



Analysis of Amended Bill

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Sponsor:

Bill Number: SB 832

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Amended: February 26, 2018

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Related Bills: See Legislative
History

Subject: California Motion Picture Credit/CA Film Commission Extend and Allow Allocations of Credits

Summary

This bill would, under the Personal Income Tax and Corporation Tax Laws, modify the California Motion Picture and Television Production Credit (Motion Picture Credit).

Recommendation – No position.

Summary of Amendments

The February 26, 2018, amendments removed intent language and replaced it with the provisions discussed in this analysis.

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

This is the department's first analysis of the bill.

Reason for the Bill

The reason for the bill is to extend the sunset date and the annual credit allocation cap on the Motion Picture Credit.

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 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.

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.²

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

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

This Bill

This bill would extend the Commission's authority to allocate the Motion Picture Credit from before July 1, 2020, to before July 1, 2024, and would also extend the dollar amount that may be annually allocated for fiscal years through 2023-2024.

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

SB 951 (Mitchell, 2017/2018) would create an additional Film Credit. SB 951 is currently before the Senate Governance and Finance Committee.

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.

¹ See Revenue & Taxation Code (R&TC) sections 17053.95 and 23695.

² See R&TC section 6902.5.

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.

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 pictures for fiscal years beginning on or after January 1, 2016.

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.

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.

Florida, Michigan, and Minnesota lack 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 SB 832 as Amended February 26, 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 & 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 Film Commission's authority to allocate the movie credit and allow additional allocations of \$330 million beginning in fiscal year 2020-2021 through fiscal year 2023-2024. 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 \$135 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/Opposition³

Support: Motion Picture Association of America, The Walt Disney Company, Warner Brothers, NBC Universal

Opposition: None provided.

Arguments

Proponents: Some may argue that extending this credit would enable California to remain competitive with other states and countries that provide incentives for motion picture production in their jurisdiction.

³ As provided in the Fact Sheet

Opponents: Some may argue that the cost to the general fund would outweigh the benefit to the state of modifying and extending the existing film credit.

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