



# TESTIMONY

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## HOUSE BILLS 133 AND 583: ESTABLISHES THE ENTERTAINMENT INDUSTRY JOBS ACT

*By David Stokes, and Elias Tsapelas*

Testimony Before the House Economic Development Committee

### **TO THE HONORABLE MEMBERS OF THIS COMMITTEE**

Thank you for the opportunity to testify. My name is David Stokes. I am the director of municipal policy at the Show-Me Institute, a nonprofit, nonpartisan, Missouri-based think tank that advances sensible, well-researched, free-market solutions to state and local policy issues. The ideas presented here are our own and are offered in consideration of proposals that will affect tax credits in Missouri.

House Bills 133 and 583 would establish a tax credit for the entertainment industry that can be used on rehearsal and tour expenses. In the same vein as all other tax-credit programs, this tax credit is meant to stimulate growth in the industry by reducing the tax liability incurred within Missouri.

While the idea for this tax credit is relatively new for Missouri, the Entertainment Industry Jobs Act appears to be based on Pennsylvania's Entertainment Economic Enhancement Program (EEEP) Tax Credit that was created in 2016. Unfortunately, a recent audit from Pennsylvania's Independent Fiscal Office<sup>1</sup> offers little reason for optimism regarding the credit's prospects in Missouri.

According to the 2021 report, despite the EEEP tax credit "providing substantial benefit to the only Pennsylvania qualified rehearsal facility," the "net return on investment is 15 to 35 cents of state tax revenue for each tax credit dollar." This audit finding coincides with years of research and history that show how these types of tax credits rarely generate enough economic activity to

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justify their use. And there's no reason to believe this tax credit will perform any better.

## PAST TAX-CREDIT FAILURES

Missouri has seen tax-credit program failures in the not-so-distant past. One very comparable program to this proposal was Missouri's film tax credit. The state film tax credit was intended to stimulate the film industry, but it was a huge failure and did not deliver on any of its promises.<sup>2</sup> The film tax credit failed to permanently stimulate growth in Missouri's film production industry. The Tax Credit Review Commission recommended that the tax credit be eliminated because it served too narrow of an industry and didn't provide a positive return on investment.<sup>3</sup>

Research has shown that across the nation film tax credits have not resulted in job growth, have not affected market share or industry output, and have resulted only in short-term wage gains for those in the industry.<sup>4</sup> Film tax credits in many states generated just cents on the dollar, making them a huge waste of taxpayer dollars. As a Tax Foundation analyst pointed out, "non-favored activities and businesses remain on the hook to bear the full impact of the state's tax code."<sup>5</sup> Thankfully, Missouri lawmakers allowed the film tax credit program to sunset in 2013.

Should one expect an entertainment industry tax credit to produce different results under very similar circumstances?<sup>6</sup>

## LAWMAKER INTERFERENCE IN THE MARKET

Targeted economic development tax credits are just another way for lawmakers to pick winners and losers, a job that is better left to consumers in the market. When tax breaks are given to some, other taxpayers have to make up for the lost revenue. Through an entertainment industry tax credit, lawmakers would be sending tax dollars to private companies to artificially boost an industry. The desire to "do something" is understandable, but in the case of tax credits, it is often better to do nothing. While we're sure many want a thriving entertainment industry in Missouri, if an industry cannot succeed here without government assistance, then maybe it shouldn't be here.

Companies call for tax credits for their industries frequently, as they are the ones who directly benefit from them. A company in Chesterfield that has already received millions of dollars in taxpayer subsidies<sup>7</sup> from existing state and local programs publicly requested an entertainment tax credit. If you have read the recent investigative report by the *Post-Dispatch* on the activities involved with the state's Distressed Area Land Assemblage Tax Credit, you can't fail to notice how a small cadre of influential tax-credit peddlers consistently abuse these programs for personal profit at public expense.<sup>8</sup>

## THE WRONG KIND OF LEADERSHIP

Missouri is already a national leader in state spending in the name of "economic development." Over the past few decades Missouri has foregone billions in state tax revenue to a host of narrow incentives that have consistently yielded poor results overall. Just last year, Missouri spent more than \$580 million on its various tax credit programs. To put that spending into context, that amount of money could nearly pay for the elimination of the state's corporate income tax entirely,<sup>9</sup> or alternatively, reduce the individual income tax by a smaller increment. Instead of continuing down the path of subsidizing chosen entities, lawmakers should consider offering a broad-based tax cut that would benefit all Missourians.

Tax credit programs have not been successful in Missouri in the past, and there's no evidence that this program would be any different. Missouri has a plethora of economic opportunities, and it doesn't need lawmakers to artificially create more at the expense of taxpayers.

## NOTES

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