Film Subsidies

The Issue

The movie industry in Texas has a rich history dating back nearly a hundred years. Only recently has the state government directed public tax money to the industry as a means of economic development. In 2005, the 79th Texas Legislature established the program that would become the Texas Moving Image Industry Incentive Program (TMIIIP) in 2007. The stated aim was to build a more hospitable business climate and allow Texas to effectively compete with other film destinations, such as New York and Illinois, where subsidies were already common practice. At the time, there was a concern that incentive programs had upended the way that location decisions were made. Lawmakers did not want to lose what they considered "an established industry" in Texas simply because they refused to actively court upcoming projects.

Appropriations for the incentive program started in 2007, when the 80th Texas Legislature allocated $20 million to the program. This initial amount was perceived as too small to be competitive when compared with the incentives offered by other states. As a consequence, the Legislature increased the program's budget to $62 million in 2009. The TMIIIP would then hit its peak in 2013, when the Legislature granted it access to funds from the Hotel Occupancy Tax, which brought the program's budget to $95 million. Confidence in the TMIIIP then receded slightly only to return. The 84th Texas Legislature cut funding in 2015 to $32 million—about a third of the previous budget. Even that amount was a near miss; the Senate originally voted on a proposed budget of $10 million. The 86th Legislature returned to more generous appropriations in 2019 with $50 million.

Despite the fluctuating budget, TMIIIP's core structure has remained largely unchanged these last few sessions. Qualifying productions can apply for a cash grant, which is based on the amount of in-state spending the project incurs. Each category has multiple tiers, with the state willing to fund a larger percentage of the project's expenditures as the size of the project increases. Accordingly, the TMIIIP will reimburse 5% of a film's production costs if the responsible parties spend anywhere between $250,000 and $1 million, 10% if spending is between $1 million and $3.5 million, and 20% if spending reaches $3.5 million or more. Commercials, video games, and reality television all have their own respective threshold amounts. None of the categories have a ceiling on the incentive amount an individual project may receive.

Arguments in favor of the TMIIIP echo many of the points made on behalf of other economic development programs. Supporters contend that the money spent is merely an investment in Texas's economic infrastructure, which will reap dividends in new jobs, increased spending, and an overall boost to local markets which play host to favored projects. The Texas Association of Business (TAB) underscored this argument repeatedly in the two reports it had commissioned from the Bureau of Business Research, an initiative of the University of Texas at Austin. There, investigators concluded that the initial allocations in 2007, 2009, and 2011 generated $640.7 million in direct moving image production spending, along with a sizeable multiplier effect in supportive industries, such as food services and healthcare.

The Texas Comptroller, to some degree, agreed with TAB's observations. It found that estimated spending in the moving industry had gone up from $330.3 million in 2006 to $505.8 million in 2009, which, it conceded, could be a result of the added incentives. However, the Comptroller also voiced several reservations, noting that most of the jobs created by the TMIIIP in the film/TV/commercial sectors are "either temporary, part-time (walk-on) roles, or leave the state upon project completion." The funds, in other words, did not build the foundations for future economic growth. They instead represented a short-lived fix, highly concentrated in only select regions of the state.

In addition, studies of several state film incentive programs found that all that glitters on film is not necessarily gold in reality. Even if film incentives help generate positive economic outputs, they often come with a fiscal cost to the state—that is, to taxpayers. Other studies have found the incentives had little effect on where the productions were shot.

The Tax Foundation has repeatedly warned about the opportunity costs associated with film production subsidies, which have their own economic multipliers. Hence, the decision to retain the TMIIIP should not be based on the fact that the subsidies stir economic activity in one industry sector. Rather, the existence of the program should be examined in light of the lost opportunities elsewhere in the economy. Texas did not become an economic powerhouse because it mimicked the corporate welfare policies of New York and California. It succeeded because of its willingness to carve its own pathway and implement policies that trusted competitive markets and the appeal of low taxes.

The Facts

- Texas had a film industry before creating an incentive program and while other states were already handing out money.
- Many state programs generate a poor return on investment for the state, such as $0.06 for Maryland, $0.14 for Massachusetts, between $0.15 and $0.39 for Louisiana, or between $0.10 and $0.21 for Georgia.
- A recent study found little to no evidence of state film incentives influencing the location of feature films. While they seemed to positively influence the location of TV series, the concrete repercussions remained small.
- Several states have considerably reduced, capped, or gotten rid of their programs in the past few years.

Recommendation

Eliminate the Texas Moving Image Industry Incentive Program.

continued

Resources

Some States Yell "Cut!" on Film Tax Credits by Elaine S. Povich, PEW Charitable Trusts (May 2015).

Texas Moving Image Industry Incentive Program: The Economic Benefits from Incentives by James E. Jarrett and Bruce Kellison, Bureau of Business Research, IC^2 Institute, University of Texas at Austin (April 2011).

Film Production Incentives: A Game California Shouldn't Play by Mark Robyn, Tax Foundation (March 2011).

An Analysis of Texas Economic Development Incentives 2010 by Susan Combs, Texas Comptroller of Public Accounts (2011).

Do Tax Incentives Affect Business Location and Economic Development? Evidence from State Film Incentives by Patrick Button, National Bureau of Economic Research (June 2019).

Impact of the Georgia Film Tax Credit by Georgia Department of Audits and Accounts Performance Audit Division (Jan. 2020).