In 2005 and 2007, Massachusetts enacted legislation to create generous tax subsidies for the motion picture industry. The Tax Expenditure Budget produced by the Department of Revenue estimates that in Fiscal Year 2008 and Fiscal Year 2009 the cost of these tax breaks will be approximately $63 million each year.¹ This cost places it among the more expensive new initiatives approved by the state in recent years.

By describing how the tax credits work, what they cost, and what we know about how they have affected the state economy, this MassBudget Brief provides information to help readers examine whether these tax credits are an efficient use of economic development resources.

**How Does the Motion Picture Tax Credit Work?**

The major Massachusetts tax breaks for film producers are tax credits for corporations and other taxpayers that produce motion pictures in the Commonwealth. Often when tax breaks are granted to individuals or corporations they are provided in the form of deductions or exemptions. A deduction or exemption reduces the taxpayer’s income by the amount of the deduction or exemption. The value to the taxpayer is the value of the deduction multiplied by the tax rate. For example, working parents are allowed a tax deduction for certain child care expenses. A qualifying parent with $1,000 in child care expenses can deduct that amount from her income before calculating her taxes. Because the tax rate is 5.3 percent, a reduction in income of $1,000 results in a reduction in taxes of $53.

The motion picture industry tax break is structured not as a deduction, but rather as a credit. This allows for a much greater level of subsidy to this industry than would be possible with deductions alone. A credit does not just reduce taxable income; it directly credits the taxpayer with the amount of the credit. For example, the film industry tax credit provides the film producer with a credit of 25 percent of production expenses. Therefore, if the company spends $1,000 it receives a tax benefit of $250. If it spends $10 million in the state, it receives $2.5 million. Through the tax code, the state pays approximately 25 percent of the costs incurred by the film production company in Massachusetts.

¹ The most recent analysis from DOR indicates that the FY 2008 cost could be lower than the estimate and the FY2009 cost could be higher. See Bal, Navjeet K., Commissioner of Revenue, Massachusetts Department of Revenue, “A Report on The Massachusetts Film Industry Tax Incentive”, March 2008, p. 5. Available at [http://www.mass.gov/Ador/docs/dor/business/outstate/March_2008_Film%20Incentives.pdf](http://www.mass.gov/Ador/docs/dor/business/outstate/March_2008_Film%20Incentives.pdf)
Can the Film Company Claim the Credit if They Don’t Pay Taxes in Massachusetts?

Yes. Ninety percent of a company’s credits can be paid (refunded) to the production company even if the company pays no taxes in Massachusetts. Thus a company that spends $10 million in Massachusetts and pays no taxes in Massachusetts could receive a check from the state Department of Revenue for 90 percent of $2.5 million.²

How Does This Credit Compare to Other Tax Credits?

The 25 percent rate is significantly higher than most credits in the state tax code. For example, Massachusetts has an investment tax credit that provides a credit of 3 percent to certain companies that make investments in qualified tangible property. The state also has an Economic Opportunity Area Credit that provides a credit of 5 percent of the cost of property a business invests in within an economic opportunity area.

Complete information on these and all of the other tax credits and deductions provided by the state is available in the state’s Tax Expenditure Budget, at:
http://www.mass.gov/bb/h1/fy2009h1/tax2_09/hdefault.htm

What Does the Motion Picture Industry Tax Credit Cost?

The state estimates that it will pay out approximately $63 million a year in film industry tax credits in 2008 and 2009. But could the tax credit pay for itself by increasing economic activity and associated state tax revenue? A recent report by the state Department of Revenue examined this possibility. The report estimated that the total tax revenue forgone in 2006 to 2008 would be $137.7 to $138.7 million. It then examined how much of this loss could be offset by new tax revenue. The findings, quoted below, suggest that it is unlikely that more than a small portion of the forgone revenue would be offset by new revenue. This analysis is consistent with other studies of film tax credits:³

Some of the tax revenue forgone due to film credits and sales tax exemptions has been or will be offset by increased Massachusetts personal income, business, and other taxes generated by film productions that would not have taken place in the Commonwealth in

² While the credits only recently became refundable, they were already transferable. Film production companies that do not owe taxes can transfer (sell) their tax credits to taxpayers who do have tax liabilities. On average these tax credits have been sold for 84% of their value. Most frequently they were purchased by financial institutions. See “A Report on The Massachusetts Film Industry Tax Incentive”, March 2008, p. 3. Available at http://www.mass.gov/ADOR/docs/dor/business/outstate/March_2008_Film%20Incentives.pdf.
³ In Louisiana, for example, it was estimated that for every dollar lost to film tax credits between 15 and 20 cents of revenue would be recovered from tax receipts generated by new economic activity. See New England Public Policy Center at the Federal Reserve Bank of Boston, “Hollywood East? Film Tax Credits in New England,” October 2006. Available at http://www.bos.frb.org/economic/neppc/briefs/2006/briefs063.pdf.
the absence of the tax incentives. Based on the information provided on credit and sales tax applications, and the Massachusetts personal income tax rate of 5.3%, the Commonwealth could collect as much as $18.6 million in new income taxes (which would be received through withholding) from motion picture productions that have already claimed or will be eligible for film production tax credits, though the actual total is likely to be less because the effective income tax rate on earnings is lower than the 5.3% nominal rate. (Some of the income attributable to motion pictures and other productions filmed in the Commonwealth that was not withheld on may also be subject to Massachusetts tax.) Additional tax revenue will be generated by ancillary economic activity associated with film production in Massachusetts, and by “multiplier” effects entailed by this related economic activity. Some of this tax revenue would have been received in the absence of film tax credits (for example, in the case of tax revenue generated by the production of advertisements and local programming that would have occurred even without tax incentives), but most of the additional tax revenue generated by large budget motion pictures should be seen as the result of new economic activity.4

**How Many Jobs Does This Tax Credit Create?**

The answer is not known. In examining data from the 27 film credit applications received so far for 2007, the state Department of Revenue found that:

[Productions employed 1,477 individuals with an average employment duration of 3.7 months, ranging from 1 week to 12 months. Weighted for the number employed and the duration of employment for particular productions, the average duration of employment was 1.7 months. The 2007 job estimates do not include employment from the 25 additional film productions that have not yet applied for tax credits, but have applied for sales tax exemptions.5]

The Department of Revenue also reports that data from the Department of Labor and Workforce Development indicates that employment in the motion picture and video industries increased by 927 between the three month period ending in September of 2006 and the same period in 2007. It is also likely that there were some additional jobs created in other industries from which motion picture companies purchase good or services.

To evaluate the effectiveness of this tax break, the state needs to examine exactly how many jobs are created, whether Massachusetts residents get those jobs, what types of wages they pay, and whether the money spent through these tax subsidies stays in the state economy. With motion pictures, there is a danger that some of the spending that is reimbursed by tax credits will not actually stay in the state economy. For example, if a star is paid $4 million for appearing in a movie that is filmed entirely in Massachusetts, our state would pay about one million of that salary

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in the form of tax credits to the production company. It seems unlikely that the film star would spend most of that money in the Massachusetts economy rather than in the economy of the state in which he or she is a resident.

**Is This the Most Effective Use of $60 Million?**

As the data above indicate, there are a very limited number of jobs in the motion picture industry in the state. Yet the state has begun using a large share of its new economic development resources to provide tax subsidies for this industry. Is it likely that the film industry will become a major employer and economic engine in Massachusetts? Studies have indicated that nationally the film and sound recording industries account for about one third of one percent of employment.⁶ There are also some jobs in industries that service film crews, like catering, but even counting any multiplier effect, the total number of jobs likely to be created in connection with motion picture production is likely to remain a small share of total employment in Massachusetts. It is important to ask whether providing such large tax subsidies for a relatively small sector of the state economy is the best use of economic development resources.

There is also significant evidence that tax subsidies for various industries represent a less effective economic development strategy in general than investing in the fundamentals of economic strength like well-educated workers and good public infrastructure. This evidence was examined in a recent publication by the Massachusetts Budget and Policy Center, *Building a Strong Economy*, available at: [http://www.massbudget.org/BuildingStrongEconomyJune07.pdf](http://www.massbudget.org/BuildingStrongEconomyJune07.pdf)

**What About the Value of People Seeing Massachusetts in Movies?**

This is another issue on which there is very little good data. It would be useful for the state to examine carefully whether there is a way to quantify the value of Massachusetts being portrayed in a positive (or negative) light in movies. This value, and the other values associated with providing tax credits for motion pictures, should be weighed against the benefits that could be generated if the same resources were invested instead in improving the education and skills of Massachusetts residents, fixing our roads, bridges and other infrastructure, and restoring local aid so that our communities can remain the kinds of places where businesses will want to locate and people will want to live.

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