

ANALYSIS OF AMENDED BILL

Author: Gomez Analyst: Jane Raboy Bill Number: AB 688
 See Legislative
 Related Bills: History Telephone: 845-5718 Amended Date: March 26, 2015
 Attorney: Bruce Langston Sponsor _____

SUBJECT:	California Motion Picture Production Credit/California Film Commission Extend Allocation & Aggregate Amount of Credits Until July 1, 2021
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SUMMARY

This bill would, under the Personal Income Tax and Corporation Tax Laws, modify the new California Motion Picture and Television Production Credit (Motion Picture Credit), Chapter 413, Statutes of 2014.

This analysis only addresses the provisions of the bill that impact the department’s programs and operations.

RECOMMENDATION

No position.

Summary of Amendments

The March 26, 2015, amendments eliminated nonsubstantive changes to the Revenue and Taxation Code and replaced them with the provisions discussed in this analysis. This is the department’s first analysis of the bill.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and operative as of that date.

FEDERAL LAW

Federal law does not allow any credit for motion picture productions.

STATE LAW

For taxable years beginning January 1, 2016, state law allows a new Motion Picture Credit¹ that is administered by the California Film Commission (Commission). The credit is calculated by multiplying the qualified expenditures for a production of a motion picture in California, as certified by the Commission, by an applicable credit percentage.

¹ See R&TC sections 17053.85 and 23685.

Board Position:	Executive Officer	Date									
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A qualified taxpayer, in lieu of claiming the new Motion Picture Credit on the income tax return, is allowed to make an irrevocable election to apply the credit amount against the qualified sales and use tax.²

The aggregate amount of credits that may be allocated by the Commission for a fiscal year is the applicable amount as follows:

- \$230 million in credits for the 2015-2016 fiscal year;
- \$330 million in credits for the 2016-2017 fiscal year and each fiscal year thereafter, through and including the 2019-20 fiscal year; plus any amount, as specified.

The Commission's authority to allocate the new Motion Picture Credit to applicants expires on June 30, 2020.

THIS BILL

This bill would extend the Commission's authority to allocate the new Motion Picture Credit for an additional fiscal year, through June 30, 2021. The aggregate amount of credits that may be allocated for fiscal year 2020-21 would be \$330 million.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department's programs and operations.

LEGISLATIVE HISTORY

AB 1189 (Nazarian, 2013/2014), would have extended the original Motion Picture Credit by five years, until July 1, 2022, and would have increased the aggregate amount of credits awarded. AB 1189 failed to pass out of the Assembly by the constitutional deadline.

AB 1839 (Gatto, Bocanegra, et al., Chapter 413, Statutes of 2014) created the new Motion Picture Credit for the production of a qualified motion picture for taxable years beginning July 1, 2016, and before July 1, 2020.

AB 2026 (Fuentes, Chapter 841, Statutes of 2012) extended the original Motion Picture Credit by two additional years, until July 1, 2017, and increased the aggregate amount of credits awarded.

AB 1069 (Fuentes, Chapter 731, Statutes of 2011) extended the original Motion Picture Credit by one additional year, until July 1, 2015, and increased the aggregate amount of credits awarded.

OTHER STATES' INFORMATION

The states reviewed include *Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York*. These states were selected due to their similarities to California's economy, business entity types, and tax laws.

² See R&TC section 6902.5.

Florida created a \$296 million per year or approximately \$1.5 billion transferable corporate income tax credit incentive program for the film and entertainment industry. The program began on July 1, 2010, and sunsets June 30, 2016.

Illinois offers a state credit based on the salaries paid to individuals living in an economically disadvantaged area and applies to residents' wages, limited to \$100,000. However, it lacks an annual allocation-funding cap. The credit will sunset in 2021.

Massachusetts allows two motion picture production income tax credits for taxable years beginning on or after January 1, 2006, and before January 1, 2023. It lacks an annual allocation-funding cap or project cap.

Michigan lacks a motion picture or film production credit.

Minnesota lacks a motion picture or film production credit.

New York offers a NY State Film Production Credit that is refundable and equal to 30 percent of qualified costs incurred in New York State. The funding allocated to the program totals \$420 million per year or approximately \$3.8 billion for calendar years 2010 to 2019, inclusive.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 688* As Amended March 26, 2015 Assumed Enactment After June 30, 2015 (\$ in Millions)				
2015-16 through 2019-20	2020-21	2021-22	2022-23	2023-24
\$0	- \$2.5	- \$21	- \$47	- \$49

*This estimate does not include the credit amount applied against Sales & Use tax.

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill.

Revenue Discussion

This bill would extend the new movie credit one additional year, and allow an additional allocation of \$330 million in movie credits for fiscal year 2020-21. The timing and usage of the credit is based on the current movie credit activity. It is assumed that an additional allocation would occur

on July 1, 2020, and approximately \$80 million of this allocation would be certified in 2021 and the remaining \$250 million would be certified over the next several years. Of the certified amount, it was assumed that production companies would use 55 percent, or \$44 million, of the credit in the year certified and the remainder over the next four years. It was assumed that 90 percent of the credit would be used by corporations and the remaining 10 percent would be used by personal income taxpayers. The tax year estimates are converted to fiscal year estimates, and then rounded to arrive at the estimates shown in the table above.

SUPPORT/OPPOSITION

Support: None provided.

Opposition: None provided.

ARGUMENTS

Proponents: Some may argue that the program targets at-risk motion productions that are most likely to leave the state due to incentives being offered in other state and countries and this credit would enable California to remain competitive.

Opponents: Some may argue that the increase in the amount authorized to be allocated may not out-weigh the benefit in providing a tax credit.

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