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Sam Brownback, Governor

February 6, 2012

The Honorable Richard Carlson, Chairperson
House Committee on Taxation
Statehouse, Room 274-W
Topeka, Kansas 66612

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2443 by Joint Committee on Arts and Cultural Resources

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2443 is respectfully submitted to your committee.

HB 2443 would make changes to the Film Production Tax Credit. The bill would make the tax credit a refundable tax credit and would change the definition of film to allow additional film projects to qualify for the tax credit. The bill would allow current events programming; certain talk shows; production produced primarily for industrial, corporate or institutional purposes or for internal use; and certain gala presentation or awards programming to now qualify for the Film Production Tax Credit. Qualified films would also include animations and post-productions. For films that are 30 minutes or more in length, the minimum required in-state expenditure budget would be reduced from $100,000 to $50,000. Under current law, the tax credit is set to expire after tax year 2012. The bill would also extend the Film Production Tax Credit to tax year 2013 and 2014.

Estimated State Fiscal Effect				
	FY 2012 SGF	FY 2012 All Funds	FY 2013 SGF	FY 2013 All Funds
Revenue	--	--	($1,900,000)	($1,900,000)
Expenditure	--	--	$21,300	$21,300
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2443 would reduce State General Fund revenues by $1.9 million in FY 2013. The decrease in revenues and how the November 4, 2011 consensus revenue estimate for FY 2013 would be affected are shown in the following table:

Effect on FY 2013 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 4, 2011)	Change in Revenue FY 2013	Proposed Adjusted CRE FY 2013
Motor Carrier	$ 21,000	$ --	$ 21,000
Income Taxes:			
Individual	3,065,000	(1,900)	3,063,100
Corporate	240,000	--	240,000
Financial Institutions	24,000	--	24,000
Excise Taxes:			
Retail Sales	2,200,000	--	2,200,000
Compensating Use	335,000	--	335,000
Cigarette	92,000	--	92,000
Corporate Franchise	6,000	--	6,000
Severance	102,800	--	102,800
All Other Excise Taxes	96,000	--	96,000
Other Taxes	141,000	--	141,000
Total Taxes	$6,322,800	($ 1,900)	$6,320,900
Other Revenues:			
Interest	$ 7,400	$ --	$ 7,400
Transfers	(90,300)	--	(90,300)
Agency Earnings	51,500	--	51,500
Total Other Revenues	($ 31,400)	$ --	($ 31,400)
Total Receipts	$6,291,400	($ 1,900)	$6,289,500

The fiscal effect to state revenues during subsequent years would be as follows:

	FY 2014	FY 2015	FY 2016	FY 2017
State General Fund	($2,000,000)	($2,000,000)	$ --	$ --

To formulate these estimates, the Department of Revenue reviewed data on historical Film Production Tax Credits and estimates that under current law, approximately $100,000 in tax credits will be claimed in tax year 2012, which would be accounted for in FY 2013. With the lowering of the minimum in-state expenditure requirement, expansion of the types of films that can qualify, as well as changing the credit from non-refundable to a refundable, the Department anticipates that the maximum of $2.0 million of annual allowable credits would be claimed in tax year 2012 or FY 2013. Therefore, the fiscal effect of HB 2443 would be a reduction of State General Fund Revenues of $1.9 million in FY 2013. Because the credit is currently set to expire after tax year 2012, extending the tax credit is expected to reduce State General Fund revenues by $2.0 million in both FY 2014 and FY 2015.

The Department of Revenue indicates that the bill would require $21,300 from the State General Fund to update the tax credit schedule and instructions, and to modify the automated tax system. The required programming for this bill by itself (670 hours in in-house programming and 40 hours of implementation) would be performed by existing staff of the Department of Revenue. However, if the combined effect of implementing this bill and other enacted legislation exceeds the Department's programming resources, or if the time for implementing the changes is too short, expenditures for outside contract programmer services beyond the Department's current budget may be required.

The Department of Commerce indicates that the bill has the potential to increase the number of companies that qualify for the Film Production Tax Credit; however, any additional costs associated with administering the Film Production Tax Credit Program would be negligible and could be absorbed within existing staff levels and resources. Any fiscal effect associated with HB 2443 is not reflected in *The FY 2013 Governor's Budget Report*.

Sincerely,

Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Steve Neske, Revenue
Jason Glasrud, Commerce