

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2009

Legislative Fiscal Note

BILL NUMBER: House Bill 1957 (First Edition)

SHORT TITLE: Enhance Competitiveness of Film Credit.

SPONSOR(S): Representatives McComas, Owens, Gibson, and K. Alexander

FISCAL IMPACT (\$millions)					
	Yes ()	No ()	No Estimate Available ()		
	<u>FY 2010-11</u>	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>FY 2013-14</u>	<u>FY 2014-15</u>
REVENUES	\$0.0	-\$2.4	-\$56.3	-\$53.8	-\$53.8
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: NC Department of Revenue; NC Department of Commerce					
EFFECTIVE DATE: Effective for taxable years beginning on or after January 1, 2010.					

BILL SUMMARY:

H1957 makes the following changes to the film production credit:

- Increases the applicable percentage used to calculate the credit from 15% of the amount of qualifying expenses to 25% and eliminates the alternate credit;
- Increases the cap on the amount of credit per feature film from \$7.5 million to \$20 million;
- Removes the cap on expenses paid to highly compensated individuals that can be included as eligible expenses. Currently, compensation over \$1 million paid to one individual is not considered an eligible expense;
- Allows employee fringe contributions and per diems to be included as eligible expenses;
- Extends the sunset of the film credit by one year to January 1, 2015.

Source: Committee Counsel Summary

ASSUMPTIONS AND METHODOLOGY:

Currently, the film production credit is 15% of eligible expenses, with an alternate credit equal to 25% of eligible expenses, less the difference between the amount of tax paid on purchases subject to the privilege tax on mill machinery and the amount of tax that would be paid if the purchases had been subject to the combined general rate of sales tax. The bill eliminates this alternate credit and increases the credit from 15% to 25%. This portion of the bill has an insignificant impact

because eligible expenses are already subject to the 25% rate under the alternate credit, and the add-back of the sales tax differential has a minimal effect.

The fiscal impact of the remaining changes in the bill was determined using an analysis provided by the Department of Commerce. The Department used actual studio budgets to estimate the impact of projected changes based on the number and size of additional film productions resulting from the bill. The analysis assumes that without the proposed expansion, baseline film production activity would include one episodic television production with \$22 million in-state spending and five \$10-million film productions with \$6 million in-state spending.

The estimates for film production activity under the proposed expansion assume the same current film activity, plus two \$25-million productions, four \$50-million productions and one \$75-million production. Based on the studio budget information, the Department was able to determine the amount of eligible spending attributable to each film, including the spending on fringe benefits, per diems and highly compensated individuals, which are included as eligible expenses under the bill. The estimates assume that no individual is paid more than \$1 million on the \$10-million and \$25-million productions. Fiscal Research agrees with the Department's analysis.

Table 1 provides the projected annual number and cost of films resulting from the expanded credit. Due to production cycles, the film credit is not expected to reach this level of activity and impact until FY 12-13.

Table 1. Projected Film Production Spending (\$millions)			
Total Production Spending	Total Qualified Spending	Number of Productions	Total Cost of Film Credit
\$75	\$49.8	1	\$12.5
\$50	\$38.6	4	\$38.6
\$25	\$13.2	2	\$6.6
\$10	\$4.7	5	\$5.8
\$44	\$23.5	1	\$5.9
Total Cost			\$69.4
Source: NC Department of Commerce			

Table 2 provides the projected fiscal year impacts of the credit expansion based on the expected production cycles. These costs represent the net impact of the credit expansion as proposed in H1957. The impact of film activity related to current law is not included.

H1957 is not expected to generate any production activity that would impact the general fund in FY 2010-11. A small impact is expected in FY 2011-12, with the full impact of the credit expansion beginning in FY 2012-13. The impact also factors in the credit add-back; North Carolina requires the value of the tax credit to be added back to taxable income. The analysis assumes that the add-back will be taxed at an average rate of 7 percent.

Table 2. Net Fiscal Impact of Film Production Credit Changes by Fiscal Year (\$millions)					
	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15
Additional Cost	\$0.0	\$2.6	\$60.5	\$57.9	\$57.9

of Credit					
Credit Add-back	\$0.0	\$0.2	\$4.2	\$4.1	\$4.1
Net Fiscal Impact	\$0.0	\$2.4	\$56.3	\$53.8	\$53.8

SOURCES OF DATA: NC Department of Commerce

TECHNICAL CONSIDERATIONS: None

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