

**ANALYSIS OF AMENDED BILL**

Author: Murray Analyst: Anne Mazur Bill Number: SB 58  
 Related Bills: See Legislative History Telephone: 845-5404 Amended Date: April 18, 2005  
 Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:**

Motion Picture Production Wages Paid Or Property Purchased Refundable Credit/Claim  
 For Sales & Use Tax Refund In Lieu Of Credit

**SUMMARY**

This bill would create a refundable franchise and income tax credit based on certain wages paid or amounts paid to purchase or lease certain property used to produce a motion picture in California. The bill would also allow the credit amount to be claimed against sales or use tax liability in lieu of the income tax credit.

**SUMMARY OF AMENDMENTS**

The April 18, 2005, amendments deleted the legislative intent language to provide an incentive for motion picture production and replaced it with the actual incentive. This is the department's first analysis of this bill.

**PURPOSE OF THE BILL**

According to the author's staff, the purpose of this bill is to stem run-away film production by providing a wage-based tax incentive to produce motion pictures in California.

**EFFECTIVE/OPERATIVE DATE**

As a tax levy, this bill would become effective immediately upon enactment. The bill specifies that it would be operative for taxable years beginning on or after January 1, 2005. The bill also specifies, however, that the amounts upon which the credit is based do not include any qualified wages paid or incurred for services performed or any qualified property purchased or leased before January 1, 2006.

**POSITION**

Pending

**Summary of Suggested Amendments**

Technical amendments are needed to correct a reference and to change "board" to "Franchise Tax Board" where appropriate. See "Technical Considerations" below.

Board Position:

\_\_\_\_\_ S                      \_\_\_\_\_ NA                      \_\_\_\_\_ NP  
 \_\_\_\_\_ SA                      \_\_\_\_\_ O                      \_\_\_\_\_ NAR  
 \_\_\_\_\_ N                      \_\_\_\_\_ OUA                      \_\_\_\_\_ PENDING

Department Director

Date

## **ANALYSIS**

### FEDERAL/STATE LAW

Current state and federal laws generally allow taxpayers engaged in a trade or business to deduct all expenses that are considered ordinary and necessary in conducting that trade or business (e.g., employee wages and benefits). However, when a taxpayer produces or creates a product (e.g., video, film, etc.) the taxpayer will generally incur a great portion of the expenses before the product is ready to produce income. When this happens, the taxpayer is usually required to capitalize those expenses and amortize—recover or deduct—them over the period that the product produces income using a specialized cost recovery method called the "income forecast" method. Amortized expenses include costs of researching, preparing, producing, recording, and other direct production costs. It also includes an allocation of indirect costs such as utilities, tools, clerical, and equipment rental.

The federal American Jobs Creation Act (AJCA) of 2004 contains provisions that impact the income tax treatment of motion picture productions. Effective for productions commencing after October 22, 2004, and before January 1, 2009, the AJCA permits qualifying film and television productions to elect to deduct certain production expenditures in the year the expenditure is incurred in lieu of capitalizing the cost and recovering it through depreciation allowances under the income forecast method discussed above. This provision only applies to qualified productions the aggregate cost of which does not exceed \$15 million. For this purpose, a qualified film or television production is defined as any production of a motion picture, mini series, scripted, dramatic television episode, or movie of the week if at least 75 % of the total compensation expended on the production is for services performed in the United States. For an episodic television series, only the first 44 episodes qualify under the provision. The AJCA modifies the income forecast method to include certain participations and residuals in the adjusted basis of the property. The AJCA also allows a deduction equal to a portion of the taxpayer's qualified domestic production activities, including any disposition, lease, rental, or license of qualified film produced by the taxpayer. California has not conformed to these provisions.

Current state and federal laws provide various tax credits designed to provide tax relief for taxpayers that incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or economic development area hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake. Generally only the taxpayer that incurred the credit-related expense may claim tax credits.

Taxpayers that directly or indirectly own an interest in a business that is disregarded for tax purposes are limited in the amount of credit that may be claimed. The amount of credit is limited to the difference between the regular tax that the taxpayer would owe if the income of the business entity were included in the taxpayer's income and the amount of regular tax owed without including the income of the business entity. The taxpayer may then carry over any unused amounts.

## THIS BILL

This bill would state the Legislature's findings and declarations in support of its intent to enact legislation to discourage the practice of producing and filming motion pictures outside the state, a practice known as "runaway production."

This bill would create a refundable income and franchise tax credit for wages paid or amounts paid to purchase or lease tangible personal property used in the production of a motion picture in California. The credit would equal 15% of wages paid to qualified individuals or amounts paid for qualified property during the production period of a motion picture that is completed or placed in service during the taxable year. Only wages paid for services performed or qualified property purchased or leased on or after January 1, 2006, would qualify for the credit. For each qualified motion picture, the maximum amount of credit allowed would be \$5 million. The total aggregate amount of credits would be subject to allocation in any calendar year by the California Film Commission (Commission). The bill currently leaves the amount that may be allocated blank. This credit would be allowed under both the personal income and corporation tax law. In lieu of claiming the income or franchise tax credit, a person may make an irrevocable election to claim either a refund or credit against a liability for sales or use tax.

"Qualified amount" would be the total amount paid or incurred during the production period for qualified wages and for qualified property.

"Qualified taxpayer" would be a taxpayer that paid or incurred the expenses for the qualified amount and that has been allocated tax credits by the Commission.

"Qualified individual" would mean any individual who performs services during the production period in an activity related to the production of a qualified motion picture. Wages paid to individuals or entities related to the taxpayer would not qualify for the credit.

"Qualified wages" for the credit would include:

- W-2 wages paid by any taxpayer involved in the production of a qualified motion picture with respect to a qualified individual for services performed on the qualified motion picture production in California.
- Employee fringe benefits that are allocable to the W-2 wages described above.
- Payments made to a qualified entity, i.e., personal service corporations, payroll service corporation, or any entity receiving wages on behalf of a qualified individual, for services performed in California by qualified individuals.
- Remuneration paid to independent contractors who are qualified individuals for services performed in California.

Qualifying wages would not include expenses, including wages:

- For legal or accounting services, except production accountants.
- In excess of the first \$25,000 per qualified motion picture<sup>1</sup> for writers, directors, composers, producers, and performers.
- Related to new use, reuse, clip use, licensing, secondary markets, or delayed residual compensation, or the creation of any ancillary product (e.g., soundtrack album, toy game, trailer, or teaser), as these terms are defined by this bill.
- Paid or incurred with respect to acquisition, development, turnaround, or any related rights.
- Related to financing, overhead, marketing, promotion, or distribution of a qualified motion picture.

“Qualified property” would mean purchased or leased tangible personal property used principally in the production of a qualified motion picture where the property is subject to California sales or use tax.

“Production period” would mean the period beginning with approval to proceed with the production project and ending with the date the qualified motion picture is either completed or placed in service.

“Qualifying motion picture” would mean any motion picture that is produced, adapted, or altered for exploitation in, on, or through any medium or by any device, including, but not limited to, a motion picture produced for playing in movie theaters, through any form of television, videotapes, videodiscs, DVDs, or any other digital format, or on commercial carriers, and that further meets all of the following additional requirements:

- The motion picture must be a feature, movie of the week, miniseries, or single episode of a television series with a minimum budget of \$500,000 or a television series new to California for the first 66 episodes in California. For purposes of this test, each episode of a television series is considered to be a separate motion picture. In addition, all amounts paid or incurred by all persons or entities that share in the costs of the qualified motion picture are aggregated for purposes of computing the total wages paid or incurred for the production of a qualified motion picture.
- At least 75% of the total production days on or after January 1, 2006, occur wholly in California or 75% of the total production budget excluding nonqualifying wages and expenses occurs in California.
- The motion picture is complete or placed in service.
- The copyright for the motion picture is registered with the U.S. Copyright Office.
- Principal photography begins within 150 days of designation of the taxpayer as a “qualified taxpayer” by the Commission.

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<sup>1</sup> According to author’s staff, the \$25,000 wage cap is intended to apply on a per individual basis; however, current bill language would provide that this wage cap operate per qualified motion picture. Department staff recommends that the bill be amended accordingly.

“Qualified motion picture” would not include:

- Commercial advertising
- Music videos
- Any motion picture produced for private noncommercial use, such as weddings or graduations, or by students for an education course
- News program
- Current events or public events program
- Talk show
- Game show
- Sporting event or activity
- Awards show
- Telethon or other production that solicits funds
- Reality television program
- Clip-based programming if more than 50% of the content is comprised of licensed footage
- Documentaries
- Variety programs
- Daytime dramas
- Strip shows
- One-half hour episodic television shows (i.e., sitcoms)
- Any production that falls within the record keeping requirements of Section 2257 of Title 18 of the United States Code (e.g., sexually explicit films).

The taxpayer would be required to treat the amount of the credit as an item of income from California sources in the year the credit is allowed. A credit would not be refunded to an “S” corporation.

The credit would be denied unless the taxpayer substantiates by adequate records or sufficient evidence that the wages were paid in the amount claimed and that the motion picture was a qualified motion picture. In addition, the credit would be denied without protest or appeal rights if the taxpayer fails to provide the copyright registration number or fails to attach certification on the return claiming the credit.

This bill would require the Commission to do the following:

- Allocate the credits to qualified taxpayers.
- Promulgate rules and regulations by March 1, 2006, to administer the program, including establishing a procedure for taxpayers to file applications with the Commission on a form jointly prescribed by the Commission and FTB. The application must include information as specified by this bill.
- Determine and designate who is a qualified taxpayer.
- Process and approve, or reject, all applications on a first-come, first-served basis.

The bill would override the existing rule that limits the amount of credit allowable to a taxpayer that owns an interest in a business entity that is disregarded for tax purposes, as discussed in Federal/State Law above. This bill would allow the credit to be applied against the taxpayer’s entire tax liability, not just the portion attributable to the income of the disregarded business entity. Any remaining balance would be refunded to the taxpayer.

This bill would also amend the corporation tax law credit ordering rules by adding as the last type of credit allowed against tax, credits that contain refundable provisions, but do not contain carryover provisions.

This bill would provide that interest would not be paid on any refund or credit on any return claiming this credit until 90 days after the return filing date.

This bill would provide for a continuous appropriation from the Tax Relief and Refund Account in order to make refunds resulting from this credit.

This bill would require the Business, Transportation and Housing Agency in consultation with FTB, other state agencies, and industry and labor organizations, to report to the Legislature by December 31, 2010, on the effectiveness of the credit provided by this bill.

### IMPLEMENTATION CONSIDERATIONS

Implementation of this refundable credit would result in significant changes to tax forms, processing systems, and computer systems. Added lines on each return may result in an additional page for each return, in turn requiring additional storage space. Copyright registration number and certification verification when processing returns claiming the credit would result in a new manual workload. The department has never administered a refundable corporation credit or a credit relating to the complex motion picture industry; however, administration could be relatively simple if FTB's administrative activities were limited to matching the taxpayer claiming the credit against a list of those qualified taxpayers that were allocated credits by the Commission.

The department has identified the following additional considerations:

- The bill would allow a credit or refund under the Sales and Use Tax Law in lieu of the income or franchise tax credit. This provision would substantially complicate administration and potentially confuse taxpayers. For example, although the bill language suggests that the Board of Equalization (BOE) would generally have three years to recover an "erroneous" credit or refund, FTB normally has a four-year time period for making deficiency assessments under the Personal Income and Corporation Tax laws, and the bill is silent as to which statute of limitations would be applicable. It is also unclear by what date the in-lieu election must be made. The bill would require attaching to the in-lieu election "...a copy of the personal income or corporation tax return on which the tax liability was assessed for which the in-lieu refund is being claimed..." If this is intended to mean the franchise or income tax return on which the credit could otherwise have been claimed, then the election for the in-lieu refund must be allowed on or before a date sometime after the last date that the franchise or income tax return is required to be filed.
- The definition of "production period" may be difficult to implement without clarification of who gives approval to proceed with the production and what constitutes "completion." Both "commencement" and "completion" of the production period should be required to occur by reference to specific calendar dates in order to avoid disputes on this issue between taxpayers and the department, in large part because it may be likely that these dates can be specifically and clearly identified.

- The bill defines “qualified taxpayer” as the taxpayer that paid or incurred the expenses for the qualified amount and was allocated tax credits by the Commission, except as otherwise provided. Due to the manner in which most production entities are organized, the taxpayer that is allocated credits may not necessarily be the one that actual pays or incurs the qualified amount. The author may want to consider clarifying. In any event, the Commission, as the entity allocating the credits, would make the ultimate decision on whether a taxpayer is a “qualified taxpayer.”
- Although the credit, by the bill’s express terms, could not be refunded to an “S” corporation, it is unclear whether the credit is intended to be allowed to partners, members, or shareholders of pass-through entities.
- The bill defines “qualified wages” as, among other things, not including expenses, including wages in excess of the first \$25,000 per qualified motion picture for writers, directors, composers, producers, and performers.
  - According to the author’s staff, the \$25,000 cap is intended to apply per individual. The bill should be amended accordingly.
  - Presumably, the term “performers” is intended to include actors, stunt persons, voiceovers, and other talent; however, the author may want to clarify the meaning of this term to avoid disputes over who is or isn’t covered by this term for purposes of applying the \$25,000 wage cap. The \$25,000 also may be difficult to track and verify because W-2 wages and 1099 independent contractor payments are generally reported by employers or payers on a calendar-year basis (or at least on quarterly or monthly returns), rather than on a picture-by-picture basis.
- In defining a “qualified motion picture,” the bill states that, in computing total wages paid or incurred for the production of a qualified motion picture, all amounts paid or incurred by all persons or entities that share in the costs of the qualified motion picture shall be *aggregated*. Aggregation language appears to contemplate various persons paying wages in connection with the production of a motion picture. This seems to conflict with the fundamental definition of a “qualified taxpayer” as being that taxpayer who has been allocated tax credits by the Commission and that has paid or incurred the expenses for the qualified amount. If the recipient of allocated credits is not required to be the actual wage payer, the bill should be clarified accordingly.
- The definition of “qualified motion picture” uses the phrase “new to California.” The meaning of this phrase should be clarified.
- The definition of “qualified motion picture” would require at least 75% of the “total production days” to occur wholly within California or 75% percent of the total production budget, excluding nonqualifying wages and nonqualifying expenses, occur within California. With respect to “total production days,” department staff assumes this means a California production day is a day of production occurring entirely in California and that at least 75% of all production days must be California production days. If staff’s understanding of the author’s intent on this point is correct, then the bill should be clarified accordingly. Department staff also suggests clarifying that “total production budget” means the actual total expenditures rather than the planned budget amount.
- The definition of “qualified motion picture” would require that the production of the qualified motion picture be “complete” or that the film be “placed in service.” Department staff suggests clarifying the meaning of these terms. According to the author’s staff, it is intended that a qualified motion picture be complete and placed in service.

- The bill states that property is qualified if, among other things, it is used “principally” in the production of a qualified motion picture. Department staff recommends the term “principally” be clearly defined to avoid disputes regarding how much use would be deemed to constitute “principally.” The definition could be based, for example, on the percentage of time the property is used in the production of a qualified motion picture.
- The bill states that the credit would be denied unless the taxpayer substantiates by adequate records or sufficient evidence that the wages were paid in the amount claimed and that the motion picture was a qualified motion picture. Department staff recommends that “or sufficient evidence” be deleted because the meaning of “sufficient” is imprecise and too ambiguous. Wages paid should be reflected in the production entity’s properly maintained books and records. Furthermore, department staff recommends that there be a comparable substantiation requirement for amounts paid to purchase or lease qualified property.
- The bill provides that the credit would be denied without protest or appeal rights if the taxpayer fails to provide the copyright registration number or fails to attach certification on the return claiming the credit. Department staff presumes that this “certification” represents a document received by the qualified taxpayer from the Commission indicating they are a qualified taxpayer and the amount of credits allocated. However, it is suggested that this be clarified so as not to be confused with the certificate of copyright registration.
- Various film industry terms are used throughout this bill without definition, such as “production accountant” or “principal photography.” Department staff recommends that these terms be clearly defined to simplify administration and avoid disputes.

### TECHNICAL CONSIDERATIONS

Page 3, lines 20 and 25, and page 4, lines 6 and 11, of the bill refer to “person(s)” that may elect to claim a credit or refund of sales or use tax in lieu of the credit under Personal Income or Corporation Tax Law. The term “person(s)” should be changed to “qualified taxpayer(s)” to clarify that the only individual or entity that can claim this credit under the Sales and Use Tax Law is the qualified taxpayer allocated a credit by the Commission.

The term “board” when used in the Personal Income Tax Laws and the Corporation Tax Laws generally refers to the Board of Equalization and not the Franchise Tax Board. The term “board” should be changed to “Franchise Tax Board” on page 9, line 1, and on page 19, line 5 of the bill.

The bill language contains an erroneous reference. The reference to subdivision (f) on page 9, line 40, and page 20, line 6 of the bill should be changed to subdivision (e).

Page 9, line 28, of the bill contains an apparent typographical error. The word “if” should be changed to “of.”

### **LEGISLATIVE HISTORY**

AB 1830 (Cohn, 2003/2004) and AB 2747 (Wesson, et. al., 2001/2002) would have provided a refundable income tax credit for wages paid in connection with the production of a motion picture in California. AB 1830 was held in the Assembly policy committee. AB 2747 failed to pass the Senate Appropriations Committee.

AB 484 (Kuehl, 1999/2000), as amended July 14, 1999, would have provided a refundable income tax credit for wages paid in connection with the production of or musical scoring for certain television programs or motion pictures. As enacted, AB 484 (Stats. 1999, Ch. 699), created the Film California First Program within the Technology, Trade, and Commerce Agency to assist in the underwriting of actual costs incurred by production companies filming in California.

AB 358 (Wildman, 1999/2000) would have provided a refundable income tax credit for wages paid in connection with television programs or motion pictures similar to AB 484. AB 358 was held in the Senate Appropriations Committee.

## **OTHER STATES' INFORMATION**

Numerous states and foreign jurisdictions provide incentives to the motion picture industry. Attached as appendices to this analysis are charts compiled by the California Film Commission summarizing the most significant of these incentives.

## **FISCAL IMPACT**

The estimated cost to implement this proposal would be approximately \$450,000 for modification of the individual and corporate tax systems to accommodate a refundable credit and other automated and manual return processing functions. Estimated annual costs to process returns claiming the credit would be approximately \$120,000. It is assumed that FTB's activities relating to the administration of the provisions of this bill would be limited to verifying that the taxpayer claiming the credit or refund is in fact the qualified taxpayer allocated credits by the Commission, and then making or denying the credit or refund as applicable. If FTB were required to audit returns claiming the credit or refund as provided by this bill, these examinations would be lengthy and complex. The cost to conduct such audits would be substantial. In any event, the bill should include an appropriation for the department's costs to implement and administer the credit.

## **ECONOMIC IMPACT**

This bill would result in a loss of state income tax revenue in the amount of the total aggregate amount of credits subject to allocation in any calendar year. The bill has left the amount that may be allocated blank, and therefore, the estimated amount of revenue loss cannot be determined at this time.

## **LEGAL IMPACT**

This bill would provide incentives for motion picture production in California.

The U.S. Court of Appeals for the 6<sup>th</sup> Circuit ruled in *Cuno v. DaimlerChrysler, Inc.* (2004) 386 F. 3d 738 that Ohio's Investment Tax Credit is unconstitutional because it gives improper preferential treatment to companies to locate or expand in Ohio rather than in other states and, therefore, violates the Commerce Clause of the U.S. Constitution. Ohio is seeking review by the U.S. Supreme Court. Although the outcome of this decision and its effects on the income tax credits of other states, including California, is unknown, targeted tax incentives that are conditioned on activities in California may be subject to constitutional challenge.

Recently introduced federal legislation titled the "Economic Development Act of 2005," S. 1066 and H. R. 2471, would authorize state tax incentives for economic development purposes that may otherwise be subject to constitutional challenge as discriminatory.

## **POLICY CONCERNS**

This bill provides that the Commission would allocate credits to a qualified taxpayer based on information required to be included with the taxpayer's application, and in accordance with rules and regulations promulgated by the Commission. Since the credit presumably would be allocated by the Commission prior to being claimed on a franchise or income tax return, FTB could limit its activities under this provisions of this bill to verifying that the taxpayer claiming the credit or refund is in fact the qualified taxpayer allocated credits by the Commission, and then making or denying the credit or refund as applicable. In this regard, administration of the credit would be relative simply. FTB currently administers the low-income housing credit and the natural heritage preservation credit, both of which are allocated by a designated agency, in this manner. However, if the allocation feature were eliminated or if the author intends for FTB to examine returns claiming a credit or refund as provided by this bill, such examinations would be lengthy, complex, and costly.

This bill does not specify a repeal date for the credit provided by this bill. This bill, however, would require a report to the Legislature by December 31, 2010, on the effectiveness of the credit. Credit provisions are typically enacted with built-in repeal dates, at which time they may be reviewed and legislatively extended if the situation warrants.

## **LEGISLATIVE STAFF CONTACT**

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**APPENDIX**  
**SUMMARY of MOTION PICTURE PRODUCTION INCENTIVES OF OUR**  
**STRONGEST U.S. COMPETITORS**

<b>STATE</b>	<b>INCENTIVE</b>	<b>DESCRIPTION</b>
<b>FLORIDA</b>	FILM INDUSTRY REBATE PROGRAM	<ul style="list-style-type: none"> <li>• <b>15%</b> reimbursement of qualified expenditures</li> <li>• Funded at \$10 million per year</li> </ul>
<b>GEORGIA</b>	INCOME TAX CREDIT	<ul style="list-style-type: none"> <li>• <b>9%</b> transferable income tax credits on all costs spent in Georgia, plus:</li> <li>• <b>3%</b> credit on wages paid to GA residents, plus:</li> <li>• <b>2%</b> credit for TV productions that spend more than \$20 million annually, plus:</li> <li>• <b>2%</b> credit for tier 1 &amp; tier 2 areas</li> </ul>
<b>ILLINOIS</b>	WAGE TAX CREDIT	<ul style="list-style-type: none"> <li>• <b>25%</b> credit on first \$25,000 of wages paid to Illinois residents</li> </ul>
<b>LOUISIANA</b>	INVESTOR TAX CREDIT EMPLOYMENT/LABOR TAX CREDIT SALES & USE TAX EXCLUSION	<ul style="list-style-type: none"> <li>• <b>15%</b> transferable credit of entire spend including post production costs not done in Louisiana (if spending exceeds \$ 8million, otherwise 10% credit) plus:</li> <li>• <b>20%</b> credit on total aggregate payroll of Louisiana residents (if payroll exceeds \$1 million) plus:</li> <li>• <b>4%</b> sales and use tax exclusion</li> </ul>
<b>MARYLAND</b>	FILM PRODUCTION ACTIVITY	<ul style="list-style-type: none"> <li>• <b>50%</b> rebate on wages (up to \$25,000 per employee) with funding at \$4 million per year.</li> </ul>
<b>NEW MEXICO</b>	PRODUCTION TAX CREDIT INTEREST-FREE LOAN	<ul style="list-style-type: none"> <li>• <b>15%</b> refundable tax credit for eligible production costs (additional <b>5%</b> credit for targeted TV series productions) with 80% of refund given in advance of spending plus:</li> <li>• Interest free loan up to \$15 million</li> <li>• Job training funds</li> </ul>
<b>NEW YORK</b>	FILM PRODUCTION TAX CREDIT	<ul style="list-style-type: none"> <li>• <b>10%</b> refundable tax credit of qualified expenditures, capped at \$100 million over 4 years</li> <li>• City of New York offers the same incentive with a refundable tax credit equal to <b>5%</b> of qualified expenditures capped at \$37.5 million for 3 years</li> </ul>

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**SUMMARY of MOTION PICTURE PRODUCTION INCENTIVES OF OUR**  
**STRONGEST U.S. COMPETITORS**

<b>STATE</b>	<b>INCENTIVE</b>	<b>DESCRIPTION</b>
<b>PENNSYLVANIA</b>	INCOME TAX CREDIT	<ul style="list-style-type: none"> <li>• <b>20%</b> transferable tax credit of qualified Pennsylvania costs when production spends 60% of production costs in state (\$10 million annual cap)</li> </ul>
<b>PUERTO RICO</b>	PRODUCTION PROJECT TAX CREDIT	<ul style="list-style-type: none"> <li>• <b>40%</b> transferable labor tax credit (paid to Puerto Rican residents). At least 50% of the shooting must take place in Puerto Rico</li> </ul>
<b>SOUTH CAROLINA</b>	TRANSFERABLE TAX REBATES	<ul style="list-style-type: none"> <li>• Increases the existing incentive rebate from 5% to <b>15%</b> of total aggregate payroll for employees who are subject to South Carolina withholding, if in-state spending is at least \$1 million. Plus:</li> <li>• Existing <b>7%</b> sales tax exemption for purchases/rentals of in-state goods and services. Plus:</li> <li>• <b>15%</b> supplier rebate program for in-state production expenditures</li> <li>• Capped at \$10 million annually</li> </ul>

## APPENDIX

### SUMMARY of PENDING U.S. PRODUCTION INCENTIVES \*

\* This is a sample from pending legislative proposals

STATE	INCENTIVE	DESCRIPTION
ARIZONA	INCOME TAX CREDITS	<ul style="list-style-type: none"> <li>• <b>20%</b> transferable income tax credit on production expenditures or sales tax exemption on purchases</li> <li>• To qualify, a production must hire a minimum of AZ residents</li> </ul>
MASSACHUSETTS	EMPLOYMENT TAX CREDIT  SALES TAX EXEMPTION	<ul style="list-style-type: none"> <li>• <b>20%</b> tax credit on aggregate payroll for residents when in-state spending exceeds \$1 million (10% credit on payroll when spending is less than \$1 million.)</li> <li>• <b>25%</b> transferable tax credit on production expenditures, capped at \$5 million per production.</li> <li>• <b>5%</b> Sales and Use tax exemption</li> </ul>
NORTH CAROLINA	REFUNDABLE TAX CREDIT	<ul style="list-style-type: none"> <li>• <b>15%</b> refundable tax credit on expenditures and wages</li> </ul>
RHODE ISLAND	INVESTOR TAX CREDIT  EMPLOYMENT TAX CREDIT	<ul style="list-style-type: none"> <li>• <b>25%</b> tax credit for qualified productions when spending is over \$10 million; <b>15%</b> credit when spending is between \$300,000 and \$10 million</li> <li>• <b>20%</b> employment tax credit when spending is over \$1 million; <b>10%</b> employment credit when spending is between \$300,000 and \$1 million</li> </ul>
TEXAS	WAGE BASED PRODUCTION REBATE	<ul style="list-style-type: none"> <li>• Grants equal to <b>20%</b> of wages paid to Texans up to \$750,000 per production</li> </ul>

**APPENDIX**  
**SUMMARY of CANADIAN PRODUCTION INCENTIVES**

<b>PROVINCE</b>	<b>INCENTIVE</b>	<b>DESCRIPTION</b>
<b>CANADA (FEDERAL)</b>	CANADIAN PRODUCTION TAX CREDIT  (Federal incentive is <u>in addition</u> to provincial incentives below)	<ul style="list-style-type: none"> <li>• <b>16%</b> federal tax credit on Canadian labor expenditures</li> <li>• No limitation on the amount of any Canadian refund</li> </ul>
<b>BRITISH COLUMBIA</b>	FILM INCENTIVE TAX CREDIT  DIGITAL ANIMATION OR VISUAL EFFECTS TAX CREDITS	<ul style="list-style-type: none"> <li>• <b>18%</b> tax credit on BC labor expenditures</li> <li>• <b>6%</b> additional tax credit on labor expenditures outside of Vancouver</li> <li>• <b>15%</b> digital animation or visual effects credit for BC labor costs</li> </ul>
<b>ONTARIO</b>	FILM INCENTIVE TAX CREDIT	<ul style="list-style-type: none"> <li>• <b>18%</b> refundable tax credit on Ontario labor expenditures</li> <li>• <b>10%</b> additional tax credit for productions outside of the Toronto area</li> <li>• <b>20%</b> Ontario computer animation credit</li> </ul>
<b>MANITOBA</b>	FILM INCENTIVE TAX CREDIT	<ul style="list-style-type: none"> <li>• <b>45%</b> refundable tax credit on Manitoba labor expenditures</li> <li>• <b>5%</b> frequent film bonus additional tax credit for 3 or more projects</li> </ul>
<b>NOVA SCOTIA</b>	FILM INCENTIVE TAX CREDIT	<ul style="list-style-type: none"> <li>• <b>35%</b> tax credit on Nova Scotia labor expenditures</li> <li>• <b>5%</b> frequent film bonus, additional tax credit for 3 or more projects</li> </ul>
<b>QUEBEC</b>	FILM INCENTIVE TAX CREDIT	<ul style="list-style-type: none"> <li>• <b>20%</b> refundable tax credit on Quebec labor expenditures</li> </ul>
<b>SASKATCHEWAN</b>	FILM INCENTIVE TAX CREDIT	<ul style="list-style-type: none"> <li>• <b>17.5%</b> refundable tax credit of the total production cost</li> <li>• <b>22.5%</b> refundable tax credit if outside of the province's two major cities</li> </ul>

**APPENDIX**  
**SUMMARY of INTERNATIONAL PRODUCTION INCENTIVES\***

\* This a sample of incentives offered internationally

COUNTRY	INCENTIVE	DESCRIPTION
AUSTRALIA	REFUNDABLE TAX OFFSET	<ul style="list-style-type: none"> <li>• <b>12.5%</b> rebate for qualifying Australian production expenditures on films and TV series that spend a minimum of A\$15 million</li> </ul>
FIJI	REFUNDABLE TAX OFFSET	<ul style="list-style-type: none"> <li>• <b>15%</b> refundable tax offset for productions that spend a minimum of F\$50,000</li> </ul>
IRELAND	PRODUCTION TAX RELIEF	<ul style="list-style-type: none"> <li>• <b>12%</b> of Irish production expenditures capped at \$2.9 million per project</li> </ul>
NEW ZEALAND	FILM GRANTS	<ul style="list-style-type: none"> <li>• <b>12.5%</b> large budget film grant on films that spend a minimum of NZ\$15 million</li> </ul>
SOUTH AFRICA	SOUTH AFRICAN PRODUCTION EXPENDITURE	<ul style="list-style-type: none"> <li>• <b>15%</b> of the gross amount spent in South Africa for foreign production. At least 50% of the production must be shot in South Africa with a minimum budget of \$3,800,000</li> </ul>
UNITED KINGDOM	TAX DEDUCTION	<ul style="list-style-type: none"> <li>• A production company can enter into a “sale and lease back” of its film with a UK investor and receive approximately <b>15%</b> of its negative cost</li> </ul>