Fiscal Note & Local Impact Statement

127 th General Assembly of Ohio

Ohio Legislative Service Commission
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BILL: **Sub. H.B. 196 (LSC 127 0512-3 with AM 8102)** DATE: **November 19, 2008**

STATUS: **In House Ways & Means** SPONSOR: **Rep. Patton**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Income tax credit for investments in motion pictures produced in Ohio**

State Fiscal Highlights

STATE FUND	FY 2009	FY 2010	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	Potential loss	Potential loss
Expenditures	- 0 -	Minimal increase	Minimal increase

Note: The state fiscal year is July 1 through June 30. For example, FY 2007 is July 1, 2006 – June 30, 2007.

- The nonrefundable but transferable personal income tax credit for investments made in motion picture production companies based in Ohio may reduce income tax revenue by up to $100 million per year. The GRF would bear 94.1% of any revenue loss. Any unutilized tax credit may be carried forward for up to ten consecutive tax years.

- The Department of Development would process applications from companies to produce state-certified motion pictures, and would certify the amount of tax credits available to the Tax Commissioner. There would likely be some increase in expenditures on account of administering this tax credit.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2008	FY 2009	FUTURE YEARS
Local government funds (LGF, LLGSF)			
Revenues	- 0 -	Potential loss	Potential loss
Expenditures	- 0 -	- 0 -	- 0 -

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- The nonrefundable but transferable personal income tax credit for investments made in motion picture production companies based in Ohio may reduce income tax revenue by up to $100 million per year. The local government funds would bear 5.9% of any revenue loss from the proposed tax credit.

Detailed Fiscal Analysis

H.B. 196 creates a nonrefundable income tax credit for investment in a state-certified motion picture production. The bill defines motion picture to be "entertainment content created in whole or in part within this state," and enumerates a number of examples. The Director of Development would be responsible for certifying motion picture production expenses, so that the Tax Commissioner may issue tax credit certificates to taxpayers who invested in the production. Such certifications must be made after January 1, 2009 and before January 1, 2014. Besides initial administrative costs, there could be some additional administrative expenses because of the provision of transferability of the tax credit.

The amount of the tax credit depends on the "base investment" in the production, defined by the bill to be the amount invested by the taxpayer in a motion picture production company multiplied by the production expenditure of the company spent in Ohio as a percent of its total production expenditure. "Base investment" is defined to be zero if the amount invested is less than $300,000. The amount of the credit is 25% of the base investment. The value of credits certified in any one year may not exceed $100 million in total, and not more than $25 million of that may be certified for any one production. The credit is nonrefundable and unused credits may be carried forward for up to ten years.

Additionally, an investor may transfer all or part of the credit amount stated on the credit certificate. Any subsequent certificate owner also may transfer all or part of the credit represented by the certificate. All transfers must be made in accordance with rules prescribed by the Director of Development and must be reported to the Tax Commissioner.

Fiscal effect

Without reliable data on eligible film production expenses in Ohio, LSC could not estimate the revenue loss due to the proposed tax credit. The magnitude of any revenue loss would depend on the number of eligible productions certified by the Director of Development, under rules adopted by the Director, but would not exceed $100 million in any fiscal year.

As an illustration, if a production company spends 40% of its total expenditure in Ohio out of a total budget of $50 million, and if an Ohio taxpayer invests $10 million in this production, the eligible investment is $4 million (40% of $10 million) and the tax credit would be for $1 million (25% of $4 million). The taxpayer would get a certificate for a tax credit of $1 million, which could be claimed over a period of ten years if carried forward, or transferred to other taxpayers.

Given the limited number of eligible films, the revenue loss from tax credits for productions that would have been produced in Ohio may be expected to be on the low side. However, because the tax credit is transferable and can be carried forward over a ten-year period, more taxpayers may be encouraged to invest in the film industry, and the number of films produced in Ohio may increase, thus increasing the revenue loss. This revenue loss may be offset partially, if the tax credit program succeeded in luring movie productions to Ohio that would otherwise have been produced elsewhere, thus increasing Ohio employment and income generation.[1] In the above illustration, the production company's Ohio budget of $20 million (40% of $50 million) is estimated to create around 100 direct jobs connected to film production, which in turn is projected to generate an additional 130 indirect jobs elsewhere in the economy.[2]

Tax concessions for motion picture companies in other states

Several states have enacted tax provisions in recent years to encourage motion picture production companies to engage in filmmaking in their states. Most of these states offer sales tax rebates to the production companies and production expenditure rebates or credits. It is notable that while 18 states offer income tax credit for film production, only 8 have made the tax credit transferable to taxpayers who are not film producers but invest in eligible companies.

Louisiana, one of the first states to introduce this tax incentive (through the Louisiana Motion Picture Incentive Act, enacted in 2002), has increased its tax credit from an initial 10% to 15% to a current level of 25%. The state also has a 10% employment tax credit and a 4% relief from sales and use taxes for motion picture productions. The State of Louisiana Department of Revenue 2006-2007 Tax Exemption Budget reports that revenue lost due to the credit was $45.6 million in FY 2005 and $37.0 million in FY 2006.

LSC fiscal staff: Russ Keller, Economist
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[1] According to the Louisiana film industry, every $1 invested in it generates $1.85 for the Louisiana economy (output multiplier is 1:1.85). Sources in Massachusetts claim an employment multiplier of 1:1.3 (each job created by the film industry supports 1.3 jobs elsewhere in the state's economy).

[2] Using average numbers for the U.S. film industry, direct employment generated by a $1 million film budget is estimated at 4.89 jobs. (Source: Motion Picture Association of America – U.S. Entertainment Industry, Market Statistics, 2006.)