

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1075S.05C
 Bill No.: SCS for SB 57
 Subject: Business and Commerce; Economic Development; Economic Development,
 Department of; State Treasurer; Tax Incentives
 Type: Original
 Date: March 5, 2021

Bill Summary: This proposal modifies provisions relating to incentives for economic development.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue*	(\$1,577,932 to Could exceed \$4,900,320)	(\$1,588,886 to Could exceed \$4,922,228)	(\$1,589,713 to Could exceed \$4,923,882)
Total Estimated Net Effect on General Revenue	(\$1,577,932 to Could exceed \$4,900,320)	(\$1,588,886 to Could exceed \$4,922,228)	(\$1,589,713 to Could exceed \$4,923,882)

*Oversight notes the range in the fiscal impact stems from two components: 1. the five (5) year average amount of Film Tax Credit(s) issued (as it was administered before it sunset) of \$1,502,722 to the tax credit cap of \$4.5 million annually and 2. a range of \$0 (no state appropriation made to the Economic Distress Zone Fund and, therefore, no administrative expenses incurred by the Department of Economic Development), to an appropriation to the new fund of at least \$250,000 and a corresponding need for a new DED employee (at a cost of roughly \$86,000 per year) to administer this new program...all subject to appropriation.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Economic Distress Zone Fund*	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

*Revenue and expenditures net to zero.

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue	1 or 2 FTE	1 or 2 FTE	1 or 2 FTE
Total Estimated Net Effect on FTE	1 or 2 FTE	1 or 2 FTE	1 or 2 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 2022	FY 2023	FY 2024
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

§135.750 – Tax credits for qualified film projects

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state §135.750 of this proposed legislation reestablishes a tax credit for tax years beginning on or after January 1, 2021, equal to twenty-five percent (25%) of qualifying in-state expenses and ten percent (10%) of qualifying out-of-state expenses incurred by a production company in connection with a qualified film production project. An additional five percent (5%) may be earned for both qualifying in-state expenses and qualifying out-of-state expenses if at least fifty percent (50%) 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 proposed legislation could therefore lower General Revenue (GR) and Total State Revenue (TSR) by \$4,500,000 per fiscal year, beginning in Fiscal Year 2022. To the extent this proposed legislation encourages other economic activity, GR and TSR may increase, but B&P cannot estimate the induced revenues.

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

Officials from the **Missouri Department of Revenue (DOR)** assume this proposed legislation restarts and modifies the Film Production Tax Credit Program. The proposed legislation updates the definition of “Qualified Film Production Project,” and adds the definition of “Qualifying Out-of-State Expenses.”

This proposed legislation states that, for all tax years beginning on or after January 1, 2021, a taxpayer shall be allowed a tax credit equal to twenty-five percent (25%) of qualifying in-state expenses and ten percent (10%) of qualifying out-of-state expenses. An additional five percent (5%) may be earned for both qualifying in-state expenses and qualifying out-of-state expenses if at least fifty percent (50%) of the qualified film production project is filmed in Missouri. Another five percent (5%) may be earned for both qualifying in-state and qualifying out-of-state expenses if the Department of Economic Development determines the film positively markets a city or region of the state.

This allows the amount of tax credits to be increased by 10% if the project is located in a county of the second, third or fourth class.

This proposed legislation states that this credit shall sunset on December 31, 2027, 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.

This proposed legislation could potentially decrease TSR, specific to GR by an estimated \$4.5 million per year. DOR notes this tax credit begins January 1, 2021, and therefore, the first tax returns will be filed starting in January 2022.

Fiscal Year	Decrease to Total State Revenue - General Revenue
FY 2021	\$0
FY 2022	(\$4,500,000)
FY 2023	(\$4,500,000)
FY 2024	(\$4,500,000)

For informational purposes, DOR 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 several years.

Year	Authorized	Issued	Total Redeemed
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

DOR anticipates the need for one (1) FTE Associate Customer Service Representative for every 6,000 tax credits redeemed, one (1) FTE Associate Customer Service Representative for every 4,000 tax credit transfers with CISCO phones and licenses, one (1) FTE Associate Customer Service Representative for every 7,600 errors/correspondence generated and forms and programming changes.

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:

Fiscal Year	Number of Certificates Issued
2010	4
2011	5
2012	2
2013	0
2014	1

Therefore, for purposes of this fiscal note, **Oversight** assumes the Missouri Department of Revenue can absorb the responsibilities of the tax credit program with existing resource. 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.

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) issued 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, 2021. Oversight notes Tax Year 2021 tax returns claiming the credit will not be filed until after January 1, 2022 (Fiscal Year 2022)

Oversight notes this proposed legislation states that the tax credits certified shall not exceed a total of four million five hundred thousand dollars (\$4,500,000) per year.

Therefore, for purposes of this fiscal note, **Oversight** will report a revenue reduction to GR by an amount equal to “Up to \$1,502,722” (average amount of Film Tax Credit issued before sunset on November 28, 2013) to \$4,500,000 (tax credit cap) beginning in Fiscal Year 2022.

Officials from the **Missouri Department of Commerce and Insurance (DCI)** anticipate a potential unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) as a result of the creation of the Show Missouri Film and 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 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 tax credit.

DCI will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

Oversight notes the Missouri Department of Commerce and Insurance assumes the contract computer programming can be absorbed with existing resources. Oversight does not have any information to the contrary. However, should multiple bills pass, the Missouri Department of Commerce and Insurance may seek additional equipment and expense appropriation through the appropriation process.

Officials from the **Department of Economic Development (DED)** state this section reauthorizes the film tax credit in chapter 135.750 for qualifying in and out of state expenses. Beginning 1/01/21, allows a taxpayer a credit of 20% of expenses and an extra 5% if at least 50% of the project is filmed in MO. It makes a few changes including lowering the threshold for a highly compensated individual down to \$250K from \$1M and leaves the cap on the program at \$4,500,000/year.

Since this program is sunset, DED will need to hire one (1) FTE to administer the program. Creating a new tax credit will likely reduce annual TSR by up to the annual cap on the program of \$4,500,000.

§650.550 – Economic Distress Zone Fund

B&P states §650.550 of this proposed legislation establishes the Economic Distress Zone Fund. This provision will impact GR expenditures to the extent the General Assembly appropriates existing GR dollars to the fund. B&P defers response to DED on the impact to GR.

DED states §650.550 creates the “Economic Distress Zone Fund”. Funds are appropriated or made available by gift, grant, bequest, or contribution. If funds are appropriated, it would require one (1) FTE.

Oversight assumes DED could absorb some of the additional duties without adding an FTE to administer the Economic Distress Zone Fund; however, DED has stated these costs cannot be absorbed. Therefore, depending upon the number of 501(c)(3) corporations that qualify for DED funding and the amount of appropriations available, Oversight will range the cost from \$0 (additional duties can be absorbed) to the estimate provided by DED (FTE is needed) to the General Revenue Fund. Oversight will range the amount of state appropriations for this program from \$0 to Could exceed \$250,000.

Oversight assumes an unknown income to the Economic Distress Fund from appropriation, gifts, grants, bequests, or contributions. For fiscal note purposes, Oversight assumes services provided under this proposal will equal income and net to zero.

Bill as a Whole

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

Oversight assumes JCAR will be able to administer any rules resulting from this proposal with existing resources.

Officials from the **Office of the Secretary of State (SOS)** notes many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to Secretary of State's office for Administrative Rules is less than \$5,000. The Secretary of State's office recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, they also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, they reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could require additional resources.

Officials from the **Department of Public Safety - Office of the Director** and the **Office of the State Treasurer** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

<u>FISCAL IMPACT –</u> <u>State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
GENERAL REVENUE FUND			
<u>Revenue Reduction-</u> Tax Credit For Expenses For Production Of Qualified Film Production Projects	<u>Up to (\$1,502,772) to</u> <u>(\$4,500,000)</u>	<u>Up to (\$1,502,772) to</u> <u>(\$4,500,000)</u>	<u>Up to (\$1,502,772) to</u> <u>(\$4,500,000)</u>
<u>Cost - DED</u> (\$137.750) Administer film tax credit			
Personal Services	(\$42,218)	(\$51,169)	(\$51,679)
Fringe Benefits	(\$24,199)	(\$29,209)	(\$29,382)
Equipment and Expense	(\$8,743)	(\$5,736)	(\$5,880)
<u>Total Cost - DED</u>	<u>(\$75,160)</u>	<u>(\$86,114)</u>	<u>(\$86,941)</u>
FTE Change – DED	1 FTE	1 FTE	1 FTE
<u>Cost - DED</u> (\$650.550) Administer Economic Distress Zone Fund	\$0 or...	\$0 or...	\$0 or...
Personal Services	(\$42,218)	(\$51,169)	(\$51,679)
Fringe Benefits	(\$24,199)	(\$29,209)	(\$29,382)
450 Equipment and Expense	(\$8,743)	(\$5,736)	(\$5,880)
<u>Total Cost - DED</u>	<u>(\$75,160)</u>	<u>(\$86,114)</u>	<u>(\$86,941)</u>
FTE Change - DED	0 or 1 FTE	0 or 1 FTE	0 or 1 FTE
<u>Transfer Out - To</u> Economic Distress Zone Fund	\$0 or (Could exceed \$250,000)	\$0 or (Could exceed \$250,000)	\$0 or (Could exceed \$250,000)

<u>FISCAL IMPACT – State Government</u> (continued)			
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$1,577,932 to Could exceed \$4,900,320)</u>	<u>(\$1,588,886 to Could exceed \$4,922,228)</u>	<u>(\$1,589,713 to Could exceed \$4,923,882)</u>
Estimated Net FTE Change to the General Revenue Fund	1 or 2 FTE	1 or 2 FTE	1 or 2 FTE
ECONOMIC DISTRESS ZONE FUND			
<u>Transfer In - From General Revenue Fund</u>	\$0 or Could exceed \$250,000	\$0 or Could exceed \$250,000	\$0 or Could exceed \$250,000
<u>Costs - DED - Funding to organizations</u>	<u>\$0 or (Could exceed \$250,000)</u>	<u>\$0 or (Could exceed \$250,000)</u>	<u>\$0 or (Could exceed \$250,000)</u>
ESTIMATED NET EFFECT ON THE ECONOMIC DISTRESS ZONE FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

This proposed legislation could positively impact any small business that qualifies for the tax credit under this proposed legislation as such small business could reduce or eliminate such small business's state tax liability.

FISCAL DESCRIPTION

This act creates provisions relating to incentives for economic development.

SHOW MISSOURI FILM AND DIGITAL MEDIA ACT (Section 135.750)

This act establishes the "Show Missouri Film and Digital Media Act".

This act reauthorizes a tax credit for certain expenses related to the production of qualified film production projects in this state, as defined in the act. Tax credits for such expenses under previous law expired on November 28, 2013.

For all tax years beginning on or after January 1, 2021, this act authorizes a tax credit equal to 25% of qualifying in-state expenses, as defined in the act, and 10% of qualifying out-of-state expenses, as defined in the act, 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. A further additional 5% may be awarded for both qualifying in-state and out-of-state expenses if 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. The total dollar amount of tax credits authorized by this act shall be increased by 10% for qualified film production projects located in a county of the second, third, or fourth class.

These provisions shall sunset on December 31, 2027, unless reauthorized by the General Assembly.

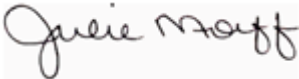
ECONOMIC DISTRESS ZONE FUND (Section 650.550)

This act establishes the "Economic Distress Zone Fund" which shall be a fund used solely by the Department of Economic Development to provide funding to organizations registered with the IRS as a 501(c)(3) corporation that provide services to residents of Missouri in areas of high incidents of crime and deteriorating infrastructure for the purpose of economic development and deterring criminal behavior in such areas. The Department shall promulgate rules determining what constitutes an area with high incidents of crime and deteriorating infrastructure.

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
Department of Public Safety
Joint Committee on Administrative Rules
Missouri Department of Commerce and Insurance
Missouri Department of Revenue
Office of the Secretary of State
Office of the State Treasurer



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