lawmakers are willing to subsidize film production, as proposed in this measure, and tighten the screws on everyone else to fund the subsidies.

While film producers may moan that they will lose money without the proposed tax credits, how do they share the wealth when the film makes millions? If promoters of the film industry would just do their job in outlining the advantages of doing this type of work in Hawaii and address some of the costly barriers by correcting them, Hawaii could be a competitive film destination with fewer tax incentives. From permitting to skilled labor to facilitating transportation of equipment, there are ways to address the current drawbacks of filming in Hawaii. Unless these

intrinsic elements are addressed, movie makers will probably demand subsidies, such as this incentive. Unfortunately, they come at the expense of all taxpayers and industries struggling to survive in Hawaii.

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 1/31/2016

**TESTIMONY OF NBC UNIVERSAL MEDIA, LLC. IN SUPPORT OF
S.B. NO. 2790, RELATING TO FILM AND DIGITAL MEDIA INDUSTRY
DEVELOPMENT**

DATE: Friday, February 5, 2016

TIME: 1:15 pm

To: Chairman Glenn Wakai and Members of the Senate Committee on Economic Development, Environment, and Technology:

The purpose of this bill is to extend the qualified production tax credit from December 31, 2018 to December 31, 2024, a period of five years. The original legislation which was passed in 2013 and signed into law as Act 89, which increased the film tax credit by 5% and is set to sunset on January 1, 2019.

NBC Universal Media, LLC (“NBCUniversal”) joins other film and TV companies in supporting this bill which extends the sunset date to January 1, 2024. This will enable the film industry and producers to plan accordingly and to be assured that the film tax credit will survive for the next eight years. The planning, development and actual production of a film and television series takes several years to develop. NBCUniversal together with other film and TV producers in the industry feel that an extended sunset date will foster the continued growth and provide for predictability and certainty of the film and media industry in Hawaii.

NBCUniversal develops, produces, broadcasts and distributes motion pictures, television programs and related content around the world. Over the last several years the Hawaii Legislature and the people of Hawaii have developed a clear consensus that the motion picture, television and related digital media industries (the “Film Industry”) in Hawaii has become an important component of a diversified economy and has had a

positive financial impact on the State of Hawaii which can be strengthened significantly if Hawaii's existing incentives for the Film Industry are continued.

While Hawaii may be perceived as a highly desirable destination that would instinctively attract the Film Industry, the State needs to take affirmative steps to ensure Hawaii is at the top of the list and not left behind in the wake of other domestic and international locales. SB 2790 will help to ensure that Hawaii is competitive with film destinations around the globe and does so in a manner that is sustainable and rational for the long term. NBCUniversal stands ready to work with the Hawaii Legislature, the Administration and local Film Industry stakeholders to continue, improve and enhance Hawaii's film incentive program to help build a predictable, robust, stable and sustainable Film Industry in the State of Hawaii.

NBCUniversal feels that as a result of the various film and television productions that the Film Industry has brought to Hawaii, there has been a significant increase in spending within the state and growth in workforce development due to these film and television productions. Further, such productions stimulate more direct and indirect tax revenue and that a properly designed tax incentive program can actually increase local tax revenues.

NBCUniversal strongly feels that in order to stimulate such dramatic growth it is necessary to continue Hawaii's existing tax incentive program in order to allow Hawaii to effectively compete internationally with other film production centers in attracting a greater number of significant projects to the islands and to continue to build Hawaii's local film industry.

We feel that this bill will accomplish these goals.

The Film Industry also has a strong desire to hire locally and invest in the training and workforce development of island-based personnel and intends to continue the practice of hiring a significant number of residents and to support training and opportunities for those residents. This was all highlighted in the recent report prepared by the Hawaii Film Office, Department of Business, Economic Development and Tourism on December 30, 2015.

Again like others in the film and television industry, NBCUniversal supports this bill relating to the qualified production tax credit and advocates for extension of the sunset date.

Thank you for the opportunity to present this testimony in support of this bill.

If you have any further questions, please feel free to contact Bob Toyofuku of Advocates (808) 554-0852 or Ron Orlando of Comcast NBCUniversal (215) 823-9463.