



## DEPARTMENT OF AUDITS AND ACCOUNTS

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February 10, 2017

Honorable Jay Powell  
Chairman, House Ways and Means  
133 Capitol  
Atlanta, Georgia 30334

SUBJECT: Fiscal Note  
House Bill 199 (LC 34 5039EC)

Dear Chairman Powell:

The bill revises the income tax credit for interactive entertainment companies and creates a new tax credit for postproduction activities related to film, video, or digital projects. The current tax credit for interactive entertainment production companies is expanded to include expenses associated with postproduction activities. The minimum expenditure and minimum payroll requirements are set at \$250,000 for tax years beginning on or after January 1, 2018. The expiration date for the credit is also eliminated.

The new postproduction credit allows eligible companies to receive a credit equal to 20 percent of qualified postproduction expenditures. To qualify for the credit, postproduction companies must have a physical presence in the state, have aggregate payroll of at least \$500,000, be involved in postproduction activities, and be approved by the Department of Revenue. The value of credits awarded is limited to a maximum of \$5 million for 2017, \$10 million for 2018, and \$15 million each year for years 2019 through 2022 (no credit can be earned after 2022). If in any year the aggregate amount of credits allowable is not awarded, the remaining credits will be rolled in the allowable credits for the following year. Unused credits may be transferred, sold in part or in full by the postproduction company to another Georgia taxpayer, or carried forward up to five years.

### **Impact on State Revenue**

Georgia State University's Fiscal Research Center (FRC) estimated that the two credits would reduce state revenue by \$20.8 million in FY 2019, the first year of the bill's full impact (see **Table 1**). The loss would be \$27.5 million in FY 2022. The attached appendix provides details of the analysis.

**Table 1. Estimated Revenue Loss Associated with HB 199 LC 34 5039EC**

<i>(\$ millions)</i>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
Interactive entertainment production company credit	\$6	\$12.5	\$12.5	\$12.5	\$12.5
Postproduction credit	\$3.7	\$8.3	\$12.5	\$14.6	\$15.0

**Impact on Agency Costs**

The bill would also result in increased costs for the Departments of Revenue (DOR) and Economic Development (DEcD).

- DOR estimated additional one-time costs of \$134,000 for IT system changes and \$6,000 for form revisions and training. DOR also estimated that the Taxpayer Services Division would require additional staff to grant and track the credits. It anticipated the need for three employees at a cost of \$195,389 annually (\$40,000 each plus benefits).
- DEcD anticipates an increase in applications would require two additional employees at a cost of approximately \$163,000 annually (\$60,000 and \$40,000 plus benefits).

Sincerely,



Greg S. Griffin  
State Auditor



Teresa A. MacCartney, Director  
Office of Planning and Budget

## Analysis by the Fiscal Research Center

### *Interactive Entertainment Production Company credit*

- Nationally, the industry experienced an annual growth rate of 4 percent per year over the 2011-2016 period and is forecasted to grow at a rate of 4.3 percent per year over the next 5 years.<sup>1</sup> The Georgia Game Developers Association reports 113 active game studios are operating in the state as of October 2016.<sup>2</sup> According to information from the Atlanta Journal Constitution, over 70 digital entertainment companies are located in Georgia.<sup>3</sup>
- Based on data provided by Georgia Department of Revenue preapprovals for the Interactive Entertainment Production Company credit have averaged \$9 million per year between 2013-2016.
- Because of the strong growth in the national market and the increasing presence in the state, the estimate assumes that passage of this legislation will result in earned credits equal to at least the value of the state aggregate cap of \$12.5 million by calendar year 2017. The estimate assumes that the credits are utilized against tax liabilities over a 3-year period so that by fiscal year 2020 the revenue loss to the state equals \$12.5 million.

### *Postproduction Tax credit*

- Several major digital media companies are currently located in Georgia. Based on discussions with industry professionals, it is anticipated that the post production activity currently undertaken by these companies in locations outside of Georgia will be relocated to Georgia as a result of this legislation.
- Given the size of operations of these existing media companies and the size of the film industry in Georgia, the estimate assumes that the maximum allowable value of credits will be earned each calendar year. The estimate assumes that the credits are utilized against tax liabilities over a 3-year period so that by fiscal year 2019 the revenue loss to the state equals \$8.3 million.

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<sup>1</sup> IBISWorld information for the video game industry, access 2/8/2017.

<sup>2</sup> <https://ggda.org/blog/ggda-announces-113-active-game-development-studios-in-georgia/>; accessed 2/8/2017.

<sup>3</sup> AJC.com Blog, May, 19, 2015 by Rick Badie - <http://atlantaforward.blog.ajc.com/2015/04/14/the-growth-of-digital-entertainment-and-media/>