CONNECTICUT VOICES FOR CHILDREN

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**Testimony Regarding**
**Connecticut's Film, Television, and Digital Media Tax Credits Program**
Appropriations Committee
Commerce Committee
Finance, Revenue, and Bonding Committee
May 5, 2023

Dear distinguished members of the Appropriations, Commerce, and Finance, Revenue, and Bonding Committees:

My name is Patrick O'Brien and I am testifying on behalf of Connecticut Voices for Children (CT Voices), a research-based advocacy organization working to ensure that Connecticut is a thriving and equitable state where all children achieve their full potential.

**CT Voices recommends that policymakers eliminate or reduce the state's film, television, and digital media tax credits program and use that revenue to establish a permanent, refundable Connecticut child tax credit (CT CTC).**

Based in large part on data from the Department of Economic and Community Development's (DECD's) annual reports, this testimony provides several findings in support of our recommendation that policymakers eliminate or reduce the state's film, television, and digital media tax credits program and use that revenue to establish a permanent, refundable CT CTC.

According to the Connecticut government's own pre-2022 broad economic impact analyses, the state lost an average of nearly $80 million a year in revenue from the film, television, and digital media tax credit program, which more than offset the average total gain from the other major business assistance tax credit programs. Using data from DECD's pre-2022 annual reports, **Table 1** shows that five of the six business assistance tax programs that DECD administers generated an average of about $24 million a year in net revenue, but the film, television, and digital media tax credits program lost an average of about $78 million a year, resulting in an overall average loss of $54 million a year.[1]

For important background information, following its own analyses published in the 2018 and 2019 annual reports, DECD did not provide an analysis of the film tax credit program in the 2020 and 2021 annual reports and instead "retained a consulting firm specializing in film, television and digital media industry-specific economic impact studies to perform an evaluation of the agency's film incentive programs." In 2022, DECD published the consultant-written report—hereafter referred to as the Olsberg report—which concluded that Connecticut's tax credits for film, television, and digital media productions "have contributed significantly to the development of the state's film and television ecosystem." However, we have several concerns with the analysis. For example, a substantial portion of the Olsberg report is based on an estimate of "additionality"—that is, how much "the availability of Connecticut's Screen incentives attract production expenditure into the state that would not otherwise have occurred." To develop an estimate, the report explains that "a limited survey of significant producers was undertaken. Producers were asked the extent to which the incentives were a determining factor in their decision to produce in Connecticut. ... The mean response was that 27% of production would have happened without the incentive" and so "an additionality rate of 73% was used" throughout the report. The concern here is that the analysis relies in large part on a survey of producers that may have ongoing or potential future financial incentives to continue the tax credit program. Also notable, the Olsberg report itself acknowledges that the findings should be taken with caution due to limited data. As the report puts it, "Given the complexities of modeling the economic impact of the film and television sector in Connecticut, future analyses would be more accurate if more targeted data collection could be implemented by the Client."[2]

According to the Connecticut government's own most recent broad economic impact analysis, the state still loses revenue from the film, television, and digital media tax credits program. Using data from DECD's new 2022 annual report, **Table 2** shows that the state spent a total of $144.9 million on the film, television, and digital media tax credits program and ultimately lost $10.7 million in net revenue. The latter finding is especially notable because, as explained in the 2022 annual report, "DECD updated our impact estimation methodology incorporating new information obtained from the Olsberg report," which, in simple terms, makes the tax credit program appear more effective than DECD's pre-2022 analyses and yet the state still concludes that the program loses revenue.[3]

In addition to the Connecticut government's own analyses, an extensive body of research finds that film, television, and digital media tax credits do not generate substantial economic growth, especially when compared to programs that provide support for low- and middle-income families. Consider the following key findings from a comprehensive 2023 report by the California Legislative Analyst's Office, which is that state's equivalent of the Connecticut Office of Legislative Research:

> In this section we review existing research on the economic effects of film tax credits. Dozens of studies over the last two decades have examined the economic effects of film tax credits in California and other states. These studies have used a variety of methods and reached varying conclusions. While all of these studies have limitations, some approaches are more reliable than others. In particular, our review focuses on studies that (1) account for the fact that some productions would have selected the same location even without a tax credit, (2) consider both direct economic effects (such as wage paid to production workers) and indirect economic effects (such as wages paid to workers at businesses supporting motion picture production), and (3) avoid the use of statistical methods known to be unreliable. …
>
> ***Unclear Effect on the Broader Economy***. Although the film tax credit likely increased economic activity in California's motion picture industry, whether it resulted in growth of the state's broader economy is unclear. Forgone state tax revenue from the film tax credit could have been spent on other programs or services. This alternative spending similarly

would have increased activity in some part of the state's economy. Measuring the economic effect of any state spending (including film tax credits) is challenging. Nonetheless, the best available evidence suggests that we cannot be confident that the economic benefit of film tax credits exceeds alternative uses of state funds.

***Comparing Film Credits to Some Alternatives***. One of the more optimistic estimates from the studies mentioned above suggests that each dollar of film tax credit results in an increase of $2 to $4 in earnings for workers in that state. At the same time, research on other types of public spending—such as K-12 education and workforce development—suggests comparable or better earnings benefits for workers (Heinrich et al. [2013], Jackson [2015], and Hollenbeck [2017]). This suggests the potential for at least similar economic benefits if state resources used for film tax credits were instead allocated to other purposes.[4]

**Table 1.** CT Department of Economic and Community Development's Analysis of Business Assistance Tax Credits, 2018–2021 Annual Reports, in Millions

| Tax Credit | Time Period | Estimated State Revenue | | |
|---|---|---|---|---|
| | | Net, Net Direct, or Direct | Cumulative Total | Annual Average |
| **Special Act: Lockheed Martin** | | | | |
| Total | FY 2019 - FY 2021 | Net Direct | $22.9 | $7.6 |
| **Stranded Tax Credit / Sales and Use Tax Offset Program** | | | | |
| ASML | 2018 - 2021 | Direct | $11.8 | $3.0 |
| Boehringer | 5 Years | Direct | $4.4 | $0.9 |
| Total | | | $16.2 | $3.8 |
| **Urban and Industrial Site (URA) Tax Credit** | | | | |
| Total | FY 2012 - FY 2021 | Net Direct | $65.0 | $6.5 |
| **Film, Television, and Digital Media Tax Credits**** | | | | |
| Film and Digital Media Production | 2010 - 2019 | Net | -$585.1 | -$58.5 |
| Film Production Infrastructure | FY 2010 - 2019 | Net | -$95.0 | -$9.5 |
| Digital Animation | 2008 - 2018 | Net | -$92.9 | -$10.3 |
| Total | | | -$773.0 | -$78.3 |
| **Insurance Reinvestment Fund (IRF) Tax Credits** | | | | |
| Second IRF | 2011 - 2021 | Net | $23.1 | $2.1 |
| CT Invest IRF | 2016 - 2021 | Net | $19.2 | $3.2 |
| Total | - | - | $42.4 | $5.3 |
| **Property Tax Abatements for Investment in Enterprise Zones** | | | | |
| Total | 2021 | Net | $1.2 | $1.2 |
| **Total Business Assistance Tax Credits** | | | -$625 | -$54 |

*Data from CT DECD's 2021 annual report and author's calculations.

**Data for film and digital media production tax credit and film production infrastructure tax credit from the CT DECD's 2019 annual report. Data for digital animation tax credit are from the CT DECD's 2018 annual report.

**Table 2.** CT Department of Economic and Community Development's Analysis of Film, Television, and Digital Media Tax Credits, 2022 Annual Report, in Millions

| Tax Credit | Tax Credits Issued | Estimated Fiscal Impact | | |
|---|---|---|---|---|
| | | State Revenues | State Expenditures | Net State Revenue |
| Film, Television, and Digital Media | $129.8 | $35.5 | $34.6 | $0.9 |
| Film Infrastructure | $15.2 | -$10.4 | $1.1 | -$11.5 |
| Digital Animation Production | $0.0 | $0.0 | $0.0 | $0.0 |
| **Total** | **$144.9** | **$25.1** | **$35.8** | **-$10.7** |

*Data from CT DECD's 2022 annual report.

Eliminating or reducing the film, television, and digital media tax credits program and using the revenue to establish a permanent, refundable CT CTC would help to reduce child poverty, it would help to make the tax system fairer for low- and middle-income families, and it would help to grow the state's economy. As noted earlier, Connecticut spent $144.9 million on the film, television, and digital media tax credits program in 2022, which is more than the initial estimate of $125 million for the one-time child tax rebate in 2022 that provided $250 per child for low- and middle-income families. This means that the state could fund a permanent, refundable CT CTC by simply eliminating or reducing the film, television, and digital media tax credits program. Additionally, for a comprehensive overview of the case for establishing the CT CTC, see our 2022 report on the subject.[5]

Establishing a permanent CT CTC is exceptionally popular overall and has substantial bipartisan support. A recent poll from the Wesleyan Survey Lab found that 78 percent of Connecticut residents overall support establishing a CT CTC. Also notable, the high level of support includes a majority of Democrats (84 percent), independents (71 percent), and Republicans (53 percent).[6]

**JUST FACTS**

- According to the Connecticut government's own pre-2022 broad economic impact analyses, the state lost an average of nearly $80 million a year in revenue from the film, television, and digital media tax credits program, which more than offset the average total gain from the other major business assistance tax credit programs.

- According to the Connecticut government's own most recent broad economic impact analysis, the state still loses revenue from the film, television, and digital media tax credits program.

- In addition to the Connecticut government's own analyses, an extensive body of research finds that film, television, and digital media tax credits do not generate substantial economic growth, especially when compared to programs that provide support for low- and middle-income families.

- Eliminating or reducing the film, television, and digital media tax credits program and using the revenue to establish a permanent, refundable CT CTC would help to reduce child poverty, it would help to make the tax system fairer for low- and middle-income families, and it would help to grow the state's economy.

- Establishing a permanent CT CTC is exceptionally popular overall and has substantial bipartisan support.

CT Voices recommends that policymakers **eliminate or reduce the state's film, television, and digital media tax credits program and use that revenue to establish a permanent, refundable CT CTC.**

Thank you for your time and consideration.

Sincerely,

Patrick R. O'Brien, Ph.D.
Research and Policy Director
Connecticut Voices for Children

## References

[1] Connecticut Department of Economic and Community Development, "2018 Annual Report"; "2019 Annual Report"; and "2021 Annual Report."

[2] Olsberg SPI, "Economic Impact of Connecticut's Digital Media and Motion Picture Tax Credit, Digital Animation Production Company Tax Credit and the Infrastructure Tax Credit," 2022.

[3] Connecticut Department of Economic and Community Development, "2022 Annual Report."

[4] California Legislative Analyst's Office, "The 2023-24 Budget: California's Film Tax Credit."

[5] Patrick R. O'Brien, "The Case for the Connecticut Child Tax Credit," Connecticut Voices for Children, 2022.

[6] Wesleyan Survey Lab, "CT Poll: Crosstabs," April 2023.