



DEPARTMENT OF AUDITS AND ACCOUNTS

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December 19, 2018

Honorable Pam Dickerson
State Representative
611-E Coverdell Legislative Office Building
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill (LC 43 1034)

Dear Representative Dickerson:

The bill would modify the film industry tax credit by allowing an additional tax credit for film production companies or qualified interactive entertainment companies that employ Georgia resident veterans. The credit would be five percent of the salary for each veteran employed, with the credit not applied to the portion of a salary above \$100,000 for a veteran for a single production. The bill has no effective date but is assumed to be apply to tax years beginning on or after January 1, 2019.

As written, the bill may be interpreted to exclude veteran wages in excess of \$100,000 from the existing film tax credit of 20 to 30 percent of total aggregate payroll. This would be more restrictive than current law; therefore, this fiscal note does not consider that interpretation. This estimate assumes that veteran wages in excess of \$100,000 are not eligible for the additional five percent credit but remain eligible for the current law's credit rates.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill will decrease state revenue by \$2.1 million to \$4.7 million in fiscal year 2020, with the revenue loss at \$6.1 million to \$14.0 million in fiscal year 2023 (Table 1). Details of the analysis are included in the appendix.

Table 1. Estimated State Revenue Effects of LC 43 1034

| (\$ millions) | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
|---------------|---------|---------|---------|----------|----------|
| High | - | (\$4.7) | (\$9.9) | (\$12.1) | (\$14.0) |
| Low | - | (\$2.1) | (\$4.3) | (\$5.2) | (\$6.1) |

Impact on State Expenditures

The Department of Revenue estimated that the bill would result in \$25,000 in one-time costs associated with changes to IT systems, including the Georgia Tax Center and the Integrated Tax System. The funds would be for defining requirements, design/development, testing, and quality assurance.

Sincerely,



Greg S. Griffin
State Auditor



Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/mt

Analysis by the Fiscal Research Center

The proposed credit is available to employers that would otherwise qualify for the existing tax credits under O.C.G.A. § 48-7-40.26 for film, video, interactive entertainment, and digital production activities. Total direct employment in these activities in the state is estimated as follows:

- A low case for activities other than interactive entertainment production is based on data from the Quarterly Census of Wages and Employment (QCEW) from the BLS, specifically the Georgia employment estimates reported for NAICS codes 51211, 51219, and 51224. In CY 2017, average employment under these codes was reported to be 15,801, with the vast majority – 15,341 – falling under the first code, which covers film and television production activities. The other two codes cover post-production and sound recording activities. Total Georgia employment under these codes in CY 2016 was reported to be 11,363.
- The high case for these activities is based on data from the Motion Picture Association of America (MPAA), which indicates that film production employment in Georgia in CY 2016 equaled 28,472, up from 25,708 in 2014. CY 2017 is estimated by growing the MPAA estimate for 2016 at the rate of growth from the QCEW data, approximately 39 percent.
- Growth rates from 2017 employment levels are assumed to slow, given the larger employment base now than earlier in the decade, but are still assumed to exceed industry-wide growth rates due to the state's existing tax incentives. Assumed growth rates in both cases are 10 percent per year through 2019, declining to 7.0 and 6.5 percent in 2022 and 2023, respectively.
- Employment in interactive entertainment production is based on estimates published by the Entertainment Software Association (ESA). The ESA estimates national employment in video game development and publishing to be 65,678 as of 2016, up from 56,712 three years earlier, an annual growth rate of about 5.0 percent. For Georgia, the ESA estimates 2016 employment at 885, up about 67% from 2013 levels or about 18.6 percent per annum growth. Rapid growth has continued with at one large game developer reportedly expanding from about 300 to about 450 employees since 2016. Given existing incentives that were expanded effective CY 2018 and Georgia's currently small share of industry employment, over half of which is currently in California, the recent relatively faster growth in Georgia than nationally is assumed to continue for the foreseeable future.

The veteran's share of employment in these activities is assumed to be proportional to their share of overall employment in the state. According to data from the Bureau of Labor Statistics (BLS), the veteran labor force in Georgia equaled approximately 410,000 in calendar year (CY) 2017, or about 8.1 percent of the total labor force in the state.

As the credit amount is a percentage of wages or salaries paid to veterans, up to a maximum of \$100,000 per veteran employee, estimates of average eligible payroll are based on the following:

- Information on the distribution of average annual wages for the various occupations associated with film production is available from BLS. The average annual wage across all occupations in 2017 equaled \$60,840 for this industry. After adjusting the data to account for the \$100,000 cap on wages per individual, the average annual wage eligible for the 5 percent credit is estimated to be about \$50,000 as of 2017.
- Average wages for interactive entertainment production jobs are considerably higher, and are estimated based on ESA data to have averaged about \$82,810 as of 2016. Data on the distribution of pay are not available, but to account for the likely numbers of workers paid more than \$100,000, average credit-eligible pay is assumed to be \$70,000 for 2016.
- Based on the Congressional Budget Office forecast of the Employer Cost Index reported in the April 2018 Budget and Economic Outlook: 2018 to 2028, we assume all wages increase at an average annual rate of 3.3 percent over the CY 2017- CY 2023 period.

Lastly, the estimate is adjusted to account for the timing of the utilization of the tax credits. It is assumed in the estimate that credits earned for film production wages will be used over the next four years. Although the credit can be sold or used against withholding, the experience of credit utilization to date indicates that these credits are used over several years. Specifically, the estimates assume that 40 percent of such credits earned in a given calendar year will be utilized in the fiscal year ending the following June 30, 45 percent will be utilized in the second fiscal year, 10 percent will be used in the third fiscal year, and the remaining 5 percent will be used in the fourth fiscal year. Credits earned for interactive entertainment production wages are assumed to be utilized in the fiscal year ending the following June 30. If the credits are used at a faster rate than reflected in this assumption, the revenue loss will be greater over the analysis period.

Table 2 presents estimates of veteran employment and wages in Georgia’s film and interactive entertainment industries through CY 2023.

Table 2. Estimates of Credit-Eligible Veteran Employment and Wages

| (\$ millions) | CY 2018 | CY 2019 | CY 2020 | CY 2021 | CY 2022 | CY 2023 |
|----------------|---------|---------|---------|---------|---------|---------|
| High Estimate: | | | | | | |
| Employment | 3,666 | 4,040 | 4,353 | 4,669 | 5,009 | 5,285 |
| Wages | \$191.4 | \$218.3 | \$243.9 | \$271.3 | \$301.3 | \$328.5 |
| Low Estimate: | | | | | | |
| Employment | 1,528 | 1,688 | 1,824 | 1,964 | 2,115 | 2,242 |
| Wages | \$81.2 | \$92.9 | \$104.3 | \$116.5 | \$130.1 | \$142.8 |