

**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 2023**

**PREPARED BY THE HAWAII FILM OFFICE, CREATIVE INDUSTRIES DIVISION
DEPARTMENT OF BUSINESS, CONOMIC 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 275, SLH 2019, Section 2, increased the tax credit cap from \$35M to \$50M. In order to expand opportunities for jobs and careers, increase studio capacity and facilities, the \$50 million cap should consider being increased.

Act 217, SLH 2022, made a number of changes to the tax credit:

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 to \$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. Extend 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.

PRIOR LEGISLATION:

Act 89, SLH 2013, Section 2, amended Chapter 235-17 by increasing the production tax credit to twenty percent and twenty-five percent of the qualified production costs incurred on Oahu and Neighbor Islands respectively.

- B. Act 143, SLH 2017, amended Chapter 235-17 to introduced an annual cap of \$35 million. This was increased to \$50 million through Act 143, SLH 2017 as mentioned.

C. PROCESS AND BACKGROUND OF ACTUAL AND ESTIMATED

Hawai'i Production Reports for all productions are required by law to be submitted to DBEDT no later than 90 days after their filing year in which the productions took place. Therefore, all amounts listed here are estimated spend for 2023, based on Production Registrations only. The tax credit unit in DBEDT/CID will begin reviews in April of 2024 and certify as approved. Each year for this required report, DBEDT will then provide the actual amount of the prior year's certifications (2022 in this case) and the estimated amounts from the current year (2023).

D. 2023 ESTIMATED RESULTS FOR QUALIFIED PRODUCTION SPEND \$235-17 HRS:

From January 1, 2023 through December 31, 2023, the department processed registrations for 28 qualified productions that applied for the Motion Picture, Digital Media and Film Production Income Tax Credit totaling an estimated **\$196,297,318**, in production expenditures. Total credit amount for CY 2023 is **\$20,984,363**. added to this amount is the carry forward 2022 claims of **\$27,448,022 = \$48,432,385**. The balance remaining of \$1,567,615 will be applied to the next filer in ranking, based on Hawai'i Administrative Rules.

Production spend was down significantly due to U.S. production shutdown because of the Writers Guild of America (WGA) and Screen Actors Guild AFTRA (SAGAFTRA) strike against the Association of Motion Picture and Television producers (AMPTP). Extended contract negotiations impacted Hawai'i's workforce

Tax Credit 50M Annual Cap	\$50,000,000.00
TOTAL ESTIMATED Tax Credit Claimed in 2023	\$20,984,362.55
Total carry forward Tax Credits 2022	\$27,448,022.49
Remaining Tax Credit–Applied to next filer in rank	\$1,567,614.96

This direct spend resulted in an estimated **\$21,200,400** in tax revenue generated, **\$339,599,000** in sales or economic activity generated, and a key figure: **\$78,520,000** in Hawaii household income generated as a result of the qualified production expenditures.

Please note that these total amounts are estimates based on the respective Hawaii Production Registration applications, not the Hawaii Production Reports (HPRs) which are submitted 90 days after the close of the production's tax filing year.

Given the due date of the legislative report, the the department is providing all estimated data for Calendar Year 2023, which is the data available now, until all Hawaii HPRs have been received and vetted by the Film Office.

Once all production reports are received, vetted and certifications issued, for any given year, the department will provide to the Legislature a revised 2023 Actual Annual Report covering the actual reconciled expenditures for the prior year. The documents attached reflect the estimated CY2023 data.

E. WORKFORCE DEVELOPMENT CONTRIBUTIONS CY2023:

In calendar year 2023, 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 will receive both cash and in-kind contributions that are dedicated to supporting that school's film/video and digital media programs. The contributions for CY2023 will be verified via HPR submission, as required by statute and will be contained in the CY 2023 actual report to be submitted in December 2024.

In most cases the contributions exceed the required amount. The combination of on-set interns, masters classes and other work experience will be quantified through the work of the division and its roles as lead for the UH Good Jobs Hawai'i and continuing WFD initiatives in DBEDT.

The division, along with University and Department of Education colleagues are in process of a strategic pipeline "curriculum to career" pathways which will help strengthen the current workforce development component of the tax credit program.

F. ADMINISTRATION OF CREDIT:

Effective in the spring of 2023, CID has hired a full time Accountant and awaiting a list from DHRD for the Program Development Specialist who comprise the tax credit unit in DBEDT. Along with the CID administrator, all support various roles of the management of the film tax credit program. The Accountant V 95% and the Program Development Specialist work 90% on the tax credits with the division administrator at 30% on the administration of the credit.

Currently, there are no non-state, part-time employees, or contract personnel involved in the management of the motion picture, digital media and film production income tax credit.

G. UPDATES:

There were no Legislative changes to the tax credits in 2023.

