

**LEGISLATIVE FISCAL OFFICE**  
**Fiscal Note**



Fiscal Note On: **HB 508** HLS 17RS 1075

Bill Text Version: **ENROLLED**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

<b>Date:</b> June 6, 2017	2:16 PM	<b>Author:</b> JAMES
<b>Dept./Agy.:</b> LA Dept. of Revenue/LA Dept. of Economic Development		<b>Analyst:</b> Zachary Rau
<b>Subject:</b> Motion Picture Production Tax Credit Revisions		

TAX CREDITS EN 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. Proposed law will be enacted in the event SB 254 is also enacted into law.

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

  

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

**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. Furthermore, proposed law is contingent upon adoption of SB 254 into law, which sets credit transfer values at 85% of the credit value for credits added to the LA Tax Credit Registry prior to January 1, 2018, and at 90% for projects applying for credits on or after July 1, 2017. Furthermore, SB 254 ends transfers between taxpayers on January 1, 2018.

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 85% of the value of \$476.5 M in credits would yield approximately \$8.10 M in revenues to be allocated to LED (\$6.08 M based upon 75% of revenues) and LDR (\$2.02 M based upon 25% of revenues). The \$2.02 M allocation of revenues for LDR would be an increase of approximately \$1.40 M, as the department reports actual collections of \$694,200 in FY 15 associated with transfer fees. **(See Revenue Explanation cont. on Page 2)**

<u>Senate</u>	<u>Dual Referral Rules</u>	<u>House</u>
<input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}		<input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
<input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}		<input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

*Evan Brasseaux*

**Evan Brasseaux**  
**Staff Director**

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**CONTINUED EXPLANATION from page one:**

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**(See Revenue Explanation cont. from Page 1)** The revenue increase associated with proposed law is indeterminable, but likely significant based upon historical transfers. The increase is dependent upon credit transfer activity and the value of the credits being transferred, which may be subject to different transfer rates depending on when credits are applied for.

Furthermore, proposed law allows for applications of credit transfers filed prior to July 1, 2017, to be subject to the current fee of up to \$200. To the extent this causes increased credit transfer activity prior to the July 1, 2017, revenue increases may be less than anticipated.

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}

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