TESTIMONY

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HOUSE BILL 1499: FILM TAX CREDITS

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Testimony Before the Missouri Committee on Economic Development

TO THE HONORABLE MEMBERS OF THE COMMITTEE

Thank you for the opportunity to testify. Our names are Elias Tsapelas, Director of State Budget and Fiscal Policy, and David Stokes, Director of Municipal Policy. 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 Bill 1499 would double the current state tax credit cap for the film or series production industry. As it is with essentially all other 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, let alone to justify doubling our state's investment in the program.

Current and Past Tax Credit Failures

The Missouri film tax credit's recent revival is only part of our state's long history with the troubled tax incentive. Until it was sunset in 2013, Missouri's previous iteration of the film tax credit program made promises similar to what the program's supporters are touting today. Unfortunately, study after study has shown that the program is a massive failure that does not deliver on its promises. Not only does the film tax credit fail to permanently stimulate growth in Missouri's film production industry, but Missouri's Tax Credit Review Commission also recommended that the tax credit be eliminated because it served too narrow of an industry and didn't provide a positive return on investment.[1]

Research shows that across the nation film tax credits have not resulted in job growth, have not affected market share or industry output, and only resulted in short-term wage gains for those in the industry.[2] 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 points out, "non-favored activities and businesses remain on the hook to bear the full impact of the state's tax code."[3] These findings are what ultimately led Missouri lawmakers to allow the film tax credit program to sunset more than a decade ago.

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 must make up for the lost revenue. Through a larger film tax credit, lawmakers would be sending more state tax dollars to private companies to artificially boost an industry. The incentive to want "do something" is understandable, but in the case of tax credits, it is often better to do nothing. While I'm 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 often call for tax credits for their industry, as they are the ones who directly benefit from them. 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 the small cadre of influential tax credit peddlers consistently abuse these programs for personal profit at public expense.[4]

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 forgone billions in state tax revenue to a host of narrow incentives, which have consistently shown poor results overall. Just last year, Missouri spent more than $600 million on its various tax credit programs. To put that spending in context, those same funds could pay for the halving of the state's corporate income tax, or alternatively, could be applied to reduce the individual income tax. 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, there's little evidence to suggest that the film tax credit is succeeding now, and there's no reason to believe that this program would perform any differently with a greater investment from state taxpayers. Missouri has a plethora of economic opportunities, and it doesn't need lawmakers to artificially create more at the expense of taxpayers.

NOTES

1. "Report of the Missouri Tax Credit Review Commission." Missouri Tax Credit Review Commission. 2010. https://www.semissourian.com/files/tcrcfinalreport113010.pdf; Christine Harbin. "Film Tax Credits Are Bad for States." Show-Me Institute. 2009. https://showmeinstitute.org/blog/transparency/film-tax-credits-are-bad-for-states.

2. "Lights, camera and no action: How state film subsidies fail." USC Press Release. https://pressroom.usc.edu/lights-camera-and-no-action-how-state-film-subsidies-fail.

3. Katherine Loughead. "Illuminating the Hidden Costs of State Tax Incentives." Tax Foundation. 2021. https://taxfoundation.org/state-tax-incentives-costs.

4. Barker, Jacob, "FBI investigated NorthSide Regeneration tax credit deals, report shows," *St. Louis Post-Dispatch,* Jan. 14, 2022.