



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: **HB0200: Provide for increase in total MEDIA act film tax credits**

Primary Sponsor: Kerri Seekins-Crowe Status: As Introduced

Included in the Executive Budget Needs to be included in HB 2 Significant Local Gov Impact

Significant Long-Term Impacts Technical Concerns Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2026 Difference</u>	<u>FY 2027 Difference</u>	<u>FY 2028 Difference</u>	<u>FY 2029 Difference</u>
Expenditures				
General Fund (01)	\$290,448	\$698,987	\$1,105,979	\$1,211,673
State Special Revenue (02)	\$0	\$0	\$0	\$0
Commerce SSR	\$9,500	\$9,500	\$9,500	\$9,500
DOR SSR	\$15,000	\$20,000	\$25,000	\$25,000
Revenues				
General Fund (01)	\$0	\$0	\$0	\$0
Credit Transfer Fees	\$1,580,000	\$480,000	\$1,440,000	\$2,400,000
Tax Credits	(\$79,000,000)	(\$24,000,000)	(\$72,000,000)	(\$120,000,000)
State Special Revenue (02)	\$15,000	\$20,000	\$25,000	\$25,000
Net Impact	<u>(\$77,710,448)</u>	<u>(\$24,218,987)</u>	<u>(\$71,665,979)</u>	<u>(\$118,811,673)</u>
General Fund Balance				

Description of fiscal impact

HB 200 increases the annual cap on the MEDIA Act film tax credit from \$12 million per year to \$350 million per year. The \$350 million cap is expected to increase the amount of film production and spending in Montana and credits claimed, but not up to the level of the cap. This bill is estimated to increase credits validated and transferred to Montana taxpayers by \$79 million in FY 2026, \$24 million in FY 2027, \$72 million in FY 2028, and \$120 million in FY 2029.

FISCAL ANALYSIS

Assumptions

Department of Revenue

1. HB 200 increases the MEDIA Act film tax credit cap to \$350 million per year from the current law \$12 million per year.
2. The MEDIA Act was passed during the 2019 Legislature and the cap was set at \$10 million per year. The cap was reached for both the first two credit periods in 2020 and 2021. In 2021, the cap was increased to \$12 million per year beginning with 2022 and the cap has been reached each subsequent year, as well.. Any additional credits reserved each year after the cap has been reached are carried forward to the next year with available credits, up to five years forward. The following table shows the estimated base investment in Montana and credits reserved for the first five years of the MEDIA Act up through 2024 based on application data provided by the Department of Commerce.

Current Law Actual Spending and Credits Claimed (millions)					
Calendar Year	Production Base Investment in MT	Estimated Credits Claimed	Credit % of Qualified Spend	Validated Credits w/ Cap	Net Change to Credit Backlog
2020	\$91	\$21	23%	\$10	\$11
2021	\$128	\$31	24%	\$10	\$21
2022	\$200	\$47	24%	\$12	\$35
2023	\$174	\$38	22%	\$12	\$26
2024	\$32	\$9	28%	\$12	(\$3)
Total/Average	\$625	\$147	24%	\$56	\$91

3. As can be seen above, due to the credit backlog and lack of available credits, the number of applications and amount of credits reserved dropped significantly in 2024. There is still film production occurring in Montana and it is assumed that with the passage of this bill, the number of applications, spending and credits reserved would rebound and then increase significantly in the first few years as more productions take advantage of the available credits.
4. It is expected that there will be significant growth in film production and credits reserved for a few years, but the \$350 million cap is not expected to be restrictive, and the program is still set to expire after 2029.
5. After the credit validation process is complete for all the productions through 2024, it is estimated that there will be approximately \$91 million in the credit backlog that under this bill will be able to be claimed on 2025 tax returns in FY 2026. The following table shows the estimated base investment and credits reserved for calendar years 2025 to 2028 and the change in validated credits from current law.

HB 200 Estimated Spending and Credits Claimed (millions)					
Calendar Year	Production Base Investment in MT	Estimated Credits Claimed (24% of Base Investment)	HB 200 Validated Credits	Current Law Validated Credits	HB 200 Change in Validated Credits
2025	\$200	\$48	\$91*	\$12	(\$79)
2026	\$400	\$96	\$36	\$12	(\$24)
2027	\$600	\$144	\$84	\$12	(\$72)
2028	\$750	\$180	\$132	\$12	(\$120)

*Clear projected credit backlog from productions occurring through 2024

6. Productions typically take 6-12 months after filming to submit their expense report to the Department of Revenue and then it takes another 2-3 months to complete the audit and verify the requested credit amount. Therefore, it is assumed that for productions filming in 2025, 75% of the credits would be validated in FY 2026 and the remaining 25% in FY 2027. This is why the validated credit amounts lag behind the estimated credits reserved.
7. The unrestrictive cap such makes forecasting future credit claims subject to significant uncertainty and variability, One or two additional large productions choosing to film here could change the amount of credits claimed by over \$100 million.
8. The credits validated in CY 2025 are the backlog of credits reserved through CY 2024 and would likely be claimed in FY 2026 after they are sold to Montana taxpayers. The film tax credit is nonrefundable and transferrable and 100% of the credits so far have been transferred. It is assumed the entire change in credits in the table above will also be transferred and claimed by Montana taxpayers. The Department of Revenue

receives a 2% transfer fee on all credits transferred and the following table shows the estimated revenue generated from the transfer fees. It is assumed the credits will be transferred and claimed in the fiscal year following the calendar year they are validated in. For example, credits reserved for productions occurring in CY 2025, and then validated in CY 2026, will likely be claimed on TY 2026 tax returns filed by April 2027 and impact income tax collections in FY 2027.

Estimated Transfer Fee Revenue		
Fiscal Year	HB 200 Change in Credits	Additional Transfer Fee Revenue
2026	(\$79,000,000)	\$1,580,000
2027	(\$24,000,000)	\$480,000
2028	(\$72,000,000)	\$1,440,000
2029	(\$120,000,000)	\$2,400,000

9. The Department also collects an application fee with the submission of costs from productions of \$500 for small productions (less than \$350,000 base investment) and \$1,000 for large productions (greater than \$350,000 base investment). The DOR has received between \$6,000 and \$14,000 in application fees the past four years and it is expected that under current law, application fee collections would go to \$0 by FY 2026 because there will be no more available credits through the end of the program in 2029. It is assumed that HB 200 would increase application fees received by DOR up to \$15,000 in FY 2026, \$20,000 in FY 2027 and \$25,000 in FY 2028 and FY 2029. These application fees are deposited in a state special revenue account and appropriated to DOR to help cover administrative costs.

10. This bill is effective on passage and approval and applies to tax years beginning after December 31, 2024.

DOR Administrative Costs

11. The estimated increase in productions and credits reserved due to this bill would significantly increase the workload for the Department of Revenue to audit the expenditure reports and validate the credits as well as track and manage the transfers of all the credits. With significantly more credits being validated and transferred, more fragmentation will have to occur to find enough buyers with tax liability to claim the credits.

12. The additional expenditure verification and audit work necessary to manage an expanded and growing film tax credit would require a new unit to be added within the Business and Income Tax division of the Department of Revenue. This would be done progressively with an additional 3.00 FTE in FY 2026, 7.00 FTE in FY 2027, 11.00 FTE in FY 2028, and 12.00 FTE in FY 2029. These new FTE would include one manager and the rest tax examiners.

13. Total costs to the Department for these new positions would be \$267,504 in FY 2026, \$630,451 in FY 2027, \$991,851 in FY 2028, and \$1,084,897 in FY 2029. The additional application fee revenue in the state special revenue account would cover an estimated \$15,000 to \$25,000 of these costs and the remainder would be funded by the general fund.

Department of Commerce

14. 15-31-1004, MCA, requires production companies to apply for certification by the Department before they can receive the MEDIA tax credits. The application must be accompanied by a \$500 fee.

15. In CY 2024, there were a total of 94 known productions in Montana of which 33 were eligible for the tax credit.

16. Of the 33 productions that were eligible, 10 applied to the Department of Commerce for the state certification, or 30% of the total eligible (10/33).

17. For the purposes of this fiscal note, it is assumed that the same ratio of total eligible productions would apply for certification.

18. Of the 23 productions that did not apply for certification, it is estimated that 80% of those did not apply due to the known film credit cap, and the knowledge that existing credits were reserved through CY 2027.

19. With a non-binding cap, an additional 19 applications (23 x 80%) for certification are estimated to be received from productions that previously saw the cap as fully utilized.
20. The additional applications would result in \$9,500 (19 x \$500) of additional revenue which would be used to pay for expenditures related to the processing of applications and for preparing the biennial report on the economic impact of the tax credits as required by 15-31-1011, MCA.
21. With the available credits at \$350 million, annually, it is anticipated that additional eligible productions would come to the state, resulting in certification applications. However, it is not possible at this time to estimate with any degree of accuracy how many new productions would apply.
22. The department does not anticipate additional resources would be required to process the additional applications.

Fiscal Analysis Table

Department of Revenue				
	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
<u>Fiscal Impact</u>				
FTE	3.00	7.00	11.00	12.00
TOTAL Fiscal Impact	<u>3.00</u>	<u>7.00</u>	<u>11.00</u>	<u>12.00</u>
<u>Expenditures</u>				
Personal Services	\$269,115	\$642,184	\$1,014,272	\$1,116,215
Operating Expenses	\$0	\$0	\$0	\$0
DOR Operating Expense	\$36,333	\$76,803	\$116,707	\$120,458
Commerce Operating Expense	\$9,500	\$9,500	\$9,500	\$9,500
TOTAL Expenditures	<u>\$314,948</u>	<u>\$728,487</u>	<u>\$1,140,479</u>	<u>\$1,246,173</u>
<u>Funding of Expenditures</u>				
General Fund (01)	\$290,448	\$698,987	\$1,105,979	\$1,211,673
State Special Revenue (02)	\$0	\$0	\$0	\$0
DOR SSR	\$15,000	\$20,000	\$25,000	\$25,000
Commerce SSR	\$9,500	\$9,500	\$9,500	\$9,500
TOTAL Funding of Expenditures	<u>\$314,948</u>	<u>\$728,487</u>	<u>\$1,140,479</u>	<u>\$1,246,173</u>
<u>Revenues</u>				
General Fund (01)	\$0	\$0	\$0	\$0
Tax Credits	(\$79,000,000)	(\$24,000,000)	(\$72,000,000)	(\$120,000,000)
Credit Transfer Fees	\$1,580,000	\$480,000	\$1,440,000	\$2,400,000
State Special Revenue (02)	\$15,000	\$20,000	\$25,000	\$25,000
TOTAL Revenues	<u>(\$77,405,000)</u>	<u>(\$23,500,000)</u>	<u>(\$70,535,000)</u>	<u>(\$117,575,000)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u>				
General Fund (01)	(\$290,448)	(\$698,987)	(\$1,105,979)	(\$1,211,673)
State Special Revenue (02)	\$15,000	\$20,000	\$25,000	\$25,000
DOR SSR	(\$15,000)	(\$20,000)	(\$25,000)	(\$25,000)
Commerce SSR	(\$9,500)	(\$9,500)	(\$9,500)	(\$9,500)
Tax Credits	(\$79,000,000)	(\$24,000,000)	(\$72,000,000)	(\$120,000,000)
Credit Transfer Fees	\$1,580,000	\$480,000	\$1,440,000	\$2,400,000

Significant Long-Term Impacts

1. Whereas this fiscal note assumes a ramp up of usage and related fiscal impact during the forecast period, should the credit be utilized by more entities, or larger entities, the general fund revenue reduction could reach \$350 million each year in any fiscal year contained in the forecast period or beyond.

NOT SIGNED BY SPONSOR

Sponsor's Initials

Date



Budget Director's Initials

1/22/2025

Date