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Fiscal Note

Fiscal Services Division

SF 206 – Film, Television, and Video Project Tax Credits (LSB1235SV)
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Fiscal Note Version – New

Description

Senate File 206 expands Iowa's film promotion tax credit program to allow tax credits for project salary expenditures currently excluded from the credit calculation. The salary expenditures include up to $1.0 million in salary each for directors, producers, and principal cast members. To qualify for the expanded salary expenditure credit, the director, producer, and/or principal cast member must either be an Iowa resident or establish an Iowa-based business. The individual (producer, director, and principal cast member) does not receive the credit. The tax credit is awarded to the entities responsible for the project.

Current Iowa law also allows project vendors to exclude project income from Iowa income tax in the year earned. The Bill changes the exclusion to a maximum exclusion of 25.0% over each of four tax years.

The Bill also allows the Department of Economic Development to charge a fee to be paid by qualified film tax credit projects. Current law forbids a project fee.

Background

Iowa's film promotion tax credit program was created in House File 892 (Film Promotion and Video Project Promotion Act of 2007). That Act created two film expenditure tax credits for qualified projects equal to a total of 50.0% of specified expenditures. To qualify for the credit, the expenditure must be made to an Iowa resident or to an Iowa-based entity. Director, producer, and principal actor expenditures were specifically excluded. The tax credit is transferable.

The Act also allowed Iowa residents and Iowa-based businesses to exclude payments received from the sale, rental, or furnishing of services and tangible personal property directly related to the production of a qualified project. The exclusion can be utilized in the tax year the income is earned. This allows entities to become Iowa residents for just one year and fully benefit from the exclusion.

Assumptions

1. The Department of Economic Development estimates $8.0 million of annual expenditures that currently occur under Iowa's existing film promotion program will qualify for the expanded tax credit. Under the Bill, those expenditures will be eligible for two 25.0% tax incentives.
2. The Bill is effective July 1, 2009, and the credit changes do not impact projects approved before that date. To have an FY 2010 impact, projects must be approved and completed, tax credits awarded, and either used as part of a final return or used to reduce a tax

estimate payment before June 30, 2010. It is assumed the timeline will take longer and the initial impact of the change will not occur until after June 30, 2010.
3. Changing the time a qualified vendor must be an Iowa resident (from one year to four years) to fully receive the benefit of the income exclusion will delay the impact of the exclusion and also reduce the ultimate impact of the exclusion as some vendors will not remain residents long enough to fully utilize the exclusion.
4. The effective Iowa income tax rate for vendors is estimated to be 4.50%.

Summary of Impacts

The expanded tax credit contained in Senate File 206 will reduce net General Fund revenue by $3.2 million annually, beginning in FY 2010. The estimated net impact includes revenue reductions associated with tax credit redemptions, partially offset by increased tax revenue associated with delayed and unused vendor income exclusions.

This fiscal impact includes only projects assumed to occur under the current system and does not include any additional projects that may be attracted by the enhanced credit structure.

Net General Fund Revenue Reduction

	Net General Fund Fiscal Impact	Tax Credit Expansion	Vendor Income Tax Payments Increased
FY 2011	$ -3,190,000	$ -4,000,000	$ 810,000
FY 2012	-3,325,000	-4,000,000	675,000
FY 2013	-3,460,000	-4,000,000	540,000
FY 2014	-3,595,000	-4,000,000	405,000
FY 2015	-3,595,000	-4,000,000	405,000
FY 2016	-3,595,000	-4,000,000	405,000

The fee level is not specified in the Bill, but the Department estimates annual fee revenue would equal $5,000 to $20,000 per year.

Sources

Department of Economic Development
Fiscal Services Division of the LSA

/s/ Holly M. Lyons

March 25, 2009