

Maryland Film Production Activity Tax Credit

Annual Report

Pursuant to Tax General Article §10-730

Submitted by

Maryland Department of Commerce

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Overview

CH 516 Acts of 2011 created the Film Production Activity Tax Credit (Film Tax Credit). The Act repealed the existing Film Production Rebate Program and replaced it with a tax credit for qualified direct costs of qualified film production activities including feature films and television series. Under the Film Tax Credit, the Department of Commerce (Commerce), formerly the Department of Business and Economic Development (DBED), could award a maximum of \$7.5 million in credits in each fiscal year beginning in FY 2012 through FY 2014. Qualifying production activities were eligible for a tax credit of up to 25% of the qualified direct costs for a feature film and 27% for a television series. If the amount of the tax credit exceeded the total tax liability in the tax year, the entity could claim a refund in the amount of the excess. The Act became effective on July 1, 2011 with a sunset date of June 30, 2014.

A total of \$22.5M (\$7.5 per FY) in tax credits was available for FYs 2012 through 2014. All of those tax credits were committed by January 2012 to six productions: *House of Cards - Season 1*; *VEEP - Seasons 1 & 2*; *Jamesy Boy*; *Better Living through Chemistry*; and, *Ping Pong Summer*.

In order to retain the filming of the two television series *House of Cards* and *VEEP* in Maryland, CH 28 Acts of 2013 authorized \$32.5 million in additional film tax credits over three years and extended the sunset through FY 2016. All of the tax credits were committed by the end of the first day Commerce began accepting applications (April 17, 2013). Those credits were committed to *House of Cards – Season 2* and *VEEP – Seasons 3 & 4*.

During the 2014 legislative session, House Bill 520 Business and Economic Development – Film Production Activity Tax Credit Program was introduced to increase the amount of tax credits the Secretary could issue in FY 2015 from \$7.5 million to \$11 million. Senate Bill 1051 Business and Economic Development – Film Production Activity Tax Credit Program was also introduced and proposed an increase from \$7.5 million to \$18.5 million. Both bills passed with amendments but failed to pass before the end of the legislative session. SB172 - the Budget Reconciliation and Financing Act - authorized funds from the Economic Development Opportunities Fund (Sunny Day) and Special Fund for Preservation of Cultural Arts to provide a \$7.5 million grant to enhance the Film Tax Credit, thus providing \$11.5 million in incentives for *House of Cards – Season 3*.

Senate Bill 905, Income Tax – Film Production Activity Tax Credit, introduced in the 2015 legislative session, was originally proposed to increase the amount of tax credits available for production activity in a fiscal year and extend the program's sunset date (\$25 million per fiscal year through FY 2019). However, during the last week of the session, the bill was amended to create the Film Production Tax Credit Reserve Fund with no funding attached. The new structure of the program requires the Department to report the amount of tax credits necessary to maintain the current level of film production activity and to attract new production activity to the Governor. This amount would then be considered for inclusion in the Governor's FY budget and acted upon by the General Assembly during the legislative session. In addition, some new reporting and promotional requirements were mandated. The legislation went into effect on July 1, 2015.

Film Production Activity Tax Credit Funding by Fiscal Year	
Fiscal Year	Funding
FY 2012	\$7,500,000.00
FY 2013	\$7,500,000.00
FY 2014	\$25,000,000.00
FY 2015	\$7,500,000.00
FY 2016	\$7,500,000.00
FY 2017	\$11,510,000.00*
FY 2018	\$5,000,000.00*

*Film Production Tax Credit Reserve Fund

Specifics

Tax General Article §10-730 requires Commerce to report on specific data before January 1 of each year:

- (1) the number of film production entities submitting applications;
- (2) the number and amount of tax credit certificates issued;
- (3) the number of local technicians, actors, and extras hired for film production activity during the reporting period;
- (4) a list of companies doing business in the State, including hotels, that directly provided goods or services for film production activity during the reporting period;
- (5) a list of companies doing business in the State that directly provided goods or services for film production activity during the reporting period that qualified during the reporting period as minority enterprise under §14-301(F) of the State finance and Procurement article;
- (6) a list of companies doing business in the State that directly provided goods or services for film production during the reporting period that, as determined by the Department, are considered small businesses; and
- (7) any other information that indicates the economic benefits to the State resulting from film production activity during the reporting period.

Only one application for tax credits was submitted in CY 2017.

In order to generate the mandated Report on Tax Credits due to the Governor on July 1, 2017, the Maryland Film Office opened a window for Applications for Initial Tax Credit Certification from 9:00am on Monday, May 1, 2017 through 5:00pm on Wednesday, May 31, 2017. The applications would be for tax credits that might become available in FY 2019 (July 1, 2018 - June 30, 2019) and any previously committed tax credits that might revert back to the program. Only one application was received during this window. MRC submitted an application for *House of Cards – Season 6*. There are currently no funds to provide tax credits for this production activity.

With all authorized tax credits committed and no guarantee of future funding levels, no other applications were received in CY 2017.

Attached is a summary (*Appendix A - Maryland Film Production Activity Tax Credit Recipients FY 2012-FY 2018*) outlining tax credits that have closed through CY 2017.

One production company was issued a Final Tax Credit Certificates during CY 2017.

- 1) *House of Cards – Season 5* completed 134 days of filming on February 14, 2017, and submitted their final application for tax credit along with all of their closing documentation (including a *Report on Agreed Upon Procedures* by an independent CPA) on July 14, 2017. The materials were reviewed by MFO staff and a final tax credit certificate was issued on September 8, 2017. *House of Cards – Season 5* received a tax credit of \$7,047,304.00 and had an economic impact of over \$129 million. The production hired 341 local technicians and 1,468 local actors/extras. In addition, the production company provided business for 1,757 local Maryland businesses, vendors and contractors. Attached is a copy of the vendor list for *House of Cards – Season 5*. (*Appendix B – House of Cards – Season 5 Vendor List*)

As of July 1, 2016, companies receiving tax credits were required to research and designate those vendors that qualified as a Minority Business Enterprise (MBE) or were registered as a small business (SBE) with the State. The Department of Commerce provided the production companies with a link to the MBE website housed within the Department of Transportation which is the State's official certification program for MBE's, as well as a link to the eMaryland M@rketplace website housed within the Department of General Services which provides a listing of Small Businesses as sanctioned by the State. Their findings regarding registered MBEs and registered small businesses are indicated on the attached vendor list.

As of December 2017, only *House of Cards – Season 6* is scheduled to film in the State. *House of Cards – Season 6* is expected to begin filming the eight episodes of the sixth, *and final*, season on January 31, 2018.

In 2014, the Regional Economic Studies Institute of Towson University (RESI) released a study analyzing the impact of Maryland's Film Industry Tax Credit for the Maryland Film Industry Coalition (MFIC). RESI assessed the current tax credit policy for productions that had finished filming in the State of Maryland. The report found that for every dollar claimed in film tax credits, Maryland gains \$1.03 in total tax revenues and \$3.69 in economic output. Attached is a copy of the study. (*Appendix C – MFIC impact analysis FINAL*)

Further information regarding the Maryland Film Production Activity Tax Credit process can be found on the MFO website at:

<http://marylandfilm.org/Pages/Film-Production-Activity-Tax-Credit.aspx>

Appendix A - Film Tax Credit - Report 2017 APP A - Maryland Film Production Activity Tax Credit Recipients FY 2012-FY 2018

Appendix B - Film Tax Credit - Report 2017 APP B - House of Cards – Season 5 Vendor List

Appendix C – Film Tax Credit - Report 2017 APP C - MFIC impact analysis FINAL