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August 1, 2016

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

SUBJECT: Fiscal Note
House Bill 956 (LC 43 0278)

Dear Chairman Powell:

The bill would provide qualified companies with an income tax credit of up to 25 percent for certain expenditures related to incorporating recorded musical performances into a certified Georgia production. The bill includes certain sound and music-related expenditures that are excluded from the existing Entertainment Industry Investment Act. To qualify for the credit, production companies must have qualified production expenditures of at least $300,000. Any unused credits may be transferred or sold in part or in full by the production company to another Georgia taxpayer.

Georgia State University's Fiscal Research Center (FRC) estimates that the bill will result in state revenue loss of $1.2 million to $3.0 million in fiscal year 2018, assuming both a July 1, 2017 start date and a six-month lag for state collections to be impacted. The revenue loss increases to $2.4 million to $6.1 million in the first full year of the bill's effect (fiscal year 2019) and rises slightly in subsequent years. Details of FRC's analysis are included as an attachment.

Table 1. State Revenue Effects of HB 956 LC 43 0278

($ *millions*)	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
Estimate – Low	($1.2)	($2.4)	($2.6)	($2.7)	($2.8)
Estimate – High	($3.0)	($6.1)	($6.4)	($6.7)	($7.0)

The bill would also result in increased expenditures by the Departments of Economic Development (DEcD) and Revenue (DOR). DEcD would likely require one to two additional full-time staff, with salary and benefits of approximately $80,000 each. DOR would have annual costs of about $96,000 for 1.5 examiners who would review and apply the credit to returns and test system updates to ensure the credit is properly applied. DOR would also incur one-time costs of $8,000 for the creation of new forms and training of agency staff.

Sincerely,

Greg S. Griffin
State Auditor

Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/mt/cb

Analysis by the Fiscal Research Center

The subject bill proposes a tax credit for certain expenditures by music, film, television, or interactive entertainment production companies related to incorporating recorded musical performances into a certified Georgia production. The legislation defines recorded musical performances as a sound recording that is written, created, arranged, recorded, synchronized, edited, mastered, or performed in Georgia.

Currently, Georgia's Entertainment Industry Investment Act (GEIIA, also known as the Georgia Film Tax Credit) provides a tax credit of up to 30 percent for companies with qualifying production expenditures (QPEs) of $500,000 or more on production and post-production activities in Georgia. The GEIIA explicitly excludes expenditures on license fees for sound recording and musical compositions from the list of qualifying expenditures. Also the GEIIA places a cap on the amount of tax credits that can be awarded to production companies with respect to investments in interactive entertainment projects. The proposed law creates a separate tax credit for the music recording and synchronization industry, specifically includes licensing fees for sound recording and musical compositions as QPEs, and provides uncapped credits for interactive entertainment projects.

In order to qualify for the credit under the proposed law, production companies that invest in state certified production projects must meet a minimum QPE threshold of $300,000. Under the proposed legislation the value of the credit equals 20 percent of QPE for state certified projects. An additional tax credit equal to 5 percent of QPEs is available for productions that include a qualified Georgia promotion. Any unused credits may be transferred or sold in part or in full by the production company to another Georgia taxpayer. No effective date for the proposed legislation is provided, so July 1, 2017, has been assumed. The state revenue loss from the proposed legislation is estimated, as shown in Table 2, to be $1.2-$3.0 million for FY 2018, the first fiscal year affected, and $11.6-$29.1 million cumulatively over the FY 2018-22 period. The estimates assume a six month lag between when QPEs are made and the impact on state tax collections so that only half of the credits earned in FY 2018 will be utilized in that year.

Table 2. State Revenue Effects of HB 956 LC 43 0278

(*$ millions*)	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
Estimate – Low	($1.2)	($2.4)	($2.6)	($2.7)	($2.8)
Estimate - High	($3.0)	($6.1)	($6.4)	($6.7)	($7.0)

Technical Appendix
Estimates are based on economic data regarding audio recording studios (NAICS 512240) from IBISWorld. In 2015, audio recording studios in the US are reported to have grossed approximately $1.1 billion in revenue and netted profits of about $141.3 million. This amounts to roughly $959 million of costs at the national level.

According to IBISWorld, southeast states account for about 22.3 percent of the US market, which translates to costs of roughly $214 million for the region. Major states in the market are Florida, Tennessee, Georgia, Louisiana, and Mississippi. Employment data from U.S. Bureau of Census indicates that Georgia accounts for 21.5 percent of jobs and 19 percent of total annual wages for this industry among all southeast states. Based on this information, it is estimated that Georgia costs for this industry equaled $42.8 million in 2015.

Not all costs of the industry qualify for the tax credit and no data was found that would help determine the QPE share of total costs. We thus provide a low and a high estimate based on the assumption that 20 percent (low) or 50 percent (high) of the industry expenditures qualify for the credit, resulting in estimated QPEs of $8.6-$21.4 million based on 2015 industry data.

Georgia expenditures for this industry are assumed to grow at 4.5 percent annually through 2022, in line with the projected growth rate of the national industry. Table 1 shows the estimated revenue losses under HB 956 LC 43 0278 through FY 2022, assuming that the maximum tax credit of 25 percent is claimed.

Note that these estimates are based on the assumption that an estimated $8.6 million to $21.4 million of expenditures in Georgia's audio recording industry at current levels of business activity would qualify under the proposed law. It does not take into account possible behavioral responses by industry members to relocate their operations or shift activity to Georgia in order to benefit from this incentive. In addition, current law already allows a transferrable tax credit of up to 30 percent under GEIIA for qualified film, TV, and interactive productions, and the costs associated with sound recording and musical compositions may already qualify for GEIIA credits. To the extent current music production activity is already taking advantage of the GEIIA credits, then the predicted revenue losses from the proposed law may be less than the amounts shown in Table 1.