HB 926

Department of Legislative Services

Maryland General Assembly
2000 Session

FISCAL NOTE
Revised

House Bill 926 (Chairman, Ways and Means Committee, *et al.*)
(Departmental - Dept. Business & Economic Dev.)
Ways and Means

Film Production Activity - Sales and Use Tax Exemption

This departmental bill exempts from the sales and use tax the sale of tangible personal property or a taxable service that is used directly in connection with a "film production activity." The film producer or production company must apply to the Department of Business and Economic Development (DBED) for certification of eligibility for the exemption.

The bill is effective July 1, 2000.

Fiscal Summary

State Effect: General fund revenues could decrease by $708,800 in FY 2001 due to the sales tax exemption of film production activities. Future years losses may vary due to the fluctuating nature of film production activity in Maryland. General fund losses may be partially offset by indirect sales tax revenue increases and income tax revenue increases due to potentially increased economic activity in the State. No effect on expenditures.

Local Effect: If the tax incentives spur new employment and economic development in the State, local tax revenues could increase. In addition, property tax revenues for the affected jurisdictions could increase as a result of additional economic development.

Small Business Effect: DBED has determined that this bill has a meaningful impact on small business (attached). Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary: The bill defines film production activity as the production or postproduction of film or video projects including feature films, television projects, commercials, corporate films, infomercials, music videos, or other projects for which the producer or production company will be compensated, and which are intended for nationwide distribution.

Tangible personal property or a taxable service includes: (1) camera equipment and supplies; (2) film and tape; (3) lighting and stage equipment and supplies; (4) sound equipment and supplies; (5) recording equipment and supplies; (6) costumes and related material; (7) props and scenery and related material; (8) design supplies and equipment; (9) drafting supplies; (10) special effects supplies; (11) short-term vehicle rentals; and (12) fabrication, printing, or production of scripts, storyboards, costumes, wardrobes, props, scenery, or special effects.

The bill requires DBED to conduct a study on: (1) the preliminary impact of the sales and use tax exemption created by the bill; (2) the potential economic impact on the State's film and video production industry of allowing a credit against the State income tax for a percentage of the wages paid for Maryland film and video productions; and (3) the actual impact experienced in other states in which similar income tax credits have been enacted. DBED must report to the General Assembly by December 1, 2001.

Current Law: There are no specified tax incentives for film and video production costs for tangible personal property in the State. However, services for the operation of equipment used for the production of audio, video, or film recordings that are stated separately from the cost of the equipment are not subject to the sales and use tax.

Background: Virginia, Pennsylvania, North Carolina, South Carolina, and New York, along with 20 other states, exempt film production items and services from the sales tax. Canada offers a number of incentives to film makers including a 20% tax rebate on the first $3 million of labor costs for each project.

State Fiscal Effect: The Maryland Film Office anticipates that the production of feature films and national television programs will generate $39.4 million in direct expenditures in Maryland for fiscal 2001. Based on prior years' experience, approximately $14.2 million of total expenditures will be on purchases that would be exempt from the sales and use tax. Assuming all purchases would be exempt from the sales tax as a result of the bill, direct general fund revenues would decrease by $708,800. It should be noted, however, that actual annual expenditures vary widely due to the nature of the film and video business.
To the extent that additional films and video are produced in Maryland that would otherwise have been made out-of-state, total sales tax revenue on indirect purchases would increase, mitigating the revenue loss described above. Also, businesses would become more profitable and income tax revenues could increase. The amount of either such increase cannot be reliably estimated at this time.

DBED can conduct the study required by the bill with existing resources.

Additional Information

Prior Introductions: None.

Cross File: SB 192 (Chairman, Budget and Taxation) - Budget and Taxation.

Information Source(s): Department of Business and Economic Development, Comptroller of the Treasury, Department of Legislative Services

Fiscal Note History: First Reader - February 28, 2000
drg/jr Revised - House Third Reader - March 27, 2000

Analysis by: Jody J. Minnich

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510