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Film Production Incentives Bomb in State Capitals

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Summary: In the first decade of the 20th century, state financial incentives for the film industry became as popular among politicians as Julia Roberts was among moviegoers. But in the second decade, states abandoned them as the receipts began to look more like the box office take of a Tom Arnold movie. Multiple studies of the programs show that they fail to generate returns for taxpayers. New Hampshire legislators should forget these financial flops and focus instead on maintaining the state's regime of low taxes for all businesses.

The rise of film production incentives

Captivated by the allure of Hollywood and the prospect of claiming credit for blockbuster hits being made in their home states, legislators and governors in the early 2000s lavished taxpayer dollars on financial incentives designed to attract movie and television production. In 2002, just five U.S. states offered “film production incentives” (FPIs) to support media production companies operating in their states. By 2009, 44 states, Puerto Rico, and Washington, D.C. had adopted FPIs[1] of some kind. But in the last decade, the trend has reversed.

Since 2009, states have smartened up to the wastefulness of FPI programs. Twelve states have axed film incentives altogether, several more have cut back their programs, and, according to the National Conference of State Legislatures, “trends of evaluating and reigning in uncapped programs are likely to continue.”[2]

Despite this context, film industry advocates continue to call for New Hampshire to adopt these incentives. The 2019 legislative term was the fourth in a row in which a film incentive bill was introduced. The proposals, to establish government handouts to movie and TV producers, have ignored the dreadful results of FPI programs in other states.

The 2019 incentive proposal[3] provides a useful example of what film industry advocates would like to achieve in New Hampshire. In the past, tax credit proposals had repeatedly been killed, so the 2019 bill tried something new. It established “an exemption from business profits and business enterprise taxes for media production companies.”[4] The bill had two stated goals.

The first was to support existing New Hampshire media companies. This provided political cover against charges that the bill would subsidize multi-million-dollar Hollywood studios. Conceptually, the idea is premised on a distorted view of government’s role, one that runs counter to New Hampshire’s approach to taxation. Sponsors envisioned the state using its taxing power to aid celebrity industries. In general, New Hampshire tax policy embraces the more egalitarian idea that government should treat all businesses equally.

The second goal of the exemption was to attract out-of-state companies to produce films, television shows, and advertisements in New Hampshire. However, with just an exemption from state business taxation, this goal was a pipe dream. While several states have pared down or dropped their programs, states that still have FPIs offer generous incentives well beyond simple exemptions.[5]

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[1] https://files.taxfoundation.org/legacy/docs/sr173.pdf

[2] http://www.ncsl.org/research/fiscal-policy/state-film-production-incentives-and-programs.aspx

[3] https://legiscan.com/NH/text/HB234/id/1833656/New_Hampshire-2019-HB234-Introduced.html

[4] Ibid

[5] http://www.ncsl.org/Portals/1/Documents/fiscal/2018StateFilmIncentivePrograms_20189.pdf

Nearby Massachusetts, for example, offers 25 percent credits for payroll expenditures and overall costs to productions that spend more than half of their budget in the state.[6] A mere exemption from business taxes would not compete with a program like that and would not attract any new business to New Hampshire.

The fall of film production incentives

That might suggest that New Hampshire should consider a more aggressive taxpayer giveaway. But such policies in practice have been shown to grossly misuse taxpayer funds while not achieving their stated goals. States are killing the programs for good reason. The two central claims of incentive supporters: (1) the tax breaks pay for themselves with new tax revenue, and (2) they provide a significant boost to state economies, have been disproven in study after study:

- A report from Massachusetts[7] found that from 2006-2015 its program produced just 14 cents of new tax revenue per dollar spent on the program, only 34.3 percent of credit-eligible spending was in-state, and net generated in-state spending was less than the value of the tax credits.
- A review of Rhode Island's program[8] concluded that, at best, it lost $1.8 million per year in tax revenue, and that it produced just 94 new film industry jobs in 13 years.
- Georgia's program, the most generous in the country, has spent more than $4 billion on production incentives over the last 10 years, but "the return on investment appears to be quite small," [9] as each new full-time job in the industry has cost taxpayers at least $119,000.[10]

These individual state reports are backed up by studies looking at the state programs on aggregate. The North Carolina-based John Locke Foundation reviewed available data on state FPIs and found that no state received even half the cost of the credits back in newly-generated revenue.[11]

Michael Thom of the University of Southern California conducted perhaps the most extensive study of production tax incentives to date, examining several economic

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[6] https://www.mafilm.org/production-tax-incentives/

[7] https://www.mass.gov/files/documents/2018/03/23/dor-other-reports-mass-film-industry-tax-incentives-2015.pdf

[8] http://www.dor.ri.gov/documents/Reports/MotionPictureTaxCredits.pdf8

[9] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3407921

[10] This figure looks especially inefficient given that the average salary of full-time movie production employees is $60,620.

[11]https://www.johnlocke.org/policy-position/film-incentives/

indicators in states with the programs.[12] He tied the incentives to small boosts in employment and wages within the motion picture industry, but the tax breaks had no significant effects on motion picture gross state product or relative production company concentration.

Many states are in need of more intense oversight of their incentive programs. A recent study of Georgia's program[13] found that the state Department of Economic Development had inexplicably multiplied the economic benefit of its film incentives by 3.57. Additionally, the Motion Picture Association of America was found to be overestimating movie production jobs in Georgia by at least a factor of 2.8.

These errors reflect a broader lack of public scrutiny of these incentive programs. Taxpayers deserve more transparency about where their money is being spent and what they are getting (or not getting) in return.

Though they fail to stimulate state economies, these taxpayer giveaways are beloved by the film industry. The credits often are transferable, meaning they can be sold to other state taxpayers to offset a production's costs. Fully 85 percent of Massachusetts's credits are sold,[14] for example, turning the program into a secondary source of revenue for production companies.

Incentives have a become an important factor for production companies when choosing where to film.[15] Supporters claim that this justifies the incentives. But the research shows that the credits do not achieve their stated goals of producing returns for taxpayers or stimulating a vibrant local film industry. Instead, productions shop around to find a state with juicy incentives, film just enough of their productions to qualify for the credits, then pack up and leave, taking taxpayer subsidies with them back to Hollywood.

A happy ending for New Hampshire?

As the research is confirming FPIs to be a waste of taxpayer money, now is no time to embrace this movie industry rent-seeking in New Hampshire. New Hampshire should learn from other states' failures and avoid this bomb of a policy.

Philosophically, Rep. Marc Abear, R-Meredith, summarized the core of the problem in a 2018 Ways and Means report on that year's bill to establish a committee to study film incentives. "The charge assumes that tax policy is to be a main tool of central

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[12] https://journals.sagepub.com/doi/full/10.1177/0275074016651958

[13] https://www.ssrn.com/abstract=3407921

[14] https://www.mass.gov/files/documents/2018/03/23/dor-other-reports-mass-film-industry-tax-incentives-2015.pdf

[15] https://www.wsj.com/articles/state-movie-subsidies-are-a-flop-11563574547

economic planning," he wrote. "The job of government does not include such responsibility."[16]

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