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COST AND DISTRIBUTIONAL ANALYSIS OF CT'S FILM INDUSTRY TAX CREDITS

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Introduction

This report provides a cost and distributional analysis of CT's film industry tax credits and it proceeds in five sections. The first section provides background information that includes an overview of the primary problems with CT's film industry tax credits. The key finding is:

- The film industry in Connecticut states that it cannot operate without substantial tax credits that are equal to or greater than the tax credits provided in other states, yet, while the tax credits remain in place, Connecticut experiences a net loss in tax revenue. Additionally, Connecticut has a regressive tax system, meaning it unfairly burdens low- and middle-income families, and the film industry tax credits contribute to the problem because they consume the state's limited financial resources but do not provide targeted support to the state's low- and middle-income families.

The second section provides a cost analysis using net state revenue estimates provided by the CT Department of Economic and Community Development and a consultant. The key finding is:

- In providing film industry tax credits, Connecticut lost in net state revenue an average of more than $60 million a year and a total of nearly $900 million from 2007 to 2023.

The third section provides a cost analysis using direct cost estimates provided by the CT Office of Fiscal Analysis. The key finding is:

- If Connecticut eliminates the film industry tax credits, it will gain an estimated $105.8 million a year in revenue starting in fiscal year 2025 that policymakers can use to fund other programs.

The fourth section provides a distributional analysis using tax incidence models provided by the CT Department of Revenue Services. The key finding is:

- Connecticut's film industry tax credits are not targeted based on income level and apply to taxes that are substantially exported. As a result, only an estimated $41.5 million of the $105.8 million in the film industry tax credits for fiscal year 2025 will provide support to the bottom 92 percent of households in Connecticut, whereas most of the support will go to a combination of households outside of Connecticut ($40.2 million) and high-income and wealthy households within Connecticut ($24.1 million).

The fifth section provides a policy recommendation:

- Eliminate the film industry tax credits and fund a state-level child tax credit that will provide targeted support entirely to low- and middle-income families in Connecticut.

Background Information

The film industry in Connecticut states that it cannot operate without substantial tax credits that are equal to or greater than the tax credits provided in other states, yet, while the tax credits remain in place, Connecticut experiences a net loss in tax revenue. Additionally, Connecticut has a regressive tax system, meaning it unfairly burdens low- and middle-income families, and the film industry tax credits contribute to the problem because they consume the state's limited financial resources but do not provide targeted support to the state's low- and middle-income families.

Connecticut has three film industry tax credits: the film and digital media production tax credit, the film production infrastructure tax credit, and the digital animation tax credit. A brief overview of each tax credit is provided below.

Film and digital media production tax credit:

- The tax credit is based on "production expenses or costs" for "qualified productions," defined primarily to include "documentaries; long-form, specials, mini-series, series, sound recordings, videos and music videos and interstitials television programming; interactive television; relocated television production; interactive games; videogames; commercials; any format of digital media, including an interactive web site, created for distribution or exhibition to the general public; and any trailer, pilot, video teaser or demo created primarily to stimulate the sale, marketing, promotion or exploitation of future investment in either a product or a qualified production via any means and media in any digital media format, film or videotape, provided such program meets all the underlying criteria of a qualified production."

- The tax credit is equal to 10 percent for expenses from $100,000 to $500,000, 15 percent for expenses over $500,000 up to $1 million, and 30 percent for expenses over $1 million.

- The tax credit is usable against the insurance premiums tax, the public service companies tax, the sales and use tax, and the corporation business tax.[1]

Film production infrastructure tax credit:

- The tax credit is based on expenses for an "infrastructure project," defined as "a capital project to provide basic buildings, facilities or installations needed for the functioning of the digital media and motion picture industry in this state."

- The tax credit is equal to 20 percent for expenses of $3 million and over.

- The tax credit is usable against the insurance premiums tax and the corporation business tax.[2]

Digital animation tax credit:

- The tax credit is based on "production expenses or costs" for "digital animation production activity," defined as "the creation, development and production of computer-generated animation content for distribution or exhibition to the general public."

- The tax credit is equal to 10 percent for expenses from $100,000 to $500,000, 15 percent for expenses over $500,000 up to $1 million, and 30 percent for expenses over $1 million.

- The tax credit is usable against the insurance premiums tax and the corporation business tax.[3]

The Department of Economic and Community Development (DECD) manages the film industry tax credits as part of its broader portfolio of "business assistance tax credits" that are intended primarily to support job growth and economic development and in turn increase the state's tax revenue. However, the film industry tax credits present two primary problems.

The first primary problem is that the film production industry is highly mobile compared to other industries, making state-level competition and the use of tax credits especially important according to supporters of the program. For example, a recent study by Olsberg SPI explained, "Overall, there is strong evidence from [film production] companies that the incentives are an important factor in drawing production expenditure to Connecticut. When asked how much of their productions would have happened in Connecticut without the incentive, the average (median) response was that there would be no production without the incentive."[4] Adding to the problem, Connecticut experiences a net loss in tax revenue in providing film industry tax credits. For example, according to data from the CT Department of Economic and Community Development, Connecticut lost in net state revenue an average of more than $60 million a year and a total of nearly $900 million from 2007 to 2023.

The second primary problem is that Connecticut has a regressive tax system, meaning low- and middle-income families pay a larger share of their income in state and local taxes compared to high-income and wealthy families, which increases economic inequities. For example, according to the latest tax incidence study from the CT Department of Revenue Services (DRS), low- and middle-income tax filers in Connecticut pay an average of 13 percent to 39.9 percent of their income in state and local taxes, whereas high-income and wealthy tax filers pay an average of 7.3 percent to 11.5 percent of their income in taxes. Adding to the problem, the film industry tax credits consume the state's limited financial resources but do not provide targeted support to the state's low- and middle-income families. For example, using a tax incidence model provided by the DRS, only an estimated $41.5 million of the $105.8 million in the film industry tax credits for fiscal year 2025 will provide support to the bottom 92 percent of households in Connecticut, whereas most of the support will go to a combination of households outside of Connecticut ($40.2 million) and high-income and wealthy households within Connecticut ($24.1 million).

The remaining sections of the report review these cost and distributional problems in more detail.

Cost Analysis: CT Department of Economic and Community Development Net State Revenue Estimates

In providing film industry tax credits, Connecticut lost in net state revenue an average of more than $60 million a year and a total of nearly $900 million from 2007 to 2023.

As noted, the CT Department of Economic and Community Development (DECD) manages the film industry tax credits as part of its portfolio of "business assistance tax credits." This responsibility includes providing an annual analysis of the economic impact of the tax credits. As DECD explains,

> The economic impact analyses of the tax credits … consist of either an estimated direct impact analysis or an estimated total impact analysis. The estimated direct impact is the tax revenue generated by the activity for which the tax credit is awarded: these are the estimated tax revenues generated by the newly created jobs and the construction and investment activity. New jobs generate new income taxes and the construction and investment generate new sales taxes. The direct net economic impact is the sum of the estimated income taxes and estimated sales taxes minus the lost tax revenues to the state due to the tax credit. … The direct impact is the most conservative estimate of the economic impact of the program under review. The estimated net direct impact analysis does not include any potential downstream impacts in the economy from the additional spending or jobs created.
>
> The estimated total impact is the sum of the direct, indirect, and induced impact of the tax credit program. The total estimated fiscal revenues reported therefore incorporate the 'direct' additions to state net revenues (the "direct impact" explained above), the 'indirect impacts' (for example, the income taxes from the construction jobs needed to build a new building) and the 'induced impact' (for example, revenues generated when new employees at the company and those filling indirectly created jobs spend their income on food, clothing and other items which would generate sales tax revenue to the state). Estimated state expenditures incorporate the direct cost to the state of the tax credits, plus additional indirect and induced government spending due to the additional economic activity.[5]

The analysis for the film industry tax credits is based on the "estimated total impact" approach, which is the broader measure that incorporates the direct, indirect, and induced impact. In simple terms, this means that DECD's *net state revenue estimate* for the film industry tax credits measures the amount of tax revenue Connecticut gains or loses when accounting for the impact of the program on the state's overall economy rather than simply the film industry.

This section of the report provides an overview of the net state revenue estimates for the film industry tax credits program published in DECD's annual reports from 2018 to 2023 (the only reports available online). The overview proceeds in four parts: the pre-Olsberg report estimates, the Olsberg report estimate, the post-Olsberg report estimates, and the overall estimates.

Pre-Olsberg Report Net State Revenue Estimates

Table 1 shows the net state revenue estimates for the film industry tax credits provided in DECD's 2018 annual report.[6] The key findings include:

- In funding the film and digital media production tax credit, Connecticut lost in net state revenue an average of $54.4 million a year and a total of $489.2 million from 2009 to 2017.

- In funding the film production infrastructure tax credit, Connecticut lost in net state revenue an average of $8.6 million a year and a total of $94.1 million from 2007 to 2018.

- In funding the digital animation tax credit, Connecticut lost in net state revenue an average of $10.3 million a year and a total of $92.9 million from 2008 to 2018.

- Overall, in funding the film industry tax credits, Connecticut lost in net state revenue an average of $73.2 million a year and a total of $676.1 million during the time period reviewed here for the three tax credits.

Table 1. Net State Revenue Estimates, CT DECD 2018 Annual Report

Tax Credits Issued and Net Revenue	Time Period	Annual Average	Cumulative Total
Film and Digital Media Production			
Total Tax Credits Issued	2009 - 2017	$63,825,705	$574,431,349
Estimated State Revenues	2009 - 2017	($46,241,432)	($416,172,892)
Estimated State Expenditures	2009 - 2017	$8,115,444	$73,038,999
Estimated Net State Revenue	2009 - 2017	($54,356,877)	($489,211,891)
Film Production Infrastructure			
Total Tax Credits Issued	2007 - 2018	$9,658,270	$106,240,967
Estimated State Revenues	2007 - 2018	($7,107,401)	($78,181,410)
Estimated State Expenditures	2007 - 2018	$1,442,912	$15,872,029
Estimated Net State Revenue	2007 - 2018	($8,550,313)	($94,053,438)
Digital Animation			
Total Tax Credits Issued	2008 - 2018	$13,678,618	$123,107,562
Estimated State Revenues	2008 - 2018	($8,167,747)	($73,509,719)
Estimated State Expenditures	2008 - 2018	$2,150,319	$19,352,868
Estimated Net State Revenue	2008 - 2018	($10,318,065)	($92,862,586)
Estimated Total Net State Revenue		**($73,225,255)**	**($676,127,915)**

Source: CT DECD 2018 Annual Report.

Table 2 shows the net state revenue estimates for the film industry tax credits provided in DECD's 2019 annual report.[7] The key findings include:

- In providing the film and digital media production tax credit, Connecticut lost in net state revenue an average of $58.5 million a year and a total of $585.1 million from 2010 to 2019.
- In providing the film production infrastructure tax credit, Connecticut lost in net state revenue an average of $9.5 million a year and a total of $95 million from 2010 to 2019.
- No net state revenue estimate is provided for the digital animation tax credit.
- Overall, in providing the film industry tax credits, Connecticut lost in net state revenue an average of $68 million a year and a total of $680.1 million during the time period reviewed here for the two tax credits.

Table 2. Net State Revenue Estimate, CT DECD 2019 Annual Report

Tax Credits Issued and Net Revenue	Time Period	Annual Average	Cumulative Total
Film and Digital Media Production			
Total Tax Credits Issued	2010 - 2019	$72,993,034	$729,930,340
Estimated State Revenues	2010 - 2019	($46,523,185)	($465,231,852)
Estimated State Expenditures	2010 - 2019	$11,987,418	$119,874,184
Estimated Net State Revenue	2010 - 2019	($58,510,604)	($585,106,036)
Film Production Infrastructure			
Total Tax Credits Issued	2010 - 2019	$10,650,314	$106,503,138
Estimated State Revenues	2010 - 2019	($7,779,597)	($77,795,965)
Estimated State Expenditures	2010 - 2019	$1,719,045	$17,190,448
Estimated Net State Revenue	2010 - 2019	($9,498,641)	($94,986,413)
Estimated Total Net State Revenue		**($68,009,245)**	**($680,092,449)**

Source: CT DECD 2019 Annual Report.

Following the negative findings in the 2018 and 2019 annual reports, the 2020 annual report provided no net state revenue estimates, explaining, "DECD has retained a consulting firm specializing in film, television and digital media industry-specific economic impact studies to perform an evaluation of the agency's film incentive programs, with expected delivery by mid-2021."[8]

The 2021 annual report also provided no net state revenue estimates for the film industry tax credits, explaining, "DECD retained a consulting firm specializing in film, television and digital media industry-specific economic impact studies to perform an evaluation of the agency's film incentive programs, which was released in February 2022."[9]

Olsberg Report Net State and Local Revenue Estimate

The consulting firm that DECD retained was Olsberg SPI and, as noted above, it published a study in 2022, referred to here as the Olsberg report. The primary finding the Olsberg report emphasizes is that the "combination of the production and the infrastructure incentives has created a supportive environment for production and broadcast companies in Connecticut" and "it will be important to continue developing the ecosystem in Connecticut so that it continues to be competitive.[10]

For the analysis here, the key finding, as **Table 3** shows, is that Connecticut lost in net state and local revenue an estimated $53.8 million in fiscal year 2020 due to the film and digital media production tax credit.[11] This is the only tax credit and year the report provided data to calculate a net state and local revenue estimate, and this key finding matches the earlier key findings from DECD's annual reports that Connecticut loses net revenue from the film industry tax credits.

Table 3. Net State and Local Revenue Estimate, Olsberg Report

Tax Credits Issued and Net Revenue	FY 2020
Tax Credits Issued	
Film and Digital Media Production	$133,200,000
Increase in Tax Receipts	
State	
Sales Tax	$27,041,189
Corporate Profits Tax	$1,691,659
Personal Income Tax	$7,845,740
Other Taxes	$1,740,979
Local	
Commercial Property Tax	$39,940,353
Other Taxes	$1,107,408
Estimated Total Net State and Local Revenue	**($53,832,672)**

Source: Olsberg report and author's calculations.

Post-Olsberg Report Net State Revenue Estimates

Following the publication of the Olsberg report, DECD explained in its 2022 annual report,

> This year DECD updated our impact estimation methodology incorporating new information obtained from the Olsberg report and conducted a one-year impact estimate for the incentive programs. Because we do not have job creation data tied to the tax credit, and because the intent of the tax credits is to build a film and digital media production industry in the state, we conduct a total economic impact analysis for the film and digital media production tax credit utilizing DECD's REMI model, which presents the direct, indirect and induced activity that results from the tax credit.
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> This also allows a comparison to the results of the Olsberg report which utilized the IMPLAN economic model. … We have updated the impact estimation methodology for the film tax credits based on the study's findings and estimate the impact of the programs below. Because the consultants' report covered the history of the tax credit program, we estimate the impact of the film tax credits for the most recent fiscal year.[12]

Table 4 first shows the annual net state revenue estimate for fiscal year 2022 provided in DECD's 2022 annual report based on the updated methodology.[13] The key findings include:

- Connecticut issued a total of $129.8 million in the film and digital media production tax credit and it supported 4,762 jobs (50 percent of the industry jobs). This resulted in an estimated increase of $35.5 million in state revenues, measured as new revenues net of the cost of the tax credit and equal to an increase of $0.27 per dollar. This tax credit also resulted in an estimated $34.6 million in new state expenditures, equal to $7,267 per job supported. Subtracting the estimated change in state expenditures from the estimated change in state revenues, the tax credit generated an estimated increase of $857,140 in net state revenue.

- Connecticut issued a total of $15.2 million in the film infrastructure tax credit and it supported 759 jobs. This resulted in an estimated loss of $10.4 million in state revenues, measured as new revenues net of the cost of the tax credit and equal to a loss of $0.68 per dollar. This tax credit also resulted in an estimated $1.1 million in new state expenditures, equal to $1,514 per job supported. Subtracting the estimated change in state expenditures from the estimated change in state revenues, the tax credit generated an estimated loss of $11.5 million in net state revenue.

- Connecticut issued no digital animation tax credits.

- Overall, in funding the film industry tax credits, Connecticut lost in net state revenue an estimated $10.7 million in fiscal year 2022.

In addition to the net state revenue estimates for fiscal year 2022, **Table 4** shows the net state revenue estimate for fiscal year 2023 provided in DECD's annual report as well as an adjusted estimate for fiscal year 2023 using the methodology from DECD's 2022 annual report.[14]

The estimate DECD provides for fiscal year 2023 is presented in the "FY 2023 Published" column. Rather than conclude that the film industry tax credits generated a loss in net state revenue—as occurred in all the preceding published annual reports—DECD's 2023 annual report concludes that the film industry tax credits generated a gain in net state revenue of $36.5 million. This change is due primarily to the increase in the estimated state revenue for the film and digital media production tax credit, which jumped from $0.27 per dollar in fiscal year 2022 to an estimated $0.80 per dollar in fiscal year 2023. However, DECD provides no explanation for the nearly three-fold increase in the estimated effectiveness of the film industry tax credits.

If the same revenue and cost models—specifically, the estimate of state revenue generated per dollar spent in tax credits and the estimate of state expenditures per job—from fiscal year 2022 are applied to fiscal year 2023, the estimated fiscal impact of the film industry tax credits changes substantially and raises questions about DECD's methodology. This adjusted analysis is presented in the "FY 2023 Adjusted" column and summarized below:

- Connecticut issued a total of $103.9 million in the film and digital media production tax credit and it supported 5,076 jobs (50 percent of the industry jobs). This resulted in an estimated increase of $28.4 million in state revenues (rather than $83.1 million) if the tax credit generated $0.27 per dollar (rather than $0.80 per dollar). This tax credit also resulted in an estimated increase of $36.9 million in new state expenditures (rather than $38.9 million) if the cost per job was $7,267 (rather than $7,670). Subtracting the change in state expenditures from the change in state revenue, the tax credit generated an estimated loss of $8.5 million in net state revenue (rather than a gain of $44.1 million).

- Connecticut issued a total of $8.6 million in the film infrastructure tax credit and it supported 190 jobs. This resulted in an estimated loss of $5.9 million in state revenues (rather than a loss of $7.4 million) if the tax credit lost $0.68 per dollar (rather than $0.85 per dollar). This tax credit also resulted in an estimated increase of $287,628 in new state expenditures (rather than $303,020) if the cost per job was $1,514 (rather than $1,595). Subtracting the change in state expenditures from the change in state revenue, the tax credit generated an estimated loss of $6.2 million in net state revenue (rather than $7.7 million)

- Connecticut issued no digital animation tax credits.

- Overall, in funding the film industry tax credit and applying the fiscal year 2022 methodology to fiscal year 2023, Connecticut lost in net state revenue an estimated $14.7 million in fiscal year 2023 (rather than gain $36.5 million).

Table 4. Net State Revenue Estimates,
CT DECD 2022 and 2023 Annual Reports

Tax Credits Issued and Net Revenue	FY 2022 Published	FY 2023 Published	FY 2023 Adjusted
Film and Digital Media Production			
Inputs			
50% of Industry Jobs	4,762	5,076	5,076
Total Credits Issued	$129,757,986	$103,934,659	$103,934,659
Results			
Estimated State Revenues	$35,464,230	$83,060,000	$28,406,442
Per $1 of Tax Credit	$0.27	$0.80	$0.27
Estimated State Expenditures	$34,607,090	$38,932,600	$36,889,036
Per Job	$7,267	$7,670	$7,267
Estimated Net State Revenue	$857,140	$44,127,400	($8,482,594)
Film Production Infrastructure			
Inputs			
Eligible Infrastructure Spending	$75,921,074	$43,246,812	$43,246,812
Total Credits Issued	$15,184,215	$8,649,362	$8,649,362
Results			
Estimated New Construction and Related Jobs	759	190	190
Estimated State Revenues	($10,381,000)	($7,357,820)	($5,913,314)
Per $1 of Tax Credit	($0.68)	($0.85)	($0.68)
Estimated State Expenditures	$1,149,000	$303,020	$287,628
Per Job	$1,514	$1,595	$1,514
Estimated Net State Revenue	($11,530,000)	($7,660,840)	($6,200,942)
Estimated Total Net State Revenue	**($10,672,860)**	**$36,466,560**	**($14,683,536)**

Source: CT DECD 2022 and 2023 Annual Reports and author's calculations. "FY 2023 Adjusted" estimate applies the methodology for FY 2022 to FY 2023.

Net State Revenue Estimates from All CT DECD Annual Reports and the Olsberg Report

Table 5 shows the total net state revenue estimates based on the data provided in DECD's annual reports from 2018 to 2023 as well as the Olsberg report.[15] The key findings include:

- In providing the film and digital media production tax credit, Connecticut lost in net state revenue an average of $44.6 million a year and a total of $668.9 million from 2009 to 2023.

- In providing the film infrastructure tax credit, Connecticut lost in net state revenue an average of $7.8 million a year and a total of $132.2 million from 2007 to 2023.

- In providing the digital animation tax credit, Connecticut lost in net state revenue an average of $10.3 million a year and a total of $92.9 million from 2008 to 2018.

- Overall, in providing the film industry tax credits, Connecticut lost in net state revenue an average of $62.7 million a year and a total of $894 million during the time period reviewed here for the three tax credits.

Table 5. Net State Revenue Estimates,
All CT DECD Annual Reports and Olsberg Report

Tax Credit and Time Period	Estimated Net State Revenue		Source
	Annual Average	Total	
Film and Digital Media Production	**($44,594,260)**	**($668,913,903)**	
2009 - 2017	($54,356,877)	($489,211,891)	Provided in DECD 2018 Annual Report
2018	($58,510,604)	($58,510,604)	Estimated Using DECD 2019 Annual Report
2019	($58,510,604)	($58,510,604)	Estimated Using DECD 2019 Annual Report
2020	($53,832,672)	($53,832,672)	Estimated Using Olsberg Report
2021	($53,832,672)	($53,832,672)	Estimated Using Olsberg Report
2022	$857,140	$857,140	Provided in DECD 2022 Annual Report
2023	$44,127,400	$44,127,400	Provided in DECD 2023 Annual Report
Film Production Infrastructure	**($7,778,915)**	**($132,241,560)**	
2007 - 2018	($8,550,313)	($94,053,438)	Provided in DECD 2018 Annual Report
2019	($9,498,641)	($9,498,641)	Estimated Using DECD 2019 Annual Report
2020	($9,498,641)	($9,498,641)	Estimated Using DECD 2019 Annual Report
2021	$0	$0	Provided in DECD 2021 Annual Report
2022	($11,530,000)	($11,530,000)	Provided in DECD 2022 Annual Report
2023	($7,660,840)	($7,660,840)	Provided in DECD 2023 Annual Report
Digital Animation	**($10,318,065)**	**($92,862,586)**	
2008 - 2018	($10,318,065)	($92,862,586)	Provided in DECD 2018 Annual Report
Total	**($62,691,240)**	**($894,018,049)**	

Source: CT DECD annual reports, Olsberg report, and author's calculations.

Cost Analysis: CT Office of Fiscal Analysis Direct Cost and Repeal Estimates

If Connecticut eliminates the film industry tax credits, it will gain an estimated $105.8 million a year in revenue starting in fiscal year 2025 that policymakers can use to fund other programs.

In addition to the net state revenue estimates that DECD provides, the Connecticut Office of Fiscal Analysis (OFA) provides a tax expenditure report every two years that includes an analysis of the film industry tax credits. Unlike DECD, which calculates the "estimated total impact" of the film industry tax credits that incorporates the direct, indirect, and induced impact, OFA only calculates the direct cost of the tax credits. However, OFA's analysis is important for two reasons: it includes a breakdown of the tax credits by tax (which is used to develop the distributional analysis in the next section of the report) and it includes an estimate of the revenue gained if the tax credits are repealed.

Table 6 shows the estimated direct cost of the film industry tax credits by tax and tax credit from fiscal year 2009 through fiscal year 2024 and it also shows the gain in revenue in fiscal year 2025 if the tax credits are repealed.[16] The key findings include:

- Connecticut spent an estimated $1.29 billion on film industry tax credits from fiscal year 2009 through fiscal year 2024.
    - By tax, it included $559.8 million (43.3 percent) in tax credits against the corporation business tax, $595.9 million (46 percent) in tax credits against the insurance premiums tax, $32.3 million (2.5 percent) in tax credits against the sales and use tax, and $106.1 million (8.2 percent) in tax credits against the public services companies tax.
    - By tax credit, it included $939.6 million (72.6 percent) on the film production tax credit, $182.4 million (14.1 percent) on the film production infrastructure tax credit, and $172.2 million (13.3 percent) on the digital animation tax credit.
- Connecticut will gain an estimated $105.8 million a year in revenue starting in fiscal year 2025 if the film industry tax credits are eliminated.
    - By tax, it includes $56.1 million (53 percent) in tax credits against the corporation business tax, $45.3 million (42.8 percent) in tax credits against the insurance premiums tax, and $4.4 million (4.2 percent) in tax credits against the sales and use tax.
    - By tax credit, it includes $104.4 million (98.7 percent) on the film production tax credit and $1.4 million (1.3 percent) on the film production infrastructure tax credit.

Table 6. Total Direct Cost of Film Industry Tax Credits, FY 2009 – FY 2024, and Revenue Gain in FY 2025 if Repealed

Tax and Tax Credit	FY 2009 - FY 2024		Revenue Gain in FY 2025 if Repealed	
	$	% of Total	$	% of Total
Corporation Business Tax	**$559,800,000**	**43.3%**	**$56,100,000**	**53.0%**
Film Production	$427,600,000	33.0%	$55,000,000	52.0%
Film Production Infrastructure	$85,100,000	6.6%	$1,100,000	1.0%
Digital Animation	$47,100,000	3.6%	$0	0.0%
Insurance Premiums Tax	**$595,900,000**	**46.0%**	**$45,300,000**	**42.8%**
Film Production	$373,550,000	28.9%	$45,000,000	42.5%
Film Production Infrastructure	$97,300,000	7.5%	$300,000	0.3%
Digital Animation	$125,050,000	9.7%	$0	0.0%
Sales and Use Tax	**$32,300,000**	**2.5%**	**$4,400,000**	**4.2%**
Film Production	$32,300,000	2.5%	$4,400,000	4.2%
Public Service Companies Tax	**$106,100,000**	**8.2%**	**$0**	**0.0%**
Film Production	$106,100,000	8.2%	$0	0.0%
Total Direct Cost of Tax Credits	**$1,294,100,000**	**100%**	**$105,800,000**	**100%**

Source: CT OFA tax expenditure reports and author's calculations. The estimate for fiscal year 2010 is calculated as the average for fiscal year 2009 and fiscal year 2011 because OFA does not provide an estimate for that year. Note also that from 2007 through 2023, DECD reports that the state spent $1.69 billion on film industry tax credits in total. However, the focus here is on OFA's estimates because, unlike DECD's data, OFA provides a breakdown of the tax against which the tax credit is applied, which is essential for the subsequent distributional analysis.

Distributional Analysis: CT DRS Tax Incidence Estimates

Connecticut's film industry tax credits are not targeted based on income level and apply to taxes that are substantially exported. As a result, only an estimated $41.5 million of the $105.8 million in the film industry tax credits for fiscal year 2025 will provide support to the bottom 92 percent of households in Connecticut, whereas most of the support will go to a combination of households outside of Connecticut ($40.2 million) and high-income and wealthy households within Connecticut ($24.1 million).

The CT Department of Revenue Services (DRS) published tax incidence reports in 2014 (for tax year 2011), 2022 (for tax year 2019), and 2023 (for tax year 2020). All three reports show that Connecticut has a regressive tax system, meaning low- and middle-income households or tax filers pay a larger share of their income in state and local taxes compared to high-income and wealthy households or tax filers, which exacerbates economic inequities. In the process of showing that Connecticut has a regressive tax system, the tax year 2011 tax incidence model provides sufficient data to develop a distributional analysis of Connecticut's film industry tax credits. Additionally, a combination of data from the tax year 2011 and the tax year 2019 models provides sufficient data to develop a secondary distributional analysis to test the validity of the first distributional analysis. For reference, the tax year 2020 model—the most recent—does not provide sufficient data to develop a distributional analysis.

Below is an overview of the two distributional analyses.

First, as noted, although it is the oldest of the three tax incidence models, the tax year 2011 model provides the most information and is therefore the primary model used here. Specifically, the 2011 tax incidence model from the DRS provides distributional estimates for the corporation business tax, the sales and use tax, and the insurance premiums tax—the three taxes against which the film industry tax credits apply for fiscal year 2025. The tax incidence model also provides export estimates for all three taxes: 56 percent of the corporation business tax is exported out of state, 24 percent of the sales and use tax is exported out of state, and 17 percent of the insurance premiums tax is exported out of state.

Before reviewing the results from the first distributional analysis, it is important to explain an important distributional dynamic at play within the state as well as the exporting of taxes and tax credits out of state. Consider the following example below that incorporates two sources of data.

Using the latest tax filer data from the Internal Revenue Service, **Table 7** shows that tax filers in Connecticut with a federal adjusted gross income (AGI) of less than $200,000 receive an average of 74.1 percent of their income from salaries and wages and only 2.9 percent from capital gains, which is the profit earned from the sale of an asset, such as stocks. In contrast, tax filers with a federal AGI of $1 million or more receive an average of only 31 percent of their income from salaries and wages and 42.8 percent from capital gains, making capital gains the primary income source.[17]

Next, using the latest film industry tax credit data from DECD, **Table 8** shows that in 2023 NBC Sports Network (a subsidiary of NBCUniversal Media) received a film production tax credit of $26.72 million, NBCUniversal Media received a film production infrastructure tax credit of $7.03 million, NBC Sports Ventures (a subsidiary of NBCUniversal Media) received a film production tax credit of $4.17 million, Peacock TV (a subsidiary of NBCUniversal Media) received a film production tax credit of $3.33 million, and NBC Olympics (a subsidiary of NBCUniversal Media) received a film production tax credit of $955,435.[18] The total value of these five film industry tax credits is $42.2 million, equal to 34.4 percent of the film industry tax credits issued in 2023, and all five tax credits ultimately benefit Comcast, a publicly traded company and the parent company of NBCUniversal Media. Also, recall that the film industry tax credits may be used to reduce CT's corporation business tax, which is a tax on corporate profits. As a result, these CT film industry tax credits will increase the profits of Comcast, which, all else being equal, will increase the company's stock price. This in turn will benefit stockholders outside of Connecticut and, within the state, it will disproportionately benefit high-income and wealthy families because those families are more likely to own stock and rely on it as a source of income.

Turning now to the results from the distributional analysis using the DRS tax incidence model for tax year 2011 (published in 2014), **Table 9** shows the estimated distribution of the $105.8 million in film industry tax credits for fiscal year 2025, which includes $56.1 million in tax credits applied against the corporation business tax, $45.3 million in tax credits applied against the insurance premiums tax, and $4.4 million in tax credits applied against the sales and use tax.[19] The key findings include:

- An estimated $41.5 million (39.3 percent) of the film industry tax credits will provide support for the bottom 91.7 percent of households in Connecticut (income deciles one through five), defined here as low- and middle-income households. This results in an average tax cut of $22 to $62 per household for low- and middle-income households.

- An estimated $24.1 million (22.8 percent) of the film industry tax credits will provide support for the top 8.3 percent of households in Connecticut (income deciles six through 10), defined here as high-income and wealthy households. This results in an average tax cut of $87 to $12,444 per household for high-income and wealthy households.

- An estimated $40.2 million (38 percent) of the $105.8 million in film industry tax credits will provide support for households outside of Connecticut.

To support the key findings from the above analysis, **Table 10** provides a distributional analysis of the $105.8 million in film industry tax credits for fiscal year 2025 using a combination of the DRS tax incidence models for tax year 2011 (published in 2014) and tax year 2019 (published in 2022).[20] Specifically, the tax year 2019 model provides distributional estimates for the corporation business tax and the sales and use tax, but not the insurance premiums tax. The tax year 2019 model also provides export estimates for the corporation business tax (71 percent) but not for the other two taxes.

It is therefore necessary to use the data for the insurance premiums tax from the tax year 2011 model and the export estimates for the sales and use tax and the insurance premiums tax from the tax year 2011 model. Applying a combination of data from both models to the OFA's estimate of film industry tax credits for fiscal year 2025 produces the following key findings:

- An estimated $44.2 million (41.8 percent) of the film industry tax credits will provide support for the bottom 91.9 percent of tax filers in Connecticut (income deciles one through five), defined here as low- and middle-income tax filers. This results in an average tax cut of $21 to $49 per tax filer for low- and middle-income tax filers.

- An estimated $13 million (12.3 percent) of the film industry tax credits will provide support for the top 8.1 percent of tax filers in Connecticut (income deciles six through 10), defined here as high-income and wealthy tax filers. This results in an average tax cut of $58 to $1,645 for high-income and wealthy tax filers.

- An estimated $48.6 million (45.9 percent) of film industry tax credits will provide support for tax filers outside of Connecticut.

While the two distributional analyses have some notable differences due to several factors—the use of different units (households versus tax filers), the use of different tax years, the use of different export estimates for the corporation business tax, and more—the key finding from both analyses is the same: most of the support from the film industry tax credits will go to a combination of households outside of Connecticut and high-income and wealthy households within Connecticut. This is especially problematic because, as noted earlier, Connecticut has a regressive tax system, meaning it unfairly burdens the state's low- and middle-income families, and the film industry tax credits contribute to Connecticut's regressive tax system because they consume the state's limited financial resources but do not provide targeted support to the state's low- and middle-income families.

Table 7. Income Source of Connecticut Tax Filers by Income Level, 2021

Income Source	Federal Adjusted Gross Income		
	Under $200,000	**$200,000 to $999,999**	**$1,000,000 and Over**
Salary and Wages	74.1%	65.0%	31.0%
Capital Gains	2.9%	10.0%	42.8%
Other	23.0%	25.0%	26.2%
Total	**100%**	**100%**	**100%**

Source: Internal Revenue Service and author's calculations

Table 8. Film Industry Tax Credits Issued, 2023

Production Company	Amount of Tax Credit Issued	Type of Tax Credit
NBC Sports Network, LP	$26,720,619	Film and Digital Media Production
ESPN Enterprises, Inc.	$15,380,169	Film and Digital Media Production
World Wrestling Entertainment Inc.	$12,689,046	Film and Digital Media Production
Good Nurse Productions, LLC	$8,967,593	Film and Digital Media Production
ITV America, Inc.	$8,943,478	Film and Digital Media Production
NBCUniversal Media, LLC	$7,030,835	Film Infrastructure
Newsub 120 Productions, Inc.	$5,213,642	Film and Digital Media Production
NBC Sports Ventures LLC	$4,165,252	Film and Digital Media Production
Ralph Edwards/Stu Billett Productions	$3,628,888	Film and Digital Media Production
Peacock TV, LLC	$3,334,801	Film and Digital Media Production
Stephen David Entertainment, LLC	$3,072,657	Film and Digital Media Production
Skydance Animation East, LLC	$2,812,815	Film and Digital Media Production
Lucky 8 TV, LLC	$2,398,735	Film and Digital Media Production
World Wrestling Entertainment, Inc.	$2,369,850	Film and Digital Media Production
Full Frontal, LLC	$2,043,961	Film and Digital Media Production
Digital Surgeons, LLC	$1,625,403	Film and Digital Media Production
This Old House Ventures, LLC	$1,508,930	Film and Digital Media Production
Hot Snakes Holdings, LLC	$1,322,345	Film and Digital Media Production
Stage 29 Productions, LLC	$1,064,286	Film and Digital Media Production
Cine Magnetics, Inc.	$1,003,441	Film and Digital Media Production
Park Slope Productions, Inc.	$981,492	Film and Digital Media Production
NBC Olympics, LLC	$955,435	Film and Digital Media Production
Swing by Swing Golf, Inc.	$902,030	Film and Digital Media Production
CivicPlus, LLC	$831,795	Film and Digital Media Production
Royal Productions, LLC	$708,944	Film and Digital Media Production
Sand Dollar Productions, LLC	$644,534	Film and Digital Media Production
Christmas Fix, LLC	$519,840	Film and Digital Media Production
XVIVO, LLC	$482,485	Film and Digital Media Production
Triple Threat Connecticut, LLC	$421,647	Film and Digital Media Production
Merry Ex-Mas LLC	$377,718	Film and Digital Media Production
Big Pond Films, LLC	$353,360	Film and Digital Media Production
National Media Connection LLC	$75,841	Film and Digital Media Production
Total	**$122,551,867**	

Source: CT DECD.

Table 9. Distributional Estimates of Film Industry Tax Credits for FY 2025 Using the DRS Tax Incidence Model for Tax Year 2011

Income Decile	Households	Mean CT AGI	Effective Tax Rate	Tax Cut for Connecticut Households			Tax Cut Exported Out of Connecticut
				Total	Average	% of CT AGI	
1	725,202	$20,800	23.62%	-$16,203,931	-$22	-0.11%	
2	251,321	$60,100	13.93%	-$6,973,960	-$28	-0.05%	
3	173,126	$87,200	13.35%	-$6,321,246	-$37	-0.04%	
4	129,303	$116,800	12.87%	-$5,989,457	-$46	-0.04%	
5	97,426	$155,000	11.93%	-$6,055,247	-$62	-0.04%	
6	67,958	$222,200	10.53%	-$5,896,539	-$87	-0.04%	
7	37,893	$398,600	9.03%	-$5,609,511	-$148	-0.04%	
8	15,050	$1,003,500	7.69%	-$4,782,441	-$318	-0.03%	
9	3,646	$4,145,300	6.50%	-$3,352,264	-$919	-0.02%	
10	357	$42,269,400	6.28%	-$4,442,404	-$12,444	-0.03%	
Total	**1,501,282**	**$100,600**	**11.57%**	**-$65,627,000**	**-$44**	**-0.04%**	**-$40,173,000**

Source: CT DRS, CT OFA, and author's calculations.

Table 10. Distributional Estimates of Film Industry Tax Credits for FY 2025 Using the DRS Tax Incidence Models for Tax Years 2011 and 2019

Income Decile	Tax Filers	Mean CT AGI	Effective Tax Rate	Tax Cut for Connecticut Tax Filers			Tax Cut Exported Out of Connecticut
				Total	Average	% of CT AGI	
1	850,332	$21,100	25.96%	-$17,737,016	-$21	-0.10%	
2	308,221	$58,200	19.55%	-$7,592,528	-$25	-0.04%	
3	199,666	$89,800	15.50%	-$7,247,726	-$36	-0.04%	
4	142,306	$126,000	15.73%	-$6,478,605	-$46	-0.04%	
5	103,736	$172,900	12.23%	-$5,126,793	-$49	-0.03%	
6	71,895	$249,400	11.47%	-$4,150,781	-$58	-0.02%	
7	42,689	$420,100	10.35%	-$3,511,987	-$82	-0.02%	
8	19,672	$911,500	8.99%	-$2,657,902	-$135	-0.01%	
9	5,746	$3,120,200	7.08%	-$1,439,051	-$250	-0.01%	
10	772	$23,233,900	6.64%	-$1,269,609	-$1,645	-0.01%	
Total	**1,745,035**	**$102,800**	**15.78%**	**-$57,212,000**	**-$33**	**-0.03%**	**-$48,588,000**

Source: CT DRS, CT OFA, and author's calculations.

Policy Recommendation

Eliminate the film industry tax credits and fund a state-level child tax credit that will provide targeted support entirely to low- and middle-income families in Connecticut.

If policymakers eliminate the film industry tax credits, which are not targeted based on income level and apply to taxes that are substantially exported, Connecticut will gain $105.8 million a year in revenue starting in fiscal year 2025. That revenue could then fund a state-level child tax credit (CT CTC) that provides targeted support entirely to low- and middle-income families in Connecticut. **Table 11** presents an overview of three options from a recent report from Connecticut Voices for Children, "An Overview of the CT Child Tax Credit."[21] Note that all three options include a five-year phase-in, and the revenue from eliminating the film industry tax credit is essentially sufficient to fund the first year of the phase-in for each option. A summary of each option is provided below.

- Option 1 is a maximum $200 CT CTC in year one that is 80 percent refundable ($160), has an income floor of $1, has an income-based phase-in at a rate of 4.5 percent, is capped at three children per tax filer and costs $102.8 million. Based on the key design and eligibility features of this option, the number of children eligible to receive the full or partial CT CTC is 550,000, or 74.4 percent of all children in the state under the age of 18. However, due to the income-based phase-in and partial refundability, the number of children eligible to receive the full refundable portion decreases to 483,700, or 65.4 percent of all children, and the number of children eligible to receive the full CT CTC decreases to 411,600, or 55.6 percent.

- Option 2 is a maximum $200 CT CTC in year one that is 100 percent refundable ($200), has an income floor of $1, has an income-based phase-in at a rate of 4.5 percent, is capped at three children per tax filer, and costs $106.3 million. Based on the key design and eligibility features of this option, the number of children eligible to receive the full or partial CT CTC is 550,000, or 74.4 percent of all children in the state under the age of 18. However, even with full refundability, the number of children eligible to receive the full CT CTC decreases to 478,600, or 64.7 percent of all children due largely to the income-based phase-in.

- Option 3 is a maximum $167 CT CTC in year one that is 100 percent refundable ($167), has no income floor, has no income-based phase-in, has no cap on the number of children, and costs $101.4 million. Based on the key design and eligibility features of this option, the number of children eligible to receive the full or partial CT CTC is 612,700, or 82.8 percent of all children in the state under the age of 18. Moreover, with no income-based phase-in, the number of children eligible to receive the full CT CTC only decreases to 602,200, or 81.4 percent of all children.

All three options would provide needed support for Connecticut's low- and middle-income families with children, though option 3 would provide the most support for the lowest-income families.

Table 11. CT Child Tax Credit Options

Options	1	2	3
Cost of CT CTC			
Total	$298.5 million	$307.6 million	$303.7 million
Size of CT CTC			
Maximum CT CTC per child under 18 years old	$600	$600	$500
Maximum refundable portion	$480	$600	$500
Elgibility for CT CTC			
Number of children eligible to receive full or partial CT CTC	550,000	550,000	612,700
Percent of total children under 18	74.4%	74.4%	82.8%
Number of children eligible to receive full refundable portion	483,700	478,600	602,200
Percent of total children under 18	65.4%	64.7%	81.4%
Number of children eligible to receive full CT CTC	411,600	478,600	602,200
Percent of total children under 18	55.6%	64.7%	81.4%
Design of CT CTC			
Refundable portion	80%	100%	100%
Income floor	$1	$1	None
Income-based phase-in rate	4.5%	4.5%	None
Cap on number of CT CTCs per tax filer	3	3	None
Citizenship or immigration status restrictions	None	None	None
Start of income-based phase-out			
Single	$100,000	$100,000	$100,000
Head of household	$160,000	$160,000	$160,000
Married filing jointly	$200,000	$200,000	$200,000
End of income-based phase-out			
Single	$110,000	$110,000	$110,000
Head of household	$170,000	$170,000	$170,000
Married filing jointly	$210,000	$210,000	$210,000
5-Year Phase-In	**1**	**2**	**3**
Year 1			
Maximum CT CTC per child / refundable portion	$200 / $160	$200 / $200	$167 / $167
Cost	$102.8 million	$106.3 million	$101.4 million
Year 2			
Maximum CT CTC per child / refundable portion	$300 / $240	$300 / $300	$250 / $250
Cost	$152.5 million	$158.1 million	$151.9 million
Year 3			
Maximum CT CTC per child / refundable portion	$400 / $320	$400 / $400	$333 / $333
Cost	$201.9 million	$209.3 million	$202.3 million
Year 4			
Maximum CT CTC per child / refundable portion	$500 / $400	$500 / $500	$417 / $417
Cost	$250.7 million	$258.8 million	$253.3 million
Year 5			
Maximum CT CTC per child / refundable portion	$600 / $480	$600 / $600	$500 / $500
Cost	$298.5 million	$307.6 million	$303.7 million

Source: Current Population Survey Annual Social and Economic Supplement and author's calculations.

References

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[2] Connecticut General Statutes, Chapter 208, Corporation Business Tax, Section 12-217kk.

[3] Connecticut General Statutes, Chapter 208, Corporation Business Tax, Section 12-217ll.

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[8] CT Department of Economic and Community Development, "2020 Annual Report".

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[20] CT Department of Revenue Services, "Connecticut Tax Incidence Study – Tax Year 2019," February 2022; CT Office of Fiscal Analysis, "Connecticut Tax Expenditure Report," February 2024.

[21] U.S. Census Bureau, Current Population Survey Annual Social and Economic Supplement, 2023; Patrick R. O'Brien, "Supporting the Economic Well-Being of Connecticut's Families and Children: An Overview of the CT Child Tax Credit," Connecticut Voices for Children, January 2024.