FISCAL NOTE

Bill #:	HB0584	**Title:**	Promote growth of film and other media in Montana
Primary Sponsor:	Harris, C	**Status:**	As Amended in Senate

Sponsor signature Date David Ewer, Budget Director Date

Fiscal Summary

	FY 2006 Difference	FY 2007 Difference
Expenditures:		
General Fund	$0	$0
State Special Revenue	$0	$0
Revenue:		
General Fund	($420,660)	($420,660)
State Special Revenue	$17,585	$17,585
Net Impact on General Fund Balance:	($420,660)	($420,660)

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

Fiscal Analysis

ASSUMPTIONS:

Department of Commerce:

1. HB 584 creates the Big Sky on the Big Screen Act and requires production companies to apply to the Department of Commerce for state certification of a production in order to qualify for the tax credits enumerated in the bill.
2. Department of Commerce duties and responsibilities are described in Sections 4, 5, and 11 of the bill. The Film Office in the Department's Montana Promotion Division would be assigned the duties specified in the bill using existing staff and within the current statutorily appropriated budget.
3. 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:

4. 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).

5. 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.
6. 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.
7. 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.
8. 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.
9. 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.
10. The fee must be deposited in the state special revenue account. The fee is statutorily appropriated, half to the DOR and half to the DOC to administer the provisions of the bill that are the responsibility of the respective departments.
11. 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.)
12. This bill will not have any administrative cost impacts on the Department of Revenue.

Office of Budget and Program Planning:

13. In 2003, film production expenditures that would have qualified for the employment credit totaled $1,026,000, and expenditures that would have been eligible for the qualified expenditures credit totaled $3,078,000. For purposes of this fiscal note, it is assumed that future production expenditures will be at the same level.
14. Employment credits of $143,640 (14% x $1,026,000) and qualified expenditure credits of $277,020 (9% x $3,078,000) will be claimed for production expenses incurred each year beginning in 2005. The first credits will be claimed on 2005 tax returns filed in FY 2006, reducing revenue to the general fund by $420,660. Revenue will be reduced by the same amount in FY 2007.
15. The Department of Revenue will collect application fees of $17,585.

FISCAL IMPACT:

	FY 2006 Difference	FY 2007 Difference
Revenues:		
General Fund (01)	($420,660)	($420,660)
State Special Revenue (02)	$17,585	$17,585
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):		
General Fund (01)	($420,660)	($420,660)

State Special Revenue (02)	$17,585	$17,585

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 information from the Department of Commerce, the Department of Revenue has estimated that if film expenditures were three-and-a-half times as high as in 2003, the total credits would be $1.48 million per year. Corporation license tax, individual income tax, and property tax revenues to the general fund would increase approximately $0.45 million, resulting in a net loss to the general fund of $1.03 million.

TECHNICAL NOTES:
Department of Revenue:

1. There are some constitutional concerns regarding the credit for salaries paid to Montana residents and the requirement that the production occur in Montana