

Motion Picture Production Tax Incentives Program Summary

(Established under A.R.S. §§ 41-1517 and 41-1517.01)

The Motion Picture Production Tax Incentives Program was designed to promote and stimulate the motion picture industry in Arizona. The program achieves this by providing tax incentives to qualified motion picture production companies (qualified company) that engage in motion picture production in Arizona. The program also offers tax credits to individuals or qualified companies who construct infrastructure projects such as a soundstage or support and augmentation facility in Arizona. The Arizona Department of Commerce (Commerce) accepts applications year round, on a first come, first served basis and determines eligibility for program incentives.

1) MOTION PICTURE PRODUCTION INCENTIVES

A company may be qualified for a twenty-four month certification period if it:

1. Is primarily engaged (more than 50%) in producing motion pictures,
2. Has a physical office and bank account in Arizona,
3. Begins production within 90 days of pre-approval,
4. Anticipates incurring qualifying production costs of at least \$250,000 on each motion picture, and
5. Estimates that Arizona residents will comprise 50% of all full-time employees during production activities

2) COMMERCIAL ADVERTISEMENT AND MUSIC VIDEO INCENTIVES – 5% Set Aside Program

A company may be qualified for a twelve month certification period if it:

1. Is primarily engaged (more than 50%) in producing motion pictures,
2. Has a physical office and bank account in Arizona,
3. Completes productions within 60 days of requesting pre-approval,
4. Anticipates incurring qualifying production costs of at least \$250,000 during the 12-month certification period, and
5. Estimates that Arizona residents will comprise 50% of all full-time employees during production activities

The following is a brief summary of the incentives offered by the Motion Picture Production Tax Incentives Program to qualified companies that engage in motion picture production in Arizona.

Transaction Privilege Tax Exemption on:

- **machinery, equipment and other tangible personal property.** Under A.R.S. §§42-5061(B)(23) and 42-5071(B)(2)(b), eligible tangible personal property sold or leased to a qualified company and used directly in motion picture production is exempt from state and county TPT. *To qualify for the exemption, the qualified company must present a current Revenue issued exemption certificate to the retailer or lessor at the time of sale or lease.*
- **job printing, engraving, embossing or copying.** Under A.R.S. §42-5066(B)(4), eligible sales to a qualified motion picture production company for job printing, engraving, embossing or copying that will be used directly in motion picture production are exempt from state and county TPT. *To qualify for the exemption, the qualified company must present a current Revenue issued exemption certificate to the retailer at the time of the sale.*
- **leases or rentals of lodging space.** Under A.R.S. §42-5070(C)(2), eligible leases or rentals of lodging space to a qualified company are exempt from state and county TPT. *To qualify for the exemption, the qualified company must present a current Revenue issued exemption certificate to the operator of the transient lodging facility at the time of lease or rental.*
- **catered food, drink and condiments.** Under A.R.S. §42-5074(B)(10), eligible sales of catered food, drink and condiments to a qualified company are exempt from state and county TPT. *To qualify for the exemption, the qualified company must present a current Revenue issued exemption certificate to the catering business at the time of the purchase.*
- **construction contracts.** Under A.R.S. §42-5075(B)(20) eligible contracts for the construction of any building, or other structure, associated with motion picture production in Arizona are exempt from state and county TPT. *To qualify for the exemption, a qualified company must present a current Revenue issued exemption certificate to the prime contractor at the time the contract is entered into.*

Use tax exemption on machinery, equipment and other tangible personal property. Under A.R.S. §42-5159(B)(23), the storage, use or consumption in Arizona of eligible tangible personal property used directly in the motion picture production by a qualified company is exempt from use tax. *To qualify for the exemption, at the time of purchase the qualified company must present to the retailer a current Revenue issued exemption certificate.*

Transferable income tax credits Under A.R.S. §§43-1075 and 43-1163, a qualified company can receive a non-refundable tax credit for a motion picture production, subject to the following requirements and restrictions: the company must receive pre-approval and post-approval from Commerce before claiming the tax credit; the company must acknowledge that the production was filmed in Arizona; an obscene film shall not receive tax incentives; an individual motion picture shall not receive tax credits in excess of: \$5 million in 2007, \$7 million in 2008, \$8 million in 2009 and \$9 million thereafter.

Arizona statutes provide transferable income tax credits of \$40-\$70 million depending on the calendar year in which application is made. Beginning in 2008, 5% of these tax credits are reserved for companies that produce commercial advertisements and music videos. A portion of these credits is also available for eligible infrastructure projects.



Motion Picture Production Tax Incentives Program Summary (continued)

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Tax credits for a motion picture production are based on expenses in Arizona directly attributable to the production and are equal to 20% if the qualifying production costs are \$250,000 to \$1 million. In cases where the qualifying production costs are more than \$1 million the tax credit is equal to 30%.

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

3) INFRASTRUCTURE PROJECT TAX CREDIT

A person or a qualified company may be approved for tax credits if:

1. It constructs an eligible infrastructure project,
2. The facility will be owned and operated by the applicant,
3. It submits a report to Commerce upon completion of the project, and
4. Its Arizona project expenditures for a soundstage are at least:
 - a. \$250,000 within 90 days of pre-approval,
 - b. \$1,250,000 within 12 months of pre-approval,
 - c. \$5 million within 36 months of pre-approval; or
5. Its Arizona project expenditures for a support and augmentation facility are at least:
 - a. \$250,000 within 90 days of pre-approval,
 - b. \$1 million within 36 months of pre-approval.

The following is a brief summary of the tax credit offered by the Motion Picture Production Tax Incentives Program to a person or qualified company who constructs a soundstage or support and augmentation facility in Arizona.

Transferable income tax credits. Under A.R.S. §§43-1075.01 and 43-1163.01, a person or a qualified company can receive a non-refundable tax credit for the construction of an eligible infrastructure project, subject to the following requirements and restrictions: the company must receive pre-approval and post-approval from Commerce before claiming the tax credit; tax credits are authorized on a first come, first served basis, according to a priority placement number issued by Commerce. Commerce can approve tax credits equal to 15% of the Arizona project costs not to exceed \$5 million in any year for soundstages. In addition beginning in CY 09 up to \$3 million per project for support and augmentation facilities is authorized with this category being capped at \$7 million in 2009 and \$9 million in 2010. Allocations of tax credits are further limited by the availability of the tax credits (\$40-\$70 million tax credits) under A.R.S. § 41-1517. These tax credits may be used to offset Arizona tax liability. The tax credits may be used, sold or transferred; unused tax credit amounts may be carried forward for up to five taxable years.

Definitions set forth in statute are:

1. **"Infrastructure project:**
 - a. means soundstages and support and augmentation facilities that are constructed in this state and primarily used for motion picture production.
 - b. does not include motion picture theaters and other commercial exhibition facilities."
2. **"Motion picture** means a single medium or multimedia program, including a commercial advertisement, music video or television series, that:
 - a. is created by production activities conducted in whole or in part in this state.
 - b. can be viewed or reproduced.
 - c. is intended for commercial distribution or licensing in the delivery medium used.Motion picture does not include any production featuring actual news, current events, weather, locally produced and locally broadcast television productions, financial market reports, concerts, internet broadcasts, talk shows and interviews, game shows, sporting events, award or other gala events, a production whose sole purpose is fundraising, a production used for corporate or organizational training or in-house corporate advertising or other similar production activities."
3. **"Soundstage** means a permanent facility in this state of one or more sets or stages used primarily for staging and filming motion pictures and any land, permanent buildings or capital equipment that is in or adjacent to, and is necessary for the operation of, a soundstage."
4. **"Support and augmentation facilities** means permanent facilities in this state that are used to complement motion picture production needs and complement the motion picture production."

