F I S C A L   I M P A C T   R E P O R T

ORIGINAL DATE 1/31/06
SPONSOR HTRC **LAST UPDATED** 2/22/06 **HB** CS/358 & 359/aSFC

SHORT TITLE Increase Film Production Tax Credit Amount **SB**

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue*			Recurring or Non-Rec	Fund Affected
FY06	**FY07**	**FY08**		
(860.0)	(1,770.0)	(1,860.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)
* See Fiscal Implications Narrative

SOURCES OF INFORMATION
LFC Files

Responses Received From
Economic Development Department (EDD)
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Conference Agreement

The conference agreement removed the Senate Floor amendment and the Senate Finance Committee amendments. The agreement also amends the bill by making the additional five percent credit available to all expenditures until tax year 2009. Hence, from July 1, 2006 till December 31, 2008, the film production credit will be equal to 25 percent of qualified expenditures.

Synopsis of Senate Floor Amendment

Senate Floor Amendment # 1 of House Taxation and Revenue Committee substitute for House Bills 358 and 359 changes the credit by striking the 5 percent additional credit and putting in its place a 15 percent credit for projects that are part of the federal New Markets Credit program. With this amendment, the film production credit is either 20 percent of qualified expenditures or 15 percent for expenditures eligible for the New Markets Credit program.

Synopsis of Amendment

The Senate Finance Committee amended the House Taxation and Revenue Committee substitute for House Bills 358 and 359 by placing a sunset provision on the additional five percent credit. The additional credit can be claimed until January 1, 2016. This amendment does not change the fiscal impact reported.

Synopsis of Original Bill

The House Taxation and Revenue Committee substituted House Bill 358 and House Bill 359 to combine the bills. The substitute increases the credit to 20 percent, adds an additional 5 percent credit for certain project expenditures and repeals the New Mexico Filmmakers credit.

A 5 percent additional credit for expenditures that

a. Is for the production of four or more months of a second or subsequent season of a television series;

b. Utilizes a permanent studio facility of not less than 55,000 square feet and that is part of a workforce training program, certified by the film division, with a state education institution; and

c. Does not qualify for the federal new markets tax credit program.

The substitute repeals the New Mexico Filmmakers credit and includes definitions for "federal new markets tax credit", "season" and "television series." Series is defined as ten episodes and television series is defined as at least six hours of television product that is exhibited by a television station. There is an emergency clause so this bill will take effect as soon as it becomes law.

FISCAL IMPLICATIONS

TRD:

Department records indicate that $36 million of credit eligible expenditures were made in the state in 2005. The fiscal impacts assume that this amount will decline to about $30 million in 2006 because there were some large projects in 2005 that are unlikely to be repeated on the same scale. Using the $30 million figure for 2006, the additional 5 percent credit results in a $1.5 million fiscal impact. Eliminating the New Mexico Filmmaker Tax Credit and increasing the Film Production Tax Credit by 5 percent increases credits by about $200 thousand per year because payroll expenses for out-of-state residents are eligible for the latter but not for the former. One half of the calendar year 2006 credits will accrue during Fiscal Year 2006, with the other half accruing in FY 2007. Credit-eligible expenditures are assumed to grow by 5 percent per year. The fiscal impact drops after 2008 because of the sunset provision on the additional 5 percent credit. The impacts are classified as recurring despite the temporary increase in the credit rate because the proposal reduces personal and corporate income tax collections, which are treated as recurring revenues in the state's General Fund budget.

OTHER SIGNIFICANT ISSUES

The economic development goal of attracting television series to New Mexico is important since these series are here for a much longer time than movie productions, which may only shoot a few days or weeks in the state. Further, having a television series builds up the local workforce, especially in conjunction with the post-secondary training programs available. The industry is also a service intensive industry which means that much of the support work can and generally is done locally. This includes catering, drivers and skilled trades like electricians and carpenters.

TECHNICAL ISSUES

TRD:

The proposal does not impose significant administrative costs on the Department unless the provisions are interpreted to be applicable to tax year 2005. This would be difficult to implement because processing for the tax year has already begun. To avoid this outcome, the proposal could contain an "applicability" clause that stipulates it only applies to tax years beginning on or after January 1, 2006.

NF/mt:yr:nt