

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3534S.02I
 Bill No.: SB 732
 Subject: Tax Credits; Tourism
 Type: Original
 Date: January 17, 2022

Bill Summary: This proposal establishes the Show MO Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue Fund	Up to (\$1,578,710) to (\$16,075,938)	Up to (\$1,582,610) to (\$16,079,838)	Up to (\$1,583,910) to (\$16,081,138)
Total Estimated Net Effect on General Revenue	Up to (\$1,578,710) to (\$16,075,938)	Up to (\$1,582,610) to (\$16,079,838)	Up to (\$1,583,910) to (\$16,081,138)

*Oversight notes the range in the fiscal impact stems from the five (5) year average amount 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 (\$16 million annually - \$8 million for film production and \$8 million for series production).

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
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 2023	FY 2024	FY 2025
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue Fund	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1 FTE	1 FTE	1 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 2023	FY 2024	FY 2025
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, 2022, 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 filmed 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 filmed 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 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.
- 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 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 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 tax years beginning on or after January 1, 2022, is \$8,000,000

for film production and the total amount of all tax credits authorized for series production is \$8,000,000. This proposal could therefore lower general and total state revenues by \$16,000,000 per fiscal year, beginning in FY23. 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 from the **Missouri Department of Revenue (DOR)** assume this proposal modifies the Film Production tax credit program. It updates the definitions of "Qualified Motion Production Project".

This proposal states that for all tax years beginning on or after January 1, 2022, a taxpayer shall be allowed a tax credit equal to twenty percent of qualifying expenses as defined by subsection 2. An additional five percent may be earned if at least fifty percent of the qualified motion media production project is filmed in Missouri. An additional five percent may be earned for qualifying expenses if at least fifteen percent of the qualified motion media production project that is filmed 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 department of economic development determines that the script of the qualified motion media production positively markets a city or region of the state, the entire state, or a tourist attraction located in the state, and the 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, among other requirements. The total dollar amount of tax credits of subdivision (1) of subsection 3 shall be increased by ten percent for qualified film projects located in a county of the second, third, or fourth class.

This proposal provides that a qualified motion media production shall not be eligible for the tax credit of this section unless it employs a sufficient number of Missouri registered apprentices or veterans residing in Missouri. The amount of people required to be employed scales based on the qualifying expenses of the production.

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.

This proposal shall be in effect for all tax years beginning on or after January 1, 2022. Furthermore, the total amount of the tax credits authorized for film production shall not exceed \$8 million per year, and the total of all tax credits authorized for the series production credit shall not exceed a total of \$8 million per year. DOR notes these tax credits begin January 1, 2022 and therefore, the first tax returns will be filed starting in January 2023.

Fiscal Year Decrease to Total State Revenue - General Revenue

FY	Decrease to GR
FY 2022	\$0
FY 2023	(\$16,000,000)
FY 2024	(\$16,000,000)
FY 2025	(\$16,000,000)

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 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

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 generated Adding a tax credit to RP= 10 hours @ \$160 an hour (included in the \$7,193).

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 creating a new tax credit will likely reduce annual TSR by up to the annual cap for film production in the amount of \$8M and by up to the annual cap for series production in the amount of \$8M, for a total of \$16M. DED will need to hire 2.0 FTE to review applications, determine qualifications, and calculate eligible amounts, review final qualifying expenses, complete compliance and to administer the program.

Oversight notes that DED authorized 3 projects on average per year (15 projects / 5 years) as seen in the “Film Tax Credit (Sunset November 28, 2013)” tables. Therefore, Oversight will assume the need for 1 FTE for DED in the fiscal note.

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

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 totals \$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, 2022. Tax Year 2022 tax returns claiming the credit

will not be filed until after January 1, 2023 (Fiscal Year 2023). 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 we have of future program usage.

Oversight notes this proposed legislation states that the tax credits certified shall not exceed a total of sixteen million dollars (\$16,000,000) 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 \$16,000,000 (tax credit cap) beginning in Fiscal Year 2023.

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.

Officials from the DCI assume the proposal will have no administrative impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for this agency.

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.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
GENERAL REVENUE			
<u>Revenue Reduction- Tax Credit For Expenses For Production Of Qualified Film Production Projects p. 7</u>	Up to (\$1,502,772) to (\$16,000,000)	Up to (\$1,502,772) to (\$16,00,000)	Up to (\$1,502,772) to (\$16,00,000)
<u>Cost – DED – Section 135.750 3. (5) continuity and compliance p. 6</u>			
Salary	(\$36,305)	(\$44,437)	(\$45,326)
Fringe Benefits	(\$24,500)	(\$29,692)	(\$29,990)
Equipment & Expense	(\$15,132)	(\$5,708)	(\$5,822)
<u>Total Cost – DED (p.7)</u>	<u>(\$75,938)</u>	<u>(\$79,838)</u>	<u>(\$81,138)</u>
FTE Change – DED	1 FTE	1 FTE	1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE FUNE	Up to (\$1,578,710) to (\$16,075,938)	Up to (\$1,582,610) to (\$16,079,838)	Up to (\$1,583,910) to (\$16,081,138)
Estimated Net FTE Change on General Revenue	1 FTE	1 FTE	1 FTE

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
	<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 act reauthorizes a tax credit for certain expenses related to the production of qualified motion media production projects in this state, as defined in the act. Tax credits for such expenses under previous law expired on November 28, 2013.

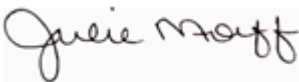
For all tax years beginning on or after January 1, 2022, this act authorizes a tax credit equal to 20% of qualifying expenses, as defined in the act, associated with the production of a qualified motion media production project. An additional 5% may be awarded for each of the following conditions if 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; 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 act. The total dollar amount of tax credits awarded to a qualified film production project may be increased by ten percent if such project is located in a county of the second, third, or fourth class.

This act shall sunset on December 31, 2030, unless reauthorized by the General Assembly.

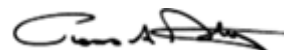
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration – Budget & Planning Division
Department of Economic Development
Missouri Department of Commerce and Insurance
Missouri Department of Revenue



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January 17, 2022



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