Ohio Legislative Service Commission

Russ Keller

Fiscal Note & Local Impact Statement

Bill: H.B. 269 of the 131st G.A.

Date: February 12, 2016

Status: As Introduced

Sponsor: Reps. K. Smith and LaTourette

Local Impact Statement Procedure Required: No

Contents: To authorize a refundable income tax credit for a sound recording production or sound recording infrastructure project in Ohio

State Fiscal Highlights

STATE FUND	FY 2016	FY 2017	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	Loss up to $2.9 million	Loss up to $2.9 million per year through FY 2020
Expenditures	- 0 -	- 0 -	- 0 -
Development Services Agency			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Minimal increase	Minimal increase	Minimal increase

Note: The state fiscal year is July 1 through June 30. For example, FY 2016 is July 1, 2015 – June 30, 2016.

- Authorizing a refundable income tax credit for four years will reduce GRF receipts up to $2.9 million per year from FY 2017 through FY 2020.
- Requiring the Director of Development Services to annually receive and evaluate these tax credit applications and issue tax credit certificates will cause some additional administrative burden. Beginning in FY 2017, the bill also requires DSA to submit a biennial report to the legislature that evaluates the effects of the tax credits. These two functions are similar to existing DSA responsibilities for other tax credits, so LSC estimates these duties will create a minimal increase in marginal costs to the agency.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2016	FY 2017	FUTURE YEARS
Counties, municipalities, townships, and public libraries (LGF and PLF)			
Revenues	- 0 -	Loss up to $101,000	Loss up to $100,000 per year through FY 2020
Expenditures	- 0 -	- 0 -	- 0 -

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- All income tax revenues are deposited into the GRF, the Local Government Fund (LGF), and Public Library Fund (PLF). Permanent law requires that each of the latter receive 1.66% of GRF receipts, but a temporary provision of Am. Sub. H.B. 64 of the 131st General Assembly increased the PLF share to 1.70% for FY 2016 and FY 2017. Authorizing a refundable income tax credit for four years will reduce LGF and PLF receipts up to $101,000 in FY 2017 and up to $100,000 per year from FY 2018 through FY 2020.

Detailed Fiscal Analysis

Personal income tax credit

H.B. 269 authorizes a refundable personal income tax (PIT) credit for individual investors in a sound recording production company equal to a portion of the company's costs for a recording production or recording infrastructure project in Ohio. The bill defines a "sound recording production company" as a sole proprietorship or a pass-through entity engaged in the production of sound recordings.

The value of the tax credit equals 25% of eligible expenditures in excess of $5,000. Eligible expenditures are those that occur in Ohio, and they may include the cost of acquiring tangible personal property that is subject to the Ohio sales and use tax as well as compensation for services performed in Ohio that is subject to the PIT.

The amount of the credit for a single production or project cannot exceed $50,000. If multiple investors are involved in a single project, each investor's credit would be reduced proportionately such that the aggregate reward equals $50,000.

The refundable credit is only available to those that hold a tax credit certificate (credit amount is stated on the certificate) issued by the Director of Development Services. The credit must be claimed for the taxable year that includes the date the certificate was issued by the Director. The aggregate amount of credits certified for all investors for any fiscal year cannot exceed $3 million. The Director must award credit certificates for tax credit-eligible productions or tax credit-eligible projects on a first-come, first-served basis. The bill prohibits any credit from being awarded for taxable years (TY) beginning on or after January 1, 2020.

Based on the parameters in the bill, LSC estimates that the entire $3 million allotment of credits will be utilized by taxpayers in TY 2016 through TY 2019. Therefore, the bill will reduce PIT receipts by $3 million in each fiscal year from FY 2017 to FY 2020. All income tax revenues are deposited into the GRF, the LGF, and PLF. The GRF will bear 96.64% of these revenue losses in FY 2017, and 96.68% of these losses in FY 2018-FY 2020. The LGF will bear 1.66% of the annual losses, and the PLF will bear 1.7% of the losses in FY 2017.[1] Beginning in FY 2018, the PLF's share of revenue losses will be 1.66%.

[1] A temporary provision of Am. Sub. H.B. 64 of the 131st General Assembly increased the PLF share to 1.70% for FY 2016 and FY 2017.

Development Services Agency expenditures

The bill outlines several responsibilities for the Development Services Agency (DSA). The Director of DSA must receive all applications from those seeking certification for their sound recording production or sound recording capital infrastructure project. The bill specifies the required content of the application. Upon receiving a completed application, the Director has 180 days to approve or reject it based on the criteria set forth in the bill. If the Director approves the application, the sound recording production company may receive a certificate for the refundable tax credit after the production or project is completed. In order to receive the certificate, the sound production company must report the eligible expenditures related to that production or project. The Director evaluates these eligible production expenditures before calculating the amount of the credit.

Separately, the bill creates a biennial reporting requirement for the sound recording production credit. Beginning on October 31, 2016, DSA must prepare a report every other year that evaluates the effect of the credit and submit that report to the chair and ranking minority member of the House of Representatives and Senate standing committees dealing primarily with issues of taxation. The report must include the overall effect of credits awarded; the amount of such credit certificates issued, the number of new jobs created, the amount of newly created payroll subject to the PIT as a result of the credits, the economic effect of the credits on the sound recording industry, the amount of new sound recording infrastructure that has been developed in the state, and any other factors that describe the effect of the credits.

H.B. 269 does not specify an application fee for sound recording production companies nor does it create or increase an appropriation for DSA to execute these duties. DSA has an existing line item, 195649, Business Assistance Programs that pays for administrative expenses associated with the Office of Strategic Business Investments. The Office manages grant awards, services the various types of loans that DSA provides and awarded in prior years, and oversees six tax credit programs. LSC estimates that DSA will incur minimal expenditures in this line item to implement H.B. 269.

HB0269IN.docx/lb