Center on Budget and Policy Priorities

820 First Street, NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

NEWS RELEASE

For Immediate Release:
Wednesday, November 17, 2010

Contact:
Shannon Spillane, 202-408-1080, spillane@cbpp.org

TAX SUBSIDIES TO ATTRACT FILM AND TV PRODUCTIONS DON'T PAY OFF FOR STATES

In recent years, nearly every state has adopted generous tax subsidies for film and TV productions in an attempt to create local jobs and boost the state economy, but the cost of these subsidies is outweighing their benefits, according to a new report from the Center on Budget and Policy Priorities.

"While subsidies may attract film productions to a state, they create few good local jobs and they don't come close to paying for themselves," said Senior Fellow Robert Tannenwald, the report's author. "They also use up money that states could otherwise spend on proven long-term investments, like education and infrastructure. That's why some states are now scaling them back."

Nationwide, the subsidies cost as much as the salaries of tens of thousands of teachers and police officers, the report finds, placing a major additional strain on state budgets already reeling from the recession.

Subsidies Have Become Increasingly Widespread — and Generous

Until 2002, only a few states had film subsidies and these were limited in scope, the report explains. But led by New Mexico and Louisiana, which made aggressive (and initially successful) efforts to attract film productions, 43 states have now adopted them, and they cost states about $1.5 billion last year.

Certain features of the credits make them especially valuable to producers — and therefore costly to states. Some states' credits are refundable, meaning that if the credit exceeds the producer's state tax liability, the state will write the producer a check for the difference. Other credits are transferable, meaning that producers can sell them to other companies (often insurance companies and banks) that owe taxes to the state. The median state gives producers a tax credit worth 25 cents for every dollar of subsidized production expense.

Claims of Economic Benefits Overblown

The report carefully scrutinizes studies commissioned by film and tourism agencies or by the Motion Picture Association of America asserting that film subsidies generate enough tax revenue to fully offset their cost.

-- more --

Such studies tend to have serious flaws. The most thorough independent, empirical study, undertaken by the Massachusetts Department of Revenue, produced starkly different results. It found that in 2008:

- Massachusetts lost $88,000 in tax revenue for every new job created by the Commonwealth's film tax credit and filled by a Massachusetts resident.
- Every dollar of state tax revenue lost because of the film tax credit generated less than 69 cents in income for the Commonwealth's residents.
- For every dollar of film tax credits awarded to film producers, the Commonwealth gained only $0.16 in revenue, mostly in the form of income tax revenues withheld from film company employees. The remaining $0.84 had to be financed by higher taxes elsewhere or cuts in public services.

Film subsidies fail to produce promised benefits in large part because film makers usually give the best jobs to scarce, highly paid talent brought in from other states. 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.

Some argue that film subsidies can help create a permanent film industry that could survive without subsidies. But such a strategy faces long odds, the report explains, given the fundamentally footloose nature of the industry.

Several States Scaling Back Film Subsidies

As states continue to face large, recession-induced budget shortfalls, several are reconsidering their film subsidies, the report notes. Kansas suspended its subsidies during 2009 and 2010 to help balance its budget. Iowa suspended its film tax credit after allegations of fraud surfaced in 2008. New Jersey suspended its film tax credit at the beginning of state fiscal year 2011. Arizona is letting its credit expire at the end of calendar year 2010. Rhode Island has capped its film tax credit.

Nonetheless, some other states are *expanding* their film tax credits, and the credits remain costly.

"The rapid spread of film tax subsidies across the country is a classic case of a race to the bottom," noted Tannenwald. "Now that states are making tough budget choices to cope with the recession, several have recognized that they can't afford to fritter away scarce public funds on these wasteful tax breaks. States would be better off maintaining vital public services and pursuing more cost-effective development strategies, such as investment in education, job training, and infrastructure."

# # #