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Hollywood East?
Film Tax Credits in New England

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New England's villages and seacoast, its character and characters, attract producers of movies, television shows, commercials, and other film and video projects. But such work is not just about lovely scenery—it is also about business. Because production costs help determine where such projects are made, five of the six New England states now provide tax credits or other financial incentives to attract producers to film on location. This policy brief discusses whether these incentives attract more production, and whether they are cost-effective in creating jobs. It focuses on the use of one major incentive: film tax credits.

The little evidence available suggests that film tax credits do attract film production and create jobs in states that have little or no film industry. However, they also cost states considerable foregone tax revenue. The film production stimulates little additional economic activity in other industries. Consequently, film tax credits do not "pay for themselves" by indirectly generating additional corporate income, sales, and property tax revenues. Evidence on the benefits of film tax credits to states with a large film industry already in place, such as New York, is too scant to enable analysts to draw firm conclusion.

As more evidence becomes available, policy analysts and policymakers should evaluate the cost-effectiveness of film tax credits relative to alternative policies designed to promote job creation and economic growth. They should also take into account the economic effects of measures needed to offset the revenue losses incurred by film tax credits in order to maintain balanced budgets.

The cast: film tax credits and incentives in New England

Regional incentives for the film production industry vary widely. (See Table 1) Qualified productions are eligible for tax credits in Connecticut, Massachusetts, and Rhode Island; for tax credits and wage reimbursements in Maine; and for production grants in Vermont. New Hampshire offers no additional incentives, claiming its positive business climate alone is sufficient enticement.

Five of the six New England states now provide financial incentives to encourage local film production.

In general, tax credits relieve taxpayers of the obligation to pay all or part of a tax liability. Typically, state film tax credits are applied toward the individual or corporate tax liability of qualified producers, investors, or—in states where the credits are transferable—the purchaser of earned, unused credits. The credit is usually a percentage of the total costs (wages and other expenditures) of producing a qualified project, such as a feature-length film, video, video game, television series, or commercial. Eligibility also depends on how much production and related spending occurs locally. What expenses and what percent of them qualify for tax credits and how long each credit remains valid after it is earned are among the most important determinants of these credits' fiscal implications.

The plot: are film tax credits cost-effective in creating jobs?

This question is more complicated than generally realized. In order to answer it, one must estimate the fiscal impact of film tax credits and the amount of employment that they generate. Another important question, asked too infrequently, is: are there alternative public policies that might be more cost-effective in creating jobs than film tax credits?

Film tax credits also benefit firms not engaged in production or that would have filmed locally anyway.

Fiscal impact.

One of the key issues in evaluating the fiscal impact of these tax credits is whether or not they meet their mark: do the credits subsidize desired economic activity or do they confer what tax experts refer to as "tax windfalls"? There are two possible forms of tax windfalls. First, some credits can end up going to film and television production that would have happened locally without added financial incentives. Second, even though tax credits can lead to more local production work, the financial incentives may be larger than needed to attract producers.

"They would have come anyway." Film, television, and other producers came to or were established in the region before credits and other incentives were offered. As of 2002, the Economic Census reported that the New England region supported 766 motion picture and video industry establishments, employing over 8,000 people. Major film and television productions shot at least in part on location in the pre-credit era include *The Stepford Wives* (Connecticut), *Empire Falls* (Maine), *Mystic River* (Massachusetts), and *There's Something About Mary* (Rhode Island). The Film Division of the Connecticut Commission on Culture and Tourism estimated that about $23 million was spent on productions in the Nutmeg State between 1997 and 2005. The Massachusetts Film Bureau lists over 40 film and television productions shot on location between 1999 and 2003, before the state enacted its film tax credit in 2005. To be eligible for the tax credits offered in New England, productions need not be new to the state. Presumably, producers already filming in New England and planning to continue to do so will be able to avail themselves of film tax credits without having to expand their activity.

"They get more than needed to entice them to come." Connecticut offers tax credits of up to 30 percent of qualified production expenses. That amounts to $3 million of tax relief on a $10 million film budget, probably more than the taxes generated by a typical project of this magnitude.

Both types of tax windfalls are especially large in states where unused tax credits can be sold, as is the case in, Connecticut Massachusetts, and Rhode Island. Film producers and investors sell these tax credits because they have already reduced their tax liability to zero without them. Purchasers of the credits use them to reduce their tax liability, increasing revenue losses of the issuing government. And, while the cash raised from the sale of tax credits could offset some of that revenue loss by increasing economic activity, there is no guarantee that it will be local economic activity. Film production companies could fund a film in another location or increase the salaries of employees headquartered out of state.

The revenues generated by what is often referred to as the "multiplier effects" can partially reduce this loss. Film producers earn profits, pay wages, and purchase goods and services from suppliers. This economic activity, in turn, leads to more economic activity, and so forth. In turn, this activity generates revenues from a wide variety of sources, such as the personal income tax, the general sales tax, and the property tax. In analyzing the costs and benefits of providing film tax credits, however, governments must weigh these gains against additional demands on public services that are generated by the new economic activity.

Impact on employment.

Proponents of film tax credits argue that, because film producers are so footloose, their location is especially responsive to site-specific financial incentives. As a director filming in Rhode Island put it in a 2006 article posted on Backstage.com, film executives "would shoot a movie on Mars if they could

get a 25 percent tax break." Furthermore, it is argued, additional exposure through film and television can generate long-term economic dividends for a state by boosting its image as a desirable place in which to live and work.

Gauging the net impact of film tax credits on employment is fraught with difficulties. First, one can not be sure how many people the film industry would employ in the absence of the tax credits. This is the same obstacle inherent in estimating tax windfalls. Second, the multiplier effects of film tax credits, like those of all economic activity, are hard to track in a complex, developed economy like that of the United States. The long term impact resulting from increased exposure and improved image is especially difficult to isolate and measure. Third, the additional jobs attributed to the tax credit may go to individuals hired away from existing firms, not to people who are unemployed or attracted from other states. Existing firms may find it difficult to retain existing employees or grow if the film producers bid up wages and increase labor costs. This is especially likely in a state or region where growth in the labor force is chronically slow, the situation in many New England states. Fourth, because employment in the film industry consists mostly of a series of short-term discrete projects, analysts have difficulty determining the extent to which each part-time job is filled by a different person, or the same worker moves from project to project (a distinct possibility in film and television production).

Other considerations.

With the exception of Vermont, all states have balanced budget requirements. Consequently, if film tax credits do not "pay for themselves," state spending has to be reduced or other taxes must be increased to keep the books in balance. Film tax credits should also be evaluated relative to other policies designed to stimulate job creation over the long run, such as across-the-board tax cuts, investment in education and infrastructure, or tax incentives targeted to other industries.

In choosing which industries to subsidize, state governments should consider job quality as well as quantity. The film industry pays good wages, at least for its unionized workers. Members of Motion Picture Studio Mechanics Local 52, which establishes pay rates for film work in the Middle Atlantic States, including Connecticut, earn $22 to $30 per hour, not including benefits, for work in major film productions. By comparison, the median hourly wage for full-time, unionized manufacturing workers in the Northeast was $14 an hour in 2005, and $16.05 an hour in Connecticut. According to a 2006 Massachusetts study done for the Alliance for Independent Motion Media, the average annual pay for regular employees in Massachusetts motion picture production was $52,000 in 2004. In that year, the average annual pay of all workers in the Commonwealth was $48,916. Yet, many jobs in the film industry are temporary and sporadic. Production of Mystic River, for example, lasted just eight weeks on location in Massachusetts. While people in places such as New York and Hollywood may be able to combine enough multiple, temporary positions into full-time-equivalent employment, New England generally does not currently support year-round film or television work. Still, supporters of film tax credits hope that these incentives will encourage development of a stronger—and more permanent—film and television production industry within the region.

Finally, film and television production is a "clean" or "environmentally friendly" industry, an attribute touted by proponents of film tax credits and that many states are interested in encouraging.

Evidence of cost effectiveness.

To our knowledge, the most thorough empirical investigation to date of the cost effectiveness of a state film tax credit was performed by Louisiana's Legislative Fiscal Office (2005). The Office reported a quantum jump in film production in Louisiana after the state enacted its film tax credit in 2002. According to the Office, prior to that year, investment in film production in the state was sporadic and "may have averaged" between $10 million and $30 million per year. In 2004, investment by producers claiming the tax credit totaled $354.7 million. While this sharp rise in filming activity may partially have reflected improving economic conditions, the tax credit probably was a significant contributing factor.

However, the Office also presented evidence that the tax credit has generated the substantial tax windfalls discussed previously in this paper. In 2004, the state had granted $59 million in tax credits. Most of these credits were claimed by purchasers of unused tax credits who were not involved in production.

Using a model of Louisiana's economy, the Office estimated that between 2002 and 2011, the film's tax credit would generate, at most, approximately 3,000 additional jobs at a cost, at best, of approximately $16,000 per job in foregone tax revenue. The simulations revealed that the economic and fiscal impact of the tax credit outside of the film industry was likely to be modest. In the simulations, every additional 5 jobs in the film industry would create about 2 jobs elsewhere. And, analysts estimate that for every dollar of revenue lost to film tax credits, between 15 cents and 20 cents of revenue would be recovered from tax receipts generated by stimulated economic activity.

Simulations reveal that the economic impact of film tax credits outside of the film industry is likely to be modest.

Anecdotal evidence on the effectiveness of film tax credits as job creators is mixed. Rhode Island's Film and Television Office reports that, after a long dry spell, the state attracted $100 million in new film production after the state enacted a film tax credit in 2005. However, the state has not yet estimated the value of film tax credits claimed. New Mexico's film office also reports a sharp post-tax-credit increase in the value of film production in the state. However, in New York, a major center of film and TV production, a March 2006 New York Times article reported that most of the film tax credits claimed subsidized filming activity that would have taken place anyway.

Roll Credits?

In conclusion, the evidence available suggests that, while in some instances film tax credits have succeeded in attracting large increases in film production, they have also cost sponsoring states a good deal of foregone revenue. As Mel Brooks once said about one of his movies, "It will make millions. Unfortunately, it cost millions." Revenue losses are exacerbated by the tendency of these tax credits, like almost all tax credits, to subsidize activity not originally targeted and to provide more incentive than needed to induce the desired response. And, when film tax credits do hit their mark and induce more local film production, the resulting stimulus to overall economic activity appears to be rather modest.

Further Reading:

Albrecht, Greg. "Film and Video Tax Incentives: Estimated Economic and Fiscal Impacts." State of Louisiana Legislative Fiscal Office, March 2005.

Cobb, Kathy. "Roll the Credits…and the Tax Incentives." *Fedgazette*, Federal Reserve Bank of Minneapolis. September 2005.

Laubacher, Robert. *Lens on the Bay State: Motion Picture Production in Massachusetts*. Alliance for Independent Motion Media, 2006.

Table 1: New England film and television production incentives

	Available incentives*	Tax credit eligibility requirements	Tax liability credited	Are the tax credits transferable?	Can the tax credit be carried forward?	Are tax credit allocations limited?
Connecticut (2006) [1]	**Production expenses credit** 30 percent for production expenditures, including wages.	At least $50,000 in production expenses in 12 consecutive months. A portion of all qualified expenditures must occur in-state.	Producer's corporate taxes.	Yes	Yes, 3 years	No annual state limit.
Maine (2006) [2]	**Wage reimbursement** 12 percent of wages paid to Maine employees. 10 percent of wages paid to out of state employees. In both cases, does not include salaries over $1 million.	At least $250,000 in local production expenses in 12 consecutive months.	Reimbursement of a percentage of wages paid.	No	No	No annual state limit.
	Investment tax credit Equal to the amount paid on profits by the media production.	Investment in Maine-based film production company that paid corporate income taxes in the prior year.	Corporate income tax.	No	Unclear	No annual state limit.
Massachusetts (2005) [3]	**Payroll tax credit** 20 percent of aggregate payroll to residents; does not include salaries paid in excess of $1 million.	At least $250,000 in local production expenses in state in 12 consecutive months.	Company's personal income or corporate excise tax liability.	Yes	Yes, 5 years	No annual state limit; $7 million per production limit.
	Production expense credit 25 percent of production expense; includes salaries paid in excess of $1 million.	At least 50 percent of total production expenses or filming days must be state-based.	Company's personal income or corporate excise tax liability.	Yes	Yes, 5 years	No annual state limit; $7 million per production limit.
Rhode Island (2005) [4]	**Motion picture production credit** 25 percent of certified production costs.	A minimum production budget of $300K; must film 51 percent of production at a primary state location.	Personal income or corporate taxes.	Yes	Yes, 3 years	No annual state limit.
Vermont (2006) [5]	**Film production incentive program** Grant reimburses 10 percent of local spending; does not include salaries in excess of $1 million.	At least $1 million in local production expenses.	Reimbursment of local production expenses.	No	No	Total state grants limited to $1 million per fiscal year.

*In addition to the incentives listed above, several New England states provide sales tax exemptions on items purchased for film production purposes.

[1] As codified in PA 06-83 (SB 702), section 20, AAC Jobs for the Twenty-First Century, as amended by PA 06-186 (HB 5845), Section 83, An Act Making Adjustments to State Expenditures and Revenues for the Biennium Ending June 30, 2003.

[2] Passed through Maine's 2006 Supplemental State Budget, Section GG-1, 5 MSRA S13090-L

[3] St. 2005, C. 158, amended St. 2005, c. 167: An Act Providing Incentives to the Motion Picture Industry

[4] 2006 HB 7839 Substitute A: An Act Relating to Motion Picture Production Credits

[5] S. 165: Vermont Film Production Grant Program.