

HB 2580 FILM INCENTIVE: ECONOMIC IMPACT

April, 2014

The film industry provides economic impacts to areas in which it has production activity. The Tax Foundation and the National Conference of State Legislatures report that over 35 states offer film incentives. These include rebates, credits and exemptions to encourage movie production in their state. Some recent developments in other states regarding film incentives:

- Some states are reviewing the efficiency and net benefit to their states including Louisiana, which is considering modifications to the bill to improve efficiency
- Kansas eliminated their tax credit in 2012
- Missouri's film tax credit reached sunset in 2013 and the legislature is reviewing whether it should be reinstated
- California is considering AB 1389, which is aimed at creating new incentives for film jobs to stay in California
- Comparing Oklahoma with surrounding states, Oklahoma has the highest percentage of allowable rebates for a film incentive. Texas offers a range of grants with allowable expenditures in the range of 5%-20%.

Oklahoma Film Incentive and HB 2580

Oklahoma has a similar incentive known as the Compete with Canada Film Act O.S. 68 § 3621 et seq. The Oklahoma incentive allows a rebate of up to 35% of qualifying expenditures. An additional 2% is allowable for the use of music created by an Oklahoma resident and recorded in the state that is used in the movie production for a maximum rebate of 37%.

Specifically regarding the film incentive, The Daily Oklahoman recently reported that the production company associated with the film "August: Osage County" spent \$15,321,345 in Oklahoma. Of this total expenditure, \$12,542,147 was a qualifying expenditure for the Oklahoma Film Incentive and it received a rebate of \$4,640,598, which is 37% of the qualifying expenditure.

HB 2580 extends the sunset on the Compete with Canada Act from July 1, 2014 to July 1, 2024. Given that there are fiscal challenges, the Oklahoma Department of Commerce was asked to perform an economic impact of the incentive.

Impact of movie production on the state of Oklahoma

- Using an IMPLAN economic impact model, the \$15,321,345 spent in Oklahoma on movie production would have an estimated positive impact of approximately \$415,000 (\$375,000 to \$450,000) in tax revenue to the state of Oklahoma before the award of any incentive.
- The tax impacts are the result from increased state sales taxes, income taxes, licenses, etc.
- Since the film incentive is a state incentive, the above tax impacts are state taxes and do not include local tax impacts such as property tax impacts or local sales tax impacts.
- If local taxes were included, there would be an additional \$280,000 in additional taxes generated at the local level for the movie production.
- As reported, the Compete with Canada Film Act cost the state \$4,640,598 in rebates, which is about \$4.2 million more than a revenue neutral rebate would have been.

Distributed By Rep. David Dank

Admittedly, there are a few movies that have impacts on a community that last longer than the production period, but those movies are not common and would not likely make up the \$4.2 million shortfall to the state. This is especially true given that movie production, like construction activities, are temporary impacts. After the movie production is complete (or the construction activity) the economic and fiscal impacts fade.

The film industry can have an economic impact on the state, but it is not an industry in which the state has a competitive advantage – nor does it move Oklahoma toward the Governor’s stated objective of creating wealth. If the incentive is continued, it may be considered good policy to subject the expenditures to an economic impact analysis or cost benefit analysis prior to awarding the rebates.