



# Film & Entertainment Tax Credits

## Executive Summary

In the last 30 years, states have enacted numerous film and television production incentives, including tax credits for film production. However, in the last decade, many of these programs have ceased to exist or have adopted stricter requirements for qualifying expenses and annual program caps. Missouri's Film Production Tax Credit Program sunsetted in 2013, resulting in many projects set in Missouri, such as *Three Billboards Outside Ebbing, Missouri* and *Ozark*, to be filmed elsewhere. When states have incentives for film and television production, there is a possibility to boost the economy by job creation and generating revenue. However, long-term economic outcomes of investing in film production remain unclear and therefore, may pose unforeseen risks with taxpayer dollars.

## Highlights

- In 2013, the Missouri Film Production Tax Credit expired by recommendation of the Missouri Tax Credit Review Commission, because it failed to provide a positive return on investment.
- A film incentive program in Missouri has the possibility to create jobs, attract a local film industry, and increase state tourism, resulting in increased tax revenue growth.
- In Missouri, there are 42 programs across universities for film and TV production; a film production tax credit could possibly help retain this workforce and talent in the state.
- Proposed legislation seeks to restore the film tax credit with a program cap of \$4.5 - \$8 million and would place Missouri among the lowest of 12 other states with incentive programs under \$10 million.

## Limitations

- Due to state differences, there is no systematic evaluation system to determine what incentive form attracts a large number of media productions and best positively impacts the local economy.
  - Since proposed economic incentives are low compared to other states, it is unclear if a tax credit would attract new productions in Missouri.
- The net impacts of state media incentive programs on economic outcomes such as return on investment and workforce development are still unclear, and specific research may be needed to determine the effectiveness of the film tax credit.

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## Research Background

### Film Production and Incentive Programs

In the early 1990s, states began to adopt film production and incentive programs, including tax credits, in an effort to attract film industry business. Louisiana was the first state to enact such a

program in 1992, but by 2009, 44 states, in addition to Puerto Rico and Washington D.C., offered some form of film and television production incentives.<sup>1,2</sup> Currently, 33 states, including Arkansas, Kentucky, Illinois, Oklahoma, and Tennessee, continue to maintain film incentive programs.<sup>2,3</sup> Some states are tightening up requirements for qualifying expenses due to states' auditor reports of the economic benefit and adding annual program caps because uncapped programs create uncertainty in budget planning.<sup>2,3</sup> It has been proposed that, by adopting media production incentives, states can provide local economic development, create jobs, and increase state tourism, increasing tax revenues.<sup>1</sup> However, research indicates that the competition between states transfers a large portion of potential gains to the film industry, not to local businesses or state programs.<sup>2</sup> Incentives can vary between states and can take many forms, including: a certified film tax credit, tax incentives, film grants, cash rebates or refunds, lodging cost exemptions, and favorable tax structures.<sup>1-3</sup> Due to state differences, there is no systematic evaluation system to determine what incentive form attracts a large number of film productions and best positively impacts the local economy.

### **Missouri Film and Entertainment Incentive Programs**

In general, tax credits are typically used to incentivize economic development by reducing the income tax liability of eligible businesses.<sup>4</sup> When states have incentives for film and television production, there is a possibility to boost the economy and generate revenue within localities through increased tourism and subsequent spending on local businesses.<sup>5,6</sup> However, the overall economic outcomes that state film incentive programs produce remain unclear.<sup>1,5-7</sup>

Films and television series set in Missouri are not currently produced in Missouri. *Winter's Bone* (2010) and *Gone Girl* (2014) were the last Missouri-set films, both of which were filmed in Cape Girardeau, Missouri. Other productions such as *Three Billboards Outside Ebbing, Missouri* (2017) and *Ozark* (2017-) were filmed in North Carolina and Georgia, respectively; both states have film production and incentive programs.

Georgia's Entertainment Industry Investment Act offers a one-time tax credit of 20% with a minimum investment of \$500,000. An additional 10% credit can be earned by using a fixed Georgia logo on approved projects. Georgia also offers a sales and use tax exemption on below-the-line costs (e.g. film crew salaries) and resources. The Georgia program has no annual program cap and no sunset date.<sup>1,3</sup> The North Carolina Film and Entertainment Grant Program offers a 25% rebate on certain expense or production purchases. The minimum investment depends on the production type: \$1 million per television episode, \$5 million for feature length films, and \$250,000 for commercials. The North Carolina program has a \$31 million cap, no sunset date, and an in-state audit is required to receive tax incentives.<sup>1,3</sup>

### **Missouri Film Production Tax Credit Program**

The Missouri Film Production Tax Credit Program was passed in 2007 and sunsetted in 2013. The Missouri Tax Credit Review Commission reported that this tax credit served a very small industry and failed to provide a positive return on investment to the state.<sup>8</sup> At the time, there was no long-term opportunity for the location of production facilities for films in Missouri. Accordingly, the Commission recommended that the credit be eliminated during the 2011 legislative session.<sup>5</sup>

Prior to this, state tax credits were issued to a qualified film production company for up to 35% of the amount expended in Missouri for production or production-related activities to facilitate film production in Missouri. This tax credit was eligible to any film production company with an expected in-state budget of at least \$100,000 for films over 30 minutes in length, and at least \$50,000 for films under 30 minutes in length. The tax credit program was capped at \$4.5 million.<sup>9</sup>

#### Show Missouri Film and Digital Media Act

Introduced during the 2022 legislative session, The Show Missouri Film and Digital Media Act ([HB 2558](#) & [SB 721](#)), authorizes a tax credit equal to 25% of qualifying in-state expenses and 10% of qualifying out-of-state expenses associated with the production of a qualified film production project. Highly compensated residential and non-residential individuals (those who make greater than \$250,000) are not to be included in the sum of all compensation and wages paid by the production company for in-state and out-of-state expenses. An additional 5% may be awarded for both qualifying in-state and out-of-state expenses if at least 50% of the qualified film production project is filmed in Missouri. A further additional 5% may be awarded for both qualifying in-state and out-of-state expenses if the Missouri Department of Economic Development determines that the script for such a project positively markets a city or region of the state, the entire state, or a tourist attraction located in the state. The bill requires all recipients of the tax credits to include a logo in the film credits to indicate that the project was filmed in Missouri.

This act is different from the expired or sunset Missouri Film Production Tax Credit Program in that it updates the definition of qualified film production projects and adds the definition of qualifying out-of-state expenses. Similar to the previous program, the eligibility criteria to qualify for the tax credit would remain the same. Additionally, the total amount of credits in any year would be capped at \$4.5 million. Compared to other states, a cap of \$4.5 million would place Missouri among the smallest incentive programs.<sup>10</sup>

#### The Show MO Act

Introduced during the 2022 legislative session, The Show MO Act ([HB 2106](#), [HB 2473](#), [SB 732](#), and [SB 960](#)) authorizes a tax credit equal to 20% of qualifying expenses associated with the production of a qualified motion media production project. An additional 5% may be awarded if certain conditions are met which includes: at least 50% of the qualified film production project is filmed in Missouri and at least 15% of the project takes place in a rural or blighted area. Another 5% may be awarded if at least three departments of the production hire a Missouri resident. Similarly, a further additional 5% may be awarded for both qualifying in-state and out-of-state expenses if the Missouri Department of Economic Development determines that the script for such a project positively markets a city or region of the state, the entire state, or a tourist attraction located in the state.

This act is different from the expired or sunset Missouri Film Production Tax Credit Program in that it updates the definition of qualified film production projects and adds the definition of qualifying out-of-state expenses. This act includes an additional eligibility requirement that the motion media production project needs to employ a certain number of Missouri-resident registered apprentices or veterans with transferable skills. Additionally, the total amount of

credits in any year would be capped at \$8 million. Compared to other states, a cap of \$8 million would place Missouri among the lowest of 12 other states with incentive programs under \$10 million.<sup>10</sup>

### The Entertainment Industry Jobs Act

Three bills ([HB 2038](#), [SB 733](#), & [SB 961](#)) were filed in 2022 that extend tax credits to those who conduct live entertainment tours and associated rehearsals conducted within the state. The total amount of tax credits in any year would be capped at \$8 million. The most similar program to the proposed entertainment tax credit in Missouri is the Entertainment Economic Enhancement Program ([EEEEP](#)) in Pennsylvania which has a fiscal year cap of \$8 million. The EEEP provides tax credits for utilizing rehearsal spaces in the state. Louisiana and Georgia also have tax credit programs for live entertainment with similar program caps, however their programs do not include credits for rehearsal spaces.

### **Economic Outcomes**

There are 42 film and TV production programs across universities within the state of Missouri.<sup>11</sup> Since most of these jobs reside outside the state, a film production tax credit could potentially help retain this type of workforce in the state.<sup>4</sup> However, there are mixed research findings surrounding film incentive programs on economic outcomes, such as workforce development and return on investment.<sup>1,5-7</sup> Research suggests that incentive programs generate revenue, increase jobs, and result in various cascading effects with tax dollars. However, these effects are greater in states with already established film industries.<sup>9-10</sup> This suggests these incentives may have little to no effect on economic development and job creation in states without established film industries.<sup>5-7</sup>

Georgia has had the most growth in the film and TV production industry in the last decade. However, recent evaluation of Georgia's film incentive program raises concerns about cost effectiveness and benefit to the state. From 2009 to 2018, Georgia approved over \$4 billion on tax incentives for film production.<sup>1,5</sup> During this timespan, Georgia film production incentives resulted in increased employment (from 2,604 in 2009 to 15,341 in 2018, or +489%), wages for employees (\$61,544 to \$65,014, +5.6%), the number of productions (103 to 243, +135%), as well as the amount of money productions spent in the state (\$500 million to \$2.7 billion, +440%), and in industry business establishments (399 to 492, +23%).<sup>1</sup>

The Georgia Department of Economic Development and the Motion Picture Association of America estimate that the motion picture and television industry is responsible for more than 92,000 jobs and \$9.5 billion of business in Georgia.<sup>12</sup> However, other analyses indicate that the film industry only accounts for about 16,000 permanent jobs and an economic impact of \$4.5 billion.<sup>1,5</sup> The discrepancies between these numbers are due to different estimates of economic activity and tax revenue, using an investment multiplier, which attempts to quantify the additional, proportional positive effects of a policy beyond those immediately measurable. These differences suggest that further investigation is warranted to determine the effectiveness of a film tax credit and production incentive program.

## References

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