Report Says California Tax Incentives Lost Money

By John Vanderhoef

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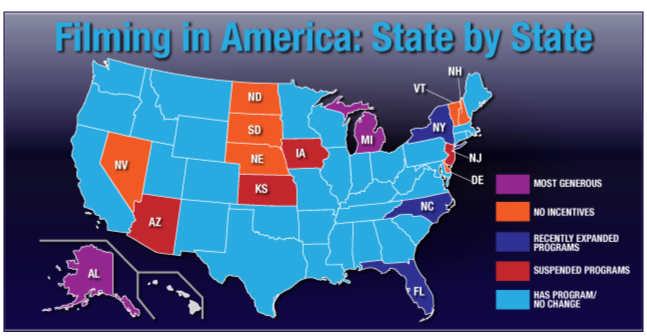
In a time of runaway production, state budgetary crisis, and uncertainty over tax credits, controversy surrounding a recent report that suggests California's film and television tax credit program actually loses money for the state has highlighted the political stakes involved in the production incentive scheme.

The controversial California Legislative Analyst Office's (LAO) memo takes issue with at least five claims by two previous reports from the Economic Development Corp. of L.A. County (LAEDC) and UCLA. Both of the latter reports conclude that the incentive scheme bolstered the California economy and facilitated local job growth. The UCLA report found for every dollar California spent, the state brought in $1.04. More optimistically, the LAEDC claimed the earnings to be $1.13.

Companies and interest groups close to Hollywood are concerned the LAO report politicizes the validity of incentives at a time of economic hardship for the state. They argue that opponents of the tax incentives want to see the support go to other industries, suggesting the current tax breaks are a handout for L.A. at the expense of jobs elsewhere in the state. In contrast, proponents defend the validity of tax credits. They argue incentives support a native industry and local job creation at a time when other states and nations are infringing on them.

A recent panel about incentives at the 2012 Produced by Conference highlighted the central role these rebates play in driving mobile film and television production--and the competition is fierce. According to the major takeaways from the MIP Conference Report, of the two Los Angeles-based producers on the panel, only one had made a film in the state in the past 9 years. Similarly, at a recent Association of Film Commissioners International Locations Show, representatives from a range of domestic and international territories pitched rebates, facilities, and local labor power to film and television producers. In fact, the event seemed less about specific locations than it was about the incentives themselves.



A California Senate committee recently approved a two-year extension to the tax credit program worth $200 million, but Hollywood had hoped for at least five additional years. Accordingly, a Milken Institute study and Film L.A. both believe the incentives should be increased. The Milken study claims the current program has "limited funding relative to demand" and lacks "long-term structural incentives that would serve to expand the program beyond its current funding" limits. Nonetheless, state legislators remain unconvinced.

Meanwhile, authors attached to the LAEDC study have offered their own counterattacks. Co-author of the LAEDC report Christine Cooper refutes each of the five main criticisms in the LAO report. Authors of the UCLA report have yet to respond.

Despite the international competition to offer the most attractive tax incentives, the effectiveness and long-term viability of tax credit programs remains unclear. For this reason, the politics concerning the validity of tax incentives are touchy, and conflicting opinions like the LAO memo do little to ease already heightened tensions between Hollywood and legislators concerned with budget deficits.