



# TESTIMONY

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## FILM TAX CREDITS

*By Elias Tsapelas, David Stokes, and Avery Frank*

Testimony Before the Missouri House Economic Development Committee regarding House Bills 169, 239, and 675.

### TO THE HONORABLE MEMBERS OF THIS COMMITTEE

Thank you for the opportunity to testify. My name is Elias Tsapelas, director of state budget and fiscal policy at the Show-Me Institute. I'm testifying on behalf of myself; David Stokes, director of municipal policy; and Avery Frank, research assistant. We are from 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 169, 239, and 675 would authorize tax credits for the film industry. As with previous versions of this tax credit and all other economic development tax-credit programs, a film tax credit is meant to stimulate growth in the industry by reducing the tax liability incurred within Missouri. However, research and

history show that tax credits rarely generate enough economic activity to justify their use.

### PAST PROGRAM FAILURE

Missouri has seen tax-credit program failures in the not-so-distant past. The previous film-tax credit program was a failure that did not permanently stimulate growth in Missouri's film production industry.<sup>1</sup> The Tax Credit Review Commission went so far as to recommend that the tax credit be eliminated because it served too narrow of an industry and didn't provide a positive return on investment.<sup>2</sup> In fact, Missouri's program was found to recapture only 15 cents per dollar spent. Missourians were lucky that lawmakers allowed this program to sunset in 2013.

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

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the industry.<sup>3</sup> In fact, the number of Missouri editors, producers, actors, and directors actually declined over the Missouri film-credit era. 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>4</sup>

Film tax credits have haunted the Missouri legislature for years and the question is always the same: Should one expect these tax credits to produce different results this time around?<sup>5</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 a reauthorized film 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 film 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. If you read the investigative report published in 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>6</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 nearly \$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>7</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 the film tax credit program has been a great example of that. Even with the proposed minor changes, there’s no evidence that a reauthorization of this program would produce a different result. 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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7. Patrick Ishmael and Michael Rathbone. “Cutting the Ties that Bind: End Missouri’s Corporate Income Tax.” Show-Me Institute, 2012. [https://showmeinstitute.org/wp-content/uploads/2015/06/Essay\\_CorpIncomeTax\\_11\\_27\\_0.pdf](https://showmeinstitute.org/wp-content/uploads/2015/06/Essay_CorpIncomeTax_11_27_0.pdf); Avery, Frank: “Hollywood Fever Hits Missouri.” Show Me Institute, Nov. 21, 2022. <https://showmeinstitute.org/blog/tax-credits/hollywood-fever-hits-missouri>.



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