LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 696** HLS 13RS 1482
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 15, 2013 6:43 PM
Author: MONTOUCET
Dept./Agy.: Revenue
Subject: Modify Motion Picture and Solar Electric/Thermal Credits
Analyst: Greg Albrecht

TAX/INCOME TAX RE INCREASE GF RV See Note

Reduces the amount of certain tax credits beginning January 1, 2014, for income tax credits and January 1, 2015, for corporate franchise credits

The bill makes various changes to the definitions of the motion picture tax credit program that appear to constrain the program in terms of expenditures eligible to generate tax credits. Investor tax credits are currently taken against income taxes, and the bill will allow them against franchise tax, severance tax, and sales tax. Certain LED rule making authority is constrained. Income tax withholding is required. A long-term industry planning committee is created to recommend program changes to reduce industry dependence on government subsidy. Recapture provisions are modified. The bill also reduces solar installation tax credits by 15%. These changes are effective July 1, 2013.

The bill also establishes different conditions for productions approved into the program after January 1, 2014. For these participants, a 30% credit is allowed for expenditures other than for below-the-line payroll of nonresidents. This nonresident payroll will receive only a 20% credit. Payroll to any person over $1 million is not eligible for the extra 5% payroll credit. Small productions between $50,000 - $300,000 are eligible for 30% credit for investors with 3 years of residency. Effective upon passage of ten other pieces of legislation.

EXPENDITURES	2013-14	2014-15	2015-16	2016-17	2017-18	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	2013-14	2014-15	2015-16	2016-17	2017-18	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total						

EXPENDITURE EXPLANATION

There would be one-time expenses by the Revenue Department to modify tax forms and processing systems to accommodate the reduction in this credit. These types of modifications typically involve $20,000 - $40,000 of workload costs, plus additional taxpayer inquiries and guidance.

REVENUE EXPLANATION

The bill makes various changes to the definitions of the motion picture credit program that appear to constrain the program in terms of expenditures eligible to generate tax credits. These changes are effective July 1, 2013 but is not clear if they are applicable to productions already approved into the program. Presumably, these changes apply only to new productions approved into the program after July 1, 2013. Changes to the program applicable to productions approved in after January 1, 2014 will also constrain program costs relative to the current baseline. However, the small production 30% credit is an expansion of costs since these productions are not currently eligible for the program.

These changes would not be expected to have a material effect on program costs until FY15 or FY16. Payments made to program participants occur after productions have completed and cost reports have been compiled, submitted, and reviewed. Thus, it is unlikely that any of these changes will materially change program costs in FY14. Savings would accumulate over time as existing projects are paid out and new projects under the new provisions of this bill work their way through the program. LED has not been able to generate program data that distinguishes the various expenditures affected by the bill, and no estimate of those future savings is available for these provisions. However, LED is confident that the reduction in credit rate to 20% for below-the-line nonresident payroll will generate costs savings by FY16.

The bill does provide for withholding of personal income taxes from payments for employment services. This does not change ultimate tax liabilities and may not materially change ultimate tax collections from these earnings. However, to the extent withholding has not been occurring this will accelerate the receipt of tax payments and may shift receipts between fiscal years. To the extent liabilities have not been paid, this will encourage compliance and will result in greater tax collections.

The bill also reduces the tax credit payments provided to solar electric/thermal projects by 15%, for all such claims against income tax liabilities between July 1, 2013 and June 30, 2016. Based on the level of current program credit realizations, this could result in approximately $3.6 million of program cost savings per year. These savings are reflected in greater retention of net revenue collections as the Revenue Department makes less refundable tax credit payments associated with this program.

Senate	Dual Referral Rules	House	
[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		[ ] 6.8(F) >= $500,000 Annual Fiscal Cost {S}	
[x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}		[ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}	

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