OHIO LEGISLATIVE SERVICE COMMISSION

Russ Keller

Fiscal Note & Local Impact Statement

Bill: H.B. 525 of the 132nd G.A. **Status:** As Introduced

Sponsor: Rep. Schuring **Local Impact Statement Procedure Required:** Yes

Subject: To expand the motion picture production tax credit

State & Local Fiscal Highlights

	FY 2019	FY 2020	FUTURE YEARS
State General Revenue Fund			
Revenues	Loss up to $58.0 million	Loss up to $58.0 million	Annual loss up to $58.0 million
Expenditures	- 0 -	- 0 -	- 0 -
Local Government and Public Library funds (counties, municipalities, townships, and public libraries)			
Revenues	Loss up to $2.0 million	Loss up to $2.0 million	Annual loss up to $2.0 million
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state or school district fiscal year is July 1 through June 30. For example, FY 2018 is July 1, 2017 – June 30, 2018. For other local governments, the fiscal year is the calendar year.

- The bill expands eligibility for the existing motion picture production tax credit and increases the annual limit on issued credits from $40 million to $100 million. The aggregate revenue loss would be up to $60 million per year. Credits may be claimed against the commercial activity tax, the financial institutions tax, or personal income tax.
- The state tax revenue loss would be shared by the state General Revenue Fund (GRF, 96.66% in FY 2019 and 96.68% thereafter), the Local Government Fund (LGF, 1.66%), and the Public Library Fund (PLF, 1.68% in FY 2019 and 1.66% thereafter). Funds deposited into the LGF and PLF are distributed to counties, municipalities, townships, and public libraries according to statutory formulas and decisions by county budget commissions.
- Estimates above assume the bill's effective date is July 1, 2018.

Detailed Fiscal Analysis

H.B. 525 modifies the law governing the motion picture production tax credit. Continuing law allows a refundable credit for companies that produce at least part of a motion picture in Ohio and incur at least $300,000 in Ohio-sourced expenditures. The credit equals 30% of the company's Ohio-sourced expenditures for goods, services, and payroll. The credit is transferrable and may be claimed against the commercial activity tax (CAT), the financial institutions tax (FIT), or personal income tax (PIT). A company seeking the credit must first apply to the Development Services Agency (DSA) Director for certification of the project as a "tax credit-eligible production." Then, upon completion of the production, the company must hire an independent certified public accountant to compile a report of the company's Ohio-sourced expenditures and apply to the Director for a tax credit certificate based on that amount.

The bill extends eligibility for the motion picture tax credit to certain "Broadway theatrical productions" that are rehearsed or performed at a "qualified production facility" – which is defined by the bill as an Ohio facility that is used in the development or presentation to the public of live stage theater.

H.B. 525 increases the overall credit cap from $40 million per fiscal year to $100 million per fiscal year, beginning with FY 2019. Under continuing law, if the amount of credits awarded in any fiscal year is less than the annual credit cap, the difference may be carried forward and added to the cap in the following year.

H.B. 525 adds an economic impact criterion to the existing evaluation process for the DSA Director to consider when awarding tax credits to applicants. The bill also modifies this process by creating a biannual award deadline. The first round of applications would be approved no later than July 31 of a given fiscal year, and the second round would be approved no later January 31. For each round, the Director must rank the applications on the basis of the positive economic impact a production would have. Similar to current law, priority must be given to television series and miniseries "due to the long-term commitment typically associated with such productions." The Director would then award tax credit certificates to productions in order of their ranking, starting with the productions that had the greatest economic impact. If the amount of credits approved in the first application cycle equals the annual credit cap, there would be no second cycle for that fiscal year.

Fiscal effect

Increasing the credit cap from $40 million to $100 million per year would, on average, reduce state tax receipts by up to $60 million per year. For credits claimed against the FIT or PIT, the GRF would bear $58 million of this marginal loss while the remaining revenue losses would be shared by the LGF and PLF.

For amounts claimed against the CAT, the GRF would bear 85% of the revenue loss, with 13% borne by the School District Tangible Property Tax Replacement Fund (Fund 7047) and 2% by the Local Government Tangible Property Tax Replacement Fund (Fund 7081). The two property tax replacement funds are used to provide payments, in predetermined amounts, to school districts and other political subdivisions to reimburse them for past reductions in personal property tax revenue. If there is more money in either fund than is needed to make the required payments, the excess is transferred to the GRF; if there is less money in either fund than needed, transfers from the GRF make up the shortfall. So a reduction in CAT revenue ultimately affects the GRF the same way that shortfalls in FIT or PIT revenue do, except that the

LGF and PLF each receive slightly smaller shares: they each receive transfers of 1.66% of GRF tax revenue,[1] meaning they do not receive portions of the 15% of CAT revenue deposited into non-GRF funds (i.e., funds 7047 and 7081).

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[1] For the current biennium, an uncodified provision of H.B. 49 of the 132nd General Assembly increases the PLF share of GRF tax revenue to 1.68%, implicitly reducing the share remaining in the GRF from 96.68% to 96.66%. For any FY 2019 revenue losses, this allocation formula would apply. The allocation formula described above will resume starting July of 2019 under current law.