

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0989S.02I
Bill No.: SB 52
Subject: Tax Credits; Tax Incentives; Tourism
Type: Original
Date: January 27, 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*	Up to (\$1,615,556) to (\$16,112,784)	Up to (\$1,627,460) to (\$16,124,688)	Up to (\$1,629,642) to (\$16,126,870)
Total Estimated Net Effect on General Revenue	Up to (\$1,615,556) to (\$16,112,784)	Up to (\$1,627,460) to (\$16,124,688)	Up to (\$1,629,642) to (\$16,126,870)

*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 sunsetting 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 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 <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on FTE	0	0	0

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

Section 135.750 Film Tax Credit

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

This proposal modifies the Film Production tax credit program. It updates the definitions of "Qualified Motion Media Production".

This proposal states that for all tax years beginning on or after January 1, 2023, a taxpayer shall be allowed a tax credit equal to twenty percent (20%) of qualifying expenses. 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 shall be increased by ten percent (10%) 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, 2029, 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, 2023 (FY 2023). 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, 2023; however, the bill adopting this credit would not be effective until August 28, 2023 (FY 2024). The first tax returns that could claim this credit could be filed starting in January 2024.

FY	Decrease to GR
FY 2023	\$0
FY 2024	(\$16,000,000)
FY 2025	(\$16,000,000)
FY 2026	(\$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 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	\$2,375,651.00
FY 2016	\$0.00	\$0.00	\$6,832.00
FY 2015	\$0.00	\$2,387,097.38	\$389,942.00
FY 2014	\$2,927,000.00	\$386,000.00	\$119,800.00
FY 2013	\$639,772.00	\$0.00	\$56,665.00
FY 2012	\$139,070.00	\$1,390,070.00	\$4,839,216.79
TOTALS	\$3,705,842.00	\$4,163,167.38	\$7,788,779.17

The Department already has one of these credits on the MO-TC form, in their individual income computer system, as well as on their website. So making changes to that one credit is not expected to have a fiscal impact. However, this adds another credit. Adding the other credit to their individual income tax computer system and website is estimated to cost \$7,193.

The Department assumes it will be able to absorb these credits based on the number of companies that may qualify annually. However, should there be more redemptions than anticipated or additional bills pass, the Department may need additional FTE to handle the processing of the returns. The Department would ask for that additional FTE during the regular appropriation process should the need be there based on the following redemptions. DOR needs FTE to process tax credits if the following number of items are received.

- 1 FTE Associate Customer Service Representative for every 6,000 credits redeemed
- 1 FTE Associate Customer Service Representative for every 4,000 tax credit transfers with CISCO phones and license.
- 1 FTE Associate Customer Service Representative for every 7,600 errors/correspondence generated

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:

Section 135.750, RSMo, creates the "Show MO Act". The program will automatically sunset on 12/31/2029 unless reauthorized by an act of the general assembly.

Section 135.750.2 (1) modifies the term and definition of "highly compensated individual" to "above-the-line individual"

Section 135.750.2 (2) Modifies the term and definition of "qualified film production project" to "qualified motion media production project," to include videos, video games, virtual reality, etc. and adds a requirement for projects to include a statement or logo designated by the department of economic development in the credits of the film indicating that the project was filmed in Missouri.

Section 135.750.2 (3)(b) adds compensation and wages for above-the-line individuals to the list of qualified expenses, limited to 25% of overall qualifying expenses.

Section 135.750.3 allows, beginning 1/01/23, a taxpayer a credit of 25% of qualifying expenses. An additional 5% may be earned if at least 50% of the project is filmed in MO. An additional 5% may be earned if at least 15% of the project is filmed in MO takes place in a rural or blighted area in MO. An additional 5% may be earned if at least 3 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 5% may be earned if DED determines that the script positively markets a city or region, 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. Total amount of tax credits authorized shall be increased by 10% for projects located in a county of the second, third, or fourth class.

Section 135.750.4 establishes requirements for project employment of a number of Missouri registered apprentices or veterans residing in Missouri with transferable skills based on total qualifying expenses.

Section 135.750.5 adds the requirement for submission of a report by a certified public accountant attesting to the submission of amounts in the final application as qualifying expenses.

135.750.6 establishes an annual program cap of \$8M in film production tax credits and a cap of \$8M in series production tax credits

DED will need to hire 2.0 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 \$16,000,000.

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 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, 2023. Tax Year 2023 tax returns claiming the credit will not be filed until after January 1, 2024 (Fiscal Year 2024). 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 2024.

Officials from the **Missouri Department of Commerce and Insurance (DCI)** anticipate potential unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) in FY2024, 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.

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 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE			
Revenue Reduction- Tax Credit For Expenses For Production Of Qualified Film Production Projects (p. 7)	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</u> – DED – Section 135.750 3. (5) continuity and compliance (p. 6)			
Salary	(\$62,220)	(\$76,157)	(\$77,680)
Fringe Benefits	(\$36,265)	(\$44,076)	(\$44,646)
Equipment & Expense	(\$14,299)	(\$4,455)	(\$4,544)
Total Cost – DED	(\$112,784)	(\$124,688)	(\$126,870)
FTE Change – DED	1 FTE	1 FTE	1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE FUNE	Up to (\$1,615,556) to (\$16,112,784)	Up to (\$1,627,460) to (\$16,124,688)	Up to (\$1,629,642) to (\$16,126,870)
<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 act creates the "Show MO Act".

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, 2023, 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.

Qualified motion media production projects shall be required to employ a certain number of Missouri registered apprentices or veterans residing in Missouri, as described in the act.

The total amount of tax credits authorized by the act shall not exceed \$8 million for film production, and shall not exceed \$8 million for series production.

This provision shall sunset on December 31, 2029, unless reauthorized by the General Assembly. (Section 135.750)

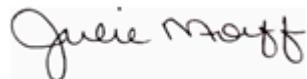
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue

Department of Economic Development

Department of Commerce and Insurance



Julie Morff

Director

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Ross Strope

Assistant Director

January 27, 2023