Auditor's Summary

Review of Income and Financial Institutions Tax Credits Pursuant to Section 23-92, Hawai‘i Revised Statutes

Report No. 21-06

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THIS REPORT ASSESSES the Motion Picture, Digital Media, and Film Production Income Tax Credit and the Renewable Energy Technologies Income Tax Credit. Section 23-91 et seq., Hawai‘i Revised Statutes, requires the Auditor to annually review different tax credits, exclusions, and deductions on a five-year recurring cycle.

In 2018, Hawai‘i's tax laws contained 21 tax credits, totaling $341.93 million, according to a December 2020 report by the Hawai‘i Department of Taxation (DoTax). More than forty-four percent of that amount was attributed to the tax credits reviewed in this report. The Motion Picture, Digital Media, and Film Production Income Tax Credit was the State's costliest tax credit with $80.23 million in claims, followed by the Renewable Energy Technologies Income Tax Credit with $70.5 million in claims.

The Motion Picture, Digital Media, and Film Production Income Tax Credit reduces the taxpayer's income tax liability by the amount of the tax credit. The tax credit is based on "qualified production costs," which are costs incurred in the State by a production that is subject to the Hawai‘i GET or income tax. We determined that the purpose of this credit is to encourage the growth of the State's film and creative media industries by keeping Hawai‘i competitive and comparable to other jurisdictions that offer tax breaks to attract productions, which generate tax revenue, jobs, and tourism marketing

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exposure. We noted several challenges to conducting an accurate cost-benefit analysis of this credit, including the impact of "free-riders," i.e., productions that would have filmed in Hawai‘i irrespective of the credit.

In 2018, 25 qualified productions incurred $425.53 million in qualified production costs and claimed tax credits of $80.23 million, according to DoTax.

The Renewable Energy Technologies Income Tax Credit provides tax credits for expenses relating to renewable energy technologies, including solar energy systems and wind-powered energy systems installed by individuals and businesses. The single-family solar thermal (water heater) tax credit cap is $2,250 per system; the wind-powered commercial property tax credit cap is $500,000 per system; the single-family photovoltaic (PV) system tax credit cap is $5,000 per system; and the commercial property photovoltaic systems tax credit cap is $500,000 per system. Based on the legislative history, we determined that, generally, the purpose of the credit is to reduce the State's dependence on imported oil for electricity generation by encouraging private investment in renewable energy systems.

According to DoTax, 7,337 individuals and 77 corporations claimed the tax credit in 2018, totaling $70.5 million.

Overall, we found both tax credits appear to be achieving certain aspects of their stated purposes, but concrete conclusions cannot be drawn until the Legislature identifies metrics or benchmarks to measure achievement. As noted throughout the report, although we were able to identify purposes for the provisions reviewed, we had no objective means to assess whether those provisions were achieving their respective purposes. We recommend the Legislature clearly articulate purposes and establish specific metrics for measuring effectiveness for each tax credit. Clearly stated purposes for each tax credit and metrics for us to assess performance against specific targeted outcomes will permit a more thorough and meaningful analysis of the tax credits.