

June 30, 2022

The Honorable Adam Smith, Chairperson  
House Committee on Taxation  
300 SW 10th Avenue, Room 346-S  
Topeka, Kansas 66612

Dear Representative Smith:

**SUBJECT:** Fiscal Note for HB 2749 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2749 is respectfully submitted to your committee.

HB 2749 would enact the Kansas Film Production Industry Development Act. The purpose of the Act is to incentivize film, video, or digital media productions in Kansas and facilitate the development and growth of a film, video, or digital media production industry in the state. The bill would provide an income tax credit not to exceed \$9.0 million per fiscal year to production companies approved by the Department of Commerce. Eligible production companies could be eligible for a 30.0 percent income tax credit for qualified expenditures. The Secretary of Commerce could approve additional credits as follows:

1. The amount of the tax credits could increase by up to 5.0 percent if the qualified expenditures enhance the film-related infrastructure or workforce development in Kansas.
2. The amount of the tax credits could increase by up to 5.0 percent if the qualified expenditures if 50.0 percent or more of the crew or above-the-line personnel are Kansas residents.
3. The amount of the tax credits could increase by up to 5.0 percent if a production company previously qualified for this income tax credit.

The bill includes minimum productions expenses in order to qualify for the income tax credits. The bill would also exempt from sales tax purchases of tangible personal property or services for the purpose of a certified project by a production company that meets the requirements

of the Act. The sales tax exemption and income tax credit provisions of the bill would sunset prior to January 1, 2027.

The Department of Revenue and the Department of Commerce would both have the authority to write rules and regulations to implement the bill. The Department of Commerce would be required to submit an annual report to the House Committee on Commerce, Labor and Economic Development, House Committee on Taxation, Senate Committees on Commerce, and Senate Committee on Assessment and Taxation. The annual report would include the amounts and recipients of the tax incentives for the prior fiscal year and to the date of the report, anticipated tax incentive amounts for the current fiscal year, the production companies that have applied for and that have been certified for projects, a description of ongoing and completed projects, and the impact of the projects and the program on the film, video, or digital production industry in Kansas.

The Department of Revenue estimates that HB 2749 would decrease State General Fund revenues by \$9.0 million in FY 2023. The Department indicates that the Department of Commerce would review and approve film incentive projects that could be eligible for this new income tax credit program. The Department of Revenue assumes that the full amount of allowable credits would be awarded by the Department of Commerce each fiscal year. The Department of Revenue would issue project exemption certificates for the sale tax exemption component of the film incentive package. However, the Department of Revenue does not have data on amount of film productions that would qualify for the sales tax exemption to provide an estimate for this component of the bill.

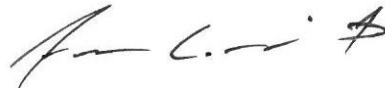
The Department of Commerce indicates that the incentives under the Kansas Film Industry Development Program would be limited to \$10.0 million per fiscal year beginning in FY 2023, including \$9.0 million dedicated to income tax credits and \$1.0 million to provide support programs or services for professional development, infrastructure investments, and marketing efforts to develop film industry-related Kansas businesses. The \$1.0 million to provide support programs or services would need to be funded in the appropriation process. The Department indicates that bill would require \$90,633 from the State General Fund in FY 2023 to implement this new program. The bill would require the Department hire 1.00 new FTE position to manage this new program.

The Department of Revenue indicates that it would require a total \$108,193 from the State General Fund in FY 2023 to implement the bill and to modify the automated tax system. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue. In addition, 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, additional expenditures for outside contract programmer services beyond the Department's current budget may be required.

The Kansas Department of Transportation (KDOT) indicates that the bill would reduce state revenues to the State Highway Fund by unknow amounts. KDOT indicates that when the state receives lower State Highway Fund dollars it may be required to make corresponding reductions to planned expenditures for projects funded under the comprehensive transportation

plan. The Kansas Association of Counties and the League of Kansas Municipalities indicate that the bill has the potential to provide a net reduction to local sales tax collections that are used in part to finance local governments. Any fiscal effect associated with HB 2749 is reflected in *The FY 2023 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam Proffitt", with a stylized flourish at the end.

Adam Proffitt  
Director of the Budget