



EXECUTIVE SUMMARY

NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY (NJEDA) FILM AND DIGITAL MEDIA TAX CREDIT PROGRAM JULY 1, 2020 TO DECEMBER 31, 2023

We found the NJEDA had adequate controls in place to approve eligible projects, monitor the program, and certify tax credits in compliance with internal requirements, applicable program criteria, and the laws governing the program. In making these determinations, we observed that legislation may be needed to increase the economic benefit the program provides the state. We also noted weaknesses relating to the expenditure certification process and fees collected to cover the program's administrative costs meriting management's attention.

AUDIT HIGHLIGHTS

- We observed that, contrary to other NJEDA programs, laws governing the program do not require the authority to perform a cost-benefit analysis to determine the net fiscal benefit to the state.
- We observed that current legislation provides for unlimited carryforward in each of the program's four designations. The authority's carryforward was over \$1 billion from fiscal year 2023 to fiscal year 2024. As a result of the growing amount of unused allocations and unlimited carryforward of those amounts, there is potentially more than \$9 billion in tax credits that could impact state revenue, depending on the timing of their approval, certification, and amount claimed through fiscal year 2039.
- We observed that the law allows out-of-state expenses to be included in the tax credit calculation as long as the vendor is authorized to do business and the product is used or consumed in the state; however, when out-of-state expenses are used toward the credit, the state incurs a loss of tax revenue without receiving the associated economic benefit.
- Pursuant to the law, eligible expenditures must be from vendors authorized to do business in New Jersey. We sampled 125 vendors and identified 34 instances (27.2 percent) where the vendor did not have a business registration certificate on file at the time the project was certified. We identified expenses totaling \$1.5 million from 25 of the 34 vendors that should not have been included within the projects' tax credit calculations.
- The authority should have more oversight of the tax credit certification process. It relies almost exclusively on a CPA firm's expertise and the resulting agreed upon procedures report to certify the project's tax credit amount and only documents summary expenditure information on its internal systems.
- We found program fees collected have not covered the program's administrative costs. After we inquired about these fees, the authority applied its internally developed fee model to the program and determined that fee revenue (\$475,768) covered only 69.9% of administrative costs (\$680,181) in 2022.

AUDITEE RESPONSE

The authority generally concurs with our findings and recommendations.

For the complete audit report or to print this Executive Summary, click on the attached files.