FACT SHEET

South Carolina Policy Council
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Lawmakers’ Hollywood Dreams Hurting Taxpayers: The Case Against Film Incentives

With the film industry clamoring for additional tax breaks, it is worth asking whether such targeted tax breaks actually work.

As we’ve written before, targeted tax incentives do not result in long-term economic growth. For certain industries, however, targeted tax breaks are especially ineffective. Our analysis of tax breaks for retailers found that such incentives do not create new jobs. Likewise, numerous academic studies have demonstrated that film incentives result in little benefit to taxpayers.

Yet, the film industry has aggressively sought incentives from states across the country—including South Carolina—and states seem eager to offer these incentives. This is primarily because the film industry has a number of desirable features: it’s creative, entertaining, environmentally clean, and so on. “Call it a movie trailer for economic development,” notes a 2006 Federal Reserve Bank of Minneapolis article. “A film production company comes to town with its director and stars, spends a lot of money on lodging and food, hires locals as crew and extras. Residents run into their favorite stars at the local coffee shop, and the location is seen by millions of viewers on the big screen—a great boost for tourism.” In an effort to capture this economic development, almost every state in the country has a film office, and almost every state offers an economic incentive package to the film industry.

Film Industry Incentives: Select States

Alabama	• Exemptions on sales, use and lodging taxes. • Income tax credit equal to 25%. • 35% payroll expenses rebate for salaries paid to Alabama residents when expenses are between $500,000 and $10 million. • 25%-35 % credit or rebate for sound production. • The maximum amount of rebates is capped at $5 million for 2009, $7.5 million for 2010, and $10 million for 2011.
Georgia	• 30% tax credit. • An across the board flat tax credit of 20% based on a minimum investment of $500,000. • An additional 10% Georgia Entertainment Promotion can be added by including an animated Georgia logo on approved projects. • 8% sales tax exemption.
North Carolina	• 25% tax credit on a minimum of $250,000 of in-state spending.

Here in South Carolina, the S.C. Motion Picture Incentive Act provides for the following benefits:

- 100 percent of state and local sales and use taxes: assuming expenditures of more than $250,000 within 12 months (§ 12-62-30).

- 15 percent rebate on aggregate payroll costs for persons subject to S.C. income tax. Rebates may not exceed $10 million and are taken from the General Fund (§ 12-62-50).

- 15 percent rebate on non-payroll expenditures: assuming minimum in-state expenditures of $1 million. This rebate is funded via the 5 percent admissions tax (§ 12-62-60).

- Discounts on the temporary use of underutilized state property (§ 12-62-70).

The General Assembly, however, has increased these incentives in recent years via one-year provisos that appear in the state budget. Thus the proposed FY10-2011 House budget includes the following:

- A 20 percent rebate on aggregate payroll costs (proviso 39.8).

- A 30 percent rebate on non-payroll expenditures (proviso 39.8).

- Additional funding for film marketing and other activities (39.7).

Lawmakers claim that such incentives are a good deal because they result in a "multiplier effect" that results in additional jobs and investment. Their dream scenario: the money spent on food in the local restaurants by the film crew creates a chain reaction as the employees in the restaurant spend their salary in the local economy on food, gasoline, clothing, and so on. The multiplier attempts to measure the total of all of these impacts.

But the academic evidence suggests that film incentives produce few, if any, tangible benefits.

A 2008 study by Dr. Frank Hefner of the College of Charleston examined the economic impact of nine film and television productions made in South Carolina in the years 2006 and 2007. South Carolina, like many other states, pays cash to film producers. In fact, the South Carolina Film Commission advertises on its web site that "*South Carolina Pays Cash*." At the time these films were being made, South Carolina was paying a 20 percent "rebate" on wages and a 30 percent "rebate" on qualified spending. All in all, the state was subsidizing about 50 percent of in-state spending by film production companies.

The best metric here is to compare tax dollars spent to tax dollars received. This calculation ensures an apples-to-apples comparison, which is not always the case with multiplier effects. As determined by Hefner, the South Carolina Tax Impact/Total Rebate is $0.19. This means that for each tax dollar given in rebates, the return to the General Revenue Fund from these expenditures is only $0.19.

In other words, the trickle-down spending produced by the film industry generates less in tax revenue than the tax dollars spent to attract film makers. This creates a net loss of $0.81 for each tax dollar spent on film subsidies.

Similar studies in other states have found equally dismal results:

- The Rhode Island Department of Revenue estimates that the state gets back $0.28 for every dollar it provides to film production companies.
- The Connecticut Department of Economic and Community Development, after analyzing 13 projects between July 1, 2006, and Sept. 30, 2007, determined that the state received $0.08 in tax revenue for every dollar spent.
- In Michigan, the State Senate Fiscal Agency reported that in 2008 film subsidies cost $127 million, but generated only $10 million in tax receipts.
- In Wisconsin, before their incentive bill was proposed, the Department of Revenue determined the state would likely see a net loss in revenue.
- Louisiana's chief economist in 2005 estimated that state revenue gains from the total economic activity of film production would be about 16 percent to 18 percent of state tax credit costs, leading to a net loss in revenue.

So why do South Carolina politicians continue to approve and expand existing credits? In short, because few taxpayers realize that they're paying for these bad investments. As indicated above, film credits are taken from General Fund revenue, as well as earmarked revenue generated by a 5 percent admissions tax. This is money that would be better spent on core services, as well as tax cuts.

Another problem is a lack of transparency regarding the manner in which the state issues and monitors economic development subsidies. In particular, state economists do not provide cost-benefit analyses of economic development projects, preferring instead to rely on static economic impact reports. Yet, as Hefner cautions, "An economic impact analysis will always show that public subsidies result in a positive economic impact for the state." By contrast, a cost-benefit analysis demonstrates the actual return on investment taxpayers can expect to receive. When it comes to film incentives the results are clear. Taxpayers are losing 81 cents on the dollar to lawmakers' Hollywood dreams.

For more of our research on film incentives, see *Unleashing Capitalism* (Chapter 7).

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