



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

SB0014 - Revise MEDIA Act film credit cap (Hertz, Greg)

Status: As Introduced

- Significant Local Gov Impact
 Needs to be included in HB 2
 Technical Concerns
 Included in the Executive Budget
 Significant Long-Term Impacts
 Dedicated Revenue Form Attached

FISCAL SUMMARY

| | <u>FY 2024</u> <u>Difference</u> | <u>FY 2025</u> <u>Difference</u> | <u>FY 2026</u> <u>Difference</u> | <u>FY 2027</u> <u>Difference</u> |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Expenditures: | | | | |
| General Fund | \$405,328 | \$196,460 | \$199,092 | \$201,769 |
| State Special Revenue | \$0 | \$0 | \$0 | \$0 |
| Revenue: | | | | |
| General Fund | (\$7,840,000) | (\$7,840,000) | (\$7,840,000) | (\$7,840,000) |
| State Special Revenue | \$0 | \$0 | \$0 | \$0 |
| Net Impact-General Fund Balance: | <u>(\$8,245,328)</u> | <u>(\$8,036,460)</u> | <u>(\$8,039,092)</u> | <u>(\$8,041,769)</u> |

Description of fiscal impact: SB 14, as amended, increases MEDIA Act film tax credits from \$12 million to \$20 million per year, and requires that 25% of the credits each year go to a domiciled company. This would decrease general fund revenue by \$7.84 million per year beginning with FY 2024. The increase in available tax credits, along with the portion required to go to domiciled companies, would require the department to add 2.00 ongoing FTE to administer the credit. There would be a one-time IT cost of \$206,000 in FY 2024.

FISCAL ANALYSIS

Assumptions:**Department of Revenue (DOR)**

- SB 14, as amended in the senate taxation committee, increases the Montana Economic Development Industry Advancement (MEDIA) Act tax credit cap from \$12 million to \$20 million per year, with a retroactive effective date of January 1, 2023.
- The amendment also requires that 25% of the credit cap each year be allocated to domiciled companies, which is a business entity that is headquartered within Montana for at least one year for the purpose of performing qualified production or postproduction activities related to producing a qualified media production.

3. The MEDIA Act was implemented in the 2019 legislature and the credit cap started at \$10 million in TY 2020 and increased to \$12 million in TY 2022. The cap has been reached in each year of the first three years the credit has been offered. Based on the current level of production, it is expected that the proposed \$20 million cap would be reached each year beginning with TY 2023.
4. The following table shows the current law and proposed credit cap amounts for TY 2022 through TY 2026 and the estimated fiscal impact associated.

| Tax Year Impact of Media Credit Cap Increase (\$ millions) | | | | | |
|--|------------------|-------------------------------|---------------------|----------------------------|-----------------------|
| Calendar Year | Current Law | | Increase in Credits | Additional 2% Transfer Fee | Net Income Tax Impact |
| | Credits Received | Proposed Law Credits Received | | | |
| 2022 | \$12 | \$12 | \$0 | \$0.00 | \$0.00 |
| 2023 | \$12 | \$20 | \$8 | \$0.16 | (\$7.84) |
| 2024 | \$12 | \$20 | \$8 | \$0.16 | (\$7.84) |
| 2025 | \$12 | \$20 | \$8 | \$0.16 | (\$7.84) |
| 2026 | \$12 | \$20 | \$8 | \$0.16 | (\$7.84) |

5. It is assumed that all of the additional \$8 million per year in credits will be sold to firms and individuals with a Montana tax liability. This generates revenue to the state from the 2% transfer fee. This would generate an additional \$160,000 per year in revenue.
6. After the credits are transferred, they are claimed by Montana taxpayers on individual and corporate income tax returns. Tax returns for TY 2023 will mostly be filed in FY 2024, so the revenue impact is first assumed to take effect in FY 2024, the fiscal year subsequent to the tax year.
7. This bill is estimated to decrease general fund revenue by \$7.84 million per year beginning in FY 2024.

DOR Administrative Expenses

8. Reviewing and auditing the cost submissions for the MEDIA act credits is labor-intensive. Expanding the credit would require additional staff to review the submitted costs and to track and process transferred credits. A higher credit cap, and more transferred credits would result in a significant increase in the number of credits used on filers’ returns.
9. The department estimated that 2.00 FTE auditors would be needed to address the increase in credit operations beginning in FY 2024. This increases personal services costs by \$176,212 in FY 2024, \$179,066 in FY 2025, \$181,372 in FY 2026, and \$183,713 in FY 2027.
10. The supporting operating expenses for these FTE are \$23,116 in FY 2024, \$17,394 in FY 2025, \$17,720 in FY 2026, and \$18,056 in FY 2027.
11. With additional credit transfers to significantly more buyers, the department will need to add a credit management module to the integrated tax information system to track transfers and validate credits sold. This is estimated to result in a one-time cost of \$206,000 in FY 2024.
12. Total costs to the department would be \$405,328 for FY 2024, \$196,460 for FY 2025, \$199,092 for FY 2026, and \$201,769 for FY 2027. These would be general fund expenses.

Department of Commerce

13. Under current law in a state-certified production, eligible for MEDIA Act tax credits, requires companies to submit applications and a \$500 filing fee to the Department of Commerce before the start of principal photography. Production companies identify the expected investment category (\$350,000 or more, or \$50,000 or more). Postproduction companies submit applications and a \$500 filing fee to the department as well. Postproduction companies that plan to claim credits over multiple years must provide an application every year but pay the fee with the initial application.
14. Prior to the MEDIA Act there were 6 independent features. After the implementation of the MEDIA Act, in FY 2022 there were 10 independent features that were certified productions.

15. This fiscal note assumes that the cumulative number of new productions claiming credits and paying the \$500 filing fee for state-certification, effectively matches current law, as credit requests exceed the present law and SB 14 caps. Certified productions are anticipated to continue claim credits as soon as they are available.
16. With the expansion to \$20 million of authorized credits, it is anticipated that more credits will be claimed earlier than under present law. The MEDIA Act allows for a 5-year carryforward credit.
17. The number of productions and post-productions seeking credits is expected be maintained while their expenditures, based on the applications received to date, increases.

| <u>Fiscal Impact:</u> | <u>FY 2024</u> | <u>FY 2025</u> | <u>FY 2026</u> | <u>FY 2027</u> |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Department of Revenue | <u>Difference</u> | <u>Difference</u> | <u>Difference</u> | <u>Difference</u> |
| FTE | 2.00 | 2.00 | 2.00 | 2.00 |
| <u>Expenditures:</u> | | | | |
| Personal Services | \$176,212 | \$179,066 | \$181,372 | \$183,713 |
| Operating Expenses | \$229,116 | \$17,394 | \$17,720 | \$18,056 |
| TOTAL Expenditures | <u>\$405,328</u> | <u>\$196,460</u> | <u>\$199,092</u> | <u>\$201,769</u> |
| <u>Funding of Expenditures:</u> | | | | |
| General Fund (01) | \$405,328 | \$196,460 | \$199,092 | \$201,769 |
| TOTAL Funding of Exp. | <u>\$405,328</u> | <u>\$196,460</u> | <u>\$199,092</u> | <u>\$201,769</u> |
| <u>Revenues:</u> | | | | |
| General Fund (01) | (\$7,840,000) | (\$7,840,000) | (\$7,840,000) | (\$7,840,000) |
| TOTAL Revenues | <u>(\$7,840,000)</u> | <u>(\$7,840,000)</u> | <u>(\$7,840,000)</u> | <u>(\$7,840,000)</u> |
| <u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u> | | | | |
| General Fund (01) | (\$8,245,328) | (\$8,036,460) | (\$8,039,092) | (\$8,041,769) |

NO SPONSOR SIGNATURE

4.4.23



4-5-23

Sponsor's Initials

Date

Budget Director's Initials

Date