

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1978-01
Bill No.: Perfected HB 923
Subject: Taxation and Revenue - General; Tax Credits; Entertainment, Sports and Amusements; Department of Revenue
Type: Original
Date: April 25, 2019

Bill Summary: This proposal authorizes a tax credit for qualified film projects.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	\$0 or (Up to \$68,987)	\$0 or (Up to \$4,573,632)	\$0 or (Up to \$4,574,267)
Total Estimated Net Effect on General Revenue	\$0 or (Up to \$68,987)	\$0 or (Up to \$4,573,632)	\$0 or (Up to \$4,574,267)

Note: The fiscal note 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.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	0 or 1 FTE	0 or 1 FTE	0 or 1 FTE
Total Estimated Net Effect on FTE	0 or 1 FTE	0 or 1 FTE	0 or 1 FTE

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Local Government	\$0	\$0 or (Could exceed \$45,000)	\$0 or (Could exceed \$45,000)

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal re-establishes a tax credit for tax years beginning on or after January 1, 2020, equal to twenty percent of qualifying in-state expenses and ten percent of qualifying out-of-state expenses incurred by a production company in connection with a qualified film production project. An additional five percent may be earned for both qualifying in-state expenses and qualifying out-of-state expenses if at least fifty percent of the qualified film production project is filmed in Missouri.

The cap on the tax credits for all tax years beginning on or after January 1, 2008, is \$4,500,000. This proposal could therefore lower General and Total State Revenues by \$4,500,000 per fiscal year, beginning in FY 2021. To the extent this proposal encourages other economic activity, General and Total State Revenue may increase, but B&P cannot estimate the induced revenues.

This proposal could impact the calculation pursuant to Article X, Section 18(e).

Officials at the **Department of Economic Development (DED)** assume this bill re-authorizes the film tax credit in chapter 135.750 for qualifying in and out of state expenses. Beginning January 1, 2020, this proposal allows a taxpayer a credit of 20% of expenses and an extra 5% if at least 50% of the project is filmed in MO. This also makes changes including lowering the threshold for a highly compensated individual down to \$250,000 from \$1,000,000. This proposal leaves the cap on the program at \$4,500,000/year.

Since this program is sunset, DED will need to hire 1 Economic Development Incentive Specialist III (\$51,108) to administer the program. Creating a new tax credit will likely reduce annual Total State Revenue by up to the annual cap (\$4.5 million) on the program.

Oversight has, for fiscal note purposes only, changed the starting salary for the Economic Development Incentive Specialist III (from \$51,108 to \$45,052) to correspond to the starting salary for comparable positions at DED. Oversight also removed the \$2,854 for travel expenses requested by DED. This proposal only requires the companies to complete an application and submit expenses to DED. It does not require DED to inspect or audit the film sites.

Oversight assumes DED could absorb some of the additional duties without adding an FTE; however, DED has stated due to current workload, these costs cannot be absorbed. Additionally, it is unclear whether the previous FTE handling this program were let go when the program sunset. Therefore, Oversight will range the cost from \$0 (FTE can be absorbed) to the estimated

ASSUMPTION (continued)

provided by DED (FTE is not absorbed).

Officials at the **Department of Revenue (DOR)** assume this proposal updates the definitions of "Qualified Film Production Project," and adds the definition of "Qualifying Out-of-State Expenses." This proposal states that for all tax years beginning on or after January 1, 2020, a taxpayer shall be allowed a tax credit equal to twenty percent of qualifying in-state expenses and ten percent of qualifying out-of-state expenses. An additional five percent may be earned for both qualifying in-state expenses and qualifying out-of-state expenses if at least fifty percent of the qualified film production project is filmed in Missouri.

This proposal states that this credit shall sunset on December 31, six years after the effective date of this section and further states that this section shall terminate on September first of the calendar year immediately following the calendar year in which the program is sunset.

Fiscal Year	Decrease to Total State Revenue - General Revenue
FY 2020	(\$4,500,000)
FY 2021	(\$4,500,000)
FY 2022	(\$4,500,000)
FY 2023	(\$4,500,000)
FY 2024	(\$4,500,000)

DOR's Personal Tax Section requires 1 Revenue Processing Technician I (\$24,360) for every 6,000 credits redeemed and 1 Revenue Processing Technician I (\$24,360) for every 7,600 pieces of correspondence generated.

Oversight notes that based on the past use/history of this tax credit, (only 2-8 tax credit certificates annually) DOR will be able to absorb this credit with existing FTE. Oversight will not show the DOR FTE in this fiscal note.

Officials at the **Department of Insurance, Financial Institutions and Professional Registration** assume a potential unknown decrease of premium tax revenues as a result of the creation of the Show MO Film & Digital Media Act tax credit. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. County Stock

ASSUMPTION (continued)

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 by tax credits each year.

Oversight notes according to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Film tax credit program had the following activity;

	FY 2016	FY 2017	FY 2018	FY 2019 (projected)	FY 2020 (projected)
Certificates Issued	0	0	0	0	0
Projects	0	0	0	0	0
Amount Authorized	\$0	\$0	\$0	\$0	\$0
Amount Issued	\$0	\$0	\$0	\$0	\$0
Amount Redeemed	\$6,832	\$2,375,651	\$672	\$0	\$0

Amount Outstanding - \$0 Amount Authorized but Unissued - \$0

Prior to the sunset the credit had the following activity.

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Certificates Issued	5	4	5	2	0
Projects	8	4	2	3	1
Amount Authorized	\$6,822,754	\$1,768,989	\$38,041	\$139,070	\$639,772
Amount Issued	\$164,086	\$5,181,512	\$1,807,030	\$139,070	\$0
Amount Redeemed	\$970,673	\$1,925,158	\$1,563,218	\$4,839,217	\$56,665

Since the annual cap on the tax credit was unchanged by this proposal, Oversight will show the impact as \$0 to the \$4.5 million annual cap. Since this proposal begins with tax years starting January 1, 2020 and production on the film would have had to apply for the credit and finish filming before receiving the credit, Oversight will show the possible revenue reduction beginning in FY 2021.

Oversight assumes the restarting of this tax credit program outlined in this proposal may have a positive impact on the state. However, Oversight considers this to be an indirect impact of the proposal and will not reflect it in this fiscal note.

ASSUMPTION (continued)

House Amendment #1

Officials at the **Department of Revenue** and the **Department of Insurance, Financial Institutions and Professional Registration** each assume the same fiscal impact as what was previously stated in the original version of the proposal.

Oversight assumes no fiscal impact from this amendment.

House Amendment #2, as amended

Officials at the **Department of Insurance, Financial Institutions and Professional Registration** assume the same fiscal impact as what was previously stated in the original version of the proposal.

Oversight notes this amendment would require that only 90% of the tax credit be distributed to a qualified project unless the local municipality, where the filming is taking place, agrees to match 1% of the tax credit amount. The 1% amount would be deposited into General Revenue and then the full amount of the tax credit would be issued. If the municipality does not agree to the 1%, then only 90% of the credit is issued. Oversight notes this could result in fewer credits being issued to certain projects; however, since this program still has a \$4.5 million cap, the overall impact to the tax credit program is unchanged.

Oversight notes the implications of the amendment are unclear. The amendment refers to “qualified projects located in municipalities” (plural), but goes on to state unless the “applicable municipality” (singular) agrees to remit 1% of the value of the credits to the state. Therefore, for example, if several municipalities are included in a qualified project, Oversight is unsure if each “municipality” would then be required to remit 1% of the value of the tax credits back to DOR before the applicable percentage of credit issuance would increase from 90% to 100%.

Oversight assumes that the maximum amount of revenue that could be received from the municipalities, if only one municipality would need to remit 1% of the credits to DOR for each project, would be 1% of the \$4.5 million cap, or \$45,000. However, due to the uncertainty of HA2 and if the respective city council(s) approve to remit 1% of the credit to DOR; Oversight will reflect revenue from cities to DOR of \$0 or Could exceed \$45,000 and a similar potential cost to municipalities for this amendment.

ASSUMPTION (continued)

Oversight notes the additional forms that would be received by the Missouri Ethics Commission reporting any political contributions in excess of \$25 made to a Missouri candidate committee, Missouri campaign committee, or a Missouri state political party committee, as defined under chapter 130 would have no fiscal impact on the commission. If the commission receives a significant number of forms relating to this amendment, the commission can request additional staff needed to provide oversight through the appropriations process.

<u>FISCAL IMPACT - State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
GENERAL REVENUE			
<u>Revenue - DOR - remittance from cities of 1% of the value of the tax credit on qualified projects (HA 2)</u>	\$0	\$0 or Could exceed \$45,000	\$0 or Could exceed \$45,000
<u>Revenue Reduction - DED §135.750 Film tax credit restarted</u>	\$0	\$0 to (\$4,500,000)	\$0 to (\$4,500,000)
<u>Cost - DED §135.750</u>	\$0 or	\$0 or	\$0 or
Personal Service	(\$37,543)	(\$45,503)	(\$45,958)
Fringe Benefits	(\$21,949)	(\$26,477)	(\$26,615)
Equip & Exp	<u>(\$9,495)</u>	<u>(\$1,652)</u>	<u>(\$1,694)</u>
<u>Total Cost -</u>	<u>\$0 or (\$68,987)</u>	<u>\$0 or (\$73,632)</u>	<u>\$0 or (\$74,267)</u>
FTE Change - 0 or 1FTE	0 or 1 FTE	0 or 1 FTE	0 or 1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	\$0 or (Up to <u>\$68,987</u>)	\$0 or (Up to <u>\$4,573,632</u>)	\$0 or (Up to <u>\$4,574,267</u>)
Estimated Net FTE Change on General Revenue	0 or 1 FTE	0 or 1 FTE	0 or 1 FTE

Note: The fiscal note 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 2020
(10 Mo.)

FY 2021

FY 2022

LOCAL POLITICAL SUBDIVISIONS

Cost - Cities - remittance to DOR - of 1%
of the value of the tax credit for qualified
projects (HA 2)

\$0 or (Could
\$0 exceed \$45,000) \$0 or (Could
exceed \$45,000)

**ESTIMATED NET EFFECT ON
LOCAL POLITICAL SUBDIVISIONS**

**\$0 or (Could
\$0 exceed \$45,000) \$0 or (Could
exceed \$45,000)**

FISCAL IMPACT - Small Business

Small businesses that qualify for the tax credit could be impacted.

FISCAL DESCRIPTION

This bill creates the "Show Missouri Film and Digital Media Act."

The bill re-authorizes a tax credit for certain expenses related to the production of qualified film production projects in this state, as defined in the bill. Tax credits for such expenses under previous law expired on November 28, 2013. For all tax years beginning on or after January 1, 2020, this bill authorizes a tax credit equal to 20% of qualifying in-state expenses, as defined in the bill, and 10% of qualifying out-of state expenses, as defined in the bill, associated with the production of a qualified film production project. An additional 5% may be awarded for both qualifying in-state and out-of-state expenses if at least 50% of the qualified film production project is filmed in Missouri.

This bill sunsets on December 31 six years from the effective date.

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

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SOURCES OF INFORMATION

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



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