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“If you scale back now, you probably lose everything”: State Tax Incentives and the Motion Picture Industry

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Abstract

Examines the analyses of film production tax incentives by evaluators (key government agencies, industry stakeholders, and third parties) looking at U.S. state programs for developing their respective states into regional hubs for non-Los Angeles/New York City productions. Beginning with a short overview of successful alternative film production sites such as Vancouver, British Columbia and Louisiana, this study then looks at the popularity of these programs over the 2000s and the challenges facing them. These challenges include political pressure to end “wasteful” tax incentives, disproportionate benefit to out-of-state residents, and wide discrepancy among the states regarding appropriate data for program evaluation. This study concludes with the author’s predictions on the potential outcome for these types of programs.

Keywords: motion picture industry, film production, tax incentives, state tax incentives

Introduction

At the 2013 MEIEA Summit in New Orleans, Philip Mann and Stephen M. Hamner, both of the Louisiana Economic Development Office, presented *An Exploration of Louisiana’s Tax Credits for Film and Music*, an overview of the past and present initiatives of Louisiana to attract entertainment production projects to the state. While the panel discussion focused specifically on the Sound Recording Tax Incentive program in Louisiana, many states grapple with their own tax incentives for film production. The intent of this paper is to explore the context of these state tax incentive programs for film production by looking at 1) the types of incentives offered to film studios and producers, 2) the ten largest state programs, and 3) the economic arguments pro and con for offering film production tax incentive programs.

Background

As Mr. Mann and Mr. Hamner stated, Louisiana was the first state (1992) to offer incentives to lure film production away from the traditional film capitals of California and New York. For the first ten years of its existence, Louisiana's program underperformed (Grand 2006, 792-793), and any film production that had been lured away from Los Angeles or New York typically went to Vancouver, British Columbia. In order to develop "Hollywood North" in the 1990s, provincial officials used their own tax incentives and the favorable exchange rate between the U.S. and the Canadian dollars to develop the personnel and infrastructure necessary to offer filmmakers a viable alternative to Los Angeles and New York. However, the early lead that Vancouver had in becoming the third film capital evaporated as other U.S. states began offering programs of their own.¹

In 2002, and again in 2005, Louisiana retooled its film production incentive program to address the concerns of film producers and to align its programs more closely with the goals of state officials. By the time of Louisiana's 2005 legislation rewrite, fourteen other states were offering tax incentives for film production, worth an estimated total of US\$129 million, considerably more than the total of \$1 million from five states offered at the time of the 2002 rewrite.

As recently as 2010, 43 states offered tax incentives to Hollywood worth an estimated \$1.5 billion. Fearing being left behind by regional peers, states were competing with each other to offer the most attractive incentive programs, all with the goal of big Hollywood spending in their states. As the effects of the Great Recession continued and questions about state budget priorities for these types of programs were raised, six states admitted defeat (or reality) and dropped their programs, leaving 37 states to carry on as of 2013.

But what were these 37 states carrying on? In many respects, they were carrying on a marketing campaign in which state tax incentives became the latest free or cheap money tool Hollywood used to finance its output (after the drying up of the hedge fund money of the 2000s and the German tax shelters of the 1990s). Boosters for these types of programs presented state legislatures with the evidence of the success of the Louisiana and the New Mexico programs,² and their burgeoning film projects, as proof positive that state tax incentives could work. State film offices, local production and post-production houses, and local union chapters joined forces with film studios and producers to induce legislators to implement,

expand, or extend film production tax incentives.

As the states began to offer film production tax incentive programs, the next stage of the competition was set: that of offering increasingly attractive tax incentives to bring Hollywood knocking. The late entrants to the competition, analyzing the programs of the early adopters, tailored their programs to maximize in-state film production potential,³ culminating in the program offered by Michigan in 2008 (since curtailed) that essentially gave qualified productions a 42% credit on film production expenses incurred in a “core community” (Idelson 2012). Although the number of states offering tax incentive programs for film production peaked at 43 in 2010, a secondary problem became apparent: that, of the remaining 37 states, the analyses of the efficiency and effectiveness of these types of programs were often spotty, filled with hyperbole, or not being done at all.

Often, states that have conducted rigorous evaluations of some incentives virtually ignore others or assess them infrequently. Other states regularly examine these investments, but not thoroughly enough. (*Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth 2012*)

In effect, the states were giving away \$1.5 billion in incentives and in some instances becoming the victims of fraud,⁴ but absent a reporting mandate from their legislatures, were doing no follow-up. And, once a state had offered a film production tax incentive, the pressure to keep the programs was intense, a zero-sum game in which there would be winners and losers:

Will French, Louisiana Film and Entertainment Association president said the state’s pitched battle with Georgia is more like a winner-take-all fight as the modern-day film industry disperses to regional hubs. “The question is: Who is going to have the hub?” French said. “We have to do this until we beat Georgia. If you scale back now, you probably lose everything.” (Myers 2013)

The Types of Incentives

In order to become attractive filming locations, states offer filmmakers a variety of incentive packages. Table 1 outlines the typical incentives and how they operate. Not every state offered all of these programs, and of those states which did, many mixed and matched them to suit local tastes and expectations.

Type of Incentive	Key Features
Tax Credits	<ul style="list-style-type: none"> • Offered to companies that meet certain spending or hiring criteria for in-state production • Tax credits can either be transferable or refundable • Can be in the form of income tax, sales tax, or employee tax credits
Cash Rebates	<ul style="list-style-type: none"> • Used to reimburse expenses for qualified costs
Grants	<ul style="list-style-type: none"> • Used to offset costs to lower production expenses
Miscellaneous Assistance	<ul style="list-style-type: none"> • Location cost exemptions • Lodging or travel exemptions • Lower costs for government services

Table 1. Types of incentives. Source: (Luther 2010).

Tax credits is listed first as that is typically the most popular type of program offered by the states, and the primary focus of this paper. A tax credit is meant to offset a state tax liability that a filmmaker—either a lone producer or a studio—would have incurred in that state in which they were filming. Tax credits could be applied to income taxes, sales taxes, or employee taxes. In order for a state to use a tax credit as an incentive to entice a studio or a producer to film locally, the state should consider three questions:

1. Is the credit applicable to both in-state residents and out-of-state residents working on a qualified production?
2. Can the tax credit be applied to the tax liability of a “highly compensated individual? and
3. Is the tax credit either refundable or transferable?

The issue of whether or not the tax credit is applicable to both resident and non-resident employees of a film production may seem straightforward enough, but the implications of it goes well beyond the labels. Given both the geographic mobility of below-the-line film production crews and the professionally networked nature of the field, using a tax credit might end up benefiting non-residents of a state more often, or at higher wage rates, than the same credit would benefit state residents. This issue is a rallying point for opponents of tax incentives: that state funds for film work are going to non-residents rather than to the local film production community. Some states, recognizing this issue, reported on the wages earned by labor in both categories. Other states, however, might not have necessarily reported such data.

For the second question, on whether or not a “highly compensated individual” (typically one of the above-the-line categories of actors, directors, writers, or producers) would benefit from the tax credit, states which do not face a statutory limitation on offering the tax credit to a highly compensated individual approached this issue as a chance to compete against peer states.

The final issue, of whether or not the tax credit is refundable or transferable, remains one of the biggest selling points for selecting one state for filming over another. A refundable tax credit is one in which if the tax credit offered to the studio or producer exceeds their in-state tax liability, the state will refund the difference (in some cases at a reduced percentage). For example, in Massachusetts, producers could receive a 90% refund on their tax credit. However, a film studio or a producer might be better off with states that offered a transferable film credit. Staying with the previous example, Massachusetts does offer transferability. This type of tax credit means that (once again) if the film studio’s or producer’s tax credit exceeds their in-state tax liability, the studio or the producer could transfer (sell) the tax credit to a third party. The studio or the producer benefits by receiving the difference between their liability and their credit in the form of cash and the third parties (typically financial firms, insurance companies, or high net worth individuals) benefit in paying for a financial vehicle to reduce their own tax liability.⁵ The biggest loser in this type of transaction is the state:

Transferability has a particularly pernicious impact on state budgeting and accountability. It allows a film pro-

ducer to gain a subsidy immediately (from the sale of the credit), but the costs may not show up on the state's books for several years because purchasers of film tax credits have several years to cash them before they expire. (Tannenwald 2010, 4)

States with the Largest Tax Incentives for Film Production

In December 2012 the *New York Times* (NYT) ran a three-part series entitled *The United States of Subsidies* which analyzed the range and scope of subsidies offered to key industries across the U.S. As part of that series, the NYT estimated that there were 1,874 different types of programs worth slightly over \$80 billion (Story, Fehr, and Watkin 2012). One of the industries that benefited from these subsidies was the film industry and the NYT presented a chart of forty of the state programs. In their methodology section, the writers identified the following as their sources of information for the series: state agencies, government reports, commercial databases, company financial filings, and think tanks.⁶ Highlighting the sources of the NYT chart is important to see the scope of the incentives and the various stakeholders tracking the incentives. However, the figures reported in the chart may have in fact been different from those self-reported by the states, especially as states often differ in how they categorize their programs.

Table 2 shows the most generous state programs for film production. Of the total \$1.5 billion in tax incentives estimated to be offered to studios and producers, these top ten states offered \$1.2 billion of those incentives.

Firstly, this table shows the category of Incentive Types (column 3); and, it is joined by the category Maximum Benefit (column 4). Maximum Benefit did not appear in the NYT series, but was drawn from the "Jurisdiction Comparison Tool of Production Incentives" offered by Entertainment Partners.⁹ Secondly, the data in the Maximum Benefit column has been edited considerably, as the range and scope of the various state programs is extensive. In joining these two data sources, one can see both the broad category of the various types of tax incentives offered and the more narrow application of how the individual state programs appeal to filmmakers. Within each state program are both the seeds of the program's attractiveness to filmmakers and the information needed to exploit that program's weaknesses by peer states.

Ranking	State	Incentive Type/ Category per NYT Article Dec. 01, 2012 ⁷	Maximum Benefit ⁸	Amount
1	New York	Corporate income tax credit, rebate, or reduction	"...30% of qualifying production local spend...; 30-35% of the qualifying post-production spend..."	\$359 million
2	California	Corporate income and personal income tax breaks	"20% of qualifying local spend..."	\$191 million
3	Louisiana	Corporate income tax credit, rebate, or reduction	"30% of qualifying local spend including the payroll for residents and nonresidents..."	\$179 million
4	Pennsylvania	Corporate income tax credit, rebate, or reduction	"...25% of qualifying local spend..."	\$96 million
5	Massachusetts	Corporate income tax credit, rebate, or reduction	"25% of payroll in the state...; 25% of local spend."	\$85 million
6	Florida	Sales tax refund, exemptions, or other sales tax discounts	"20% of qualifying spend..."	\$83 million
7	Michigan	Corporate income tax credit, rebate, or reduction	"27% of direct production expenditures..."	\$77 million
8	Connecticut	Corporate income tax credit, rebate, or reduction	"...tiered credits based on local spend from 10% to 30%; the infrastructure tax credit is 20%..."	\$64 million
9	Georgia	Corporate income tax credit, rebate, or reduction	"20% of the base investment in the state..."	\$60 million
10	New Mexico	Corporate income tax credit, rebate, or reduction	"25% of qualifying local spend"	\$47 million

Table 2. States ranked by size of incentive program. Sources: Story, Fehr and Watkins, "United States of Subsidies: Common Industries: Film 2012"; and (Entertainment Partners 2013).

If we ourselves have a weakness with our competitors, Louisiana and Georgia, it's our cap. We cap talent and labor at the first million dollars, whereas Georgia and Louisiana don't cap talent or above-the-line salaries at all. They will qualify the entire salary to a highly compensated individual. [Aaron Syrett, North Carolina Film Office] (Altman 2012)

Given the array of incentives available, it is helpful to see how a producer or a studio, using one state's model, can utilize the film tax credit for economic benefit.

How Tax Incentives Work: One State's Model

Although it is not in the top ten of state programs, Hawaii, coming in at number eleven, has its own generous tax incentive package available to filmmakers. As stated on the web page of the Hawaii Film Office, Hawaii offers the following type of incentive:

15-20% MOTION PICTURE, DIGITAL MEDIA, & FILM PRODUCTION INCOME TAX CREDIT: This is a refundable tax credit based on a production company's Hawaii expenditures while producing a qualified film, television, commercial, or digital media project. The credit equals 15% of qualified production costs incurred on Oahu, and 20% on the neighbor islands (Big Island, Kauai, Lanai, Maui, Molokai).¹⁰

In order for a production to be considered a "qualified production," Hawaii requires that the production spend a minimum of \$200,000 in the state filming a movie, television show episode, commercial, etc., with a yearly cap of \$8,000,000. Additionally, Hawaii also allows the application of the tax credit for a "single season (up to 22 episodes) of a television series regularly filmed in the state (if the number of episodes per single season exceeds 22, additional episodes for the same season shall constitute a separate 'qualified production')." ¹¹ With these guidelines in place, consider the incentives available for the rebooted television series *Hawaii Five-0*. Assume a conservative cost of \$2 million per episode for production of a 23-episode season: \$46 million; minus a yearly tax incentive cap

of \$8 million; total cost of shooting the season: \$38 million (19 episodes, with essentially four cost-free episodes for the season).

The thought of getting four cost-free episodes might be enticing to a studio at first glance. However, in the long run, when a studio commits financial resources to a location other than Los Angeles or New York City, and when it typically takes eighteen months for the development of a feature film, Hollywood has required and expected a high degree of stability from the selected state's tax incentive programs. Two states, New Mexico and Michigan, had both seen productions originally slated for their states fade as the studios have questioned whether or not the expected incentives would remain in place in the face of political opposition from governors or legislatures.

When [Michigan] Gov. Rich Snyder capped the annual budget for incentive payouts at \$25 million last year and changed the program from a tax credit to a direct cash refund, production in the state suffered. Though the cap has been raised to \$50 million for fiscal year 2013, which began Oct. 1, production levels are still lower than in recent years. (Idelson 2012)

In 2011 New Mexico saw its film production tax incentive program challenged by Governor Susana Martinez. In response, the Director of the New Mexico Film Office, Nick Maniatis, summed up the issues facing New Mexico's film office: "The issue that we and other states have, and this is fairly universal, is there are some [in state government] that are philosophically against tax incentives for any industry" (Altman 2012). While hardly allaying Hollywood's concerns about the stability of tax incentive programs, Maniatis did call attention to the political process New Mexico went through to defend its tax incentive program, a process that most state film offices can expect to have to deal with, if they have not, like New Mexico and Michigan, already done so.

The MPAA on Film Production Tax Incentives

As would be expected, the Motion Picture Association of America (MPAA) views these types of programs favorably. Recognizing that there had to be a case made that rose above local boosterism (state film offices, union locals, in-state based production businesses) and addressed

the concerns of local opposition to the film production tax incentives, the MPAA commissioned a study by Ernst & Young in 2010 (*Evaluating the effectiveness of state film tax credit programs: Issues that need to be considered*) to advise states on how to benefit from these programs and to provide them with hypotheticals (production profiles, expenditures, and taxes) for consideration when undertaking a film production tax incentive program. For the MPAA it was important that in order for states to best evaluate their individual programs, the states need to gather data on the direct benefits of the programs (increased production spending in the state and increased production employment) and also on the indirect benefits, such as increased tourism.¹²

The MPAA report highlights some of the challenges other organizations (state and local agencies, tax and policy think tanks, independent evaluators, etc.) found when trying to compare the various programs offered by the states:

A number of studies over the past decade have evaluated the costs and benefits of film tax credit programs. Each of these studies uses the standard tools employed by economists to estimate the economic effects of film tax credit programs but the studies differ in terms of their perspective and comprehensiveness. Thus, they produce a wide range of results. (Philips, Cline and Fox 2012, 15)

Because of the wide discrepancy in data reporting by the states, it was hard to standardize the economic benefits of the film production tax incentives nationally. In some reports, in addition to the actual number of FTE (Full Time Equivalent) employees working in film production, the data also include the economic impact of the incentives for other beneficiaries, such as companies that serve or supply the film productions, like lodging, restaurants, transportation, supplies, etc. Referred to by economists as the multiplier effect, these benefits, as well as any upgrades to any personnel or physical infrastructure to support film production, should have been calculated when a state reviewed its program, according to the MPAA report. Perhaps so; but until all states include these type of data, the discrepancies would remain. As another example of the multiplier effect, the MPAA report stated that a tangible benefit of tax incentives for film production was the role of movies in driving tourism to a state. In this

regard, most of the states agreed.

Every year the state spends millions of taxpayer dollars to attract visitors and their money. But when Sandra Bullock was on national television describing her time here [picturesque Rockport, Massachusetts], it cost the state nothing. (Paleologos 2012)

Having productions on the ground in your city or state can bring lasting economic benefits, not just while they are filming, but also into the future when tourists visit because of what they've seen on screen. We see all of the films and TV shows that film here in New York as postcards to the world. [Katherine Oliver, New York City Mayor's Office of Media and Entertainment] (Altman 2012)

The problem with this particular claim is that it is difficult to quantify, and begs the question economists have asked about tax incentives in the first place: is this the spending of public money that either the tourist or the film producer would have done in the state anyway? There is a small body of research on the impact of films on tourism and the case that the MPAA laid out in its 2010 report on film tourism is hardly compelling: of the six films cited, the oldest film was *Close Encounters of the Third Kind* from 1977 and the most recent was *Last of the Mohicans* from 1992, all well before the film production tax incentive programs began in earnest.¹³

Third Party Evaluations

With so much data available from the states and the industry (see Appendix A), it is helpful to look at what third party evaluators say about such programs. Interestingly, while much has been written about the inability of the political left and the political right to agree on anything nowadays, it was instructive to see that both the conservative Tax Foundation and the center/left Center on Budget and Policy Priorities agree that state tax incentives are a wasteful use of public resources and largely benefit the film industry, which hardly needs the help. "The competition among states transfers a large portion of the potential gains to the movie industry, not to local businesses or state coffers" (Henchman 2011). Both the Center on Budget and Policy Priorities and the Tax Foundation view these types of

programs as economically inefficient. They maintain that states incur significant costs without producing a tangible public benefit and that the return on investment to the states does not support continuing the programs.

The Tax Foundation, in its 2010 report *Movie Production Incentives: Blockbuster Support for a Lackluster Policy*, argues that the use of these tax incentives do not lead to the type of job growth anticipated by the states, and in offering (in their view) a wasteful tax incentive, the states actually increase the tax burden on other industries. Additionally, because so many states are locked into this type of competition, the incentives are growing increasingly outsized.¹⁴ When the Tax Foundation addressed the issue of building the in-state personnel to support a film industry, the tax credit issue benefiting residents vs. non-residents addressed earlier, the response was:

In many cases, therefore, state officials are creating temporary positions with limited options for upward mobility. Of those, those visitors pay for lodging, spend their wages, and generally contribute to the economy, but that isn't the sort of economic benefit that ordinarily makes a compelling case for a massive tax subsidy. (Luther 2010, 8)

One of the key features of the Tax Foundation report is that it outlines potential solutions policymakers could implement to end the tax incentive programs. These steps included a unilateral moratorium by an individual state to stop these incentives, a multilateral moratorium whereby several competing states agree to end their programs, and lastly federal action through the use of the Commerce Clause.¹⁵ Regarding the unilateral moratorium, as stated above, with six states dropping out since the report was written in 2010, this option seems to be working for some of the states. As to multilateral moratorium, there is no indication that any states have acted in this way. Although considering the heat of the tax incentive battles between Louisiana-Georgia-Florida, New Mexico-Nevada, and the congestion of tax incentive programs in the New England region (Massachusetts-Rhode Island-Connecticut), multilateral moratorium may prove viable. Lastly, in seeking to implement a federal action under the Commerce Clause, the author argues that these incentives constitute “economic warfare among the states,” which the federal government under the

Constitution is empowered to prevent. However, even the author recognizes that this option “may well usher in additional problems not considered here.”¹⁶

On the other side of the ideological divide, the Center for Budget and Policy Priorities in its 2010 report *State Film Subsidies: Not Much Bang for Too Many Bucks* shared the Tax Foundation’s concerns about the waste of these programs. “State governments cannot afford to fritter away scarce public funds on film subsidies, or, for that matter, any other wasteful tax break. On the contrary, policymakers should broaden the base of their taxes to create a fairer and more neutral tax system” (Tannenwald 2010).¹⁷ In detailing why these types of programs do not work, the report cites among other issues, the cost of the programs, the greater benefits flowing to out-of-state residents, and the temporary nature and low pay of the jobs for the in-state residents.

Jobs for in-state residents tend to be spotty, part-time, and relatively low-paying work...that is unlikely to build the foundations of strong economic development in the long term. (Tannenwald 2010, 1)

This concern of the Center for Budget and Policy Priorities about low-paying and temporary jobs had been picked up in news coverage in some of the states as they were examining their programs. The earlier referenced MPAA report seems to directly address this concern, giving the industry perspective:

As the [local] industry develops over time, a greater share of movie spending will accrue to residents and in-state suppliers, which supports the long-run goal of creating jobs and incomes for a state’s residents. (Philips, Cline and Fox 2012, 1)

As the debates about the efficiency and efficacy of the film production tax incentives continued, the Pew Center on the States released its own report in 2012, *Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth*. In this report, the researchers look at how states evaluate all of their tax incentive programs, including tax incentives for film production. The goal of the report is to determine how effectively, if at all,

states evaluate their programs and what they do with the findings of these evaluations. In preparing its report, the Pew Center addressed the problem of reporting, standardization, and accuracy on evaluating the benefits of the tax incentive programs:

The stakes are high. Because the numbers are not regularly or reliably reported, the exact cost of a state's tax incentives is unknown. Some states do not estimate or publish the costs, and among the many that do, differences in methodology prevent coming up with a reliable total. (6)

Once their evidence had been identified and selected, the Pew Center on the States evaluated states offering tax incentives on both the scope of their evaluations and on the quality of the evaluations. In assigning a rating for the scope of the evaluations, the Pew Center looked at whether the evaluations conducted by the states were 1) used to inform policy choices regarding the incentives and 2) if the states evaluated all of their tax incentive programs. For assigning a rating to a state based on the quality of its evaluations, "Pew looked at whether each evaluation 1) thoroughly examines the tax incentive's impact on the state's economy, and 2) draws clear conclusions about whether it is achieving the state's goal and how it might be improved."¹⁸ Both parts of the Pew's evaluation were combined and states were rated as either 1) Leading the Way, 2) Mixed Results, or 3) Trailing Behind.

Based on these criteria, and our concerns about tax incentives for film production, of the ten top states with tax incentive programs in Table 2, six of the states (California, Massachusetts, Michigan, New Mexico, New York, and Pennsylvania) rate a Mixed Results score. Two states (Florida and Georgia) are rated Trailing Behind, leaving only Connecticut and Louisiana as rating a Leading the Way score. In stepping back and examining how the states offering the largest film production tax incentive programs rate when compared to all fifty states, one can see that the six states listed above with Mixed Results make up half of all states given this rating, while Florida and Georgia, rated Trailing Behind, make up a fraction of the twenty-six U.S. states whose tax incentive evaluation processes were rated as Trailing Behind. However, it is important to point out that the Pew Center report clearly states that a score of Leading the Way or Trailing Behind is not necessarily a clear cut vindication or condemnation.

As the report states:

A lower rating in this study does not necessarily mean that a state's tax incentives are ineffective. Conversely, a higher rating does not mean that the state's policy makers are making sound, evidence-based decisions on incentives. States were assessed on how well they evaluate their incentives, not on the merits or effectiveness of the incentives themselves. (*Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth* 2012, 12)

The Pew Center report helps us to understand, however imperfectly, which states in the top ten of film production tax incentives are doing a good job of evaluating their programs. But, the challenge of measuring the economic benefit impact remains. Until there is a standardized approach stakeholders are left with a wealth of conflicting claims about the benefits of these programs. One key area in which the benefit claims vary widely is in the number of FTEs for film production jobs. Absent a uniform reporting standard, it might be instructive to see how the Bureau of Labor Statistics categorizes employment and wages in the field. Using the NAICS code 512110 "Motion picture and video production" for 2011, we have the following breakdown of employees in this category among the ten top states for film production tax incentives (Table 3).

If this information is considered as percentages, one sees (predictably) that California (64%) and New York (25%) account for the majority of these positions; the other eight states comprise only 11% of the total. When compared to how states self-reported employment figures in their evaluations of film production incentive data, Massachusetts under-reported its 2011 film production employment (864 FTEs for both residents and non-residents), Georgia over-reported film product employment in its 2010 report (8,751) and Florida matched the Bureau of Labor Statistics employment figures for its 2011 report (3,584).

Conclusion

When Philip Mann and Stephen M. Hamner of the Louisiana Economic Development Office described the Louisiana Sound Recording Tax Incentive Program at the 2013 MEIEA Summit, and explained that the program would join the current film production tax incentive programs,

Ranking	State	Calculated Employment 2011
1	California	108,244
2	New York	42,169
3	Florida	3,583
4	Pennsylvania	3,377
5	Georgia	2,701
6	Louisiana	2,221
7	Michigan	2,129
8	Massachusetts	2,113
9	Connecticut	1,864
10	New Mexico	1,661

Table 3. Bureau of Labor Statistics quarterly census of employment and wages.

it sounded like an exciting new opportunity for current students in entertainment management, music industry, and audio production programs. However, as one looks more closely at these programs, one sees them as part of larger national debate on the efficiency and efficacy of tax incentive programs in general. The primary concern is that the hyperbole and boosterism so inherent in advocating for these types of programs will fall far short of the reality, and once the lukewarm or underperforming results are in, the programs will be cut. Another concern is that because there is no standardized way (number of local production jobs, return on investment to the states, etc.) of presenting the case for the benefit of these programs that the states, the MPAA, and the local advocates can agree on, the stakeholders are not making a compelling case for keeping them. Thirdly, given the current soft economic climate, it is reasonable to expect that some of the thirty-seven states currently offering film tax incentives will forgo their programs, clearing the field further. This could have two opposite effects: it could signal to Hollywood that the mad rush is over, and that states will no longer compete as vigorously with tax incentives. Or, conversely, with the narrowed field, the competition may actually increase, as the remaining states work harder to be the hub for non-Los Angeles/ New York filming locations. The hope is that the good programs remain, that the states implementing them reap significant economic benefits, and

that there is more work for all in the field, especially for our students. But realistically, one should anticipate a significant contraction in state tax incentive programs for film production.

Rank	State	Date Published	Title	Publisher	Data Year Reported
1a	New York	May 8, 2012	Evaluating NYC media sector development and setting the stage for future growth: Final Report	The Boston Consulting Group	2011
1b	New York	December 3, 2012	Economic and Fiscal Impacts of the New York State Film Production Tax Credit	Motion Picture Association of America (prepared by HR&A Advisors, Inc.)	2011
2a	California	2011	California Film and Television Tax Credit Program: An Economic Impact Study (paid for by the MPAA)	Los Angeles County Economic Development Corporation	2009
2b	California	February 2012	There's No Place Like Home: Bringing Film & Television Production Back to California	The Headway Project, in Association with the Institute for Research on Labor and Employment, University of California, Los Angeles	2011
3a	Louisiana	August 2012	Louisiana Film Tax Credits: Costly Government Giveaways to Hollywood	Louisiana Budget Project	2011
4a	Pennsylvania	September 1, 2012	Report to the General Assembly on the Film Production Tax Credit Program	Pennsylvania Department of Community & Economic Development	2011
5a	Massachusetts	July 2009	A Report on the Massachusetts Film Industry Tax Incentives	Commonwealth of Massachusetts Department of Revenue	2006 - 2008
5b	Massachusetts	March 21, 2013	A Report on the Massachusetts Film Industry Tax Incentives	Commonwealth of Massachusetts Department of Revenue	2011

Appendix A: select reports on state tax incentives for film production.

Rank	State	Date Published	Title	Publisher	Data Year Reported
6a	Florida	2012	Fiscal Year 2011/2012 Film and Entertainment Industry Financial Incentive Performance Report	Florida Department of Economic Opportunity	2011
7a	Michigan	September 2010	Film Incentives in Michigan	MI Senate Fiscal Agency	2009
8a	Connecticut	December 2010	An Assessment of Connecticut's Tax Credit and Abatement Programs	Department of Economic and Community Development	2009
9a	Georgia	February 29, 2011	Economic Contributions of the Georgia Film and Television Industry	Meyers Norris Penny LLP	2010
10a	New Mexico	January 2009	Economic and Fiscal Impacts of the New Mexico Film Production Tax Credit	New Mexico State Film Office and the State Investment Council	2007
10b	New Mexico	June 29, 2012	2012 Tax Expenditure Report	New Mexico Taxation and Revenue Department	2011

Appendix A: select reports on state tax incentives for film production (continued).

Endnotes

1. “The city that pioneered the use of film incentives now finds itself struggling to compete with emerging rivals offering stronger tax credits and rebates. The industry also has been spooked by the return April 1 of a provincial sales tax that had previously exempted film production...Once the third-busiest film city after Los Angeles and New York, Vancouver has fallen into fifth or sixth place in North America. (Richard Verrier, “COMPANY TOWN: Vancouver, Canada, sees sharp drop-off in movie, TV production: The city that pioneered the use of film incentives is losing ground to rivals in eastern Canada and states such as Georgia and North Carolina,” *Los Angeles Times*, May 1, 2013.)
2. In his article “Star Billing? Recasting State Tax Incentives for the ‘Hollywood’ Machine,” Schonauer gives a concise history of the Louisiana, New Mexico, and New York experiences with their state’s film tax credit programs.
3. “You don’t always have to be the first one in and you don’t have to be the one with the biggest incentives,” Syrett (of North Carolina Film Office) says. “People want to know if you have the infrastructure to support their production and that their incentive isn’t going to be caught up in red tape to point they’ll never see it, so if you can take care of those things for someone, a 25%-incentive can easily look better than a 40% incentive” (Idelson 2012).
4. “In January, filmmaker Harel Goldstein of Calabasas pleaded guilty to defrauding Iowa’s now-defunct film tax credit program. Former Iowa Film Office Director Tom Wheeler was convicted last year of one count of misconduct over his handling of state film tax credits. And in 2009, a former top film office official in Louisiana got a two-year prison sentence for steering tax credits to a local producer.” (Richard Verrier, “COMPANY TOWN: Director who abused film tax credits gets prison sentence,” *Los Angeles Times*, May 12, 2012.)
5. “A production company that is awarded \$10 million in tax credits might sell them to a broker for \$8.7 million. The broker then sells the credits to a financial company that owes state income taxes for a bit more—say \$9 million, earning the broker a \$300,000 profit. The financial firm can then claim the full \$10 million in credits on

- its tax return, saving \$1 million” (Wallack 2012).
6. “State agencies, government reports, Investment Consulting Associates’ ICAincentives.com, Good Jobs First’s Subsidy Tracker Database, company financial filings, Equilar. State budget figures from Center on Budget and Policy Priorities and the National Association of State Budget Officers.”
 7. Source: <http://www.nytimes.com/interactive/2012/12/01/us/government-incentives.html#film>.
 8. Source: <http://www.entertainmentpartners.com/incentives/>. The descriptions of the programs listed here have been edited to highlight the percentages. Please see Entertainment Partners web site for complete and current descriptions of each state’s program.
 9. Entertainment Partners is a full service Burbank, California based company that supports producers through its accounting, payroll services, production software, casting services, etc.
 10. <http://www.hawaiifilmoffice.com/film/incentives-tax-credits>.
 11. Hawaii Film Office, “Film Hawaii Overview & Instructions: Appendix A,” July 1, 2013, accessed November 3, 2013, [http://files.hawaii.gov/dbedt/film/incentives/Instructions%2020-25Credit%20\(Revised%2010-3-13\).pdf](http://files.hawaii.gov/dbedt/film/incentives/Instructions%2020-25Credit%20(Revised%2010-3-13).pdf).
 12. “A comprehensive benefit-cost analysis of film credits should compare tax credit costs to both private sector benefits (additional in-state jobs and income) and public sector benefits (higher state and local taxes) from a stronger economy, not just the net change in state tax collections” (Philips, Cline and Fox 2012).
 13. Todd Longwell, in his article “The Biz’s Taxing Solution” argued at one point that tourism is “generally not factored in as a multiplier.” Other sources disagree. For example, The Ernst & Young report (page 13) “Evaluating the effectiveness of state film tax credit programs: Issues that need to be considered,” sponsored by the MPAA, provided a scenario for considering tourism as a multiplier.
 14. “By committing tax dollars and state effort into securing film jobs, state officials miss the chance to use those resources instead for lowering tax burdens on all industries. Because MPIs (Motion Picture Incentives) are a field crowded with state competitors, committing huge resources may have little payoff” (Tannenwald 2010, 9).
 15. Luther 2010, 15.
 16. *Ibid.*, 16.

17. Ibid., 14.
18. *Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth*, 2012.

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