COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1527-02
Bill No.: HCS for HB 767
Subject: Revenue Department; Tax Credits; Taxation and Revenue
Type: Original
Date: April 17, 2009

Bill Summary: This proposal increases the cap on the tax credit for qualified film production projects to ten million dollars each year.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	$0 to ($5,500,000)	$0 to ($5,500,000)	$0 to ($5,500,000)
Total Estimated Net Effect on General Revenue Fund*	**$0 to ($5,500,000)**	**$0 to ($5,500,000)**	**$0 to ($5,500,000)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on Other State Funds*	**$0**	**$0**	**$0**

* **The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Local Government*	**$0**	**$0**	**$0**

* **The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue** assume the proposal would not fiscally impact their agency.

Officials from the **Office of Administration - Budget and Planning** state the proposal increases the cap on the tax credit for qualified film production projects from $4.5 million to $10 million. This proposal could therefore lower general and total state revenues up to $5.5 million, beginning in FY 2010.

Officials from the **Department of Economic Development (DED)** state the proposed legislation increases the cap on the Film Production Tax Credit from $4.5 million to $10 million. The increase in the cap for the Film Production Tax Credit would result in the need for two additional FTE. One FTE would be an Economic Development Incentive Specialist III and would be responsible for reviewing the tax credit applications to make sure they meet the criteria of the program, drafting and sending the tax credit awards and ensuring compliance with the program. The second FTE would be a Public Information Coordinator. This position would be responsible for working with the Director and Assistant Director of the Film Office to promote Missouri as an ideal location for film, television, and video production. The position will also be responsible for working with production companies interested in Missouri on every aspect of the production including helping with film crews, facilities, equipment, hotels, caterers, transportation needs, etc. Finally, the position would be responsible for assisting with the research and documentation of possible film locations, updating the web site, editing the Film newsletter, assisting with the Film Commission board and responding to inquiries about the Missouri Film Industry. The related costs for these FTE include one-time expenditures for systems furniture, a side chair, file cabinet, calculator and telephone and recurring costs for office supplies, computer, professional development and travel.

The increase in the cap for the Film Production Tax Credit is $5.5 million so there would be a negative impact of that amount to total state revenue. However, there would be an offset of unknown positive economic benefits as a result of this increase so the exact amount of the impact cannot be determined.

DED assumes a cost of the two additional FTE would total roughly $135,000 per year.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state it is unknown how many insurance companies will participate in this program and take advantage of the tax credits. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and

ASSUMPTION (continued)

Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted tax credits each year.

Oversight will range the fiscal impact of this proposal from $0 (no additional tax credits will be issued) to an additional $5.5 million in tax credits will be issued and redeemed annually. According to the Tax Credit Analysis page prepared by the Department of Economic Development, the amount of Film tax credits issued in the recent past has been $917,982 in FY 2006 (5 certificates from 4 projects), $1,969,598 in FY 2007 (6 certificates and 6 projects) and $1,642,701 (7 certificates and 5 projects) in FY 2008. DED estimates $1,675,000 and $2,010,000 in credits to be issued in Fiscal Years 2009 and 2010 respectively. DED estimates 10 projects and 10 certificates in each FY 2009 and FY 2010. Oversight assumes with the relative small number of projects and certificates issued under this program, that increasing the annual limit of film tax credits from $4.5 million to $10 million would not require additional FTEs to administer.

In the House Committee Substitute, the change in the annual cap from $4.5 million to $10 million is effective for all tax years beginning on or after January 1, 2009. Therefore, Oversight assumes the increase in credits could be realized by the state when calendar year 2009 returns are filed, which would be in FY 2010.

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous four years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 81 percent to 86 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied; however, Oversight will utilize an estimated redemption total of 83 percent of tax credits issued. Therefore, under this proposal, if $5,500,000 of credits are issued under a new program, Oversight would assume $4,565,000 (83%) of credits to be redeemed, reducing Total State Revenues.

Oversight assumes there would be some positive economic benefit to the state as a result of the changes in this proposal, however, Oversight considers these benefits to be indirect and therefore, have not reflected them in the fiscal note.

This proposal may decrease Total State Revenues.

FISCAL IMPACT - State Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE			
Loss - Increase in the Film Tax Credit from $4.5 million annually to $10 million annually	$0 to ($5,500,000)	$0 to ($5,500,000)	$0 to ($5,500,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE	**$0 to ($5,500,000)**	**$0 to ($5,500,000)**	**$0 to ($5,500,000)**

Note **This does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.**

FISCAL IMPACT - Local Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that would qualify for the Film tax credit could be positively fiscally impacted by this proposal.

FISCAL DESCRIPTION

Beginning January 1, 2009, this bill increases the annual cap on tax credits certified for qualified film production projects from $4.5 million to $10 million.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

RS:LR:OD (12/02)

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Office of Administration - Budget and Planning
Department of Insurance, Financial Institutions and Professional Registration

Mickey Wilson

Mickey Wilson, CPA
Director
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