

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4478S.02C  
 Bill No.: SCS for SB Nos. 961 & 733  
 Subject: Tax Credits; Entertainment, Sports and Amusements  
 Type: Original  
 Date: April 8, 2022

Bill Summary: This proposal establishes tax credits for the production of certain entertainment.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue Fund*	(\$1,578,709) Up to (\$16,075,937)	(\$1,673,479) Up to (\$24,170,707)	(\$1,663,487) Up to (\$24,160,715)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$1,578,709) Up to (\$16,075,937)</b>	<b>(\$1,673,479) Up to (\$24,170,707)</b>	<b>(\$1,663,487) Up to (\$24,160,715)</b>

\*Oversight notes, under Section 135.750, 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). 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).

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

Numbers within parentheses: () indicate costs or losses.

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

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
General Revenue Fund	1 FTE	2 FTE	2 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>1 FTE</b>	<b>2 FTE</b>	<b>2 FTE</b>

- 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.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### **Section 135.750 – Show MO Act**

In response to the similar proposal, SCS for SB 732 (2022), officials from the **Office of Administration – Budget & Planning Division (B&P)** stated 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, 2029 unless reauthorized by the general assembly.

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 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, 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 Oversight has 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.

### **Section 135.753 - "Entertainment Industry Jobs Act"**

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

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

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.

This would be a new income tax credit and it would be added to the MO-TC form and information about the credit would be added to DOR's website and changes would be needed in the individual income tax system. DOR notes the costs to update these items is \$3,596.50. DOR will need the following FTE should the number of credits redeemed justify the FTE.

1 FTE Revenue Processing Technician for every 6,000 credits redeemed

**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 the previous version of the bill, officials from the **Office of Administration – Budget & Planning (B&P)** assumed:

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. 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 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 12/31/2029 unless reauthorized.



DED will need to hire 1.0 FTE Economic Development Specialist (\$43,566) to administer the act.

**Oversight** notes section B authorizes the program as of July 1<sup>st</sup> 2023. Therefore, Oversight will reflect 1 FTE and range of \$0 up to 8M reduction to the general revenue beginning FY 2024 in the fiscal note.

Officials from the **Department of Commerce and Insurance (DCI)** assumed this proposal has a potential in an unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) in FY2024 and FY2025, 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.

Officials from the **Department of Natural Resources** and the **Missouri Department of Agriculture** both assume the proposal will have no fiscal 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 these agencies.

<u>FISCAL IMPACT – State Government</u>	FY 2023	FY 2024	FY 2025
<u>Revenue Reduction- Tax Credit For Expenses For Production Of Qualified Film Production Projects (p. 7)</u>	(\$1,502,772) Up to (\$16,000,000)	(\$1,502,772) Up to (\$16,00,000)	(\$1,502,772) Up to (\$16,00,000)
<u>Revenue Reduction- Tax Credit For Expenses For Production Of Qualified Film Production Projects (p.9)</u>	\$0	\$0 Up to (\$8,000,000)	\$0 Up to (\$8,000,000)
<u>Cost – DED – Section 135.750 -1 FTE to administer Show MO Act and (p.7) Section 135.753 -1 FTE to administer the Entertainment Industry Jobs Act (p.9)</u>			
Salary	(\$36,305)	(\$88,874)	(\$90,652)
Fringe Benefits	(\$24,500)	(\$59,384)	(\$59,980)
Equipment & Expense	(\$15,132)	(\$22,449)	(\$10,083)
<u>Total Cost – DED</u>	(\$75,937)	(\$170,707)	(\$160,715)
FTE Change – DED	1 FTE	2 FTE	2 FTE
<b><u>ESTIMATED NET EFFECT ON GENERAL REVENUE FUNE</u></b>	<b><u>(\$1,578,709)</u></b> Up to <b><u>(\$16,075,937)</u></b>	<b><u>(\$1,673,479)</u></b> Up to <b><u>(\$24,170,707)</u></b>	<b><u>(\$1,663,487)</u></b> Up to <b><u>(\$24,160,715)</u></b>
Estimated Net FTE Change on General Revenue	1 FTE	2 FTE	2 FTE

<u>FISCAL IMPACT – Local Government</u>	FY 2023	FY 2024	FY 2025
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT – Small Business

This proposed legislation could impact small business that benefit from film production or series production in Missouri.

FISCAL DESCRIPTION

## SHOW MO ACT

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

## ENTERTAINMENT INDUSTRY JOBS ACT

This act establishes the "Entertainment Industry Jobs Act".

For all tax years beginning on or after January 1, 2023, 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.

Tax credits may be transferred or sold, provided that the tax credit is transferred or sold to another Missouri taxpayer. A taxpayer shall submit information to the Department of Economic Development and the Department of Revenue relating to the identity of a transferee and the amount of tax credits being transferred or sold, as described in the act. A transferee shall not

subsequently transfer or sell any tax credit acquired from a transferor, and tax credits shall not be transferred or sold for less than 60% of the value of such tax credits.

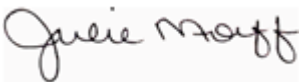
The aggregate amount of tax credits that may be authorized under the act in a given fiscal year shall not exceed \$8 million. If applications for tax credits exceed such amount, the Department of Economic Development may, at its discretion, authorize additional tax credits not to exceed \$2 million,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

This provision shall sunset on December 31, 2029, 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  
Department of Natural Resources  
Missouri Department of Agriculture



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