FORM for PUBLIC TESTIMONY
BEFORE THE SCR103 REVENUE STUDY COMMISSION

Testimony Form to be used by any interested party testifying on their own behalf or on that of a client with respect to a specific tax expenditure.

Meeting date: Monday, December 10, 2012

Tax expenditure: Motion Picture Investor Tax Credit (Item No. 6)

Name of witness: Jan Moller

Agency, persons or organizations on whose behalf the testimony is being submitted:

Louisiana Budget Project

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Please respond to the following questions using up to 4 additional pages. Where appropriate, include within each response the methodology, assumptions and data sources utilized in its confection:

1. Will your testimony before the commission be in support of continuing the tax expenditure or for changing, reducing or eliminating the tax expenditure?

2. Is there evidence of beneficial or detrimental economic or other activity specifically resulting from the tax expenditure?

3. What are the specific interests and parties which would be directly impacted by any change in this tax expenditure?

4. Do you have recommendations relative to any data, model or other form of measurement which would aid in the analysis of the efficacy of the tax expenditure?

******Please use this page as a cover page for your submission.******

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Written Testimony Regarding Motion Picture Investor Tax Credit (Item No. 6)
Submitted to SCR103 Revenue Study Commission
Submitted on Wednesday, December 5, 2012

Dear Honorable Legislators,

The Louisiana Budget Project (LBP), a nonpartisan research and advocacy nonprofit focused on low- and moderate-income residents, is pleased to submit testimony about the state's motion picture investor tax credit. Reform is sorely needed in this taxpayer-financed subsidy program to reduce its rising and unsustainable cost and give the state more budget certainty. LBP is not pressing for full elimination of the subsidy, as this would "pull the rug out" from the under the film industry. A reasonable compromise would reduce and cap spending in the motion picture investor tax credit program, while still offering support in recognition that some in the film industry have made investments in Louisiana.

Problem 1: Cost of the Motion Picture Investor Tax Credit is Growing Out of Control

The incentive program is currently uncapped, both in terms of number of applicants and amount of credits that can be claimed. Louisiana will subsidize up to 30 percent of an in-state film production's expenditures, as well as 5 percent of its in-state payroll. The lack of limits and caps—as well as legislative action that increased the generosity of the credit in recent years—has caused its cost to skyrocket. The state spent nearly $1 billion on film tax credits over the last decade, with $231 million in credits in 2011-2012 alone.

Figure 1: Louisiana has spent more than $1 billion on subsidies to film productions.* (in millions)

Source: Louisiana Department of Revenue
*Investment, Employment and Infrastructure

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Problem 2: Motion Picture Investor Tax Credit Does Not Produce Positive "Return on Investment" for State Taxpayers

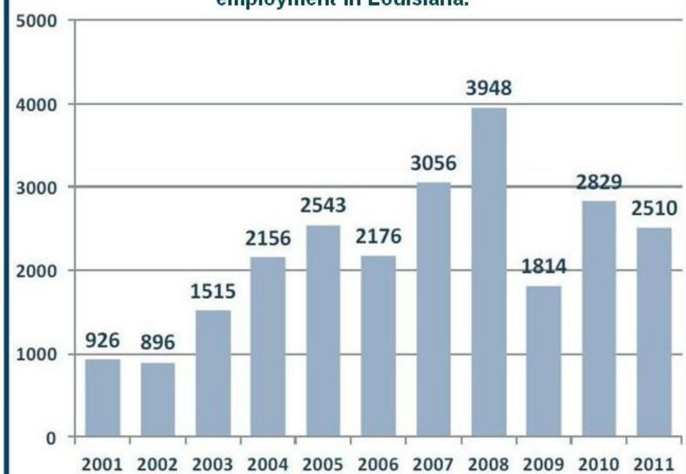
There is no doubt that the motion picture investor tax credit helps stimulate some economic activity in the film industry. Economic theory says that when you subsidize something, you get more of it. But this economic activity does not pay for itself. According to the Louisiana Department of Economic Development's own studies, for every dollar in revenue the state takes in related to movie production, it give out $7.29 in film tax credits, for a net loss of $6.29—a loss that is borne by other state taxpayers.

A separate analysis by the Legislative Fiscal Office determined that the state can expect to recover, at best, only 16 to 18 percent of the revenue that is lost to film tax credit. According to the LFO, the economic "multiplier effect" of film tax credits is small. Even using the most generous and expansive definition of economic activity related to the film industry, the program does not pay for itself and unambiguously results in state tax revenue loss.

Problem 3: Job Impacts of Motion Picture Investor Tax Credit Are Lackluster

Despite more than a decade of costly subsidies, the number of permanent jobs created in the film production industry is lackluster. Employment in the industry fluctuates widely, and jobs are often unstable, temporary or part-time. The cost to taxpayers per job created is incredibly high: more than $60,000 per direct job. Furthermore, jobs in the film industry often come without benefits like health insurance. Employees are also often defined as "independent contractors," which not only means fewer benefits but leads to reduced after-tax income, as employees are responsible for the full cost of payroll taxes.

Figure 2: Film subsidies produce meager employment in Louisiana.*



Source: Bureau of Labor Statistics (BLS) Quarterly Census of Employment and Wages (NAICS 51211 Motion picture and video production, 51212 Motion picture and video distribution, 51219 Postproduction and other related industries, and 7115 Independent artists, writers, and performers).
*According to BLS, 2011 data is "preliminary."

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Beyond direct employment in the film industry, many proponents of the credit tout the positive effects it has on the creation or support of "indirect jobs." However, the "multiplier effect" for jobs in the movie industry is quite small, which likewise translates into limited "indirect job" impacts.

Problem 4: Transferability and Refundability of Credits Drives Up Cost, Benefits Wealthy Taxpayers

Movie producers who are issued film tax credits can use them to offset their state tax liability, sell them back to the state for 85 percent of their value, or transfer them to other Louisiana taxpayers through a broker system. Film tax credits are refundable, meaning that if the value of credits exceeds tax liability, the state writes a check for the difference.

While 26 states with film tax credits allow either refundability or transferability, Louisiana is one of only three states that allow both. This reduces the effectiveness of the incentive program. Permitting the transferability of film tax credits cuts down on their economic impact. Wealthier taxpayers often buy the credits to reduce their tax liability. The LFO has noted that most film-credit buyers use the additional money as part of their savings portfolio, and thus do not spend the additional money in the state's economy. Most of the people who claim film tax credits on their tax returns are not affiliated with the movie industry.

Recommended Solutions

There are several common-sense reforms that would make the motion picture investor tax credit including better deal for Louisiana taxpayers:

- **Capping the amount of tax credits issued each fiscal year** to stop the program's fast growing cost and give state policymakers more certainty by making it easier to accurately forecast tax spending, while still offering a steady level of support to the film industry. New Mexico recently instituted such a "rolling cap" that allows for $50 million in film tax credits to claimed each year.
- **Eliminate the transferability of the tax credit** to increase the efficiency and economic impact of the credits.
- **Reduce the generosity of the credit over time,** from 30 percent to a lower, more sustainable level. This would reduce costs to the state, while still giving film producers an incentive to choose Louisiana.

Prepared by LBP analyst Steve Spires