



## DEPARTMENT OF AUDITS AND ACCOUNTS

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March 14, 2017

Honorable Chuck Hufstetler  
Chairman, Senate Finance  
121-C Capitol  
Atlanta, Georgia 30334

SUBJECT: Fiscal Note  
House Bill 155 (LC 43 0638S)

Dear Chairman Hufstetler:

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 \$500,000 during a taxable year, and expenses related to recorded musical performances must exceed either \$250,000 in the case of music that is incorporated into a movie or television production or \$100,000 for other musical performances. In general, the value of the credit equals 15 percent of qualified expenditures. An additional 10 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 bill would be effective January 1, 2018, and the amount of the credit claimed is limited to \$5 million in calendar year 2018, \$10 million in 2019, and \$15 million annually for years 2020-2024.

### Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would reduce state tax revenue by \$1.1 million in FY 2018 and grow to \$15.6 million in FY 2022 (Table 1). The estimates exceed the annual cap for FY 2021 and FY 2022 because the credits claimed in 2018 and 2019 are assumed to be utilized over a three-year period. Credits claimed in FY 2020 through FY 2024 are assumed to be claimed over a two-year period. Details of the analysis are provided in the attached appendix.

**Table 1. Estimated Revenue Effect of HB 155 LC 43 0638S**

(\$ millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Revenue Effect	(\$1.1)	(\$5.0)	(\$12.2)	(\$16.4)	(\$15.6)

It should be noted that the legislation does not require a production company to withhold income tax on 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.

**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

### **Analysis by the Fiscal Research Center**

- 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. According to information presented in 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.
- 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. Applying Georgia's share of this industry to the national total, we estimate the value of Georgia receipts from the sound recording industry at about \$45 million in 2014. Applying the credit rate of 15 percent to this amount provides the value of credit that would have been claimed in 2014 if this provision had been applicable.
- Based on the size of the sound recording industry in Georgia and the size of the performing arts industry in Georgia relative to Louisiana, we estimate that for each year after 2018, the limit on allowable credits will be met.
- The estimate assumes that there will be some delay in participation in this credit program and that 60 percent of the allowable credit in 2018 will be claimed in 2018 and that the remaining 40 percent will be claimed in 2019. The estimate assumes that 100 percent of the credit allowable in years 2019-2024 will be claimed in that year.
- The estimate further assumes that credits claimed in 2018 and 2019 will be used over three years and that credits claimed in 2020 through 2024 will be used over a two-year period, reflecting the ability to use this credit against employee withholding liability.