

The Massachusetts Film Tax Credit

In an effort to build a thriving state economy – one that delivers broadly shared prosperity for our businesses and workers - the Commonwealth invests in many different things: it offers high-quality education, supports job training, builds roads and operates public transit. The Commonwealth also provides tax breaks for businesses, typically with the goal of adding good jobs to the state economy (see MassBudget’s factsheet, [“Business Tax Breaks in Massachusetts”](#)). One such tax break is the state’s Film Tax Credit.

FILM TAX CREDIT PROVIDES AN UNUSUALLY GENEROUS SUBSIDY

The film tax credit provides a significantly larger subsidy than most other special business tax breaks. While we generally think of tax breaks as reducing the taxes a company owes, the film tax credit goes well beyond that. It provides a tax subsidy equal to 25% of the total amount spent by motion picture companies in Massachusetts. If, for example, Blockbuster Films has spent \$10 million in Massachusetts in a given tax year, they would get a tax credit worth \$2.5 million – even if they would have owed little or no taxes. The credit can be carried forward for up to five years, sold or cashed in (for a 90 percent refund from the Commonwealth). Using the example above, the “cash in option” could mean the Commonwealth writing Blockbuster Films a check for up to \$2.25 million.

This is a substantially different structure from most other special business tax breaks. For example, the state’s Investment Tax Credit seeks to increase companies’ long-term capital investments in Massachusetts. It provides eligible companies (manufacturing, R&D, agriculture and commercial fishing companies) with a credit equal to 3 percent of the cost of depreciable real and tangible property located in Massachusetts.¹ The Investment Tax Credit may be carried forward for up to three years. It is neither transferable nor refundable.

The total cost to the Commonwealth of the Film Tax Credit program is not capped. (Additionally, qualifying film production companies are entitled to an exemption from the state sales tax on all purchases made as part of the production process.)

MASSACHUSETTS SPENDS \$80 MILLION A YEAR ON THE FILM TAX CREDIT

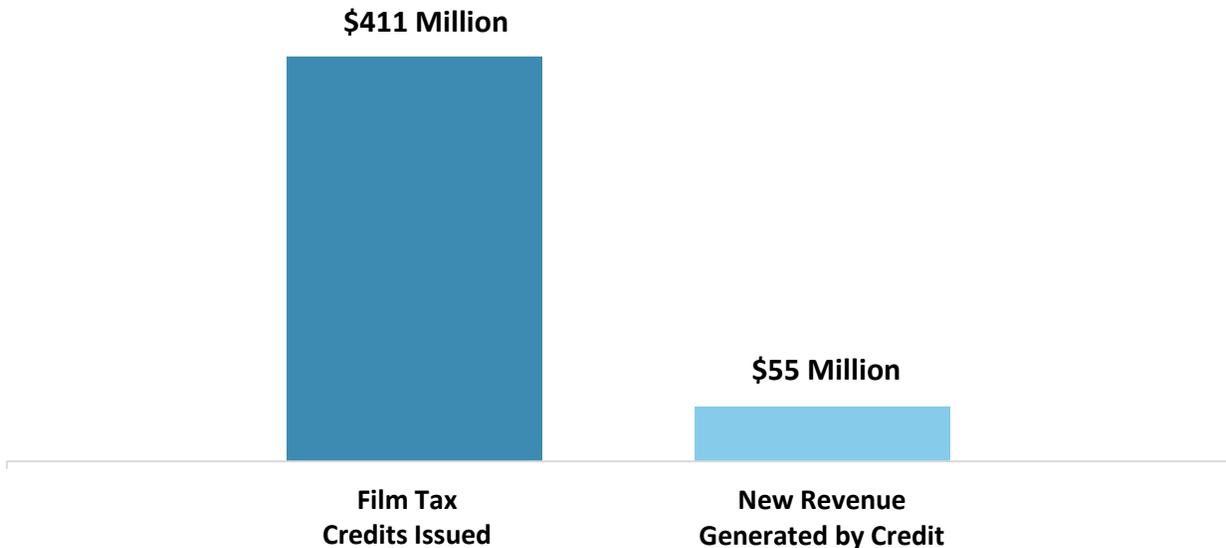
The Film Tax Credit is among a handful of particularly costly special business tax breaks provided by the Commonwealth (see MassBudget’s factsheet, [“Business Tax Breaks in Massachusetts”](#)). On an annual basis, DOR estimates that the Film Tax Credit will cost the Commonwealth about \$80 million in forgone corporate and personal income taxes in both FY 2015 (the current fiscal year) and FY 2016.² It is reasonable to assume it will cost similar amounts in the years beyond. The most recent Department of Revenue (DOR) annual report on the Film Tax Credit shows that \$411 million dollars in credits were issued from 2006 (the year the Film Tax Credit first became available) through 2012.³ DOR’s estimates further indicate that the credit will cost the Commonwealth more than \$230 million in additional revenue losses through the end of FY 2016.⁴ Tallied together, from its inception through to the end of the coming fiscal year, the cost of the Film Tax Credit will total some \$650 million.⁵

Studies of state film tax credits throughout the U.S. have repeatedly found that these credits do not “pay for themselves.”⁶ They do not generate anywhere near enough additional economic activity – in the form of wages

and purchases – to produce new tax revenue that would cover the cost of the tax break program. DOR’s most recent annual report (2012) echoes this finding for Massachusetts: During the period from 2006 to 2012, during which the Commonwealth issued \$411 million in credits, the increase in film production activity produced a total of \$55.1 million in new tax and non-tax revenue, statewide.⁷ In other words, for every dollar of tax revenue forgone, the Film Tax Credit delivered thirteen cents of new revenue to the Commonwealth.

Cost of Film Tax Credit Far Exceeds New Revenue Generated, 2006-2012

Credits issued/new revenue generated, 2006-2012



FILM TAX CREDIT HAS CREATED FEW JOBS AT HIGH COST PER JOB

In their 2012 report, DOR estimates that, from 2006 through 2012, the Film Tax Credit created a net total of 5,530 jobs.⁸ This “net” figure is the combination of the new jobs created by the credit minus the jobs lost because the Commonwealth, due to the cost of the credit, had less revenue available to spend in other areas, which also involve hiring people, including educating children, policing neighborhoods, staffing libraries, and building roads and bridges. Importantly, only 3,000 of these new net jobs went to Massachusetts residents. This seven-year total averages out to about 430 net new jobs for residents, statewide, in each year. With a net state cost for the program of \$357 million over this same period, DOR puts the cost per net resident-job at roughly \$119,000.⁹

MA Resident Jobs Created by Film Tax Credit

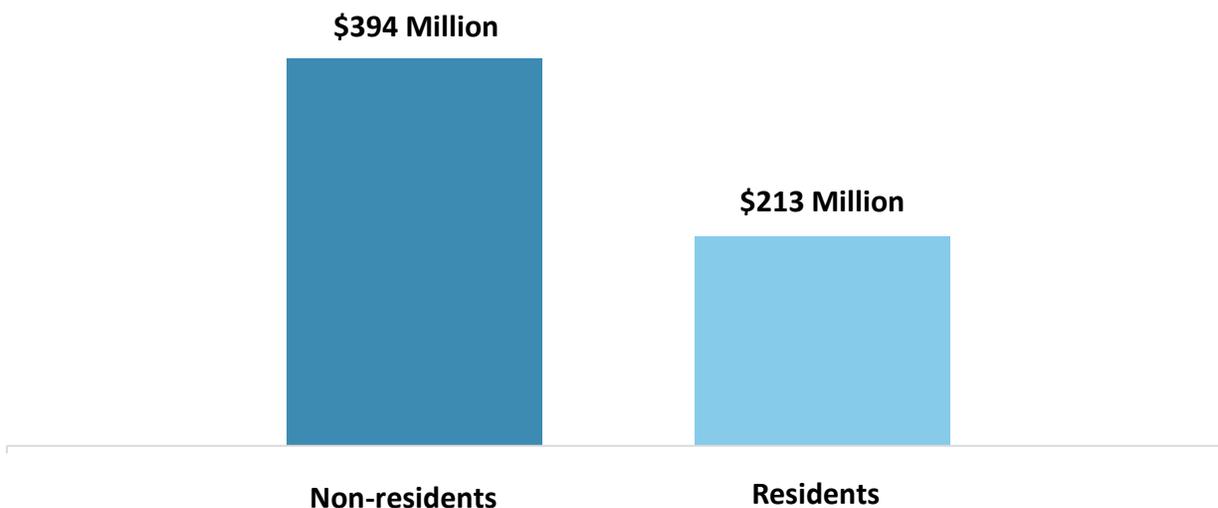
	2006	2007	2008	2009	2010	2011	2012
Jobs created by film tax credit activity	286	485	1,881	1,643	798	932	1,291
Jobs lost from state spending cuts made to pay for tax credit	28	-133	-1,085	-1,421	-749	-394	-561
Net Jobs Created	314	352	796	222	49	538	730

Full-Time Equivalent estimates for Massachusetts residents, MA DOR

While Massachusetts residents claimed somewhat more of the total net jobs generated by the Film Tax Credit than did non-residents (3,000 jobs for residents vs. 2,530 jobs for non-residents, from 2006 through 2012), non-residents received a much larger share of total wages. During this period, residents earned 35 percent (\$213 million) of total wages compared to the 65 percent (\$394 million) paid to non-residents.¹⁰

Non-Residents Received Large Majority of All New-Job Wages Paid, 2006-2012

Wages paid to those with net new jobs (direct and indirect) created by Film Tax Credit, 2006-2012



CONCLUSION

Since its inception in 2006, Massachusetts's Film Tax Credit has cost the Commonwealth well over half a billion dollars in forgone tax revenue. The return on this substantial investment has been the creation of about 430 net jobs each year for Massachusetts residents in (or related to) an industry that provides between 5,000 and 6,000 total jobs in the state. On average, the Commonwealth has paid out roughly \$119,000 in tax credits for each of these net, new resident-jobs; the jobs themselves, meanwhile, have delivered about \$70,000 a year in wages to the typical worker.¹¹ Analyses performed by think tanks across the political spectrum have singled out film tax credits as a particularly costly and ineffective way for states to pursue long-term economic development.¹² As the Center on Budget and Policy Priorities summarizes, "In the harsh light of reality, film subsidies offer little bang for the buck."¹³ The Tax Foundation meanwhile, observes that film tax credits, "fail to live up to their promises to encourage economic growth and to raise tax revenue."¹⁴

Not surprisingly then, other states have begun to reduce, suspend or altogether eliminate their film tax credit programs.¹⁵ There is no evidence that the Massachusetts Film Tax Credit can develop a substantial and permanent film production industry in the state, one that is not dependent on large tax subsidies to survive. What is certain is that the high cost of the Massachusetts Film Tax Credit limits our ability to invest in other programs with proven track records of helping to build more broadly-shared prosperity in Massachusetts, including apprenticeship and workforce training programs, quality childcare supports, and the states' Earned Income Tax Credit.

¹ Massachusetts DOR Guide to Corporate Excise Tax (see "Investment Tax Credit"):

<http://www.mass.gov/dor/businesses/current-tax-info/guide-to-corporate-excise-tax/credits.html#Investment>

² DOR Tax Expenditure Budget. See FY 2016 Tax Expenditure Budget (TEB items 2.614 and 1.611):

http://www.mass.gov/bb/h1/fy16h1/tax_16/items/htax2614.htm

³ Department of Revenue, Massachusetts Film Tax Credit Incentive Report 2012 (pg. 13):

<http://www.mass.gov/dor/docs/dor/news/reportcalendaryear2012.pdf>

⁴ A MassBudget calculation that includes half of FY 2013 cost (the other half would be included in the DOR estimate for CY 2012 costs) and the costs for fiscal years 2013-2016: $\$76.1 \text{ M}/2 + \$39.6 \text{ M} + \$75.3 \text{ M} + 77.9 \text{ M} = \231 M

See FY 2016 Tax Expenditure Budget (TEB items 2.614 and 1.611):

http://www.mass.gov/bb/h1/fy16h1/tax_16/items/htax2614.htm

⁵ This total includes estimates for both individual and corporate income tax losses. It does not include revenue losses resulting from the sales tax exemption provided to film production companies. DOR does not provide an estimate for these losses.

⁶ See Center on Budget and Policy Priorities, "Not Much Bang for Too Many Bucks", December 201:

<http://www.cbpp.org/cms/index.cfm?fa=view&id=3326>

See also Federal Reserve Bank of Boston, "Cost-benefit analysis of Connecticut's film tax credit", January 2009:

<http://www.bostonfed.org/economic/neppc/memos/2009/weiner011609.pdf>

⁷ Department of Revenue, Massachusetts Film Tax Credit Incentive Report 2012 (Table 5, pg. 16):

<http://www.mass.gov/dor/docs/dor/news/reportcalendaryear2012.pdf>

⁸ Department of Revenue, Massachusetts Film Tax Credit Incentive Report 2012 (Table 5, pg. 16):

<http://www.mass.gov/dor/docs/dor/news/reportcalendaryear2012.pdf>

⁹ The net cost figure includes both the value of the credits provided by the Commonwealth and the new revenue received by the Commonwealth due to increased film production activity in the state.

Department of Revenue, Massachusetts Film Tax Credit Incentive Report 2012 (Table 5, pg. 16):

<http://www.mass.gov/dor/docs/dor/news/reportcalendaryear2012.pdf>

¹⁰ Department of Revenue, Massachusetts Film Tax Credit Incentive Report 2012 (Table 6, pg. 18):

<http://www.mass.gov/dor/docs/dor/news/reportcalendaryear2012.pdf>

¹¹ Department of Revenue, Massachusetts Film Tax Credit Incentive Report 2012 (Table 6, pg. 18):

<http://www.mass.gov/dor/docs/dor/news/reportcalendaryear2012.pdf>

¹² See Center on Budget and Policy Priorities, "Not Much Bang for Too Many Bucks", December 2010:

<http://www.cbpp.org/cms/index.cfm?fa=view&id=3326>

See also Federal Reserve Bank of Boston, "Cost-benefit analysis of Connecticut's film tax credit", January 2009:

<http://www.bostonfed.org/economic/neppc/memos/2009/weiner011609.pdf>

See also Tax Foundation, Film Tax Credits homepage: <http://taxfoundation.org/tax-topics/film-credits>

¹³ See Center on Budget and Policy Priorities, "Not Much Bang for Too Many Bucks", December 2010:

<http://www.cbpp.org/cms/index.cfm?fa=view&id=3326>

¹⁴ See also Tax Foundation, Film Tax Credits homepage: <http://taxfoundation.org/tax-topics/film-credits>

¹⁵ Governing, "Cut! States Are Walking Back Film Tax Credits", September 11, 2014:

<http://www.governing.com/topics/finance/gov-states-walking-back-cutting-film-tax-credits.html>