

# GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2009

## Legislative Fiscal Note

**BILL NUMBER:** Senate Bill 943 (First Edition)

**SHORT TITLE:** Expand Film Credit.

**SPONSOR(S):** Senator Garrou

### FISCAL IMPACT

Yes (x)                      No ( )                      No Estimate Available ( )

FY 2009-10    FY 2010-11    FY 2011-12    FY 2012-13    FY 2013-14

**REVENUES:**

General Fund

**\*See Assumptions and Methodology\***

**PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:** NC Department of Commerce; NC Department of Revenue

**EFFECTIVE DATE:** January 1, 2009

**BILL SUMMARY:**

Senate Bill 943 would increase the income tax credit for a production company from 15% to 25% of the company's qualifying expenditures. The bill would become effective for taxable years beginning on or after January 1, 2009.

**BACKGROUND:**

The 2005 General Assembly enacted legislation that allows an income tax credit for 15% of the qualifying production expenses of film and television production companies that spend at least \$250,000 on a production in North Carolina. The credit is limited to \$7.5 million per feature film and is refundable in cases where the credit exceeds tax liability. Finally, the bill disallowed the credit for expenses incurred for compensation of \$1 million or more paid to an individual. In 2008, the General Assembly made changes to the definition of eligible expenses to include amounts paid to a highly compensated individual only to the extent that amount exceeds \$1 million, and the cost of production-related insurance.

**ASSUMPTIONS AND METHODOLOGY:**

To calculate the impact of the bill, Fiscal Research obtained data from the North Carolina Film Office on projected eligible film expenses assuming a 25% credit. The estimates factor in the increased film activity expected to be spurred by the higher credit. The impact to the General Fund is calculated by applying the 25% rate to eligible expenses for each year. The cost of the current

15% credit is subtracted to obtain the net impact of the bill. The estimates assume that three films each year (beginning in 2010) would have eligible expenses that would cause them to exceed the credit cap. The three films are assumed to have eligible expenses of \$40 million each year. Since the credit cap is \$7.5 million, the credit would apply to only \$30 million of expenses (\$30 million \* 25% = \$7.5 million).

<b>Estimated Cost of Film Credit at 25%</b>					
<b>(\$millions)</b>					
	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14
Eligible Expenses at 25%	\$85.0	\$250.0	\$300.0	\$350.0	\$350.0
Cost of 25% Credit	-19.8	-51.2	-62.8	-74.5	-74.5
Eligible Expenses at 15%	80.0	80.0	80.0	80.0	80.0
Cost of 15% Credit	-11.2	-11.2	-11.2	-11.2	-11.2
<b>Net Impact of S943</b>	<b>-\$8.6</b>	<b>-\$40.0</b>	<b>-\$51.7</b>	<b>-\$63.3</b>	<b>-\$63.3</b>

For purposes of this analysis, it is assumed that the tax year impact of the proposed change matches up with the fiscal year ending six months after the end of the tax year. Thus, the full impact of new activity in the 2010 tax year would be in the 2010-11 fiscal year. This rationale assumes that taxpayers take the credit in the form of lower final tax payments rather than reduced estimated payments sent in during the tax year.

In a report studying the economic impact of a 25% credit, Ernst and Young estimated a return on investment (ROI) of 69 cents for each dollar of credit cost. The return represents additional tax revenue related to film activity and its indirect impact on the economy. The current economic recession adds uncertainty to the ROI estimates, particularly as they relate to tourism and other indirect expenditures. Other states have recently estimated lower returns on investment. For example, Louisiana and Connecticut estimated ROIs of 18% and 20% respectively for their film credits. To the extent that additional tax revenues are realized, they will occur beginning in the year of production and, in the case of tourism-related revenues, extend several years beyond completion of the film.

**SOURCES OF DATA:** NC Film Office, North Carolina Department of Commerce; *Economic and Fiscal Impacts of the North Carolina Film Credit Program*, Ernst and Young, June 2009.

**TECHNICAL CONSIDERATIONS:** None

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