CONNECTICUT VOICES FOR CHILDREN

NEWS RELEASE

33 Whitney Avenue
New Haven, CT 06510
Voice: 203-498-4240
Fax: 203-498-4242
www.ctkidslink.org

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Contact: Shelley Geballe, JD, MPH, Distinguished Senior Fellow, 203-498-4240, shelley@ctkidslink.org

Report: Connecticut's Entertainment Industry Tax Credits Are Mostly Subsidizing Out-of-State Production Costs

CT Group Calls for Cap on Losses from Film Tax Credit to Help Close Record State Deficits

Connecticut's state subsidies for the entertainment industry are a money-losing proposition for the state, according to a new report by Connecticut Voices for Children based on recently-released data from the Connecticut Commission on Culture and Tourism (CCCT). While intended to spark a home-grown entertainment industry in Connecticut, these data show that the tax credits have largely been subsidizing out-of-state personnel and businesses. The report finds that only 11% of the $113.2 million of state revenues lost through the "film tax credit" subsidized production expenses that were classified by CCCT as "actual Connecticut expenditures."

The report is released as the Governor and Connecticut legislators are negotiating budget cuts and revenue increases to close unprecedented state budget deficits. To help close the revenue gap, Connecticut Voices for Children called for either an elimination of the film tax credits or annual monetary caps that would limit the amount of revenue that the state would lose through the credits. In her proposed budget for Fiscal Years 2010 and 2011, Governor Rell also called for a cap on the film tax credits, following the lead of our neighboring states.

"Connecticut has been hoodwinked by the entertainment industry into paying for 30% of their production costs. But the glitz and glamour of this industry shouldn't blind us to the fact that these tax credits are big money losers for the state," said Shelley Geballe, Distinguished Senior Fellow at Connecticut Voices for Children and author of the report. "At a time when the health and well-being of our families and communities is threatened by severe state budget cuts and Connecticut must create new, permanent, full-time jobs, investing our scarce resources into schools, health care, and home-grown businesses in emerging fields like renewable energy makes far more sense than subsidizing the next horror movie or thriller."

The study found that eight productions received a total of $9.3 million in tax credit subsidies, though they reported *no actual Connecticut production spending at all*. Presumably, these productions transported all production-related personnel, equipment and supplies into

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Connecticut from other states for the duration of the production. Overall, the state has awarded $2.73 in production tax credits for every dollar of actual Connecticut spending on the production of films, television shows, commercials, infomercials, and video games.

The report also cites evidence from independent analyses of state film tax credit programs in Connecticut and other states to show that the film tax credits lose money for states and do not pay for themselves through increased sales, income, corporate and other taxes. These studies estimate that states earn back in tax revenue between 15 cents and 23 cents for every dollar of tax credit issued, even taking into account any additional economic activity generated by the credits.

In its analysis of Connecticut's entertainment industry tax credits, Connecticut Voices estimated that even under the most optimistic and generous assumptions, Connecticut's "return on investment" through these tax credits is sharply negative; it would recoup less than one in five dollars of the revenues lost to the tax credit through taxes on the in-state and out-of-state production expenditures qualifying for the credit.

Connecticut Voices criticized the unusually generous and open-ended nature of the film tax credits. The film production tax credit covers 30% of eligible production expenses. ***These entertainment tax credits do not operate like any other business tax credit in Connecticut,*** in that they do not simply reduce the taxes an entertainment production company owes Connecticut. Rather, production companies awarded the credits can *sell* the credits to other companies (even if they are unrelated to the entertainment industry) when they have no Connecticut tax liability to offset. **So Connecticut is "on the hook" for 30% of a company's production costs, whether or not that company owes any Connecticut taxes.** Further, there are no caps on the amount of credits that may be granted per production, or in total, so Connecticut can lose virtually unlimited amounts of revenues, even in a deficit year. The costs of Connecticut's entertainment industry tax credits far surpass the state's investment through tax credits in any other industry, and also exceed the total budget of the Connecticut Department of Economic and Community Development.

Among the report's recommendations, Connecticut Voices suggests either eliminating the film tax credits or limiting them by:

- Requiring that only in-state production costs can count toward the credit. Under current law, this requirement will be phased in by 2012, but the state will continue to lose money for out of state production costs until then.
- Establishing a monetary cap on the amount the state can lose through the film tax credits, as proposed by Governor Rell and as established by several other states with film tax credits.
- Eliminating the ability of entertainment companies to sell (or "transfer") the tax credits when they have little or no Connecticut tax liability.

"Connecticut's current film tax credit system makes no fiscal or economic sense," said Jamey Bell, Executive Director of Connecticut Voices for Children. "These common sense reforms will help to limit any further damage to our state budget."

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The report, *Fiddling While Rome Burns: Connecticut's Multi-Million Dollar, Money-Losing Subsidy to the Entertainment Industry,* is available on the CT Voices Web site at www.ctkidslink.org. It is based on newly-released data from the Connecticut Commission on Culture and Tourism.

Connecticut Voices for Children is a research-based policy and advocacy organization that works to advance strategic public investment and wise public policies to benefit our state's children, youth and families.

[Note to reporters: Appendix B of the report is available for download separately on the CT Voices Web site in its original legal size document format. It was shrunk to letter size for the report.]

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