



**INDIVIDUAL INCOME TAX
CORPORATE FRANCHISE TAX
Film Production Credit**

March 15, 2023

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 2059 (Lislegard) / S.F. 2765 (Hauschild)

	Fund Impact			
	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>
			(000's)	
General Fund	(\$8,500)	(\$10,100)	(\$12,700)	(\$13,000)

Effective beginning in tax year 2023.

EXPLANATION OF THE BILL

Current Law: A credit is allowed against the corporate franchise tax and the individual income tax equal to 25% of film production costs for films made in Minnesota by persons or entities that incur such costs and are subject to those taxes. Films include feature films, television or Internet pilots, programs, series, documentaries, music videos, and television commercials. Films must include the promotion of Minnesota and have at least \$1,000,000 of production costs expended in the tax year. If a taxpayer elects to transfer the credit in lieu of claiming the credit, the transferred credit may be sold or assigned, in full or in part, to another taxpayer for not less than 80 percent of the credit amount subject to transfer.

The credit or credit transfer can be carried over to each of the five succeeding table years. The amount of the unused credit or credit transfer must not exceed the taxpayer's liability for tax. Credits granted to partnerships, S corporations, or a limited liability company taxed as a partnership are passed through to each partner, member, shareholder, or owner respectively.

A taxpayer must apply to the Commissioner of Employment and Economic Development to qualify for a credit or credit transfer. The application must contain information as prescribed by the Commissioner in consultation with the Commissioner of Revenue. The application must indicate if the application is for a credit or a credit transfer in lieu of credit, or a combination of the two.

The Commissioner of Employment and Economic Development may not issue more than \$4.95 million in credits each year. Anything not allocated in the current fiscal year can be allocated to the following years. The Commissioner must issue credit certificates on a first-come, first-served basis beginning on January 1 of each year.

No credits can be awarded for taxable years beginning after December 31, 2024.

EXPLANATION OF THE BILL (Cont.)

Proposed Law: The bill would modify the production costs needed for eligibility from \$1 million in a tax year to \$1 million in a 12-month consecutive period.

Additionally, it removes the sunset on the credits (currently December 31, 2024) and increases the total credit from \$4.95 million and \$24.95 million per fiscal year beginning tax year 2023.

REVENUE ANALYSIS DETAIL

- The estimate is based on information on credit certificates issued in tax years 2022 and 2023 to date and information from other states.
- Credits totaled about \$1.1 million in tax year 2022 and are expected to be at least \$2.2 million in tax year 2023, based on current projects.
- It is assumed that the increased in the amount of credits with no sunset will cause an increase in demand for the program. This has been seen in other states with a comparable credit program.
- Oklahoma has a similar credit for film productions and increased their maximum credit from \$8 million per year to \$30 million per year beginning in tax year 2021 (year 9 of the program).
- Credit usage was modeled based on the growth in credits in Oklahoma, smoothed to adjust for COVID disruptions. Over time the total credits are expected to reach the maximum of \$25 million per year.

Number of Taxpayers: Since being implemented, eight productions have claimed the tax credit.

Minnesota Department of Revenue
Tax Research Division
[https://www.revenue.state.mn.us/
revenue-analyses](https://www.revenue.state.mn.us/revenue-analyses)