

Fiscal Note Request HB0584, As Amended in Senate Committee

(continued)

6. The Film Office would also be responsible for developing criteria for certification of production companies, as well as administrative rules for hearings, and revocation of certification, as required by Section 4 of the bill.

Department of Revenue:

7. Under this bill, a production company could qualify for two tax credits under the individual income tax or the corporate license tax: The employment production tax credit, and the tax credit for qualified expenditures (the tax credits).
8. The employment production tax credit would be equal to the sum of 14% of the first \$50,000 or less of actual compensation paid to each Montana resident employed in connection with the state-certified production during the tax year.
9. The tax credit for qualified expenditures would be equal to 9% of the total qualified expenditures incurred in connection with the state-certified production during the tax year.
10. The total of the employment production tax credit and the tax credit for qualified expenditures may not exceed \$1 million for each state-certified production. If the production company's tax liability is less than the amount of the credits, the company can receive a refund for the difference. In the case of the employment production credit, the company can opt to carry the credit forward for 4 years.
11. This bill would be effective on passage and approval. Sections 6 through 10 would be retroactively applicable to tax years beginning after December 31, 2004. All other sections would be applicable on passage and approval. The bill has a termination date of January 1, 2010.
12. The Department of Revenue (DOR) administers the corporate license tax and individual income tax. In order to apply for the tax credits, the company must report on forms prescribed by the DOR. An application fee must accompany the application. If the total compensation paid to Montana residents for the production is less than or equal to \$30,000, the application fee is \$500. If the total compensation paid to Montana residents for the production is more than \$30,000, the application fee is \$75 for each resident employed by the production company. If the production company is applying only for the qualified expenditure tax credit, the application fee is \$500.
13. The fee must be deposited in the state special revenue account. The fee is statutorily appropriated to the DOR to administer the provisions of the bill that are the responsibility of the DOR.
14. If the DOC revokes the state certification of a production company after the production company has taken a credit, the production company is required to refund the amount of any credits taken. (See technical notes.)

Fiscal Impact

Revenue

	FY 2006 Difference	FY 2007 Difference
General Fund	\$1,024,613	\$2,049,225
State Special Revenue	\$117,888	\$235,775
Total Revenue	\$1,142,500	\$2,285,000

Net Impact on General Fund Balance (Revenue minus incentive):

General Fund	\$102,113	\$204,225
State Special Revenue	\$117,500	\$235,000
Total Revenue	\$219,613	\$439,225

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EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

See Long-Range Impacts.

LONG-RANGE IMPACTS:

If the credits allowed by this bill were to result in more films being made in Montana, the amount of credits and the impact on the general fund would increase. Using the Department of Commerce data, the Sponsor has estimated that if film expenditures were approximately ten times as high as in 2003, the total credits would be \$1.845 million per year. Tax revenues to the general fund would increase approximately \$2.23 million, resulting in a net gain to the general fund of \$0.44 million.

Film Production Expenditures	<u>FY 2006</u>	<u>FY 2007</u>
• Estimated Montana labor expenditures by production companies ¹	\$2,250,000	\$4,500,000
• Qualified expenditures in Montana excluding labor ²	\$6,750,000	\$13,500,000
• Production expenditures not eligible for incentive	\$ 3,500,000	\$7,000,000
• Total Estimated production expenditures³	\$12,500,000	\$25,000,000
Montana General Fund Expenditures		
• Estimated incentive for 14 percent of labor expenditures	(\$315,000)	(\$630,000)
• Estimated incentive for 9 percent of qualified expenditures	(\$607,500)	(\$1,215,000)
• Total incentive cost to Montana, including both incentives	(\$922,500)	(\$1,845,000)
Montana General Fund Revenue Collected		
• Estimated Montana tax revenue generated by production expenditures ⁴	\$1,112,500	\$2,225,000
• Estimated administrative fee collected by state of Montana ⁵	\$30,000	\$60,000
• Total incentive cost to Montana, including both incentives	(\$922,500)	(\$1,845,000)
• Estimated tax retained by state of Montana⁶	\$220,000	\$440,000

¹ Labor expenditure calculated at current rate of 18 percent of total film production expenditures.

² Based on the actual production budgets submitted to the Montana Film Office, DOC. Qualified expenditures are 54 percent of an average production's expenditures. Qualified in-state expenditures consist of hotel and lodging expenditures, production equipment rental, fuel costs, expendables, lumber/construction materials, vehicle rentals, and food expenditures. All purchases and rentals must occur in Montana.

³ Estimate based upon percentage of increase in production expenditures experienced by other states with comparable incentives.

⁴ Estimated tax revenue generated by production expenditures is 8.9 percent of total production expenditures. This tax rate is the sum of taxes levied against expenditures associated with film production including rental taxes, bed taxes, corporate and personal income taxes paid by employees.

⁵ Estimated fees collected based upon a projection of 43 productions in FY 2006 (85 in FY 2007) filming in Montana, generating \$12.5 million (\$25 million in FY 2007) in direct expenditures.

⁶ Estimated tax generated minus total of incentives issued.

Sample Cash Flow Model

Sample Total Production Expenditures	Labor @ 18% of Total Production Expenditure	Labor Incentive @ 14%	Qualified Production Expenditures @ 54% of Total Production	Expenditure Incentive @ 9%	Taxes Earned By Montana (Effective Tax Rate of 8.9%)	Taxes Retained By MT After Incentive ⁷
\$5,000,000	\$900,000	\$126,000	\$2,700,000	\$243,000	\$445,000	\$76,000
\$10,000,000	\$1,800,000	\$252,000	\$5,400,000	\$486,000	\$890,000	\$152,000
\$15,000,000	\$2,700,000	\$378,000	\$8,100,000	\$729,000	\$1,335,000	\$228,000
\$20,000,000	\$3,600,000	\$504,000	\$10,800,000	\$972,000	\$1,780,000	\$304,000
\$25,000,000	\$4,500,000	\$630,000	\$13,500,000	\$1,215,000	\$2,225,000	\$380,000
\$30,000,000	\$5,400,000	\$756,000	\$16,200,000	\$1,458,000	\$2,670,000	\$456,000
\$35,000,000	\$6,300,000	\$882,000	\$18,900,000	\$1,701,000	\$3,115,000	\$532,000
\$40,000,000	\$7,200,000	\$1,008,000	\$21,600,000	\$1,944,000	\$3,560,000	\$608,000
\$45,000,000	\$8,100,000	\$1,134,000	\$24,300,000	\$2,187,000	\$4,005,000	\$684,000
\$50,000,000	\$9,000,000	\$1,260,000	\$27,000,000	\$2,430,000	\$4,450,000	\$760,000
\$55,000,000	\$9,900,000	\$1,386,000	\$29,700,000	\$2,673,000	\$4,895,000	\$836,000
\$60,000,000	\$10,800,000	\$1,512,000	\$32,400,000	\$2,916,000	\$5,340,000	\$912,000
\$65,000,000	\$11,700,000	\$1,638,000	\$35,100,000	\$3,159,000	\$5,785,000	\$988,000
\$70,000,000	\$12,600,000	\$1,764,000	\$37,800,000	\$3,402,000	\$6,230,000	\$1,064,000
\$75,000,000	\$13,500,000	\$1,890,000	\$40,500,000	\$3,645,000	\$6,675,000	\$1,140,000
\$80,000,000	\$14,400,000	\$2,016,000	\$43,200,000	\$3,888,000	\$7,120,000	\$1,216,000
\$85,000,000	\$15,300,000	\$2,142,000	\$45,900,000	\$4,131,000	\$7,565,000	\$1,292,000
\$90,000,000	\$16,200,000	\$2,268,000	\$48,600,000	\$4,374,000	\$8,010,000	\$1,368,000
\$95,000,000	\$17,100,000	\$2,394,000	\$51,300,000	\$4,617,000	\$8,455,000	\$1,444,000
\$100,000,000	\$18,000,000	\$2,520,000	\$54,000,000	\$4,860,000	\$8,900,000	\$1,520,000

⁷ Note: This table excludes income generated by State collection of incentive application fees.