



## DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington St., S.W., Suite 1-156  
Atlanta, Georgia 30334-8400

**Greg S. Griffin**  
STATE AUDITOR  
(404) 656-2174

March 15, 2017

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

SUBJECT: Fiscal Note  
House Bill 199 (LC 34 5124S)

Dear Chairman Hufstetler:

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 the release of a sequel to a previously released game or with the electronic delivery system for an interactive game. The bill would reduce the minimum annual payroll to \$250,000 and permit the minimum investment amount of \$500,000 to be met over a two-year period. The expiration date for the credit is also eliminated.

The bill also provides eligible companies with a credit equal to a portion of qualified postproduction expenditures.

- *Large company credit* – Postproduction companies must have a physical presence in the state, have aggregate payroll of at least \$250,000, be involved in postproduction activities, and be approved by the Department of Revenue. The credit is 20 percent of eligible expenditures, but it is 30 percent if the qualified production was created exclusively in the state and 40 percent if created exclusively in a tier 1 or tier 2 county. 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).
- *Small company credit* – The bill also creates a 20 percent credit for companies with expenditures of between \$100,000 and \$500,000. The limit of these credits is \$1 million annually.

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 tax credits would reduce state revenue by \$14.8 million to \$15.5 million in FY 2019 (see **Table 1**). The loss would be between \$28.0 million and \$28.5 million in FY 2022. For the interactive entertainment tax credit, the estimate assumes that the current \$12.5 million cap will be met in 2017 and 2018 without this bill. Therefore, there is no additional revenue effect from the bill until 2019 when the \$12.5 million credit is extended. Only a small portion of the credits earned in FY 2019 will impact state revenue in that year, because credits are generally not used entirely in the year earned. The appendix provides details of the analysis for both tax credits.

**Table 1. Estimated Revenue Effect of HB 199 LC 34 5124S**

(\$ millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Georgia Entertainment Industry Investment Act	(\$0.0)	(\$2.1)	(\$7.3)	(\$11.4)	(\$12.5)
Georgia Entertainment Industry Postproduction Investment Act					
Large Company Credit	(\$5.0)	(\$12.3)	(\$16.4)	(\$15.6)	(\$15.0)
Small Company Credit					
Low	(\$0.2)	(\$0.4)	(\$0.6)	(\$0.5)	(\$0.5)
High	(\$0.7)	(\$1.2)	(\$1.2)	(\$1.1)	(\$1.0)
Total – Low	(\$5.1)	(\$14.8)	(\$24.2)	(\$27.6)	(\$28.0)
Total – High	(\$5.7)	(\$15.5)	(\$24.9)	(\$28.1)	(\$28.5)

(Totals may not add due to rounding.)

**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 under the large firm program will be earned each calendar year.
- Using data from the 2012 Economic Census from the U.S. Census Bureau, we estimate that approximately 3 percent of postproduction firms nationally would qualify for the small firm credit. The low estimate is constructed by multiplying the 3 percent by the large firm credit cap. The high estimate assumes that there is sufficient expenditures by qualifying companies to meet the credit limit of \$1 million.
- The estimate assumes that the credits claimed in 2017 and 2018 are utilized against tax liabilities over a 3-year period. The credits claimed in 2019 through 2022 are assumed to be utilized over a two year period, reflecting the ability to use these credits against the employee withholding liability.

---

<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/>