

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4961-01
Bill No.: HB 1645
Subject: Tax Credits; Arts and Humanities
Type: Original
Date: January 11, 2016

Bill Summary: This proposal modifies the film tax credit program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	\$0 to (\$4,500,000)	\$0 to (\$4,500,000)	\$0 to (\$4,500,000)
Total Estimated Net Effect on General Revenue	\$0 to (\$4,500,000)	\$0 to (\$4,500,000)	\$0 to (\$4,500,000)

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Department of Economic Development (DED)** assume §135.750.2 extends the sunset date of the Film Tax Credit Program then says, beginning January 1, 2016, a taxpayer shall be allowed a tax credit equal to 20% (down from 50%) for qualifying expenses with the option to get an additional 5% if at least 50% of the film is filmed in MO.

- This program is currently expired. The proposed legislation extends the sunset date and then changes the program effective January 1, 2016.
- It is worth noting that DED cannot issue credits retroactively from the sunset in 2013 through December 2015.

§135.750.4 the cap on the program per year remains at \$4.5 million but allows taxpayers to carry forward unused credits for up to five tax periods provided they be claimed within 10 tax periods following period in which film production occurred.

§135.750.6 it automatically sunsets six years after August 2016.

DED assumes an impact of \$4.5 million per year.

Officials at the **Department of Insurance, Financial Institutions and Professional Registration** assume an unknown reduction of premium tax revenues as a result of the reinstatement of the film tax credit is possible. 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 through out 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.

Officials at the **Office of Administration's Division of Budget and Planning (BAP)** assume this proposal would reauthorize the Film Production Tax Credit that expired on November 28, 2013. There is a \$4,500,000 cap on the tax credit. Therefore, BAP estimates this proposal could reduce General and Total State Revenues up to this amount annually.

This program may encourage economic activity within Missouri's film production and related support industries, but BAP does not have the data to estimate the induced revenues.

Officials at the **Department of Revenue** assume no fiscal impact from this proposal to their organization.

ASSUMPTION (continued)

Oversight notes according to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Film tax credit program had the following activity;

	FY 2013	FY 2014	FY 2015
Certificates Issued (#)	0	1	2
Projects (#)	1	3	0
Amount Authorized	\$639,772	\$2,927,000	\$0
Amount Issued	\$0	\$386,000	\$2,387,097
Amount Redeemed	\$56,665	\$119,800	\$389,942

The FY15 estimated amount of credits outstanding is \$2,383,193.

Oversight assumes the Film Tax Credit sunset on November 28, 2013. This proposal extends the sunset on the credit until November 28, 2022. Oversight will show the lost revenue to the state as \$0 (no credits issued) to the annual cap of \$4,500,000.

While there could be an indirect benefit from this tax credit to the state, **Oversight** is only showing the direct cost to the state for the tax credit in this bill.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
GENERAL REVENUE			
<u>Revenue Reduction</u> - extension of the Film Tax Credit sunset date	\$0 to <u>(\$4,500,000)</u>	\$0 to <u>(\$4,500,000)</u>	\$0 to <u>(\$4,500,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	\$0 to <u>(\$4,500,000)</u>	\$0 to <u>(\$4,500,000)</u>	\$0 to <u>(\$4,500,000)</u>

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

<u>FISCAL IMPACT - Local Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This bill requires a qualified film production project to feature a state or logo designated by the Department of Economic Development indicating that the project was filmed in Missouri in order to qualify for the tax credit.

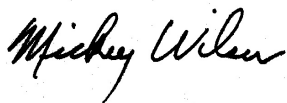
Under the program, a taxpayer was allowed a tax credit for up to 35% of the amount of qualifying expenses in a qualified film production project per year. Beginning January 1, 2016, the bill allows a taxpayer to claim a tax credit equal to 20% for qualifying in-state expenses and qualifying out-of-state expenses. A highly compensated individual is anyone who receives more than \$250,000 in compensation for a single qualified film production project. An additional 5% may be earned for qualifying expenses if at least 50% of the production is filmed in Missouri.

The provisions of this bill will expire six years after August 28, 2016.

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 Economic Development
Department of Revenue
Office of Administration's Division of Budget and Planning
Department of Insurance, Financial Institutions, and Professional Registration



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January 11, 2016

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January 11, 2016