July 14, 2008

Leave Film Tax Credits on Cutting-Room Floor

Sheldon H. Laskin, University of Baltimore

Available at: https://works.bepress.com/sheldon_laskin/7/
Leave film tax credits on cutting-room floor

BY SHELDON H. LASKIN

Lately, the motion picture industry has been aggressively seeking, and largely getting, generous state tax credits for producing movies in Maryland. I love film and am very disappointed that 'Hairspray' wasn't filmed in Baltimore, but the argument for movie tax credits simply does not hold up economically or as a matter of public policy.

One can fairly debate whether the state should grant tax credits in order to encourage businesses to permanently locate in Maryland. Businesses create long-term jobs, which in turn contribute to the income, property and sales tax base of the state. But simply filming a movie in Maryland produces no long-term economic benefits, while at the same time requiring state and local government to provide public services for the production — such as police, fire and crowd control — at taxpayer expense.

Nor do out-of-state production companies create much in the way of temporary employment. While production companies hire some local workers, much of the highly paid talent is from out of state.

It is true that movie production companies temporarily contribute to local businesses, and pay state and local sales and hotel occupancy taxes, for the period they are in town. But the economy of Maryland and Baltimore benefits similarly every time the Hippodrome stages a road production of a Broadway play, or if Bruce Springsteen appears here in concert. The same is equally true of visiting symphony orchestras, opera companies, the circus, out-of-town baseball and football teams, and even out-of-state visitors to the Inner Harbor. These visitors also create both temporary and permanent employment opportunities for Maryland residents.

Furthermore, such out-of-town visitors, as visiting sports teams and rock stars, generate admission tax revenue on ticket sales and sales tax revenue on sales of refreshments and souvenirs. The Baltimore Orioles play 81 home games per season. Oriole Park seats 48,876. Assuming (somewhat optimistically) that the average attendance per game is precisely half that amount (24,438), annual attendance would be nearly 3 million. If the average price of a ticket is $25, ticket sales would total $75.4 million. This would generate $5.3 million in admission tax revenue. Assuming that each patron spends $20 per game on refreshments and souvenirs, those sales would total $93.6 million per season and generate $4.4 million in sales tax.

In contrast, movie production companies generate no such sales and no such tax revenue. Why award tax credits to out-of-state visitors who generate no Maryland sales tax and deny it to out-of-state visitors who do?

Proponents of film production tax credits assert that film production furthers economic development. But tax credits can only foster economic development if they are rare. Currently, 47 states offer film tax credits. The wide availability of the credits simply allows the film industry to play one state against another in arguing for ever-more-generous tax credits. This inevitably results in a "race to the bottom" where the amount of the credit is quickly divorced from any economic justification for their existence. Indeed, there is no evidence that these credits create anything more than a temporary economic boost for the states that offer them.

Finally, someone has to pay for the cost of the credits. Inevitably, those costs are borne by Maryland residents, including local businesses, in the form of higher taxes, fewer public services, or both. Particularly during the current budget crisis, Maryland cannot afford expanding these ill-conceived tax credits.