LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 508** HLS 17RS 1075
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 14, 2017 6:25 AM
Author: JAMES
Dept./Agy.: LA Dept. of Revenue/LA Dept. of Economic Development
Subject: Motion Picture Production Tax Credit Revisions
Analyst: Zachary Rau

TAX CREDITS OR INCREASE SD RV See Note
Authorizes a fee for the transfer of film tax credits

Present law allows for the transfer of Motion Picture Production tax credits and requires a processing fee of up to $200 per tax credit. Proposed law changes the fee from up to $200 per credit to a levy equal to 2% of the value of the credits being transferred. Proposed law creates the LA Entertainment Development Fund and deposits revenues derived from the aforementioned fee into the fund. Proposed law requires 75% of the fund to be allocated to the LA Dept. of Economic Development for education development initiatives, matching grants for LA filmmakers, a loan guarantee program, and a deal closing fund. Proposed law allocates the remaining 25% of revenues in the fund to the LA Dept. of Revenue for administrative expenses.

EXPENDITURES	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total						

REVENUES	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
Ded./Other	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total						

EXPENDITURE EXPLANATION

Proposed law creates the LA Entertainment Development Fund and allocates 75% of revenues deposited in the fund (See Revenue Explanation) to the LA Dept. of Economic Development (LED) and the remaining 25% to the LA Dept. of Revenue (LDR). The proposed law states that LDR may use the revenues for administrative expenses and that LED may use them for education development initiatives, matching grants for LA filmmakers, a loan guarantee program, and a deal closing fund.

In addition, the LA Dept. of Treasury will incur SGF costs related to the creation of a new statutory dedication, including fund accounting, financial reporting, banking and custodial functions. These costs are typically small for individual statutory dedications (likely to be several thousands of dollars) and are typically absorbed within existing resources until cumulative additional dedications necessitate that increased resources be provided. At the point additional resources are necessary, the Treasury reports it will require one additional T.O. position with total personal services costs of approximately $71,000 as well as one-time costs associated with acquisition of office equipment at approximately $2,450.

REVENUE EXPLANATION

Proposed law will increase statutorily dedicated revenues for the LA Dept. of Economic Development and the LA Dept. of Revenue by an indeterminable amount. The proposed law alters the transfer fee for Motion Picture Production tax credits ("credit") from up to $200 to an amount equal to 2% of the credit being transferred and deposits the fee revenue in the new, statutorily dedicated LA Entertainment Development Fund. Furthermore, LDR currently retains fee revenue derived from the transfer of credits, classifying these revenues as SGR. Because proposed law creates a new statutorily dedicated fund in which the fee revenue will now be deposited, this represents a de facto decrease in SGR for LDR that is offset by the increase in statutorily dedicated revenues. Of the revenues derived from the transfer fees, 75% shall be allocated to LED and 25% shall be allocated to LDR. This represents new revenue for LED and an increase in revenues for LDR.

While the revenue increase is indeterminable, to the extent credit transfer activity is in line with historical norms, the revenue increase is likely to be significant. For reference, in FY 15, approximately $476.5 M in credits were transferred between taxpayers or from a taxpayer to the state. Applying the 2% fee assessment on the $476.5 M in credits would yield approximately $9.53 M in revenues to be allocated to LED ($7.15 M based upon 75% of revenues) and LDR ($2.38 M based upon 25% of revenues). The $2.38 M allocation of revenues for LDR would be an increase of approximately $1.69 M, as the department reports actual collections of $694,200 in FY 15 associated with transfer fees. **(See Revenue Explanation cont. on Page 2)**

Senate / Dual Referral Rules

☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}

☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}

House

☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}

☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Evan Brasseaux

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Staff Director

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CONTINUED EXPLANATION from page one:

(See Revenue Explanation cont. from Page 1) For further reference, the transfer of credits from the taxpayer to the state were suspended in FY 16, allowing only for the transfer of credits between taxpayers. Under these conditions, the value of transferred credits in FY 16 totaled $182 M. Based upon the 2% assessment, the $182 M in transferred credits would have yielded approximately $3.64 M to be distributed between LED ($2.73 M) and LDR ($910,000). The $910,000 allocation of revenues for LDR would be an increase of approximately $653,000, as the department reports actual collections of $257,000 in FY 15 associated with transfer fees.

The revenue increase is indeterminable, but likely significant based upon historical transfers. Furthermore, the increase is dependent upon credit transfer activity and the value of the credits being transferred. With transfers of credits back to the state no longer suspended, transfer activity may increase, therefore yielding greater revenues for LED and LDR.

Senate Dual Referral Rules

☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}

☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}

House

☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}

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