DEPARTMENT OF AUDITS AND ACCOUNTS
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February 20, 2017

Honorable Amy Carter
Chairman, Appropriations – General Government
245 Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill 155 (LC 43 0546S)

Dear Representative Carter:

The bill would create a nonrefundable tax credit for certain qualified expenditures related to the production of a musical or theatrical production, or a recorded musical performance. To qualify, musical and theatrical production expenses must exceed $300,000 during a taxable year, and expenses related to recorded musical performances must exceed either $150,000 in the case of music that is incorporated into a movie or television production or $70,000 for other musical performances. The value of the credit equals 20 percent of qualified expenditures, with an additional 5 percent available if the production includes a qualified Georgia promotion. An additional 5 percent credit is available for activities produced in tier 1 or tier 2 counties. Unused credits may be taken against employees' quarterly or monthly withholding, or carried forward for a maximum of five years.

The legislation does not specify an effective date. The estimates below assume that productions beginning on or after January 1, 2018 would qualify for the credit.

Impact on State Revenue
Georgia State University's Fiscal Research Center (FRC) estimated that the bill would reduce state tax revenue by $32.1 million to $59.0 million in FY 2019, which is assumed to be the first full fiscal year that the credit is applicable (Table 1). The loss would grow to between $65.5 million and $136.3 million in FY 2022. It should be noted that the legislation requires a production company to withhold income tax at the rate of 5 percent on all payments to loan-out companies. This is in contrast to the conditions under the current film tax credit which require withholding at the maximum state income tax rate of 6 percent. The assumptions used by FRC are included in the appendix.

Table 1. Estimated Revenue Effect of HB 155 LC 43 0546S

($ *millions*)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Musical and Theatrical Performances					
Upper Bound Estimate	($11.9)	($47.6)	($83.2)	($124.9)	($124.9)
Lower Bound Estimate	($5.1)	($20.6)	($36.0)	($54.0)	($54.0)
Recorded musical performances	($5.7)	(11.5)	($11.4)	($11.4)	($11.4)
Total – Upper Bound	($17.6)	($59.0)	($94.7)	($136.3)	($136.3)
Total – Lower Bound	($10.9)	($32.1)	($47.5)	($65.5)	($65.5)

Impact on State 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 approximately $164,000. The one-time costs include $152,000 for IT system changes and $12,000 for training, form updates, and taxpayer outreach.
- DEcD anticipates an additional two employees would be required, at a cost of approximately $165,000 annually ($60,000 and $40,000 plus benefits).

Sincerely,

Greg S. Griffin
State Auditor

Teresa A. MacCartney, Director
Office of Planning and Budget

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Analysis by the Fiscal Research Center

- New York offers a similar credit known as the Musical and Theatrical Production credit. Annual awards for this credit are limited to $4 million. Based on information from the NY Tax Expenditure Budget for 2015, awards for 2015 equaled $4 million.

- Louisiana also offers a Musical and Theatrical Production credit; the maximum credit rate is equal to 18 percent with an additional 7.2 percent for resident payroll expenditures. The credit also seems to include qualified expenditures on infrastructure. The Louisiana credit has no annual limit to awards and is refundable. Based on information from the Louisiana Tax Exemption Budget for 2015-2016, credit awards equaled $9 million in FY2014 and $13 million in FY2015, and are forecasted to equal $12 million in FY 2016 and $13 million in FY 2017.

- Based on data from the U.S. Census Bureau, County Business Patterns, employment in Georgia in the industry category of Performing Arts companies (NAICS code 7111) was 4.0 times that in Louisiana for 2014 and industry receipts were 9.3 times that in Louisiana in 2012.

- To produce the lower bound revenue estimate associated with the activities of musical and theatrical productions shown in Table 1, the value of the Louisiana tax exemption for 2017 is multiplied by 4.0. To produce the upper bound revenue estimate, the value of the Louisiana tax exemption is multiplied by 9.3. Growth assumptions based on industry forecasts from IBISWorld are used to produce the estimate of credits claimed in FY 2021. For earlier periods, the FY 2021 amount is reduced to allow time for adoption of the credit, based on the experience of Louisiana after introduction that state's credit and to allow for the partial fiscal year effect in FY 2018.

- Based on data from the U.S. Census Bureau, County Business Patterns, Georgia employment in the sound recording studio industry (NAIC 51224) accounted for 5 percent of the national total in 2014.

- The value of receipts for the sound recording industry in the US in 2012 equaled $913 million based on data from the U.S. Census Bureau, County Business Patterns. The revenue effect attributable to activities of the recorded musical performances in Georgia was estimated by apportioning the national figure to Georgia based on the state's share of total employment in this industry in 2014. Lastly, the tax credit rate of 25 percent was applied to this figure.

- The growth rates and rates of credit adoption applied in the estimate for musical and theatrical productions are also applied to this estimate in the same manner.