

MINNESOTA • REVENUE

**INDIVIDUAL INCOME TAX
CORPORATE FRANCHISE TAX
SALES TAX AND USE TAX
Film Production Investment Credits
Film Production Sales Tax Exemption**

April 3, 2013

Department of Revenue
Analysis of S.F. 1434 (Cohen)

| | Yes | No |
|----------------------------------|-----|----|
| DOR Administrative Costs/Savings | X | |

| | Fund Impact | | | |
|------------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | <u>F.Y. 2014</u> | <u>F.Y. 2015</u> | <u>F.Y. 2016</u> | <u>F.Y. 2017</u> |
| | (000's) | | | |
| Individual and Corporate Franchise Taxes | (\$10,000) | (\$10,000) | (\$10,000) | (\$10,000) |
| Sales Tax Exemption | (\$210) | (\$230) | (\$240) | (\$240) |
| General Fund Total | (\$10,210) | (\$10,230) | (\$10,240) | (\$10,240) |
| Natural Resources and Arts Funds | (\$10) | (\$15) | (\$15) | (\$15) |
| Total – All Funds | (\$10,220) | (\$10,245) | (\$10,255) | (\$10,255) |

Effective beginning with tax year 2013 for the income and corporate franchise tax credits.
Effective beginning July 1, 2013 for the sales tax exemption.

EXPLANATION OF THE BILL

Income and Corporate Franchise Tax Credits

The bill provides for two credits against the individual income tax and the corporate franchise tax for amounts spent producing a feature film, television series, digital media project, or commercial, if the filming is done entirely in Minnesota. For the first credit eligible amounts include 25% of payroll if total production expenses in the state are \$100,000 or more. The second credit eligible amount is 25% of total production expenses, less amounts used in claiming the first credit. Credits can be transferred, sold or otherwise assigned. The credits are refundable at the option of the taxpayer. If the taxpayer elects refundable status, the amount refunded equals 90% of the unused portion of the credit(s). Otherwise the unused portion may be carried forward for up to five years. The credits are available only by obtaining a credit certificate from the Minnesota Department of Revenue before production. Certificates are limited to an aggregate amount of \$10 million per year.

Sales Tax Exemption

The bill provides an exemption for tangible personal property sold to a qualifying motion picture production company, provided that the company spends at least \$50,000 within the state in connection with the filming or production of one or more motion pictures in the state within any consecutive 12-month period. The company shall provide an estimate of the total expenditures to be made in the state in connection with making the film. This estimate shall be filed with the Department of Revenue before a sales tax exemption certificate may be issued. If the company fails to spend \$50,000 within a consecutive 12-month period, it shall be liable for the sales tax that would have been paid if the exemption had not been granted.

REVENUE ANALYSIS DETAIL

Income and Corporate Franchise Tax Credits

- The total credits are limited to \$10 million for each year. If enough qualifying film production takes place in Minnesota, the revenue impact would be \$10 million annually.

Sales Tax Exemption

- The sales tax exemption estimate was based on national receipts from the sale of motion picture and television programming. National totals were apportioned to Minnesota at 1%.
- The amount was reduced by 85% to exclude labor costs and other nontaxable services.
- It was further assumed that 50% of the adjusted figure would be attributable to tangible personal property actually purchased in Minnesota.
- Annual growth from 2007 was estimated at 2%.
- The estimate for fiscal year 2014 was adjusted for an effective date of July 1, 2013.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx