



Testimony in Opposition to S2760 concerning the Motion Picture Production Tax Credit
Senate Finance Committee
April 12, 2022

The Economic Progress Institute opposes S2760, which would increase the amount of motion picture production tax credits available and also remove the program's sunset date.

Rhode Island's Office of Revenue Analysis (ORA) has repeatedly explained, in its evaluations of tax credit programs, that the absence of a sunset date is simply bad policy. The very purpose of sunset dates is to enable legislators, in their obligation to exercise oversight, to make informed decisions about which programs are working and which are not, which should be continued and which should be ended. Whenever ORA sees a program *without* such a date, it always recommends adding one. To remove one is to weaken necessary oversight.

The General Assembly has clearly expressed its desire to make sure we are getting the "bang for our buck" when it gives out tax credits – most pointedly in the **Economic Development Tax Incentives Evaluation Act of 2013**. The legislative findings and purpose of the Act includes the following provision: "In order to improve state government's effectiveness in serving the residents of this state, the legislature finds it necessary to provide for the systematic and comprehensive analysis of economic development tax incentives and for those analyses to be incorporated into the budget and policymaking processes." (RIGL § 44-48.2-2.4) In removing the sunset date, S2760 would effectively remove the Motion Picture Production Tax Credit from the "budget and policymaking processes," no longer subject to regular evaluation by the General Assembly.

Such oversight is all the more necessary for the Motion Picture Production Tax Credit, because **this program loses money every year**, and the most recent data show that **it creates no net jobs**.

In 2018, when ORA released its first Evaluation Act report on this tax credit, we learned that under *all* possible scenarios – even where an unlikely 100% of additional revenues could be attributed to the Motion Picture Production Tax Credit program – new revenues could *never* prove adequate to cover the value of tax credits awarded. According to the report, "[F]or every dollar spent on the MPPTC the state generates 27 cents of new revenue. This payback ratio shows that new revenues generated from MPPTC-incentivized activity may help to mitigate costs of the MPPTC, but it is not sufficient for the tax credit to 'pay for itself.'"¹

In February 2022, ORA released its follow-up Evaluation Act report, covering the years 2016-2018, and the news is even worse. Once again, under the most optimistic scenarios, the program does not generate enough tax revenue to cover even the cost of the credits. However, instead of each dollar of tax credit producing 27 cents on the dollar, the new analysis shows that **each dollar of tax credit issued produces only 3 cents on the dollar**. To be clear, this does not mean that each dollar produces \$1.03 in revenue, but rather 3 cents.² **Between 2016 and 2018, every dollar Rhode Island invests in the Motion Picture Production Tax Credit program lost 97 cents in revenue. We would quickly end, not extend, any other economic development program that lost 97 cents on the dollar** (see Exhibits 1 and 2).



Rhode Island is not alone. Study after study in state after state has shown how poorly movie production tax credit programs perform:

- **Massachusetts (2020)**. The analyses of the MA Department of Revenue show the credit generating **14 cents per each dollar of credit** issued between 2006 and 2016, amounting to a total revenue loss of \$575.8 million, and at a cost of over \$100,000 per resident job created.³
- **Georgia (2020)**. The Georgia Department of Audits & Accounts concluded in 2020 that the state's credit produced a return of **10 cents on the dollar** for the state and another **11 cents on the dollar** for local governments.⁴
- **Pennsylvania (2019)**. Pennsylvania's Independent Fiscal Office determined that the state's film tax credit returned **13.1 cents on the dollar**.⁵

Numerous other studies show similar results, with some reaching above 20 cents on the dollar, and one study, for New York, finding a return on investment of 51 centers per dollar. A peer-reviewed study by Michael Thom of the University of Southern California, **identified 29 government agency or independent state-level studies published between 2009 and 2018 and found that all but one demonstrated a negative return on investment (ROI)**.⁶ **This helps explain why, between the years 2009 and 2018, the number of states (plus Puerto Rico and Washington, D.C.) with motion picture tax credit programs dropped from 44 to 31.**⁷

The recent ORA report also concludes that between 2016 and 2018, Rhode Island's tax credit program produced no net additional jobs. That is, it created some jobs, but no more jobs than would have been created had the general revenue funds been invested elsewhere (see Exhibit 3).

Finally, opposition to film tax credit programs like Rhode Island's runs across the political spectrum. Joseph Bishop-Henchman, from the Tax Foundation, wrote that "every independent study of film tax incentives has found they don't pay for themselves in economic growth, jobs, and boosted tax receipts....There are still true believers, in New York and Georgia and some other places, but generally the idea of using taxpayer dollars to subsidize one of America's most successful industries has passed its peak."⁸

We ask this committee to reject increasing the cap on a program that loses revenue for every dollar invested, and **we strongly urge this committee to keep this program's sunset date in place.**



Exhibit 1 (RI Office of Revenue Analysis February 2022 evaluation, p. 34):

The following table provides more detailed information regarding the State net general revenue impact under the “best case” assumption that 100% of the economic activity associated with MPPTC recipient productions was “caused” by the credit.

**Rhode Island Motion Picture Production Tax Credit:
Detailed Net Revenue Impacts**

(Average Annual RI General Revenue Impact, Calendar Years 2016-2018)

Item Description	Amount
<i>General Revenue Generated by Credit by Component</i>	
Personal Income Tax	\$14,681
General Business Taxes	\$14,923
Sales and Use Taxes	\$13,758
Other Taxes	\$612
Total Departmental Receipts	\$(1,703)
Other Sources	\$ (1,769)
Total General Revenue Generated by Credit	\$40,503
Forgone Revenue Due to Credit	\$(1,351,893)
Net Change in General Revenue, After Paying for Credit	\$(1,311,390)
New Revenues Generated for Every Dollar of Credit	\$0.03

Note: Revenue impacts under the “best case” scenario that assumes 100% of economic activity associated with MPPTC program is attributable to the availability of the MPPTC.

Source: ORA calculations based on historical Rhode Island revenue amounts and REMI Tax-PI simulations.

The table above provides the REMI Tax-PI simulation results after removing the \$1,351,893 cost of the MPPTC program from the state government spending to account for the foregone revenue that the state undertakes due to the issuance of the MPPTC, and simultaneously adding the total production spending gained by the state economy due to the availability of the MPPTC program.

These results indicate that, if all the production spending associated with the MPPTC program was “caused” by the tax incentive, then the economic activity associated with the MPPTC program generated a total \$40,503 of state general revenues. The generated revenue of \$40,503 does not account for the \$1,351,893 cost of the tax incentive itself. To take into consideration the cost of the tax incentive, ORA subtracted the \$1,351,893 average cost of MPPTC over tax years 2016 through 2018 from the \$40,503 generated revenue. This is equal to an average annual net loss of \$1,311,390 in general revenue. Expressed another way, for every dollar spent on the MPPTC the state generates three cents of new revenue under the assumption that 100 percent of the productions spending would not exist in Rhode Island if not for the availability of the tax credit. This payback ratio shows that new revenues generated from MPPTC incentivized activity may help to mitigate costs of the MPPTC, but it is not enough for the tax credit to “pay for itself.” Additional detailed revenue results from different percentage of assumed benefits attributable to the MPPTC program are provided in Appendix B.



Exhibit 2 (RI Office of Revenue Analysis February 2022 evaluation, p. 33):

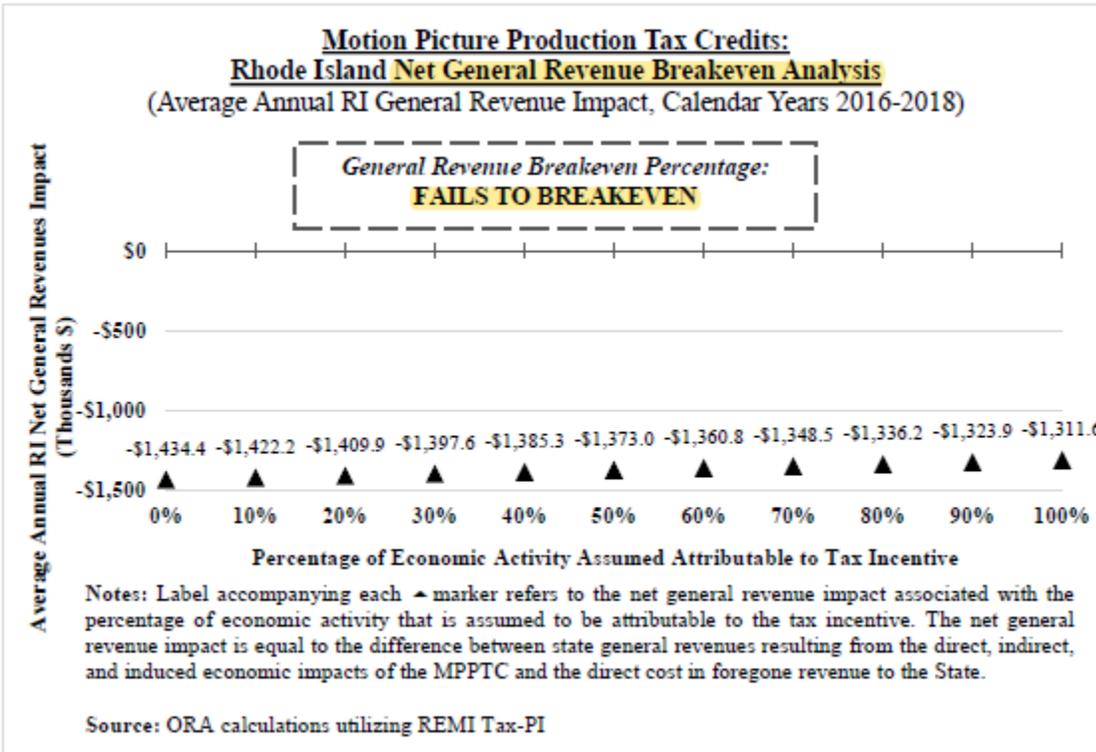
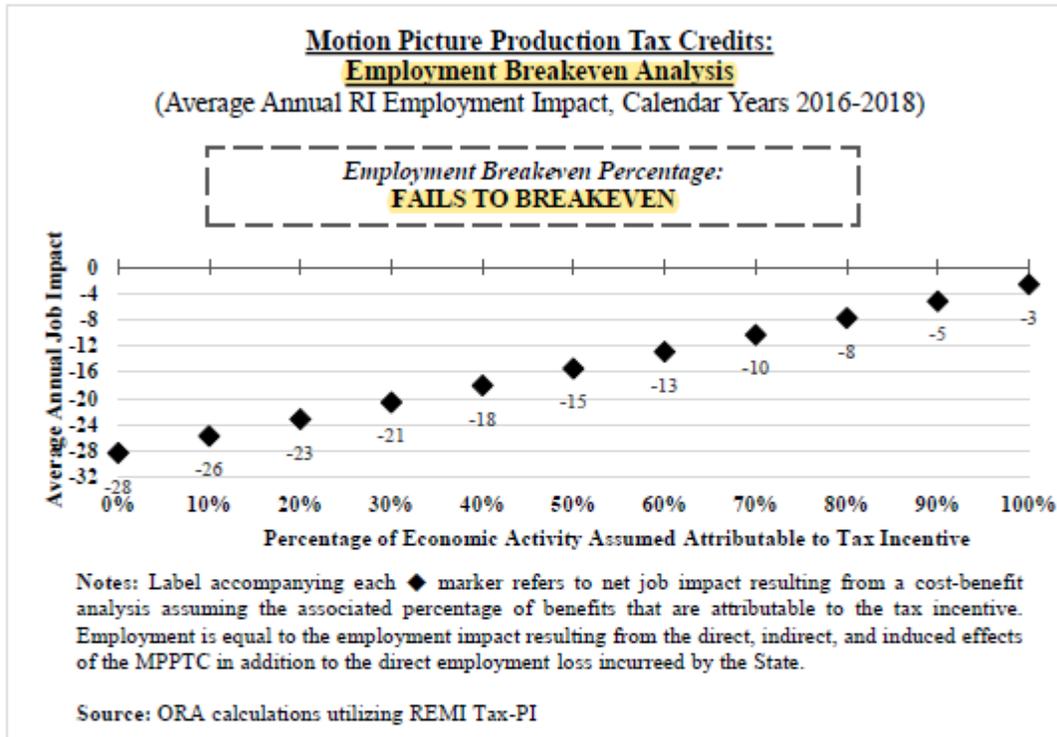




Exhibit 3 (RI Office of Revenue Analysis February 2022 evaluation, p. 35):

The following chart shows the results of a breakeven analysis with respect to Rhode Island employment.²⁷



The chart above shows the estimated new employment results for different scenarios on how much economic activity was caused by the MPPTC program. These results indicate that the Motion Picture Production Tax Credits “fail to breakeven” in terms of employment. In other words, even if, under the best-case scenario where 100% of the economic activity associated with the MPPTC program is attributable to the availability of the tax credit, the net impact on employment is negative. In addition, ORA decomposed the employment impact into government employment and private non-farm employment impacts. Appendix C shows the results of a breakeven analysis with respect to these types of employment.



¹ State of Rhode Island Department of Revenue Office of Revenue Analysis, *Economic Development Tax Incentives Evaluation Act: Evaluation of "Motion Picture Production Tax Credits" Tax Years 2013 through 2015* (March 16, 2018), <https://dor.ri.gov/revenue-analysis/reports>.

² State of Rhode Island Department of Revenue Office of Revenue Analysis, *Economic Development Tax Incentives Evaluation Act: Evaluation of "Motion Picture Production Tax Credits" Tax Years 2016 through 2018* (February 18, 2022), <https://dor.ri.gov/revenue-analysis/reports>.

³ Commonwealth of Massachusetts Department of Revenue, *Report on the Impact of Massachusetts Film Industry Tax Incentives through Calendar Year 2016* (February 20, 2020), <https://www.mass.gov/doc/dor-report-on-the-impact-of-massachusetts-film-industry-tax-incentives-through-calendar-year-7/download>, p. 20.

⁴ Georgia Department of Audits & Accounts, *Impact of the Georgia Film Tax Credit* (January 2020), <https://www.audits.ga.gov/ReportSearch/download/23536>, p. 20.

⁵ Independent Fiscal Office, *Pennsylvania Film Production Tax Credit: An Evaluation of Program Performance* (January 2019), http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/TC_2019_Film_Production_Tax_Credit_Report.pdf, p. 21.

⁶ Michael Thom, "Does Program Evaluation Affect Program Termination? Insights from the Repeal of Corporate Tax Incentives for the Motion Picture Industry," *Policy Studies Journal*, Vol. 49, No. 4, 2021, pp. 1144-1145, 1158-1159. See also Michael Thom, "Lights, Camera, but No Action? Tax and Economic Development Lessons From State Motion Picture Incentive Programs," *American Review of Public Administration*, Vol. 48 No. 1, 2018, pp. 33-51.

⁷ National Conference of State Legislatures, "State Film Production Incentives and Programs," (February 5, 2018), <https://www.ncsl.org/research/fiscal-policy/state-film-production-incentives-and-programs.aspx>.

⁸ Joseph Bishop-Henchman, "Motion Picture Association Fails to Refute Damaging Film Tax Credit Study," (September 14, 2016), <https://taxfoundation.org/motion-picture-association-fails-refute-damaging-film-tax-credit-study/>.