Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 1571 (as introduced 11-4-10)
Sponsor: Senator Nancy Cassis
Committee: Finance

Date Completed: 11-8-10

CONTENT

The bill would amend provisions of the Michigan Business Tax (MBT) Act governing the film production credit, to do the following:

- **Allow the Michigan Film Office to enter into agreements for the credit only through September 30, 2012.**
- **Reduce the percentage of expenditures that qualify for the credit in 2011 and again in 2012.**
- **Limit the total of all postproduction certificates of completion issued in 2011 to $80.0 million, and limit the total amount issued in 2012 to $40.0 million.**
- **Reduce the maximum amount of compensation eligible for the credit per employee from $2.0 million to $1.0 million.**

New Tax Credit Agreements

The Act authorizes the Michigan Film Office, with the concurrence of the State Treasurer, to enter into an agreement with an eligible production company for a credit against the Michigan Business Tax (or against the income tax) for a percentage of the company's production costs. To qualify for the credit, the company must spend at least $50,000 in the State to produce a State certified qualified production, receive a postproduction certificate of completion from the Film Office, and meet other criteria.

Under the bill, the Film Office would have the authority to enter into such a tax credit agreement through September 30, 2012, and it would be subject to the proposed limits on postproduction certificates of completion issued.

Percentage of Expenditures

Currently, an agreement may allow a production company to claim a credit equal to 42% of direct production expenditures in a core community, 40% of direct production expenditures made elsewhere, and 30% for qualified personnel expenditures. (A core community is a qualified local government unit as defined in the Obsolete Property Rehabilitation Act.)

Under the bill, for expenditures made during 2011, the credit could equal 28% of direct production expenditures in a core community, 26% of direct production expenditures elsewhere, and 10% for qualified personnel expenditures.

For expenditures made during 2012, the credit could equal 14% of direct production expenditures in a core community, 13% of direct production expenditures elsewhere, and 5% for qualified personnel expenditures.

Total Credit Limits

The Act requires the Michigan Film Office to issue a postproduction certificate of completion to an eligible production company that has complied with the terms of its agreement. The production company must submit the postproduction certificate of completion to the Department of Treasury. If the credit allowed exceeds the company's MBT liability for the tax year or if the company does not have an MBT liability for the year, the Department must refund the excess or pay the amount of the credit to the company.

Under the bill, for the 2011 calendar year, the total of all postproduction certificates of completion issued could not exceed $80.0 million. For 2012, the total could not exceed $40.0 million.

Personnel Expenditures

The Act's definition of "direct production expenditure" includes payments and compensation, not to exceed $2.0 million for any one employee or contractual or salaried employee who performs services in this State for the production or distribution of a qualified production. The bill would reduce the maximum to $1.0 million per employee.

The definition of "qualified personnel expenditure" refers to a payment or compensation payable to below-the-line crew members who were not State residents for at least 60 days before a tax credit agreement was approved, not to exceed $2.0 million for any one employee. The bill would reduce that amount to $1.0 million.

MCL 208.1455 Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would reduce refundable credits under the Michigan Business Tax and thus increase revenue available to the General Fund. Credits would be expected to decline by approximately $80.0 million in FY 2011-12, $160.0 million in FY 2012-13, and $170.0 million in FY 2013-14. The reductions in the credits reflect both lower rates when calculating credits as well as estimated declines in the number of productions. The bill is not expected to affect FY 2010-11 revenue or expenditure.

Fiscal Analyst: David Zin

S0910\s1571sa