

**LEGISLATIVE FISCAL OFFICE**  
**Fiscal Note**



Fiscal Note On: **HB 646** HLS 17RS 461  
 Bill Text Version: **ORIGINAL**  
 Opp. Chamb. Action:  
 Proposed Amd.:  
 Sub. Bill For.:

|  |                               |
|--|-------------------------------|
| <b>Date:</b> May 13, 2017 5:54 PM                                  | <b>Author:</b> LEGER          |
| <b>Dept./Agy.:</b> Economic Development                            |                               |
| <b>Subject:</b> Expands and Extends the Sound Recording Tax Credit | <b>Analyst:</b> Greg Albrecht |

TAX CREDITS OR DECREASE GF RV See Note Page 1 of 1  
 Adds additional tax credits for eligible applicants applying for the sound recording investor tax credit and provides for the amount of the expenditure verification report fee and deposit

Extends the current 18% sound recording investor tax credit by two years, to January 1, 2022 from January 1, 2020. Productions certified on and after July 1, 2017 are eligible for tax credits of 10% or 15% of qualified payroll, if less than ten jobs at \$35,000 per year wage or more than 10 jobs at \$35,000 per year wage are qualified. Credits can not reduce tax liability by more than 50%, and a five-year carryforward of unused credit is allowed. Availability of the credit is extended to a list of businesses associated with sound recording. Qualifying expenditure verification costs are changed from \$5,000-\$15,000 to \$500 - \$5,000, depending on total project expenditures. Infrastructure components of the existing credit are removed.

| <b>EXPENDITURES</b> | <b>2017-18</b> | <b>2018-19</b> | <b>2019-20</b> | <b>2020-21</b> | <b>2021-22</b> | <b>5 -YEAR TOTAL</b> |
|---------------------|----------------|----------------|----------------|----------------|----------------|----------------------|
| State Gen. Fd.      | \$0            | \$0            | \$0            | \$0            | \$0            | <b>\$0</b>           |
| Agy. Self-Gen.      | \$0            | \$0            | \$0            | \$0            | \$0            | <b>\$0</b>           |
| Ded./Other          | \$0            | \$0            | \$0            | \$0            | \$0            | <b>\$0</b>           |
| Federal Funds       | \$0            | \$0            | \$0            | \$0            | \$0            | <b>\$0</b>           |
| Local Funds         | <u>\$0</u>     | <u>\$0</u>     | <u>\$0</u>     | <u>\$0</u>     | <u>\$0</u>     | <b>\$0</b>           |
| <b>Annual Total</b> | <b>\$0</b>     | <b>\$0</b>     | <b>\$0</b>     | <b>\$0</b>     | <b>\$0</b>     | <b>\$0</b>           |

| <b>REVENUES</b>     | <b>2017-18</b> | <b>2018-19</b> | <b>2019-20</b> | <b>2020-21</b> | <b>2021-22</b> | <b>5 -YEAR TOTAL</b> |
|---------------------|----------------|----------------|----------------|----------------|----------------|----------------------|
| State Gen. Fd.      | \$0            | DECREASE       | DECREASE       | DECREASE       | DECREASE       | <b>\$0</b>           |
| Agy. Self-Gen.      | \$0            | \$0            | \$0            | \$0            | \$0            | <b>\$0</b>           |
| Ded./Other          | \$0            | \$0            | \$0            | \$0            | \$0            | <b>\$0</b>           |
| Federal Funds       | \$0            | \$0            | \$0            | \$0            | \$0            | <b>\$0</b>           |
| Local Funds         | <u>\$0</u>     | <u>\$0</u>     | <u>\$0</u>     | <u>\$0</u>     | <u>\$0</u>     | <b>\$0</b>           |
| <b>Annual Total</b> | <b>\$0</b>     |                |                |                |                | <b>\$0</b>           |

**EXPENDITURE EXPLANATION**

The bill changes the fee structure for obtaining expenditure verification audits from independent accounting firms. These fees are paid by the applicant, and are not a part of the program administrative budget. LED indicates that proposed fee structure may be less than the fees accountants currently charge for this work, and participants may be impaired in obtaining those necessary services.

**REVENUE EXPLANATION**

The current program tax credit cap is \$2,160,000 per year, but LED has never issued the maximum amount of credits allowed per year. Annual average credits issued over the five-year period of 2012-2016 have been \$200,000. Extension the the credit for two additional years will add additional cost exposure to the state fisc over the FY20 - FY22 period.

However, the cost exposure of the program is more likely increased significantly by the expansion of the credit to the various types of businesses currently not eligible for the credit. Those newly eligible business can include musical instrument and equipment production to retail outlets, music publishing, fine arts schools, performing arts promoters, and agents. According to the U.S. Economic Census, in 2015 there were 322 establishments in Louisiana assigned the North American Industry Classification System codes listed in the bill for eligibility in the credit program as proposed by the bill. It is possible that the issuance of tax credits under the program could approach or meet the \$2.160 million per year maximum allowed.

The time lag between the July 1, 2017 start of the new program parameters in the bill and realization of any new tax credits means that the earliest additional program costs can affect the state fisc is FY19. These costs are realized as reductions in net state tax receipts from what they would otherwise be.

Senate Dual Referral Rules  
 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}  
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

House  
 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}  
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

**John D. Carpenter**  
**Legislative Fiscal Officer**