

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1633H.011
 Bill No.: HB 675
 Subject: Tax Credits; Entertainment, Sports and Amusements; Tourism; Taxation and Revenue - General; Department of Revenue; Economic Development; Department of Economic Development
 Type: Original
 Date: January 30, 2023

Bill Summary: This proposal establishes the Show MO Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue Fund*	\$0	(\$1,627,460) Up to (\$40,374,064)	(\$1,629,642) Up to (\$40,380,610)
Total Estimated Net Effect on General Revenue	\$0	(\$1,627,460) Up to (\$40,374,064)	(\$1,629,642) Up to (\$40,380,610)

*Oversight notes the range in the fiscal impact stems from the five (5) year average amount (\$1,502,722) of Film Production Companies Tax Credit(s) issued (as it was administered before sunseting November 28, 2013) to the annual cap of the Show Mo tax credit cap (\$40 million) with projected 1 to 3 FTE for DED beginning FY 2025).

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue Fund	0 FTE	1 to 3 FTE	1 to 3 FTE
Total Estimated Net Effect on FTE	0 FTE	1 to 3 FTE	1 to 3 FTE

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this proposal reestablishes a tax credit for tax years beginning on or after January 1, 2024, equal to twenty percent of qualifying expenses by a production company in connection with a qualified motion media production project. This could be increased for the following reasons:

- An additional five percent may be earned for qualifying expenses if at least fifty percent of the qualified motion media production project is produced in Missouri.
- An additional five percent may be earned for the qualifying expenses if at least fifteen percent of the qualified motion media production project that is produced in Missouri takes place in a rural or blighted area in Missouri.
- An additional five percent may be earned for qualifying expenses if at least three departments of the qualified motion media production hire a Missouri resident ready to advance to the next level in a specialized craft position or learn a new skillset.
- An additional five percent may be earned for qualifying expenses if the DED determines that the script of the qualified motion media production project positively markets a city or region of the state, the entire state, or a tourist attraction located in the state, and the qualified motion media production provides no fewer than five high resolution photographs containing cast with the rights cleared for promotional use by the Missouri film commission, accompanied by a list with the title of production, location, names, and titles of the individuals shown in the photography and photographer credit.
- The total dollar amount of tax credits authorized pursuant to subdivision (1) of 135.750.3 shall be increased by ten percent for qualified film production projects located in a county of the second, third, or fourth class.

A qualified motion media production project shall not be eligible for tax credits unless such project employs a number of Missouri registered apprentices or veterans residing in Missouri with transferable skills, as outlined in 135.750.4.

These credits may be sold, assigned, exchanged, conveyed, or otherwise transferred. There is a five year carry forward, provided all such credits shall be claimed within ten tax periods following the tax period in which the qualified motion media production or production-related activities for which the credits are certified by the department occurred.

The cap on the tax credits for all calendar years beginning on or after January 1, 2024, is \$40,000,000 for film or series production. To the extent this proposal encourages other economic

activity, general and total state revenue may increase, but B&P cannot estimate the induced revenues.

Officials from the **Missouri Department of Revenue (DOR)** assume this proposal restarts the Film Production tax credit program that previously sunset. It updates the definitions of “Qualified Film Production Project.”

This proposal states that for all tax years beginning on or after January 1, 2024, a taxpayer shall be allowed a tax credit equal to twenty percent (25%) of qualifying expenses. An additional five percent (5%) may be earned for both qualifying expenses if at least fifty percent of the qualified film production project is filmed in Missouri and additional 5% if it is filmed in an urban, rural or blighted area. The taxpayer can receive another five (5%) if the project hires in at least three departments a Missouri resident. Another five percent (5%) may be earned for both qualifying in-state and qualifying out-of-stat expenses if the Department of Economic Development (DED) determines the film positively markets a city or region of the state. This also allows DED to increase the amount of credits authorized in a year if the projects are in counties of the second, third or fourth class.

This proposal states that this credit shall sunset on December 31, 2030, 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. These credits are nonrefundable, can be sold or transferred and can be carried forward up to five years.

This proposed legislation could potentially decrease Total State Revenue, specific to General Revenue by an estimated \$40 million per year. DOR notes this tax credit begins January 1, 2024 and therefore, the first tax returns will be filed starting in January 2025.

FY	Decrease to General Revenue
FY 2024	\$0
FY 2025	(\$40,000,000)
FY 2026	(\$40,000,000)

For informational purposes, the Department notes this Film Production tax credit program was created in 1998 and sunset in 2013. Its original cap was \$1.5 million which was increased to \$4.5 million in 2008. Below is information on the authorization, issuance and redemption of the credits over the last few years.

Year	Authorized	Issued	Total Redeemed
FY 2022	\$0.00	\$0.00	\$0.00
FY 2021	\$0.00	\$0.00	\$0.00
FY 2020	\$0.00	\$0.00	\$0.00
FY 2019	\$0.00	\$0.00	\$0.00
FY 2018	\$0.00	\$0.00	\$672.38
FY 2017	\$0.00	\$0.00	\$2,375,651
FY 2016	\$0.00	\$0.00	\$6,832.00
FY 2015	\$0.00	\$2,387,097	\$389,942
FY 2014	\$2,927,000	\$386,000	\$119,800
FY 2013	\$639,772	\$0.00	\$56,665
FY 2012	\$139,070	\$1,390,070	\$4,839,217
Totals	\$3,705,842.00	\$4,163,167.38	\$7,788,779.17

The Department would need to add these credits to the MO-TC form and to the individual income computer system as well as update their website with this credit. These items are estimated to cost \$7,193. Additionally, the DOR may need the following FTE should the number of redemptions justify the additional FTE.

- 1 FTE Revenue Processing Technician for every 6,000 credits redeemed
- 1 FTE Revenue Processing Technician 1 for every 4,000 tax credit transfers with CISCO phones and license.
- 1 FTE Revenue Processing Technician for every 7,600 errors/correspondence

Oversight assumes, for purpose of this fiscal note, the Missouri Department of Revenue can absorb the responsibilities of the tax credit program with existing resources. Should a significant increase in tax credit redemptions, tax credit transfers, and/or errors/correspondence occur, the Missouri Department of Revenue may seek additional FTE through the appropriation process.

Officials from the **Department of Economic Development (DED)** note:

The proposal, Section 135.750, RSMo, creates the “Show MO Act”.

135.750.2 (1) adds definition for “Above-the line individual”

135.750.2 (2) adds series production, including videos, commercial, video games, webisodes, music videos, content-based mobile applications, virtual reality, augmented reality, multi-media, and new media, as well as standalone visual effects and post-production for such motion media production project to a “Qualified project.”

135.750.3 (1) Beginning 1/01/24 a taxpayer would be allowed a credit of 20% of qualifying expenses.

135.750.3 (2) an additional 5% may be earned if at least 50% of the project is filmed in MO.

135.750.3 (3) an additional 5% may be earned if at least 15% is filmed in MO and takes place in a rural or blighted area.

135.750.3 (4) an additional 5% may be earned if at least 3 departments of the qualified motion media production hire a MO resident ready to advance to the next level in a specialized craft position or learn a new skillset.

135.750.3 (5) an additional 5% may be earned if DED determines that the script of the qualified motion media production project positively markets a city or region of the state, the entire state, or a tourist attraction located in the state, and the qualified motion media production provides no less than five high resolution photographs containing cast with the rights cleared for promotional use by the Missouri film commission, accompanied by a list with the title of production, location, names, and titles of the individuals shown in the photography and photographer credit.

135.750.3 (6) The total dollar amount of tax credits authorized shall be increased by 10% for qualified film production projects located in a county of the second, third, or fourth class.

135.750.4 Projects will not be eligible unless the project employs the following number of MO registered apprentices or veterans residing in MO with transferrable skills:

- (1) If the qualifying expenses are less than five million dollars.
- (2) If the qualifying expenses are at least five million dollars but less than 10 million dollars.
- (3) If the qualifying expenses are at least 10 million dollars but less than 15 million dollars.
- (4) If the qualifying expenses are at least 15 million dollars.

135.750.6 For all calendar years beginning on or after 1/01/24, the total amount of tax credits authorized for film or series production shall not exceed \$40M.

The program will automatically sunset on 12/31/2030 unless reauthorized by an act of the general assembly.

Creating a new tax credit will likely reduce annual TSR by up to the annual cap for film/series production in the amount of \$40 million. DED will need to hire 4.0 FTE to review applications, review scripts, determine qualifications, and calculate eligible amounts, review final qualifying expenses, complete compliance and to administer the program.

Oversight notes that DED authorized three projects on average per year (15 projects / 5 years) as seen in the “Film Tax Credit (Sunset November 28, 2013)” tables.

Oversight notes that this specific proposal allows for \$40 million annual cap and it is probable that more production projects will be able to obtain this credit. Therefore, **Oversight** will note a range from 1 FTE (based on average amount of Film Tax Credit issued before sunset on November 28, 2013) up to 3 FTE (in case the movie production uses \$40 million allowable tax credit cap) for DED (Economic Development Specialist at \$74,664 annually) in the fiscal note beginning FY 2025.

Oversight notes, per the Tax Credit Analyses submitted for Fiscal Year’s 2013 & 2014, the following number of certificates were issued each of the following fiscal years for the Film Tax Credit Program:

Oversight notes, per the Tax Credit Analyses from Fiscal Year(s) 2010 – 2014, the Film Tax Credit recognized the following activity as it was administered before it sunset November 28, 2013:

Film Tax Credit (Sunset November 28, 2013)					
Fiscal Year	2010	2011	2012	2013	2014
Certificates Issued (#)	4	5	2	0	1
Projects (#)	4	2	3	3	3
Amount Authorized	\$1,768,989	\$38,041	\$139,070	\$639,772	\$2,927,000
Amount Issued	\$5,181,512	\$1,807,030	\$139,070	\$0	\$386,000
Amount Redeemed	\$1,925,158	\$1,563,218	\$4,839,217	\$56,665	\$119,800

Oversight notes the five (5) average amount of Film Tax Credit(s) issuances was \$1,502,722.

Oversight notes the tax credit program put forth under this proposed legislation would begin for all tax years beginning on or after January 1, 2024. Tax Year 2024 tax returns claiming the credit will not be filed until after January 1, 2025 (Fiscal Year 2025). Oversight notes the Film Production Companies Tax Credit (sunset in 2013) and the “Show Mo Act” are different; however, the previous program is the best estimate available of future program usage.

Oversight notes this proposed legislation states that the tax credits certified shall not exceed a total of forty million dollars (\$40,000,000) per year.

Therefore, for purposes of this fiscal note, **Oversight** will report a range in reduction to general revenue from “\$1,502,722” (average amount of Film Tax Credit issued before sunset on November 28, 2013) up to \$40,000,000 (tax credit cap) beginning in Fiscal Year 2025.

Oversight notes this fiscal note does not reflect any indirect positive fiscal benefits that would occur if companies utilized the program and made films or series in the state.

Officials from the **Department of Commerce and Insurance (DCI)** assume a potential unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) in FY2025 and FY2026 as a result of the creation of the "Show MO 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 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 and which insurers will qualify for the new tax credit.

Oversight notes the officials from the DCI assumed the proposal will have no administrative impact on their organization. **Oversight** assumes DCI is provided with core funding to handle a certain amount of activity each year. Oversight assumes DCI could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DCI could request funding through the appropriation process. Therefore, **Oversight** will reflect a zero impact in the fiscal note for DCI.

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

In response to the similar proposal, SB 58 – 2023, officials from the **Office of the Secretary of State (SOS)** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note.

<u>FISCAL IMPACT</u> – State Government	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE			
<u>Revenue Reduction- Tax Credit For Expenses For Production Of Qualified Film Projects (p. 8)</u>	\$0	Up to (\$1,502,772) to (\$40,000,000)	Up to (\$1,502,772) to (\$40,000,000)
<u>Cost – DED – Section 135.750 continuity and compliance (p.7)</u>			
Salary	\$0	(\$76,157) Up to (\$228,471)	(\$77,680) Up to (\$233,041)
Fringe Benefits	\$0	(\$44,076) Up to (\$132,230)	(\$44,646) Up to (\$133,939)
Equipment & Expense	\$0	(\$4,454) Up to (\$13,363)	(\$4,544) Up to (\$13,630)
<u>Total Cost – DED</u>	<u>\$0</u>	<u>(\$124,688) Up to (\$374,064)</u>	<u>(\$126,870) Up to (\$380,610)</u>
FTE Change – DED	0 FTE	1 to 3 FTE	1 to 3 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$1,627,460) Up to (\$40,374,064)</u>	<u>(\$1,629,642) Up to (\$40,380,610)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

This proposed legislation could impact small business that benefit from film production or series production in Missouri.

FISCAL DESCRIPTION

This bill establishes the "Show MO Act". This bill reauthorizes a tax credit for certain expenses related to the production of qualified motion media production projects, 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, 2024, this bill authorizes a tax credit equal to 20% of qualifying expenses, as defined in the bill, associated with the production of a qualified motion media production project.

An additional 5% may be awarded for each of the following conditions if they are met:

- (1) At least 50% of the qualified film production project is filmed in Missouri;
- (2) At least 15% of the project takes place in a rural or blighted area;
- (3) At least three departments of the production hire a Missouri resident ready to advance to the next level in a specialized craft position or learn a new skillset; and
- (4) The Department of Economic Development determines that the script for such project positively markets a city or region of the state, the entire state, or a tourist attraction located in the state, and the production provides certain advertising materials, as described in the bill.

The total dollar amount of tax credits awarded to a qualified film production project may be increased by 10% if such project is located in a county of the second, third, or fourth class. A qualified motion media production project shall not be eligible for tax credits pursuant to this bill unless such project employs the following number of Missouri registered apprentices or veterans residing in Missouri with transferable skills:

- (1) If the qualifying expenses are less than \$5 million, two;
- (2) If the qualifying expenses are at least \$5 million but less than \$10 million, three;
- (3) If the qualifying expenses are at least \$10 million but less than \$15 million, six; or
- (4) If the qualifying expenses are at least \$15 million, eight.

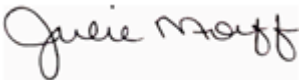
Final applications for the tax credit shall be accompanied by a report by a certified public accountant located and licensed by the state of Missouri, prepared at the expense of the

applicant, attesting that the amounts in the final application are qualifying expenses. The total amount of tax credits authorized by this bill for film production or series production shall not exceed \$40 million per year. This bill shall sunset on December 31, 2030.

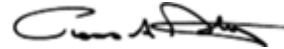
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration – Budget & Planning Division
Department of Economic Development
Missouri Department of Revenue
Joint Committee on Administrative Rules
Office of Administration



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January 30, 2023



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