DEPARTMENT OF AUDITS AND ACCOUNTS

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March 16, 2017

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

SUBJECT: Fiscal Note
House Bill 196/CSFA

Dear Chairman Hufstetler:

The bill would establish an income tax exemption for royalties paid to music artists, composers, or performers for licensing or other authorized use or reproduction of their musical compositions. The exemption would be effective on income paid during the artist's lifetime. The law would be effective for taxable years beginning on or after January 1, 2017 and would be repealed on December 31, 2022.

Impact on State Revenue

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would decrease state revenue by $2.3 million to $7.2 million in FY 2018, the first year of the bill's full impact. The revenue decrease would be between $2.6 million and $8.6 million in FY 2021. Details of FRC's analysis are included in the appendix.

Table 1. Estimated State Revenue Effect from HB 196/CSFA

($ *millions*)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
High	($3.4)	($7.2)	($7.6)	($8.1)	($8.6)	($9.1)
Low	($1.1)	($2.3)	($2.4)	($2.5)	($2.6)	($2.7)

Impact on State Agency Costs

The Georgia Department of Revenue estimated one-time expenditures of approximately $12,300 as a result of the bill. The costs include $4,800 for internal and external training, $4,000 for IT updates to the income tax return, approximately $2,500 for form updates, and $1,000 for taxpayer outreach.

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 four most common ways for U.S. based musicians and songwriters to earn royalties are listed below:

1) Mechanical Royalties are royalties generated through physical or digital reproduction of their music. The sale of a CD or the purchase of a song through ITunes are examples.
2) Streaming Mechanical Royalties are royalties generated by their music being played by on demand subscription streaming music services like Rhapsody and Spotify.
3) Public Performance Royalties are royalties generated when a musician's songs are played in clubs or restaurants, played over broadcast radio, or used in television or movies.
4) Digital Performance Royalties are royalties generated when their music is played on internet radio like Sirius XM or Pandora.

Royalties may be earned by songwriters who create the musical compositions and lyrics, if any, as well as performing artists who record the music. Copyrights may also be sold, in which case the subsequent owner(s) would be entitled to any royalties. In general, artists enter into agreements with an intermediary (performance rights organizations or PROs, music publishers, etc.) to negotiate royalty rates, monitor the use of their music, collect royalties, and distribute the royalties to the artist.

As the bill language specifically exempts only "royalties paid to a musical artist in this state", it is assumed that this includes only royalties paid to the musical artist who wrote or performed the music, and excludes the share of royalties paid to, or retained by, any intermediary collecting the royalty on behalf of the artist. It also appears based on the plain language of the bill that subsequent owners of a copyright, other than the artist originally receiving the copyright, would not be eligible for the exemption. However, no data are available from which to estimate the share of royalties paid to such subsequent owners of copyrighted music, so for purposes of this note, all royalties paid out by PROs or publishers are assumed to be paid to the artists.

Revenue loss estimates also assume the following:

- Based on royalties distributed by the major PROs and music publishers in the U.S., the aggregate amount of annual music royalties paid to U.S. residents is estimated to be $2.8 billion dollars in 2015. Based on the same industry data, growth in royalties paid is assumed to range from 4 to 6 percent over the period of the estimated revenue effects of the bill.
- Based on the share of singers, songwriters, composers, and other music professionals that live in Georgia compared to the rest of the U.S., as reported by the Bureau of Labor Statistics, the share of these royalties that are paid to Georgia residents is assumed to be between a high of 4 percent and a low of 1.5 percent.
- The effective tax rate for these taxpayers is assumed to be between 5 and 5.5 percent.
- Georgia taxpayers receiving music royalties will reduce their quarterly estimated tax payments following the passage of HB 196, thus reducing income tax revenues beginning with the April 15, 2017 and June 15, 2017 estimated tax payments.

High revenue loss estimates, as presented in Table 1, assume the higher Georgia share of artists, higher growth rate, and higher effective tax rate while the low loss estimates are based on the alternate, low case of each. Estimated music royalty income earned by Georgia artists is presented in Table 2. To the degree that royalties are paid to subsequent copyright owners other than the artists, revenue losses may be lower.

Table 2. High and Low Georgia Music Royalty Income Estimates

($ *millions*)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
High Case	$61.7	$130.9	$138.7	$147.1	$155.9	$165.2
Low Case	$22.5	$46.8	$48.7	$50.6	$52.6	$54.7