

FISCAL NOTE

STATE OF ALASKA
2008 LEGISLATIVE SESSION

Fiscal Note Number: 3
 Bill Version: CSSSSB 230(FIN)
 (S) Publish Date: 2/29/08

Identifier (file name): CSSSSB230(LC)-DOR-TAX-2-19-08 Dept. Affected: Revenue 04
 Title: Film Office / Film Production Tax Credit RDU: Taxation and Treasury
 Component: Taxation and Treasury
 Sponsor: Senators Ellis, Stevens, Davis, Dyson
 Requester: (S) Labor & Commerce Component Number: 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information					
		FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
OPERATING EXPENDITURES							
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equipment							
Land & Structures							
Grants & Claims							
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ()	*	0.0	*	*	*	*	*
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts							
1003 GF Match							
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts							
1037 GF/Mental Health							
Other Interagency Receipts							
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2008) cost: 0.0

POSITIONS

Full-time							
Part-time							
Temporary							

ANALYSIS: (Attach a separate page if necessary)

See attached.

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 Division: Tax
 Approved by: Jerry Burnett
Department of Revenue

Phone (907) 465-3279
 Date/Time 2/19/08 12:00 AM
 Date 2/19/2008

ANALYSIS CONTINUATION

Bill Language:

This bill will create a tax credit, applicable against corporate income tax liability, for certain film production activities in the state of Alaska. Features of the credit include:

- Base tax credit equal to 30% of qualified production expenditures
- An additional 10% credit for qualified wages paid to Alaska residents
- An additional 2% credit for qualified expenditures made in a rural area
- An additional 2% credit for qualified expenditures made between October 1 and March 30
- Unused credits may be transferred or carried forward for future liability

The credit is available only if certain conditions are met: the film producer must have over \$50,000 in qualified expenditures in Alaska, and the production must be approved by the Film Office of the Department of Commerce, Community and Economic Development. The credit is targeted by way of excluding several categories of film production. The following categories of film production would not be eligible for the credit: News, weather and current events programming; financial, talk or game shows; productions intended primarily for industrial, corporate, institutional or internal purposes; sports events or programs; gala presentations or awards shows; infomercials and productions that solicit funds; political advertisements; and sexually explicit productions.

Alaska will join a growing number of states that have a film production tax credit. According to an April 2007 article in "The Hollywood Reporter," there were 31 states with film production tax credits at that time, with several others considering the credits.

Film production tax credits vary between states, with the most generous as of April 2007 being Connecticut's 30% transferable credit on all production expenses over \$50,000 with no cap on the amount of the credit. Like Connecticut's credit, Alaska's proposed credit would be transferable, requires \$50,000 in eligible expenses, and has no cap. Alaska's 30% base tax credit can be augmented by the additional 10% credit for Alaska resident payroll, 2% credit for rural expenditures and 2% credit for off-season production. Alaska's credit will therefore be one of the most generous in the nation in terms of the percent of qualified production expenditures.

Revenues:

While the revenue impact of this bill is indeterminate, we believe that it is likely that the revenue impact will be negative to the state. It is not possible to estimate the amount of liability that could be generated or offset by this credit because we do not know the value of current eligible film production expenditures in the state, the amount of new eligible expenditures that might be attracted to the state, or the ownership of the companies that will be producing films in the state.

Based on our discussions with film industry groups and other states, production expenses are typically incurred by a Limited Liability Corporation (LLC) formed for the purpose of film production, with profits flowing to the owners of the LLC. Under Alaska state law, LLCs are treated as partnerships and not subject to corporate income tax. Income or loss will flow through to the LLC's owners. Owners of LLCs can include C-corporations, S-corporations, partnerships and individuals. Under Alaska law, S-corporations, partnerships and individuals are not subject to state income taxation. To the extent the eligible LLC passes income through to these non-taxable entities, Alaska will receive no compensating tax revenue. Similarly, to the extent the LLC incurs losses, Alaska would receive no compensating tax revenue. To the extent that C-corporations hold an ownership interest in the LLC, these corporations will pay Alaska tax. However, it is likely that the LLCs will be organized to minimize the overall tax liability.

Corporate income tax is paid in four quarterly installments throughout the tax year, plus a payment with return in March of the following year. We anticipate that eligible companies will adjust their payments beginning in FY 2009 to account for the impact of the new film production tax credit.

Expenditures:

We anticipate that this credit can be implemented in the Department of Revenue using existing staff and resources. Most of the work related to credit approval and determinations will be made by the Department of Commerce, Community and Economic Development.