Analysis of film incentives demonstrate positive ROI

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MIFIA
Michigan film industry association

Analysis of U.S. film incentives demonstrate positive ROI

The Michigan Film Industry Association leadership team has pulled impact studies from several states and countries. For this report, we have summaries for Ohio, North Carolina, South Carolina and Louisiana. Additional analysis continues as Michigan considers its own film incentive program.

In this report, MiFIA illustrates how impact studies are typically calculated. Included are top line numbers and a summary for each state. Complete impact studies are also available.

OHIO
FY 2017
$1.98 per dollar spent

SOUTH CAROLINA
FY 2006 & 2007
$1.30 (wages)
$3.68 (suppliers)
per dollar spent

NORTH CAROLINA
FY 2012
$1.52 (tax revenue)
$9.10 (direct spend)
per dollar spent

LOUISIANA
FY 2020
$2.55 (wages)
$6.12 (sales)
per dollar spent

Incentives ROI & GVA Landscape

An economic impact analysis is a primary tool for ascertaining the impact of a system from a policy perspective. Such assessments are crucial in enabling a government to calculate return on investment (ROI) and identify other economic and qualitative impacts. Film production creates a host of benefits - therefore the impact of incentives is also considered across a variety of other factors, including job creation and skills development, expenditure on infrastructure, inward investment, national branding and soft power, screen tourism, and cultural value.

While usage and expenditure data demonstrate the volume of production an incentive is servicing, and how much investment is flowing into a market, it is critical to understand the additionality of incentives. **Additionality refers to the role of an incentive in generating investment that would not otherwise have occurred, and includes the attraction of major international productions and the retention of national projects that may have travelled elsewhere for principal photography.** The impact of incentives in generating production investment is highly significant. **For example, analysis of the UK's FTR concluded that, between 2014 and 2016, 91% of UK film production expenditure would not have occurred without the incentive.**

Return on Investment

It is important that governments undertake robust assessments of the impact of any incentive to fully understand the effectiveness of their investment in the system. Return on investment can be assessed using different methods, and these should be informed by the specific strategic intentions of the system: for example, a narrow focus on taxation recouped may exclude considerations of priority areas such as growth in direct foreign investment and job creation - as well as wider strategic areas such as skills development, national branding and screen tourism. **In economic terms, a key metric for examining return on investment is GVA, and results can be significant.**

Gross Value Added

Gross Value Added (GVA) is an economic measure of the value of goods and services produced in an area, industry or sector of the economy. The metric is used to ascertain the contribution of the film sector. This can be calculated for the sector overall and can also be broken down to the component parts of the screen value chain.

Direct GVA represents the value of an industry's output- i.e. goods or services- less the value of inputs used in the production of those outputs, excluding labor compensation. Spending by below-the-line cast and crew, as well through the wages of those employed by supplier corporations, is captured through indirect and induced GVA impacts which tend to be calculated alongside direct GVA. The GVA impact of incentives has been shown to be pronounced.

For example, in Australia for each A$1 of Offset disbursed in the 2016-7 fiscal year, A$3.98 of GVA was generated. The combined impact of the Australian film incentives was US $271 million (A$386 million) in 2016-17 in GVA directly related to productions supported by the incentives, almost double 2007-8.70

In the UK, FTR-supported production generated an estimated US$6.8 billion (£5.2 billion) in GVA in 2016, including spillover impacts, with FTR-related expenditure delivering a return of £7.69 in GVA for each £1 in relief granted.11

In Ireland, SPI analysis shows that, for 2016, each €1 of the country's Section 481 incentive generated €1.02 in tax revenue to the government and an average of €2.82 in economic net benefit for the Irish economy.14 The film and television production industry-live action and digital -stimulated by Section 481 generated a total tax impact of US$104.4 million (€93.3 million) in 2016.

State Summaries Ohio/Cincinnati

The Cincinnati area has been able to recoup their investment and then some during each fiscal year. For every dollar invested, productions filming in the Cincinnati MSA have been awarded tax credits exceeding the contribution by local taxpayers. On average, the total tax credits awarded to Cincinnati-based productions in a given fiscal year were 1.5 times larger than the local tax contribution.

The local economy has consistently realized an increase in spending resulting from its tax contribution to the Ohio Motion Picture Tax Credit program. For FY 2014-2018, direct new spending of $5.41, $5.01, $1.39, $4.98, and $3.07 resulted from every dollar contributed by local taxpayers, respectively. **On average, every one dollar contributed by local taxpayers to the Ohio Motion Picture Tax Credit program resulted in $3.69 in direct new spending in the Cincinnati MSA.**

$1=$3.69

EVERY ONE DOLLAR CONTRIBUTED BY LOCAL TAXPAYERS TO THE OHIO MOTION PICTURE TAX CREDIT PROGRAM RESULTED IN $3.69 IN DIRECT NEW SPENDING IN THE CINCINNATI MSA

State Leveraging

The State of Ohio awarded $40.9 million in Ohio Motion Picture Tax Credits to 30 productions during FY 2017. These tax credits were leveraged to produce $81.2 million in direct new spending throughout the entire state. **Every one dollar awarded as a tax credit resulted in an additional $1.98 in direct spending.**

Conclusion

Between FY 2014 and FY 2018, 30 productions were awarded Ohio Motion Picture Tax Credits to the tune of $35.6 million and filmed in the Cincinnati Region. These productions directly spent $86.7 million on their business operations, which led to further spending of $55.3 million.

Wages of $14.2 million were earned by the 598 direct employees of the film industry. Wages earned by the 456 indirect employees of the film industry totaled $16.6 million. Local earnings taxes of approximately $567,089 were received by the City of Cincinnati and nearby localities in Ohio during FY 2014-2018. For the Cincinnati Region, the local taxpayer contribution to the Ohio Motion Picture Tax Credit resulted in $3.69, on average, in direct new spending for every one dollar contributed. **For FY 2017, direct new spending of $1.98 resulted in the State of Ohio for everyone one dollar contributed by taxpayers.**

DIRECT NEW SPENDING OF $1.98 RESULTED IN THE STATE OF OHIO FOR EVERYONE ONE DOLLAR CONTRIBUTED BY TAXPAYERS

State Summaries Louisiana

The total annual spending and earnings figures were used as the direct inputs in the model to generate the total impacts in terms of new sales, jobs, and earnings.

ECONOMIC IMPACT - 2019

As shown below, the Louisiana motion picture production tax credit programs resulted in an additional $478 million in new indirect and induced sales in 2019, adding a total of over $1.0 billion in new spending. This spending supported over 10,000 jobs, including over 4,800 direct jobs, as well as over $358 million earnings.

ECONOMIC IMPACT - 2020

As shown below, the Louisiana motion picture production tax credit programs resulted in an additional $384 million in new indirect and induced sales in 2020, adding a total of over $813 million in new spending. This spending supported over 9,600 jobs, including nearly 4,700 direct jobs, as well as over $338 million in earnings.

Economic Impact of Motion Picture Production

	2019			2020		
	Sales	Jobs	Earnings	Sales	Jobs	Earnings
Direct	$538,472,660	4,834	$167,507,104	$429,591,440	4,695	$157,669,410
Indirect	$218,419,193	2,795	$86,991,190	$178,172,259	2,693	$84,266,860
Induced	$259,647,458	2,435	$103,618,734	$205,423,542	2,249	$96,463,268
Total	**$1,016,539,310**	**10,064**	**$358,117,028**	**$813,187,241**	**9,636**	**$338,399,538**

Source: Louisiana Economic Development, Camoin 310, Emsi

JOBS

2019 - 10,064
2020 - 9,636

EARNINGS

2019 - $358,117,028
2020 - $338,399,538

SALES

2019 - $1,016,539,310
2020 - $813,187,241

State Summaries Louisiana

IMPACTS ON STATE REVENUE

The table below calculates the state revenue that is generated because of the motion picture production tax credit program's economic activity. It is estimated that the portion of worker earnings that generate revenue for the state is approximately 8.7%. Using total new earnings calculated above and applying 8.7% over $31 million in new state revenue in 2019 and over $29 million in 2020 were generated.

$31M IN 2019 & $29M IN 2020 IN NEW STATE REVENUE

Fiscal Impact of the Motion Picture Production Tax Credit Programs on State Revenue

	2019	2020
Total New Earnings	$358,117,028	$338,399,538
State Revenue Generated from Earnings	8.70%	8.70%
Total New State Revenue	**$31,156,181**	**$29,440,760**

Source: State of Louisiana, Camoin 310

THE MOTION PICTURE PRODUCTION TAX CREDIT PROGRAM RESULTED IN $21.9M IN 2019 & $16.9M IN 2020 IN NEW LOCAL TAX REVENUE

In total, the motion picture production tax credit program resulted in $21.9 million in new local tax revenue in 2019 and $16.9 million in 2020.

Fiscal Impact of the Motion Picture Production Tax Credit Programs on Local Revenue

	2019		2020	
Total New Sales Attributable to Program		$1,016,539,310		$813,187,241
Total State Sales in 2019		$532,798,332,069		$532,798,332,069
% of All Sales		0.19%		0.15%
	Total Public Collections (FY19)	Tax Generated (0.19%)	Total Public Collections (FY20)	Tax Generated (0.15%)
Local Revenue	$11,467,036,986	**$21,878,248**	$11,061,877,236	**$16,883,269**

State Summaries Louisiana

TOTAL IMPACT ON PUBLIC REVENUE

Combining the state revenue and local revenue calculated above, the table to the right shows the total impact of the entertainment tax credit programs on public revenue streams.

Total Impact of the Motion Picture Production Tax Credit Program on State and Local Revenue

	2019	2020
New State Revenue	$31,156,181	$29,440,760
New Local Revenue	$21,878,248	$16,883,269
Total New Public Revenue	**$53,034,429**	**$46,324,029**

DYNAMIC IMPACT OF PROGRAMS ON STATEWIDE EARNINGS AND SALES

As shown in the Economic Impact Analysis, the motion picture production tax credit programs resulted in new earnings and sales for residents and businesses in Louisiana. The following table calculates how the credits issued resulted in economic activity in the state.

Specifically:

For every one dollar of credits certified, there was an additional $2.04 in earnings in 2019 and **$2.55 in earnings in 2020.**

For every one dollar of credits certified, there was an additional $5.78 in sales in 2019 and **$6.12 in 2020.**

Dynamic Impact of the Motion Picture Production Tax Credit Program on Earnings and Sales

Additional Resident Earnings		
	2019	2020
Total Earnings	$358,117,028	$338,399,538
Total Credits Certified	$175,781,104	$132,804,928
Tax Credit Multiplier on Earnings	**2.04**	**2.55**
Additional Statewide Sales		
	2019	2020
Total Sales	$1,016,539,310	$813,187,241
Total Credits Certified	$175,781,104	$132,804,928
Tax Credit Multiplier on Sales	**5.78**	**6.12**

Source: Camoin 310

State Summaries South Carolina

The report, prepared by the Moore School of Business in February 2008, examines the economic impact of seven films shot in South Carolina during 2006-2007. Direct information on expenditures was provided by the production companies and the South Carolina Film Commission.

Once the data was collected, in addition to calculating basic ROI, the expenditures were then also entered into an input-output model, IMPLAN, to determine the multiplier effects of money moving through the South Carolina economy. This inter-industry model was designed to provide specific data based on industry codes specific to South Carolina.

WAGE ANALYSIS

Using the multiplier effect from the IMPLAN model, every $1 spent on wage rebates generated a total income effect of $ 1.30 for the state of South Carolina.

SUPPLIER ANALYSIS

From 2006-2007 on the seven films studied, the seven film productions considered in this report purchased $14,047,077 in goods and services from South Carolina businesses. The South Carolina Film Commission paid $5,203,213 in supplier rebates to these productions. **This suggests that for each $1 spent on supplier rebates, $ 2.68 was spent on goods and services from SC businesses.**

Implementing the IMPLAN model with the multipliers based on industry appropriate categories, it was shown that every $ 1.00 spent on supplier rebates **actually generated a total income effect of a $ 3.68 for the state of South Carolina.**

$1=$1.30

EVERY $1 SPENT ON WAGE REBATES GENERATED A TOTAL INCOME EFFECT OF $1.30 FOR THE STATE OF SOUTH CAROLINA.

$1=$3.68

EVERY $ 1.00 SPENT ON SUPPLIER REBATES ACTUALLY GENERATED A TOTAL INCOME EFFECT OF A $ 3.68 FOR THE STATE

State Summaries North Carolina

This particular study was conducted to address four questions policy makers had about North Carolina's Production Tax Incentive (PTI)

1 What is the ROI in terms of state & local tax revenue generated?
2 How many jobs of all types are created by additional production activity due to PTI?
3 What is the financial aspect of allowing the PTI to expire?
4 What is the financial aspect of extending and expanding the PTI?

**Findings for North Carolina ROI* PTI generates POSITIVE cash flow*

2012 PTI cost $60.14 million from the general fund & net revenue to state & local jurisdictions of $85.4 million collected through personal income taxes, sales & use taxes on goods (SUT), taxes on consumer expenditures, hotel tax, SUT charged on rentals, & SUT paid by vendors to tier 2 vendors of goods & labor. The contribution includes $65.4 million in state revenues & $20.2 million in local tax revenues.

North Carolina Production Tax Incentive total spent by the industry in NC during 2007-2012 ($1.03 billion) & the qualified spend against which the state assessed the credit ($556 million).

$454 million was generated by the industry & not subject to any portion of state refund. Using the results of this study as applied to the 2012 film & television production spending ($391 million) compared to approximate tax revenue generated for the state ($85.4 million), the film & television industry generated $1.52 of tax revenue & $9.10 of direct spend for every $1 of tax credit provided by the state.

The film industry in NC provides 4,259 jobs at an avg wage of $66,000 for the industry compared to statewide annual avg wage for all private industries of $43,056 (NC Labor & Economic Analysis Division, Quarterly Census of Employment & Wages, 2012)

NET CONTRIBUTION TO STATE COMPARED TO CREDIT PAID

=$25.3M

$1=$1.52

EVERY $ 1.00 OF TAX CREDIT PROVIDED BY THE STATE, THE FILM & TELEVISION INDUSTRY GENERATED $1.52 OF TAX REVENUE & $9.10 OF DIRECT SPEND

Let's do this for Michigan.

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