LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6711 | **NOTE PREPARED:** Jan 8, 2008
BILL NUMBER: HB 1159 | **BILL AMENDED:**

SUBJECT: Media Production Tax Credit.

FIRST AUTHOR: Rep. Welch | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: This bill extends the duration of the Sales Tax exemption for property purchased for a motion picture production from December 31, 2008, to December 31, 2009. The bill also provides that the Sales Tax exemption is not available if the motion picture production is a qualified media production for which the Indiana Economic Development Corporation approves a Media Production Expenditure Tax Credit. This bill authorizes a credit against state tax liability for certain media production expenditures.

Effective Date: January 1, 2008 (retroactive); July 1, 2008.

Explanation of State Expenditures: *Administrative Expenditures* - This bill will increase expenditures by the Department of State Revenue (DOR) and the Indiana Economic Development Corporation (IEDC). The DOR will have to amend forms, adopt rules and procedures, and update computer software related to the Sales Tax exemption changes in this bill. The IEDC will realize administrative costs in forming agreements to award tax credits to certain taxpayers with expenditures for qualified media productions in the state. The amount of increased expenditures is indeterminable, but it is estimated that both the DOR and IEDC could implement these provisions through the use of existing staff and resources.

Explanation of State Revenues: *Sales Tax Exemption for Motion Picture Production Expenditures* - This bill will decrease Sales Tax collections by between $280,000 and $375,000 in FY 2009, and between $400,000 and $530,000 in FY 2010. This bill extends the Sales Tax exemption for property purchased for use in motion picture productions from purchases made before January 1, 2009, to purchases made before January 1, 2010. The estimated range for FY 2010, above, assumes that purchasers will buy qualified items earlier than usual in FY 2010 to take advantage of this Sales Tax exemption. The amount of the decrease in Sales Tax collections could be less than the amount stated above due to the provision in the bill that disallows a taxpayer from using this exemption and receiving the Media Production Expenditure (MPE) tax credit for the same expenditures.

Media Production Expenditure Tax Credit - The bill establishes a tax credit against the Adjusted Gross Income (AGI) Tax, Financial Institutions Tax, or Insurance Premiums Tax liability for individual and corporate taxpayers that make qualified expenditures in Indiana in the direct production of a qualified media production in Indiana. Tax credits for qualified expenditures must be approved by the IEDC. The revenue loss from the tax credit could potentially total $5 M annually from FY 2009 to FY 2012, depending upon credit approvals by the IEDC.

The tax credit expires on January 1, 2012, and the bill caps the amount of tax credits the IEDC may approve at $5 M per taxable year. It is estimated that annual expenditures on media production activities currently occurring in Indiana potentially total about $190 M. The $5 M annual tax credit limit could be reached if the 15% tax credit is approved for $33 M in qualified media production expenditures each year.

The tax credit is a refundable tax credit applicable to expenditures made in Indiana in the direct production of a qualified media production in Indiana by individual or corporate taxpayers. The credit may be claimed by taxpayers that are approved for the tax credit by the IEDC and that make at least $100,000 in qualified media production expenditures in a taxable year. The tax credit is a percentage determined by the IEDC, up to 15%, of the qualified expenditures. The bill defines the various media productions and media production expenditures that qualify for the refundable tax credit. For pass through entities, the tax credit may be claimed by shareholders, partners, or members in proportion to their distributive income from the pass through entity. The bill prohibits the tax credit from being sold, assigned, conveyed, or otherwise transferred. The credit amount that a taxpayer may claim depends on the level of qualified media production expenditures made by the taxpayer as follows.

Media Production Income Apportionment - The bill provides a special income apportionment formula for income earned by a corporate or nonresident taxpayer from a qualified media production for which the taxpayer received the media production expenditure tax credit. The income from the qualified media production must be apportioned to Indiana according to the ratio of (1) the qualified media production expenditures for which the tax credit was granted to (2) the total production expenditures for the qualified media production. The impact of this provision is indeterminable, but it could potentially increase the amount of income from projects receiving the tax credit apportioned to Indiana above that which would otherwise have occurred under the current law.

Background Information - Sales Tax revenue is deposited in the Property Tax Replacement Fund (50%), the state General Fund (49.067%), the Public Mass Transportation Fund (0.76%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Fund (0.033%). Revenue from the AGI Tax on corporations, the Financial Institutions Tax, and the Insurance Premiums Tax is distributed to the state General Fund. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Indiana Economic Development Corporation.

Local Agencies Affected:

Information Sources: Internal Revenue Service, *Statistics of Income: Sole Proprietorship Returns* (2000 to 2005); 2002 Economic Census..

Fiscal Analyst: Adam Brown, 317-232-9854; Jim Landers, 317-232-9869.