

FILM TAX INCENTIVES

AN OVERVIEW

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Task Force on State and Local Taxation
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WHAT ARE FILM INCENTIVES

red carpet treatment

sales tax exemption

grants

tax credits

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(12 states, 9 capped)

transferable

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refundable (cash rebates)

(13 states, 10 capped)

both transferable and refundable

(Louisiana & Massachusetts, uncapped)

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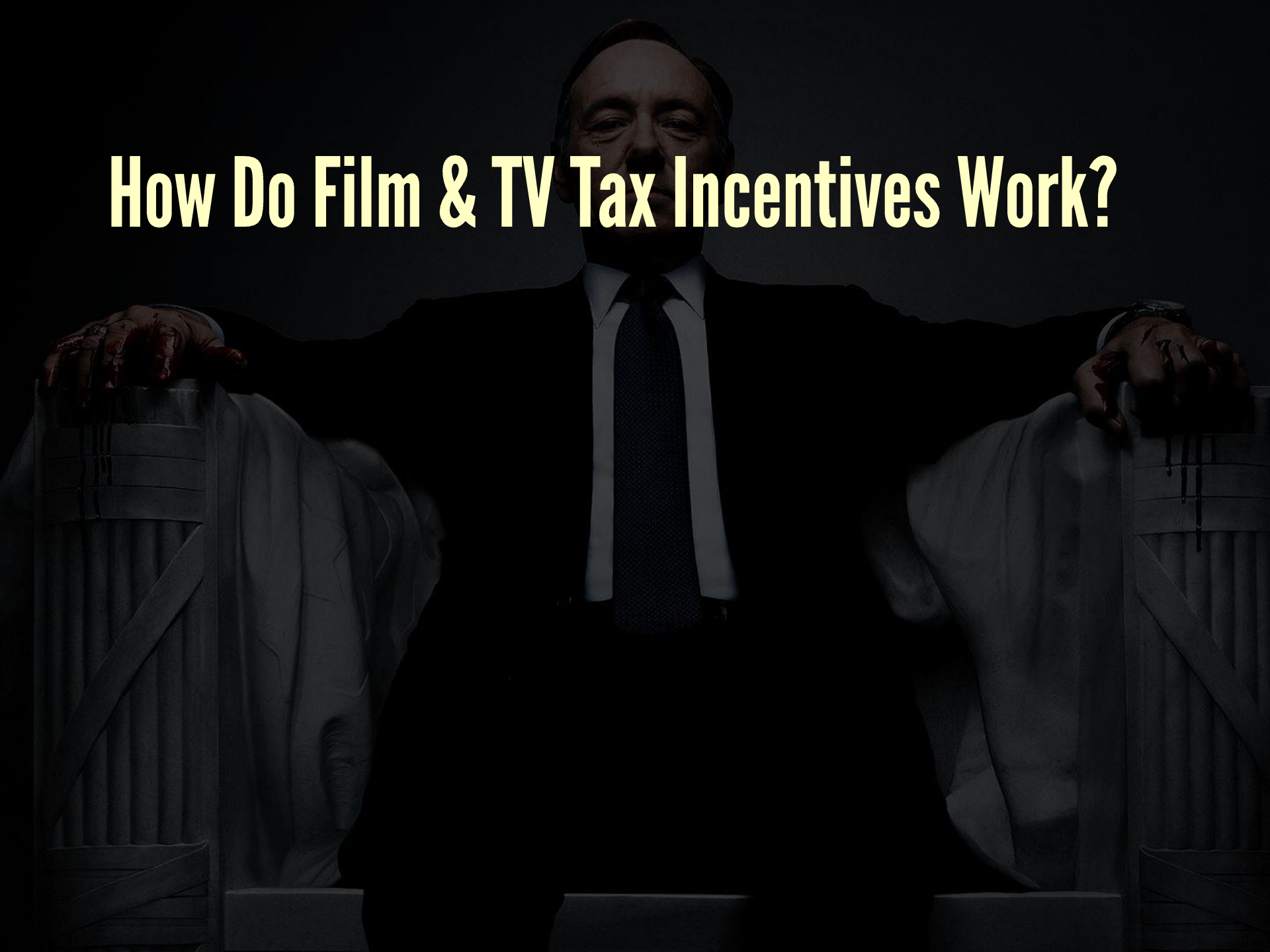
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How Do Film & TV Tax Incentives Work?



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- ☑ *House of Cards*: 3 seasons filmed in Maryland
- ☑ Season 3: Production spent \$60.5 million
- ☑ State credit is 25% for film and 27% for TV, with a \$500,000 minimum spend, \$500,000 cap on compensation, and \$25 million/year overall cap
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- ☑ Broker then sells the credit to a corporation with net tax liability
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- ☑ In some cases, the state acts as broker and the program is no different from a cash rebate

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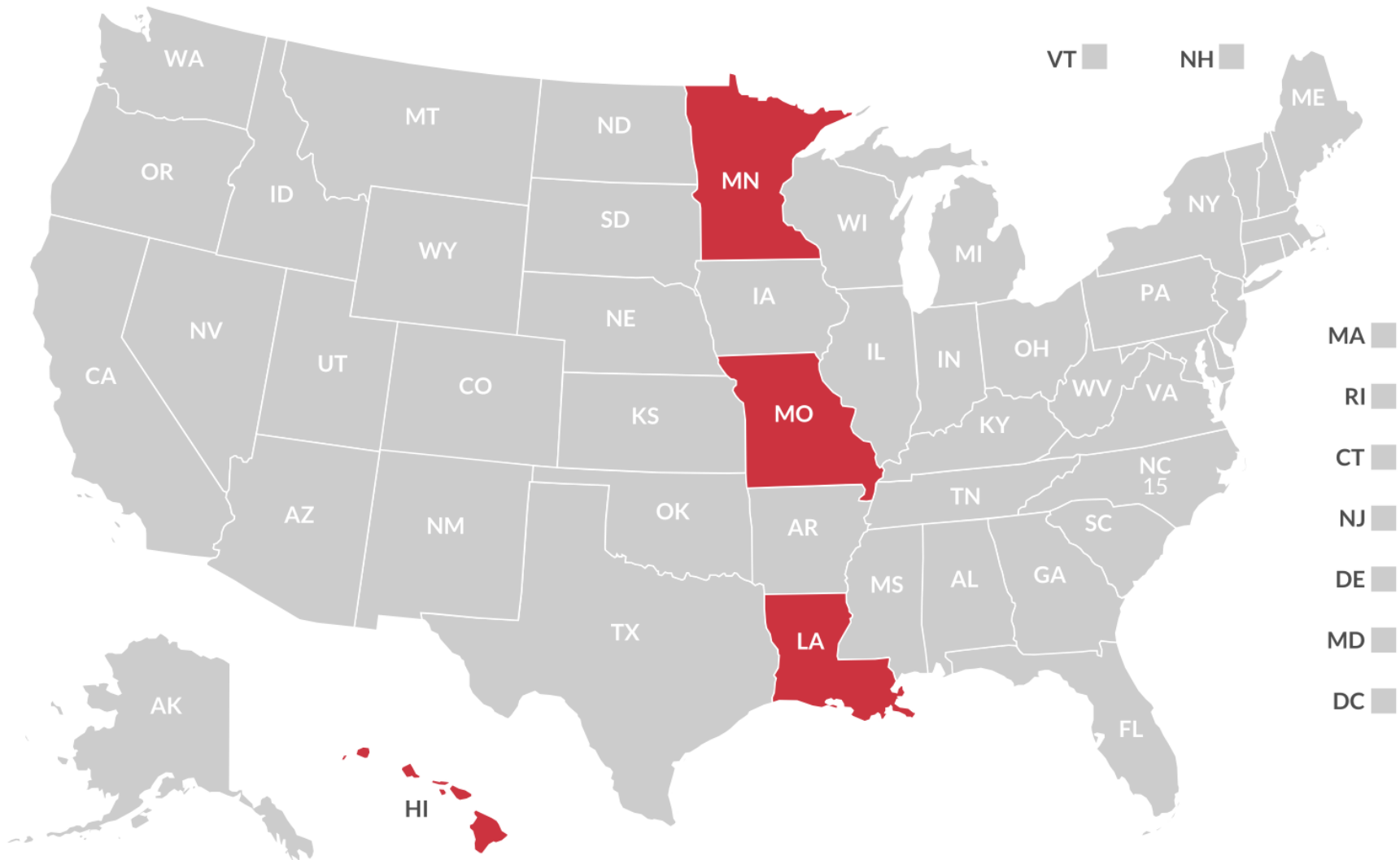
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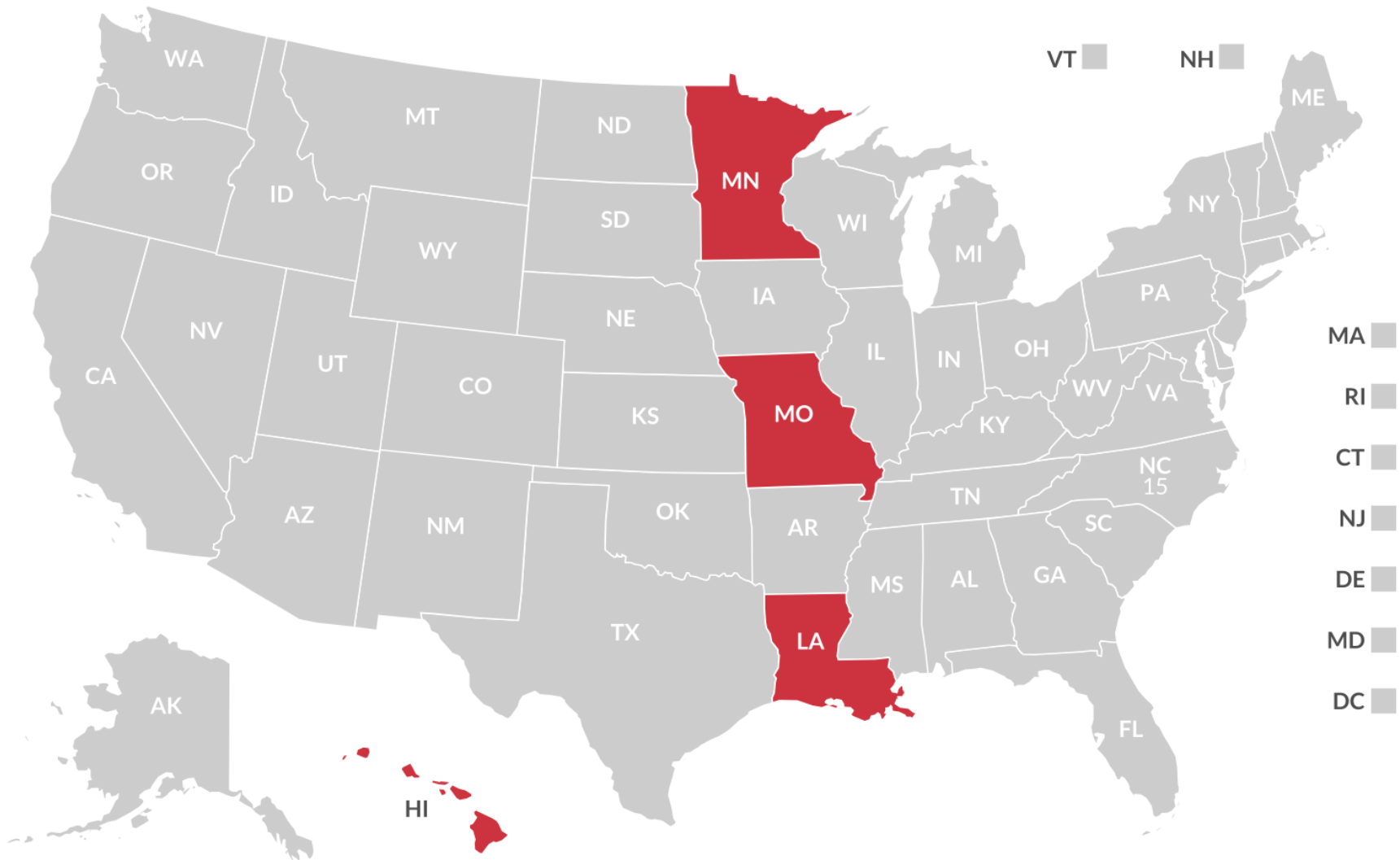
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**THE STATE-BY-STATE GROWTH OF
FILM TAX
INCENTIVES**

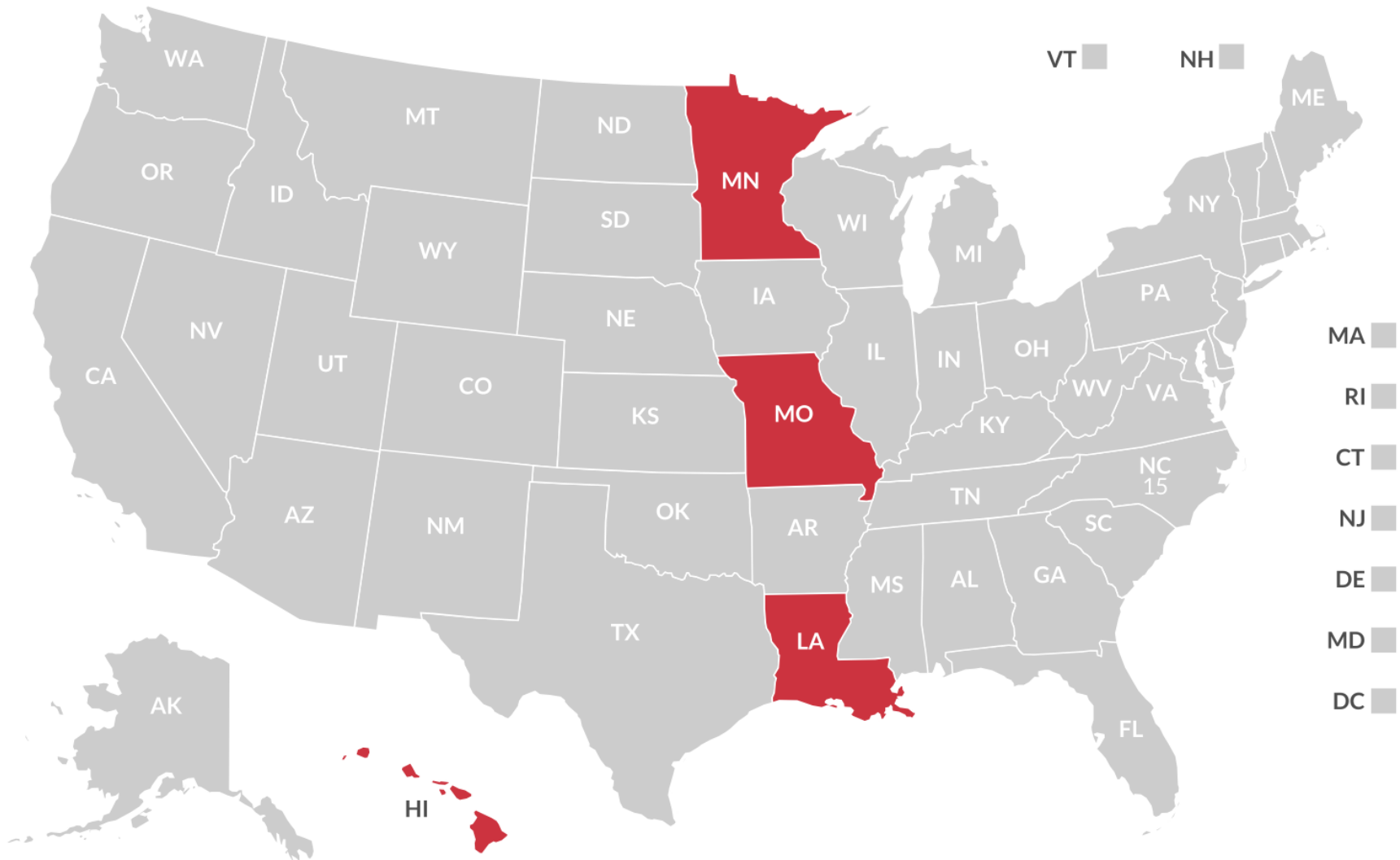
Film Tax Incentives: 1999



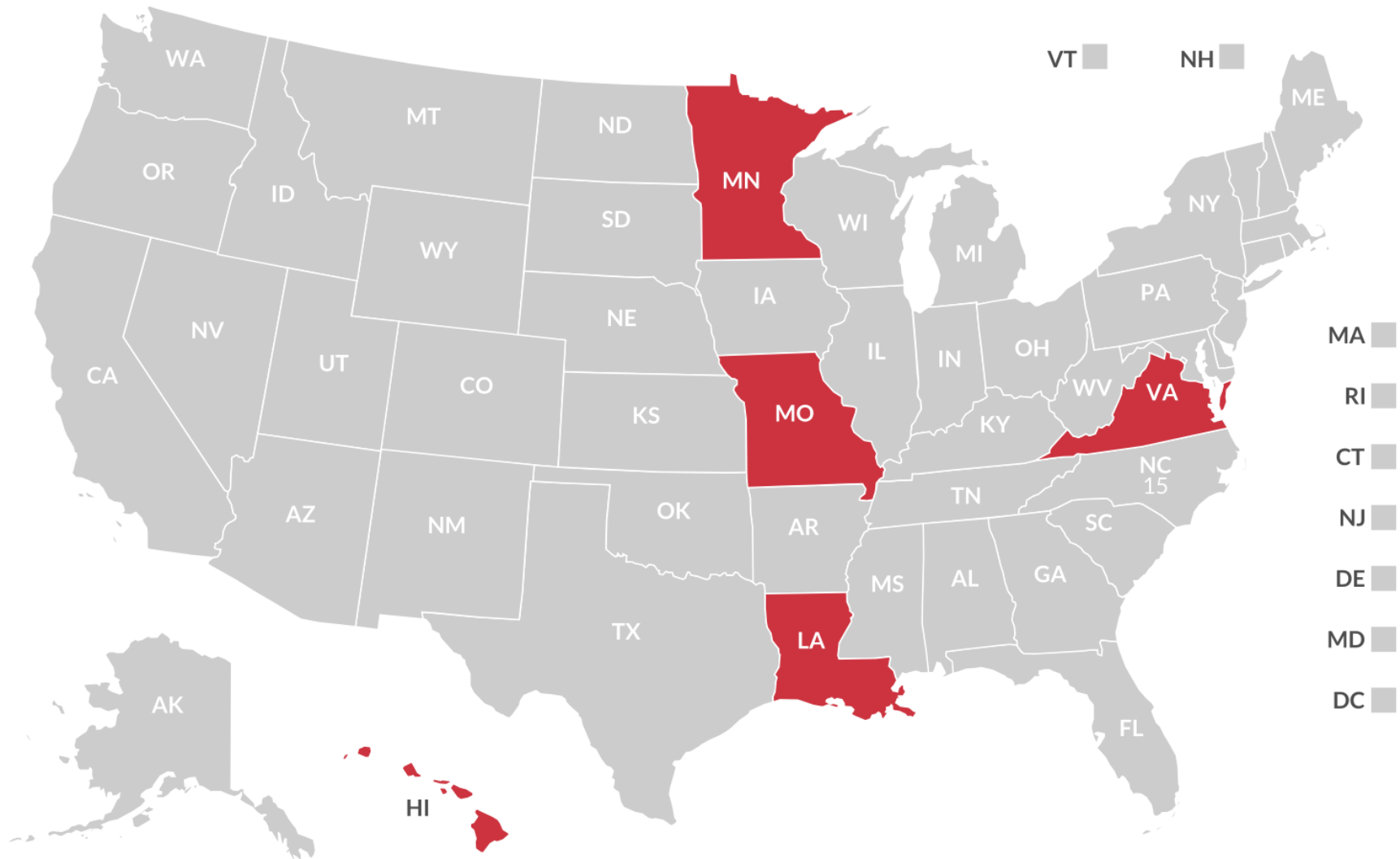
Film Tax Incentives: 2000



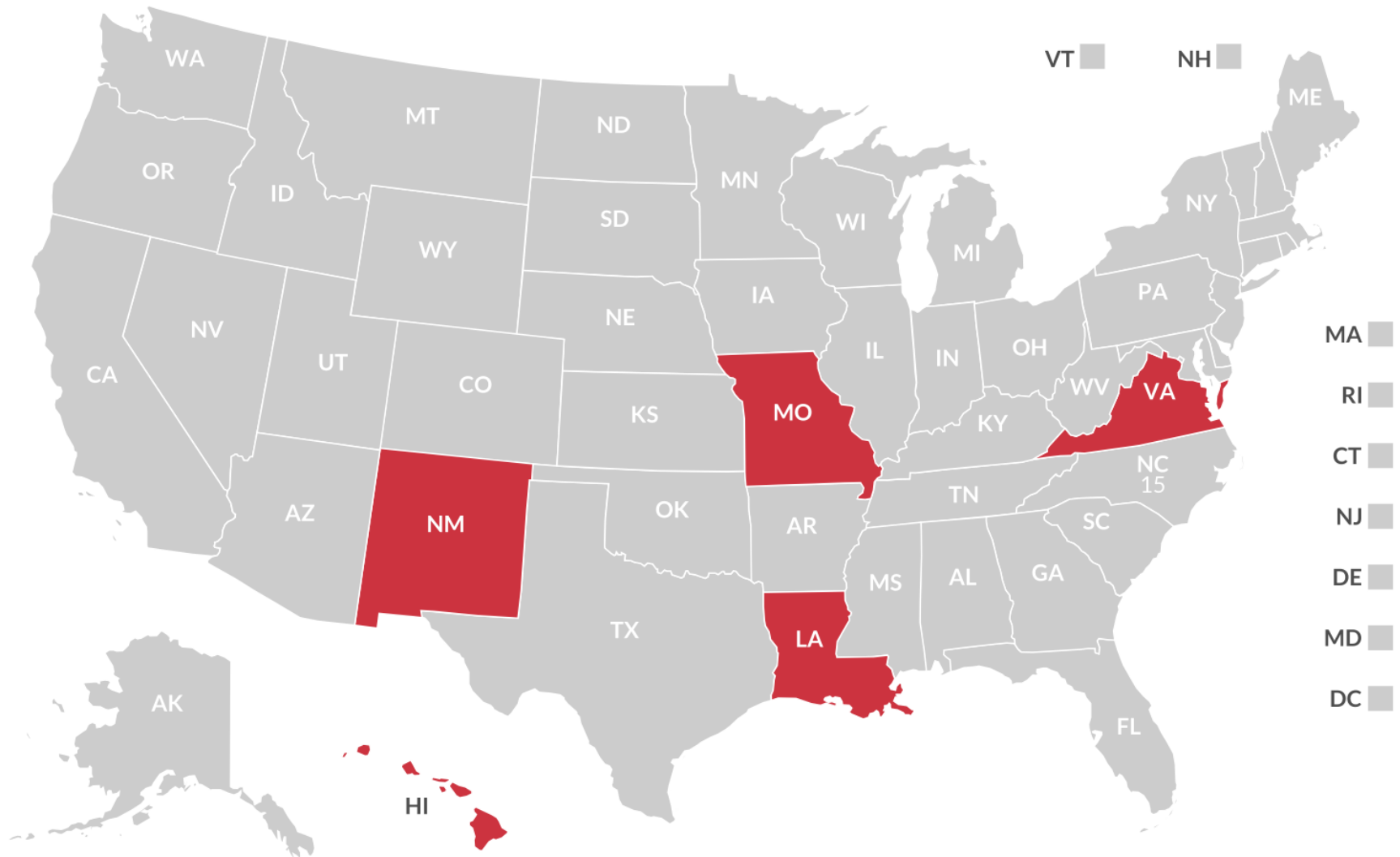
Film Tax Incentives: 2001



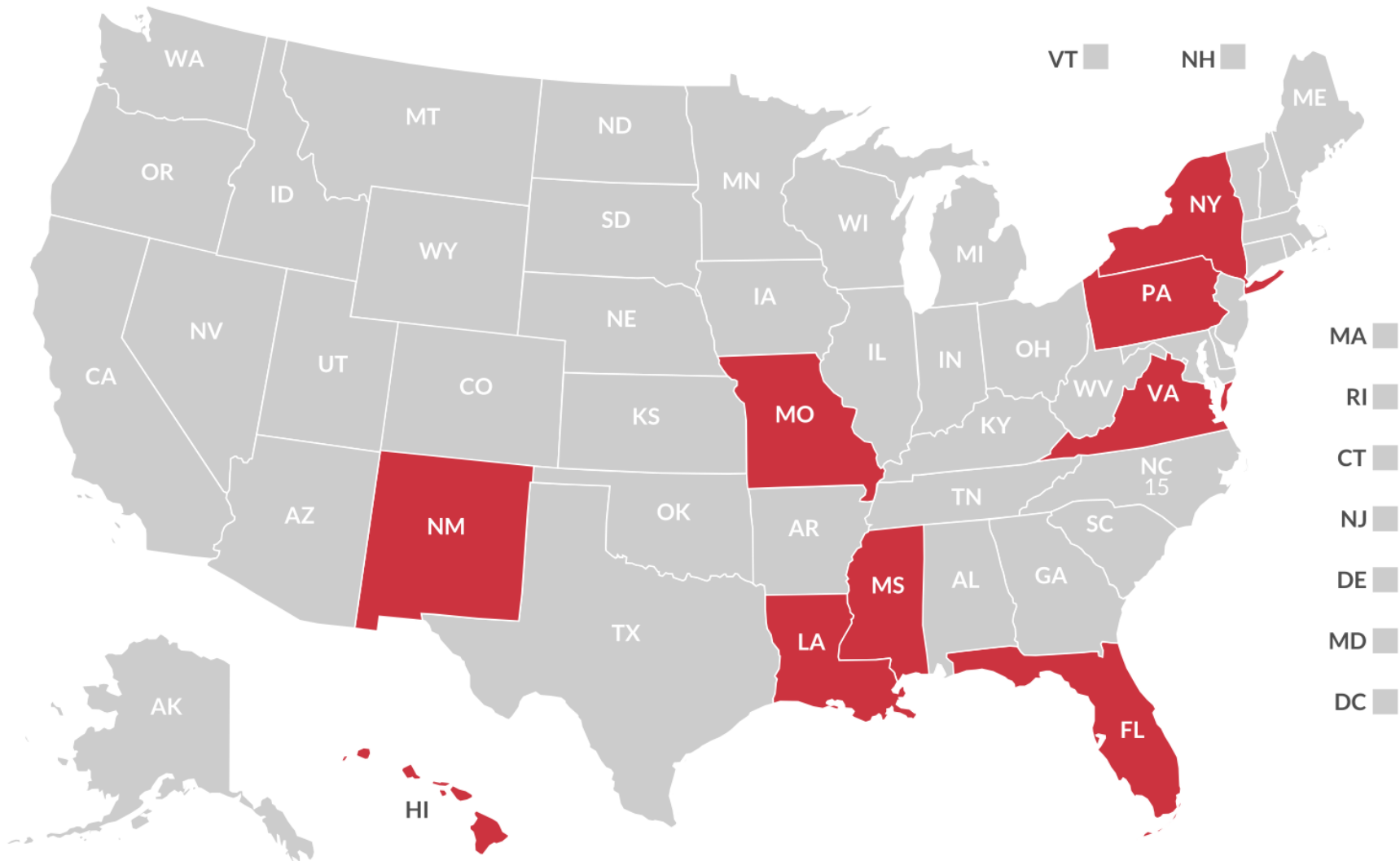
Film Tax Incentives: 2002



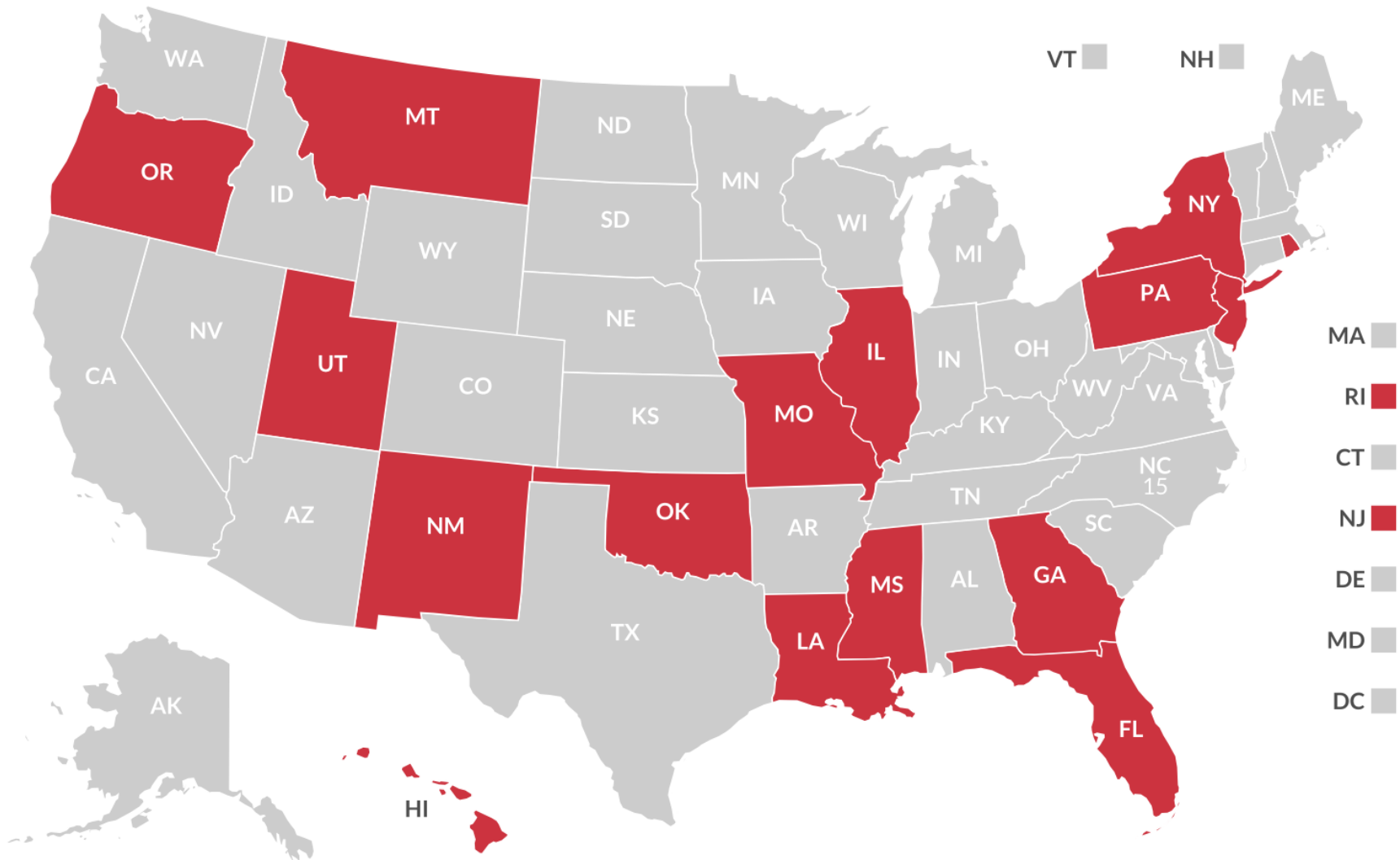
Film Tax Incentives: 2003



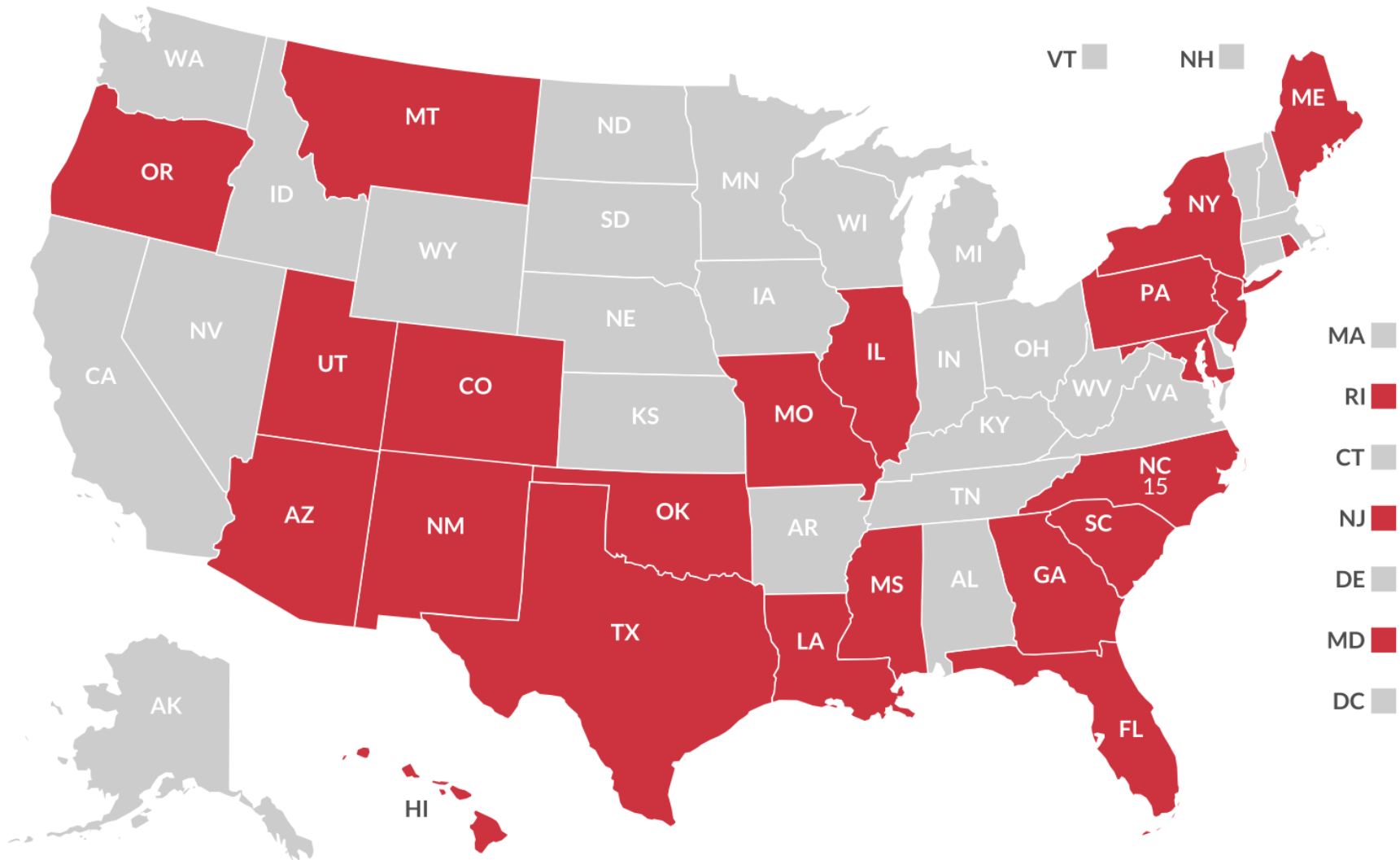
Film Tax Incentives: 2004



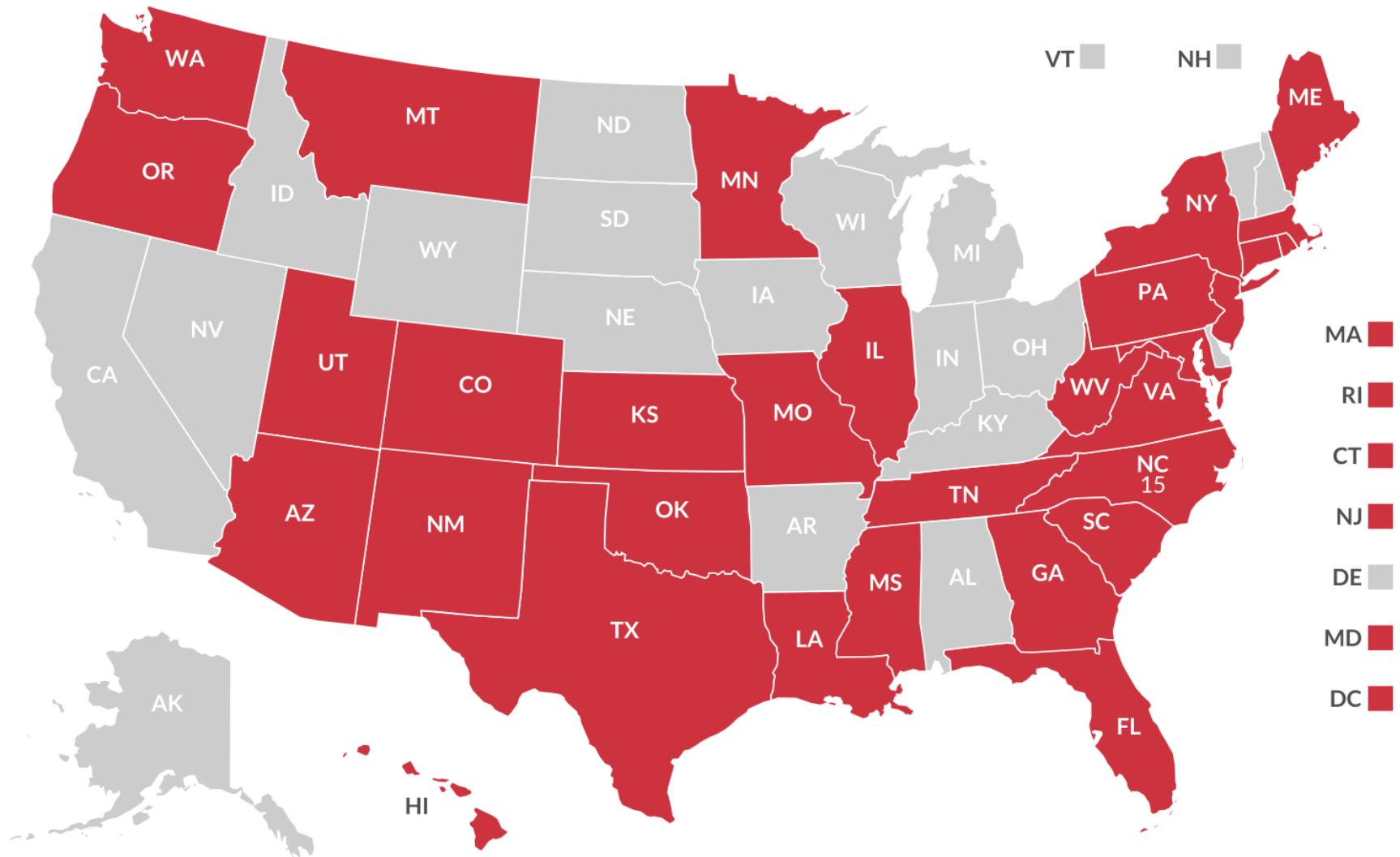
Film Tax Incentives: 2005



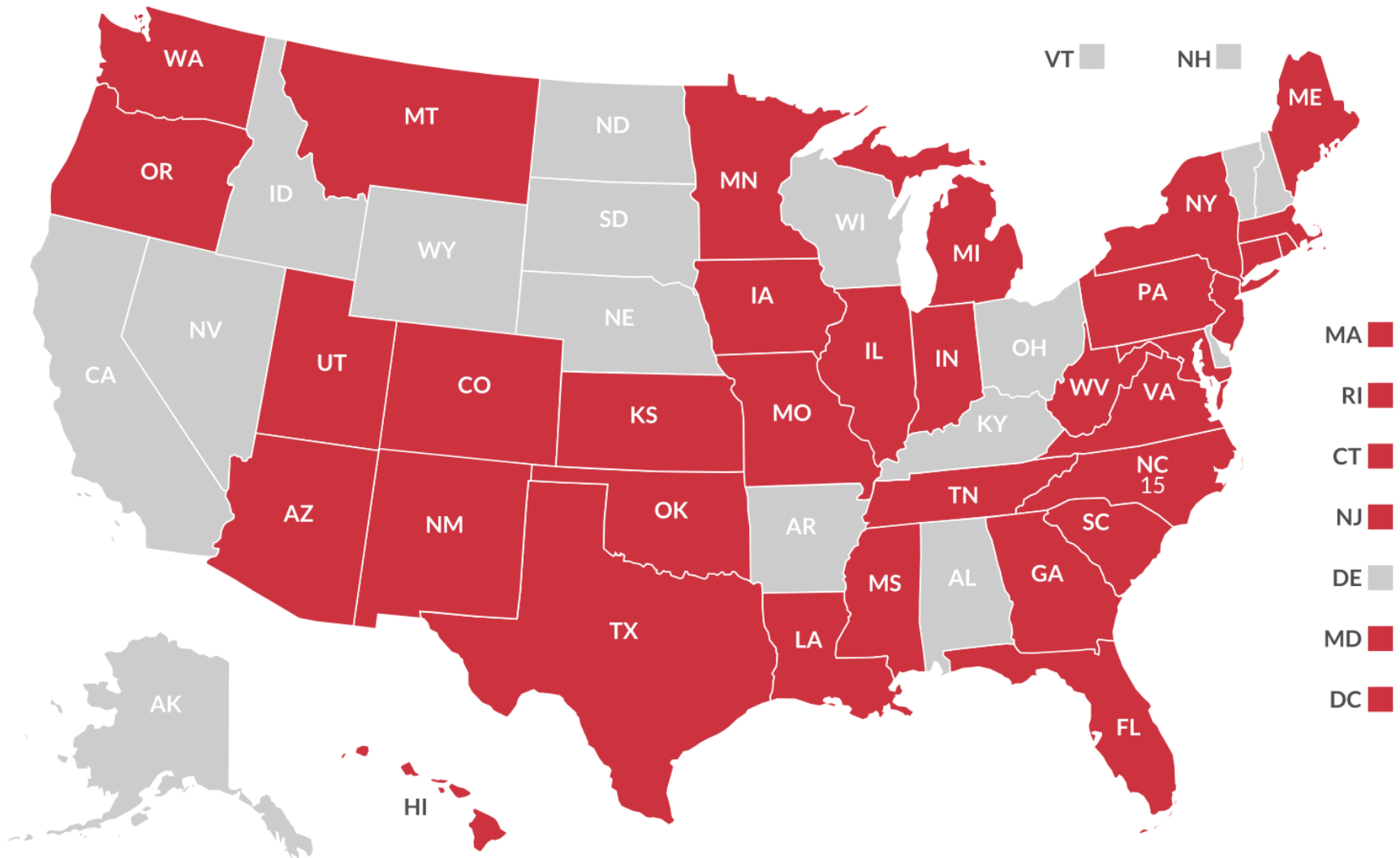
Film Tax Incentives: 2006



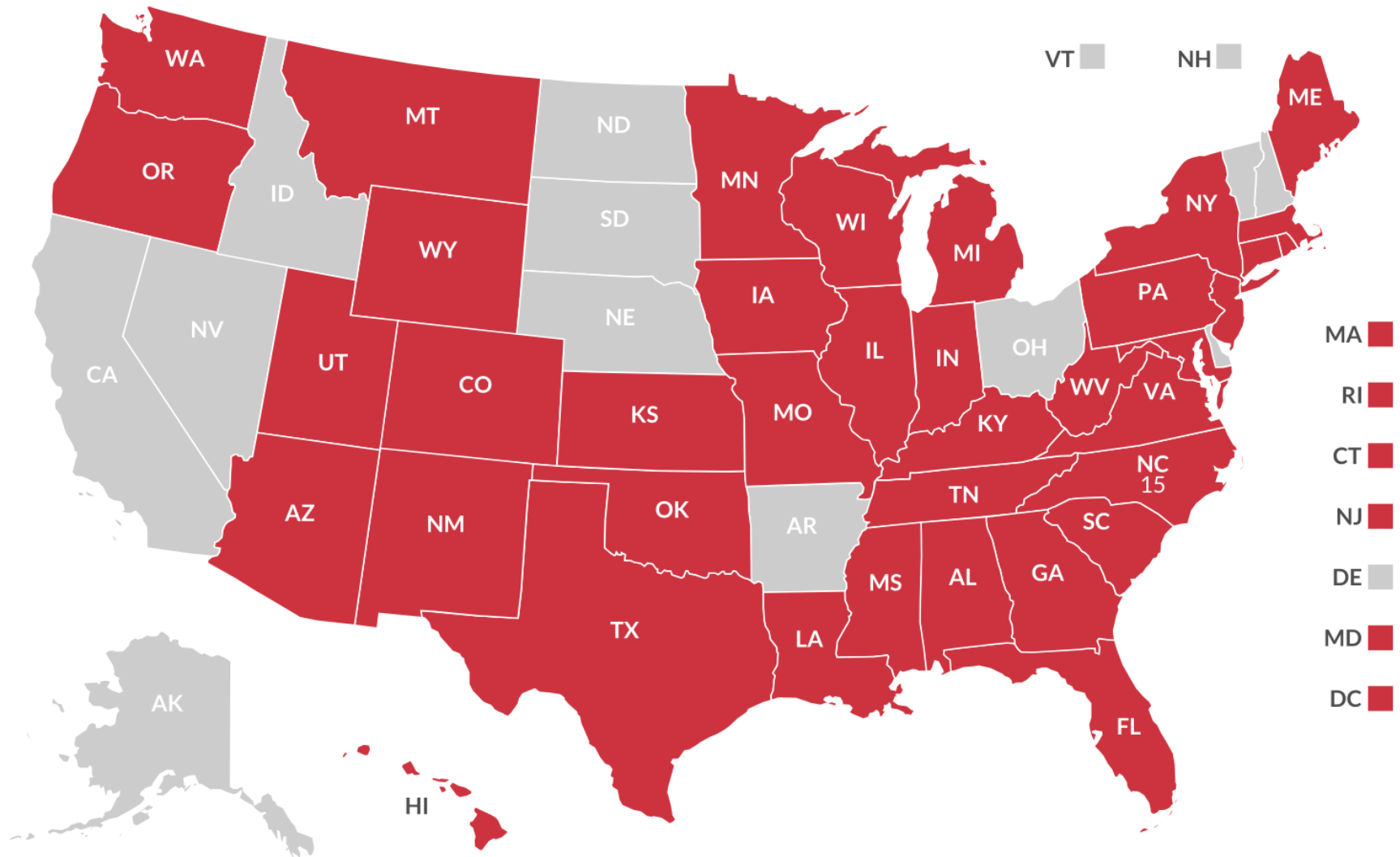
Film Tax Incentives: 2007



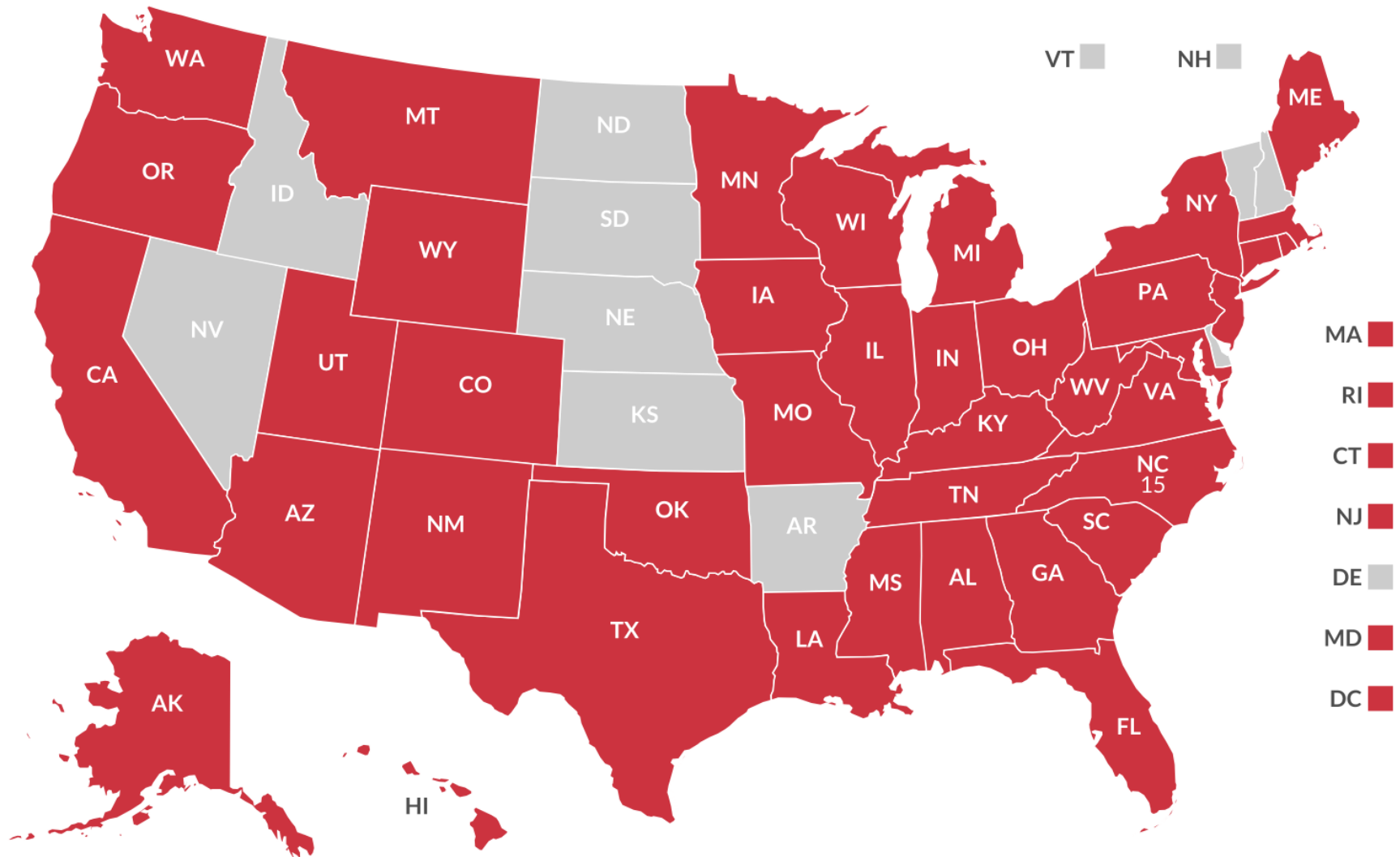
Film Tax Incentives: 2008



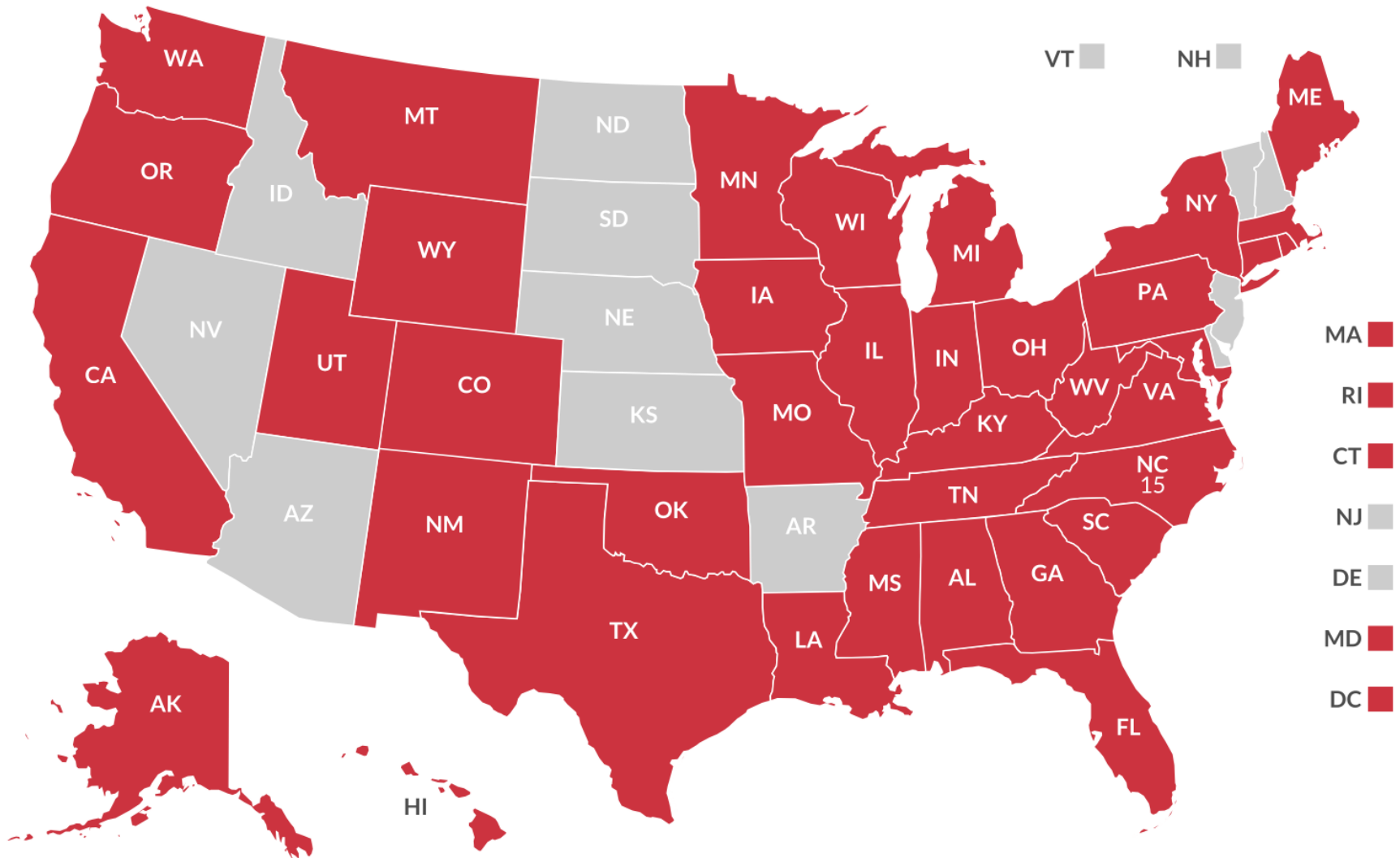
Film Tax Incentives: 2009



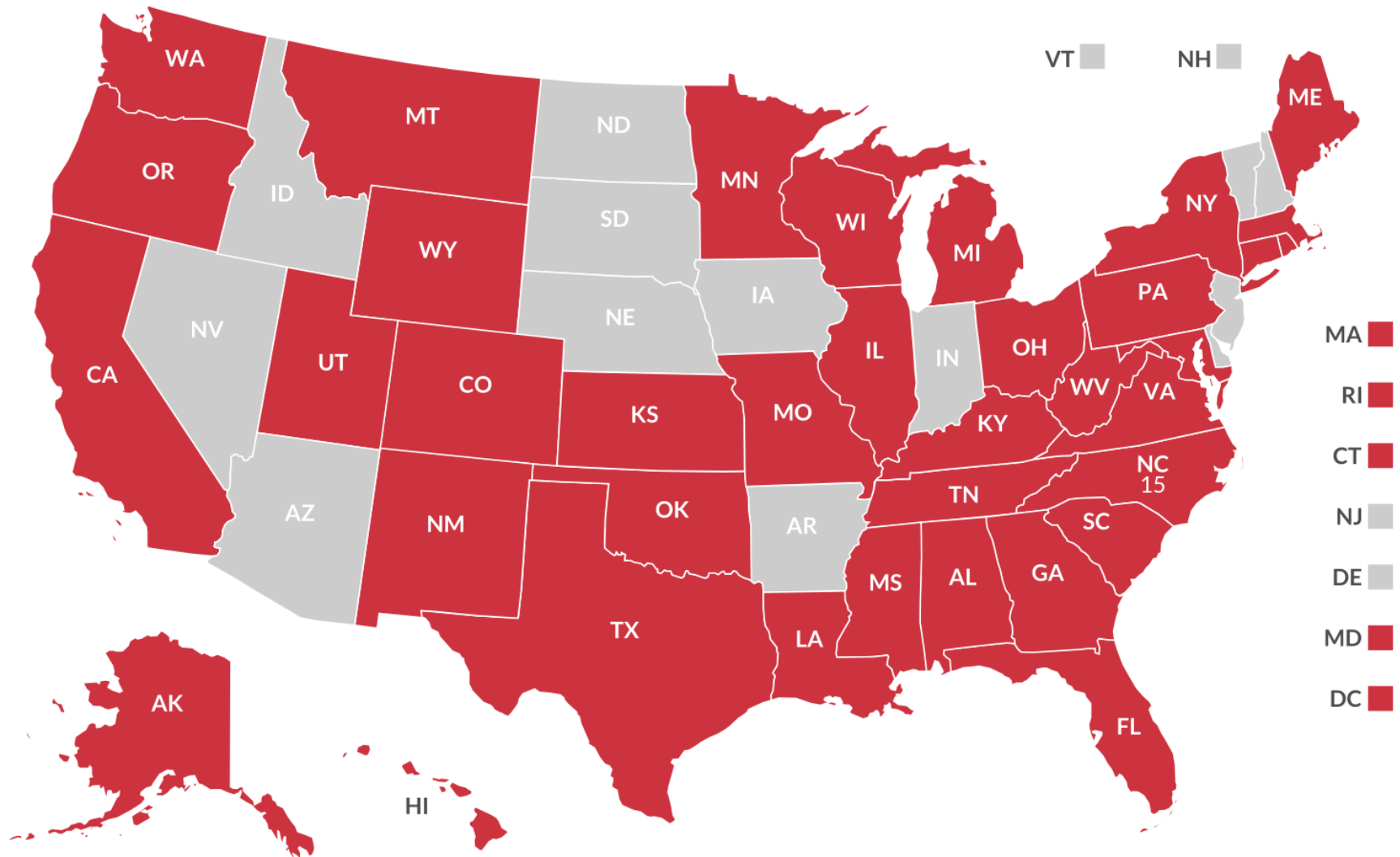
Film Tax Incentives: 2010



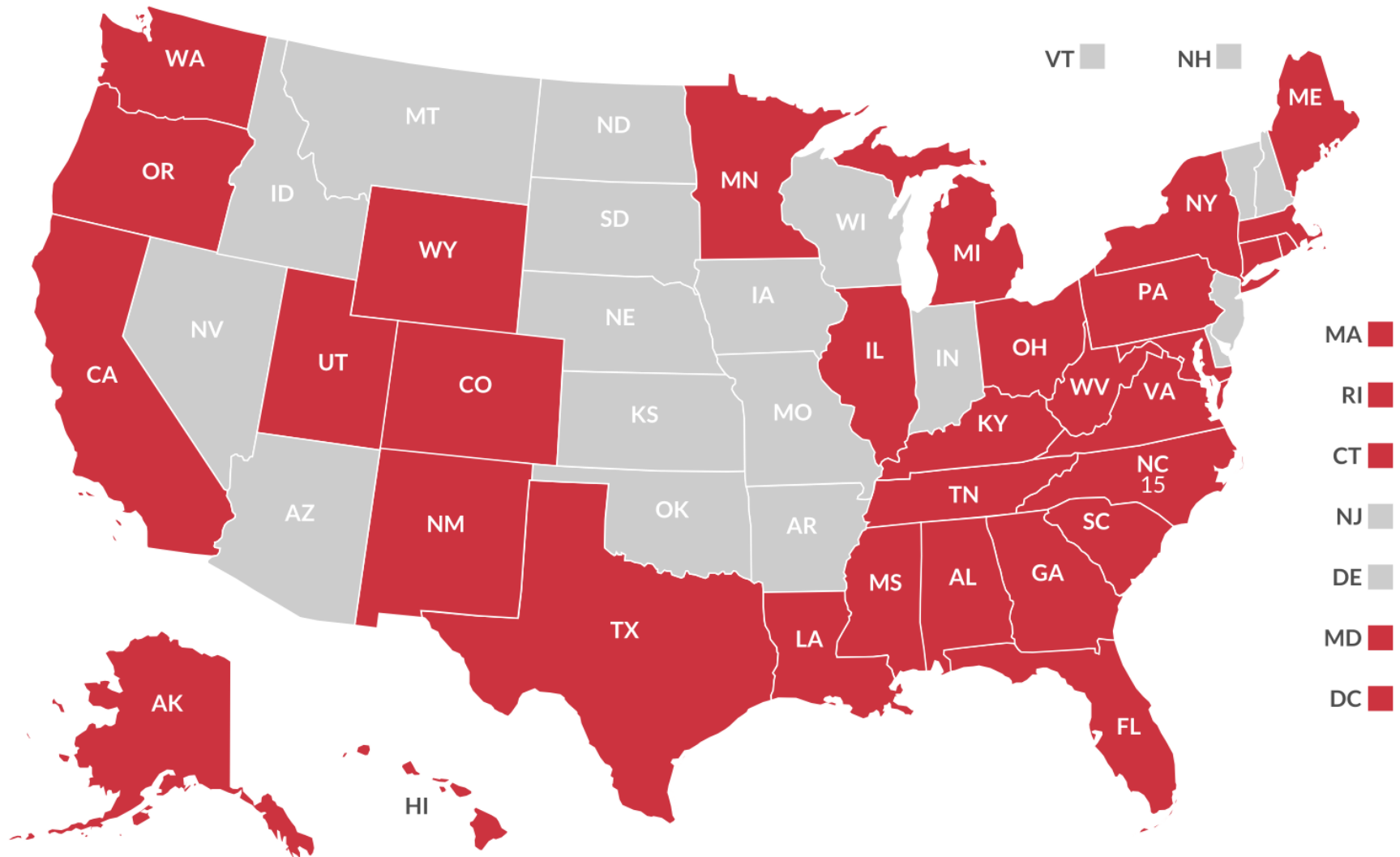
Film Tax Incentives: 2011



Film Tax Incentives: 2012



Film Tax Incentives: 2013



Changes in Film Tax Incentives Since 2010

Changes in Film Tax Incentives Since 2010

REDUCED OR SUSPENDED

Arizona
Indiana
Iowa
Kansas
Michigan
Minnesota
Missouri
Nevada
New Jersey
New Mexico
North Carolina
Oklahoma
Tennessee
Wisconsin
District of Columbia

NEW OR EXPANDED

California
Georgia
New York
Virginia

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Changes in Film Tax Incentives Since 2010

REDUCED OR SUSPENDED

Arizona: ended 2010, 2012 bill to renew failed

Indiana: ended 2011

Iowa: ended 2011 after scandal

Kansas: suspended 2012

Michigan: reduced from \$129.5m to \$25m; debating now

Minnesota: reduced significantly

Missouri: sunset in 2013

Nevada: enacted and repealed in 2014

New Jersey: suspended 2010

New Mexico: lower cap starting 2012

North Carolina: converted to grant program 2014

Oklahoma: sunset 2014

Tennessee: reduced significantly 2014

Wisconsin: ended 2013

District of Columbia: ended 2011

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District of Columbia

NEW OR EXPANDED

California (to \$330m/yr)
Georgia (to \$200m/yr)
New York (to \$420m/yr)
Virginia (added 2011, grants)

Changes in Film Tax Incentives Since 2010

REDUCED OR SUSPENDED

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New Mexico
North Carolina
Oklahoma
Tennessee
Wisconsin
District of Columbia

NEW OR EXPANDED

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**Only 32 states currently have
active, funded film tax incentive
programs, down from a high of
40 states plus DC in 2010.**

Megaincentive States & Everyone Else

Only 32 states currently have active, funded film tax incentive programs, down from a high of 40 states plus DC in 2010.

Megaincentive States & Everyone Else

MEGA INCENTIVE STATES

California (\$109m)

Florida (\$123m)

Georgia (\$151m)

Louisiana (\$126m)

New York (\$463m)

Megaincentive States & Everyone Else

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Louisiana (\$126m)

New York (\$463m)

Total: \$974m

Megaincentive States & Everyone Else

MEGA INCENTIVE STATES

California (\$109m)

Florida (\$123m)

Georgia (\$151m)

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New York (\$463m)

Total: \$974m

THE 35 OTHER INCENTIVE STATES

Megaincentive States & Everyone Else

MEGA INCENTIVE STATES

California (\$109m)

Florida (\$123m)

Georgia (\$151m)

Louisiana (\$126m)

New York (\$463m)

Total: \$974m

THE 35 OTHER INCENTIVE STATES

Total: \$451m

Why Do States Offer Film Tax Incentives?

- ☑ anxiety about job creation
- ☑ state depicted but filmed somewhere else
- ☑ capturing a little bit of Hollywood

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FILM TAX INCENTIVES

**WHAT'S THE EVIDENCE ON
FILM TAX
INCENTIVES ?**

Massachusetts Department of Revenue (2008, 2009, 2011, 2013, 2014)

Findings:

In 2012, state provided \$78.9 million in credits and induced \$10.6 million in new state revenue, losing 87 cents for each dollar

67% of new spending attributed to incentives paid to non-residents or businesses outside of Massachusetts, including 74% of wage spending

“For the period 2006 to 2012, one net new Massachusetts-resident job was created for every \$118,873 in film credits issued.”

Methodology:

REMI impact analysis incorporating actual spend data from study period; adjusts results for in-state spending and out-of-state spending.

<http://www.mass.gov/dor/tax-professionals/news-and-reports/other-reports/massachusetts-film-industry-tax-incentive-report/>



A Report on The Massachusetts Film Industry Tax Incentives

Commonwealth of Massachusetts
Department of Revenue

Navjeet K. Bal
Commissioner of Revenue

March 2008

Michigan Senate Fiscal Agency (2010)

Findings:

\$37 million in credits supported \$98 million in private spending, of which 47% left the state

“Negligible” employment at “significant” cost: between \$42,991 and \$193,333 per FTE

“The nature of the credit and the resulting activity is such that under current (and any realistic) tax rate the State will never be able to make the credit pay for itself from a State revenue standpoint, even when the credit generates additional private activity that would not have otherwise occurred.”

Methodology:

Michigan State University economic analysis methodology applied to actual film expenditure and credit data for 2008. Rejected induced tourism as double-counting the multiplier effect. Provided increased spending and balanced budget scenarios.

<http://www.senate.michigan.gov/sfa/Publications/Issues/FilmIncentives/FilmIncentives.pdf>



Chief Economist, Louisiana Legislative Fiscal Office (2005)

Findings:

Refundable and transferable tax credits are “real reductions to existing tax liabilities,” including personal income taxes

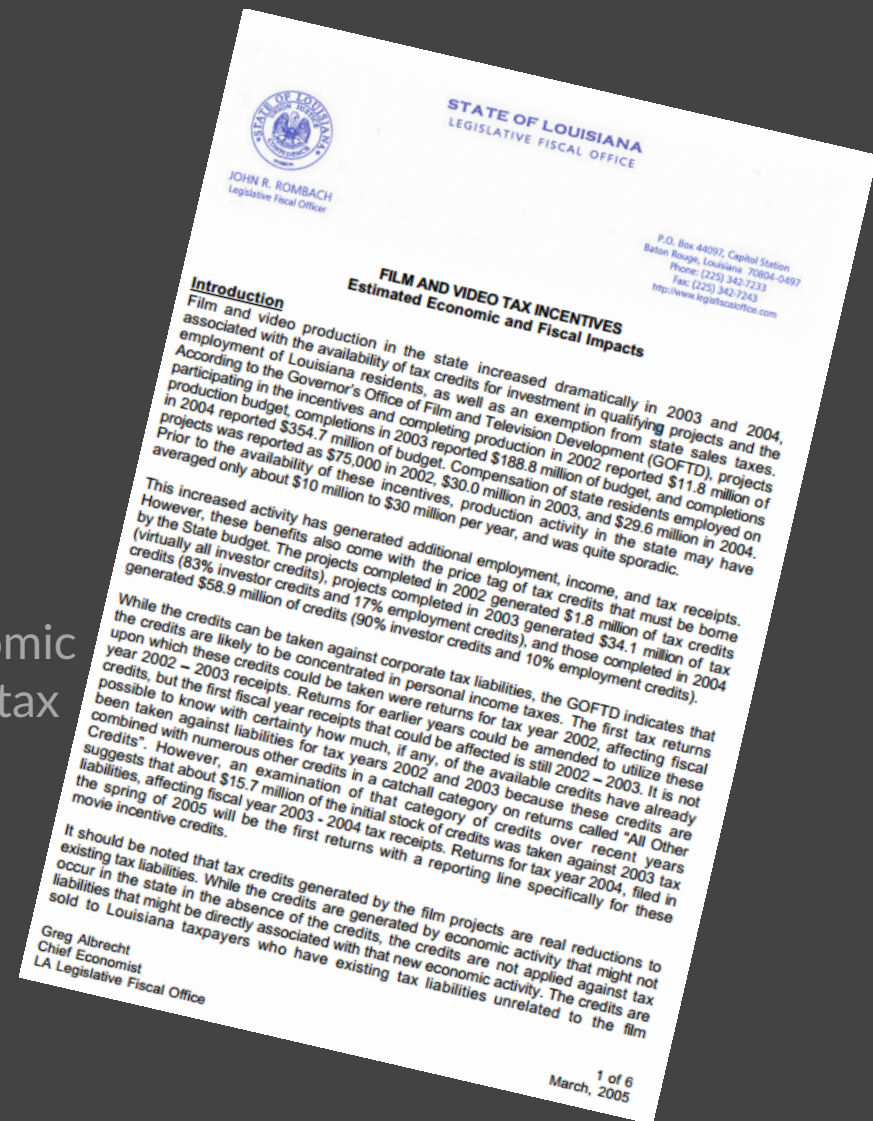
“State revenue gains from stimulated economic activity settle to about 16% - 18% of State tax credit costs.”

“[T]he economic benefits are not sufficient to provide tax receipts approaching a level necessary to offset the costs of the tax credits...”

Methodology:

REMI impact analysis and review of initial tax return data using balanced budget assumption

<http://lfo.louisiana.gov/files/revenue/FilmVideoIncentives.pdf>



Connecticut Dept. of Economic & Community Development (2008)

Findings:

\$16.5 million credit induced \$20.7 million in new gross state product, adding 395 FTE jobs

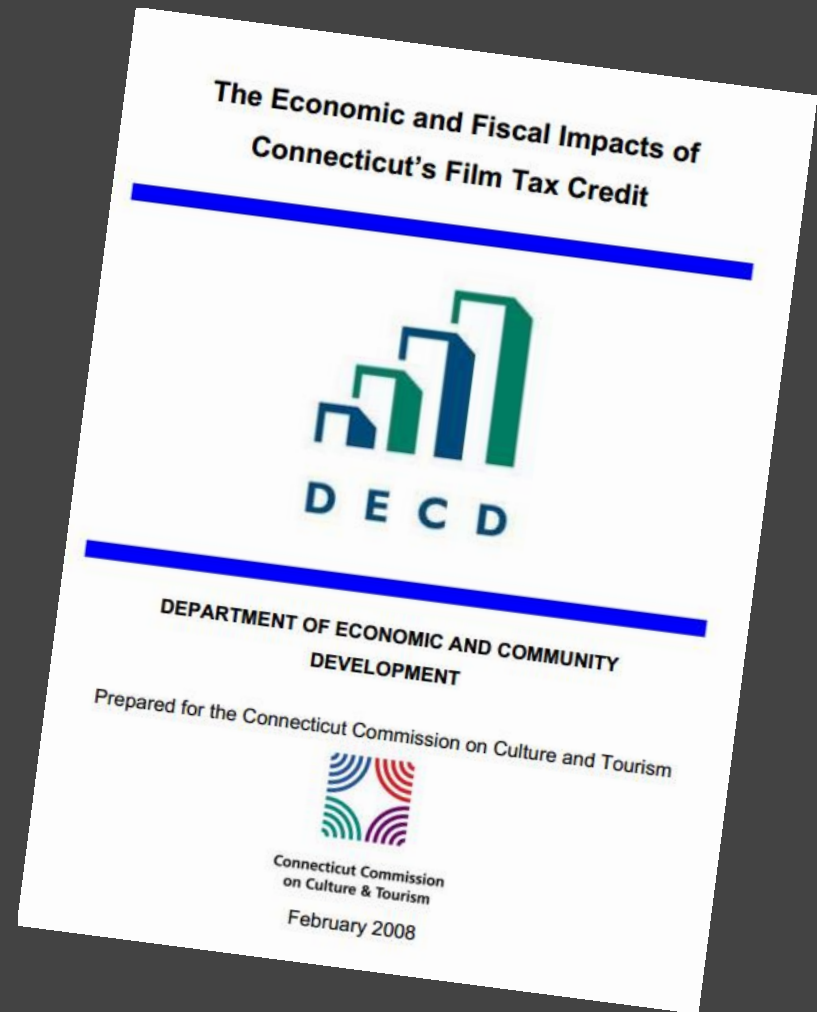
State spending \$41,772 per FTE job created

For every \$1 the state spends on the credit, it loses 92 cents: “From a fiscal perspective, this program cannot pay for itself in one year.”

Methodology:

REMI impact analysis of Jul. 1, 2006 to Sep. 30, 2007 period using balanced budget assumption; incorporates actual spend and visitor data from study period; no induced tourism estimate

http://www.ct.gov/cct/lib/cct/Film_Tax_Credit_Study_-_Final.pdf



Federal Reserve Bank of Boston Study of Connecticut Film Incentives (2009)

Findings:

“The credit does not pay for itself, and the cost is greater because it is transferable.”

“The economic benefits generated by the credit are likely to be short-lived.”

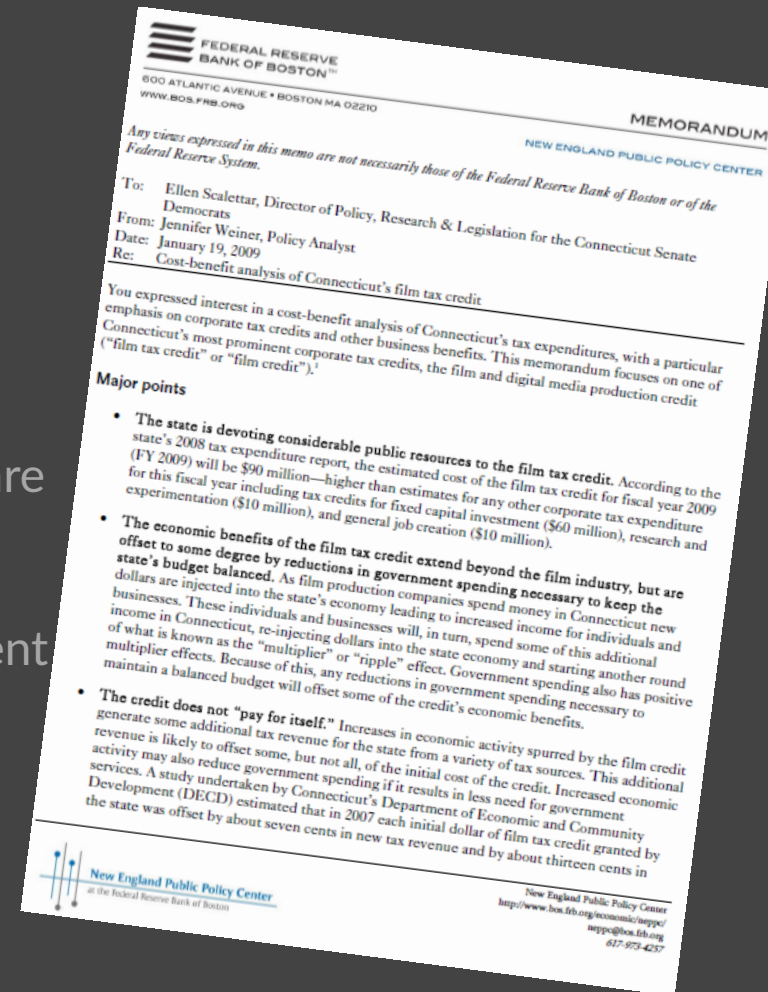
“[W]ithout additional credits granted in subsequent years, these increases in GDP, personal income, and employment would quickly disappear.”

Film tax credits less effective than other forms of economic development.

Methodology:

Analytical review of DECD study,

<https://www.bostonfed.org/economic/neppc/memos/2009/weiner011609.pdf>



Arizona Department of Commerce (2008)

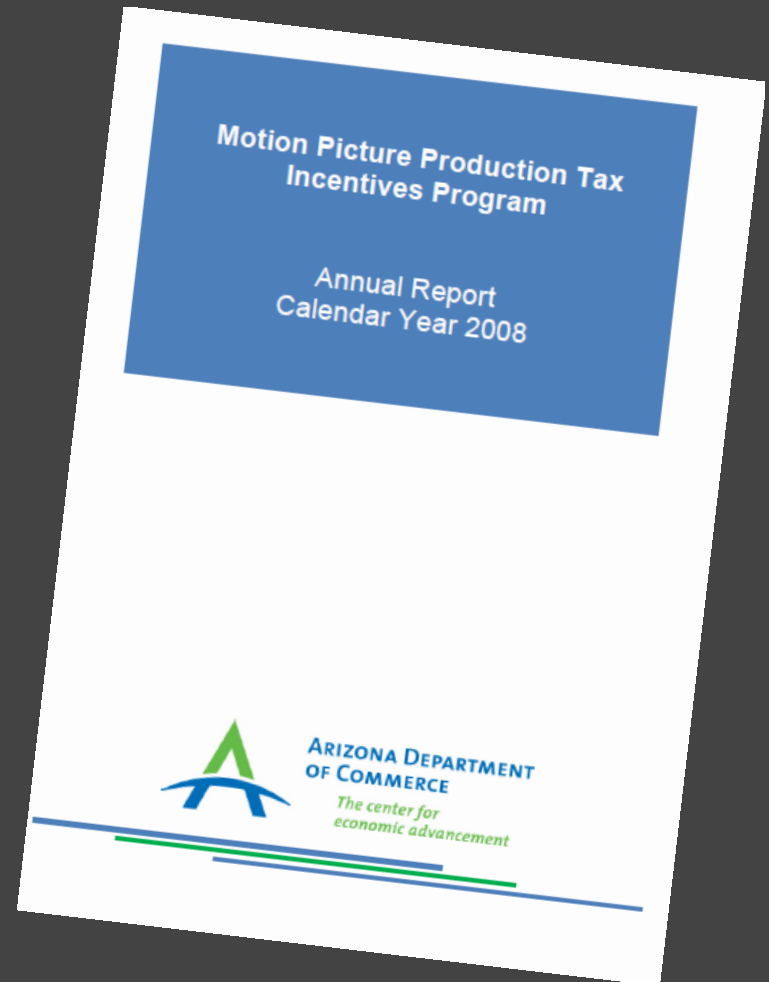
Findings:

IMPLAN estimate of 317 jobs is “questionable” because the film industry is “characterized by part-time and temporary employment”

For every \$1 the state spends on the credit, it loses 73 cents: “[I]t is unlikely that activities directly associated with the level of existing MOPIC tax credits can reach revenue neutrality.”

Methodology:

IMPLAN impact analysis
(Report not currently available online)



Maine Film Office (2008)

Findings:

Bringing an out-of-state production into the state stimulates tax revenues equal to about 15 percent of the expenditures. The film credit must therefore not exceed 15 percent or else it will be a net economic loss.

Methodology:

IMPLAN impact analysis for 2005 expenditures

<http://www.econw.com/our-work/publications/an-economic-impact-and-rate-of-return-analysis-of-the-film-and-video-indust/>



Cleveland State University (2012)

Findings:

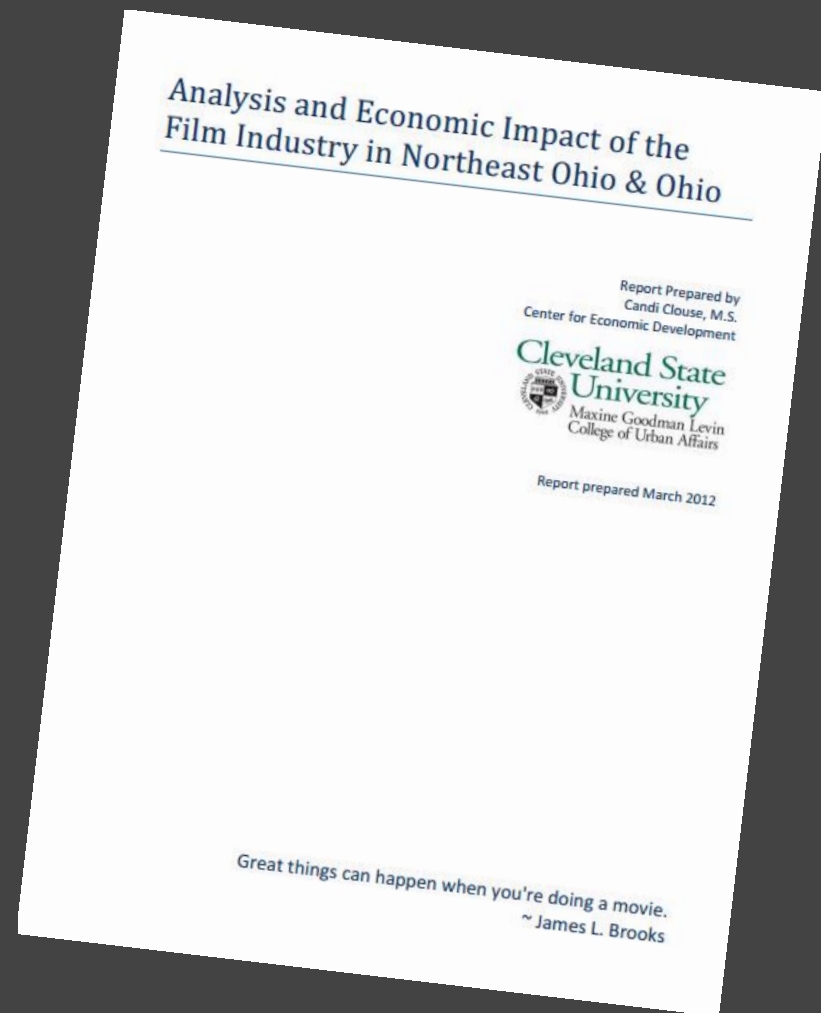
27 projects over three years received \$28 million in tax credits, induced \$113 million in output, and generated tax revenue of \$5.9 million

In other words, for every \$1 in tax credits, state lost 79 cents

77 percent of jobs created are temporary extras, and another 9 percent were brought in from out-of-state

Methodology:

IMPLAN impact analysis of actual spend by Ohio productions between 2009 and 2012
[http://urban.csuohio.edu/publications/center/center for economic development/Film Commission Full Report Final Revised.pdf](http://urban.csuohio.edu/publications/center/center%20for%20economic%20development/Film%20Commission%20Full%20Report%20Final%20Revised.pdf)



Providence Journal (2008)

PROVIDENCE
Journal

Findings:

Rhode Island provided \$2.65 million in credits to “Hard Luck” starring Wesley Snipes and Cybill Shepherd (straight-to-DVD)

Only 17% of production expenses were spent in Rhode Island; the rest went out-of-state

Even food: \$87,633 on out-of-state catering companies compared to \$52,071 to in-state caterers

Only 29% of wages paid to RI residents

Methodology:

Review of state records,

<http://www.dapsmagic.com/disneynews/disneynewsarticle.php?id=7297>



Pennsylvania Joint Legislative Budget & Finance Committee (2009)

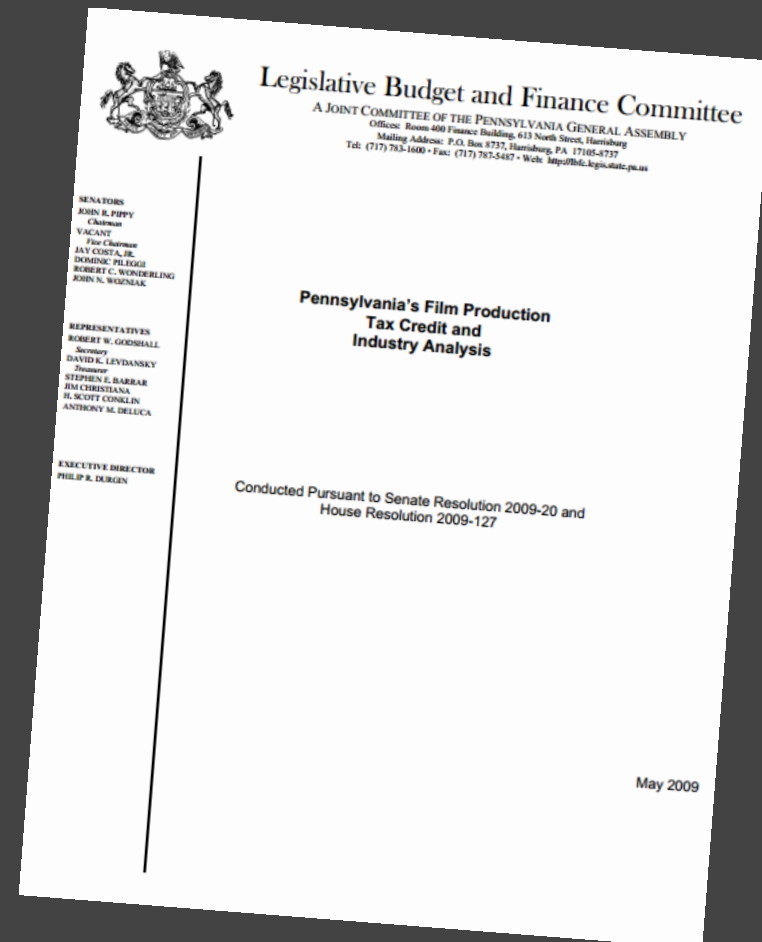
Findings:

\$58 million in tax credits went to projects that spent \$524 million and paid \$18 million in taxes, a loss of 69 cents per \$1 of credit

Methodology:

IMPLAN analysis of approved projects in FY 2007-08,

<http://filminpa.com/wp-content/uploads/2009/07/PaFilmProductionIndustryAnalysis.pdf>



HR&A Advisors on New York (2012) (study funded by MPAA)

Findings:

IMPLAN model finds that \$335 million in credits (2011) generated \$6.9 billion in economic activity and \$366 million in state tax revenue

Estimates large tax windfall for New York City

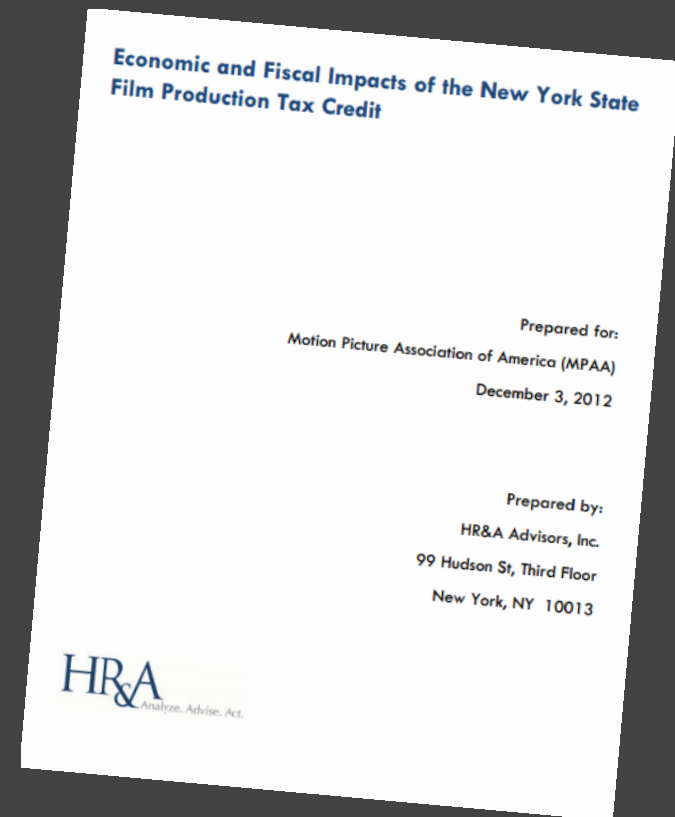
Direct employment is 12,600, or \$26,587 in credits per job created, but assumes 100% of employment occurred because of the credit

Assumes 91% of production spend is in New York

Methodology:

IMPLAN model run using 2011 reported spending.

<http://www.mpa.org/wp-content/uploads/2014/01/Economic-and-Fiscal-Impacts-of-the-New-York-State-Film-Production-Tax-Credit.pdf>



North Carolina State University College of Management (2014) (study funded by MPAA)

Findings:

Multiplier of 9.1: generated \$1.52 in tax revenue for every \$1 of credit

Repeal would eliminate 4,200 jobs

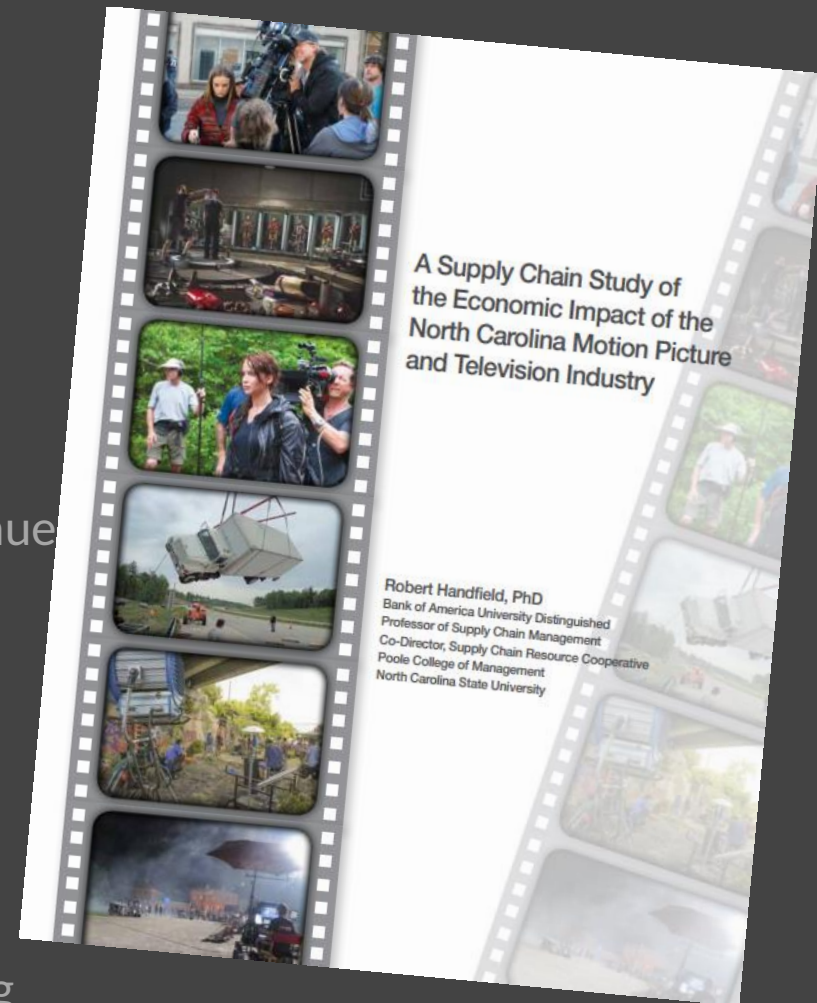
Discussed tourism but key state productions were “Iron Man 3” and “The Hunger Games”

Recommended competing with Georgia for big productions

Methodology:

Supply chain model using interviews with industry officials. Tax assumptions and economic analysis included a number of errors and mistakes pointed out by NC Legislative Services.

http://www.wral.com/asset/news/state/nccapitol/2014/10/10/14064040/NC_Film_Supply_Chain_Study_3.31.14.PDF



North Carolina Legislative Services Office Review of MPAA Study (2014)

Findings:

“[T]he Film Production Credit creates a negative return on investment.”

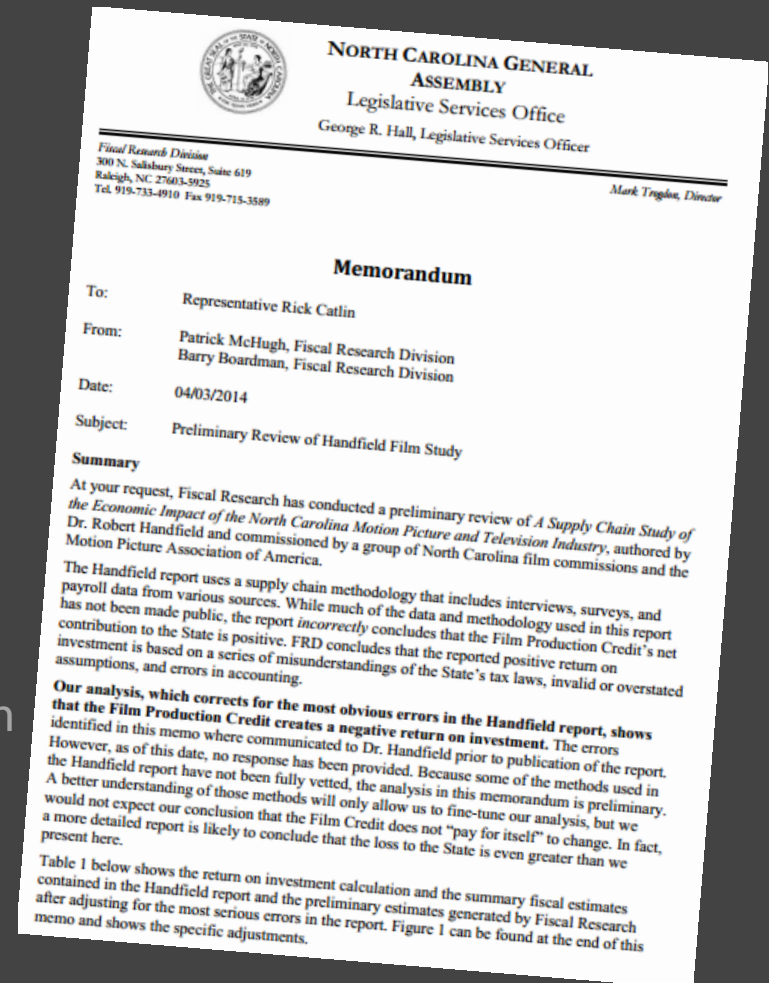
Says MPAA study “is based on a series of misunderstandings of the State’s tax laws, invalid or overstated assumptions, and errors in accounting.”

“[T]he economic benefits are not sufficient to provide tax receipts approaching a level necessary to offset the costs of the tax credits...”

Methodology:

Reviews MPAA Handfield study and recalculates using their methodology after corrections

<http://www.wwaytv3.com/video/news/video/newsdocs/FRDHandfieldReview.pdf>



North Carolina Legislative Services Office Review of MPAA Study (2014)

Findings:

MPAA study (1) had a non-existent state property tax, (2) used statutory instead of effective tax rates, (3) misunderstood what the sales tax applies to, and (4) exaggerated gas tax revenues, all of which overstated tax revenue

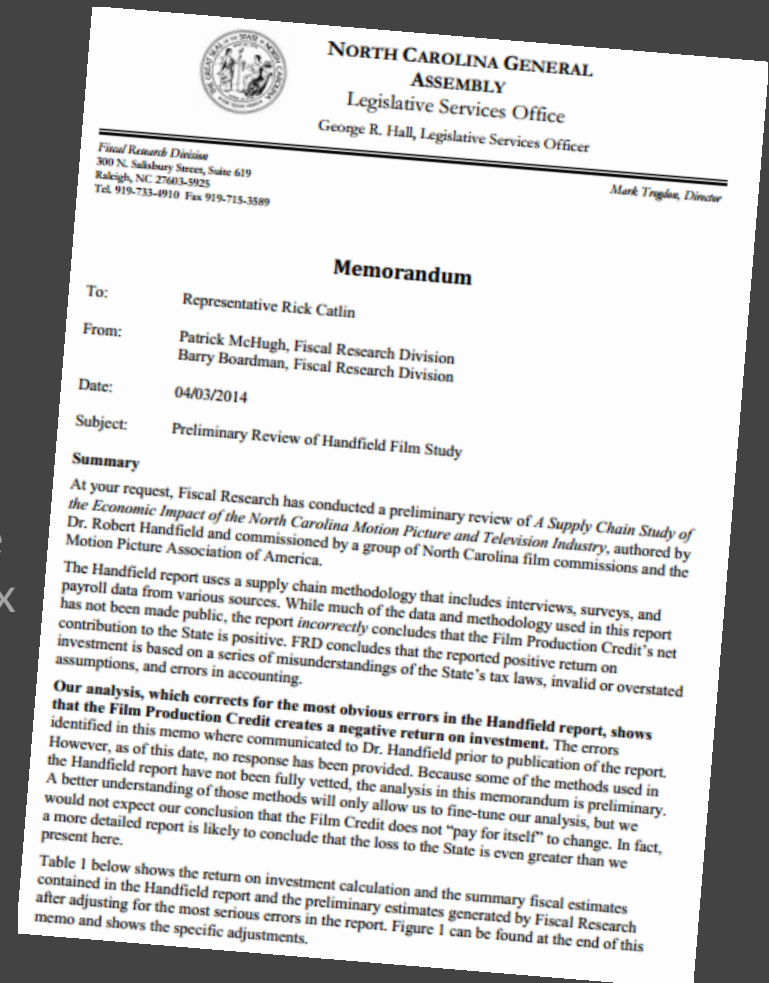
MPAA study assumed spouses of film workers made as much as spouse and would quit jobs and move out of state if credit ended

MPAA study assumed film-induced tourism generates \$15m in tax revenues, based on no evidence

Methodology:

Reviews MPAA Handfield study and recalculates using their methodology after corrections

<http://www.wwaytv3.com/video/news/video/newsdocs/FRDHandfieldReview.pdf>



North Carolina Legislative Services Office (2013)

Findings:

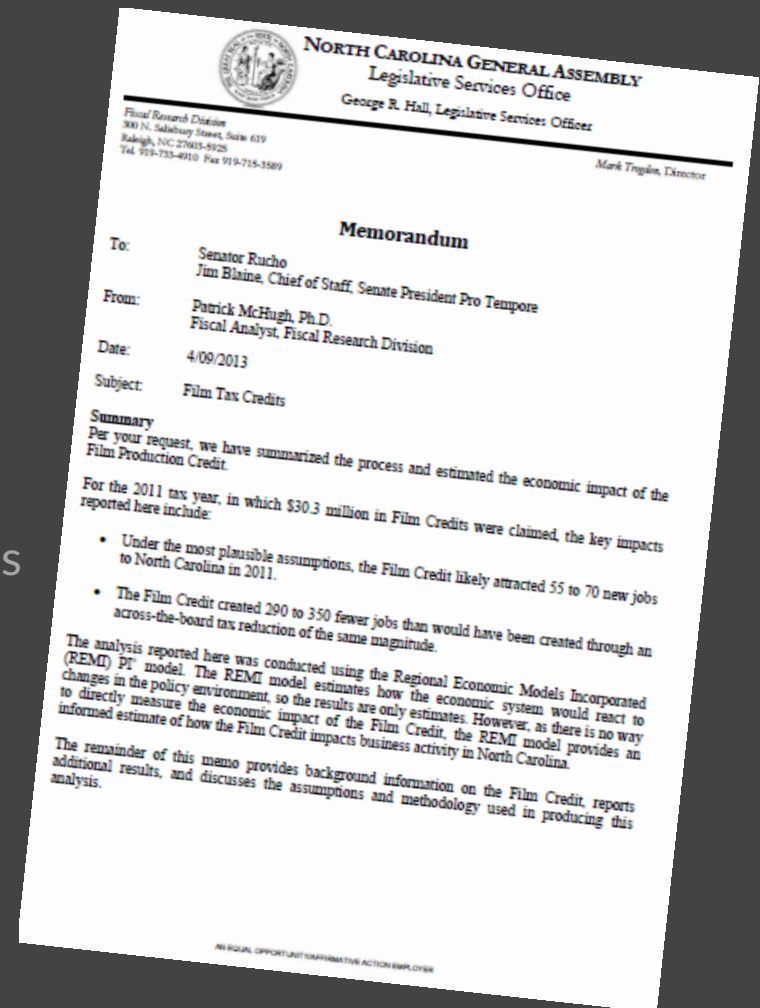
“Under the most plausible assumptions, the Film Credit likely attracted 55 to 70 new jobs to North Carolina in 2011.”

“The Film Credit created 290 to 350 fewer jobs than would have been created through an across-the-board tax reduction of the same magnitude.”

Methodology:

REMI analysis of state data,

<http://www.starnewsonline.com/assets/pdf/WM27015411.PDF>



Los Angeles Economic Development Corporation (2011)

Findings:

California productions receiving \$199 million in credits spent \$1.5 billion, generated \$3.8 billion in economic activity, and paid \$201 million in taxes

Film has a multiplier of 20.11

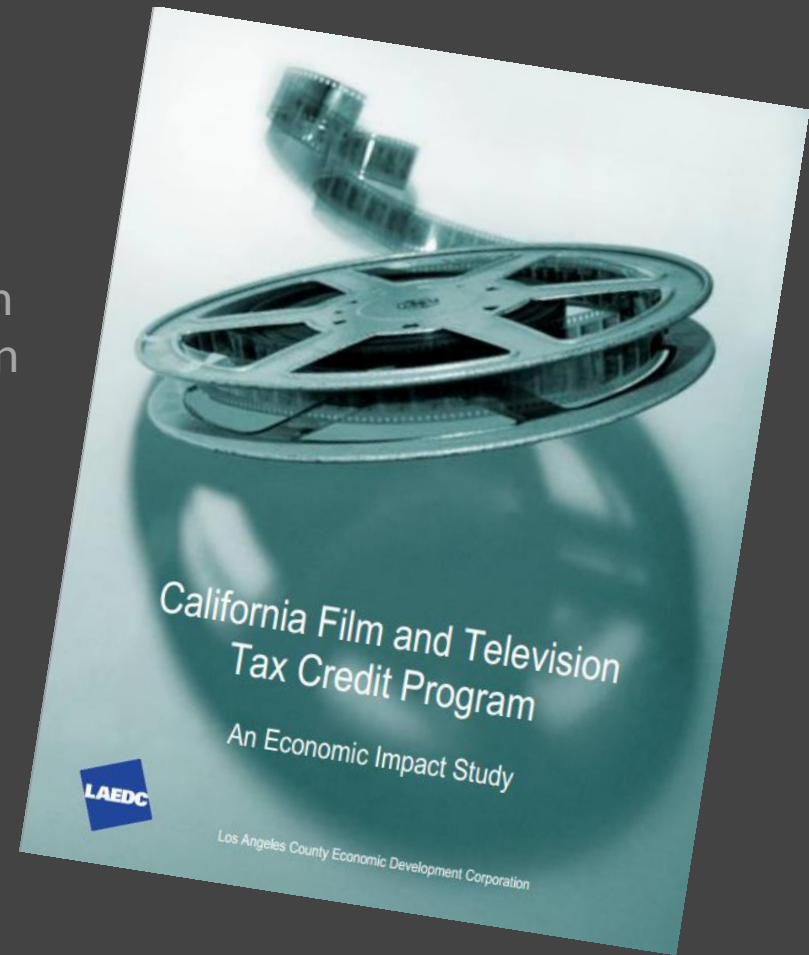
Urged more big-budget productions be eligible for credit due to larger economic impact

Highlighted but did not calculate film tourism or “the contributions of a thriving industry”

Methodology:

IMPLAN analysis of nine productions scaled up to full year data; assumes all workers on productions are in-state residents; assumes all productions would not have filmed in CA but for the credit; no adjustment for opportunity costs of induced spending; no induced tourism estimate.

http://filmworks.filmla.com/wp-content/uploads/2011/07/Headway_Entertainment_Report.pdf



Headway Project/UCLA Institute for Research on Labor & Employment (2012)

Findings:

“[T]he economic impact [in the LAEDC study] was overstated due to the LAEDC assumption that none of the projects that received tax credits from California would have filmed in California without one.”

Otherwise used LAEDC methodology and found narrow net positive impact; said more research needed

Recommended that California deny credits to projects “which specifically portrays California as an unattractive location”

Methodology:

LAEDC methodology with changed in-state production assumption

http://filmworks.filmla.com/wp-content/uploads/2011/07/Headway_Entertainment_Report.pdf



California Legislative Analyst Office (2014)

Findings:

Tax credit does not pay for itself; loses approximately 35 cents for each \$1 in credits using LAEDC data after correcting for overstatements

Film tax incentives move activities “without necessarily improving the output or yielding any greater social benefit”

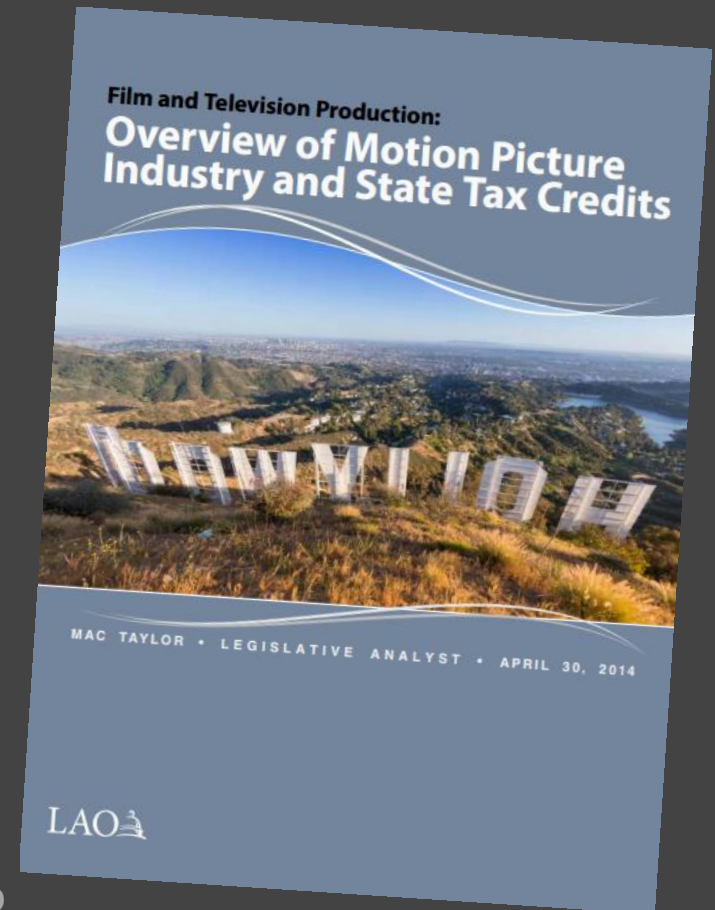
If California increases credit, other states likely to do so as well, stoking a race to the bottom

IMPLAN studies consistently overstate benefits

Methodology:

Analysis of data and trends by state officials.

<http://lao.ca.gov/reports/2014/finance/tax-credit/film-tv-credit-043014.pdf>



Ernst & Young Studies (2009-11) (funded by state film offices)

Findings:

Uses multiplier assumption to estimate economic effect of film spending

Assumes all film spending induced by credit

New Mexico (2009) found a gain of \$1.50 for each \$1 in credits, using multiplier of 3.5

New York (2009) found a gain of \$1.88 for each \$1 in credits, using a multiplier of 2.35

Michigan (2011) scaled back, finding only 2.6 multiplier and a loss of 83 cents for each \$1

Claims films increase tourism by 54 percent

Methodology:

IMPLAN model analyses using state spend data but otherwise generic national assumptions.



Ernst & Young (2012) (study funded by MPAA)

Findings:

Avoids any previously made definitive claims and focuses instead on issues to consider

However, Appendix calculates that a \$10m production would generate just \$607,000 in state and local tax revenue, meaning that any state with higher than a 6.07 percent corporate tax will lose money whatever the credit amount

Finds \$10 million spend supports just 40 FTE jobs, meaning a 20 percent credit would cost the state \$50,000 per job

Methodology:

IMPLAN model based on California, Florida, and Ohio economies.

[http://filmworks.filmla.com/wp-content/uploads/2011/07/Headway Entertainment Report.pdf](http://filmworks.filmla.com/wp-content/uploads/2011/07/Headway_Entertainment_Report.pdf)



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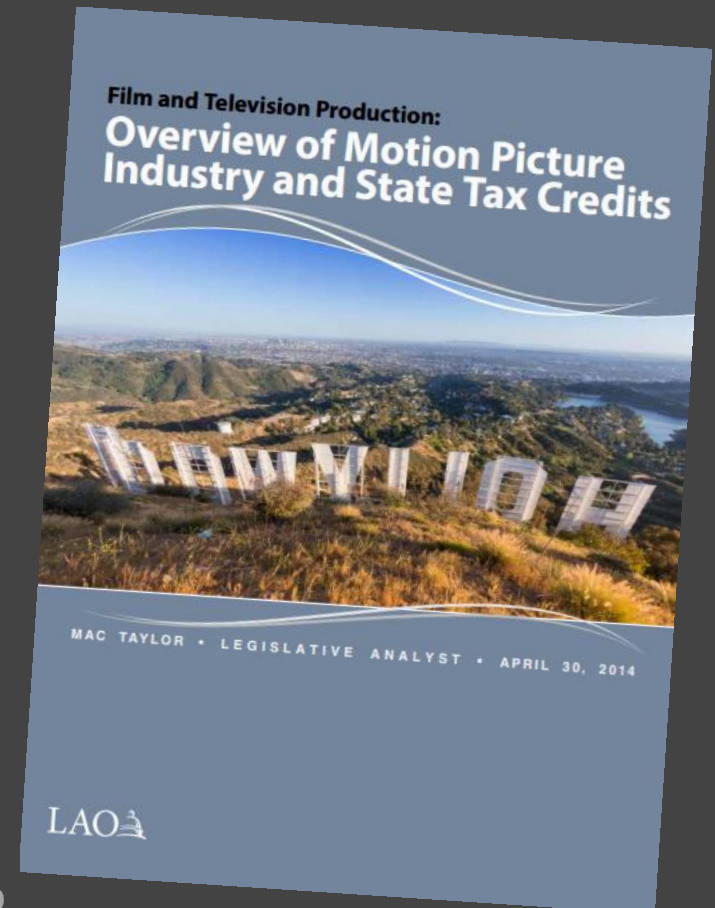
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Methodology:

Analysis of data and trends by state officials.

<http://lao.ca.gov/reports/2014/finance/tax-credit/film-tv-credit-043014.pdf>



Maryland Department of Legislative Services (2014)

Findings:

“The Film Production Activity Tax Credit does not provide sustainable economic development.”

Credit disproportionately benefits certain parts of Maryland over others

“Not only will [studios] not be guaranteed to stay, but they may threaten to leave the state if additional incentives are not provided (i.e., House of Cards in 2014).”

Recommends state let program expire in 2016, or convert to a grant program since recipient amounts are unrelated to taxable income

Methodology:

Analysis of data and trends by state officials; REMI analysis of economic and employment impacts, http://dls.state.md.us/data/polanasubare/polanasubare_taxnfispla/WEB-Draft-Film-Tax-Credit-Report.pdf

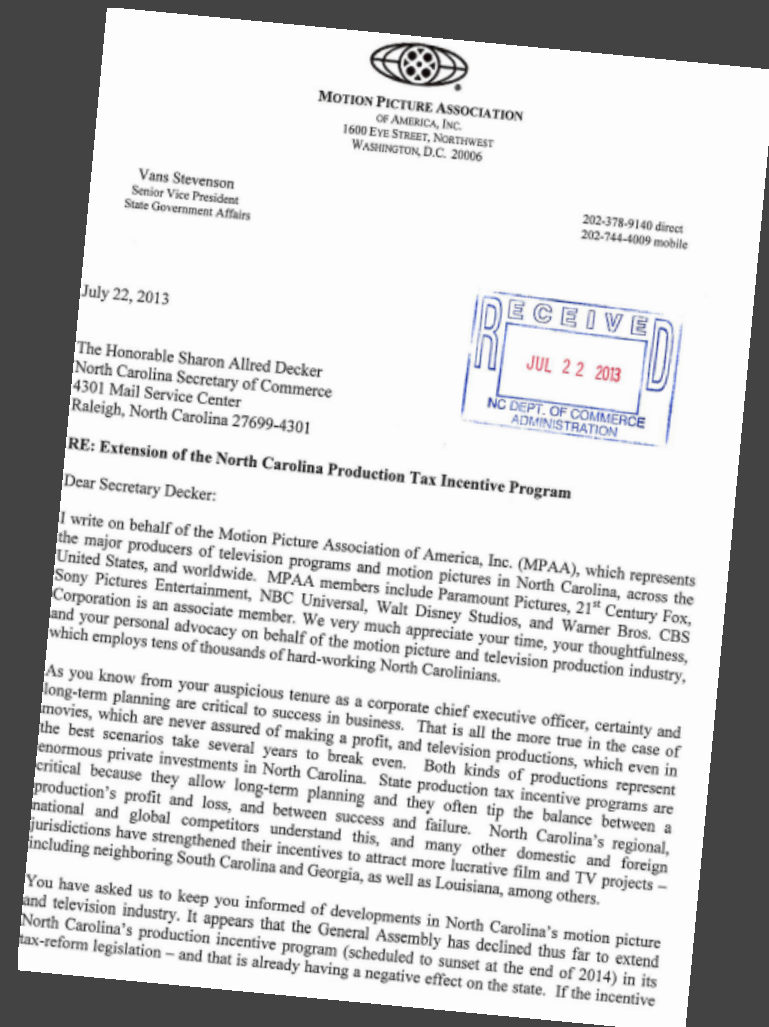
Evaluation of the Maryland Film Production Activity Tax Credit

Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland

October 2014

MPAA Letter to North Carolina (2013)

“Furthermore, without an extension of the production incentive program, North Carolina will no longer be considered for major future feature films.”



a word on
Multipliers

a word on
Opportunity Costs

a word on
Induced Tourism



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- WAITOMO GLOWWORM CAVES •



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Thu

Thursday, Nov

Partly cloudy skies.

7°C

17°C



Fri

Chance of light rain in the morning and late at night.

6°C

20°C



Sat

Chance of rain all night and day.

11°C

21°C



Sun

Chance of light rain until 7 p.m.

9°C

19°C

Experience The Trilogy

Hobbiton Movie Set / Waitomo Glowworm Caves / Te Puia and Te Pō combo

SNOW DOGS (2002)



TOMATOMETER 

 24%

Average Rating: 4/10
Reviews Counted: 82
Fresh: 20
Rotten: 62

PHOTOS



GROWN UPS 2 (2013)



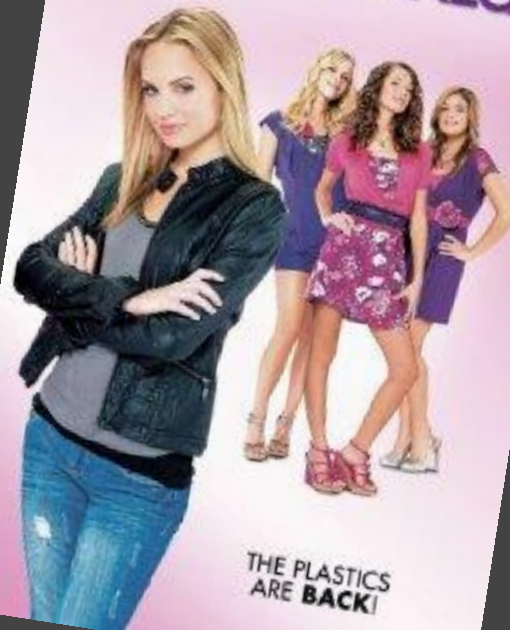
TOMATOMETER 

 7%

Average Rating: 2.6/10
Reviews Counted: 106
Fresh: 7
Rotten: 99

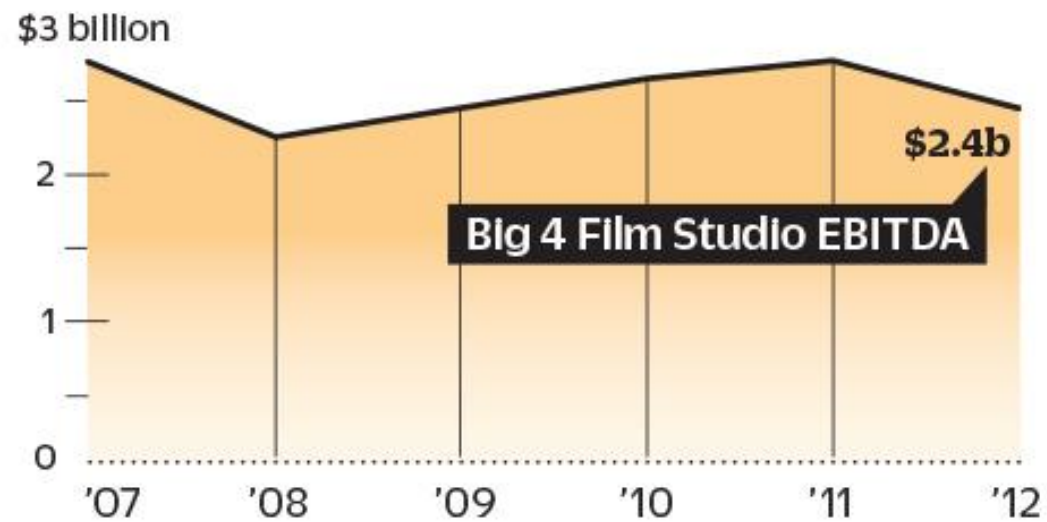
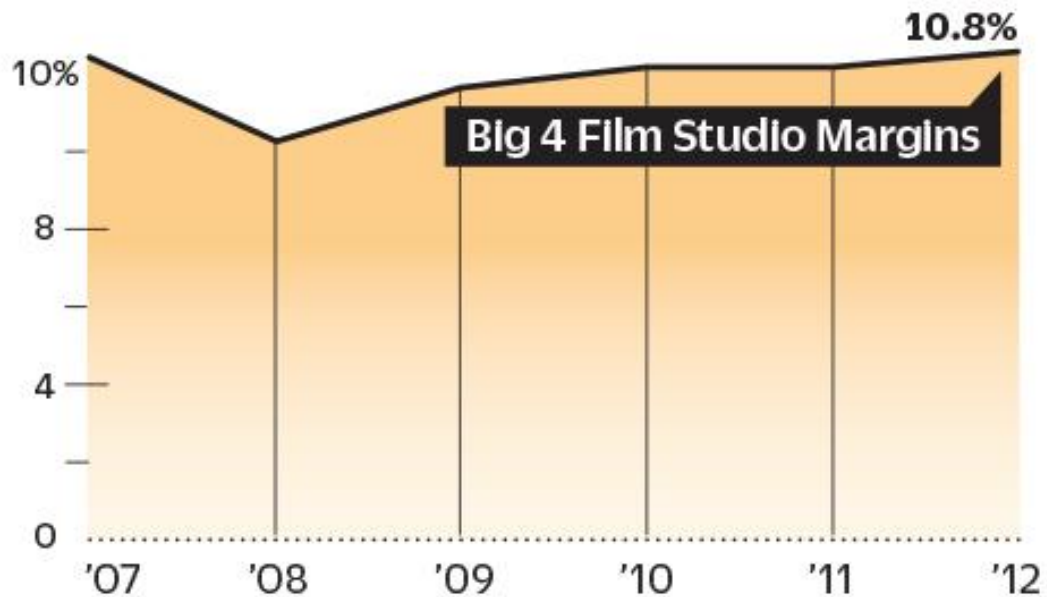
TRAILER

MEAN GIRLS 2



THE PLASTICS
ARE BACK!



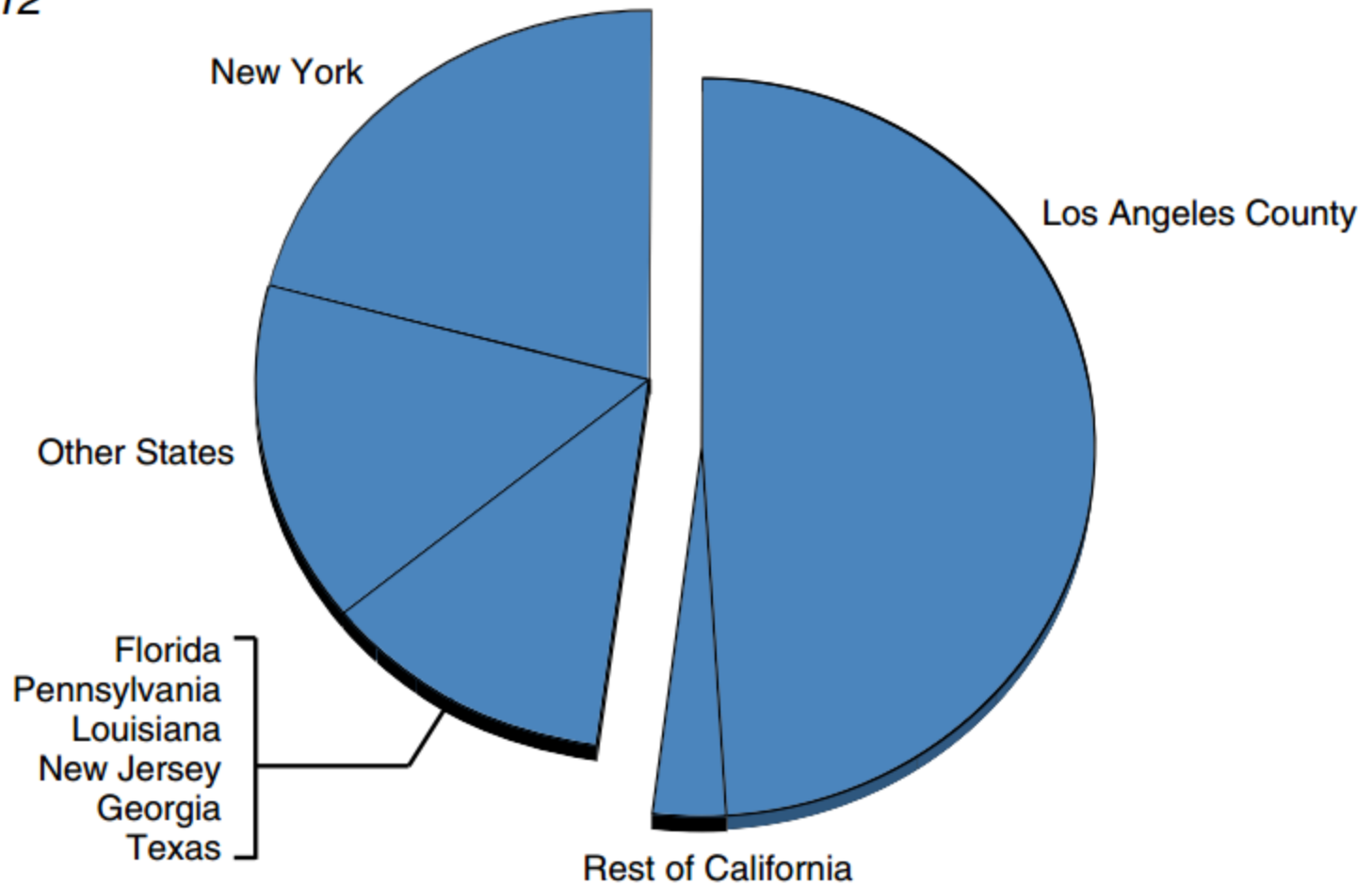


Source: "Major Film Studios Prosper on the Margins," *Variety*, Apr. 18, 2013

Figure 3

More Than Half of U.S. Motion Picture Production Employment Is in California

2012



SCANDAL:

IOWA

SCANDALS:

IOWA

CALIFORNIA

SCANDALS: IOWA



Source: KXTV Channel 10, Sacramento

CALIFORNIA

SCANDALS: IOWA

MASSACHUSETTS

Director Daniel Adams Sentenced to Prison for Tax Credit Fraud (Exclusive)

MOVIES | By Alexander C. Kaufman on May 10, 2012 @ 6:00 pm

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RELATED

'Blade' Behind Bars - Wesley Snipes Going to Jail Dec. 9

'Dark Knight' Pirater Gets 2 Years in Federal Prison

Daniel Adams, the director of "The Golden Boys," was sentenced Thursday for inflating expenses on his application for Massachusetts film tax credits

BOSTON — Three weeks after he pleaded guilty to inflating expenses on his application for Massachusetts film tax credits, director Daniel Adams was sentenced to up to three years in state prison.



A superior court judge ordered Adams on Thursday to pay nearly \$4.4 million in restitution and serve 10 years

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Source: thewrap.com

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The screenshot shows the top of an FBI website page. The header features the FBI logo and navigation links: CONTACT US, ABOUT US, MOST WANTED, NEWS, and STATS &. Below the header is the New Orleans Division title. The main content area displays a press release titled "Former Louisiana Film Commission Director Sentenced in Bribery Scheme". The release is dated July 29, 2009, and is from the U.S. Attorney's Office, Eastern District of Louisiana. The text of the release states that Mark S. Smith, former Director of the Louisiana Film Commission, was sentenced to two years in federal prison and a \$67,500 fine for a bribery scheme.

THE FBI FEDERAL BUREAU OF INVESTIGATION

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**Former Louisiana Film Commission Director
Sentenced in Bribery Scheme**

U.S. Attorney's Office
July 29, 2009

Eastern District of Louisiana
(504) 680-3000

NEW ORLEANS, LA—Mark S. Smith, the former Director of the Louisiana Film Commission and an attorney, age 47, a resident of Baton Rouge, Louisiana, was sentenced this morning in federal court by U. S. District Judge Kurt D. Engelhardt to two years (24 months) in federal prison as well as pay a \$67,500 fine, announced U.S. Attorney Jim Letten. In addition, Judge Engelhardt ordered that SMITH serve three

CALIFORNIA

LOUISIANA

SCANDALS:

MASSACHUSETTS

IOWA

reasons:

CALIFORNIA

LOUISIANA

SCANDALS:

IOWA

MASSACHUSETTS

reasons:

big money amounts

non-cash expenses

inadequate documentation

tax credits get less oversight
than budgeted appropriation

**FOUR QUESTIONS TO ASK IN
EVALUATING FILM
TAX INCENTIVES**

purpose of the
film tax credit

FOUR QUESTIONS TO ASK IN EVALUATING FILM TAX INCENTIVES

purpose of the
film tax credit

revenue impact

FOUR QUESTIONS TO ASK IN EVALUATING FILM TAX INCENTIVES

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purpose of the
film tax credit

revenue impact

cost effectiveness
opportunity cost:
incentive dollars per
full-time equivalent
job created

FOUR QUESTIONS TO ASK IN EVALUATING FILM TAX INCENTIVES

purpose of the
film tax credit

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incentive dollars per
full-time equivalent
job created

hold them to their promises