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Reviews for state's film tax credit aren't good

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By Steve Peoples

PROVIDENCE — The movie stars keep coming.

Richard Gere, Meryl Streep and Katherine Heigl are among the big names already drawn to Rhode Island, attracted not by the Ocean State's beaches or culture, but by a tax credit program that allows studios to save millions of dollars by making movies in Little Rhody.

The celebrities bring with them armies of lesser-known actors, production staff and support personnel. The hordes help support local businesses. They eat in local restaurants. They stay in local hotels.

But a recent study suggests that Hollywood may be making out far better on the deal than Rhode Island.

The state gets back 28 cents for every dollar it gives up to the production companies, according to a recently released state Department of Revenue analysis. That's an investment return of negative 72 percent.

The study "raises questions on the return on investment, but it's a work in progress," said Gary Sasse, Department of Revenue director.

Indeed, the report's authors acknowledge that the findings — which are largely disputed by the tax credit's supporters — are not complete.

The cost-benefit analysis focuses only on direct economic benefit to the state — namely increased tax receipts — while ignoring the indirect benefits and impact on the economies of cities and towns. The report is also based on general projections and doesn't look at the details of the production costs of each project. (A separate "micro analysis" is expected later in the year.)

"I am pleased to see that our friends at the Rhode Island Department of Revenue have created this 'work in progress' discussion paper," said Steven Feinberg, who is among the tax credit's greatest supporters as director of the state Film and Television Office. "When analyzing the overall impact upon our state and our citizens, one must consider the direct and indirect returns as well as the multiplier effect and future positive economic impacts, including the need to attract new, resilient and innovative industry and high-paying employment to a state that is currently losing jobs at an alarming rate."

There is little doubt that the tax credit program — which was scaled back by the Assembly in June — has spurred some economic growth in Rhode Island.

Since 2005, at least 29 film or television productions have qualified for Rhode Island's motion picture tax credits, spending an estimated \$225.9 million in associated production costs. The study focuses, however, on 16 completed projects that spent \$142.2 million.

The report assumes that all spending went to Rhode Island businesses, but notes there is little evidence that is the case. Some production companies have acknowledged using out-of-state vendors on Rhode Island projects. (Future productions are subject to more detailed reporting requirements that break down in-state expenditures.)

And while \$142 million may have been spent in Rhode Island, only a fraction of that spending — an estimated 7 percent, according to the analysis — is pumped back into the state's coffers in the form of increased tax receipts, such as sales taxes from new purchases, or income tax from new jobs created.

The study found that the state distributed tax credits worth \$35.6 million to the 16 projects, meaning the state lost tax revenue since 2005 worth \$35.6 million that it would have otherwise collected.

“On average, every dollar invested by the state in the form of a motion picture production tax credit has returned [28 cents] to the state,” reads the report, which also found that each dollar invested must produce \$3.57 in “direct and indirect expenditures for the state to earn back the value of the tax credits issued.”

The analysis fueled criticism from social service advocates, who have argued against tax credits that strain the state budget in the short-term, forcing cuts to some human service programs.

“The analysis proves that subsidies for motion picture production are a bad investment of state funds and suggests that the only movie credits that are meaningful are the ones rolling at the end of the film,” said Kate Brewster, executive director of the Poverty Institute at Rhode Island College. “In these extraordinary tough fiscal times, limited state resources should be invested in proven economic development strategies like work force training.”

Meanwhile, Sasse plans to issue a report examining Rhode Island's tax code to Governor Carcieri in December. Sasse said the report would include recommendations, and declined to say what his recommendations may be in regard to the motion picture credit.

The General Assembly acted just two months ago to help control the cost of the program, capping the value of credits issued at \$15 million each year. Rhode Island's motion picture tax credit program is now less generous than those in both Massachusetts and Connecticut, Feinberg said.

To get a tax credit equal to 25 percent of its Rhode Island production costs on a feature-length film, video, video game, television series or commercial, a company has had to spend a minimum of \$300,000 on items that are “directly attributable to activity within the state.”

Massachusetts two years ago passed legislation that, like Rhode Island’s, offers a tax break on 25 percent of all qualified production costs. Connecticut followed suit, upping those credits to 30 percent. Both states also offer sales tax breaks and have no caps.

The Connecticut Department of Economic and Community Development conducted its own analysis of 13 projects between July 1, 2006, and Sept. 30, 2007, determining that the state earned 8 cents for every dollar invested in its program.

The Massachusetts Department of Revenue studied 88 productions between 2006 and February 2008, declining to estimate the net economic impact because of a lack of data. But its analysis noted that “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.”

A separate policy brief released last month by the National Governor’s Association focused on the economic benefits of motion picture tax credit programs across the country.

“Since the advent of silent film and the birth of Hollywood in the early 20th century, the motion picture business has brought economic and cultural benefits to the states and communities that host projects of all sizes,” it reads.

The tax incentives have been credited with bringing more than two dozen TV and movie productions to Rhode Island since 2005, including *Evening*, *Dan in Real Life*, *27 Dresses* and the Showtime series *Brotherhood*, which is filming a third season here this summer.