

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 604** HLS 15RS 392

Bill Text Version: **ENROLLED**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: June 22, 2015	1:18 PM	Author: STOKES
Dept./Agy.: Economic Development		
Subject: Requires Verification of Expenditures for LED Tax Credits		Analyst: Charley Rome

TAX CREDITS EN +\$4,762,000 SG RV See Note Page 1 of 2
Requires verification of qualified expenditures for certification of certain tax credits by the Dept. of Economic Development

Proposed law requires preparation and submission of a verification report prepared by a CPA who is engaged and assigned by the Department of Economic Development (LED) to provide independent verification of the cost reports of expenditures submitted by a production company or a business seeking certification of the following tax credits: (1) Motion picture investor tax credit program, R.S. 47:6007. (2) Digital interactive media and software tax credit program, R.S. 47:6022. (3) Sound recording investor tax credit program, R.S. 47:6023. (4) Musical and theatrical production income tax credit program, R.S. 47:6034. (5) Research and development tax credit program, R.S. 47:6015. The bill establishes certain requirements for a CPA engaged by LED, including licensing and continuing education. Proposed law authorizes LED to impose and collect a verification report fee to reflect the actual cost of the report. The amount of the fee shall be established by rule promulgated in accordance with the Administrative Procedure Act, **(Bill Summary Continued on Page Two)**

EXPENDITURES	2015-16	2016-17	2017-18	2018-19	2019-20	5 -YEAR TOTAL
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	\$4,762,000	\$4,762,000	\$4,762,000	\$4,762,000	\$4,762,000	\$23,810,000
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total						
REVENUES	2015-16	2016-17	2017-18	2018-19	2019-20	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$4,762,000	\$4,762,000	\$4,762,000	\$4,762,000	\$4,762,000	\$23,810,000
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$4,762,000	\$4,762,000	\$4,762,000	\$4,762,000	\$4,762,000	\$23,810,000

EXPENDITURE EXPLANATION

Self-generated expenditures will increase by an estimated \$4.8M per year (see calculations in Revenue Explanation below) due to fees paid by LED for the bill's proposed CPA verification reports. The bill states that the proposed verification fees shall not exceed the actual cost to LED to produce the reports based on hours expended at a rate not exceeding \$250 an hour for department-contracted services, or salary and benefits for department employee services.

The bill authorizes LED to impose and collect verification report fees that are equal to the department's actual CPA costs to prepare the reports. However, the bill also caps the amounts of such fees. As such, state general fund expenditures will increase to the extent that the actual costs of the bill's verification reports exceed the maximum fees allowed for such verification reports as described in the bill. In such cases, LED would be required to fund amounts of verifications costs that exceeded the maximum fees allowed by the bill. However, based upon audit fees historically reported by applicants and the costs of previous forensic audits by the department, the department believes that absent rare and exceptional circumstances, report costs will not exceed the maximum amounts established in the bill.

REVENUE EXPLANATION

Self-generated revenues will increase by an estimated \$4.8M per year (see calculations in the table below) from the bill's proposed CPA verification report fees. LED staff working with CPAs performing the external audits required by current law estimated the quantities in the table below based on program requirements and the number of applicants for each program. The bill states that the proposed verification fees shall not exceed the actual cost to LED to produce the reports based on hours expended at a rate not exceeding \$250 an hour for department-contracted services, or salary and benefits for department employee services.

Fee Type	Amount	Quantity	Total
Research and Development Verification Report	Up to \$250 per hour	1,500	\$375,000
Motion Picture Verification Report	Up to \$250 per hour	10,080	\$2,520,000
Digital Media Verification Report	Up to \$250 per hour	5,400	\$1,350,000
Live/Sound Verification Report	Up to \$250 per hour	2,068	\$517,000
Total		19,048	\$4,762,000

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|--|----------------------------|-------|--|
| Senate | <u>Dual Referral Rules</u> | House | <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S} |
| <input checked="" type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} | | | <input type="checkbox"/> 6.8(F)(2) >= \$500,000 Rev. Red. to State {H & S} |
| <input checked="" 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} |

Evan Brasseaux
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Staff Director

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CONTINUED EXPLANATION from page one:
(Bill Summary Continued from Page One)

it shall not exceed \$25,000, and shall be based upon either an hourly rate not to exceed \$250 per hour for contract services, or the pro rata cost of salary and benefits for an internal CPA. Proposed law requires that an applicant seeking certification of expenditures for tax credits shall be responsible for and assessed the fee, and further requires an up-front deposit of the fee, not to exceed \$15,000. The bill requires the applicant seeking tax credits to make all records related to the tax credit application available to the CPA or tax attorney assigned by the department and to prepare and submit to the department the verification report on the applicant's cost report of expenditures. Proposed law defines "verification report" as any agreed upon procedure, tax opinion, attestation, or other report required by statute or department rule. Further, prior to submission to LED, a verification report shall require two levels of review either within a CPA firm or through a cooperative endeavor with another CPA. The bill provides that only those expenditures which are confirmed verified within the verification report shall be eligible for certification for tax credit purposes. Proposed law provides, for purposes of the motion picture investor tax credit and the digital interactive media and software tax credit program, the following amounts required for the deposit and maximum fee for a verification report as follows: (1) A deposit of \$7,500 and a maximum report fee of \$15,000 for verification of a cost report reflecting qualified production expenditures between \$300,000 and \$25,000,000. (2) A deposit of \$15,000 and a maximum report fee of \$25,000 fee for verification of a cost report reflecting qualified production expenditures in excess of \$25,000,000. The bill provides, for purposes of the sound recording investor tax credit program and the musical and theatrical production income tax credit program, the following amounts required for the deposit and maximum fee for a verification report as follows: (1) A deposit of \$2,500 and a maximum report fee of \$5,000 for verification of a cost report reflecting qualified production expenditures between \$5,000 and \$50,000. (2) A deposit of \$5,000 and a maximum report fee of \$15,000 fee for verification of a cost report reflecting qualified production expenditures in excess of \$50,000. Proposed law provides, for purposes of the research and development tax credit program, the following amounts required for the deposit and maximum fee for a verification report as follows: (1) A deposit of \$7,500 and a maximum report fee of \$15,000 for verification of a cost report reflecting qualified research expenditures of up to \$1,000,000. (2) A deposit of \$15,000 and a maximum report fee of \$25,000 fee for verification of a cost report reflecting qualified research expenditures in excess of \$1,000,000. For the research and development tax credits, the bill states that an expenditure verification report shall be required only for applicants with less than fifty employees that have not filed for federal research and development tax credit on IRS Form 6765-Credit for Increasing Research Activities or that are not applicants for either the Small Business Technology Transfer Program or the Small Business Innovation Research Program. Provisions of this Act shall apply to all applications or submissions for certification or issuance of tax credits submitted to the department on or after January 1, 2016.

Senate

Dual Referral Rules

House

6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}

13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}

6.8(F)(2) >= \$500,000 Rev. Red. to State {H & S}

13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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