



LEGISLATIVE FISCAL OFFICE  
Fiscal Note

Fiscal Note On: **SB 123** SLS 11RS 291  
Bill Text Version: **REENGROSSED**  
Opp. Chamb. Action: **w/ HSE COMM AMD**  
Proposed Amd.:  
Sub. Bill For.:

<b>Date:</b> June 7, 2011 12:40 PM	<b>Author:</b> MARTINY
<b>Dept./Agy.:</b> Economic Development / Revenue	
<b>Subject:</b> Digital Media	<b>Analyst:</b> Greg Albrecht

TAX/TAXATION RE1 -\$800,000 GF RV See Note Page 1 of 1  
Changes the Digital Interactive Media Producer Tax Credit to a refundable tax credit and provides other modifications to the program. (gov sig)  
Current law provides nonrefundable but transferrable tax credits for certain expenditures made by digital interactive media companies. Unused credit amounts can be carried back one year and carried forward ten years to apply against tax liabilities. Credits are 25% of eligible spending and 35% of resident payroll.

Proposed law retains the current credit provisions for expenditures made before 1/1/2012. For expenditures on or after 1/1/2012 100% of credits earned are refundable, or the recipient company can elect to redeem the credits for a direct payment of 85% of face value. Various other program changes are made to clarify definitions and processes. These changes do not appear to materially expand or contract the program. A provision that prohibits program participants from receiving other specified tax benefits is repealed and replaced with a general prohibition.

EXPENDITURES	2011-12	2012-13	2013-14	2014-15	2015-16	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
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	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2011-12	2012-13	2013-14	2014-15	2015-16	5 -YEAR TOTAL
State Gen. Fd.	\$0	(\$800,000)	(\$1,000,000)	(\$1,500,000)	(\$1,600,000)	(\$4,900,000)
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	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$0	(\$800,000)	(\$1,000,000)	(\$1,500,000)	(\$1,600,000)	(\$4,900,000)

EXPENDITURE EXPLANATION

The Department of Revenue will incur minimal costs associated with system modifications to capture this additional tax return option. The Department of Economic Development should incur little or no additional costs.

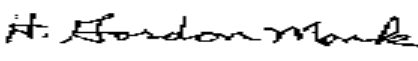
REVENUE EXPLANATION

While the bill does not change the amount of benefits available to any participating project, it does accelerate the ability of participants to realize those benefits by making the tax credits awarded refundable rather than nonrefundable with a carry-forward period. The full benefit amount would be received upon the filing of a tax return regardless of the firm’s tax liability. Thus, for any given credit amounts awarded, more of them will be realized against liabilities in any year than would occur under the current program. In addition, the bill also allows for a direct redemption of credits for a direct cash payment without waiting for the filing of a tax return at 85% of face value of the credit. This also works to allow credits to be realized earlier than they would otherwise, albeit at a lower total pay-out of the credits so redeemed.

While it seems likely that participants will take advantage of these provisions to realize program benefits more quickly, it is largely a judgment call as to what is a reasonable expectation of fiscal effect relative to the current program. The Department of Economic Development provided a basic projection based on expected new projects (40 in FY12 growing to 60 in FY16) and assumptions concerning per project credit awards (5% growth per year) and the ratio of annual tax credit realizations to tax credits approved by LED (converging to 1 over the fiscal note horizon). The Legislative Fiscal Office tested this projection under various alternative assumptions and generated larger and smaller fiscal effects with comparably reasonable assumptions. Thus, the LED projections are shown in the table above as a reasonable expectation of the effects of this bill. A key assumption is the number of new projects entering the program. Should that estimate differ materially from what was assumed in the projection, the fiscal effects of the bill will differ materially from this projection.

No speculation was made as to the willingness of participants to redeem credits directly, without waiting to file tax returns. This would work to accelerate credit realizations even more than refundability. However, the redemption rate is 85% of face value. To the extent this option is utilized, and earlier payout of credits is accompanied by a smaller payout of credits. Use of direct redemption is occurring in the film credit program, but those participants do not already have the option of refundable credits, only the option of transferable credits.

The Department of Revenue reports that actual tax credit realizations for this program have totaled \$1.311 million since 2006; \$22,000 in FY06, \$0 in FY07, \$107,000 in FY08, \$411,000 in FY09, \$234,101 in FY10, and \$537,000 in FY11 to date.

Senate	Dual Referral Rules	House	
<input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}		<input type="checkbox"/> 6.8(F)1 >= \$500,000 Annual Fiscal Cost {S}	 H. Gordon Monk Legislative Fiscal Officer
		<input type="checkbox"/> 6.8(F)2 >= \$100,000 Annual SGF Cost {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}	