

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
Office of the Chief Financial Officer



Natwar M. Gandhi  
Chief Financial Officer

**MEMORANDUM**

**TO:** The Honorable Linda W. Cropp  
Chairman, Council of the District of Columbia

**FROM:** Natwar M. Gandhi  
Chief Financial Officer 

**DATE:** NOV -2 2006

**SUBJECT:** Fiscal Impact Statement: "Film DC Economic Incentive Tax Credit and Reimbursement Act of 2006"

**REFERENCE:** Bill Number 16-935 (October 31, 2006 Revision)

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**Conclusion**

Funds are not sufficient in the FY 2007 through FY 2010 budget and financial plan to implement the proposed legislation. The proposed legislation would result in a negative fiscal impact on the local General Fund of \$910,000 in FY 2007 and an overall impact of \$3.6 million for FY 2007 through FY 2010. The proposed legislation is subject to the inclusion of its fiscal effect in an approved budget and financial plan.

**Background**

The proposed legislation would amend D.C. Official Code §47-2005 to provide a rebate for sales taxation on certain film- and television-related production goods and services. Under the proposed legislation, all "qualified media projects" would be eligible for a rebate of D.C. sales tax for all sales, rentals, and services incurred in the District. The proposed legislation specifically excludes from the rebate program hotel occupancy taxes and sales taxes on restaurant meals and liquor. A qualified project includes a film, television, or multimedia production that films on location in the District for a minimum of five days with a project budget of at least \$250,000.

In addition, the proposed legislation would establish a segregated, non-lapsing, non-reverting fund – the Film DC Economic Incentive Reimbursement Fund ("Fund") – to be the repository of revenue and appropriations for providing incentives for qualifying film and television projects.

Revenue in the Fund would be used to provide incentives for nationally distributed film and television projects with expenditures exceeding \$500,000 each in a period of five or more days for production activities located in the District.

The intention of the legislation is to provide incentives to attract and retain film, television, and multimedia business in the District. Over 40 states offer some sort of subsidy to encourage film and television production in the state. While D.C. does not currently offer film and television subsidies, it should be noted that the District is already forgoing potential income tax revenue from nonresidents who earn income in the District while filming. Unlike other states, the District is not permitted to tax income earned by nonresidents in D.C.

**Financial Plan Impact**

Funds are not sufficient in the FY 2007 through FY 2010 budget and financial plan to implement the proposed legislation. The proposed sales tax rebate would require an expenditure of an estimated \$910,000 in FY 2007 and \$3.6 million in FY 2007 through FY 2010.<sup>1</sup> The fiscal effects of the proposed legislation may vary depending on annual changes in the expenditures subject to the rebate incentives. There is no fiscal impact associated with the creation of the Film DC Economic Incentive Reimbursement Fund.

The Office of Tax and Revenue (OTR) will require additional resources in order to implement the provisions of the proposed legislation. An additional \$15,000 will be required for programming changes in FY 2007.

The table in the figure below illustrates the estimated revenue impact on the District's financial plan and the operational costs associated with implementing the legislation. In total, the proposed legislation would result in a negative fiscal impact on the local General Fund of \$3.6 million for FY 2007 through FY 2010.

<b>Summary Table</b>					
<b>Estimated Impacts to the Financial Plan</b>					
(\$ in 000s)					
<b>Item</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>4 - Year Total</b>
Sales Tax Rebates	(\$910)	(\$910)	(\$910)	(\$910)	(\$3,640)
Unbudgeted Operational Burden	(\$15)	(\$0)	(\$0)	(\$0)	(\$15)
<b>Net Annual Impact</b>	<b>(\$910)</b>	<b>(\$910)</b>	<b>(\$910)</b>	<b>(\$910)</b>	<b>(\$3,655)</b>

<sup>1</sup> This estimate is derived from data provided by the D.C. Office of Motion Picture and TV Development. In FY 2006, total expenditures for film and television production in the District were \$63.3 million. Based on a review of the portion of qualified expenditures in other states, including Maryland, with sales tax exemptions, we estimate that approximately 25% of the total expenditures would be subject to the sales tax rebate. Thus, on a base of \$63.3 million in expenditures, approximately \$16 million of the expenditures would be subject to a sales tax rebate. This means that just under \$1 million would be rebated (5.75% sales tax rate multiplied by \$16 million). This legislation does not explicitly exclude the production of television news coverage or athletic events from the sales tax rebate provisions of the legislation. However, for the purposes of estimating the fiscal impact, we did not include news or athletic productions in the base.