

Commentary

December 8, 2009 • Vol. 5, No. 29



Film Tax Credits Don't Bring Lasting Jobs or Significant Revenue Gains

By Christine Harbin

The new Jason Reitman film, *Up in the Air*, premiered at the Tivoli Theatre in University City last month. Many are using the event as an opportunity to promote film tax credits, to be used as a means of bringing more film productions to Missouri. Currently, the state offers a film production tax credit for up to 35 percent of the amount spent in Missouri for activities related to film production, up to \$4.5 million. Although reducing tax burdens is generally a good idea, there are several reasons to oppose tax credits targeted to filmmakers.

Summary

Despite their popularity, tax credits for film productions don't promote lasting job growth or bring in significant tax revenue. Many productions can cost more in state funding than they generate in temporary economic activity. Eliminating the commercial property tax surcharge or the earnings tax would be a more efficient route to increased economic growth.

Main text word count: 648

States tend to spend more revenue by attracting filmmakers with tax credits than the filmmakers generate while working in the state. For an example of what not to do, Missouri should look to Wisconsin, which offers a refundable tax credit of 25 percent for all production-related activities, as well as the use of state-owned buildings and locations free of charge. When Johnny Depp and Christian Bale filmed *Public Enemies* in the state capitol building in Madison, the state lost money. According to the Wisconsin State Journal, the state paid \$4.6 million to the filmmakers in credits, even though the film generated an estimated \$270,000 in state taxes. Furthermore, filmmakers can frequently claim more than they paid in taxes, because refundable tax credits function like grants.

States tend to spend more revenue by attracting filmmakers with tax credits than the filmmakers generate while working in the state.

Additionally, this economic activity is short-lived. As soon as the filmmakers complete their shoot, they pack up their sets and leave the state. Certainly, many area residents are cast as extras in these films, but these jobs are both low-wage and temporary. According to the casting call for *Up in the Air*, extras were compensated only \$7.05 per hour (before taxes), and they were asked to work for just one day. If the state were truly focused on creating productive, long-term jobs, it would target activities that are more permanent than film shoots. Rather than offering these film tax credit programs, Missouri should encourage employers to create jobs that are better compensated and longer lasting.

Show-Me Institute Mission:
Advancing liberty with responsibility
by promoting market solutions
for Missouri public policy

There are also fundamental downsides to targeted tax credits in general, not only those that target filmmakers. These programs reinforce the idea that government should be able to pick and choose which economic activities may occur within its borders. Government

continued on back

officials should not have the role of deciding who wins and who loses in the marketplace; they should allow businesses to succeed or to fail as a result of their own efforts, and the preferences of consumers.

Furthermore, targeted tax credits establish a system in which government favors certain businesses over others. These programs force every non-favored business to compete at a comparative disadvantage, creating inequality. Government policy should not prefer filmmaking over hog farming, for example, simply because one is considered to be more glamorous. This sort of favoritism breeds corruption, because it encourages all businesses within a state to seek the favor of their elected officials and solicit the government for special treatment.

There are ways to structure tax policy that would encourage job creation and also maintain a level playing field. If the government reduced or eliminated the commercial property tax surcharge or the earnings tax in Saint Louis, for example, it would decrease the overall cost of labor and employers could hire more people.

I understand why Midwestern states offer tax credits to filmmakers: They want to attract celebrities. Certainly, it's exciting for the *hoi polloi* to recognize their local haunts on the big screen and to spot celebrities like George Clooney and Johnny Depp. Rather than competing with other star-struck states, however, Missouri should leave filmmaking to states that specialize in it, like California, and then realize gains from interstate trade. If Missouri wanted to take part in a red-carpet film premiere, it would make much more economic sense to provide the Michelob than to give away tax money in exchange for the "privilege" of hosting the event.

Christine Harbin is a research analyst with the Show-Me Institute, a Missouri-based think tank.

Rather than competing with other star-struck states, Missouri should leave filmmaking to states that specialize in it, like California, and then realize gains from interstate trade.

Attention Editors and Publishers

Show-Me Institute commentaries are designed to be reprinted in newspapers and other publications. Reprint permission is hereby granted, provided that proper credit is given to the author. Electronic versions are available at the Show-Me Institute website, www.showmeinstitute.org.

We request, but do not require, that those who reprint one or more of our commentaries notify us of publication, for our records: info@showmeinstitute.org

The author of this commentary is available for interviews. To speak with the author or other Show-Me Institute scholars, please contact:

The Show-Me Institute
7777 Bonhomme Ave. Suite 2150
Clayton, MO 63105

Phone: 314-726-5655
Fax: 314-726-5656

www.showmeinstitute.org
info@showmeinstitute.org