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Film Credits

State-based tax incentives for film and television production are popular throughout the U.S. In this article, Jacob Bundrick of the Arkansas Center for Research in Economics (ACRE) at the University of Central Arkansas discusses whether those incentives actually create jobs and boost state economies.

Film Tax Credits: Job Creator or Just Another Act?

BY JACOB BUNDRICK

The United States film industry is one of the largest in the world, with revenue reaching $29 billion in 2015. Movie fans are often enthusiastic about seeing the next box office hit or streaming the latest digital movie. However, what many buffs do not realize is that not only are they paying admission and streaming fees to watch their favorite films, but that their tax dollars are also used to subsidize movie production.

State-based tax incentives for film and television production were introduced into the U.S. market in 1992 by Louisiana. Their popularity quickly grew, and by 2009, motion picture production incentives had been adopted by 44 states. But why would states want to issue tax breaks and subsidies for the creation of movies and television shows?

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The answer is that states deploy film tax credits for the specific purpose of creating jobs, increasing wages, and generating additional tax revenue. Proponents argue that motion picture incentives allow states to attract productions that would not otherwise take place within their borders. Those in favor of film incentives contend that not only do these productions create direct jobs (actors, set builders, etc.), but they also incite a multiplier effect that boosts the surrounding economy. Supporters claim that by giving film tax credits to production companies, states will see economic activity increase for suppliers, local hotels, area restaurants, and the tourism industry at large.

However, empirical evidence does not support the claims of proponents. For example, a 2015 study by a Tulane economist finds that ''incentives have a moderate effect on filming location but almost no effects on employment or establishments.'' The researcher concludes that ''motion picture production incentives simply relocate productions and cannot help a local industry establish.''

Film tax credits fail to spur economic growth because of differences in the substitutability of filming locations and firm locations. While film locations are relatively interchangeable, firm locations are less so. Producers are able to relocate highly skilled workers for the duration of filming, change scripts to fit a location, or use increasingly better technology to fake a location. This means that filming location decisions are largely based on costs—where is labor the cheapest and what are the incentives?

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Out-of-State Companies Benefit Most

The same cannot be said for firm location decisions. Businesses in the motion picture industry are much less likely to change locations because of the benefits they receive from being located near networks of skilled workers and other firms that specialize in various aspects of the filming industry. In other words, just because a state such as Arkansas uses a film tax credit to persuade a Hollywood company to film near the Mississippi River does not mean that company will move to Arkansas and leave behind the benefits of being located in greater Los Angeles.

The relative hesitation of film businesses to relocate means that state film incentives primarily benefit out-of-state companies and individuals. Consider the case of Massachusetts. From 2006 through 2012, total production spending that was eligible for Massachusetts film tax credits reached more than $1.64 billion. However, just 33 percent, or $556.3 million, of that total was spent on Massachusetts businesses or residents. As Joseph Henchman of the Tax Foundation testified to the finance committee of the Alaska House of Representatives, ''some benefits accrue to in-state filmmakers and suppliers, [but] on the whole [film tax credits] are a net transfer from taxpayers to out-of-state production company beneficiaries.''

Making matters worse is the fact that most of the jobs created by filming are temporary. Local labor is hired so long as filming lasts. Caterers, prop builders, and extras may be employed while filming is taking place, but the local jobs end when filming does.

The lack of an economic stimulus from film tax credits also means that these incentives do not generate additional tax revenue. Motion picture incentives fail to bring in tax revenue above and beyond the cost of the tax credits issued. For example, Maryland saw a loss of 94 percent on film tax credits over the past five years. For every dollar Maryland issued in film tax credits, the state recouped just 6 cents. Massachusetts experienced similar results. From 2006 through 2012, Massachusetts was able to recoup only 13 cents in state revenue for every dollar it issued in tax credits. Film production incentives also had a negative fiscal impact of $171.4 million on Louisiana's budget in 2014 alone. These negative fiscal impacts mean that film tax credits are incentives that do not even pay for themselves.

Spending tax dollars on movie productions or allowing film companies to skip out on paying taxes means that states wind up with less revenue for more pressing needs. For example, Nevada would potentially have more revenue to address the state's K-12 education funding shortfall if film tax credits were eliminated. By the same token, Louisiana would have more tax dollars to mend the state's budget deficit if the state's motion picture incentive program was disbanded. In the end, all states may be able to lower the tax burdens faced by residents if state film incentives were to be abolished. The opportunity costs of film incentives are large and must be considered by state officials.

Despite the widespread popularity of state-based film tax credits, several states have begun putting an end to them. According to a report from the National Conference of State Legislators, the number of states offering film incentives has dropped from a high of 44 in 2009 to 37 in 2016. Michigan, New Jersey, and Alaska are among the most recent states to cut tax breaks for film makers. Without an economic justification for their use, all states would be wise to follow suit.

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