LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 562** HLS 23RS 391
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 7, 2023 2:33 PM
Author: SCHEXNAYDER
Dept./Agy.: Department of Economic Development
Subject: Motion Picture Production Tax Credit
Analyst: Noah O'Dell

TAX CREDITS RE INCREASE GF RV See Note
Provides relative to the Motion Picture Production Tax Credit

Current law allows the Dept. of Economic Development (LED) to issue $150M per year of tax credits for certified film productions with fixed percentages for certain types of productions. Taxpayers may claim the nonrefundable credits against state income tax liability or sell the credits back to the state at a 10% discount (recipient gets 90% of the credit's value). From initial certification forward, credits may be signed over to a bank or lender. LDR is required to limit film tax credit claims to $180 M per year. The program will not accept applications beyond July 1, 2025.

Proposed law retains the annual issuance cap ($150M) and claims cap ($180M), but eliminates the percentage constraints on credits issued. Proposed law increases the sell-back discount by 7.5% per fiscal year for new applicants beginning in FY24 (discount of 17.5% or 10% plus 7.5% = a sell-back credit value of 82.5%), increasing by 7.5% annually through FY35 when the sell-back option is eliminated. Proposed law directs LED to create a new graphic for JLCB approval to be placed in all subsidized films. Proposed law eliminates the option to issue credits directly to a bank or lender. Proposed law extends the program application deadline by 10 years to July 1, 2035.

EXPENDITURES	2023-24	2024-25	2025-26	2026-27	2027-28	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total						

REVENUES	2023-24	2024-25	2025-26	2026-27	2027-28	5 -YEAR TOTAL
State Gen. Fd.	$0	SEE BELOW	INCREASE	INCREASE	INCREASE	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	DECREASE	DECREASE	DECREASE	DECREASE	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**					**$0**

EXPENDITURE EXPLANATION

The bill requires LED to develop a new graphic logo for the program and submit the logo for approval to JLCB by November 1, 2023, which is expected to increase departmental costs. The bill also requires the Department of Economic Development (LED) to ensure tax compliance at the federal, state, and local level prior to the issuance of a tax credit. LED reports this would create administrative complexities and added responsibilities within the agency requiring the development of a customized tax information sharing software program ($900,000 in FY24 and $250,000 each year thereafter) and two additional positions at an annual cost of $217,500 beginning in FY24, including salaries and benefits.

Because the bill does not specify all documentation necessary to prove tax compliance, the LFO can envision a scenario in which LED could satisfy bill requirements by directing credit recipients to present tax forms and tax clearances with the final credit submission. With the larger burden lying with the recipient instead of the department, state costs may be substantially less than indicated above. Regardless, initiation costs related to the bill are expected to be greater than $100,000, particularly with substantive bill changes and program adjustments beginning in a few weeks (spending is assumed in FY24 but may be required in FY23).

CONTINUED ON PAGE 2

REVENUE EXPLANATION

The current program will not accept applications beyond July 1, 2025, though pipeline projects may potentially claim credits throughout the fiscal note horizon. Proposed law extends the sunset of applications for the program from July 1, 2025, to July 1, 2035, which would decrease state general fund beginning in FY26 by an unspecified amount as projects become eligible that otherwise would not be.

However, the bill also substantially changes major program parameters that are expected to dominate the impact to the program over time. Current law allows taxpayers to transfer the credits to Louisiana Department of Revenue (LDR) for 90% of the value of the credits or redeem the tax credit against state income tax liabilities. Proposed law reduces the percentage of the face value of the credit by 7.5% each year for new applications to the program from FY24 through FY35. Applicants in FY35 will not be able to sell credits back to the state but may continue to redeem the credits against state tax liabilities at full value. As anticipated program participation wanes, particularly in response to the phase-out of the sell-back option, state general fund is expected to increase, and is assumed to offset any response to extending the program. The timing, magnitude and net effect of these changes cannot be determined with certainty, though LED indicates that even the first

CONTINUED ON PAGE 2

Senate	Dual Referral Rules	House
[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}		[x] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
[x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}		[ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Deborah Vivien
Chief Economist

LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **HB 562** HLS 23RS 391
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 7, 2023 2:33 PM
Author: SCHEXNAYDER
Dept./Agy.: Department of Economic Development
Subject: Motion Picture Production Tax Credit
Analyst: Noah O'Dell

CONTINUED EXPLANATION from page one:

EXPENDITURE EXPLANATION (continued)

Decreasing the face value of credits is expected to negatively impact participation in the Motion Picture Tax Credit Program in time, particularly as motion picture tax credits in other states become more lucrative by comparison. Given that about 92% of credits are currently redeemed by sell-back ($140.3M in FY22), and the bill eliminates this option, the size of the program is expected to shrink substantially over an inestimable timeframe, reducing the administrative needs of LED. With the program extension, program administration would remain in place to accommodate projects with state tax liabilities upon which to apply the credits and to continue efforts to attract projects to the state.

REVENUE EXPLANATION (continued)

year of the bill's sell-back reduction (FY24) will result in the Louisiana's credits being less valuable than some other states, particularly Georgia. Through testimony, industry spokesmen have indicated a willingness to pursue the most lucrative credits. If so, the bill could potentially draw productions away from Louisiana as early as FY24. By the first year of the program extension in FY26, the sell-back discount will have phased down to 32.5% (67.5% of credit value for sell-backs), making it most likely that the state general fund will show a net increase. The fiscal note assumes that the phase-out of a key component of the program begins impacting credit claims in FY25 as projects seek credits elsewhere.

The 2% fee associated with the sell-back that is deposited to the LA Entertainment Dedicated Fund Account is expected to diminish along with sell-back activity.

Senate — Dual Referral Rules

- [x] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}
- [x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}

House

- [x] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
- [ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Deborah Vivien
Chief Economist