

Virginia House Delegates Okay Huge Increase in Film Tax Credits

February 12, 2014

While some states are rethinking and downsizing their incentive programs for the film industry, members of Virginia's House of Delegates have voted to increase the state's cap on refundable corporate income tax credits to the film industry from \$5 million every two years to \$25 million — all in the name of economic development.

The measure now heads to the state senate.

Some experts and critics say subsidizing the film industry lets politicians pick winners and losers, distorting the free market system. They argue such credits cause funding losses in such areas as education, forcing taxpayers to make up the revenue elsewhere.

“The tax rate that the rest of us have to pay, unless they reduce spending, will have to be higher to offset this privilege for the film industry,” said Matt Mitchell, a senior research fellow with George Mason University's Mercatus Center in Fairfax.

Why are tax breaks for film so popular among politicians then?

‘Photo Ops With Famous Celebs’

“Frankly it often boils down to politicians like to do photo ops with famous celebrities like Steven Spielberg,” said Chris Edwards, director of tax policy studies at the free-market-oriented Cato Institute. “Politicians like to pretend that they're standing up for the little guy and helping people at the bottom end of the spectrum, but in fact they often resort to crony capitalism to help wealthy people at the expense of average taxpayers.”

It's a bipartisan problem, Mitchell said.

“The benefits are conspicuous, but the costs are inconspicuous,” he said. “It gives them a conspicuous opportunity to stand beside a movie star and pictures with them and go to lunch with them, and even politicians, I guess, get starry-eyed or star-struck.”

But this is serious stuff. Experts say film industry tax breaks violate the spirit of equal treatment under Virginia's Constitution, and undermine the legitimacy and integrity of both government and business.

‘Violates Equality Under Law’

“It’s pretty obvious that carving out a special benefit for a particular industry violates the spirit of equality under the law,” Edwards said. “Why are people in the film industry, why should they be able to earn higher profits from a government benefit than people in say the furniture industry or the computer industry or the stapler industry? It makes no economic sense, and it makes no public policy or good governance sense.”

Politicians’ ability to dole out benefits is bound to create problems, Mitchell said. Virginia has already experienced a dose of that with the recent federal indictment of former Gov. Bob McDonnell (R), who, with his wife, is accused of inappropriate financial connections with wealthy businessman Jonnie Williams.

“I would argue that the costs are not just economic — they’re social,” Mitchell said. “It undermines the legitimacy of both government and business. So, to give an example, Virginia is still reeling from a political scandal in which a governor, it is alleged, privileged a particular firm in order to attain special loans essentially from the firm’s CEO.

“Well, everyone’s talking about whether elected officials in Virginia ought to receive those kinds of gifts, whether they and their family should be able to receive those gifts and disclose them,” Mitchell added. “But what’s frustrating to me is that everybody is just pretending that it’s not a problem that the official policy of the state is to privilege particular firms.”

Millions Under Governor’s Control

The Governor’s Motion Picture Opportunity Fund allows Virginia’s governor to dole out \$2 million a year in grants as he pleases.

It was McDonnell who helped birth the film industry tax credit in Virginia when he signed the first one into law in 2010, partly to help attract the Spielberg production “Lincoln.” The 2012 movie grossed more than \$275 million at the box office, and received \$3.5 million in tax incentives from the state.

And McDonnell got a nice lunch with Spielberg that he kept from his public itinerary.

In 2010, the film industry received \$1.5 billion in financial commitments from the more than 40 states with some sort of incentive program for the film industry.

Losses for Most States

A Center on Budget and Policy Priorities compilation of studies of 10 states’ programs found that only two reaped more in revenue than they gave away to the film industry — and those two states’ studies were funded by the states’ own film offices. The other studies showed states gained just 16 cents for every dollar they invested.

In other words, that’s an 84 percent loss for most states.

Democratic Delegate Scott Surovell of Fairfax protested the bill in the General Assembly last week, sporting a black boa, snazzy blue hat, a plush ET doll, and a sign that said, “Virginia is for tax credits.”

“I think there are better ways to spend \$60 million in taxpayer money,” Surovell told Watchdog.org, referencing the total tax credits the bill offers through 2018.

“From my point of view these film productions are more about bragging rights and hanging out with movie stars than creating jobs,” Surovell said. “... “If you gave me \$60 million I guarantee I could make a lot more jobs.”

Cuts for Some, Increases for Others

There are conservatives against the tax preference too, like Dolores Warner with the Apple Valley Tea Party.

“If you are cutting the tax for one group, giving them a special exemption, someone else is making the up the difference, and the someone else is the rest of the taxpayers,” Warner told Watchdog.org. “Picking winners and losers, it’s not fair to anybody. Let’s just be quite frank — the film industry is not hurting. They make tons of money. Do they really need to get subsidized? I don’t think so.”

Offering tax breaks for a fly-by-night industry that won’t create lasting economic development isn’t the answer, Mitchell said. And it admits that Virginia’s tax system is broken somehow.

“One way to say it is, special deals are an admission to failure,” Mitchell said. “They’re an admission that your normal rules of the game aren’t good enough to attract business on their own, so you have to suspend those rules in order to attract particular businesses.”

Kathryn Watson (kwatson@watchdog.org) is an investigative reporter for Watchdog.org, where this article first appeared.