

LEGISLATIVE FISCAL OFFICE
Fiscal Note



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

Bill Text Version: **ENROLLED**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: June 2, 2013 12:23 PM	Author: MARTINY
Dept./Agy.: Economic Development	Analyst: Greg Albrecht
Subject: Motion Picture Investor Credit / Cost Reports	

TAX/TAXATION

EN SEE FISC NOTE See Note

Page 1 of 1

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

The bill requires a production audit report be submitted by an independent CPA with knowledge of film/television accounting principles for each film production project. This report is to be a qualified accountant's audit of the project's production cost expenditures report. The production audit report is to be performed in accordance with auditing standards generally accepted in the U.S. Tax credit transfer information is to be provided to the Revenue Department within ten days of transfer. Maximum time frames are prescribed for LED determinations, requires written denials, diligent resolution of outstanding issues, and supplemental tax credit certifications as issues are resolved. Rules are to be promulgated regarding related party transactions.

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 cost reports, that LED utilizes to determine tax credit awards, with production audit reports. While this new report is to be prepared by CPAs (as are the current reports) in accordance with auditing standards generally accepted in the United States, these reports do not appear to be actual full-scope audits because there are not GAAP-based financial statements being reviewed upon which a CPA can render an audit opinion. However, the bill does require the CPA preparing the production audit report to provide an opinion that the project's cost report presents a fair presentation of the in-state production expenditures of the project, and a statement of acknowledgment that the state is relying on the report in the issuance of program tax credits.

The bill also imposes maximum time frames for LED to provide an initial certification based on application information (60 days) and a tax credit certification letter based on the production audit report (120 days). These time frames are double earlier versions of the bill. However, given the volume of projects participating in the program (typically a 100 projects per year and \$700+ million of qualifying expenditures), they may still be problematic in terms of the ability to perform due diligence without additional resources.

REVENUE EXPLANATION

The bulk of the bill deals with administrative procedures and does not directly affect the amount or expenditures eligible for tax credits issued by the program, or the tax credit rates of the program. The bill does require promulgation of rules regarding related-party transactions. Depending on the outcome of those rules, currently prohibited transactions may qualify for tax credits that are not currently allowed. This would work to increase the amount of tax credits issued by the program, and thus program costs imposed on the state fisc.

- | | | |
|---|----------------------------|--|
| <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} |

John D. Carpenter
Legislative Fiscal Officer