



## **Analysis of Original Bill**

Author: Nazarian, et al.

Sponsor:

Bill Number: AB 2936

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Introduced: February 16, 2018

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Related Bills: See Legislative  
History

**Subject:** California Motion Picture Credit

### **Summary**

This bill would, under the Personal Income Tax and Corporation Tax Laws, extend the California Motion Picture and Television Production Credit (Motion Picture Credit) to 2024-25 fiscal year.

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

**Recommendation – No position.**

### **Reason for the Bill**

The reason for the bill is to allow the California Motion Picture Credit to continue by extending the sunset date.

### **Effective/Operative Date**

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

### **State Law**

For taxable years beginning on or after January 1, 2016, state law allows a Motion Picture Credit<sup>1</sup> 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.

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<sup>1</sup> See Revenue and Taxation Code (R&TC) sections 17053.95 and 23695.

A qualified taxpayer, in lieu of claiming the Motion Picture Credit on the income tax return, may make an irrevocable election to apply the credit amount against their qualified sales and use tax liability.<sup>2</sup>

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

- \$230 million for the 2015-16 fiscal year; and
- \$330 million for the 2016-17 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 Motion Picture Credit to applicants expires on June 30, 2020.

### **This Bill**

This bill would extend the availability of the Motion Picture Credit by extending for five fiscal years (to fiscal year 2024-25) the Commission's allocation authority.

### **Implementation Considerations**

Implementing this bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update.

### **Legislative History**

AB 1734 (Calderon, 2017/2018) would extend the Commission's authority to allocate the Motion Picture Credit through an unspecified fiscal year. AB 1734 is currently before the Assembly Revenue and Taxation Committee.

SB 832 (Portantino, et al., 2017/2018) would extend the Commission's authority to allocate the Motion Picture Credit through fiscal year 2023-24. SB 832 is currently before the Senate Governance and Finance Committee.

SB 951 (Mitchell, 2017/2018), would create a new Motion Picture Credit to be allocated by the Commission. SB 951 is currently before the Senate Governance and Finance Committee.

AB 688 (Gomez, 2015/2016), would have extended the Commission's authority to allocate the Motion Picture Credit for an additional year, through June 30, 2021, and would have increased the aggregate amount of credits that may be awarded. AB 688 failed to pass out of the Assembly by the constitutional deadline.

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.

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<sup>2</sup> See R&TC section 6902.5.

AB 1839 (Gatto, Bocanegra, et al., Chapter 413, Statutes of 2014) added a new statute for the 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.

*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 expired 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**

The department's costs to implement this bill have yet to be determined. As the bill moves through the legislative process, costs will be identified.

## Economic Impact

### Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 2936 as Introduced February 16, 2018  
For Taxable Years Beginning On or After January 1, 2018  
Assumed Enactment after June 30, 2018

(\$ in Millions)

Fiscal Year	Revenue*
2021-2022	- \$25
2022-2023	- \$80
2023-2024	- \$130

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

This analysis does not account for changes in employment, personal income, or gross state product that could result from this bill or for the net final payment method of accrual.

### Revenue Discussion

This bill would extend the Motion Picture Credit and allow additional allocations of \$330 million beginning in fiscal year 2020-21 through fiscal year 2024-25. The timing and usage of the credit is based on the current movie credit activity. It is assumed that the first additional allocation would occur on July 1, 2020, and approximately \$210 million of this allocation would be certified in 2022 and the remaining \$120 million would be certified over the next several years. Of the certified amount, it is assumed that production companies would use 35 percent, or \$70 million, in the year certified, increasing to \$170 million by 2027. It is 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 amounts shown in the above table.

## Support/Opposition

Support: None provided.

Opposition: None provided.

## Arguments

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

Opponents: Some may argue that the cost to the general fund of extending the allocation date of the credit outweighs the benefit of continuing the Motion Picture Credit as currently specified.

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