



April 11, 2011

The Honorable Craig Johnson
ALASKA STATE LEGISLATURE
State Capitol Room 216
Juneau, Alaska 99801

Dear Representative Johnson:

Thank you for your letter regarding the Alaska Film Office's determination of qualified expenditures pursuant to 44.33.236 (a) (14):

Sec. 44.33.236. Determination of qualified expenditures. (a) Expenditures made by a production company *in connection with a film production approved by the film office* that shall be considered qualified expenditures *must be directly related to the production and be incurred in the state*. Only expenditures that are ordinary, reasonable, and not in excess of fair market value and that are for real or tangible property, fees, services, or state or municipal taxes shall be considered. Expenditures may include:

(14) costs relating to the design, construction, improvement, or repair of a film, video, television, or digital production or postproduction facility or related property, infrastructure, or equipment, except commercial exhibition facilities, as by the film office (emphasis added);

The treatment of qualified expenditures under this statutory provision are subject to audit by a Certified Public Accountant licensed and doing business in Alaska. In general all capital items claimed as a qualified expenditure (e.g. purchased through an Alaskan vendor, directly related to a pre-qualified production, and incurred in the state), are subject to valuation based on federally-recognized depreciation schedules. The Film Office has advised producers and Alaskan CPAs doing qualified expense verification that capital purchases can be handled in two ways:

- 1) If the capital purchase is sold at the end of production the difference between purchase and sales price is the eligible amount; or
- 2) If the production company keeps a major purchase for future use at the end of production, the federal depreciation schedule is used to pro-rate the value of that item. For example, a production buys a camera for \$10,000 that depreciates over 3 years. The annual depreciated value of the camera is \$3,333. If the production used the camera for 3 months then the eligible expense would be \$833. Based on the average tax credit range of 32 – 33 percent, the tax credit apportioned to this qualified expense would be approximately \$275.

Of the 18 productions that have submitted final applications, received approval, and been issued a tax credit certificate, only one has purchased equipment. The depreciated value method was used, resulting in less than a \$16 increment in the approved tax credit. Based on a review of completed applications, productions generally rent or lease their equipment.

No production to date has claimed land acquisition, leasehold improvements, or facility modifications or improvements. However, the same considerations, factors and treatments would be used to determine the qualifying portions of expenditures of this nature.

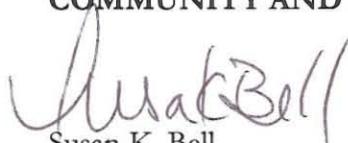
The production *Everybody Loves Whales* has not submitted a final application. At this time, estimates of its Alaska ground spend have ranged from \$16 million to \$30 million. Until the production submits its final application we don't know what they will claim as their qualified expenses. However, general rules apply to calculating qualified spend. All of the wages and salaries earned while working in Alaska qualify for the base rate of 30 percent. Wages paid to Alaska residents qualify for an additional 10 percent increment. Spending with Alaska businesses qualifies at the base rate. Equipment not available locally that is sourced through an Alaska production services company is a qualified expense. Expenses that are incurred directly by the production from a non-Alaska business do not qualify; therefore productions have a strong incentive to utilize Alaskan companies for all of their needs.

Alaska statute is clear that a business license is required for "the privilege of doing business in Alaska." Film productions and other itinerant businesses doing business in the state for a short duration are subject to this requirement. The Film Office is taking steps to notify all existing pre-qualified productions that this is a requirement. Additionally, Film Office staff is working on modifications to all applications and the web site to provide notice, verification, and otherwise facilitate this task on the part of all productions. We appreciate you bringing this matter to our attention.

If I can provide any additional information, please call upon me. We appreciate the work of the House Committee on Labor and Commerce on this matter.

Sincerely,

**DEPARTMENT OF COMMERCE,
COMMUNITY AND ECONOMIC DEVELOPMENT**



Susan K. Bell
Commissioner

cc Governor Sean Parnell
Kelly Mazzei, Department of Revenue
Senator Johnny Ellis, Sponsor SB 23
Representative Olson, Chair House Labor and
Commerce Committee
Representative Chenault, Member

Representative Saddler, Member
Representative Thompson, Member
Representative Holmes, Member
Representative Miller, Member
Crystal Koeneman, DCCED Legislative Liaison