

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **SB 165** SLS 13RS 446

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: May 5, 2013	1:24 PM	Author: MARTINY
Dept./Agy.: Economic Development		Analyst: Greg Albrecht
Subject: Motion Picture Investor Credit / Cost Reports		

TAX/TAXATION

OR SEE FISC NOTE

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Requires a qualified cost report prior to issuance of a motion picture investor tax credit. (8/1/13)

The bill requires qualified cost reports to be submitted by each film production project, with the reports subject to an agreed-upon procedures engagement. The report is required to incorporate information from sampling and verification procedures spelled out in the bill. Maximum time frames are prescribed for LED determinations. Certain related-party transactions are allowed to be eligible for tax credits.

EXPENDITURES	2013-14	2014-15	2015-16	2016-17	2017-18	5 -YEAR TOTAL
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total						

REVENUES	2013-14	2014-15	2015-16	2016-17	2017-18	5 -YEAR TOTAL
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total						

EXPENDITURE EXPLANATION

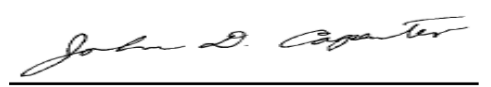
The bill appears to replace the current audit or cost reviews with cost reports based on agreed-upon procedures (AUP), with sampling and verification requirements spelled out in the bill. Both reports are submitted by CPAs. LED points out that this is a lower standard of review for CPAs, and the Legislative Auditor agrees. However, the Auditor points out that the current cost reviews are not actually full-scope audits because there are not GAAP-based financial statements being reviewed upon which a CPA can render an audit opinion. The Auditor indicates that the AUP approach can be a better approach (a prior agreed upon specific procedures with an affirmative responsibility of the CPA to respond). However, the procedures need to be carefully considered and sufficient to afford a proper judgment by the CPA. The LFO can not assure that the procedures spelled out in the bill are sufficient. LED indicates that by codifying these specific procedures in law, the Department is less able to be flexible in addressing unexpected issues in any particular project.

Finally, the bill imposes maximum time frames for LED to provide an initial certification based on application information (30 days) and a tax credit certification letter based on the cost report (60 days). Given the volume of projects participating in the program (typically a 100 projects per year and \$700+ million of qualifying expenditures) these time frames may be problematic in terms of LED's ability to perform due diligence without additional resources.

REVENUE EXPLANATION

The bulk of the bill deals with administrative procedures and is not likely to materially change the amount of tax credits issued by the program. However, the bill appears to allow certain related-party transactions to qualify for tax credits that LED may not currently allow. If that is the case, the bill would work to increase the amount of tax credits issued by the program.

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|---|----------------------------|--|
| <u>Senate</u> | <u>Dual Referral Rules</u> | <u>House</u> |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} | | <input type="checkbox"/> 6.8(F) >= \$500,000 Annual Fiscal Cost {S} |
| <input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H} | | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} |


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Legislative Fiscal Officer