"Cut - and That's a Wrap" - The Film Industry's Fleecing of State Tax Incentive Programs

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Abstract

When film production costs in California skyrocketed in the 1990s, states began creating tax incentive programs to attract film industry production. Currently, thirty-seven states have some type of film industry incentives and twenty-two states offer film tax credits. The 2014 movie Divergent, based on a science fiction book trilogy that takes place in a future post-apocalypse Chicago, cost $85 million to create, $30 million of which was spent in Illinois. The film producers promised to produce 1,000 jobs and in return received over $5 million in Illinois film tax credits. Did the reduction of tax revenue collected by the state of Illinois result in net economic growth?

Recent economic studies suggest that tax incentive programs for the film industry often do not produce the promised economic returns. Nonetheless, state film industry tax incentives remain popular with state economic-development departments. The program costs are increasing and represent significant expenditures in state budgets with the potential for negative effects on state economies. States cannot continue to afford lost tax revenue that does not produce net economic growth.

Most state tax incentive programs are focused on four major industries: manufacturing, agriculture, energy (oil, gas, and mining), and the film industry. The film industry shares the same issues of accountability as other industries. However, unique to the film industry is the difficulty in measuring economic growth from the temporary jobs generated and less public scrutiny of net economic growth due to the novelty and allure of film production to the public.

States have limited resources and cannot afford costly multi-million-dollar tax-incentive programs for the film industry that do not produce the promised results. This Article examines the effectiveness of state tax incentives for the film industry and proposes solutions for more effective and efficient use of state tax revenue to promote economic development.

Recommended Citation