Independent Fiscal Office

Uncapping the Film Production Tax Credit: A Fiscal and Economic Analysis

May 31, 2013

Special Report 2013-5

About the Independent Fiscal Office

The Independent Fiscal Office (IFO) provides revenue projections for use in the state budget process along with impartial and timely analysis of fiscal, economic and budgetary issues to assist Commonwealth residents and the General Assembly in their evaluation of policy decisions. In that capacity, the IFO will not support or oppose any policies it analyzes, and will disclose all methodologies, data sources and assumptions used in published reports and estimates.

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INDEPENDENT FISCAL OFFICE

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May 31, 2013

The Honorable Dominic Pileggi:

This report presents the results of an analysis performed by the Independent Fiscal Office (IFO) on the fiscal and economic impacts of eliminating the cap on Pennsylvania's film production tax credit (FPTC). The report also considers stand-alone tax credits for post-production and digital interactive media services.

The fiscal analysis establishes a projected range for average annual authorizations under an uncapped credit. This range is the basis for a cash flow analysis that projects when the authorized credits will be awarded and ultimately used. The range is also used to estimate the contribution to gross state product from productions receiving a credit due to removal of the cap. The economic analysis includes the calculation of a net fiscal impact and a revenue ratio, both of which include a balanced budget component to reflect alternate uses of the funds devoted to the credit.

The report provides a general analysis to help policymakers evaluate proposals that increase or uncap the FPTC or create stand-alone credits. It does not evaluate the program in general, nor does it evaluate its effectiveness.

Consistent with the IFO's mission, the office does not make policy recommendations and this report will be posted to the office website no later than three days following transmittal. The IFO welcomes any questions, comments or suggestions regarding the content and methodology of this analysis.

Sincerely,

MATTHEW KNITTEL
Director

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Section 1: Introduction

This report analyzes the potential fiscal and economic impacts of selected changes to Pennsylvania's Film Production Tax Credit (FPTC). The changes considered in the report include removal of the annual cap for credits authorized under the FPTC and the addition of stand-alone tax credits for post-production expenses and digital interactive media. The analysis does not reflect the provisions of any specific legislation or legislative proposal, but rather it provides a general analysis that policymakers can utilize as they consider legislation or proposals relating to these topics.

Changes Analyzed

The specific changes analyzed in this report are discussed below.

<u>Uncapping the Film Production Tax Credit.</u>

Under current statute, the Department of Community and Economic Development (DCED) may authorize up to $60 million in tax credits each fiscal year. In addition to the $60 million allotment for the fiscal year, the department may conditionally approve in advance a portion of the credits authorized for the three succeeding fiscal years. Any credits provided advance approval will reduce the aggregate amount that may be authorized in the fiscal year from which they were advanced.

The analysis projects the fiscal impact of removing the annual cap on the FPTC in two stages. First, it establishes a range for the average value of tax credits that would be authorized in a fiscal year without regard to a cap on the aggregate amount of credits. For the purposes of establishing this range, the analysis assumes that other existing provisions governing tax credit eligibility remain in place. Second, the projection for authorized tax credits is converted to a cash flow to display the fiscal year in which the authorized credits would be used by taxpayers to offset tax liabilities, thus reducing tax revenues. There can be a substantial time lag between the initial authorization of the tax credit, its award by the department and its ultimate use by a taxpayer. The tax credit process is detailed in Section 2.

In addition to the fiscal impact, the analysis discusses the economic impact of uncapping the FPTC. The incremental increase in authorized tax credits is used to project the gross state product (GSP) and state tax revenue associated with the increased credits. The economic analysis includes the calculation of a net fiscal impact and a revenue ratio, both of which include a balanced budget component to reflect alternate uses of the funds devoted to the credit. Pennsylvania is required to enact a balanced budget, and the monies that would be used to expand the credit would not be available for other tax cut or spending priorities.

<u>Stand-Alone Credits for Post-Production and Digital Interactive Media.</u>

This report analyzes establishment of a stand-alone tax credit for post-production expenses. Post-production expenses qualify for the FPTC under current law when the Pennsylvania production expenses are at least 60 percent of the total production expenses. However, post-production does not separately qualify if the overall production does not receive the credit. The analysis assumes a 25 percent tax credit and maintains the 60 percent threshold, but applies it only to post-production expenses instead of all production expenses. It further assumes that the types of projects and post-production activities qualifying for the stand-alone credit would be the same as those that qualify under the existing FPTC.

The report also discusses the available data for digital interactive media services (e.g., interactive software or video games) to inform deliberations regarding a stand-alone credit for those services.

Scope and Structure of the Report

This report only addresses projections of the impact of the changes in the FPTC specified above. It does not address the fiscal or economic impacts of the FPTC in general, nor does it evaluate the overall effectiveness of the credit. In order to provide such an evaluation, it would be necessary to project the film production activity that would take place in the absence of the credit. Such a projection is beyond the scope of this targeted analysis.

The remainder of the report contains six sections. Section 2 provides detail on Pennsylvania's tax credit, with particular attention paid to the provisions affecting a cash flow analysis. Section 3 provides film industry employment and wage data for Pennsylvania and the U.S. A comparison is made to wages and wage growth in selected states. Section 4 provides a fiscal analysis of uncapping the FPTC. Section 5 builds upon the fiscal analysis and discusses the economic impact of uncapping the FPTC. Section 6 analyzes post-production activities and digital interactive media services. Section 7 concludes the analysis by reviewing its results. A technical appendix provides additional detail on film industry employment and wages, a state-by-state film tax incentive breakdown, a summary of previously published reports on state film tax credits and a list of qualified film production expenditures.

Terminology Used in the Report

The following terms are used throughout the report, and they have the meanings described below.

"Credit authorized." The conditional amount of FPTC reserved for a production based on its initial application to DCED.

"Credit awarded." The amount of credit verified and granted by DCED after the completion of a production, the submission of actual production expenses and the verification of such expenses by an independent audit. The credit awarded cannot exceed the credit authorized.

"Credit used." The portion of the awarded credit that is applied to a tax liability or sold or transferred to another entity or buyer.

Section 2: Overview of Pennsylvania's Film Production Tax Credit

State incentives for film production in Pennsylvania have been in existence since 2004 when the first Film Production Tax Credit (FPTC) was enacted. Initially, the statute limited the aggregate amount of credits to $10 million per year. For FY 2006-07, the tax credit was repealed and it was converted to a $10 million grant program administered by the Pennsylvania Film Office in the Department of Community and Economic Development (DCED). The grant program was short-lived and the current form of the FPTC was enacted in 2007 with a cap of $75 million per fiscal year. Subsequent legislation has modified the credit and its administration, including the changes to the annual caps, but the current structure of the program was established with the 2007 enactment.[1]

The current cap of $60 million per year has been in place since FY 2010-11. Beginning in FY 2012-13, DCED may approve up to 30 percent of the available film tax credits for the succeeding fiscal year, 20 percent for the second succeeding fiscal year and 10 percent for the third succeeding fiscal year. See Table 1 for a breakout of the statutory cap by fiscal year and a summary of the potential effects of the advance approvals. The column including advance approvals assumes that the maximum amount is approved in advance each year.

Table 1
Film Production Tax Credit – Maximum Authorization by Fiscal Year
($ millions)

Fiscal Year	Statutory Cap	Fiscal Year	Statutory Cap with Advance Approvals
2007-08	$75.0	2012-13	$96.0
2008-09	75.0	2013-14	73.2
2009-10	42.0	2014-15	63.4
2010-11	60.0	2015-16	60.0
2011-12	60.0	2016-17	60.0
2012-13	60.0	2017-18	60.0

In order to be eligible for the FPTC, a production must incur at least 60 percent of its production expenses in Pennsylvania. The amount of the credit is equal to 25 percent of its qualified production expenses. An additional five percent credit may be awarded if a production is filmed in a qualified facility. Qualified expenses include almost all production expenses incurred in Pennsylvania, including both pre- and post-

[1] The FPTC was enacted, repealed, modified or reenacted by the following acts: Act 95 of 2004 (HB 147); Act 40 of 2005 (HB 176); Act 42 of 2006 (HB 983); Act 55 of 2007 (SB 97) and Act 85 of 2012 (HB 761). The appropriation for the FY 2006-07 grant program was contained in Act 2A of 2006 (HB 2499). The aggregate caps on credit authorizations were modified by provisions of the Fiscal Code enacted in conjunction with the annual state budget as follows: Act 48 of 2009 (HB 1531) set the cap at $42 million for FY 2009-10 and $60 million for FY 2010-11; and Act 26 of 2011 (SB 907) made the $60 million cap permanent. The $60 million cap was codified in the Article XVII-D of the Tax Reform Code by Act 85 of 2012 (HB 761).

production. Marketing, advertising and financing costs are examples of non-qualified expenses. Up to $15 million in compensation for principal actors may count toward qualified film production expenses.[2]

According to data published by DCED, 292 productions were issued $298 million of tax credits between FY 2007-08 and FY 2011-12.[3] Feature films and television productions constitute about 84 percent of the number of productions aided by the FPTC, and nearly all of the tax credits to date have been provided to these categories. Commercials and documentaries make up a small share of total productions and less than one percent of the credits. Table 2 displays the types of productions that qualify for the FPTC and the distribution of productions and tax credits across those categories.

Table 2
Tax Credits by Type of Production
FY 2007-08 through FY 2011-12

Production Category	Percent of Total Productions	Percent of Tax Credits Approved / Awarded
Feature Films	28%	83%
Television Productions	56	17
Commercials	13	a
Documentaries	3	a

a. Rounds to less than 1 percent.

Source: "Report to the General Assembly on the Film Production Tax Credit Program," September 1, 2012, p. 3.

The first step in securing a FPTC is for the film production company to submit an application and supporting materials to DCED. If the application is approved, the department will send a contract to the applicant, which details the maximum amount of film credits that the applicant can receive. The contract must be signed and received by the department within 30 days of issuance.

Under current practice, applications are evaluated quarterly. The evaluation process involves several criteria, including the anticipated number of production days in a qualified production facility, the anticipated number of Pennsylvania employees and the number of pre-production through post-production days in Pennsylvania. The department uses the evaluation process to apply the annual cap on tax credit authorizations. If the cap on tax credits is removed, a review process may not be necessary, or it may be limited to determining an application's adherence to the standard statutory and program requirements.

After the production is completed, the applicant must submit final versions of various documents, including a budget, economic impact report and audit. Productions are required to estimate their total qualified Pennsylvania expenses with the application, but they receive tax credits only upon submittal of

2 Pennsylvania Department of Community and Economic Development, "Film Tax Credit, Program Guidelines," July 2012, http://www.newpa.com/sites/default/files/uploads/FilmTaxCredit_Guidelines_7_18_2012.pdf.
3 "Report to the General Assembly on the Film Production Tax Credit Program," September 1, 2012, p. 3, http://filminpa.com/wp-content/uploads/2012/08/FY_2011-12_Report_to_Legislature.pdf.

actual expenses. If actual expenses exceed the estimates supplied at the time of application, no additional credit is awarded. However, if the actual expenses are less than the estimates, the credit is calculated based on actual expenses. Therefore, a portion of the credit initially authorized in a fiscal year may not be awarded. In addition, tax credits that have been authorized are not awarded if the production is not completed or if the final audit and related documents are not submitted. From FY 2007-08 to FY 2010-11, data show that nine percent of FPTC authorizations were not awarded.[4]

Depending on the length of time it takes to complete a production, there can be a substantial lag between the time the credit is initially authorized and the time that an applicant is notified that a credit has been verified and awarded. Table 3 displays the distribution of tax credits by the fiscal year in which they were initially authorized and the fiscal year in which the tax credit was awarded. For example, in FY 2011-12 awards were still being made out of the authorization for FY 2007-08.

Table 3
Film Production Tax Credits by Fiscal Year Authorized and Fiscal Year Awarded
($ millions)

Fiscal Year Authorized	Credits Authorized	Fiscal Year Awarded				
		2007-08	2008-09	2009-10	2010-11	2011-12
2007-08	$75.0	$3.9	$28.7	$9.6	$0.2	$4.3
2008-09	75.0			42.5	23.2	1.1
2009-10	42.0				39.9	1.0
2010-11	60.0				8.2	19.7
2011-12	60.0					4.8

Source: Data provided by DCED.

The recipient of the credit may use it to offset various tax liabilities, including corporate net income tax, capital stock and franchise tax, insurance premiums tax, bank shares tax and personal income tax. If the recipient is unable to use the credit, it may be carried forward up to three years. In addition, the credit may be sold or assigned within the three year period.[5] Approximately two percent of awarded credits are applied to the recipient's own tax liability.[6] The remainder are sold or transferred to other taxpayers. The relatively high percentage of credits that are sold or transferred generally reflects the absence of tax liability for the production companies approved for the credit.

[4] Based on an IFO analysis of data provided by DCED. Authorizations from FY 2011-12 were excluded from the calculation because of the lag between authorization and award.
[5] Unless specifically extended by statute, the purchaser or assignee must apply the credit to a tax liability in the year it was purchased or assigned.
[6] Based on an IFO analysis of data provided by DCED.

Table 4
Film Credit Authorization, Award and Use

	Average # of Days
From the initial authorization of the credit to the award of the credit.	447
From the award of the credit to the use, sale or transfer of the credit by the recipient.	176

Source: IFO analysis of data provided by the DCED.

While most tax credits are used, sold or transferred within six months of being awarded, some tax credits may remain outstanding for two years or more after being awarded. Table 4 displays the average length of time between the award of the tax credit and its use, sale or transfer. Anecdotal reports indicate that the market for tax credit sales may be constrained by demand. Until the recent addition of the bank shares and insurance premium taxes to the list of qualified taxes, there were fewer taxes against which the credits could be applied.[7] Purchasers of the credit can offset no more than 50 percent of their tax liability, which places additional constraints on the market. These market limitations may extend the amount of time it takes to sell credits, especially for large amounts.

Film Credits in Other States

Film tax credit programs exist throughout the United States with the majority of states having some type of incentive in place. State programs vary based on credit caps, credit percentages (of production expenses), production spending minimums and treatment of resident wages among others. Table 5 provides a brief overview of the film production incentives in other states. A similar table with more detail can be found in the technical appendix.

[7] The phase-out of the capital stock and franchise tax also reduces the potential market for tax credit sales.

Table 5
Film Production Tax Incentives by State

State	Incentive	Production Tax Incentive %	Wage Credits	Annual Cap
Alabama	Rebate	25%	35%	15 mil
Alaska[1]	Credit	30-38%	20%	200 mil[2]
Arizona	n.a.			
Arkansas	Rebate	15%	10%	No
California	Credit	20-25%		100 mil
Colorado	Rebate	20%		4 mil
Connecticut	Credit	10-30%		No
Delaware	n.a.			
Florida	Credit	20-30%		296 mil[3]
Georgia	Credit	20-30%		No
Hawaii	Credit	15-20%		No
Idaho	n.a.			
Illinois	Credit	30%	15%	No
Indiana	Credit	15%		2.5 mil
Iowa	n.a.			
Kansas	Credit	30%		2 mil
Kentucky	Credit	20%		No
Louisiana	Credit	30%	5%	No
Maine	Rebate	5%	10-12%	No
Maryland	Rebate	25%		
Massachusetts	Credit	25%	25%	No
Michigan	Credit	27%	25-32%	50 mil
Minnesota	Rebate	15-20%		No
Mississippi	Rebate	25%	25-30%	20 mil
Missouri	Credit	35%		4.5 mil
Montana	Credit	9%	14%	No
Nebraska	n.a.			
Nevada	n.a.			
New Hampshire	n.a.			
New Jersey[4]	Credit	20%		10 mil
New Mexico	Credit	25%		50 mil
New York	Credit	30%		420 mil
North Carolina	Credit	25%		No
North Dakota	n.a.			
Ohio	Credit	25-35%		40 mil
Oklahoma	Rebate	37%		5 mil

Table 5 (continued…)

State	Incentive	Production Tax Incentive %	Wage Credits	Annual Cap
Oregon	Rebate	20%	16%	7.5 mil
Pennsylvania	Credit	25-30%		60 mil
Rhode Island	Credit	25%		15 mil
South Carolina	Rebate	15%	15%	15 mil
South Dakota	n.a.			
Tennessee[5]	Credit and Grant	25%		N/A
Texas	Grant	5-17.5%	8-29.5%	15 mil
Utah	Credit and Rebate	15-25%		6.8 mil
Vermont	n.a.			
Virginia	Credit	15-20%	10%	5 mil[6]
Washington	Credit	15-35%		3.5 mil
West Virginia	Credit	27%	4%	10 mil
Wisconsin	Credit	25%		500k
Wyoming	Rebate	12-15%		1 mil

[1] Reflects 2013 policy change.
[2] $200 million over ten years.
[3] $296 million over six years.
[4] Program suspended in FY 2011.
[5] Program is being restructured.
[6] $5 million over two years.

Sources: State film offices, departments of revenue, departments of economic development and legislative statutes. Most recent data are presented.

Section 3: Overview of Film Industry Employment and Wages

This section provides a statistical overview of film industry employment and wages for Pennsylvania and the United States. It also provides a comparison of wages for Pennsylvania and selected states.

A 2009 report commissioned by the Legislative Budget and Finance Committee identifies the types of establishments and independent operators that comprise the film industry in Pennsylvania. Table 6 below lists those types of establishments and provides a definition for each component. This analysis uses these classifications to measure the film industry nationally and in Pennsylvania. For the purpose of this analysis, the film industry consists of the sum of the classifications delineated in Table 6.

Table 6
Key Components of the Film Industry
By North American Industry Classification System (NAICS) Codes

51211	**Motion Picture and Video Production** Establishments primarily engaged in producing, or producing and distributing motion pictures, videos, television programs, or television commercials.
51212	**Motion Picture and Video Distribution** Establishments primarily engaged in acquiring distribution rights and distributing film and video productions to motion picture theaters, television networks and stations, and exhibitors.
51219	**Post-production Services and Other Motion Picture and Video Industries** Establishments primarily engaged in providing post-production services and other services to the motion picture industry, including specialized motion picture or video post-production services, such as editing, film/tape transfers, titling, subtitling, credits, closed captioning, and computer-produced graphics, animation and special effects, as well as developing and processing motion picture film.
7115	**Independent Artists, Writers and Performers** Independent (i.e., freelance) individuals primarily engaged in performing in artistic productions, in creating artistic and cultural works or productions, or in providing technical expertise necessary for these productions. This industry also includes athletes and other celebrities exclusively engaged in endorsing products and making speeches or public appearances for which they receive a fee.

Film Industry Employment and Wage Data

The U.S. Bureau of Labor Statistics compiles and publishes the Quarterly Census of Employment and Wages (QCEW). The QCEW data provide quarterly employment and wage data by North American Industry Classification System (NAICS) codes at the state level, provided that certain disclosure restrictions are met. The data are based on returns filed by firms covered under the national unemployment insurance program and comprise 99.7 percent of all private wage and salary civilian employment.[8] The Bureau of Labor Statistics uses the data to track national and state employment trends, while the Department of Commerce uses the data to track wages and salaries for the National Income and Product Accounts (NIPAs). The QCEW data allow a consistent comparison of employment and wage trends across states. However, these data are imprecise measures of the true size of the industry because firms are classified by their primary line of business. Therefore, the industry might be smaller or larger depending on the good or service under consideration.

Employment

Within the film industry, Pennsylvania employment as a share of overall U.S. employment has increased from 1.2 percent to 1.8 percent over the past decade. The motion picture and video production category (NAICS 51211) makes up the majority (approximately 80 percent) of the overall film industry total.

Pennsylvania's film-related employment growth has not followed national trends, which is evident in the bottom half of the table. From 2007 to 2011, except for the decline in 2010, Pennsylvania has displayed consistent increases in employment, adding more than one thousand jobs (27.2 percent) during that time period. The U.S. also added about one thousand jobs (0.4 percent), but it did not fluctuate as much as Pennsylvania.

Table 7
Total Film-Related Employment

Year	U.S.	% Growth	PA	% Growth	PA Share of U.S.
2002	259,172	n.a.	3,196	n.a.	1.2%
2003	250,882	-3.2%	3,420	7.0%	1.4
2004	265,505	5.8	3,341	-2.3	1.3
2005	262,300	-1.2	3,607	8.0	1.4
2006	265,995	1.4	3,527	-2.2	1.3
2007	270,685	1.8	3,752	6.4	1.4
2008	280,471	3.6	4,194	11.8	1.5
2009	256,878	-8.4	4,920	17.3	1.9
2010	268,639	4.6	4,125	-16.2	1.5
2011	271,698	1.1	4,773	15.7	1.8

Source: Quarterly Census of Employment and Wages, U.S. Bureau of Labor Statistics.

Wages

Employment trends can be affected by changes in the composition of employment, such as a greater prevalence of part-time jobs. Wage growth can be used to account for that factor because it measures the earnings, not the number of jobs used to derive the earnings. From 2007 to 2011, Pennsylvania film-

[8] See http://www.bls.gov/cew/cewfaq.htm.

related wages increased by 27 percent. However, in contrast to Pennsylvania's growing share of film-industry employment between 2002 and 2011, the Commonwealth's share of wages is only marginally higher than it was ten years ago. Employees in Pennsylvania's film industry earn lower wages than the national average. In every NAICS code, the average annual wage for Pennsylvania employees is substantially lower than the U.S. average. Pennsylvania film industry employees (aggregated) earn approximately 50 to 60 percent of the national average.[9]

Table 8
Total Film-Related Wages
($ millions)

Year	U.S.	% Growth	PA	% Growth	PA Share of U.S.
2002	$18,963.3	n.a.	$148.8	n.a.	0.8%
2003	19,045.8	0.4%	166.8	12.1%	0.9
2004	21,233.1	11.5	175.1	5.0	0.8
2005	21,340.0	0.5	181.2	3.5	0.8
2006	22,417.8	5.1	182.3	0.6	0.8
2007	23,215.4	3.6	196.4	7.7	0.8
2008	24,521.5	5.6	213.0	8.5	0.9
2009	23,385.5	-4.6	243.6	14.4	1.0
2010	24,931.9	6.6	226.2	-7.2	0.9
2011	25,992.4	4.3	248.3	9.8	1.0

Source: Quarterly Census of Employment and Wages, U.S. Bureau of Labor Statistics.

[9] California and New York, which represent most of the U.S. total, raise the national average wage due to the higher cost of living and higher demand for film-related services.

Table 9
Total Film-Related Wages and Growth Rates for Selected States
($ millions)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
California	$12,722	$12,881	$14,607	$14,349	$14,787	$14,936	$15,768	$15,083	$16,096	$16,473
		1.2%	13.4%	-1.8%	3.1%	1.0%	5.6%	-4.3%	6.7%	2.3%
New York	2,965	2,937	3,216	3,371	3,729	3,926	4,172	4,050	4,538	4,973
		-0.9%	9.5%	4.8%	10.6%	5.3%	6.3%	-2.9%	12.0%	9.6%
Florida	329	329	375	463	462	601	549	422	384	399
		-0.1%	13.9%	23.5%	-0.1%	29.9%	-8.6%	-23.1%	-9.0%	3.8%
Texas	301	310	294	293	319	319	320	316	312	358
		3.0%	-5.4%	-0.4%	9.0%	0.1%	0.2%	-1.1%	-1.5%	15.1%
Illinois	324	280	284	310	328	345	341	317	319	342
		-13.7%	1.3%	9.4%	5.6%	5.3%	-1.2%	-7.0%	0.6%	7.2%
Pennsylvania	149	167	175	181	182	196	213	244	226	248
		12.1%	5.0%	3.5%	0.6%	7.7%	8.5%	14.4%	-7.2%	9.8%
Connecticut	75	82	82	80	87	133	126	213	230	238
		8.6%	-0.3%	-2.4%	9.6%	52.0%	-4.9%	68.8%	8.0%	3.5%
Georgia	141	141	140	154	165	186	195	222	207	234
		0.0%	-0.5%	10.1%	6.9%	12.6%	4.9%	13.6%	-6.4%	12.9%
Massachusetts	114	110	115	119	130	135	227	204	148	197
		-3.6%	4.9%	3.9%	8.7%	3.8%	68.4%	-10.0%	-27.7%	33.3%
Louisiana	23	28	47	83	67	114	132	105	188	192
		23.3%	67.5%	77.9%	-19.8%	70.2%	15.9%	-20.6%	79.4%	2.3%
North Carolina	44	45	48	53	59	76	85	86	95	104
		1.5%	6.6%	11.7%	11.2%	28.7%	11.6%	1.3%	10.1%	9.1%

Source: Quarterly Census of Employment and Wages, U.S. Bureau of Labor Statistics.

Section 4: Fiscal Analysis

This section, and its two subsections, projects the impact on Commonwealth revenues from uncapping the Film Production Tax Credit (FPTC). The process for determining the amount of the FPTC begins with an application for the credit and the consideration of the application by the Department of Community and Economic Development (DCED). The acceptance and approval of the application by DCED, as evidenced by the execution of a contract between the applicant and the department, is considered by this analysis to be the authorization of the FPTC. The first subsection addresses this stage of the process by projecting a range for the aggregate value of credits that would be authorized each fiscal year absent the limitation in current law. The final subsection uses the projected range for authorized tax credits to determine the amount and timing of revenue reductions that are consistent with the projected authorizations.

Film Production Tax Credit Authorizations

To determine the total tax credit authorizations that could be anticipated under an uncapped FPTC program, one must first estimate the total potential demand for Pennsylvania credits. Based on the annual amounts requested via film tax credit applications submitted to DCED, as well as anecdotal evidence supplied by the Pennsylvania regional film offices, it is clear that the current demand for credits exceeds the present supply. However, it is difficult to quantify this disparity with any degree of accuracy. Although we can identify the number of FPTC applications that go unfunded or are withdrawn each year, there are undoubtedly numerous production companies that never apply for credit, because all of the available funds have already been committed.

Industry sources confirm that film tax credits are among the most important factors in deciding where to produce a project, and industry publications circulate up-to-date information regarding the states with credit amounts remaining. Therefore, it is reasonable to assume that there could be a significant amount of projects that would have considered filming in Pennsylvania but never applied for a credit due to lack of available funding. It is also unclear how many projects already take place in Pennsylvania, but do not apply for the existing credit program because the productions are too small (e.g., commercials). These existing Pennsylvania projects would likely apply under an unrestricted or uncapped credit.

In general, the natural volatility of film production in Pennsylvania adds to the difficulty in developing an accurate projection of FPTC authorizations under an uncapped credit. To illustrate, Table 10 indicates annual film production activity for the two major Pennsylvania film markets. (Only a portion of these productions benefited from film production tax credits.) Due to the substantial financial investment necessary to produce a major feature film, the addition of one or more of these productions to the state economy can create considerable swings in the amount of film production activity for that fiscal year. Film activity is further impacted by recessions and overall economic conditions.

Table 10
Recent History of Production Expenditures in Pennsylvania[1]
($ millions)

	2009	2010	2011	2012
Philadelphia Area	$286.3	$89.6	$123.8	$270.9
Pittsburgh Area	100.0	102.7	102.6	95.6
Total	386.3	192.3	226.3	366.5

[1] Includes unqualified production types including still photos, student films, industrials and short films.

Source: Data provided by the Philadelphia and Pittsburgh film offices.

Ultimately, all demand for Pennsylvania FPTCs is constrained by the in-state infrastructure available to host film productions. Although the number of qualified production facilities is limited in each of the major film markets, vacant buildings and warehouses can generally be substituted for the more formal facilities. As a result, it appears that the capacity of the Pennsylvania infrastructure is primarily restricted by the number of qualified employees available to work on an increased number of productions. Since individuals generally relocate as employment opportunities arise, this factor is believed to have a limited impact on the analysis.

Furthermore, all states with film incentive programs are essentially competing for a limited pool of annual productions. If Pennsylvania moves to an uncapped FPTC program, it will likely result in increased Pennsylvania film production activity over the short term, as productions that would have occurred out of state are now moved to Pennsylvania. Over time, states may respond by adding favorable provisions to their own statutes, causing the film activity to once again shift out of Pennsylvania.

As a result of the complexities inherent in developing a pinpoint estimate of expected authorizations under an uncapped FPTC program, this report utilizes two methodologies in an attempt to develop a likely range of total tax credits authorized.

Method 1 – DCED Application Data

The DCED collects data on the number of FPTC applications that are received but either left unfunded or later withdrawn. It is believed that 10-15 percent of these unfunded or withdrawn applications are likely incomplete. The remaining tax credit applications include information based on estimated in-state expenditures and anticipated credit amounts.

Table 11 reflects a recent history of unfunded or withdrawn applications by fiscal year and utilizes these data to estimate demand under an uncapped FPTC program. These estimates are adjusted by 15 percent to account for productions that may have been motivated to film in Pennsylvania under an uncapped credit, but did not submit a tax credit application because they were aware that all funds had already been committed. The estimates are further adjusted by 10 percent to reflect the production expenses that would likely utilize a qualified production studio and meet the requirements necessary to claim the additional five percent credit under an uncapped PFTC program. This added five percent incentive is a relatively new component to the Pennsylvania program and therefore, no actual data currently exist. Using this calculation, estimated demand for total tax credits ranges from a low of $61.0 million in FY 2009-10 to a high of $173.2 million in FY 2012-13.

Table 11
Value of Film Production Tax Credit Applications Received
($ millions)

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Applications Withdrawn/Not Funded	$81.3	$80.1	$17.1	$17.3	$78.3	$101.7
% Estimated to be Incomplete[1]	12%	12%	12%	12%	12%	12%
Subtotal	71.5	70.5	15.0	15.2	68.9	89.5
15% Adjustment[2]	10.7	10.6	2.3	2.3	10.3	13.4
10% Adjustment[3]	8.2	8.1	1.7	1.8	7.9	10.3
Impact of Uncapped Credit	**90.5**	**89.2**	**19.0**	**19.3**	**87.2**	**113.2**
Funded Applications	75.0	75.0	42.0	60.0	60.0	60.0
Total Uncapped Credit	**165.5**	**164.2**	**61.0**	**79.3**	**147.2**	**173.2**

[1] DCED estimates that 10-15 percent of the applications that are withdrawn/not funded are incomplete.
[2] Adjusts for films that may have been motivated to film in Pennsylvania under an uncapped credit, but did not submit an application because all credits had already been committed.
[3] Assumes that 10 percent of productions will utilize a qualified production studio and meet the requirements necessary to claim an additional five percent credit.

Source: Application data provided by DCED.

Method 2 – Uncapped Credit Experience in Other States

Many states offer FPTC programs and incentives, but the size and scope of the programs vary considerably across states. Even states offering uncapped credit programs differ greatly in their ability to attract film activity and the amount of tax credits awarded each year. The uniqueness of each state's experience seems to change based on the specific characteristics of that state's program (minimum in-state spending, caps on qualifying wages, etc.) as well as the characteristics of the state (geographical size, climate, weather patterns, etc.) Several of the uncapped state film tax credit programs are described below and Table 12 includes an overview of the amount of tax credits awarded in each of these states.

Connecticut provides film tax credits on a sliding scale up to 30 percent of in-state production expenses (including pre- and post-production).[10] The total amount of the credit is uncapped, but only the first $20 million of compensation is eligible for credit and the minimum in-state expenditure is $100,000. A production company must conduct at least 50 percent of its principal photography days in Connecticut to be eligible for the credit.

[10] Production companies incurring costs between $100,000 and $500,000 are eligible for a 10 percent credit, between $500,000 and $1 million are eligible for a 14 percent credit, and expenditures over $1 million are eligible for a 30 percent credit.

Georgia offers a FPTC of up to 30 percent, including a 20 percent credit for companies that spend $500,000 or more and an additional 10 percent that is available if the finished project includes the Georgia promotional logo.[11] The credit may be sold or transferred and the total credit amount is uncapped.

The **Illinois** FPTC offers a 30 percent transferable income tax credit for in-state production expenditures, effective January 1, 2009. Prior to this date the allowable credit was equal to 20 percent of in-state production spending. The total amount of the credit is uncapped, but only the first $100,000 in payroll expenditures paid to each employee is eligible for the credit. The minimum in-state expenditure is $100,000 for productions 30 minutes or longer. An additional credit of 15 percent is available for labor expenditures paid to Illinois residents from impoverished areas.

In **Louisiana**, the FPTC is an uncapped credit equal to 30 percent of in-state direct production expenditures in excess of $300,000. An additional employment tax credit equal to five percent of qualified salaries is available for productions hiring in-state residents. To qualify, the production company must be headquartered and domiciled in Louisiana. Tax credits may be utilized to offset Louisiana income tax liability, refunded for 85 percent of the face value, or brokered in the open market for sale to a third party.

The **Massachusetts** film tax credit program consists of a tax credit equal to 25 percent of a film's in-state production costs and 25 percent of a film's in-state payroll costs. Production companies may elect to receive a refund equal to 90 percent of the amount of unused tax credit. The credits may also be transferred or sold for use by third parties or for resale by tax credit brokers. The total credit amount is uncapped and the minimum in-state spending requirement is $50,000. In addition, 50 percent of the total production costs or 50 percent of principal photography days must occur in Massachusetts.

Initially enacted in late 2005 and effective for tax years beginning January 1, 2006, the Massachusetts credit was modified in July 2007. Changes to the credit program include:

- Lowered the 12 month minimum expenditure threshold from $250,000 to $50,000.
- Increased the payroll credit from 20 to 25 percent of qualifying expenditures.
- Eliminated the $7 million per picture limit on credits.
- Provided that 90 percent of the unused credit could be refunded to the production company.

North Carolina provides a refundable credit equal to 25 percent of qualifying in-state production expenses provided the in-state minimum spending threshold of $250,000 is met. The credit is subject to a per project cap of $20 million, but the total credit amount is uncapped. (Television series are not subject

[11] Production companies can group commercials and music videos together to meet the $500,000 in minimum qualified expenditures.

to the per project cap.) Only the first $1 million in wages qualifies for the tax credit and the credit is not transferrable.

Table 12
Tax Credits Generated in States with Uncapped Credits
($ millions)

	2007	2008	2009	2010	2011	2012
Connecticut[1]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Georgia[2]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Illinois[3]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Louisiana[4]	n.a.	$128.6	$106.1	$110.1	$183.9	$218.4
Massachusetts[5]	$39.9	120.4	84.6	18.1	44.0	78.2
North Carolina[6]	17.6	11.2	7.2	2.4	30.3	69.3

[1] Request for data pending. Upon receipt, an addendum containing the updated information will be published. Program was modified to the current parameters in 2009.
[2] Georgia tracks tax credit utilizations and direct spending, but reportedly does not track tax credits generated by calendar year.
[3] Request for data pending. Upon receipt, an addendum containing the updated information will be published.
[4] Amounts reflect audited expenditures based on the final certification date. Therefore, amounts certified in one year may have occurred in a previous year. Beginning with 2009, amounts are adjusted to account for the $0.85 buy-back.
[5] Program was modified to the current parameters in 2007. Amounts reflect tax credits generated based on actual expenditures and are attributed to the calendar year in which the filming was completed. The indicated amount for 2012 is estimated.
[6] Program was modified to the current parameters in 2010. Data provided are based on the date that the credits were utilized. Since the tax credit must be claimed or refunded in the same taxable year in which the production activities were completed, this should closely correlate to the date that the credit was issued.

Based on an analysis of these data and the wide variety of other states' experiences with an uncapped FPTC program, it is believed that the average annual demand for Pennsylvania film tax credits will likely double ($120 million) or triple ($180 million) under an uncapped credit program. Actual year-to-year credits could vary significantly and some years could easily fall outside this range as the result of overall economic conditions or unexpected film activity related to feature films and major television productions.

Award and Use of the Credit – Cash Flow Analysis

The previous subsection provides a range for credits that could be authorized if the cap on the FPTC is removed. This subsection uses that range as the basis for a cash flow analysis, the purpose of which is to determine when the Commonwealth will realize a reduction in tax revenue from the use of the FPTC. This analysis assumes that the application of the tax credit to a taxpayer's account substitutes for the remittance of money by the taxpayer. Absent the credit, the taxpayer ordinarily would make a payment to the Department of Revenue to satisfy a tax liability.[12]

[12] In some circumstances, a taxpayer may use an overpayment from a different tax or a different tax period to pay a liability. In addition, the use of the tax credit may result in higher refunds instead of reduced revenues. The fiscal

The cash flow analysis begins with the projection for uncapped tax credit authorizations by fiscal year, $120 million to $180 million annually, and it adds the following steps.

1. The incremental value of the uncapped tax credits is determined. The current tax credit base is subtracted from the projection for total credits to yield a range of $60 million to $120 million annually in additional (incremental) tax credit authorizations. The analysis treats advance awards of tax credits for FY 2012-13 and later as reservations for credits that will be authorized in the fiscal year from which they were advanced. Therefore, the advance awards are ignored in determining the incremental tax credits under an uncapped FPTC.

2. The estimate is adjusted to account for credits that are authorized, but not awarded. Historical data informs the projection of the FPTC authorizations that will not be awarded because actual production expenses were less than the estimates on the application or because the production was not completed. IFO analysis of data on tax credit authorizations from FY 2007-08 to FY 2010-11 indicates that nine percent of tax credit authorizations in those years were not awarded.[13] The analysis uses an estimate of 10 percent to reduce the authorizations over the forecast period.

3. The timing of tax credit awards is projected. The award of the FPTC takes place after the applicant completes the production and submits its actual expenses along with the required audit to DCED. The projection is based on the fiscal year in which the tax credit was authorized and historical data on relationships between the date of authorization and the date of award.

The analysis assumes that the time from the initial authorization of the credit to its award remains consistent with historical averages throughout the forecast period. Table 13 displays the data for this assumption.

Table 13
Percentage Distribution of Film Production Tax Credit Awards

Number of Months Between Authorization and Award								
0-3	**4-6**	**7-9**	**10-12**	**13-15**	**16-18**	**19-21**	**22-24**	**>24**
1.8%	0.7%	2.9%	22.3%	26.2%	12.2%	15.8%	15.7%	2.4%

Source: IFO analysis of data provided by DCED.

Generally, the aggregate amount of FPTC authorized for a fiscal year is exhausted well before the end of the year. Current law requires DCED to establish application periods not exceeding 90 days each.

impact to the Commonwealth and the taxpayer is ultimately the same in either case, but the manner in which it manifests may be different. Equating the use of the credit to reduced revenue facilitates discussion of the fiscal impact.

[13] FY 2011-12 authorizations were excluded from the calculation because of the length of time, on average, between authorization and award.

However, much of the tax credit is committed early in the fiscal year, except to the extent that DCED reserves some capacity to authorize credits later in the year. An uncapped credit may change the distribution of tax credit awards within the fiscal year because applicants would not be penalized by waiting until later in the year to submit an application. The analysis further assumes that the quarterly authorizations of the uncapped FPTC authorizations will be distributed as follows: July through September, 50 percent; October through December, 10 percent; January through March, 10 percent; and April through June, 30 percent.

4. The timing for usage of the awarded tax credit is projected. The use of the FPTC takes place after DCED has officially awarded the credit and notified the recipient and the Department of Revenue that the credit is available. For the purpose of this analysis, the use is deemed to occur when the recipient applies the credit against its own qualified tax liability or sells or transfers the credit to another taxpayer who applies the credit against a qualified tax liability. [14]

The timing of tax credit usage is estimated based on the fiscal year in which the credit was awarded and historical data on relationships between the date of award and the date of use. The analysis assumes that the time from the award of the credit to its use will be consistent with historical averages throughout the forecast period. Table 14 displays the data for this assumption.

Table 14
Percentage Distribution of Film Production Tax Credit Usage

Number of Months Between Award and Use								
0-3	**4-6**	**7-9**	**10-12**	**13-15**	**16-18**	**19-21**	**22-24**	**>24**
49.3%	20.6%	15.7%	12.1%	1.7%	0.4%	0.1%	0.1%	0.1%

Source: IFO analysis of data provided by DCED.

5. A distribution of tax credit usage by fiscal year of authorization and fiscal year of use is computed. The assumptions in steps 3 and 4 are combined to convert tax credit authorizations into a percentage distribution for the cash flow. Table 15 displays the results of this step.

[14] Section 1705-D(f)(1) of the Tax Reform Code requires a purchaser of the FPTC to immediately claim the credit in the tax year in which the purchase is made.

Table 15
Percentage Distribution for Film Production Tax Credit Usage
(by Fiscal Year of Use)

Fiscal Year Authorized	First Succeeding Year	Second Succeeding Year	Third Succeeding Year
2%	44%	47%	7%

6. Tax credit usage is aggregated by fiscal year of authorization to determine the cash flow. The projections for tax credit used, by fiscal year of authorization, are applied against the incremental amount of adjusted credits obtained in steps 1 and 2. The results of these steps are summarized in Table 16. This cash flow does not include any tax revenue calculated in the section discussing the economic analysis.

Table 16
Cash Flow Projection Ranges for the Incremental Value of an Uncapped Film Production Tax Credit[1]
($ millions)

Fiscal Year of Tax Credit Usage				
2013-14	**2014-15**	**2015-16**	**2016-17**	**2017-18**
-$1 to -$2	-$25 to -$49	-$50 to -$100	-$54 to -$108	-$54 to -$108

[1] The range for the cash flow projection is based on average gross FPTC authorizations of $120 million per year on the lower end of the range and $180 million on the upper end of the range. The incremental value of the uncapped credit, which is the amount in excess of the current $60 million cap, ranges from $60 million to $120 million.

Section 5: Economic Analysis

A production company must incur Pennsylvania production expenses to receive a Film Production Tax Credit (FPTC). Those production expenses, which may include spending on wages, food, lodging, set design and other goods and services, have an added effect on the state economy as the individuals and businesses receiving the payments spend some of those funds on additional goods and services. The purpose of this section is to measure the potential economic contributions of productions that receive the FPTC and to estimate the resulting state tax revenues. The analysis uses the incremental amount of economic activity – the difference between the activity associated with the current capped credit and that which would be associated with an uncapped credit – for that purpose. This analysis does not delineate the productions or production expenses that would have occurred without the FPTC; therefore, it does not attempt to measure new economic activity that occurs solely due to the credit. Rather, it measures the total economic contribution of all incremental productions, some of which may have occurred without the FPTC.

This section also provides context for a discussion on the costs and benefits of uncapping the FPTC. It calculates an estimate for the fully phased-in, net fiscal impact of the credit. It also computes a "revenue ratio," which allows for comparisons of film credits across states. The net fiscal impact and revenue ratio address the opportunity costs of awarding the FPTC by incorporating "balanced budget" adjustments.

Economic Contribution

The fiscal analysis projects that the incremental value of uncapped FPTC authorizations would average between $60 million and $120 million per year.[15] The impact on total output in the Pennsylvania economy associated with that level of FPTC would be $167 million at the lower end of the range and $334 at the higher end. However, the measure of total output suffers from pyramiding because it double counts transactions as they move through the supply chain. A more appropriate and readily understood measure is gross state product (GSP). An estimate for GSP can be obtained using the appropriate Type II final demand multiplier computed by the U.S. Bureau of Economic Analysis.[16]

Wages constitute more than 60 percent of production expenses receiving credit under the FPTC, and the economic effects of the FPTC depend heavily on the amount of credit-eligible earnings that leave the state. Nonresidents spend only a small share of their earnings in the state while working on a production, thus limiting the impact on the state economy. A study by the consulting firm Ernst & Young states that "[f]or states without an established movie production base, initial film productions may have a large

[15] The incremental value is the difference between the uncapped credits authorized at the lower ($120 million) and higher ($180 million) end of the forecast range and the existing credit cap of $60 million.

[16] The value-added multiplier represents the value that each firm adds to a service or product in the production process. Purchases from other firms are excluded from the value added computation to prevent double counting.

component of payments to non-residents and out-of-state suppliers."[17] According to data analyzed by the IFO, approximately 70 percent of production-related wages were paid to nonresidents.[18] These data suggest that Pennsylvania's film industry does not have an established movie production base and the industry has not developed to the point where a greater share of production spending accrues to residents.

Table 17 displays the calculations to estimate the GSP associated with the incremental value of an uncapped FPTC.

Table 17
Total Gross State Product Associated with an Uncapped Film Production Tax Credit
Using the Lower and Upper Ends of the Projected Range
($ millions)

	Lower	**Upper**
A. Incremental value of authorized FPTC (uncapped credit)	$60	$120
B. Reduction for credits authorized, but not awarded	-$6	-$12
C. Credits awarded	$54	$108
D. Qualified expenditure factor	4.5	4.5
E. Film production activity for credits awarded	$243	$486
F. Balanced budget adjustment	-$54	-$108
G. Nonresident wage adjustment	-$97	-$194
H. In-state economic activity	$92	$184
I. Type II value-added multiplier	1.0856	1.0856
J. Value-added (Gross State Product)	$100	$200

The following bullets provide information regarding the data and methodology used to calculate the effect of an uncapped FPTC on gross state product. Row references in these bullets are to the specified rows in Table 17.

- Incremental value of authorized FPTC (row A). The incremental value of uncapping the FPTC is calculated by subtracting the current cap on authorized credits ($60 million) from the lower ($120 million) and upper ($180 million) ends of the range for uncapped credits. The incremental value is used to isolate the effect of uncapping the credit.

- Reduction for credits not awarded (row B). The authorized credits that are ultimately awarded are based on historical data for FY 2007-08 through FY 2010-11. Credits that have been authorized are sometimes not awarded because the production was not completed or because Pennsylvania production expenses were below estimate.

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17 Ernst & Young, "Evaluating the effectiveness of state film tax credit programs; Issues that need to be considered," May 2012, p. 1, http://www.ey.com/Publication/vwLUAssetsPI/Evaluating_the_effectiveness_of_state_film_tax_credit_programs/$FILE/1203-1342731%20Motion%20Picture%20assoc.%20film%20credit%20study.pdf.

18 Based on an IFO analysis of data provided by DCED.

- Qualified expenditure factor (row D). The qualified expenditure factor is based on the FPTC requirement of $4 in Pennsylvania production expense for each $1 of tax credit. The factor is increased to 4.5 to account for nonqualified expenses that benefit the Pennsylvania economy and for spending on qualified expenses in excess of the amounts estimated on the tax credit application. The extra credit available for using a qualified production facility, which would reduce the factor, is ignored for this calculation.

- Balanced budget adjustment (row F). State funds that are used to expand the FPTC are not available for other spending or tax cuts. The balanced budget adjustment accounts for the alternate uses of those monies by subtracting the value of the credits awarded when calculating the economic impact. This analysis uses a conservative assumption that the alternate use of the funds has the same multiplier as the film industry. A larger multiplier for the alternate use of the funds would imply a larger negative adjustment to account for such use. Additional detail on the balanced budget analysis is included in the Net Fiscal Impact and Revenue Ratio subsection.

- Nonresident wage adjustment (row G). The reduction for nonresident wages is based on data from economic impact statements supplied by productions receiving the FPTC. For FY 2011-12, labor costs represented approximately 60 percent of production expenses, and nonresidents accounted for approximately 70 percent of labor costs. These data show that about 42 percent of production costs were devoted to nonresident compensation, typically actors, directors and associated staff. The food, lodging and ancillary expenses of these individuals are generally paid out of the production budget, and it is assumed that a very small percentage of these salaries are spent in Pennsylvania.[19] The analysis assumes that 5 percent of nonresident wages are spent in the economy, resulting in the nonresident wage adjustment of 39.9% (42% times 0.95) of total wages.

- Value-added multiplier (row I). The Type II value-added multiplier for the motion picture and video industry is calculated by the U.S. Bureau of Economic Analysis. A film industry multiplier (NAICS code 5121) is used because there was insufficient data to break down production expenditures into categories against which other multipliers could be applied. The general film industry multiplier is lower than multipliers for other industries doing business with the film industry, so the estimate may be slightly understated.[20,21]Table 18 contains a list of other multipliers for comparison purposes. The lower multiplier for the film industry may indicate that a greater share of economic activity originating from the industry leaves the state relative to the

[19] The food, lodging and ancillary expenses in the production budget are eligible for the FPTC, and they are accounted for in the economic analysis.
[20] Other assumptions, such as the qualified expenditure factor and the nonresident wage adjustment, may overstate the impact.
[21] Substituting a higher multiplier from one of the related industries does not significantly affect the calculation. A multiplier of 1.2509 (hotels and motels), applied to the entire in-state expenditure, increases the estimate for GSP by only 15 percent, or $15 million at the lower end of the range and $30 million at the higher end.

other industries listed. It accounts for the in-state businesses and residents that purchase goods or services outside of the state.[22]

Table 18
Type II Multipliers for Selected Industries

NAICS		Value Added	Earnings
512100	Motion picture and video industries	1.0856	0.4170
541300	Architectural, engineering, and related services	1.3073	0.6950
541400	Specialized design services	1.2853	0.6249
711500	Independent artists, writers, and performers	1.1987	0.5021
7211A0	Hotels and motels, including casino hotels	1.2509	0.5891
722000	Food services and drinking places	1.2177	0.6435

Source: U.S. Bureau of Economic Analysis. RIMS II multipliers.

The economic activity associated with a film production does not occur immediately after the credit is authorized. The FPTC guidelines require principal photography to begin within 90 days of the credit authorization, but production-related activities, including post-production, may continue for an extended period. Table 19 shows how the economic activity calculated in Table 17 might be phased-in over time. Based on the 90-day requirement for principal photography, this example assumes that 60 percent of economic activity associated with film production tax credits will occur in the year of approval; 30 percent will occur in the year after; and 10 percent will occur in the second successive year. Under this example, the economic contributions from uncapping the FPTC will not be completely phased-in until at least the third succeeding fiscal year.

Table 19
Phase-In of Economic Activity from Productions Receiving Film Production Tax Credits[1]
($ millions)

Fiscal Year Authorized	Credits Authorized	Gross State Product	Year 1	Year 2	Year 3	Year 4	Year 5
Fiscal Year 1	$120	$200	$120	$60	$20		
Fiscal Year 2	120	200		120	60	$20	
Fiscal Year 3	120	200			120	60	$20
Fiscal Year 4	120	200				120	60
Fiscal Year 5	120	200					20
Total			120	180	200	200	200

[1] Economic activity is measured by the contribution to gross state product.

[22] This out-of-state spending is different than the nonresident earnings motivating the adjustment in row G. The value-added multiplier adjusts for in-state firms that may utilize out-of-state suppliers.

Tax Revenues

The gross state product associated with an uncapped FPTC (see Table 17) can be used to estimate the state tax revenues generated from production expenditures supporting the credit. This analysis considers the state personal income and sales taxes as the primary taxes affected by the credit. Other state taxes, including excise taxes on cigarettes and malt beverages, may be affected, but the impact is small and it is not itemized. A specific estimate for the corporate net income tax is not included because the production companies receiving the credit generally are organized as Limited Liability Companies (LLCs), which do not pay the corporate net income tax.[23] Entities providing goods or services to the production companies, or companies in their supply chains, may be corporate entities, but the aggregate PA-taxable income from these second order effects would be minimal. The state tax estimate calculated for the personal income and sales taxes is grossed up by five percent to account for the taxes that are not specifically itemized.

An earnings multiplier transforms economic activity into income. The earnings include any wage, sole proprietorship and partnership income, as well as employer contributions to health insurance. It does not include certain returns to capital such as corporate earnings, rents and dividends, which are much smaller and require a separate computation. This analysis uses Type I and Type II multipliers, the former measuring direct and indirect effects, while the latter also measures induced effects.[24] The multipliers for NAICS 5121 (Motion Picture and Video Industries) and households were used in this analysis.

The estimate of state tax revenues associated with uncapping the FPTC, on a fully phased-in basis, is $7.5 million at the lower end of the projected range of tax credit authorizations to $14.9 million at the upper end of the range. This assumes that the Pennsylvania earnings of residents and nonresidents are taxed at an effective personal income tax rate of 3.07 percent and that full compliance is achieved. For non-corporate business income the tax rate is 2.7 percent because some business income is offset by tax losses. For sales taxes, the analysis assumes that 37.5 percent of wages, business income and other capital income are spent on taxable items. That share is based on data from the Consumer Expenditure Survey published by the U.S. Department of Labor.[25]

Net Fiscal Impact and Revenue Ratio

The net fiscal impact of the FPTC authorized in a fiscal year can be computed by subtracting the associated tax revenues from the amount of FPTC awarded. The net, fully phased-in fiscal impact for the additional credits authorized in FY 2013-14 is estimated to be -$46.5 million at the lower end of the projected range of tax credit authorizations and -$93.1 million at the higher end of the range.

Pennsylvania's constitution requires a balanced budget, and the alternative uses of the FPTC can be viewed as the other programs that could have been funded or the taxes that could have been cut with the

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[23] The information on the organization structure of production companies was provided in a discussion with staff from DCED.

[24] Direct effects represent the impact from the first round of spending on businesses. Indirect effects represent the response of businesses that supply inputs to firms that receive the initial spending. Induced effects represent the impact from households spending new wage and business income.

[25] See www.bls.gov/cex/tables.htm.

amounts used to provide for the credit.[26] This point is made in a report commissioned by the Motion Picture Association of America, which argues that "… the right way to evaluate film credits is to compare the benefits received from using $1.00 for a state film credit program to the benefits of using the $1.00 in some other way."[27]

These impacts reflect a "balanced budget" analysis. For simplicity, the analysis uses the same multiplier for the FPTC and the alternative use. The appropriation of funds or the reduction of revenues by means of a tax cut, tax credit or other mechanism, requires the decision to forego other possible uses of the appropriated funds or reduced revenues.

It is important to note that this calculation of net fiscal impact is based on the fully phased-in effects of the economic impact, tax revenues and FPTC utilization. The structure of the FPTC established by the statute and DCED guidelines sets up a mismatch in timing between the activity necessary for a production company to be awarded the credit, the tax revenues associated with that economic activity and the reduction in tax revenues that comes from the utilization of the awarded credit. For example, pre-production, set design, filming and post-production all occur before the credit is awarded. By the time the credit is awarded and utilized to reduce state tax revenues, the economic benefits of the production activities have already been realized.

Another way to represent the fully phased-in, net fiscal impact of the FPTC is by the use of a revenue ratio. The revenue ratio is determined by dividing the tax revenues from economic activity associated with the FPTC by the value of the credits awarded. The analysis finds that the revenue ratio is 0.14.[28] In other words, for every one dollar in tax credit awarded, the Commonwealth recoups $0.14 in tax revenue from the associated economic activity. It is noted that the revenue ratio only reflect the public or state costs that are recouped. It does not include any additional local sales, property or income taxes that may be generated. It also disregards any private benefits to firms. Therefore, the revenue ratio is only one metric that should be used to evaluate an uncapped FPTC.

Several states published studies that estimate the tax revenues attributable to their film credit incentives, and the revenue ratio allows for comparisons of film credits across those states. The revenue ratio can vary significantly, but the ratio computed for the Pennsylvania FPTC is generally in line with ratios for other states. The technical appendix displays some basic information about the other states, and it presents the IFO's calculation of the revenue ratio for those states based on data published in their studies.

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[26] Article VIII, Section 13(a) of the Constitution of Pennsylvania provides that the "[o]perating budget appropriations made by the General Assembly shall not exceed the actual and estimated revenues and surplus available in the same fiscal year."

[27] Ernst & Young, "Evaluating the effectiveness of state film tax credit programs; Issues that need to be considered," May 2012, p. 10, http://www.ey.com/Publication/vwLUAssetsPI/Evaluating_the_effectiveness_of_state_film_tax_credit_programs/$FILE/1203-1342731%20Motion%20Picture%20assoc.%20film%20credit%20study.pdf.

[28] The revenue ratio in this section refers to the incremental value of the uncapped credit. It does not compute the ratio for the baseline credit under current law.

Section 6: Stand-alone Tax Credits for Post-Production and Digital Interactive Media

At least 40 states have a film tax incentive, and many of these states include incentives for work in post-production or digital interactive media (DIM) in those credits. A few states have separate, stand-alone incentives to develop these respective industries. The technical appendix provides additional detail on the states that provide these incentives. This section considers the available data regarding post-production and digital interactive media in Pennsylvania.

Post-Production Activities

This subsection provides information on employment and wages for the post-production industry in Pennsylvania. It also projects the value of a stand-alone credit for the industry, separate from the existing Film Production Tax Credit (FPTC).

The final stage in the making of a film is post-production, which occurs after the conclusion of principle photography.[29] Post-production requires highly skilled personnel who have experience with digital editing equipment and software.

Expenses incurred for post-production in Pennsylvania are eligible for the FPTC; however, the production itself must first qualify for the credit. This means that at least 60 percent of the overall production expense, including post-production, must occur in the Commonwealth. Post-production work can comprise a significant portion of a production's budget. The data to separate post-production expenses from all other production expenses are not available, but approximately 40 percent of the production days in Pennsylvania are used for post-production. Of these post-production days, 25 percent were for feature films, 61 percent were for TV shows and 14 percent were for documentaries.[30] However, the number of days spent in post-production cannot be used as a proxy for post-production expenses.

Most state film tax incentive programs include post-production expenditures as qualified expenditures. A few states have created stand-alone credits or rebates for post-production expenditures. For example, New Mexico allows a 25 percent refundable credit for post-production done in the state, even if the principal photography occurs elsewhere. New York has allocated $7 million per year through 2014 to a stand-alone credit of 30 percent to 35 percent, depending on the location of the post-production. To qualify in New York, at least 75 percent of the post-production costs must be incurred in the state at a qualified facility. In addition, Connecticut offers a tax credit ranging from 10 percent to 30 percent, depending on the amount spent, if at least 50 percent of the post-production expenses occur in Connecticut.

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[29] Post-production is defined as "activities in a qualified motion picture's production, including but not limited to editing, foley recording, ADR, sound editing, negative cutting, color correction and sound mixing." Pennsylvania DCED, Film Tax Credit Program Guidelines, July 2012, p. 16.

[30] IFO calculation based on a sample of productions authorized to receive a credit in FY 2011-12. Data on post-production costs are not available. Conversations with representatives of post-production facilities indicate that Pennsylvania currently does not have the infrastructure to support big-budget post-production work.

The 2007 Economic Census, published by the U.S Census Bureau, collects information from individual business establishments on location, type of industry, employment, payroll and sales.[31] These data provide a useful measure of the sales of the post-production industry. According to the data for teleproduction and other post-production services, U.S. establishments included in the survey reported $4.378 billion in sales and $1.581 billion in payroll, a ratio of $2.77 in sales for each $1 of payroll.

Similar data are not published for Pennsylvania to avoid disclosure due to sample size limitations. However, the U.S. Bureau of Labor Statistics compiles and publishes the Quarterly Census of Employment and Wages (QCEW), which provides data at the state level.[32] Table 20 summarizes the QCEW data on teleproduction and other post-production services by number of establishments and employees and amount of wages for Pennsylvania and the United States from 2004 to 2011.[33]

Table 20
Teleproduction and Other Post-production Services

		2004	2005	2006	2007	2008	2009	2010	2011
PA	Employees	246	261	256	265	284	271	273	289
PA	Establishments	21	23	20	18	20	22	24	23
PA	Wages ($000s)	11,969	12,794	12,938	14,737	16,848	16,649	17,211	18,652
PA	Average Wage	48,673	49,035	50,540	55,664	59,306	61,434	62,966	64,596
U.S.	Employees	14,686	15,199	15,816	15,538	16,159	15,198	15,656	15,894
U.S.	Establishments	1,517	1,551	1,655	1,699	1,755	1,826	1,844	1,896
U.S.	Wages ($000s)	1,095,844	1,132,455	1,233,142	1,232,975	1,471,740	1,381,125	1,504,134	1,587,542
U.S.	Average Wage	74,617	74,507	77,967	79,351	91,081	90,873	96,072	99,883

Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages (QCEW).

Although sales data for establishments engaged in post-production are not available for Pennsylvania from the Economic Census, the ratio of sales to payroll for the U.S. can be used to make an estimate. This analysis uses a ratio of 2.75 as a mid-point, and it establishes a range of values at increments of 0.25 to display the implications if the actual ratio for Pennsylvania is higher or lower than estimate. The analysis further assumes that the percentage of existing industry sales that would qualify for the credit ranges from

[31] Industry Statistics Sampler (NAICS 512191 Teleproduction and other post production services), U.S. Department of Commerce. See http://www.census.gov/econ/industry/geo/g512191.htm.

[32] The QCEW data provide quarterly employment and wage data by North American Industry Classification System (NAICS) codes at the state level, provided that certain disclosure restrictions are met. The data are based on returns filed by firms covered under the national unemployment insurance program and comprise 99.7 percent of all private wage and salary civilian employment. See http://www.bls.gov/cew/cewfaq.htm.

[33] Data are for NAICS code 512191, which comprises establishments primarily engaged in providing specialized motion picture or video postproduction services, such as editing, film/tape transfers, subtitling, credits, closed captioning, and animation and special effects. Post-production companies often engage in other film production activities, and they may be classified in film production as opposed to post-production. This may lead to an understatement of the size of Pennsylvania's post-production industry.

10 percent to 30 percent. These assumptions, when combined with the 25 percent tax credit parameter, yield a revenue estimate.

The calculations to derive an estimate for a stand-alone post-production tax credit are as follows: 1) multiply Pennsylvania post-production industry wages (estimated at $20.6 million for 2013) by the sales to wage ratio (2.75), yielding estimated revenues of $56.7 million; 2) multiply the industry sales estimate by the industry sales percentage (20 percent), yielding an estimate of $11.3 million of industry sales that potentially qualify for the credit; and 3) multiply the 25 percent tax credit rate by qualifying industry sales, yielding an estimate of $2.8 million. Data are not available to make a more precise estimate, but Table 21 displays the fiscal impact of the credit at various values for the sales to wage ratio and the industry sales percentage assumptions.

Table 21
Fiscal Impact Matrix for a Post-production Tax Credit
Based on Existing Post-production Sales
($ millions)

Industry Sales Percentage	Sales to Wage Ratio				
	2.25	**2.50**	**2.75**	**3.00**	**3.25**
10%	$1.2	$1.3	$1.4	$1.5	$1.7
15%	1.7	1.9	2.1	2.3	2.5
20%	2.3	2.6	2.8	3.1	3.3
25%	2.9	3.2	3.5	3.9	4.2
30%	3.5	3.9	4.2	4.6	5.0

Assumptions: 1) PA post-production industry wages are $20.6 million for 2013; 2) industry revenue is a proxy for post-production expense; 3) the percentage of industry revenues that would qualify for a stand-alone credit is between 10 percent and 30 percent; and 4) a tax credit of 25 percent is offered. The variable for the industry revenue percentage incorporates both the 60 percent Pennsylvania expense threshold and the types of productions that currently qualify for the film tax credit.

Digital Interactive Media

This subsection discusses digital interactive media (DIM). The term refers to interactive software or animated images that can be stored electronically and which invite or accept feedback from the user. Sometimes they are referred to as video games, but the term generally encompasses a broader range of technology.

Digital interactive media employs highly skilled workers with technical backgrounds and specialized education. According to a 2010 report, there were nine video game companies with a total of 297 employees in Pennsylvania in 2009.[34] Another (and more recently updated) source indicates that there are

[34] Entertainment Software Association, "Video Games in the 21st Century: The 2010 Report."

twelve developer firms, four mobile/handheld companies and one online developer firm in Pennsylvania.[35]

Typically, states that offer tax incentives to companies producing DIM do so through their film production tax incentive programs. Notable exceptions include Georgia, Louisiana and North Carolina, which have stand-alone programs as described below:

- Georgia provides a 20 percent tax credit for the video game industry with an option for an additional 10 percent if a Georgia logo is included in the game. The program is capped at $25 million with a per project cap of $5 million.[36]

- Louisiana provides an uncapped 35 percent refundable tax credit for Digital Interactive Media and Software Development. The program offers 35 percent tax credit for in-state labor and 25 percent for qualified in-state production expenses.[37]

- North Carolina offers a 15 percent tax credit for interactive digital media. The credit primarily applies to compensation and wages, though 20 percent of research expenses paid to North Carolina universities or colleges are eligible as well. The program is capped at $7.5 million.[38]

In those states that incorporate incentives for DIM into the film tax credit, companies performing that type of work may have to compete for limited funding against larger film production companies.

Currently, there is no standardized industry classification used in the QCEW, or otherwise, that allow the compilation of data for the number of establishments or employees engaging in digital interactive media businesses. However, Occupational Employment Statistics (OES) can be used to provide some relevant detail.[39] This survey collects data from about 1.2 million establishments across three years to produce employment and wage estimates for approximately 800 occupations at the national, state and metropolitan level.[40] Estimates do not include self-employed workers. The following occupations (followed by the corresponding SOC code for reference) may comprise a majority of the industry. In particular, the Multimedia Artists and Animators occupation seems to match up best insofar as its relationship to the industry.

- **Software Developers, Applications (151132)** - Develop, create and modify general computer applications software or specialized utility programs. Analyze user needs and develop software solutions. Design software or customize software for client use with the aim of optimizing operational efficiency. May analyze and design databases within an application area, working

35 Information gathered from www.gamedevmap.com.
36 See http://www.georgia.org/SiteCollectionDocuments/Industries/Entertainment/Tax%20Credits/Film_Tax_Incentive_Brochure_6-2-11.pdf.
37 See http://dev.ledlouisiana.com/incentives/digital-interactive-media-and-software-development-incentive.aspx.
38 See http://www.thrivenc.com/incentives/financial/tax-credits/interactive-digital-media-tax-credit
39 U.S. Department of Labor, Bureau of Labor Statistics, Occupational Employment Statistics, www.bls.gov/oes/.
40 The OES data in this report should not be viewed as a snapshot of the industry. There may be occupations within the industry that are not included, and other occupations here that are tangential to the industry. Additionally, not all of the employees within each occupational code work in DIM.

individually or coordinating database development as part of a team. May supervise computer programmers.

- **Software Developers, Systems Software (151133) -** Research, design, develop, and test operating systems-level software, compilers, and network distribution software for medical, industrial, military, communications, aerospace, business, scientific, and general computing applications. Set operational specifications and formulate and analyze software requirements. May design embedded systems software. Apply principles and techniques of computer science, engineering, and mathematical analysis.
- **Web Developers (151134) -** Design, create, and modify Web sites. Analyze user needs to implement Web site content, graphics, performance and capacity. May integrate Web sites with other computer applications. May convert written, graphic, audio and video components to compatible Web formats by using software designed to facilitate the creation of Web and multimedia content. Excludes “Multimedia Artists and Animators” (27-1014).
- **Multimedia Artists and Animators (271024) -** Create special effects, animation, or other visual images using film, video, computers, or other electronic tools and media for use in products or creations, such as computer games, movies, music videos, and commercials.
- **Graphic Designers (271024) -** Design or create graphics to meet specific commercial or promotional needs, such as packaging, displays, or logos. May use a variety of mediums to achieve artistic or decorative effects.

Table 22 displays state and national level data for each of these occupations. The employment column should not be summed to approximate the size of the industry’s employment because much of the employment in all of the occupations except Multimedia Artists and Animators is likely to be found in another industry.

Table 22
Employment and Wages for Occupations Related to Digital Interactive Media[1]

Occupation (SOC code)	PA Employment	% of U.S. Employment	PA Average Annual Wage	U.S. Average Annual Wage
Software Developers Applications (151132)	15,790	2.7%	$87,490	$93,280
Software Developers Systems Software (151133)	14,730	3.8%	$95,200	$102,550
Web Developers (151134)	3,290	3.2%	$64,130	$66,100
Multimedia Artists and Animators (271014)	480	1.6%	$60,610	$69,560
Graphic Designers (271024)	8,210	4.3%	$44,510	$48,730

[1] This table includes employment across all industries, and it is not limited to individuals employed in digital interactive media.

Source: Occupational Employment Statistics, U.S. Bureau of Labor Statistics, May 2012.

There are no government or industry data that aggregate information on employers across states to evaluate the size of the industry in Pennsylvania. Therefore, there are no reliable or consistent data to allow the estimation of employment, wages or sales for companies that primarily provide services in digital interactive media. Due the lack of reliable data, this analysis does not attempt to quantify the fiscal impact of a stand-alone tax credit for DIM-related services.

Section 7: Conclusion

This report presents the fiscal and economic impacts associated with removing the cap on the Film Production Tax Credit (FPTC). It also provides data on post-production and digital interactive media that may be used in the consideration of stand-alone credits for those industries.

The fiscal analysis of the FPTC contains the following projections:

- Uncapped FPTC authorizations would average between $120 million and $180 million per year. This range represents an incremental impact from $60 million to $120 million per year above the current $60 million cap on the credit. Due to the volatility of the FPTC, the credits authorized in a single year may fall outside of the projected range.

- A cash flow analysis finds that the fiscal impact from uncapping the FPTC will be phased-in over four fiscal years. At the higher end of the range for tax credit authorizations, the fiscal impact is projected as follows:

FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
-$2 million	-$49 million	-$100 million	-$108 million	-$108 million

  The lag between the authorization of the credit and its use to reduce tax revenues occurs because of the following:

  - Data reveal a substantial period of time, on average, between the initial authorization of the FPTC and the award of the credit. The credits are awarded after the completion of a production and the submission of the required paperwork.
  - Data reveal the existence of additional time between the award of the credit and its use, sale or transfer. Nearly one-half of the awarded credits are used, sold or transferred within three months of award. However, it may take one year or more before the remaining credits are absorbed.

The economic analysis concludes that the gross state product associated with an uncapped FPTC is $100 million to $200 million based on the range of likely FPTC authorizations. All projections in the economic analysis are calculated on a fully phased-in basis for the incremental values of the credit awarded.

- The tax revenue from the economic activity associated with an uncapped FPTC is $7.5 million to $14.9 million based on the range of likely FPTC authorizations.

- The net fiscal impact of uncapping the FPTC is -$46 million to -$93.1 million based on the range of likely FPTC authorizations.

- The Commonwealth would receive about $0.14 in tax revenue for every dollar of FPTC awarded.

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Appendix I: Top States with Film-Related Employment

Table 23
Total Film-Related Employment for Selected States as a Percentage of Total Film-Related U.S. Employment

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
California	53.0%	54.4%	57.3%	54.6%	54.4%	53.0%	52.8%	52.2%	51.1%	51.1%
New York	16.1	14.8	13.8	14.9	14.8	14.6	15.0	16.0	18.0	18.6
Florida	3.1	2.8	2.6	3.0	3.0	3.2	3.0	2.8	2.5	2.5
Texas	2.9	3.1	2.6	2.5	2.3	2.1	2.1	2.1	2.1	2.1
Pennsylvania	1.2	1.4	1.3	1.4	1.3	1.4	1.5	1.9	1.5	1.8
Illinois	2.2	2.1	1.9	2.0	2.0	2.1	1.9	1.8	1.7	1.7
Georgia	1.5	1.4	1.3	1.3	1.3	1.3	1.3	1.6	1.5	1.5
Massachusetts	0.9	0.8	0.8	0.8	0.8	1.0	1.4	1.4	1.1	1.1
Louisiana	0.3	0.6	0.8	1.0	0.8	1.1	1.4	0.7	1.1	0.9
Connecticut	0.4	0.4	0.4	0.4	0.4	0.7	0.7	0.8	0.8	0.9
North Carolina	0.6	0.6	0.6	0.5	0.6	0.7	0.6	0.7	0.7	0.7

Source: Quarterly Census of Employment and Wages, Bureau of Labor Statistics

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Appendix II: Summaries of Published Film Tax Credits Studies in Selected States

Introduction

Each state report summary has three parts: a summary of the incentive, a data table and notes. The focus of the summary is the film production tax credit, though many states may have additional incentives such as infrastructure credits or sales tax exemptions. The section does not necessarily reflect current policy. Rather, it represents the policy in effect for the time period analyzed by the study. Policy changes that occurred during the analysis' time frame are addressed in this section, while notable changes that have taken place since the issuance of the report are mentioned later. The data tables are relatively straightforward. Data and data labels differ among states, but the Independent Fiscal Office attempted to use the most comparable information available. Some detail on methodologies and important considerations regarding the data can be found in the notes section.

The revenue ratio conveys the relative fiscal benefit of awarding film tax credits. Because of timing issues regarding when the tax credit is approved, awarded and ultimately used (whether to offset liabilities, to refund for a percentage of the value or to transfer to another taxpayer), the impacts recorded in this analysis may be viewed best as aggregate impacts that accumulate over multiple years.

Definitions

As used in this document, the following terms have the meanings described below:

Above-the-line expenses – Certain expenses incurred before filming begins. These costs may include rights for the initial play, book or short story. They also include the salaries for the director, producer, screenwriter and actors.[41]

Post-production - Activities in a qualified motion picture's production, including but not limited to editing, foley recording, ADR, sound editing, negative cutting, color correction and sound mixing.[42]

Revenue impact – Cost of the credits awarded offset by the tax and, in some cases, fee revenue gained from increased economic activity. The measurement of revenue impact differs among the studies. See the notes sections for more detail.

Revenue ratio - Additional revenue generated per dollar of tax credit. This ratio is meant to convey the relative fiscal benefit of awarding film tax credits.

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[41] See http://definitions.uslegal.com/a/above-the-line-costs-entertainment-law/

[42] Film Tax Credit Program Guidelines, July 2012, Pennsylvania Department of Community and Economic Development, p. 16.

Pennsylvania

Pennsylvania's Film Production Tax Credit and Industry Analysis

Economic Research Associates (prepared for the Legislative Budget and Finance Committee), May 2009

Summary of Incentive:
A tax credit equal to 25 percent of qualified film production expenses incurred in Pennsylvania may be awarded to a taxpayer upon request. To qualify, at least 60 percent of total production expenses must be incurred in Pennsylvania, and only wages up to $15 million are eligible. The credit is transferable and may be carried forward three years. The program is capped at $75 million per year.

	2007-08[1]
Film Production Expenses ($ mil)[2]	$267
Credits Issued ($ mil)	$58
Economic Activity ($ mil)[3]	$525
Total Employment Impact[4]	3,960
Revenue Impact ($ mil)[5]	-$40
Revenue Ratio	0.31

[1] Numbers reflect net present value. Impacts are projected.
[2] Qualified: Includes $7.2 million in investment and infrastructure.
[3] Through all stages of production.
[4] Measured in annual average jobs.
[5] Includes state and local taxes and fees.

Notes:
The report utilizes U.S. Census data to gauge the size of the industry in Pennsylvania. It assumes that the initial amount of production expenditures approved by the Department of Community and Economic Development (DCED) is 10 percent higher than actual expenditures. (This assumption is reflected in the credits issued and economic activity reported in the table above.) The revenue ratio for Pennsylvania is rather high relative to most of the other states in this analysis. This may be due, at least partially, to the fact that the revenue impact takes into account revenues from fees and permits.

The IMPLAN model was used to estimate the economic, employment and revenue impacts.

The tax credit program has changed since this report was issued. The credit program is capped currently at $60 million per year; however DCED may give advance approval for authorizations for future fiscal years. For this purpose, the department may reserve up to 30 percent of the funding for the succeeding fiscal year, 20 percent for the second succeeding fiscal year and 10 percent for the third succeeding fiscal year.

Connecticut

<u>The Economic and Fiscal Impacts of Connecticut's Film Tax Credit</u>

Department of Economic and Community Development, February 2008

Summary of Incentive:
Taxpayers may receive a 30 percent credit for production costs incurred in Connecticut. The credit is transferable and uncapped, and may be carried forward three years. A production must have at least $50,000 in qualifying expenses in order to be eligible. No minimum percentage of employees, budget or filming must occur within Connecticut.

	2007
Film Production Expenses ($ mil)[1]	$55
Potential Tax Credits ($ mil)[2]	$17
Economic Activity ($ mil)[3]	$21
Total Employment Impact (FTE)[4]	395
Revenue Impact ($ mil)	-$15
Revenue Ratio	0.08

[1] Qualified expenses based on tax filings.
[2] Implied value derived from qualified expense total.
[3] Impact on real GSP.
[4] FTE stands for full time equivalent.

Notes:
The study assumes that all film production activity results directly from the tax credit. It also assumes that above-the-line producer, director and cast member wages (which amounted to $13.8 million in 2007) are not entirely spent in Connecticut.

About 87 percent of total production expenditures, including qualified and non-qualified expenses, occurred in Connecticut. Generally, pre- and post-production work was completed outside of Connecticut. Specifically, about 85 percent of pre-production work and 69 percent of post-production work occurred outside of the state.

The REMI economic forecasting system was used to produce the economic, employment and revenue impact numbers.

After this report was issued, multiple pieces of legislation amended Connecticut's film tax credit program. Now, compensation in excess of $20 million (total) is excluded from production expenses, and the production must have incurred at least $100,000 of in-state expenses to be eligible. Also, production expenses do not include out-of-state spending.

Louisiana (1)

<u>Fiscal & Economic Impact Analysis of Louisiana's Entertainment Incentives</u>

BaxStarr Consulting, April 2011

Summary of Incentive:
Taxpayers may receive a 30 percent credit for expenditures made in Louisiana. An additional 5 percent credit can be awarded based on the total payroll of Louisiana residents employed with respect to the production. There is a $300,000 minimum in-state spending requirement. The credit is uncapped and transferable. In 2009, a buy-back provision was added that allows the owner of a tax credit to sell it back to the state for $0.85 per dollar of credit.

	2008	2009	2010[1]
Film Production Expenses ($ mil)[2]	$474	$362	$674
Certified Tax Credits ($ mil)[3]	$129	$106	$197
Credits Redeemed ($ mil)	$55	$168	$89
Economic Activity ($ mil)	$812	$593	$1,058
Employment Impact[4]	6,131	4,471	7,990
Revenue Impact ($ mil)[5]	-$108	-$91	-$170
Revenue Ratio	0.16	0.14	0.14

[1] Estimate.
[2] Finally Certified LA Spending.
[3] After accounting for $0.85 per dollar buy-back.
[4] Includes direct, indirect and induced.
[5] Reflects credits certified.

Notes:

Louisiana, one of the first states to introduce a film tax credit, has experienced growth in film-related employment since the credit's enactment. Film production spending increased every year in which credits were awarded, except in 2009. Between 60 and 75 percent of film budgets were spent in Louisiana in 2008, 2009 and 2010, though prior year in-state film spending tended to be a much smaller percentage. It is important to note that the significant increase in spending from 2009 to 2010 can be attributed, at least partially, to four very large feature films certified during the year. The four have been estimated to qualify for nearly $100 million (combined) in certified tax credits, or about half of the overall 2010 certified tax credits.

The IMPLAN model was used to estimate the economic, employment and revenue impacts.

Louisiana (2)

The Economic Impact of Louisiana's Entertainment Tax Credit Programs

Loren C. Scott & Associates, Inc., April 2013

Summary of Incentive:
Taxpayers may receive a 30 percent credit for expenditures made in Louisiana. An additional 5 percent credit (limited to $1 million per resident) can be awarded based on the total payroll of Louisiana residents employed with respect to the production. There is a $300,000 minimum in-state spending requirement. The credit is uncapped and transferable. In 2009, a buy-back provision was added that allows the owner of a tax credit to sell it back to the state for $0.85 per dollar of credit.

	2010	2011	2012
Film Production Expenses ($ mil)[1]	$387	$677	$717
Certified Tax Credits ($ mil)[2]	$110	$184	$218
Economic Activity ($ mil)[3]	$558	$976	$1,034
Employment Impact[4]	7,866	13,339	14,011
Revenue Impact ($ mil)[5]	-$83	-$137	-$168
Revenue Ratio	0.25	0.26	0.23

[1] Certified LA Spending.
[2] After accounting for $.85 buy-back.
[3] Sales.
[4] Includes direct and indirect.
[5] Reflects credits certified.

Notes:

This report was completed in April 2013 and contains results that are significantly different from the report completed two years prior. The differences illustrate how much these studies can vary (based on methodologies, assumptions and timing) even in regards to the same state program.

Since 2008, Louisiana certified film production spending has risen by $255 million.[43] The study notes that the economic activity displayed in this table is overstated as it assumes that directors, producers and actors spend all of their compensation in-state. To calculate the revenue impact, household earnings (calculated from applying earnings multipliers to film production expenses) were multiplied by 7 percent. This appears to be an overstatement and is likely the primary reason for the discrepancy between revenue ratios in this report and the prior report.

The report uses BEA Input-Output Multipliers to estimate economic activity, while both multipliers and QCEW data were used to calculate the employment impact.

[43] The calculation is based on the data utilized in the report authored by Loren C. Scott & Associates, Inc. The data differ from the earlier BaxStarr Consulting report.

Massachusetts

<u>A Report on the Massachusetts Film Industry Tax Incentives</u>

Department of Revenue, March 2013

Summary of Incentive:
Taxpayers may receive a tax credit equal to 25 percent of a film's production cost, so long as at least 50 percent of the production budget is spent in Massachusetts or 50 percent of the filming (in terms of days) occurs in Massachusetts. Also, a 25 percent payroll tax credit is available to productions spending over $50,000. The credits are refundable and transferable, and the program is uncapped. Credits may be carried forward five years. In 2007, legislation was enacted that removed the per production cap of $7 million and created a 90 percent cash-out/refund option.

	2006	2007	2008	2009	2010	2011
Film Production Expenses ($ mil)[1]	$86	$160	$481	$338	$72	$176
Credits Approved ($ mil)[2]	$19	$40	$120	$85	$18	$44
Credits Used ($ mil)[3]	$0	$12	$11	$110	$91	$45
Economic Activity ($ mil)[4]	$85	$152	$507	$327	$54	$197
Total Employment Impact (FTE)	450	660	1,474	586	49	864
Resident Employment Impact	314	352	795	222	20	497
Revenue Impact ($ mil)[5]	-$17	-$34	-$103	-$74	-$17	-$37
Revenue Ratio[6]	0.13	0.15	0.14	0.12	0.05	0.16

[1] Film production total spending (includes non-resident wages and non-Massachusetts vendors).
[2] Generated in the calendar year.
[3] Used or refunded in the fiscal year.
[4] Increase in GSP.
[5] Takes into account balanced budget requirement.
[6] Total State Revenue divided by Tax Credits Generated.

Notes:
The report attempts to measure only economic activity that results from the tax credit and utilizes several assumptions for this purpose. For example, all activity that pre-dated the incentives, like some commercials, was excluded from the analysis. However, the report concedes that it "generally credited projects to the existence of the incentive."

In order to neutralize the impact of non-resident wages on the estimate, the analysis uses state personal income and assumes that no above-the-line wages for those earning more than one million dollars are spent in-state. The economic activity estimate accounts for the reductions in state spending associated with the balanced budget requirement. The employment impact also takes into consideration the balanced budget requirement by offsetting jobs created by film spending with jobs lost due to state spending cuts. In 2011, approximately 65 percent of new production spending went to non-residents or businesses outside of Massachusetts. Wage spending comprised 65 percent of all production spending, but over 75 percent went to non-residents. Including both jobs created in Massachusetts and jobs created outside of Massachusetts, the net cost to the state per job was about $37,000 in 2006 and increased to over $120,000 in 2009.

Michigan

Film Incentives in Michigan

Senate Fiscal Agency, September 2010

Summary of Incentive:

Media Production Credit – Taxpayers may receive a 40-42 percent credit for eligible production expenditures and a 30 percent credit for qualified personnel expenditures ($2 million limit per individual). To qualify, a production must have at least $100,000 of direct production expenditures. The credit is transferrable and refundable, and may be carried forward ten years. There is no annual or per production cap. The estimated numbers for fiscal years ending (FYE) in 2009, 2010 and 2011 are presented in the table. A significant increase in film production expenses/credits occurred between FYE 2009 and FYE 2010.

	2008-09	2009-10	2010-11
Film Production Expenses ($ mil)[1]	$98	$260	$326
Credits Issued ($ mil)[2]	$38	$100	$125
Economic Activity ($ mil)[3]	$123	$356	$481
Employment Impact[4]	937	1,542	na
Revenue Impact ($ mil)[5]	-$32	-$85	-$106
Revenue Ratio	0.14	0.15	0.15

[1] Qualified expenses.
[2] Awarded.
[3] Includes spinoff activity.
[4] Includes direct and indirect.
[5] Takes into account balanced budget requirement.

Notes:

The report estimates the impact of the film incentive program on economic activity, employment and revenue. In computing these effects, multiple economic assumptions were made including estimated multiplier effects, percent of expenditures subject to taxation, balanced budget requirements and percent of expenses attributable to out-of-state entities. One particularly influential assumption is that 47.4 percent of production expenditures that are considered eligible contribute nothing to economic activity within Michigan. Essentially, the transaction (payment) occurs within Michigan, but the money is effectively removed from the state. Including jobs generated through “spin off” activity, the cost per job to Michigan was between $42,000 and $45,000 for 2008 and 2009.

The balanced budget requirement has a significant impact on this analysis because there is an opportunity cost to the credit. The funds used to finance the credits could have been used for state spending or tax reductions, which also would have spurred economic activity. The report acknowledges that revenue impacts may be optimistic due to some of the underlying assumptions built into the estimate. Since this report was issued, the credit was reduced from 40-42 percent to 27 percent of eligible production expenditures to 27 percent. Also, the incentive was allotted just $50 million for 2013.

New Mexico

Economic and Fiscal Impacts of the New Mexico Film Production Tax Credit

Ernst & Young, January 2009

Summary of Incentive:
Taxpayers may receive a 25 percent tax credit for qualifying direct production expenditures (subject to state tax) including post-production. The tax credit is refundable, and the program is capped at $50 million per year. There is no minimum budget or expenditure requirement. Non-resident wages may qualify for up to $5 million in credit. New Mexico was one of the first states to offer a film tax credit, adopting one in 2002.

	2007
Film Production Expenses ($ mil)[1]	$198
Credits Approved ($ mil)[2]	$47
Economic Activity ($ mil)[3]	$418
Total Employment Impact[3]	3,829
Revenue Impact ($ mil)[4]	-$25
Revenue Ratio	0.48

[1] Qualified expenses.
[2] Accrued to 2007.
[3] Includes direct and indirect impact of qualified and non-qualified spending.
[4] Includes state tax revenues due to film production activities only.

Notes:
In-state spending comprised 44 percent of the total budget for all films produced in New Mexico. The report estimates that 72 percent of production costs went to labor payments. Including non-qualified expenses, total production spending was $253 million.

The revenue ratio for New Mexico is much higher than any other state considered in this brief. Furthermore, the state analysis accounts for the effects of capital expenditures and film tourism on revenue when deriving the revenue impact numbers. Counting these categories (and both direct and indirect effects), the revenue ratio is 0.94. If one also counts local tax revenues, the ratio rises to 1.50.

The IMPLAN model was used to estimate the economic, employment and revenue impacts.

Legislation passed in July 2011 instituted a $50 million per fiscal year "rolling cap."

Sources:

Pennsylvania

General Website: http://filminpa.com/incentives/

Report: http://filminpa.com/wp-content/uploads/2009/07/PaFilmProductionIndustryAnalysis.pdf

Connecticut

General Website: http://ct.gov/ecd/cwp/view.asp?a=3880&q=454834

Report: http://www.ct.gov/cct/lib/cct/Film_Tax_Credit_Study_-_Final.pdf

Louisiana (1)

General Website: http://www.louisianaeconomicdevelopment.com/incentives/motion-picture-investor-tax-credit.aspx?id=48

Report: http://www.fbtfilm.com/files/2011_Louisiana_Entertainment_Economic_Impact_Analysis.pdf

Louisiana (2)

General Website: http://www.louisianaeconomicdevelopment.com/incentives/motion-picture-investor-tax-credit.aspx?id=48

Report: http://louisianaentertainment.gov/docs/main/2013_OEID_Program_Impact_Report_(FINAL).pdf

Massachusetts

General Website: http://www.mafilm.org/production-tax-incentives/

Report: http://www.mass.gov/dor/docs/dor/news/2012filmincentivereport.pdf

Michigan

General Website: http://www.michiganfilmoffice.org/For-Producers/Incentives/Default.aspx

Report: http://www.senate.michigan.gov/sfa/Publications/Issues/FilmIncentives/FilmIncentives.pdf

New Mexico

General Website: http://www.nmfilm.com/default.aspx

Report: http://www.nmfilm.com/uploads/files/nmfilmCreditImpactAnalysis.pdf

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Appendix III: Film Production Tax Incentives by State

State	Incentive	Production Tax Incentive %	Wage Credits	Annual Cap	Cap per Project	Sales Tax Exemption	Refundable	Transferable	Video Game Incentive	Post-Production
Alabama	Rebate	25%	35%	15 mil	5 mil	Yes	Yes	No	Yes	Included
Alaska[1]	Credit	30-38%	20%	200 mil[2]	No	No Tax	Yes	Yes	No	Included
Arizona										
Arkansas	Rebate	15%	10%	No	No	No	No	No	Yes	Separate[3]
California	Credit	20-25%		100 mil	15 mil	Yes	No	Yes[4]	No	Included
Colorado	Rebate	20%		4 mil	No	No	No	No	Yes	Included
Connecticut	Credit	10-30%		No	No	Yes	No	Yes	Yes	Included
Delaware										
Florida	Credit	20-30%		296 mil[5]	8 mil	Yes	No	Yes	Yes	Included
Georgia	Credit	20-30%		No	No	Yes	No	Yes	Yes	Included
Hawaii	Credit	15-20%		No	8 mil	No	Yes	No	Yes	Included
Idaho										
Illinois	Credit	30%	15%	No	No	No	No	Yes	No	Included
Indiana	Credit	15%		2.5 mil	No	No	Yes	No	Yes	Included
Iowa										
Kansas	Credit	30%		2 mil	No	No	No	No	No	Included
Kentucky	Credit	20%		No	No	No	Yes	No	Yes	Included
Louisiana	Credit	30%	5%	No	No	No	Yes	Yes	Yes	Included
Maine	Rebate	5%	10-12%	No	No	Yes	No	No	Yes	Included
Maryland	Rebate	25%			No	Yes	No	No	No	Included
Massachusetts	Credit	25%	25%	No	No	Yes	Yes	Yes	No	Included
Michigan	Credit	27%	25-32%	50 mil	No	No	Yes	Yes	Yes	Included
Minnesota	Rebate	15-20%		No	No	Partial	No	No	No	Included
Mississippi	Rebate	25%	25-30%	20 mil	8 mil	Partial	No	No	No	Included
Missouri	Credit	35%		4.5 mil	No	No	No	Yes	No	Included
Montana	Credit	9%	14%	No	No	No Tax	Yes	No	No	Included
Nebraska										
Nevada										
New Hampshire						No Tax				
New Jersey[6]	Credit	20%		10 mil	No	Yes	No	Yes	Yes	Included

Table (continued…)

State	Incentive	Production Tax Incentive %	Wage Credits	Annual Cap	Cap per Project	Sales Tax Exemption	Refundable	Transferable	Video Game Incentive	Post-Production
New Mexico	Credit	25%		50 mil	No	Yes	Yes	No	Yes	Separate
New York	Credit	30%		420 mil	No	Yes	Yes	No	No	Separate
North Carolina	Credit	25%		No	20 mil	No	Yes	No	Yes	Included
North Dakota										
Ohio	Credit	25-35%		40 mil	5 mil	No	Yes	No	Yes	Included
Oklahoma	Rebate	37%		5 mil	No	Yes	No	No	No	Included
Oregon	Rebate	20%	16%	7.5 mil	No	No Tax	No	No	No	Included
Pennsylvania	Credit	25%		60 mil	15 mil	No	No	Yes	No	Included
Rhode Island	Credit	25%		15 mil	5 mil	No	No	Yes	Yes	Included
South Carolina	Rebate	15%	15%	15 mil	0	Yes	No	No	No	Included
South Dakota										
Tennessee[7]	Credit and Grant	25%		N/A	No	Yes	Yes	No	No	Included
Texas	Grant	5-17.5%	8-29.5%	15 mil	No	Yes	No	No	Yes	Separate
Utah	Credit and Rebate	15-25%		6.8 mil	500 k	Yes	No	Yes	Yes	Included
Vermont										
Virginia	Credit	15-20%	10%	5 mil[8]	0	Yes	Yes	No	Yes	Included
Washington	Credit	15-35%		3.5 mil	0	Yes	No	No	No	Included
West Virginia	Credit	27%	4%	10 mil	No	Yes	No	Yes	No	Included
Wisconsin	Credit	25%		500k	100k	Yes	Yes	No	Yes	Included
Wyoming	Rebate	12-15%		1 mil	0	No	No	No	No	Included

Notes: If not otherwise stated, post-production is assumed to be included. Annual caps may have limits for qualified salaries. Some states listed as “no” in the Annual Cap column allocate only a specific level of annual funding, but do not make it explicit.

[1] Reflects 2013 policy change.
[2] $200 million over ten years.
[3] Separate incentive for post-production.
[4] For independent films only.
[5] $296 million over six years.
[6] Program suspended in FY 2011.
[7] Program is being restructured.
[8] $5 million over two years.

Sources: State film offices, departments of revenue, departments of economic development and legislative statutes. Most recent data is presented.

Appendix IV: Selected Pages from the Film Tax Credit Program Guidelines

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Film Tax Credit

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Section I – Introduction

The Commonwealth of Pennsylvania, through the Department of Community and Economic Development (the "Department") and the Pennsylvania Film Office ("PA Film Office), administers the Film Tax Credit Program (the "Program") authorized by Act 55 of July 25, 2007 (the "ACT"), a copy of which is attached as Appendix A (as amended by Act 48 of October 9, 2009), Act 85 of 2012.

Applicants should read and understand the requirements of the ACT prior to submitting an application. Applicants are also strongly advised to consult with their legal and financial advisors prior to submitting an application.

Section II – Program Eligibility

Projects eligible for Film Tax Credits under the Program are: the production of a feature film, a television film, a television talk or game show series, a television commercial, a television pilot or each episode of a television series intended as programming for a national audience.

The following are NOT eligible projects: a production featuring news, current events, weather and market reports, or public programming, sports events, awards shows or other gala events, a production that solicits funds, a production containing obscene material or performances as defined in 18 PA.C.S. § 5903(b) (relating to obscene and other sexual materials and performances) or a production primarily for private, political, industrial, corporate or institutional purposes.

Section III – Program Requirements

All Film Tax Credit awards are subject to the availability of funds.

Eligibility Requirements

A project is eligible if at least 60% of the project's Total Production Budget is used for Qualified Pennsylvania Production Expenses.

The amount of the Film Tax Credit available for an eligible project is equal to 25% of Qualified Pennsylvania Production Expenses for the project. The term "Qualified Pennsylvania Production Expenses" includes nearly all production (including pre- and post-production) expenses incurred in Pennsylvania, subject to certain limitations and exceptions.

Exception: A feature film, television film or television series project, which is intended as programming for a national audience and films in a qualified production facility which meets the minimum stage filming requirements is eligible for an additional credit in the amount of 5% of the qualified film production expenses incurred by the project.

Projects already completed at the time of application are not eligible for a Film Tax Credit.

Projects with a Film Tax Credit Contract may not submit a revised or new application for additional film tax credits for the same project.

If a project is scheduled to be in production for more than 12 months the applicant may, at the time of application, make a written request for the Film Tax Credit to be issued on an annual basis rather than upon completion of production. The PA Film Office may, at its discretion, grant such a request subject to the following conditions:

- The amount of the Film Tax Credit to be issued shall be limited to 25% of Qualified Pennsylvania Production Expenses actually incurred in connection with the project during the relevant 12 month period specified in the request;
- The applicant shall comply with the Financial Compliance instructions for the Program (Section IX) with respect to each Film Tax Credit to be issued under this provision; and
- If accepted by the PA Film Office, the request may not be withdrawn or changed.

The PA Film Office will limit a Film Tax Credit award to an amount not greater than 20% of the aggregate amount of Film Tax Credits available in any fiscal year.

Marketing Requirements

Recipients of a Film Tax Credit will be required to do the following:

- Include with the production's end credits an acknowledgement of the support provided by the PA Film Office and any applicable regional film office(s) to include the logos of the PA Film Office and any applicable regional film office(s). The acknowledgement and logos to be used for the PA Film Office and eligible regional Film Offices may be found in Appendix B of these Guidelines and are available at filminpa.com. The PA Film Office reserves the right to refuse Pennsylvania's name in the credits of a motion picture filmed or produced in the Commonwealth. This will be indicated in the Film Tax Credit Contract or at a later time in writing.
- Placement of the PA Film Office logo on all packaging material and hard media, unless such placement is prohibited by licensing or other contractual obligations.
- Placement of a 30-second "visitPA" promotional video on all optical disc formats of a film, unless such placement is prohibited by licensing or other contractual obligations, and such is indicated in writing by an officer of the production company. The 30-second promotional video shall be approved and provided by the Pennsylvania Tourism Office in consultation with the Executive Director of Tourism & Film Marketing.

Recipients of a Film Tax Credit will also be required to provide the following:

- Five different high resolution still production photos in a digital format will be provided to the PA Film Office before public distribution of the production, with rights cleared for Pennsylvania's Tourism & Film Offices' promotional use only.
- Three copies of the full-size poster for the production to the PA Film Office before public distribution of the production. If none are created, two copies of other marketing materials shall be provided.
- One copy of the electronic press kit for the production at the time it is made available to the press, if one is created.

Section IV – Qualified and Non-Qualified Production Expenses

Qualified Pennsylvania Production Expenses

- Salaries and wages earned in Pennsylvania if such amounts are subject to Pennsylvania taxation. However, there is a cap of $15 million in aggregate payments for "above the line" services to be provided by principal actors, whether directly or through a "loan-out" company.
- Music and story rights only if the rights are acquired from a Pennsylvania resident or an entity subject to Pennsylvania taxation.
- The costs of production operations incurred in Pennsylvania such as the following:
  - construction
  - photography
  - visual effects
  - lighting, editing, sound synchronization
  - wardrobe and accessories
  - food and lodging
  - fringe benefits
- The cost of rental of facilities and equipment from a Pennsylvania taxpayer.
- The cost of insurance coverage purchased through an insurance agent based in Pennsylvania.
- Costs of travel to, from and within Pennsylvania.
- Costs of shipping to, from and within Pennsylvania including overnight delivery services.
- Fees for production services (including pre- and post-production services). The PA Film Office strongly encourages that post-production occurs in Pennsylvania.
- Production-related services such as legal and accounting fees if paid to a Pennsylvania taxpayer and all or substantially all the services are actually performed in Pennsylvania.
- International costs must be included as part of the total production cost.

Non- Qualified Pennsylvania Production Expenses

- Development costs, financing costs, marketing costs and advertising costs.
- Costs incurred in connection with the sale or transfer of a tax credit.
- In order to promote jobs in Pennsylvania, the PA Film Office will not recognize the following as Qualified Pennsylvania Production Expenses:
  - Fees paid for production services performed outside of Pennsylvania, regardless of whether they were performed by a Pennsylvania taxpayer; or

- Purchases of products or services made through a person or entity not routinely engaged in the business of providing such products or services to businesses other than Pennsylvania Film Tax Credit applicants, regardless of whether such purchases or such vendors are subject to taxation in Pennsylvania. Pass Throughs, as defined in Section XII, do not qualify as a production expense. Companies established to exist as PassThrough companies will be required to provide documentation that all vendors utilized are Pennsylvania companies unless documentation is provided that there is no Pennsylvania company available.

Refer to Appendix C for a list of Qualifying and Non-Qualifying Expenditures.

Section V – How to Apply

Applicants must provide a complete application package to the PA Film Office in order to be considered for a Film Tax Credit. Incomplete applications will not be accepted. The application package consists of the following information and documentation:

- A completed Film Tax Credit Application as contained in Appendix D. The application is also available at http://www.filminpa.com/filminpa/Incentives.jsp.
- Applicants must submit the Budget Top Sheet (Appendix E) which provides a side-by-side comparison of Total Production Expenses and Qualified Pennsylvania Production Expenses. Refer to Appendix C for a list of Qualified and Non-Qualified Expenditures.
- Applicants must provide verifiable documentation that 70% of the financing for the project has been secured and the remaining 30% will be secured prior to the planned start date of principal photography in the Commonwealth. Applicants must provide appropriate documentation and must notify the PA Film Office of any change in financing prior to completion of the project. A Film Tax Credit Contract will NOT be issued to projects that have not secured financing and submitted the necessary documentation.
- A copy of the script.
- A completed "Single Application" available at www.newPA.com. The "Single Application" must be submitted electronically. Refer to Appendix F for "Instructions on Completing the Single Application" online.

Successful completion of all items listed above meets the requirements of and definition of a completed application package. Within 15 days of submitting the complete application package, the following must occur:

- An interview with the Executive Director of Tourism and Film Marketing (in person or by telephone) to discuss the application. Interested applicants should request an appointment by calling 717-720-1312. The Director of the Pittsburgh or Greater Philadelphia Film Office will be invited to participate in the interview process for projects anticipating to film in either region.
- An application fee of .2% (two-tenths) of 25% of your estimated expenditures in Pennsylvania not to exceed $5,000. The application fee is non-refundable unless your application is rejected due to a lack of funds. The application fee does not apply to projects with a total production cost of one million dollars or less. Checks must be payable to the "Commonwealth of Pennsylvania."

- Any other information or documentation deemed appropriate by the PA Film Office.
- Applications must be mailed to:

  Janice Collier
  Director of Grants, Finance & Film Tax Credits
  Pennsylvania Film Office
  Department of Community & Economic Development
  Commonwealth Keystone Building
  400 North Street, 4th Floor
  Harrisburg, PA 17120-0225

  Phone: (717) 720-1312
  jacollier@pa.gov

Complete application packages including an application fee may be filed no sooner than 90 days prior to the start date of principal photography in the commonwealth.

Section VI – Review Process

All applications will be reviewed for completeness and compliance with the ACT and these Guidelines. Applicants will be notified by email of missing information or non-compliance with the Guidelines. Applicants will have the opportunity to correct their application submissions; however, an application will not be placed in the funding queue until all required information is received by the PA Film Office. A complete application package will be reviewed and approved or disapproved within in a 90 day period: July 1st through September 30th; October 1st through December 31s; January 1st through March 31st and April 1st through June 30th.

Section VII – Application Evaluation

The PA Film Office will determine the competitiveness of application by conducting a quantitative analysis based on the following criteria:

1. The anticipated number of production days in a qualified production facility.
2. The anticipated number of Pennsylvania employees.
3. The number of preproduction days through postproduction days in Pennsylvania.
4. The anticipated number of days spent in Pennsylvania hotels.
5. The Pennsylvania production expenses in comparison to the production budget.
6. The use of studio resources.

Applications not approved may be reviewed and considered in subsequent application periods.

Section VIII – Film Tax Credit Contract

If an application for a Film Tax Credit is approved, the PA Film Office will prepare and send a Film Tax Credit Contract to the Applicant. The contract will specify the maximum amount of Film Tax Credits and the Applicant's obligations including, but not limited to the following:

- The Applicant has registered to do business in Pennsylvania prior to the commencement of principal photography in Pennsylvania; and
- All personal service corporations or loan-out companies engaged by the Applicant are incorporated or formed in or have registered to do business in Pennsylvania prior to the commencement of principal photography in Pennsylvania or have obtained a certificate of authority in a reasonable period of time.
- If an organization determines that it needs to register to do business in Pennsylvania, the link to the Forms section of the Department's Corporation Bureau website is www.dos.state.pa.us or call 1-888-659-9962 or 717-787-1057.
- The production has commenced or will commence in Pennsylvania (e.g., a production report) in accordance with the terms of the application submitted by the Applicant, the ACT and these Guidelines.
- Provide monthly progress reports until completion of the production using the form in Appendix G. Monthly Reports are due within five business days after the end of each month following the Applicant's acceptance of the Film Tax Credit Contract. A Final Production & Economic Impact Report must be submitted to the PA Film Office within 120 days of completion of the production using the form found in Appendix H.
- Submit an independently audited report of Total Production Expenses and all Qualified Pennsylvania Production Expenses upon completion of the project (i.e., completed film has been delivered to investors and is ready for distribution). Each expense must be verifiable by an independent CPA, including the amount and date the expense was incurred, the identification of vendors and employees paid, and the tax ID or social security number of each payment recipient. The report shall be prepared in accordance with the Financial Compliance instructions for the Program as stated in Section IX.
- Adherence to the marketing requirements as outlined in Section III.
- Such other terms and conditions as the PA Film Office deems appropriate.

Acceptance of the Film Tax Credit Contract must be made by returning one original signed copy of the Film Tax Credit Contract to the PA Film Office within 30 days of the date the Film Tax Credit Contract was issued. Contracts must be returned to:

Janice Collier
Director of Grants, Finance & Film Tax Credits
Pennsylvania Film Office
Department of Community & Economic Development
Commonwealth Keystone Building
400 North Street, 4th Floor
Harrisburg, PA 17120-0225

Withdrawal of Film Tax Credit

A Film Tax Credit that has been awarded to an Applicant **WILL BE REVOKED** if the Applicant:

- Fails to return an original signed copy of the Film Tax Credit Contract within 30 days of the date on the Film Tax Credit Contract.
- Fails to notify the PA Film Office that the start date of principal photography has changed from the date indicated in the application and/or Film Tax Credit Contract.

Section IX – Issuance of Film Tax Credit Certificates

Film Tax Credit Certificates will be issued by the Department upon review and approval of the following documents:

- Final Production & Economic Impact Report utilizing the form in Appendix H.
- Final Budget Top Sheet utilizing the form in Appendix E.
- Final Pennsylvania Vendor/Subcontractors Report utilizing the form in Appendix I.
- Final Cast & Crew Form in Appendix J.
- Audit. Refer to Section IX for specific information on Financial Compliance.
- Receipt of all marketing materials as outlined in Section III.
- Any other information requested by the PA Film Office.

Provided the information supplied to the PA Film Office meets all requirements of the Program, a Film Tax Credit Certificate will be issued within 45 days of receipt of the information. The amount of Film Tax Credits issued may not exceed the amount requested in the application.

A Film Tax Credit Certificate can only be issued to entities that have a Pennsylvania state tax ID number. All entities not incorporated or formed within Pennsylvania must register to do business in Pennsylvania in order to obtain a state tax ID number.

Section X – Financial Compliance

The following procedures relate to the financial compliance requirements of the Pennsylvania Film Tax Credit guidelines and the Film Tax Credit Contract between the Applicant and the Department. Applicants may submit a Report on Agreed Upon Procedures for projects in receipt of a Film Tax Credit of less than $100,000. All other projects must submit a Project Audit. The Project Audit or Report on Agreed Upon Procedures must be submitted within 120 days after completion of production unless a request by email for an extension has been submitted to and approved by the PA Film Office. Requests should be emailed to RA-audits@pa.gov.

Section XI – Use and Transfer of Film Tax Credits

Use or Sale of the Film Tax Credit

Film Tax Credits may be applied against tax liability under the following Pennsylvania taxes (under Articles III, IV, VI, VII or IX of the Tax Reform Code of 1971):

- Personal Income Tax (but not tax withheld by an employer from an employee)
- Corporate Net Income Tax
- Capital Stock and Franchise Tax
- Bank Shares Tax
- Insurance Premiums Tax

The Film Tax Credit must first be applied to the Applicant's tax liability for the Applicant's tax year in which the Film Tax Credit is issued and cannot be applied against such liability until the return for such year has been filed. If the Applicant's tax liability is less than the Film Tax Credit issued to it, the Applicant:

- May carry forward the unused portion of the Film Tax Credit for a period not to exceed three additional taxable years and may use the Film Tax Credit to offset eligible tax liabilities during those years; or
- May apply to the PA Film Office for approval for the sale, transfer or assignment of all or a portion of the Film Tax Credit to another entity having such tax liabilities using the Assignment Application attached as Appendix K.

An applicant may not carry back or obtain a refund of any unused Film Tax Credits.

An applicant must file all required state tax reports and returns for the years up to and including the date of the issuance of the Film Tax Credit Certificate and pay any balance of state tax due as determined at settlement, assessment or determination by the Pennsylvania Department of Revenue before the Film Tax Credit can be used and before an application for sale or assignment will be approved.

After submitting an Assignment Application to sell the Film Tax Credit, an applicant may no longer use that portion of the Film Tax Credit to offset an eligible tax liability unless the application is denied by the PA Film Office or withdrawn by the Applicant.

The Applicant must identify the buyer company or individual, and the buyer must sign the application to sell the Film Tax Credit.

Film Tax Credit Buyer

The buyer must be identified in the application for the sale of the Film Tax Credits submitted by the Applicant. A separate application must be submitted for each buyer. The buyer must claim the full amount of the purchased Film Tax Credit in the taxable year in which the application for the sale of the Film Tax Credit is approved by the PA Film Office. The purchased or assigned Film Tax Credits may be used against tax liability under the following Pennsylvania taxes (Articles III, IV, VI, VII or IX of the Tax Reform Code of 1971):

- Personal Income Tax (but not tax withheld by an employer from an employee)
- Corporate Net Income Tax
- Capital Stock and Franchise Tax
- Bank Shares Tax
- Insurance Premiums Tax

Any portion of the Film Tax Credit not used by the buyer in the year of the purchase is lost and may not be used in any other tax year. The amount of the purchased credit may not be used to offset more than 50% of the buyer's tax liability in that taxable year. The buyer may not carry forward, carry back, obtain a refund of, or assign the Film Tax Credit. Film Tax Credits may be sold only once. (Limited carry forward of tax credits. – A purchaser or assignee may carry forward all or any unused portion of a tax credit purchased or assigned in calendar year 2010 against qualified tax liabilities incurred in taxable years 2011 and 2012.) The transfer of Film Tax Credits will be closely coordinated between the PA Film Office and the Pennsylvania Department of Revenue.

Film Tax Credits can only be sold or assigned to entities that have a Pennsylvania state tax ID number. All entities not incorporated or formed within Pennsylvania must register to do business in Pennsylvania in order to obtain a state tax ID number.

Applications for the transfer of all or a portion of the Film Tax Credit submitted to the PA Film Office will be reviewed within 15 days of receipt by the PA Film Office. If the application is complete in all respects, the PA Film Office will forward the application to the Pennsylvania Department of Revenue for review and processing.

The Pennsylvania Department of Revenue may take up to 60 days to review the application and confirm compliance with all conditions before posting the transfer to the seller's and buyer's respective accounts with the Pennsylvania Department of Revenue. The Pennsylvania Department of Revenue will issue a written confirmation of the transfer to both the seller and buyer. Sellers and buyers of Film Tax Credits may each confirm the completion of all transfers by calling 1-888-728-2937 (Option 1, 2, 5) with the Corporate Tax Account ID number in hand.

Application

Prospective applicants must submit applications on the Assignment Application included in Appendix K. Completed applications, including a copy of the Film Tax Credit Certificate along with all required signatures and attachments, must be submitted to:

Janice Collier
Director of Grants, Finance & Film Tax Credits
Pennsylvania Film Office
Department of Community & Economic Development
Commonwealth Keystone Building
400 North Street, 4th Floor
Harrisburg, PA 17120-0225

For specific questions, please contact Janice Collier at 717-720-1312 or jacollier@pa.gov.

Expediting the Application Process

The PA Department of Revenue encourages Applicants to adhere to the following steps to ensure expeditious processing on the use of or sell of the Film Tax Credit:

- Properly complete the Corporate Tax Report (including authorized signatures).
- Provide all required supporting documentation (see pages 1-3 of CT-1 Rev 1200 Corporate Tax Booklet for more details).
- Accurately identify the federal forms included with the corporate tax return. (See page 1 of the RCT-101).
- Provide an accurate and complete breakdown of production expenses.

Section XIII – Definitions

Affiliate – a qualified taxpayer's affiliated corporation that has been assigned any portion of the Film Tax Credit amount by the qualified taxpayer.

Applicant – any corporation, partnership, limited partnership, limited liability company (LLC) or other entity or individual that is principally engaged in the production of the "qualified motion picture" and that controls the film or television program during pre-production, production and post-production. The Applicant is the qualified taxpayer that upon final approval will receive the Film Tax Credit Certificate.

Completed Film – a film is considered complete when the process of post-production has been finished. The process of post-production shall be considered finished when a final composite answer print, HD air master, or digital cinema files of the qualified motion picture is/are produced.

Department – the Department of Community and Economic Development responsible for administering the Film Tax Credit program.

Film Tax Credit Certificate – the certificate issued by the PA Film Office upon completion of the qualified motion picture reflecting the Film Tax Credit amount allocated after Qualified Pennsylvania Expenditures have been verified.

Film Tax Credit Contract – the document issued by the PA Film Office awarding an amount of Film Tax Credits to an Applicant having a "qualified motion picture" based on an estimate of "Qualified Pennsylvania Production Expenditures."

Minimum Stage Filming Requirements:

1. Taxpayers with a Pennsylvania production expense of less than $30,000,000 per production must:
   - (i) Build at least one set at a qualified production facility;
   - (ii) Shoot for a minimum of ten days at a qualified production facility; and
   - (iii) Spend or incur a minimum of $1,500,000 in direct expenditures relating to the use or rental of tangible property or for performance of services provided by a qualified production facility.
2. Taxpayers with a Pennsylvania production expense of at least $30,000,000 per production must:
   - (i) Build at least two sets at a qualified production facility;
   - (ii) Shoot for a minimum of 15 days at a qualified production facility; and
   - (iii) Spend or incur a minimum of $5,000,000 in direct expenditures relating to the use or rental of tangible property at or for performance of services provided by a qualified production facility.

Pass Through – companies that provide products or services to a production company of which they are not regularly engaged in that business. For example: A production company contracts with a PA food services company to provide audio post-production services to a film. While the company is a Pennsylvania taxpayer, this expenditure would be deemed a pass through transaction and would not qualify since the company is not in the business of, nor has the capability of, providing audio post-production services to the film.

PA Film Office – the program office within the Department of Community and Economic Development that is responsible for administering the Film Tax Credit Program and leveraging the Program to build Pennsylvania's infrastructure and develop its workforce to grow Pennsylvania's film industry.

Post-production – activities in a qualified motion picture's production, including but not limited to editing, foley recording, ADR, sound editing, negative cutting, color correction and sound mixing.

Pre-production – the process of preparation for actual physical production which begins after a qualified motion picture has received a firm agreement of financial commitment. Customarily includes, but is not limited to, activities such as location scouting, hiring of key crew members, and establishment of a dedicated production office.

Principal Photography – the phase of production during which the motion picture is actually shot, as distinguished from pre-production and post-production. Principal photography days refer to the number of days shot by the principal unit with the director and lead actors usually present.

Qualified Pennsylvania Productions Expenditures – amounts paid or incurred to purchase or lease tangible personal property used within the state in the production of a qualified motion picture. It includes payments, including qualified wages, for services performed within the state in the production of same. Refer to the ACT (Section 8702-D. Definitions) for further details on eligible expenditures.

Qualified Production Facility – A film production facility located within this Commonwealth that contains at least one sound stage with a column-free, unobstructed floor space and meets either of the following criteria:

1. Has had a minimum of $10,000,000 invested in the film production facility in land or structure purchased or ground-up, purpose-built new construction or renovation of existing improvement.
2. Meets at least three of the following criteria:
   - (i) A sound stage having an industry standard noise criteria rating of 25 or better.
   - (ii) A permanent grid with a minimum point load capacity of no less than 1,000 pounds at a minimum of 25 points.
   - (iii) Built-in power supply available at a minimum of 4,000 amps per sound stage without the need for supplemental generators.
   - (iv) A height from sound stage floor to permanent grid of a minimum of 20 feet.
   - (v) A sound stage with a sliding or roll-up access door with a minimum height of 14 feet.
   - (vi) A built-in HVAC capacity during shoot days with a minimum of 50 tons of cooling capacity available per sound stage.
   - (vii) Perimeter security that includes a 24-hour, seven-days-a-week security presence and use of access control identification badges.
   - (viii) On-site lighting and grip department with an available inventory stored at the film production facility with a minimum cost of investment of $500,000.
   - (ix) A sound stage with contiguous production offices with a minimum of 5,000 square feet per sound stage.

Total Production Budget – the Budget used by the Applicant that shall include but is not limited to "above the line" costs including wages, and "below the line" costs including post-production, insurance, rights and music and clip licensing fees. Production Budget shall include wages, goods, and services performed and incurred within and outside of Pennsylvania. It does not include costs which are not directly associated with the pre-production, production or post-production of the project, such as: distribution prints and advertising, marketing, film festival participation, financing or distribution costs such as theater rentals and DVD manufacturing.

Vendor – a person selling goods or services that has a physical presence in Pennsylvania and is subject to gross receipts tax or income tax.