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**Finance Committee**

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**HB 2542**

**Brief Description:** Increasing Washington state's motion picture and film industry viability by increasing the tax credit available to certain motion picture activities.

**Sponsors:** Representatives Riccelli, Orcutt, McBride, Vick, Magendanz, Van De Wege, Wylie, Pollet, Moscoso, Short, Peterson, MacEwen, Ormsby, Parker, Robinson, Cody, Ryu, Rossetti, Bergquist, Kuderer, Farrell, Walkinshaw, Nealey, Springer, Chandler, Appleton, Fitzgibbon, Holy, Zeiger, S. Hunt, Goodman, Gregerson and Pettigrew.

**Brief Summary of Bill**

- Extends the expiration date for business and occupation tax credits that may be earned for contributions made to the Motion Picture Competitiveness Program.
- Gradually increases the maximum annual credit amount that may be claimed.

**Hearing Date:** 1/22/16

**Staff:** Dominique Meyers (786-7150).

**Background:**

Business and Occupation Tax.

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. The tax is imposed on the gross receipts from all business activities conducted within the state. Revenues are deposited in the State General Fund. There are several rate categories, and a business may be subject to more than one B&O tax rate, depending on the types of activities conducted. Current law authorizes multiple exemptions, deductions and credits to reduce the B&O tax liability for specific taxpayers and business industries.

Motion Picture Competitiveness Program.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

The Legislature created the Motion Picture Competitiveness Program (Program) in 2002 with the intent of maintaining Washington's position as a competitive location for filming motion pictures, television, and television commercials. The Program allows taxpayers that contribute to an incentive fund to receive a credit against their B&O tax for the full amount contributed. Qualifying production companies that film in Washington can apply for payment from the incentive fund.

The Department of Community, Trade, and Economic Development – now the Department of Commerce, was directed to adopt criteria for an approved motion picture competitiveness program. The Department of Commerce (Commerce) was also directed to adopt rules, within established criteria, for awarding incentive payments to production companies. Additionally, Commerce was required to collect annual surveys from the production companies receiving the incentives, and report on the information in the surveys to the Legislature.

In 2006, legislation enacted created a nonprofit corporation to administer the incentive payments to production companies. Washington Filmworks, the nonprofit corporation, processes the production companies' applications for incentive payments pursuant to Commerce's rules.

In December 2010, the Joint Legislative Audit and Review Committee (JLARC) made recommendations to the Legislature based on its review of the effectiveness of the program. Based on these recommendations, the Legislature extended the expiration date of the credit to July 1, 2017. It also modified various parts of the Program including how funding was to be allocated, expanded the purpose of the Program, and capped the statewide B&O tax credit at \$3.5 million per calendar year. The credit is also limited to \$1 million per business per year.

JLARC reviewed the effectiveness of the program again in 2015, specifically reviewing two public policy objectives: (1) to regain Washington's competitive position as a location for motion picture projects and (2) to provide family wage jobs and with health and retirement benefits. JLARC's recommendation to the Legislature was to review and clarify the public policy object, specifically, provide additional detail on the target for Washington's film industry relative to other states, as well as details pertaining to the desired employment outcomes.

### **Summary of Bill:**

The expiration date for the B&O tax credit for contributions to the Program is extended from July 1, 2017, to December 31, 2023.

The annual statewide B&O tax credit cap is increased from \$3.5 million to:

- \$5.25 million, for calendar year 2017;
- \$7 million, for calendar year 2018;
- \$8.5 million for calendar year 2019; and
- \$10 million, for calendar year 2020 and thereafter.

A tax preference performance statement is included that provides specific metrics and job targets for analysis as part of any future review.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.