



# Arizona State Senate Issue Brief

September 28, 2007

## Note to Reader:

The Senate Research Staff provides nonpartisan, objective legislative research, policy analysis and related assistance to the members of the Arizona State Senate. The *Research Briefs* series, which includes the *Issue Brief*, *Background Brief* and *Issue Paper*, is intended to introduce a reader to various legislatively related issues and provide useful resources to assist the reader in learning more on a given topic. Because of frequent legislative and executive activity, topics may undergo frequent changes. Additionally, nothing in the *Brief* should be used to draw conclusions on the legality of an issue.

## **MOTION PICTURE TAX INCENTIVES**

### **INTRODUCTION**

Arizona's involvement in the film industry dates back to the early westerns; it has been the location for feature films, television series and commercials. Legislation enacted in 2005, 2006 and 2007 created and expanded Arizona's tax incentives. Specific examples of tax incentives offered by some other states, including several surrounding western states and Louisiana, which was the first of many states to provide enhanced economic and tax incentives to attract the motion picture industry, are contained in Table 1.

Arizona provides two categories of tax incentives: income tax credits and transaction privilege tax (TPT) and use tax exemptions for motion picture production, and income tax credits for motion picture infrastructure projects.

### **ARIZONA MOTION PICTURE INCENTIVES**

To qualify for either of these tax incentives, a motion picture production company must submit a completed application with all requested information, begin production within 90 days of preapproval, incur production costs of at least \$250,000 in this state on each motion picture and employ a minimum percentage of Arizona residents in its production activities.

#### ***Motion Picture Production Income Tax Credits***

For tax years 2006 through 2010, an individual and corporate income tax credit is available for motion picture production costs expended in Arizona that are directly attributable to the project based on the following scale:

- production costs between \$250,000 and \$1 million are eligible for a 20 percent credit.
- production costs in excess of \$1 million are eligible for a 30 percent credit.

These tax credits may be used to offset Arizona tax liability. The tax credits may be used, sold or transferred. Unused credit amounts can be carried forward for up to five taxable years. To

receive the nonrefundable production tax credit a qualifying company must receive preapproval and postapproval from the Arizona Department of Commerce (ADOC) and agree to include an acknowledgment in the credits of the film that the production was filmed in Arizona. ADOC is required to annually qualify motion picture production companies for the motion picture production income tax credits, limited to \$30 million in 2006, \$40 million in 2007, \$50 million in 2008, \$60 million in 2009 and \$70 million in 2010. Beginning in 2008, five percent of the annual tax credit cap is reserved for companies that produce commercial advertisements and music videos. Obscene films, as defined in Title 12, Chapter 7, Article 1.1, Title 13, Chapter 35, or Title 13, Chapter 35.1, are ineligible for the tax incentives. Additionally, each individual motion picture is limited to a maximum tax credit allowance of \$5 million in 2007, \$7 million in 2008, \$8 million in 2009 and \$9 million in 2010.

## ***Motion Picture Infrastructure Project Income Tax Credits***

For tax years 2008 through 2010, an individual and corporate income tax credit is available for motion infrastructure project costs in Arizona based on the following scale:

- \$5 million for soundstage projects in 2008.
- \$5 million for soundstage projects and \$7 million for associated support and augmentation facilities in 2009.
- \$5 million for soundstage projects and \$9 million for associated support and augmentation facilities in 2010.
- \$3 million for support and augmentation facilities.

The amount of the credit is 15 percent of the total base investment in the project during the taxable year. These tax credits may be used to offset Arizona tax liability. The tax credits may be used, sold or transferred. Unused tax credit amounts can be carried forward for up to five taxable years.

A qualified company can receive the nonrefundable infrastructure tax credit only after receiving preapproval and postapproval from

ADOC and are authorized on a first come, first served basis. The applicant must construct, own and operate the eligible infrastructure project and submit a report to ADOC upon the project's completion. Arizona project expenditures for soundstages must be at least:

- \$250,000 within 90 days of preapproval.
- \$1 million within 12 months of preapproval.
- \$5 million within 36 months of preapproval.

For support and augmentation facilities, Arizona project expenditures must be at least:

- \$250,000 within 90 days of preapproval.
- \$1 million within 36 months of preapproval.

## ***Transaction Privilege & Use Tax Incentives***

Additionally, all hotel occupancy taxes are waived for stays of over 30 days and vehicles entering Arizona for the sole purpose of production are exempt from the state fuel tax. In addition, withholding tax of nonresident wages is not required. Motion picture production companies are also eligible for exemption from certain TPT and use tax activities related to motion picture production. The production company must present its exemption certificate, obtained from the Arizona Department of Revenue when claiming the exemptions.

## *Motion Picture Tax Incentives*

---

### • **ADDITIONAL RESOURCES** •

- Arizona Department of Commerce Film Office  
[www.azcommerce.com](http://www.azcommerce.com)
- Analysis of the Film and Video Industry in Arizona, ESI Corporation  
[www.azcommerce.com/Film](http://www.azcommerce.com/Film)
- Arizona Department of Revenue  
[www.azdor.gov](http://www.azdor.gov)
- National Conference of State Legislatures  
[www.ncsl.org/programs/arts/taxfilm.htm](http://www.ncsl.org/programs/arts/taxfilm.htm)
- Motion Picture Association of America, Inc.  
[www.filmusa.org/wp-content/uploads/2007/07/2007taxincentives.pdf](http://www.filmusa.org/wp-content/uploads/2007/07/2007taxincentives.pdf)

**Table 1. Western States and Louisiana Motion Picture Tax Incentives**

<b>STATE</b>	<b>TAX INCENTIVES</b>
California	No sales or use tax on services. 5% sales tax exemption for lease or purchase of postproduction equipment. No state hotel tax. City and county hotel tax exempt after minimum of 30 days.
Colorado	A 10% refund for expenses on films originating out of state, if expenses exceed \$1 million, 75% of the expenses are spent in CO and 75% of the actors are CO residents. A 10% refund for in-state productions provided expenses exceed \$100,000. Refund cap of \$500,000 increases annually with inflation. No sales and use tax on film company services. No hotel tax after minimum of 30 days.
Nevada	No corporate or individual income tax. No hotel tax after minimum of 30 days.
New Mexico	Sales tax exemption on all production, rental costs, set construction, production and postproduction services. A 25% refundable income tax credit on in-state productions. No interest film production loans are offered for up to 100% of production costs, capped at \$15 million per project. After 30 days 4% of the hotel tax is waived.
Utah	Sales and use tax are exempt for the purchase, lease or rental of production or postproduction related equipment. A 10% rebate for TV series and movies, a \$100,000 cap per episode. Feature films are capped at \$500,000 per production. Rebate on hotel tax after minimum of 30 days.
Louisiana	A 25% transferable tax credit of in-state expenses, if expenses exceed \$300,000. A transferable employment tax credit, equal to 10% of the salaries of in-state residents hired. Credits may be transferred through Governor's Office.