

Department of Legislative Services
Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 536

(Senator McCray, *et al.*)

Budget and Taxation

Ways and Means

Income Tax - Film Production Activity Tax Credit - Digital Animation Projects

This bill expands eligibility of the film production activity tax credit to include digital animation projects. A digital animation project is the creation, development, and production of computer-generated animation content for distribution or exhibition to the general public. **The bill takes effect July 1, 2022, and applies to tax year 2022 and beyond.**

Fiscal Summary

State Effect: Allowing additional film productions to qualify for the tax credit will not alter the fiscal impact of the program beyond that provided under current law.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: “Film production activity” is defined as the production of a film or video product that is intended for nationwide commercial distribution and includes a feature film, television project, commercial, corporate film, or music video. Film production activity does not include a student film; noncommercial personal video; sports broadcast; broadcast of a live event; talk show; video, computer, or social networking game; pornography; infomercial; digital project; animation project; or multimedia project.

A qualified film production entity that meets specified requirements and is approved by the Department of Commerce may receive a refundable tax credit equal to 25% of qualified film production costs incurred in the State. For a television series, the value of the credit is increased to 27%. The Secretary of Commerce may not award in the aggregate more than \$10 million for a single film production activity. This limitation applies to each season of a television series.

In order to qualify for the tax credit, the estimated total direct costs incurred in the State must exceed \$250,000. A qualified small or independent film entity with estimated total direct costs of at least \$25,000 may receive a refundable income tax credit of up to 25%, with a maximum tax credit amount per project of \$125,000. Commerce must award 10% of all tax credits in each fiscal year to qualified small or independent film entities.

Any salary, wages, or other compensation for personal services of an individual who receives more than \$500,000 in salary, wages, or other compensation for personal services in connection with any film production activity may not be included in total direct costs. Total direct costs do not include any salary, wages, or other compensation for writers, directors, or producers.

The film production entity must notify Commerce of its intent to seek the tax credit before the production activity begins. A film production entity is also required to submit an application containing specified information, including the project's estimated total budget and the anticipated dates for carrying out the major elements of the film production activity.

The Secretary of Commerce may award in each fiscal year a maximum of \$12 million in tax credits.

State Revenues: The bill allows certain digital animation projects to qualify for the film production activity tax credit. The bill will not alter the overall fiscal impact of the tax credit program, since it is expected that Commerce will award the maximum amount of tax credits authorized under current law.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Department of Commerce; Department of Legislative Services

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