



BILL AND AMENDMENT SUMMARY

Film Incentives HF 818 and SF 480

Status of Bill: HF 818 on House Floor (Ways and Means 24-1)
Committee: Economic Growth (21-0) SF 480 Passed Senate (46-4)
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Background

In 2007, Iowa created the Film, Television and Video Project Promotion program. It is administered through the Iowa Film Office under the Department of Economic Development's Business Development Division. It offers incentives for film projects to increase the likelihood of additional film projects, such as "Field of Dreams," "Twister" or "The Bridges of Madison County" be shot in Iowa. As these projects employ local labor, buy materials and use local hotels and services, a film project is a boost to local economies in Iowa.

According to the department, the program has incented 13 projects in less than three years to be shot in Iowa. By comparison, in four decades prior to the program, there were 23 projects shot in Iowa. Iowa's program has been mentioned as an example by the National Governor's Association Center for Best Practices brief on film promotion programs.

Currently the program contains a 25% qualified expenditure tax credit for producers that is based on a specific list of qualified expenditures. To qualify for the credit, the expenditure must be made to an Iowa resident, and the director, producer and principal actor are excluded. There is also an investment tax credit of 25% that is offered on an investment in a film. None of the incentives in the program can be used for film projects depicting obscene material.

HF 818 and SF 480 have been filed by the department in an effort to lure larger film projects to Iowa, and to make the program more competitive with other states that offer incentives, such as Wisconsin, Illinois, New Mexico, Arizona and North Carolina. It would modify the program to encourage larger film projects.

Bill Summary

Section 1: Administration Fee

There is a fee allowed to be charged for the program in HF 818 and SF 480. The amount will be determined by rule, and used by the department to administer the program. The department will use this within the program for crew training, program marketing or event sponsorships. The industry supports the fee if it is used within the program. The fee revenue for the program is estimated to be between \$5,000 to \$20,000 per year according to the department.

Section 2: Expenditure Tax Credit Changes and Caps

The bill removes the exclusion for the expenditures tax credit, not to exceed \$1 million, to the principal producer, principal director, and the principal cast member, if they are Iowa residents or an Iowa based business. The department of revenue and the department of economic development will establish a list of qualified expenditures.

- The bill establishes caps on the qualified expenditures of the principal director, the principal producer, the principal director and principal cast member, if they are an Iowa resident or Iowa-based business, when they fall into the following categories:
 - 1) If the overall qualified expenditure is at least **\$10 million**, then the maximum compensation eligible that can be claimed is **\$250,000** each.
 - 2) If the overall qualified expenditure is at least **\$20 million**, then the maximum compensation eligible that can be claimed is **\$1 million** each.
- The bill establishes caps on the qualified expenditures for all other labor and personnel that do not include the principal director, the principal producer, the principal director and principal cast member, when they fall into the following categories:
 - 1) If the overall qualified expenditure is **less than \$10 million**, then the maximum compensation eligible to be claimed is **\$150,000** each.
 - 2) If the overall qualified expenditure is at least **\$10 million but less than \$20 million**, then the maximum compensation eligible to be claimed is **\$200,000** each.
 - 3) If the overall qualified expenditure is at least **\$20 million**, then the maximum compensation eligible to be claimed is **\$300,000** each.

Section 4: Tax Exclusion for Vendors Changes

The current program allows Iowa based vendors an income tax exclusion on payments received on the sale, rental or furnishing of services and tangible property directly related to the film project. The exclusion is available in the tax year in which it occurred. HF 818 and SF 480 allows for the exclusion to be allowed for the year it occurs **and** for the three ensuing tax years. This will reduced the use of temporary vendors and encourage the creation of long-term vendors.

Establishing these caps on the program, and delaying the impact of the vendor tax exclusion, will eliminate the negative fiscal impact to the bill. In fact, FY 11 fiscal impact is estimated to be a positive \$810,000. That estimate is based on the number of projects under the current program, and it does not include additional projects that could be attracted under the changes in the bill.

HF 818 and SF 480 would apply to projects that are registered with the program on or after July 1, 2009.

AMENDMENT SUMMARY TO HF 818

H-1540 by Horbach: Fee Deposited in the General Fund

The amendment would have the fee revenue deposited in the general fund instead of being used to administer the program. The department plans to use the fee for crew training, program marketing or event sponsorships. The industry supports the fee, similar to other states, if it is used within the program.

H-1603 by Thomas: Qualified Expenditures Tax Credit and Investment Tax Credits Negotiated

The conforming Senate amendment would allow the expenditures tax credit and the investment tax credit to be negotiated by the department, but both are still capped at 25%. This will give the department some flexibility to go below 25%, but still keep a project. The amendment keeps the current language in the program where a person that is eligible for the investment tax credit is **not** eligible for the qualified expenditure tax credit. It also keeps language in the program that a person eligible for the expenditure tax credit is **not** eligible for the income tax exclusion.