

Honolulu, Hawaii

FEB 16 2007

RE: S.B. No. 1920
S.D. 1

Honorable Colleen Hanabusa
President of the Senate
Twenty-Fourth State Legislature
Regular Session of 2007
State of Hawaii

Madam:

Your Committee on Economic Development and Taxation, to which was referred S.B. No. 1920 entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

begs leave to report as follows:

The purpose of this measure is to:

- (1) Recodify and rename existing motion picture, digital media, and film production tax provisions; and
- (2) Increase membership of the Hawaii Television and Film Board, enable the Board to delegate certain administrative functions to subcommittees; and appropriate funds to the Board's special fund for grants programs.

Prior to the hearing on this measure, your Committee circulated a Proposed S.D.1. The purpose of the Proposed S.D.1 is to:

- (1) Recodify and rename existing motion picture, digital media, and film production tax provisions;
- (2) Increase the motion picture, digital media, and film production tax credits from fifteen and twenty per cent to twenty and twenty-five per cent, and increase reporting requirements; and



- (3) Increase membership of the Hawaii Television and Film Board, enable the Board to delegate certain administrative functions to subcommittees, authorize the Board not to meet if no money is in its special fund or no grants are being managed, and appropriate funds to the Board's special fund for grants programs.

Testimony in support of the Proposed S.D. 1 was submitted by the Department of Business, Economic Development, and Tourism and two individuals. The Department of Taxation and the Tax Foundation of Hawaii submitted comments.

Your Committee received a revenue impact statement from the Department of Taxation that the increases to the tax credit in the Proposed S.D. 1 would cost \$7,000,000 to \$17,000,000 annually.

In its methodology, the Department of Taxation stated that preliminary figures from applications for the film credit for the period from July 1, 2006, to January 25, 2007, showed planned production expenditures of \$83,000,000, of which \$78,000,000 were on Oahu and \$5,000,000 were in the other counties. Assuming the planned expenditures materialize and that the applications continue at the same rate annually, these figures imply that increasing the credit as proposed in the bill would reduce tax revenues by about \$7,000,000 annually. This revenue loss would increase if the proposal were to bring in more film production.

For example, if the rate of production spending were to increase by the same percentage as the credit for film production in each county, the proposal would cost about \$17,000,000 annually. However, this is a static estimate and does not account for dynamic factors, such as increased economic activity in the State that would occur as a result of the credit. Your Committee notes that in its testimony for Act 88, Session Laws of Hawaii 2006, the Department of Taxation estimated a revenue gain of approximately \$13,000,000 for every \$100,000,000 in new production expenditures spent in Hawaii. Accordingly, your Committee has requested the Department of Taxation to provide a more thorough evaluation of the gains and losses associated with the credit.

With regard to the specifics of the bill, your Committee has heard a number of concerns regarding the effectiveness of the Hawaii Television and Film Development Board, due in part to the continued lack of funding. Upon review of the concerns, and the proposed changes to increase the size and scope of the Board, your



Committee believes the work of the Board may more appropriately be undertaken by other entities.

Your Committee has also received a number of noteworthy recommendations regarding the tax credits and the recodification in Part I of this measure. Several of these recommendations require additional information before decisions can be reached and it is the intent of your Committee to continue this discussion.

Your Committee has amended the Proposed S.D. 1 accordingly, by:

- (1) Repealing the Hawaii Television and Film Development Board, and deleting references to the Board in the Hawaii Television and Film Development Special Fund; and
- (2) Inserting an effective date of July 1, 2040, for purposes of further discussion.

As affirmed by the record of votes of the members of your Committee on Economic Development and Taxation that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 1920, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 1920, S.D. 1, and be referred to the Committee on Ways and Means.

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



CAROL FUKUNAGA, Chair



The Senate
 Twenty-Fourth Legislature
 State of Hawaii

Record of Votes
Committee on Economic Development and Taxation
EDT

Bill / Resolution No.:*	Committee Referral:	Date:		
<i>SB 1920</i>	<i>EDT, WAM</i>	<i>2/13/07</i>		
<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
FUKUNAGA, Carol (C)	✓			
ESPERO, Will (VC)	✓			
ENGLISH, J. Kalani				✓
IGE, David Y.	✓			
SLOM, Sam	✓			
TOTAL	<i>4</i>			<i>1</i>
Recommendation:				
<input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature:				
<i>Will Espero</i>				
Distribution:				
Original	Yellow	Pink		
File with Committee Report	Clerk's Office	Drafting Agency		

*Only one measure per Record of Votes