



ARIZONA STATE SENATE
Forty-ninth Legislature, First Regular Session

PROGRAM PRESENTATION
Motion Picture Tax Credit

Background

The Motion Picture Tax Incentives Program (Program) was enacted and expanded by the Legislature in 2005, 2006 and 2007 to provide economic and tax incentives to attract the motion picture industry to Arizona.

Use Tax and Transaction Privilege Tax (TPT)

The Program offers use tax exemptions for items, such as machinery or equipment purchased outside Arizona, which are used in a production. Motion picture production companies are also eligible for a variety of TPT exemptions for purchases related to motion picture production. Additionally, vehicles used entering Arizona for the sole purpose of production are exempt from the state fuel tax, all hotel occupancy taxes are waived for stays over 30 days and withholding tax of nonresident wages is not required. The motion picture production company is required to present its exemption certificate when claiming these exemptions. Applicants are also required to report the amount of their TPT exemptions to ADOC.

Motion Picture Production Income Tax Credits

For tax years 2006 through 2010, Motion Picture Production Income Tax Credits allow individual and corporate income tax credits equal to 20 percent or 30 percent of the investment in qualifying production costs expended in Arizona. The amount of the tax credit is based on the following scale:

<u>Production Costs</u>	<u>Credit</u>
\$250,000 – \$1,000,000	20%
Greater than 1,000,000	30%

These tax credits may be used to offset Arizona tax liability. The tax credits may be used, sold or transferred. Unused credit amounts can be carried forward for up to five taxable years. To qualify for the tax credit, the motion picture production company must:

- Employ the statutorily required percentage of full time Arizona workers.
- Acknowledge in the production credits of the film that the production was filmed in Arizona.
- Receive pre-approval and post-approval from the Arizona Department of Commerce (ADOC).

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The total amount of corporate and individual tax credits that may be pre-approved by ADOC are capped at the following levels. Any unused credit from the cap at the end of the year may be reallocated to the following year, increasing the following year's cap.

<u>Calendar Year</u>	<u>Maximum Tax Credit Amount</u>
2006	\$30 million
2007	\$40 million
2008	\$50 million
2009	\$60 million
2010	\$70 million

Motion Picture Infrastructure Project Income Tax Credits

For tax years 2008 through 2010 the Program offers the following individual and corporate Motion Picture Infrastructure Income Tax Credits, which are subject to the total income tax credit cap listed above for the given year :

- \$5 million for soundstage projects in 2008.
- \$5 million for soundstage projects and \$7 million for associated support and augmentation facilities in 2009.
- \$5 million for soundstage projects and \$9 million for associated support and augmentation facilities in 2010.
- \$3 million for support and augmentation facilities.

The amount of the credit is 15 percent of the total base investment in the project during the taxable year. These tax credits may be used to offset Arizona tax liability. The tax credits may be used, sold or transferred. Unused credit amounts can be carried forward for up to five taxable years.

A qualified company can receive the nonrefundable infrastructure tax credit only after receiving pre-approval and post-approval from ADOC. Credits are authorized on a first come, first served basis. The applicant must construct, own and operate the eligible infrastructure project and submit a report to ADOC upon the project's completion. Arizona project expenditures for soundstages must be at least:

- \$250,000 within 90 days of pre-approval.
- \$1 million within 12 months of pre-approval.
- \$5 million within 36 months of pre-approval.

For support and augmentation facilities, Arizona project expenditures must be at least:

- \$250,000 within 90 days of pre-approval.
- \$1 million within 36 months of pre-approval.

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Fiscal Information

Motion Picture Production and Infrastructure Projects

Tax Year / Classification	# of claims	Credit Available	Credit Used	Carry Forward
2006				
Corporate*	2	//////////	//////////	//////////
Individual*	0	0	0	0
2007				
Corporate	4	\$6,402,746	\$725,754	\$5,676,992
Individual*	3	//////////	//////////	//////////

Source: Arizona Department of Revenue

*Bars in cells indicate release of information would violate confidentiality laws

According to the Department of Revenue, four motion picture tax credits have been sold or transferred to other taxpayers. Furthermore, two of the four tax credits were then resold to five other individual or corporate taxpayers.

According to the ADOC 2007 Annual Report on the Motion Picture Production Tax Incentives Program, in calendar year 2007 the Program created \$1.1 million in state and local tax revenues and cost the state General Fund \$2.8 million in credits, a net loss of \$1.7 million.

Prepared by Senate Research

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