CONNECTICUT VOICES FOR CHILDREN

# NEWS RELEASE

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**FOR IMMEDIATE RELEASE**
**Friday, June 19, 2009**

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## Entertainment Industry Joins Connecticut Voices in Calling for Reforms of State Tax Credits

### *CT Voices Calls for Further Reforms to Help Avoid State Budget Cuts*

Connecticut Voices for Children today welcomed the endorsement of two of its proposals for reform of the state's film production tax credits by the Connecticut Production Coalition, an advocacy coalition for the film, television, and digital media industry. Specifically, in a news release today, the Coalition expressed its support for a reform requiring that "starting on January 1, 2010, only expenditures made in Connecticut will be eligible to receive tax credits. This major change will ensure that no credits are earned for expenditures made outside the state." In addition, the Coalition called for "ongoing comprehensive study" of the industry's impact in the state.

Connecticut Voices for Children, a research-based policy think tank, had called for these reforms in a recently-released report that questioned the rules governing the film production tax credit. Among the study's findings, based on data from the Connecticut Commission on Culture and Tourism (CCCT):

- While intended to spark a home-grown entertainment industry in Connecticut, the tax credits awarded to date have largely been subsidizing out-of-state personnel and businesses. The vast majority of the $113.2 million of the "film tax credits" subsidized production expenses that were classified by CCCT as expenses incurred in other states.
- Independent analyses of state film tax credit programs in Connecticut and other states show that these credits result in a net loss in state revenues; they do not pay for themselves through increased sales, income, corporate and other taxes.

"At a time when policymakers are threatening to make severe state budget cuts that would harm our state and families, it makes little sense to continue subsidizing jobs in other states, rather than Connecticut," said Shelley Geballe, Distinguished Senior Fellow at Connecticut Voices and author of the report. "We are pleased that the film industry is joining in this call for more responsible use of our scarce state funds."

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Connecticut Voices reiterated its call for further reforms, specifically:

- Establishing some monetary cap on the amount of credits the state awards annually through the film tax credits, as proposed by Governor Rell and as established by several other states with film tax credits. The Governor has proposed a $30 million cap. This would ensure that Connecticut's economic development "portfolio" maintains some balance between its investment in this industry and all other Connecticut industries.
- Eliminating the ability of entertainment companies to sell (or "transfer") the tax credits when they have little or no Connecticut tax liability. The film production tax credit covers 30% of eligible production expenses. These entertainment tax credits do not operate like any other Connecticut business tax credit, in that they do not simply reduce the taxes an entertainment production company owes Connecticut. Rather, production companies awarded the credits can sell the credits to other companies (even if they are unrelated to the entertainment industry) when they have no Connecticut tax liability to offset. Most companies who receive the film tax credits are Limited Liability Corporations, which pay only a $250 business entity tax each year.

The Connecticut Production Coalition also claimed that data from the Connecticut Commission on Culture and Tourism underreported certain Connecticut expenditures and payments, including about $127 million in Connecticut wages paid to production crews in the state. Connecticut Voices explained that its analysis was based on data that had been produced by the Commission and focused only on the film production tax credit and those expenditures that qualify for the credit. Connecticut Voices' report did not include analysis of any expenses that did not qualify for credits that might have been incurred, nor eligible expenses that the Commission failed to include in its reports. Connecticut Voices said it would welcome the Commission's release of any and all additional information it has regarding expenses and costs for each production, including those that did not qualify for tax credits, so that full disclosure is made of these costs as well.

Connecticut Voices pointed out, however, that even if the Connecticut Production Coalition is correct that the Commission's report excluded some $127 million in Connecticut wages, the question whether these tax credits "pay for themselves" would remain. For example, if the $127 million in wages were all found to be an "eligible" production expense, this expense would have generated $38.1 million in tax credits (30%). If these wages were taxed at Connecticut's highest income tax rate of 5%, the state would have gained $6.35 million in personal income tax revenues, for a net state revenue loss of close to $32 million. Connecticut Voices acknowledged that the economic "multiplier effect" from this in-state economic activity could bring in revenues greater than $6.35 million, but that studies in other states, including one by the Federal Reserve Bank of Boston, find that even with these additional revenues, the state would still fall short of breaking even.

The report by CT Voices*, Fiddling While Rome Burns: Connecticut's Multi-Million Dollar, Money-Losing Subsidy to the Entertainment Industry,* is available on the CT Voices Web site at www.ctkidslink.org. It was based on data from the Connecticut Commission on Culture and Tourism.

**Connecticut Voices for Children** is a research-based policy and advocacy organization that works to advance strategic public investment and wise public policies to benefit our state's children, youth and families.

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