

STAND. COM. REP. NO.

1155

Honolulu, Hawaii

MAR 24 2017

RE: H.B. No. 423
H.D. 2
S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Twenty-Ninth State Legislature
Regular Session of 2017
State of Hawaii

Sir:

Your Committee on Economic Development, Tourism, and
Technology, to which was referred H.B. No. 423, H.D. 2, entitled:

"A BILL FOR AN ACT RELATING TO FILM AND DIGITAL MEDIA
INDUSTRY DEVELOPMENT,"

begs leave to report as follows:

The purpose and intent of this measure is to amend the motion
picture, digital media, and film production income tax credit by:

- (1) Providing additional options to claim a workforce
development tax credit of either:
 - (A) Ten per cent of qualified payroll costs for local
hires; or
 - (B) Thirty-five per cent of qualified production costs
of a qualified production that employs a crew of
which at least fifty-five per cent are local
workers,

incurred in a county with a population of seven hundred
thousand or less;



- (2) Granting a production the option of providing alternative marketing opportunities to the State as a condition of claiming the credit;
- (3) Requiring evidence that reasonable efforts to hire local personnel and acquire products and services locally were unsuccessful as a condition of claiming the tax credit for out-of-state products and services;
- (4) Requiring a verification review of the information submitted to the Department of Business, Economic Development, and Tourism for determination of credit amounts; and
- (5) Extending the repeal of the credit until January 1, 2024.

Your Committee received testimony in support of this measure from the Department of Business, Economic Development, and Tourism; Motion Picture Association of America; NBC Universal Media; and twenty-one individuals. Your Committee received comments on this measure from the Department of Taxation, Office of the Auditor, and Tax Foundation of Hawaii.

Your Committee finds that this measure is intended to extend the sunset date of the motion picture, digital media, and film production income tax credit and to increase the credit incentive for qualified production costs in counties other than Honolulu. Your Committee heard the concerns raised in testimony, including whether the increased tax incentive would be beneficial and whether neighbor islands are equipped to advance additional productions at this time.

Your Committee understands these concerns and notes that S.B. No. 1086, S.D. 2 (Regular Session of 2017), which was previously passed by the Senate, also relates to the motion picture, digital media, and film production income tax credit. Your Committee finds that the language in S.B. No. 1086, S.D. 2, is preferable because it extends the sunset date of the motion picture, digital media, and film production income tax credit while also expanding the tax credit to promote opportunities for Hawaii residents and to maintain cultural sensitivity standards of productions taking place in Hawaii.



Your Committee has amended this measure by:

- (1) Deleting its contents and inserting the contents of S.B. No. 1086, S.D. 2, which:
 - (A) Extends the motion picture, digital media, and film production income tax credit for an additional five years;
 - (B) Clarifies that qualifying production costs are those costs incurred and expended within the State;
 - (C) Requires that to qualify for the tax credit, a production must provide evidence of recognition, ability to understand, and efforts to respect and comply with cultural and environmental sensitivities and guidelines for filming in sensitive locations;
 - (D) Requires that to qualify for the tax credit, a production must employ or contract for the services of cultural resources or historical, cultural, or language experts to advise the production;
 - (E) Requires that to qualify for the tax credit, a production must agree that if the production claims a credit of more than \$8,000,000, the production will provide an advanced screening of the finished product in the county of the island in which the majority of the production took place;
 - (F) Requires the Department of Business, Economic Development, and Tourism to submit an annual report to the Legislature regarding the activities and expenditures of the tax credit;
 - (G) Clarifies that no rule shall be adopted to expand the scope of the tax credit where the rule conflicts with legislative intent;



- (H) Requires the Department of Business, Economic Development, and Tourism to conduct a financial audit of every film production in the State;
 - (I) Requires the Department of Business, Economic Development, and Tourism, in collaboration with Department of Taxation, to submit to the Governor and the Legislature a report on the number of jobs created in the State and the fiscal impact of every film production receiving the tax credit in the State; and
 - (J) Takes effect on July 1, 2050, with the amendments to the tax credit to apply to taxable years beginning after December 31, 2050; and
- (2) Removing the aggregated annual cap of \$30,000,000 per calendar year for the credit.

As affirmed by the record of votes of the members of your Committee on Economic Development, Tourism, and Technology that is attached to this report, your Committee is in accord with the intent and purpose of H.B. No. 423, H.D. 2, as amended herein, and recommends that it pass Second Reading in the form attached hereto as H.B. No. 423, H.D. 2, S.D. 1, and be referred to your Committees on Ways and Means and Judiciary and Labor.

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




GLENN WAKAI, Chair



The Senate
 Twenty-Ninth Legislature
 State of Hawai'i

Record of Votes
Committee on Economic Development, Tourism, and Technology
ETT

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|---|---|---------------------------------------|----------------------------------|---------|
| Bill / Resolution No.:* | Committee Referral: | Date: | | |
| HB 423 HD2 | ETT, WAM/JDL | 3/13/17 | | |
| <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) | ✓ | | | |
| TANIGUCHI, Brian T. (VC) | ✓ | | | |
| BAKER, Rosalyn H. | | ✓ | | |
| GALUTERIA, Brickwood | ✓ | | | |
| THIELEN, Laura H. | ✓ | | | |
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| TOTAL | 4 | 1 | 0 | 0 |
| Recommendation: | | | | |
| <input checked="" type="checkbox"/> Adopted | | <input type="checkbox"/> Not Adopted | | |
| Chair's or Designee's Signature: | | | | |
|  | | | | |
| Distribution: | | | | |
| Original File with Committee Report | Yellow Clerk's Office | Pink Drafting Agency | Goldenrod Committee File Copy | |

*Only one measure per Record of Votes