COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0604S.02I
Bill No.: SB 170
Subject: Tax Credits; Entertainment, Sports and Amusements
Type: Original
Date: January 29, 2023

Bill Summary: This proposal establishes the Entertainment Industry Jobs Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue Fund*	$0	Up to ($8,135,347)	Up to ($8,126,869)
Total Estimated Net Effect on General Revenue	**$0**	**Up to ($8,135,347)**	**Up to ($8,126,869)**

*Oversight notes that Section 135.753.6(1) allows up to an additional $2 million in tax credits to be issued beyond the $8 million cap in any given year. Therefore, the total tax credits issued in a given year could reach $10 million. Conversely, the subsequent year shall be reduced by the amount of additional tax credits authorized (perhaps reducing the next year's cap down to $6 million in issuances).

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on Other 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 All 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 FTE	1 FTE
Total Estimated Net Effect on FTE	**0 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 2024	FY 2025	FY 2026
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration – Budget & Planning (OA-B&P)** note:

This proposal creates a tax credit for rehearsal expenses and tour expenses for all tax years beginning on or after January 1, 2023. The amount of the tax credit shall be equal to thirty percent of the taxpayer's base investment, subject to limitations as outlined in the proposal.

This credit is not refundable, can be carried forward to any of the taxpayer's five subsequent taxable years. These credits can be transferred or sold in whole or in part, provided that the tax credit is transferred or sold to another Missouri taxpayer. The amount of tax credits available for this program is $8M annually. If the amount of tax credits applied for by taxpayers exceeds such amount, the DED may authorize additional tax credits in an amount not to exceed $2M, provided that the maximum amount of tax credits that may be authorized during the subsequent fiscal year shall be reduced by the amount of additional tax credits authorized.

Therefore, this proposal could lower general revenues by an average of up to $8M beginning in FY2024. However, in any given fiscal year, the amount could be up to or could exceed $10M.

This provision could impact TSR and the calculation under Article X, Section 18(e).

Officials from the **Department of Revenue (DOR)** note:

There is a Section B that makes this bill effective July 1, 2024.

Section 135.753 Entertainment Industry Tax Credit

This proposal creates the Entertainment Industry Jobs Act which provides tax credits for businesses in the entertainment industry.

For all tax years beginning on or after January 1, 2024, a taxpayer shall be allowed a tax credit for rehearsal expenses and tour expenses incurred by the taxpayer. The amount of the tax credit is equal to thirty percent of the taxpayer's base investment. These tax credits are nonrefundable but may be carried forward to any of the taxpayer's five subsequent taxable years. These credits may be transferred or sold.

The Department notes the proposal becomes effective on July 1, 2024 (FY 2025). No credits could be issued until that date. The credits will first be reported on the tax returns filed starting January 1, 2025.

This proposal provides the method by which the taxpayer will apply with the department of economic development for the tax credit, and how this will be reported on the taxpayer's tax form. It further provides that any taxpayer claiming, transferring, or selling a credit under this section shall reimburse the department of revenue for any department-initiated audits relating to the tax credit. This shall not apply to routine tax audits of a taxpayer.

This proposal provides that the maximum amount of tax credits authorized under this section is eight million dollars ($8,000,000) per fiscal year. If this amount is exceeded, the department of economic development may, at its own discretion, increase this amount by up to two million additional dollars. If it does this, the amount it was increased by must be subtracted from the amount of credits authorized in the subsequent year. There are limits on the amount any one individual can receive in tax credits.

	Loss to General Revenue
FY 2024	$0
FY 2025	($8,000,000)
FY 2026	($8,000,000)

This would be a new income tax credit and it would need to be added to the MO-TC form, and information about the credit would need to be added to their website. Plus their individual income tax system would need to have the credit added to it. DOR notes the costs to update these items is $7,193.

Since the maximum amount of tax credits a taxpayer can receive in a year is $3 million, DOR believes it can handle the redemption of these credits with existing resources. Should the number of additional redemptions from this proposal and any others that pass, exceed 6,000 DOR would need one Associate Customer Service Representative ($31,200). Should the number of redemptions justify additional FTE DOR will request that FTE through the appropriation process.

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.

In response to similar legislation (SB 57, 2023), officials from the **Department of Economic Development (DED)** note:

Section 135.753 creates the "Entertainment Industry Jobs Act". Allows a tax credit for rehearsal expenses and tour expenses equal to 30% of the base investment. Base investment is defined as the aggregate funds actually invested and expended by a MO taxpayer as a rehearsal expense or tour expense.

The total amount of tax credits that may be authorized shall not exceed $8M per fiscal year. DED, at its discretion, may authorize additional tax credits up to $2M per fiscal year; however, the amount of tax credits that may be authorized during the subsequent fiscal year shall be reduced by the amount of additional tax credits DED authorizes.

The program will automatically sunset on 12/31/2030 unless reauthorized.

DED will need to hire 1.0 FTE to administer the act.

Oversight notes section B authorizes the program as of July 1st 2024.

Oversight notes that no credits could be issued until July 1, 2024. The tax credit will first be reported on the tax returns filed starting January 1, 2025. Therefore, **Oversight** will reflect 1 FTE (Senior Economic Development Specialist at $62,220 annually plus a Fringe Benefits and E&E beginning FY 2025 in the fiscal note.

Officials from the **Department of Commerce and Insurance (DCI)** assume this proposal has a potential to cause an 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 Entertainment Industry Jobs 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.

The department 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 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.

FISCAL IMPACT – State Government	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE FUND			
Revenue Reduction- Tax Credit For Expenses For Production Of Qualified Film Production Projects p. 3-4	$0	Up to ($8,000,000)	Up to ($8,000,000)
Cost – DED – new FTE to administer the Entertainment Industry Jobs Act p. 5			
Salary	$0	($76,157)	($77,680)
Fringe Benefits	$0	($44,076)	($44,646)
Equipment & Expense	$0	($15,114)	($4,543)
Total Cost – DED	$0	($135,347)	($126,869)
FTE Change – DED		1 FTE	1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE FUNE	**$0**	**Up to ($8,135,347)**	**Up to ($8,126,869)**
Estimated Net FTE Change on General Revenue	0 FTE	1 FTE	1 FTE

FISCAL IMPACT – Local Government	FY 2024 (10 Mo.)	FY 2025	FY 2026
	$0	**$0**	**$0**

FISCAL IMPACT – Small Business

Small businesses that qualify for this program could be impacted by this proposal.

FISCAL DESCRIPTION

This act establishes the "Entertainment Industry Jobs Act".
For all tax years beginning on or after January 1, 2024, this act authorizes a taxpayer to claim a tax credit for rehearsal expenses and tour expenses, as such terms are defined in the act, for live entertainment tours and associated rehearsals conducted within the state. The tax credit shall be equal to 30% of such expenses, provided that no taxpayer shall receive a tax credit in excess of $1 million if such taxpayer's expenses are less than $4 million; and further provided that no

taxpayer shall receive a tax credit in excess of $2 million if such taxpayer's expenses are more than $4 million but less than $8 million; and further provided that no taxpayer shall receive a tax credit in excess of $3 million if such taxpayer's expenses are at least $8 million.

Tax credits issued under this act shall not be refundable, but may be carried forward to the taxpayer's five subsequent tax years. Unredeemed tax credits shall expire after the fifth tax year following the initial date of issuance, regardless of whether unredeemed tax credits are transferred or sold pursuant to the act.

The aggregate amount of tax credits that may be authorized under the act in a given fiscal year shall not exceed $8 million. If applications for tax credits exceed such amount, the Department of Economic Development may, at its discretion, authorize additional tax credits not to exceed $2 million, provided that the maximum amount of tax credits that may be authorized during the subsequent fiscal year shall be reduced by such amount.

This act shall sunset on December 31, 2030, unless reauthorized by the General Assembly. Notwithstanding the sunset provision, this act shall expire ninety days after all other political subdivisions having a tax credit substantially similar to this act let such tax credits lapse or expire.

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

<u>SOURCES OF INFORMATION</u>

Department of Revenue
Office of Administration - Budget and Planning
Department of Commerce and Insurance

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January 29, 2023