



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

DEPT. COMM. NO. 346

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January 5, 2024

The Honorable Ronald D. Kouchi,
President and Members
of the Senate
Thirty-Second State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

The Honorable Scott K. Saiki,
Speaker and Members of the
House of Representatives
Thirty-Second State Legislature
State Capitol, Room 431
Honolulu, Hawaii 96813

Dear President Kouchi, Speaker Saiki, and Members of the Legislature:

For your information and consideration, I am transmitting a copy of the Department of Business, Economic Development, and Tourism's (DBEDT) Report, prepared by the Creative Industries Division (CID), Hawaii Film Office, on Film Tax Credit Claims and Expenditures, for year 2022, as required by Act 217, Session Laws Hawaii 2022.

In accordance with Section 93-16, Hawaii Revised Statutes, I am also informing you that the report may be viewed electronically at: <http://dbedt.hawaii.gov/overview/annual-reports-reports-to-the-legislature/>.

Sincerely,

James Kunane Tokioka

Enclosure

c: Legislative Reference Bureau

**REPORT TO THE THIRTY-SECOND LEGISLATURE
STATE OF HAWAII
2024 REGULAR SESSION**

**REGARDING ESTIMATED MOTION PICTURE, DIGITAL MEDIA, AND FILM PRODUCTION
INCOME TAX CREDIT
FOR CALENDAR YEAR 2022**

**PREPARED BY THE HAWAII FILM OFFICE, CREATIVE INDUSTRIES DIVISION
DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM**

**IN RESPONSE TO
Act 217, SLH 2022
PREPARED DECEMBER 2023**

**REPORT REGARDING THE ECONOMIC IMPACT OF
THE ESTIMATED PRODUCTION TAX CREDIT PURSUANT TO SECTION 235-17(i) (4)**

A. INTRODUCTION:

Act 89, SLH 2013, Section 2, amended Chapter 235-17 by increasing the production tax credit to twenty percent of the qualified production costs incurred by a qualified production in any county of the State with a population of over seven hundred thousand (Oahu) and twenty-five percent of the qualified production costs incurred by a qualified production in any county of the State with a population of seven hundred thousand or less (Neighbor Islands).

Act 143, SLH 2017, amended Chapter 235-17 to include a \$35 million tax credit cap which is insufficient to serve the current number of filing entities and the total aggregate of qualified expenditures.

Act 275, SLH 2019, Section 2, increased the tax credit cap from \$35M to \$50M. Based on the production activity the \$50M yearly cap is consistently exceeded and remains insufficient to expand the growth of the production industry, the local jobs it creates and facilities it critically needs to build a billion-dollar industry for the state.

B. 2022 ESTIMATED RESULTS FOR QUALIFIED PRODUCTION SPEND \$235-17 HRS:

With the new provision of a \$50 million cap on credits to be issued annually, CY2022 totals in the attached matrix were derived from the review and certification of submissions by filers in their required Hawaii Production Reports (HPRs). The Certification Letters are issued to filers which then submit to Department of Taxation (DoTAX) along with their Corporate Income Tax Forms and Tax Credit Forms for review and potential audit by DoTAX, who issues the credit to filer.

Based on the data from HPRs, qualified spend for calendar year 2022 for **26** qualified productions was **\$333,652,780** in qualified expenditures which were certified by the department to receive **\$34,430,304** in tax credits. Combined with the carry forward credits owed from 2021 of \$15,569,692 = a combined total of **\$49,999,995** in credits for calendar 2022. The 2022 carry forward credit amount to 2023 is **\$27,448,022**.

Tax Credit 50M Annual Cap	\$50,000,000.00
TOTAL ACTUAL Tax Credit Claimed in 2022	\$34,430,304.07
Tax Credit amount carry over from 2021	\$15,569,691.92
Tax Credit split carry over to 2023	\$27,448,022.49

Economic Impact: Based on the expenditure data sets provided, the CY 2022 Qualified spend of **\$333,652,780** translates to **\$577,214,500** in economic activity, **\$133,460,000** in Hawaii household income, and **\$36,034,200** in tax revenues. The documents attached reflect the actual CY2022 data based on input/output model.

The legislature also requires DBEDT Research and Economic Analysis Division to provide a detailed cost benefit analysis of HRS 235-17, effective 2019, using granular data to show the economic impact, leakage, and related metrics. These reports are derived from the HPRs provided by the Film Tax Credit team in CID. The 2022 report will be issued by READ and transmitted under separate cover.

D. WORKFORCE DEVELOPMENT CONTRIBUTIONS CY2022:

In calendar year 2022, Hawaii public and charter schools throughout the state were the direct beneficiaries of the education and workforce development program that has served as a successful mandate for productions accessing the tax credit. These educational institutions received both cash and in-kind contributions that are dedicated to supporting that school’s film/video and digital media programs. The contribution for workforce development in public schools for CY2022 is **\$272,631**. Internships for college and post graduate opportunities are also part of the WFD contribution made by the industry.

Recipients	Amount
Hawaii Technology Academy	\$61,776.00
Kalaheo HS - Mustang Media - In addition to PTC 21-011a	\$50.00
Kalaheo HS -Mustang Media	\$14,095.00
Keolu Elementary School- Media Programs	\$1,546.89
Konawaena HS - Digital Media Program	\$5,000.00
Lahainaluna School - Video Production	\$1,000.00
Samuel Inoka Kalama Int- Charter School Arts Program	\$1,557.00
UH- Academy of Creative Media Program	\$37,881.00
UH Foundation -School of Cinematic Arts	\$1,750.00
UH HCC - Mele Program	\$1,000.00
UH Hilo -Performing Arts Dept - Drama Production Fund	\$1,000.00
UH School of Cinematic Arts	\$10,315.50
Waianae HS - Searider Productions Foundation	\$31,185.00
Waianae Intermediate -JSTV	\$21,201.00
Waiane Intermediate - JSTV	\$8,774.00
Waiane Searider Productions/ UH Foundation Hilo and Manoa	\$74,500.00
Grand Total	\$272,631.39

E. ADMINISTRATION OF CREDIT:

Per Act 217, SLH 2022, the department added a second position to develop a tax credit unit in CID. Since Spring of 2023, a two-person team of an Accountant and a Program Specialist are managing the film tax credit program under the supervision of the CID division administrator. The Accountant V spends 95% of their time on the daily management of the credit program, and the Program Specialist 85%.

DBEDT's recommendation contained in the department response to Hawaii State Auditor Report is now in place with a dedicated full-time unit of two new employees with accounting, production and data management skills. This Tax Credit Unit in CID provides the program with the oversight and accounting skills necessary to manage this important program for the state. The Division and its tax credit team work in collaboration with Department of Taxation (DOTAX) daily to ensure compliance at all levels. Currently, there are no non-state, or contract personnel involved in the management of the motion picture, digital media, and film production income tax credit.

F. DIGITAL MODERNIZATION – FILM TAX CREDIT ONLINE SYSTEM:

The department will launch an online tax credit filing system for both the Production Registration and HPR submissions, which has been developed by NIC/Tyler and tax credit unit. Anticipated launch is Q3 FY24. This digital platform will provide more real time data, expedite Legislative and public reporting process as well as add efficiencies to the operational aspects of the process internally.

G. UPDATES - ACT 217 SLH 2022:

The Motion Picture, Digital Media and Film production tax credit is performing as the Legislature intended: Stimulating the economy, creating high paying jobs for Hawaii residents to serve a clean industry that preserves Hawaii's natural and cultural resources and provides valuable marketing exposure for our Islands as a world-class filming and visitor destination.

The Legislature, recognizing the economic value of a thriving film industry to the state, made the following changes to the tax credit in 2022:

1. Added a new definition of "loan-out company;"
2. Increased the tax credit amount to 22% for counties with a population over 700,000;
3. Increased the tax credit amount to 27% for counties with a population of 700,000 or less;
4. Decreased the qualified production costs to \$100,000 from \$200,000;

5. Requires that filers be compliant with Title 14, including tax return filing and payments;
6. Requires that filers be responsive to the Department of Taxations (DoTax) requests for additional information and gave a response time of 90 days from when the inquiry or request was made by the DoTax;
7. Removed the requirement that a written, sworn statement verification be provided by a qualified, certified public accountant to the Department of Business, Economic Development and Tourism (DBEDT);
8. Requiring that DBEDT send certification letters within seven months of the receipt of the Hawaii Production Report;
9. Including a fee that DBEDT may collect from filers, which is equal to .02 percent of the tax credit claimed by the filer;
10. Increased the amount that a filer may claim per production, capped at \$17,000,000 (previously \$15,000,000);
11. Specifies that a “qualified production cost” does not include any costs funded by any grants, forgivable loan or other amounts not included in gross income;
12. Extends the tax credit program to January 1, 2033. This stability is critical for studios and television networks in their production planning, especially with television series – Hawaii’s core economic driver in this sector.;
13. Provided that DoTax may establish two full-time, permanent auditor positions to exam claims for this tax credit and appropriated \$153,334 for these positions; and
14. Provided that DBEDT may establish 1 full-time, permanent program specialist position to review and certify tax credit applications for this program and appropriated \$76,666 for this position.

