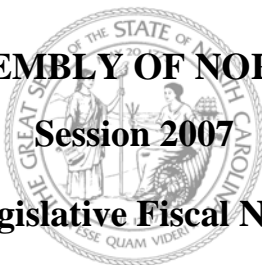


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Fiscal Note

BILL NUMBER: Senate Bill 1968 (First Edition)

SHORT TITLE: Expand Film Industry Credits.

SPONSOR(S): Senator Boseman

FISCAL IMPACT (\$Mill.)					
	Yes (x)	No ( )	No Estimate Available ( )		
	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>FY 2011-12</u>	<u>FY 2012-13</u>
<b>REVENUES:</b>					
General Fund	-0.1	-8.5	-26.7	-27.5	-28.4
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> NC Department of Revenue; NC Film Office					
<b>EFFECTIVE DATE:</b> January 1, 2008					

**BILL SUMMARY:** Amends GS 105-130.47 and 105-151.29 to make changes regarding the credit for qualifying expenses of a production company, including the following: (1) rewrites the definition of “qualifying expenses” to (a) require deduction of amount paid to a highly compensated individual only to the extent that amount exceeds \$1 million, and (b) add the cost of production-related insurance, (2) requires company to file an intent-to-film form with the NC Film Office before principal photography begins, (3) for productions that have production credits, requires acknowledgement in credits of the NC Film Office and the appropriate regional film office, (4) defines principal photography, and (5) extends the sunset provision from January 1, 2010, to January 1, 2015. Effective for taxable years beginning on or after January 1, 2008  
*Source: Bill Digest S.B. 1968 (05/27/0200).*

**BACKGROUND INFORMATION:** 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 paid to an “individual” if the compensation exceeded \$1 million.

**ASSUMPTIONS AND METHODOLOGY:** The bill allows taxpayers to take the credit against expenses for highly compensated individuals up to \$1 million. Thus, a production would be able to include \$999,999 in expenses for any actor earning \$1 million or more. Under current law, no expenses for highly compensated individuals are allowable. According to the North Carolina Film Office, there are no films for which credits would be taken for 2008 in which the expense allowance for income up to \$1 million would be a factor. The bill also adds the cost of production-related insurance to the definition of eligible expenses; this portion of the bill is projected to have an impact of \$0.1 million for FY 08-09.

For subsequent years, it is assumed that the addition of income up to \$1 million to eligible expenses would attract two feature films per year. Assuming a budget of \$30 million per film results in annual additional allowable expenses of \$60 million per year. After adjusting for the addition of the credit to net taxable income, the cost of the bill beginning in FY 2009-10 is \$8.5 per year. An inflationary adjustment is added for subsequent years. Because the bill extends the sunset to January 1, 2015 from the current sunset of January 1, 2010, the fiscal impact beginning in FY 2010-11 reflects the full cost of the credit.

For the purpose of this analysis, it is assumed that the tax year impact of the credit matches up with the fiscal year ending six months after the end of the tax year. Thus, the full impact of the credit for the 2009 tax year would up in the 2009-10 fiscal year. This methodology assumes that the relief will be taken in the form of lower final income tax payments or higher tax refunds, both of which occur in the months just following the end of the tax year, rather than in reduced quarterly estimated payments sent in during the tax year.

**SOURCES OF DATA:** NC Film Office

**TECHNICAL CONSIDERATIONS:** None

**FISCAL RESEARCH DIVISION:** (919) 733-4910

**PREPARED BY:** Rodney Bizzell

**APPROVED BY:** Lynn Muchmore, Director  
Fiscal Research Division

**DATE:** June 23, 2008



**Signed Copy Located in the NCGA Principal Clerk's Offices**