



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 Amended in House Committee

- 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	(\$2,940,000)	(\$7,840,000)	(\$7,840,000)	(\$7,840,000)
State Special Revenue	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u>(\$3,345,328)</u>	<u>(\$8,036,460)</u>	<u>(\$8,039,092)</u>	<u>(\$8,041,769)</u>

Description of fiscal impact: SB 14, as amended in the House Appropriations Committee, increases MEDIA Act film tax credits from \$12 million to \$20 million per year, and requires that 25% of the credits each year be allocated for expenditures related to the rental costs of a qualified Montana facility. This bill, as amended, is estimated to decrease general fund revenue by \$2.94 million in FY 2024 and \$7.84 million each year thereafter. The increase in available tax credits, along with the portion required to go to qualified Montana facilities, 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)**

- 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 credits claimed for TY 2023 and future years will greatly exceed the current law cap of \$12 million.

2. SB 14, as amended in the house appropriations 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 amended bill also extends the MEDIA Act termination date from expenditures occurring through December 31, 2029, to December 31, 2031, and adds an additional credit component for wages paid to Montana veterans and enrolled tribal members, capped at \$10,000 credit per employee.
3. The bill also requires that 25% of the credit cap each year be allocated to the base investment of rental costs of qualified Montana facilities. Qualified Montana facilities must be constructed after January 1, 2023, for the primary purpose of production or post-production activities and have an initial development cost of at least \$20 million.
4. There are not currently any qualified Montana facilities in the state, and it is assumed that the earliest one could be completed and operational will be sometime in calendar year 2024. It is assumed the 25% of the \$20 million cap allocated to rental expenditures at a qualified Montana facility would not be able to be claimed for calendar year 2023 but would beginning in calendar year 2024. This means the total credits claimed would be \$15 million for 2023, and then \$20 million for 2024 and each year thereafter.
5. 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 Credits Received	SB 14 Proposed Law Credits Received	Increase in Credits	Additional 2% Transfer Fee	Net Income Tax Impact
2022	\$12	\$12	\$0	\$0.00	\$0.00
2023	\$12	\$15	\$3	\$0.06	(\$2.94)
2024	\$12	\$20	\$8	\$0.16	(\$7.84)
2025	\$12	\$20	\$8	\$0.16	(\$7.84)
2026	\$12	\$20	\$8	\$0.16	(\$7.84)

6. It is assumed that all 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 \$60,000 in revenue in FY 2024 and \$160,000 per year beginning in FY 2025.
7. 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.
8. This bill is estimated to decrease general fund revenue by \$2.94 million in FY 2024 and \$7.84 million per year beginning in FY 2025.

DOR Administrative Expenses

9. 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.
10. 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.
11. 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.
12. 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.
13. 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

14. 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.
15. 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.
16. 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.
17. 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.
18. The number of productions and post-productions seeking credits is expected to 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	<u>\$229,116</u>	<u>\$17,394</u>	<u>\$17,720</u>	<u>\$18,056</u>
TOTAL Expenditures	<u><u>\$405,328</u></u>	<u><u>\$196,460</u></u>	<u><u>\$199,092</u></u>	<u><u>\$201,769</u></u>
<u>Funding of Expenditures:</u>				
General Fund (01)	<u>\$405,328</u>	<u>\$196,460</u>	<u>\$199,092</u>	<u>\$201,769</u>
TOTAL Funding of Exp.	<u><u>\$405,328</u></u>	<u><u>\$196,460</u></u>	<u><u>\$199,092</u></u>	<u><u>\$201,769</u></u>
<u>Revenues:</u>				
General Fund (01) - credits	(\$3,000,000)	(\$8,000,000)	(\$8,000,000)	(\$8,000,000)
General Fund (01) - transfer	<u>\$60,000</u>	<u>\$160,000</u>	<u>\$160,000</u>	<u>\$160,000</u>
TOTAL Revenues	<u><u>(\$2,940,000)</u></u>	<u><u>(\$7,840,000)</u></u>	<u><u>(\$7,840,000)</u></u>	<u><u>(\$7,840,000)</u></u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$3,345,328)	(\$8,036,460)	(\$8,039,092)	(\$8,041,769)

NO SPONSOR SIGNATURE

Sponsor's Initials

Date

4.26

Budget Director's Initials

Date



4-25-23