***STATE OF RHODE ISLAND***

**Governor Daniel J. McKee**

# Economic Development Tax Incentives Evaluation Act:

## *Evaluation of*
## *"Motion Picture Production Tax Credits"*
## (R.I. Gen. Laws § 44-31.2-5)
## *Tax Years 2019 through 2021*

## Office of Revenue Analysis

**July 1, 2024**

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# Foreword

The evaluation of the "Motion Picture Production Tax Credits" program, *Tax Years 2019 through 2021* was prepared at the request of Matthew McCabe, Chief of the Rhode Island Department of Revenue, Office of Revenue Analysis in accordance with Rhode Island General Laws § 44-48.2-4. Madiha Zaffou, Ph.D., Deputy Chief in the Office of Revenue Analysis was project leader for the production and writing of this report, under the guidance of Mr. McCabe. Ms. Zaffou was assisted by Anoushka Mohnot, Senior Economic & Policy Analyst in the Office of Revenue Analysis.

Much of the information needed to complete the analysis contained in this report was provided by the Rhode Island Department of Revenue, Division of Taxation (Taxation), under the direction of Neena Sinha Savage, Esq., State Tax Administrator. The compilation of the data that was provided to the Office of Revenue Analysis was due to the tremendous efforts of Tracy Wunder, Data Analyst III in the Division of Taxation. Tracy was assisted in this task by Donna Dube, Assistant Tax Chief, Forms, Credits, and Incentives.

The Office of Revenue Analysis is appreciative of the efforts made by Taxation to provide us with the best information available at the time this report was written. Additional information regarding the statutory and programmatic goals of the Motion Picture Productions Tax Credit was provided by Steven Feinberg, Executive Director of the Rhode Island Film & TV Office (RIFTVO). The Office of Revenue Analysis did not independently verify or otherwise assess the data that was provided by either Taxation or the RIFTVO.

# Executive Summary

This report is the third evaluation of the "Motion Picture Production Tax Credits" (MPPTC) program conducted by the Department of Revenue, Office of Revenue Analysis (ORA) in accordance with Rhode Island General Laws (R.I. Gen. Laws) Chapter 44-48.2.[1] The report provides an estimate of the economic and fiscal impacts of this tax incentive for tax years 2019 through 2021. ***ORA found that the program does not break even on a net general revenue basis.*** ORA relied primarily on data provided by the Department of Revenue, Division of Taxation (Taxation) to conduct the analysis. This data is more comprehensive than that used in the previous two versions of this report and includes employment and wage data sourced from submissions by production companies to Taxation's Audit and Investigation Unit. The following is a summary of this evaluation:

**The Tax Incentive Provision:**

- The MPPTC is a tax credit in an amount of 30% of the state certified production costs incurred directly attributable to motion picture production activity within the state.
- The amount of credit allowed for any single production is generally capped at $7.0 million and can be carried forward for not more than three succeeding tax years.[2]
- Effective for tax years beginning after December 31, 2019, the annual cap on the total amount of motion picture and musical and theatrical production tax credits that can be issued was increased to $20.0 million. For tax year 2022 only, this amount was increased to $30.0 million and was further increased to $40.0 million exclusively for tax years 2023 and 2024.
- No MPPTC shall be issued on or after July 1, 2029.
- No employment or wage criteria need to be met by the motion picture production company to qualify for the credit.

**The Main Goals and Objectives of the Tax Incentive:**

The MPPTC's objectives can be summarized as:

- Attract private investment and develop tax infrastructure to encourage private investment using tax credits.
- Encourage increased employment opportunities within this sector and encourage new education curricula in order to provide a labor force trained in all aspects of film production.

[1] Previous evaluations of this program can be accessed at https://dor.ri.gov/revenue-analysis/reports
[2] R.I. Gen. Laws § 44-31.2-5(c) allows the state tax administrator to waive the $7.0 million MPPTC cap for any feature-length film or television series provided that the waiver of the $7.0 million per production limit does not cause the amount of MPPTC issued to exceed the annual cap on total motion picture and musical and theatrical production tax credits.

**The Report's Key Findings:**

- According to Taxation, a total of 14 motion picture productions received a total of \$32,090,479 of MPPTC for a total of \$106,968,263 in certified production spending for tax years 2019 through 2021.
- Seventy-four percent of the MPPTC recipients spending in tax years 2019 through 2021 was on compensation and 26% was spent on goods and services from local vendors.
- Employment and wage data provided by Taxation showed that 54% of the MPPTC recipients workers were out-of-state workers that received 51% of the total payroll expenditure.
- While 51% of the total compensation was paid to non-resident workers of the MPPTC recipients, these workers only paid 38% of the total personal income taxes paid by all MPPTC recipient workers in an average tax year 2019-2021.
- According to Taxation, 100% of the MPPTC amounts received in tax years 2019-2021 were either transferred or sold to other Rhode Island companies, with 55% of those credits assigned to corporate tax, 22% assigned to insurance tax, 15% assigned to financial institutions tax, and 8% assigned to personal income tax.
- While 78.6% of the analyzed productions were distributed for public showings, 21.4% did not reach the distribution stage.
- With respect to Rhode Island state government net general revenues, the MPPTC program *fails* to break even, even if 100% of the economic activity directly related to the provision of the tax credit is assumed to not have occurred without the tax incentive.
- ORA calculated the return on investment for this program for the tax years 2019-2021 timeframe and found that for every dollar spent on MPPTC, the state receives \$0.09 of net general revenues, \$1.82 of GDP, and \$3.19 of output.[3]
    - These results can be contrasted with a study by Industrial Economics Incorporated (IEc), commissioned by the Newport County Development Council, which showed a dollar of MPPTC generates \$0.27 of general revenues and \$5.44 of output. An explanation of how these results differ from the IEc study can be found on page 43.
    - The fact that the MPPTC does not break even with respect to tax revenues and, as a result, does not "pay for itself" is consistent with the analysis conducted by several other states. A summary of other states ROI for their film tax credit programs is available on page 39.

**Overall Assessment and Recommendations:**

ORA recommends that the MPPTC program be modified as follows:

- Limit expenses eligible for tax credits that relate to "above-the-line" staff (typically writers, producers, and directors, and principal cast who likely reside out of state).
- Provide additional incentive to firms that maintain a long-term presence and make capital investments in the state.
- Clarify the statutory goals and statutorily required data reporting by recipients.

[3] These ROI estimates assume that 100% of the economic activity associated with the MPPTC is attributable to the availability of MPPTC.

- Eliminate or limit the transferability of tax credits to encourage the establishment of Rhode Island-based production companies.
- Pause further extensions of the sunset until the program can be modified.

There are several factors explaining ORA's decision not to recommend termination of the program even though the program does not break even. This includes unquantified benefits which are not included in this report (such as a potential boost to tourism), possible qualitative benefits to the state, and the lack of clear goals against which to measure the program. These are discussed further in Part V, section 4 "ORA Conclusion and Overall Recommendation."

# Part I: Introduction

Pursuant to Rhode Island General Laws § 44-48.2-4, titled *Rhode Island Economic Development Tax Incentives Evaluation Act of 2013,* the Chief of the Office of Revenue Analysis (ORA) is required to produce a report that contains analyses of economic development tax incentives as listed in R.I. Gen. Laws § 44-48.2-3(1). According to R.I. Gen. Laws § 44-48.2-4(a)(1), the report "shall be completed at least once between July 1, 2014, and June 30, 2017, and no less than once every three (3) years thereafter."

The additional analysis as required by R.I. Gen. Laws § 44-48.2-4(a) shall include, but not be limited to the following items as indicated in R.I. Gen. Laws § 44-48.2-5(a):

1) A baseline assessment of the tax incentive, including, if applicable, the number of aggregate jobs associated with the taxpayers receiving such tax incentive and the aggregate annual revenue that such taxpayers generate for the state through the direct taxes applied to them and through taxes applied to their employees;
2) The statutory and programmatic goals and intent of the tax incentive, if said goals and intentions are included in the incentive's enabling statute or legislation;
3) The number of taxpayers granted the tax incentive during the previous twelve-month (12) period;
4) The value of the tax incentive granted, and ultimately claimed, listed by the North American Industrial Classification System (NAICS) Code associated with the taxpayers receiving such benefit, if such NAICS Code is available;
5) An assessment and five-year (5) projection of the potential impact on the state's revenue stream from carry forwards allowed under such tax incentive;
6) An estimate of the economic impact of the tax incentive including, but not limited to:
   i. A cost-benefit comparison of the revenue forgone by allowing the tax incentive compared to tax revenue generated by the taxpayer receiving the credit, including direct taxes applied to them and taxes applied to their employees;
   ii. An estimate of the number of jobs that were the direct result of the incentive; and
   iii. A statement by the Chief Executive Officer of the Commerce Corporation, as to whether, in his or her judgment, the statutory and programmatic goals of the tax benefit are being met, with obstacles to such goals identified, if possible; [4]
7) The estimated cost to the state to administer the tax incentive if such information is available;
8) An estimate of the extent to which benefits of the tax incentive remained in state or flowed outside the state, if such information is available;
9) In the case of economic development tax incentives where measuring the economic impact is significantly limited due to data constraints, whether any changes in statute would facilitate data collection in a way that would allow for better analysis;

[4] Public Law 2023 Chapter 294 § 7 and Chapter 295 § 7 removed the requirement for a statement from the CEO of the Commerce Corporation. ORA intends to voluntarily include these statements in this round of analysis and exclude them going forward.

10) Whether the effectiveness of the tax incentive could be determined more definitively if the General Assembly were to clarify or modify the tax incentive's goals and intended purpose;
11) A recommendation as to whether the tax incentive should be continued, modified, or terminated; the basis for such recommendation; and the expected impact of such recommendation on the state's economy;
12) The methodology and assumptions used in carrying out the assessments, projections and analyses required pursuant to subdivisions (1) through (8) of this section.

The current report is one part of a series of reports for each of the tax credits to be analyzed according to R.I. Gen. Laws § 44-48.2-3(1). This report concerns R.I. Gen. Laws § 44-31.2-1 *et seq.* entitled "Motion Picture Production Tax Credits" (MPPTC) and covers tax years 2019 through 2021. The analysis is performed at the micro level using employment and wage information provided by Taxation and the RIFTVO.

The report is divided into five parts. Part I provides a detailed description of the tax incentive and its statutory programmatic goals and intent. Part II describes the motion picture activity in Rhode Island compared to neighboring states and the rest of the nation. Part III provides a description of the data provided and used in the analysis by ORA. Part IV assesses the economic impact generated under the MPPTC using a breakeven cost-benefit analysis. Part V discusses relevant policy findings and recommendations that could help in the decision process as to whether the tax credit should be continued, modified, or terminated.

## 1. Description of the Tax Credit

Rhode Island General Laws § 44-31.2-5 provides a motion picture production company a tax credit against the business corporation tax (R.I Gen. Laws Chapter 44-11), the taxation of banks (R.I. Gen. Laws Chapter 44-14), the taxation of insurance companies (R.I. Gen. Laws Chapter 44-17), or the personal income tax (R.I. Gen. Laws Chapter 44-30) in an amount equal to 30% of the state certified production costs incurred that are directly attributable to motion picture production activity within the state, provided that the primary locations are within the state of Rhode Island and the total production budget is at least $100,000.[5] The amount of credit allowed for any single production is capped at $7.0 million and unused amounts of the tax credit can be carried forward for not more than three succeeding tax years.

Motion picture productions must be certified as eligible for a tax credit by the Rhode Island Film & TV Office (RIFTVO). It should be noted that the annual cap on the amount of MPPTC to be issued in a year is combined with the Musical and Theatrical Production Tax Credit program as established by R.I. Gen. Laws Chapter 44-31.3.[6] The maximum credit amounts that could be issued in tax year 2019 was $15.0 million for both motion picture and musical and theatrical productions. For tax years 2020 and 2021, the maximum amount was increased to $20.0 million For tax year

[5] In the 2018 session, the credit increased from 25% to 30% of the state-certified production costs directly attributable to activities within the state. The maximum credit per production was capped at $7 million, up from a cap of $5 million in prior years. Additionally, the tax administrator was granted authority to waive the $7 million per-production cap for a feature-length film or TV series, up to the amount of remaining funds available under the program for a given year. Reality television shows were added to the list of productions that are not allowed to receive the credit.
[6] Although the features of the Musical and Theatrical Production Tax Credit are similar to the Motion Picture Production Tax Credit, an analysis of this program is beyond the scope of the statutory mandate of this report.

2022 only, this amount was increased to $30.0 million and was further increased to $40.0 million exclusively for tax years 2023 and 2024. No motion picture production tax credits shall be issued on or after July 1, 2029.[7]

No employment or wage criteria need to be met by the motion picture production company to qualify for the MPPTC. RIFTVO is required, however, to produce an impact analysis which, among other things, requires RIFTVO to identify "the approximate number of full-time, part-time, temporary, seasonal, and/or permanent jobs projected to be created, construction and non-construction," "the approximate wage rates for each category of the identified jobs" and "the types of fringe benefits to be provided with the identified jobs, including health care insurance and any retirement benefits."[8]

According to R.I. Gen. Laws § 44-31.2-6.1(d), an analysis of MPPTC recipients' employees receiving RIte Care or RIte Share benefits is required to be completed by the RIFTVO with the assistance of the MPPTC companies, the Department of Labor and Training, the Department of Human Services, and the Division of Taxation. Such analysis should be done annually and should be posted on Taxation's website to be available to the public. ORA was unable to find that such an analysis has been completed for any of the recipients of the MPPTC. Furthermore, Taxation has indicated that no report or request for information was received from the RIFTVO with regard to this reporting requirement.

## 2. Statutory and Programmatic Goals and Intent of the Tax Incentive

According to R.I. Gen. Laws § 44-31.2-1(c), the purpose of the Motion Picture Production Tax Credit is "to provide a financial incentive to the film industry in order that the state might compete with other states for filming locations." Pursuant to this purpose the statutory and programmatic goals and intent of the MPPTC are "to encourage development in Rhode Island of a strong capital base for motion picture film, videotape, and television program productions, in order to achieve a more independent, self-supporting industry.…"

(1) Immediate objectives are to:
   (i) Attract private investment for the production of motion pictures, videotape productions, and television programs, which contain substantial Rhode Island content as defined herein.
   (ii) Develop a tax infrastructure, which encourages private investment. This infrastructure will provide for state participation in the form of tax credits to encourage investment in state-certified productions.

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[7] The General Assembly voted to extend the sunset date from July 1, 2027 to July 1, 2029 as part of the FY 2025 enacted budget.

[8] The RIFTVO website has "sample" templates for impact analysis of the MPPTC that are completed by the production company. http://www.film.ri.gov/forms/ImpactAnalysisSample.pdf

(iii) Develop a tax infrastructure utilizing tax credits, which encourage investments in multiple state-certified production projects.

(2) Long-term objectives are to:

(i) Encourage increased employment opportunities within this sector and increased competition with other states in fully developing economic development options within the film and video industry.

(ii) Encourage new education curricula in order to provide a labor force trained in all aspects of film production." [9]

## Part II: Benchmarking Motion Picture Activity in Rhode Island

An understanding of current and historical motion picture production activity in Rhode Island, in comparison states and the nation provides context to the economic environment in which the MPPTC program operates. First, the benchmarking analysis contained in this part presents information on the availability of tax benefits in Rhode Island and comparison states targeting the motion picture industry. Next, the benchmarking analysis presents data highlighting current levels and long-term trends in motion picture production activity and employment and evaluates Rhode Island's relative performance on key economic indices.

ORA focused its investigation of motion picture activity, employment, and availability of tax incentives targeting motion picture production on five comparison states: the two neighboring states of Massachusetts and Connecticut, and three states that are national leaders in motion picture production, Georgia, New York, and California. Additionally, this report includes selected comparisons to U.S. data to allow the reader to consider the state-level data in the context of national levels, trends, and cycles.

For the purposes of this benchmarking analysis, ORA examined economic activity and employment data related to North American Industry Classification System (NAICS) Code 5121, "Motion Picture and Video Industries" whenever available. ORA deemed this four-digit NAICS classification to be generally descriptive of MPPTC recipient projects. National employment and compensation data in this section generally reference the United States Department of Labor, Bureau of Labor Statistics (BLS).[10] In the case of Rhode Island, however, ORA obtained employment and compensation data from the Rhode Island Department of Labor and Training (DLT). With respect to measuring economic output, ORA was limited by the specificity of the United States Department of Commerce, Bureau of Economic Analysis (BEA) data source from which the most specific gross domestic product data was at the NAICS Code 512, "Motion Picture and Sound Recording Industries," which necessarily includes a small portion of sound recording industries output.[11]

[9] See R.I. Gen. Laws § 44-31.2-1(d).

[10] According to the U.S. Census Bureau, NAICS code 5121 consists of "establishments primarily engaged in the production and/or distribution of motion pictures, videos, television programs, or commercials; in the exhibition of motion pictures; or in the provision of postproduction and related services."

[11] According to the U.S. Census Bureau, NAICS code 512 consists of "establishments involved in the production and distribution of motion pictures and sound recordings.…Production is typically a complex process that involves several distinct types of establishments that are engaged in activities, such as contracting with performers, creating the film

ORA found that all five selected comparison states offered some form of a motion picture production tax credit. The general features of each state's credits are depicted in the following table.

or sound content, and providing technical postproduction services. Film distribution is often to exhibitors, such as theaters and broadcasters…"

| State Incentives for Motion Picture Production in Rhode Island and Selected Comparison States | | | | | | |
|---|---|---|---|---|---|---|
| | **Rhode Island** | **Connecticut** | **Massachusetts** | **New York** | **California** | **Georgia** |
| ***Credit Name*** | Motion Picture Production Tax Credits | Film Production Tax Credit | Film Incentive Tax Credit | Empire State Film Production Tax Credit Program | California Film and Television Tax Credit Program | Georgia Film Tax Credit |
| ***Statutory Reference*** | R.I. Gen. Laws Chapter 44-31.2 | Conn. Gen. Stat. §12-217jj | Mass. Gen. Laws ch. 62, § 6(l) and Mass. Gen Laws ch 63A, § 38X | NY Tax L § 24 | CA RTC §23698 | Chapter 159-1-1 under O.C.G.A. § 48-7-40.26 |
| ***Credit Features*** | Credit amount equal to 30% of state certified production costs incurred directly attributable to activity within the state. | Credit amount ranges from 10% to 30% of the production's total expenses depending on the amount of qualified motion picture production expenses. | Credit amount equal to 25% of qualified motion picture production expenses, 25% of total qualifying payroll, and a sales tax exemption | Credit equal to 30% of qualified production expenses. Additional 10% on qualified labor expenses in certain counties is provided to productions with budgets over $500,000. | Credit amount ranges between 20% and 25% of total qualified expenditures depending on certain criteria. | Credits are made available in two separate categories: 20% Base Tax Credit and 10% Georgia Entertainment Promotion ("GEP") Tax Credit |
| ***Cap*** | $15m until tax year 2019. $20m going forward. $30m for 2022 only. $40m for 2023 & 2024. | None | None | $700 million | $330 million | None |
| ***Carryforward*** | 3 years | 5 years | 5 years | None | 9 years | 5 years |
| ***Source:*** | http://webserver.rilin.state.ri.us/Statutes/TITLE44/44-31.2/INDEX.HTM | https://www.cga.ct.gov/current/pub/chap_208.htm#sec_12-217jj | http://www.mafilm.org/ | https://www.nysenate.gov/legislation/laws/TAX/24 | https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?sectionNum=23698.&lawCode=RTC | https://www.legis.ga.gov/ |
| **Note:** Credit characteristics reflect current policy as identified by ORA in May 2024. This table presents a single comparison credit program for each comparison state determined by ORA to be most like the Rhode Island Motion Picture Production Tax Credits program. | | | | | | |

Beyond these comparison states, ORA found that state tax incentives targeted at motion picture production are a common practice throughout the United States. For example, a 2020 report conducted by the Georgia Department of Audits and Accounts Performance Audit Division contained a national inventory of states offering targeted motion picture production tax incentives revealing that 32 out of 50 states offered "financial incentives" for motion picture production.[12]

While motion picture production tax credits are commonplace nationwide, their popularity may be on the decline. A review by CPA firm, KPM Film shows 33 out of 50 states offer film tax credits or incentive programs in 2021.[13] A 2018 report by the National Conference of State Legislatures reports that in addition to some states dropping their motion picture incentive programs, other states, such as Colorado, Maryland and Texas, have made budget-conscious modifications to their motion picture incentive programs such as tightening the requirements for qualifying expenses and reducing the annual appropriation available for film incentive programs.[14]

The Rhode Island motion picture industry is relatively small when measured in terms of contribution to Rhode Island gross domestic product (GDP) and total employment. Furthermore, the relatively few Rhode Island motion picture employment opportunities are lower-paying than those in comparison states and nationwide. The following chart depicts the relative contribution of motion picture industry production to GDP. The levels are calculated as five-year averages to smooth any year-to-year volatility or measurement error.

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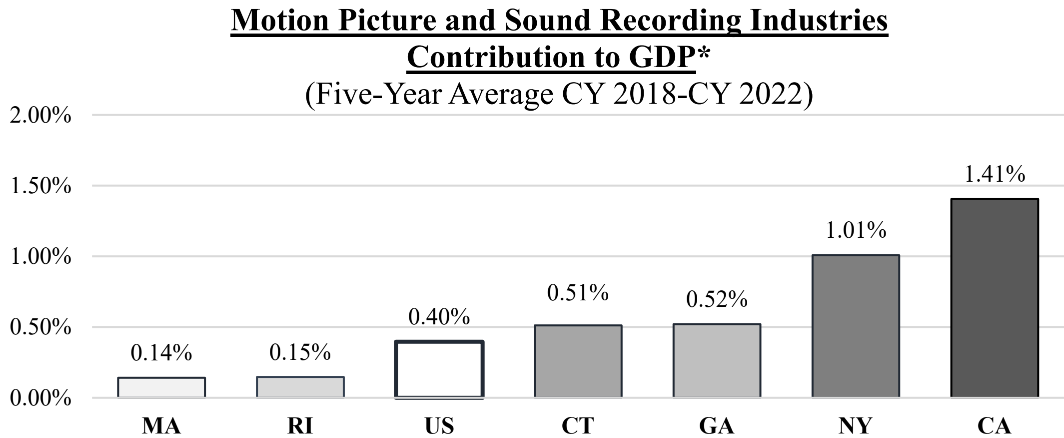
[12] Georgia Department of Audits and Accounts Performance Audit Division, "Impact of the Georgia Film Tax Credit," published January 2020. Available: https://documents.ncsl.org/wwwncsl/Fiscal/evaluationDB/ImpactoftheGeorgiaFilmTaxCredit.pdf

[13] KPM, "Incentives by State," Available: https://kpmfilm.com/film-tax-credits-by-state-map/

[14] National Conference of State Legislatures, "State Film Production Incentives and Programs," Published February 5, 2018, Available: http://www.ncsl.org/research/fiscal-policy/state-film-production-incentives-and-programs.aspx



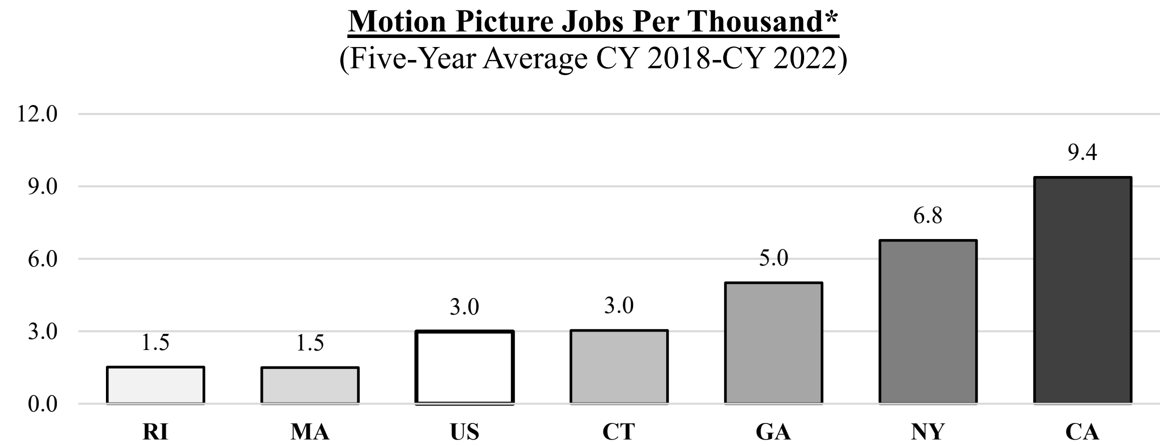

**Source:** ORA Calculations based on data from United States Department of Commerce, Bureau of Economic Analysis, last updated Sep 29, 2023 (accessed Jan 2, 2024).

* Motion picture contribution to GDP calculated as motion picture and sound recording industries (NAICS #512) gross domestic product divided by all industries gross domestic product, both figures measured in current dollars.

Motion picture and sound recording industries contribute minimally to Rhode Island GDP when compared to national averages. Over the period of CY 2018 to CY 2022, Rhode Island motion picture and sound recording industries contributed an average of $96 million in total GDP annually, or approximately 0.15% of Rhode Island's total average annual GDP of $64.9 billion. This contribution is below the national average of 0.40%.  As shown in the figure above, Rhode Island trails leading states such as New York and California, where the motion picture and sound recording industries' contributions to state GDP are 1.01% and 1.41%, respectively. However, the relative size of motion pictures and sound recording industries in Rhode Island is closer to parity with neighboring states such as Massachusetts, where the motion picture contributions to state GDP is 0.14%. Connecticut and Georgia stand above Rhode Island and slightly above the national average with a motion picture and sound recording industries contribution to GDP of 0.51% and 0.52% respectively.

Employment and compensation data as depicted in the following two charts reveal that Rhode Island has relatively few jobs in the motion picture and video industries, and those jobs are relatively low paying.[15] The following bar graph shows Rhode Island motion picture industry employment as a portion of the total workforce. Specifically, the chart depicts motion picture industry jobs per thousand private sector jobs for each state and the U.S. as a whole.

[15] Given that employment and wage data were available for NAICS Code 5121, "Motion Picture and Video Industries", ORA used the more specific NAICS Code when comparing employment and wage data across states.




**Source:** ORA Calculations based on United States Bureau of Labor Statistics, Quarterly Census of Wages and Employment establishment survey data, accessed August 2023

* Motion picture jobs per thousand calculated as total employment, motion picture and video industries (NAICS 5121), private, divided by total employment, all industries, private x 1,000

Over the period of CY 2018 through CY 2022, Rhode Island had an average annual total job count in motion picture and video industries of 628 jobs. This count is relatively small when considering the size of Rhode Island's labor force. Motion picture and video industries comprise 1.5 jobs per thousand private sector jobs in Rhode Island, which is approximately half of the comparable national figure of 3.0 jobs per thousand. Within the three-state region, Massachusetts has a similarly low concentration of motion picture and video industries jobs, while Connecticut more closely resembles the national average; however, the states of Georgia, New York, and California have a concentration of motion picture and video industries employment that is two to three times higher than the national average.

The following chart depicts average annual compensation in the motion picture and video industries relative to all industries, private compensation for Rhode Island, comparison states, and nationwide.

**Motion Picture and Video Industries Employee Pay**
(Five-Year Average, Calendar Years 2018 – 2022 Annual Pay)

| State | Motion Picture and Video Industries, Private [a] | All Industries, Private [b] | Ratio of Motion Picture to All Industries [c] |
|---|---|---|---|
| Massachusetts | $55,978 | $81,846 | 68.4% |
| **Rhode Island** | **$48,148** | **$57,408** | **83.9%** |
| Georgia | $66,741 | $60,006 | 111.2% |
| *United States* | *$83,783* | *$63,804* | *131.3%* |
| New York | $108,578 | $82,893 | 131.0% |
| Connecticut | $116,960 | $75,250 | 155.4% |
| California | $123,332 | $77,988 | 158.1% |

**Source**: ORA calculations based on United States Department of Labor, Bureau of Labor Statistics, Quarterly Census of Wages and Employment establishment survey data

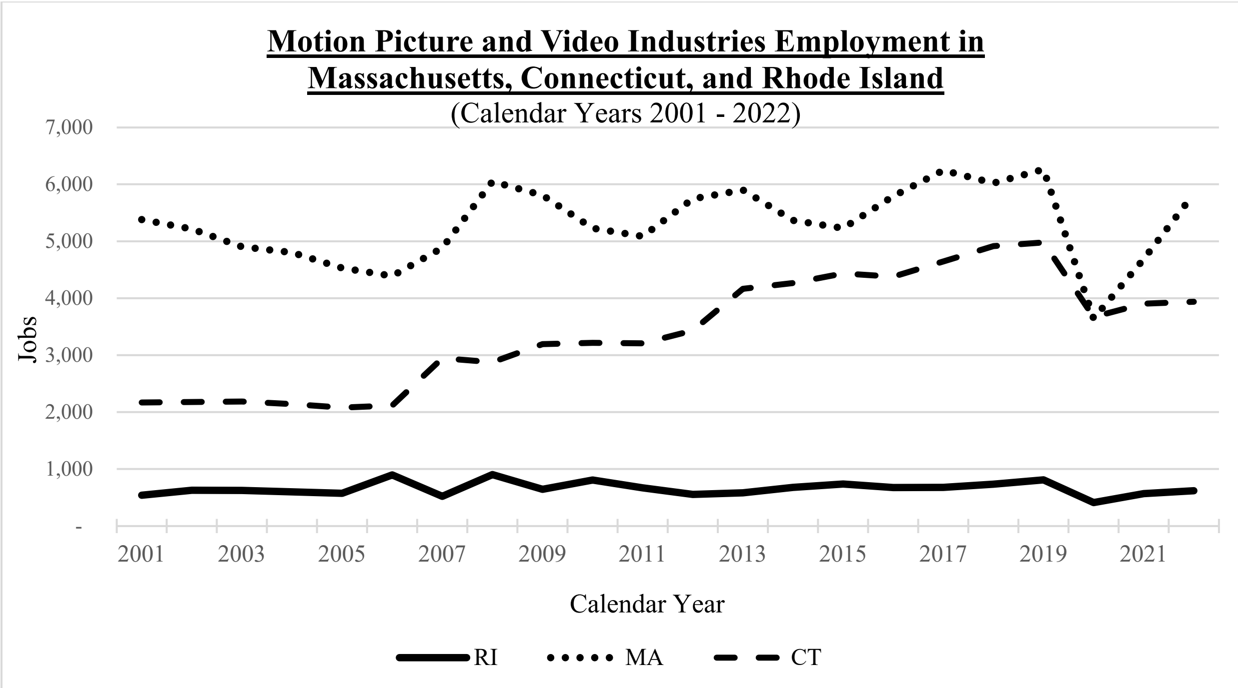
[a] Average CY 2018 - CY 2022 of motion picture and video industries (NAICS 5121), private, average annual pay

[b] Average CY 2018 - CY 2022 of all industries, private, average annual pay

[c] Ratio of motion picture average annual wage to all industries average annual wage

Rhode Island motion picture and video industries jobs are relatively low paying. The average annual pay of $48,148 for CY 2018 through CY 2022 is 83.9% of the $57,408 average annual pay for all private sector jobs in Rhode Island. While the average Rhode Island motion picture and video industry job pays below the average of all private industries jobs, the opposite is true nationwide. The average United States motion picture and video industries job paid an annual wage of $83,783 during the same period, which is 131.3% of the average annual wage of a United States all private industries job of $63,804. Rhode Island's two neighbors are split with respect to motion picture and video industries pay: Massachusetts motion picture jobs pay less than the private sector average, while Connecticut motion picture jobs pay more. In the states of New York and California, the average motion picture and video job pays more than the average private sector job by a ratio that outpaces the national average. Georgia outranks Rhode Island at 111.2% but still below the national average ratio.

Even with the availability of the MPPTC since 2005, the Rhode Island motion picture and video industries have not experienced significant employment growth in recent years. The following chart depicts employment trends in the motion picture and video industries in Massachusetts, Connecticut, and Rhode Island for the period of CY 2001 through CY 2022.



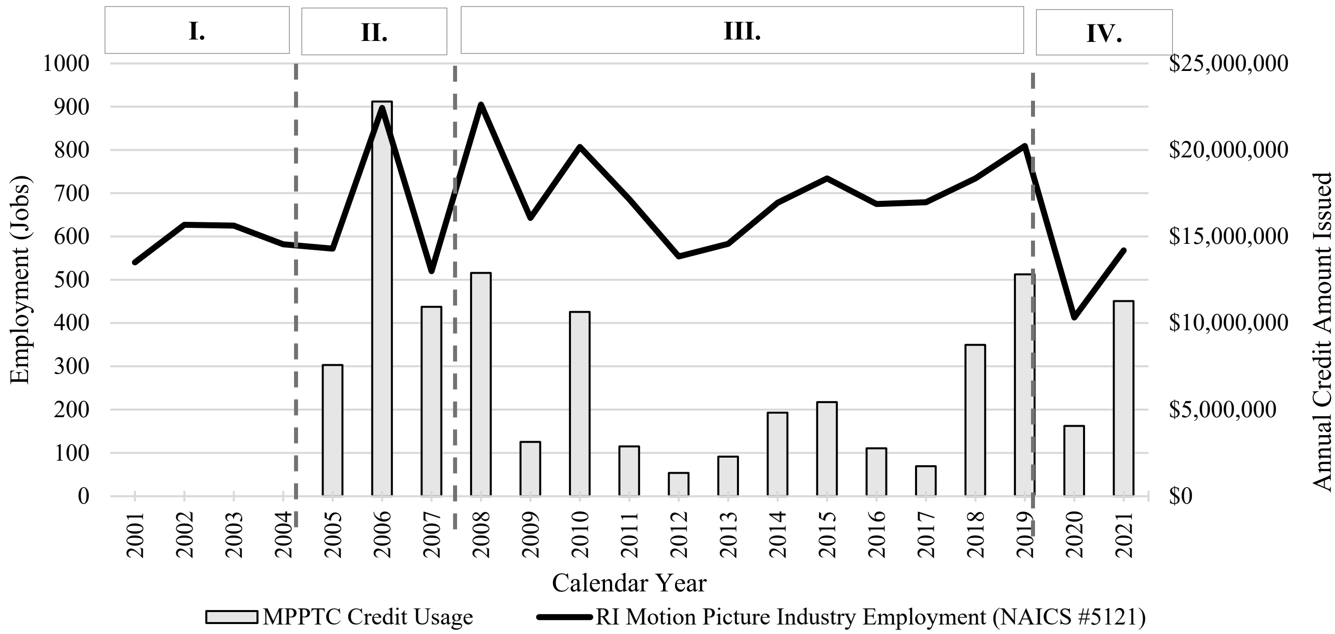

**Source:** RI Department of Labor and Training, United States Department of Labor, Bureau of Labor Statistics, Quarterly Census of Wages and Employment establishment survey data (NAICS 5121).

The above chart shows a relatively flat trend in Rhode Island motion picture industry employment with Connecticut and Massachusetts experiencing a period of stability followed by expansion. All states experienced a sharp decline in motion picture industry employment in 2020 due to the COVID-19 pandemic. Both Massachusetts and Rhode Island have experienced significant volatility as evidenced by patterns of multiple peaks and troughs. Connecticut experienced consistent employment growth with only moderate, occasional interruptions since 2007.

The following chart depicts long-term trends in Rhode Island motion picture and video industries employment along with annual amounts of Motion Picture Production Tax Credits issuance. The line depicts motion picture industry job count, while the bars refer to annual MPPTC credit usage amounts. CY 2001 through CY 2022 is grouped into four periods as designated by Roman numerals. The first period prior to 2005 represents a baseline level of employment prior to the establishment of the MPPTC. It should be noted that during this period, the "Film Production Tax Credit" offered tax credits to subsidize motion picture production under since-repealed R.I. Gen. Laws § 44-31.1. However, after consultation with Taxation, ORA was unable to identify any usage of this credit and therefore assumes that usage of this credit, if at all, occurred at *de minimis* levels. The second period covering CY 2005 through CY 2007 represents when the MPPTC was first established. During this period there was no annual cap on total credits issued, so a potentially unlimited number of productions could have been awarded credits. In the third period covering 2008 to December 31, 2019, the MPPTC operated with a $15 million annual credit amount cap. The fourth period covers the time after December 31, 2019, when the annual total credit amount cap was raised to $20 million except for CY 2021 when the cap was increased to $30 million. This chart is intended to highlight long-term trends and correlation between employment and credit amount, while highlighting the dates of key policy changes to the MPPTC program.

**<u>Rhode Island Motion Picture and Video Industries Employment and Motion Picture Production Tax Credits Issued</u>**

(Calendar Years 2001 - 2021)




**Notes:**

**I.** *Prior to 2005*: MPPTC not yet established. The since-repealed "Film Production Tax Credit" was available at this time; however, after consultation with the Division of Taxation, ORA has been unable to confirm any usage of this credit.

**II.** *2005 - 2007*: MPPTC established without any cap on the total annual credit amount.

**III.** *2008 - 2019*: MPPTC established with a $15,000,000 cap on the total annual credit amount.

**IV.** *Since 2020*: MPPTC established with a $20,000,000 cap on the total annual credit amount.

The chart shows that there has been modest growth in Rhode Island motion picture industry employment following the implementation of the MPPTC in 2005. Prior to 2005, average annual Rhode Island motion picture industry employment stood at 594 jobs. Since 2005, annual motion picture industry employment has averaged 674 jobs, an increase of 80 jobs since the implementation of the MPPTC. When interpreting this increase, it is important to note that a simple before and after comparison cannot determine whether this increase can be attributed to the availability of the MPPTC. Fluctuations in employment may be the result of other confounding factors such as growth in the Rhode Island population and labor force or trends that may have occurred even without the availability of the MPPTC. Further, the chart shows that Rhode Island motion picture industry employment is characterized by significant volatility. During the period of CY 2001 through CY 2021, Rhode Island motion picture industry employment count has ranged between 413 and 905 with year-to-year fluctuations in employment ranging between -568 and +385. However, the industry experienced relatively consistent growth averaging 5.8% from 2013 through 2019. Motion picture industry employment declined sharply in 2020 due to the COVID-19 pandemic.

The bars in the chart illustrate the annual amount of MPPTC usage since the program was implemented in 2005. The average cost since 2005 was $7,418,754, ranging from a minimum of $1,342,645 in 2012 to a maximum of $22,797,376 in 2006.

A simple visual analysis of the relationship between motion picture and video industries employment and the usage of MPPTC shows that MPPTC credit usage and employment show a positive correlation – that is, an increase in one indicator is generally associated with an increase in the other indicator. For example, when MPPTC usage increases it can be expected that motion picture employment will also increase. However, it is not possible to determine the direction of this relationship: it is possible that credit usage drives employment; employment drives credit usage; or some third exogenous factor, such as trends in the national motion picture industry, drive both.

Recent credit usage amounts as revealed in the above chart show that the imposition of the $15,000,000 cap in 2008 has not had any limiting impact on credit usage. While the average annual credit usage did exceed $15,000,000 in a single year prior to the implementation of the annual cap, credit usage has not approached the cap in any year since 2008. Average annual credit usage since 2008 has been $6,057,712 with a maximum usage of $12,893,662 in 2008. While the annual cap provides a safeguard against unexpected revenue losses in an *exceptional* year of credit usage, the cap does not appear to limit the availability of the credit in a *typical* year.

# Part III: Report Data Description

The analysis of MPPTC in this report required an analysis of micro-level taxpayer data. To gain sufficient access to data while respecting confidentiality concerns, ORA signed Memoranda of Understanding (MOU) with the Rhode Island Department of Revenue, Division of Taxation (Taxation), the Rhode Island Department of Labor and Training, and the Rhode Island Commerce Corporation. These MOUs sought to preserve the confidentiality of individually identifiable taxpayers consistent with the statutory mandates regarding confidentiality of taxpayer information. In this context, ORA relied on data provided by credit recipients to Taxation and to the Rhode Island Film & TV Office (RIFTVO) for tax years 2019-2021, to the extent such information were provided, as required by R.I. Gen. Laws § 44-48.2-5(b). The data provided to ORA consisted of the following:

- MPPTC amounts used by credit recipients for tax years 2019-2021 as provided by Taxation's Forms, Credits & Incentives Section;
- Motion picture production companies certified production expenses as audited by Taxation's Audit and Investigation Unit (AIU);
- Employee and wage data for some motion picture production companies and/or their contracted vendors provided by AIU (this is the first report by ORA to include this data);
- Aggregated Personal Income Tax (PIT) data on file provided by Taxation in each tax year subject to the current analysis;

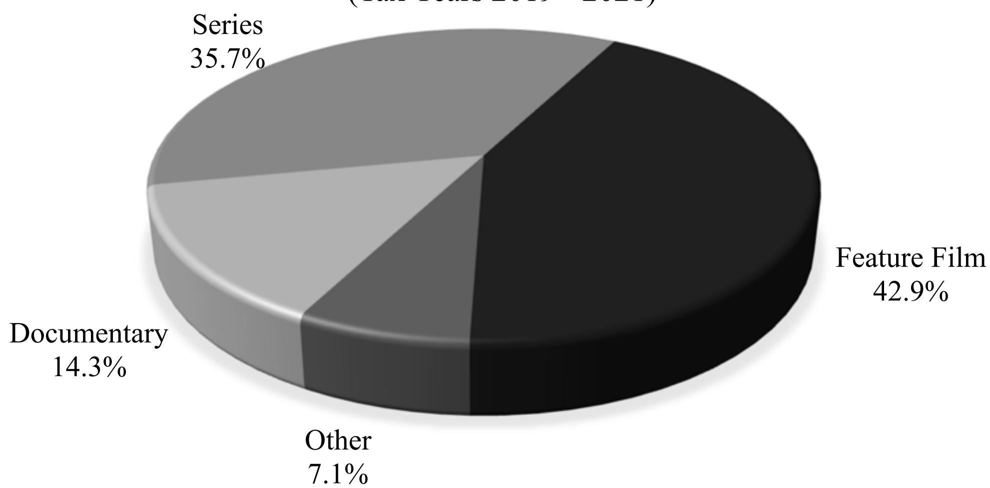
- Corporate tax payments on file provided by Taxation's Forms, Credits, and Incentives section;
- Initial Application for Tax Credit, Final Application for Tax Credit, and Information Request forms administered by the Rhode Island Film and TV Office (RIFTVO); and
- Cost of administration of the tax incentive provided by Taxation and RIFTVO.

ORA did not independently verify the accuracy of the data provided and made minimal corrections to the data to be able to execute specific calculations for the report. The data included in this report are unaudited and reported as compiled.

## 1. Number of Taxpayers Granted Tax Credit

According to Taxation, motion picture production tax credits were issued to a total of 14 projects that received $32,090,479 of MPPTC benefits during tax years 2019 through 2021. The breakdown of these productions by production type is depicted in the following chart.

**MPPTC Recipients by Production Type**
(Tax Years 2019 - 2021)




**Source:** Taxation

**Note:** Chart does not include musical and theatrical productions tax credit recipients.

State-certified production expenses mean any pre-production, production, and post-production costs that a motion picture production company incurs and pays to the extent it occurs within the state of Rhode Island. More detailed description can be found in R.I. Gen. Laws § 44-31.2-2(12). For tax years 2019-2021, the sum of the certified production costs associated with MPPTC-recipient productions was $106,968,263. The corresponding motion picture production tax credits totaled $32,090,479. The following table provides a description of the number of recipients of the

MPPTC, the corresponding tax credit amounts received, and the corresponding certified production costs in each tax year:

**MPPTC Amounts & Certified Expenses**

(Tax Years 2019 – 2021)

| Tax Year | Number of Productions | Total Credit Received | Total Certified Expenses |
|---|---|---|---|
| 2019 | 5 | $20,070,097 | $66,900,323 |
| 2020 | 4 | $3,747,921 | $12,493,070 |
| 2021 | 5 | $8,272,461 | $27,574,870 |
| **Total** | **14** | **$32,090,479** | **$106,968,263** |
| **Average** | **5** | **$10,696,826** | **$35,656,088** |

**Source:** Taxation

## 2. Value of Tax Credit Granted by NAICS Code

Each MPPTC recipient is required to submit documentation of certified expenditures as part of the MPPTC application. ORA reviewed the data contained in the MPPTC application and classified certified production spending by NAICS Code based on the industries directly impacted by film industry spending. This resulted in the distribution of the $106,968,263 of total spending among different industries as shown in the following table:

**Certified MPPTC Expenses by NAICS Industry**

(Tax Years 2019 – 2021)

| Industry Description | 3-Y Average Spending † | 3-Y Total Spending † |
|---|---|---|
| Accommodation (721) | $2,132,843 | $6,398,529 |
| Administrative and support services (561) | 6,435 | 19,305 |
| Compensation (N/A)* | 26,358,566 | 79,075,699 |
| Food services and drinking places (722) | 537,051 | 1,611,152 |
| Professional, scientific, and technical services (54) | 131,189 | 393,567 |
| Rental and leasing services; Lessors of nonfinancial intangible assets (532, 533) | 5,172,507 | 15,517,520 |
| Repair and maintenance (811) | 171,562 | 514,685 |
| Telecommunications (517) | 39,641 | 118,924 |
| Transit and ground passenger transportation (485) | 1,464 | 4,393 |
| Wholesale trade (42) | 1,104,830 | 3,314,489 |
| **All Industries** | **$35,656,088** | **$106,968,263** |

**Source:** Taxation

* For purposes of entering compensation into the REMI Tax-PI model, all compensation is assumed to be associated with the "Motion pictures and sound recording industry (NAICS Code 512)." The amount spent on compensation is reported in the schedule of certified production expenses provided by each recipient firm, but detailed employee-level information is not available from this source.

† ORA adjusted the industry specific amounts submitted by the production company via the accountant certified documentation using a ratio of the final credit amount approved by Taxation to the credit amount submitted by the production company.

A significant conclusion from the spending profile of MPPTC recipient projects issued in tax years 2019 through 2021 is the high proportion of labor costs and low proportion of capital investment. According to the standard industry assumptions included in the REMI Tax-PI[16] model based on US Bureau of Economic Analysis (BEA) input-output data, $1.00 of motion picture and sound recording industry output consists of $0.34 of intermediate inputs, $0.24 of labor, and $0.42 of capital investment in an average year 2019 through 2021. In comparison, $1.00 of certified spending on MPPTC recipient projects consists of $0.12 of intermediate inputs, $0.15 of capital investment, $0.74 of labor, and an insignificant amount of spending on fuel.

The small amount of capital investment can be explained by the fact that some of the MPPTC recipient firms are short-term entities incorporated by out-of-state production firms for the length of the production and lacking a substantial physical presence in the state. These are the types of

[16] Detailed documentation on the REMI Tax-PI v3.0.0 model is available at: https://www.remi.com/wp-content/uploads/2022/08/Tax-PI-Users-Guide.pdf?_t=1661353571

firms that account for a larger portion of the credit dollars included in this analysis. However, these firms do not make typical capital investments such as owning or renting real estate for offices and production space. Furthermore, to the extent that firms with a significant, long-term physical presence in Rhode Island do take advantage of the MPPTC, these firms' capital investments would not be associated with a single motion picture production and therefore would not be eligible to be considered certified production expenses for the purposes of the MPPTC. In this way, the MPPTC is not well-designed to promote capital investment.

## 3. Cost of Administration

The administration of the MPPTC program involves both the RIFTVO and Taxation. Using data provided by the two agencies, ORA found that the total cost to administer the tax credit was $219,916 in tax years 2019 - 2021. The total direct cost incurred by RIFTVO in tax years 2019-2021 to administer the MPPTC was $45,000 while the indirect costs incurred by Taxation to administer the tax credit were $174,916 for the same period. ORA notes that RIFTVO cost of administration of this program has not changed for the past several years and that the costs to RIFTVO to administer the MPPTC program makeup 5% or less of its overall budget each year. The table below displays the cost of administration of the MPPTC program in each tax year:

**MPPTC:**

**Cost of Administration by Office and Tax Year**

(Tax Years 2019 – 2021)

| Cost-Incurring | Cost of Administration | | | | |
|---|---|---|---|---|---|
| **Entity** | **TY19** | **TY20** | **TY21** | **Total** | **Average** |
| Taxation | $14,501 | $50,695 | $109,720 | $174,916 | $58,305 |
| RIFTVO | $15,000 | $15,000 | $15,000 | $45,000 | $15,000 |
| **Total Cost** | **$29,501** | **$65,695** | **$124,720** | **$219,916** | **$73,305** |

**Source:** Taxation and RIFTVO.

## 4. Number of Aggregate Jobs and Direct Taxes Paid by MPPTC Recipients' Employees

While RI Form 8201A, *Motion Picture Production Company Tax Credits – Annual Employee Report* was meant to provide the data necessary to analyze employment and wage information, the requirements and timing of the report coupled with non-compliance resulted in a lack of usable data. In an effort to capture the economic impact as it relates to wages and employment, ORA requested that Taxation provide all wage and employment information regardless of if the employees were of the production companies or other companies.[17] This report marks the first time ORA has received this level of data.

For some of the productions analyzed in this report, Taxation was able to identify production workers and provide information on the hours they worked and the wages they received. For those where hours worked were not available, ORA assumed that those employees worked the entire

[17] The vast majority of the jobs were workers that were not paid with a year-end W-2 form.

time of the production. Given that motion picture employment is often limited to the short duration of a production, employment indicators designed with a traditional 52-week, 40-hour workweek are inappropriate. For this reason, ORA used the data provided by Taxation and calculated the total hours worked by these individuals across all productions and converted it to full-time equivalent (FTE) jobs.[18] For example, the MPPTC projects that received the credit in TY 2019 had individuals that worked 438,564 hours in total which yielded 211 FTEs (i.e., 438,564÷40÷52).

The following table and statistics include data only on production companies that had workers and wage information:

**FTE Count and Wages Paid at MPPTC Recipient Firms**

(Tax Years 2019 – 2021)

| | TY19 | TY20 | TY21 | Total | Average |
|---|---|---|---|---|---|
| FTEs Count* | 211 | 36 | 158 | **405** | **203** |
| Wages Paid | $46,629,636 | $7,872,431 | $16,351,354 | **$70,853,421** | **$35,426,711** |

**Source:** Taxation
**Note: *** ORA would like to emphasize that FTEs count should not be confused with the number of individuals that worked for the MPPTC projects.

Taxation provided ORA with data on personal income tax (PIT) paid by these workers for tax years 2019 through 2021. The following table describes the breakdown of this information by taxpayer's residency status.

[18] This assumes a standard 40-hour work week and 52 weeks in a year.

**MPPTC:**
**Personal Income Taxes Paid by Workers of Recipient Firms**
(Tax Years 2019 – 2021)

| | TY 2019 | TY 2020 | TY 2021 | Total | Average |
|---|---|---|---|---|---|
| ***RI Residents*** | | | | | |
| Count of FTEs | 86 | 14 | 38 | **138** | **46** |
| Taxes Paid * | $138,169 | $10,118 | $123,327 | **$271,614** | **$90,538** |
| *% of the Total* | *56%* | *85%* | *67%* | ***62%*** | ***62%*** |
| ***Non-Residents*** | | | | | |
| Count of FTEs | 95 | 19 | 103 | **217** | **72** |
| Taxes Paid * | $108,602 | $1,718 | $59,450 | **$169,770** | **$56,590** |
| *% of the Total* | *44%* | *15%* | *33%* | ***38%*** | ***38%*** |
| ***N/A †*** | | | | | |
| Count of FTEs | 30 | 3 | 17 | **50** | **17** |
| Taxes Paid * | | | N/A | | |
| *% of the Total* | | | N/A | | |
| ***Total*** | | | | | |
| Count of FTEs | 211 | 36 | 158 | **405** | **135** |
| Taxes Paid * | $246,771 | $11,836 | $182,777 | **$441,384** | **$147,128** |

**Source:** Taxation

**Note:**
ORA would like to emphasize that FTEs count should not be confused with the number of individuals that worked for the MPPTC projects.

† N/A: Not Available. These individuals did not have taxation records in the reporting period.

* Taxes paid are estimated by Taxation using Fed AGI minus "Property Tax Credit" minus "RI Earned Income Credit" minus "Lead Paint Credit" if applicable. It should be noted that when Fed AGI is higher than wages derived from the tax incentive, the taxes paid are apportioned using the ratio of those wages to the total reported Fed AGI.

## 5. Direct Taxes Paid by MPPTC Recipients

To maintain taxpayer confidentiality, Taxation is unable to disclose taxes paid by MPPTC recipient firms by tax year because of the small number of MPPTC recipients in any given tax year. However, according to Taxation, the entities receiving MPPTC during tax years 2019, 2020, and 2021 filed 14 tax returns and paid a total of $147,000 in Rhode Island corporate taxes. Eleven of those reported that they paid the minimum fee of $400.

## 6. Measuring the Extent to which MPPTC Benefits Remained in the State

It is a requirement of the MPPTC that all certified production expenses must consist of purchases from in-state vendors and compensation paid to individuals for services provided in the state. The breakdown of purchases from in-state vendors vs. compensation to individuals is as follows:

**MPPTC:**
**Breakdown of Expenses Paid to In-State Vendors vs. Compensation**
(Tax Years 2019 – 2021)

| Category | TY 19 | TY 20 | TY 21 | Total | Average Amount | Average Percent |
|---|---|---|---|---|---|---|
| In-State Vendors | $17,013,640 | $3,301,772 | $7,367,864 | $27,683,277 | $9,227,759 | 26% |
| Compensation | $49,886,683 | $9,191,298 | $20,207,006 | $79,284,987 | $26,428,329 | 74% |
| **Total Cost** | **$66,900,323** | **$12,493,070** | **$27,574,870** | **$106,968,263** | **$35,656,088** | **100%** |

**Source:** Taxation

The amount of certified production costs paid to in-state vendors can be assumed to have been paid entirely to Rhode Island firms, but the portion spent on compensation was paid to a mixture of Rhode Island residents and out-of-state residents. Labor compensation by MPPTC recipient projects would be most impactful to the Rhode Island economy if it were paid to Rhode Island residents, whose households would then recirculate the income throughout the economy. However, there is no requirement in the MPPTC statute or accompanying regulations that certified production expenses on labor be confined to Rhode Island resident employees.

ORA was able to conduct an analysis by state of residency on workers of the productions for which Taxation had identified employment and wage-level data. This data provides information on hours worked, state of residency, and total wages paid by the MPPTC recipients. ORA divided the employees into groups by place of residency. Detailed analysis is provided in the following table.

**MPPTC:**
**FTE Count and Compensation Paid at MPPTC Recipient Firms**
(Tax Years 2019 – 2021)

| | TY 2019 | TY 2020 | TY 2021 | Average |
|---|---|---|---|---|
| ***RI Residents*** | | | | |
| Count of FTEs | 86 | 14 | 38 | **46** |
| *% of the Total* | *41%* | *39%* | *24%* | ***35%*** |
| Compensation | $14,514,871 | $2,515,997 | $2,953,450 | **$6,661,439** |
| *% of the Total* | *31%* | *32%* | *18%* | ***28%*** |
| ***Non-Residents*** | | | | |
| Count of FTEs | 95 | 19 | 103 | **72** |
| *% of the Total* | *45%* | *53%* | *65%* | ***54%*** |
| Compensation | $21,966,522 | $4,862,184 | $7,014,141 | **$11,280,949** |
| *% of the Total* | *47%* | *62%* | *43%* | ***51%*** |
| ***N/A †*** | | | | |
| Count of FTEs | 30 | 3 | 17 | **17** |
| *% of the Total* | *14%* | *8%* | *11%* | ***11%*** |
| Compensation | $10,148,243 | $494,250 | $6,383,764 | **5,675,419** |
| *% of the Total* | *22%* | *6%* | *39%* | ***22%*** |
| ***Total*** | | | | |
| Count of FTEs | 211 | 36 | 158 | **135** |
| Compensation | $46,629,636 | $7,872,431 | $16,351,355 | **$23,617,807** |

**Source:** Taxation

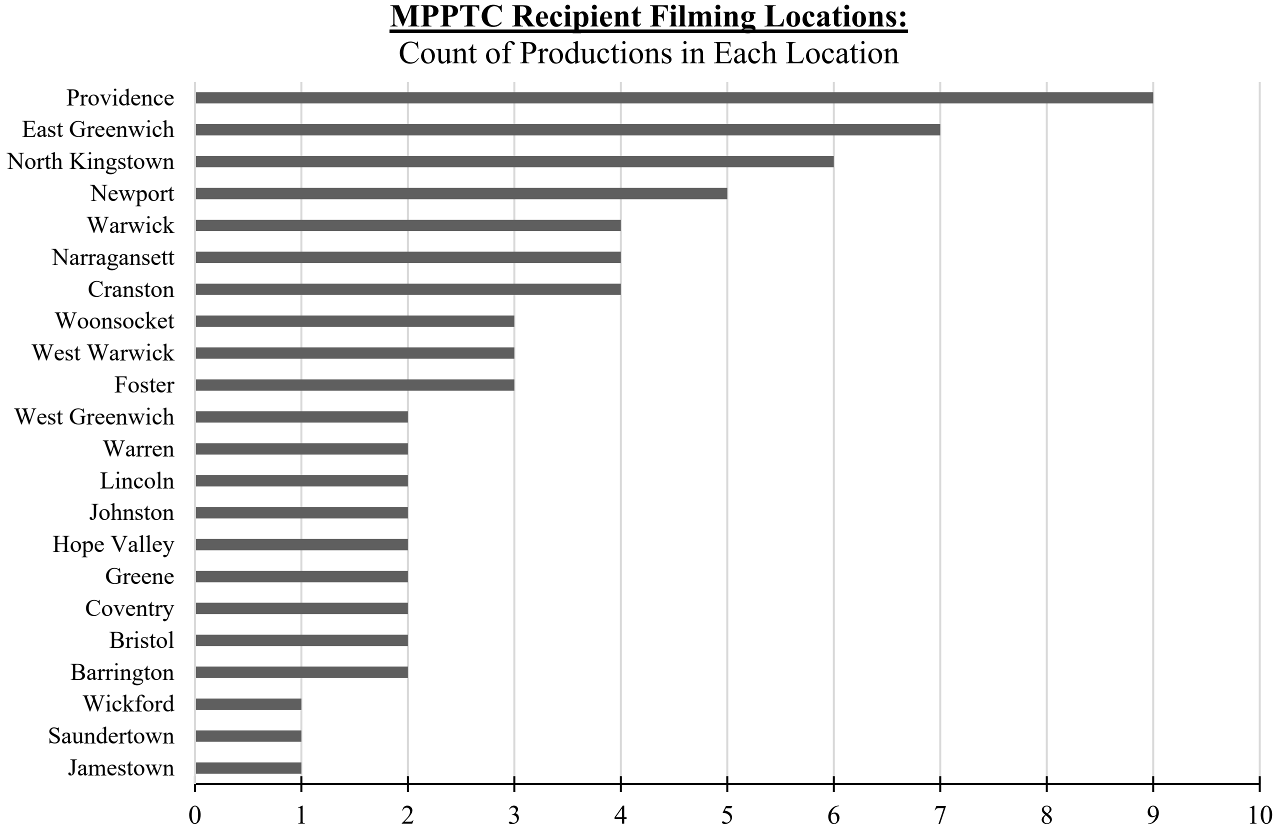
**Note:**

† N/A: Not Available. The residency status of these individuals could not be identified based on available records.

The data presented in the preceding table indicates that 72 or 54% of the workers are individuals that reside outside of Rhode Island that were paid 51% of the total compensation in an average tax year 2019-2021.

Additionally, ORA examined the geographic distribution of the production activity generated by the 14 motion picture productions that took place within the state for the applicable period. According to information from the "Motion Picture Production Tax Credit Information Request Form" that was provided by the RIFTVO, all 14 productions were filmed in multiple locations in Rhode Island. ORA summarized the geographic locations that were listed by the MPPTC recipients on that form and calculated the number of productions that were filmed in each location:[19]

[19] Geographic locations are as listed by MPPTC recipients in their information request form.




**Source:** ORA's calculation based on information from "Motion Picture Production Tax Credit Information Request Form" as provided by the RIFTVO.

## 7. Additional Data to Support the Evaluation of the MPPTC Program

- *Featuring Rhode Island*

According to RIFTVO, all 14 productions analyzed were filmed in Rhode Island and four of them had a storyline that explicitly referenced Rhode Island.

- *Educational Curricula and Labor Force Training Programs*

ORA requested data from RIFTVO regarding the offering of educational curricula and labor force training programs by MPPTC recipients. Specifically, ORA requested page four of the "Final Application" for Motion Picture Production Tax Credits which contains the questions:

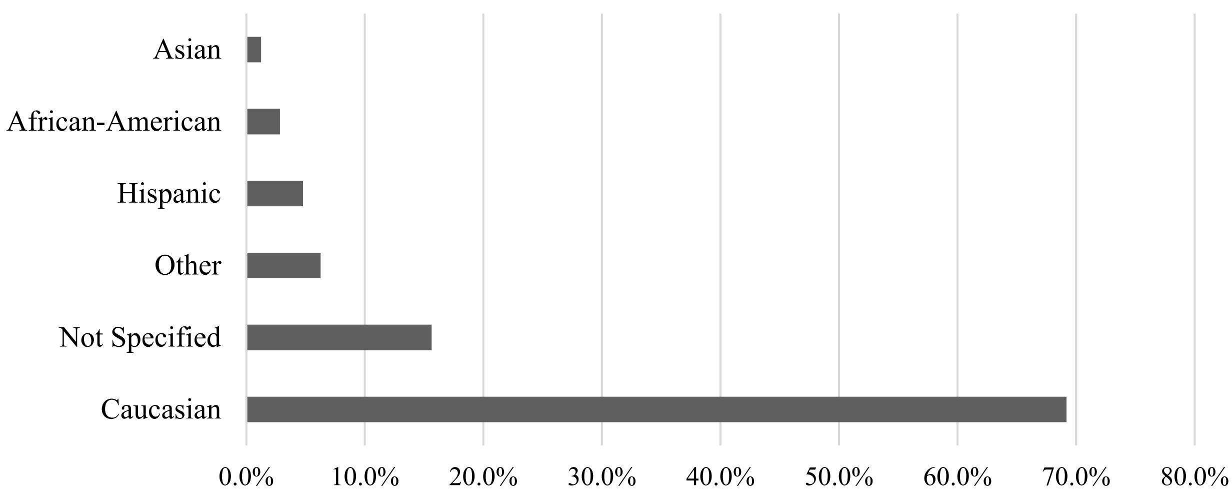
- "INTERNSHIPS: Briefly describe or attach additional information on your participation in internship programs offered by Rhode Island colleges, universities, labor organizations and non-profit organizations associated with the motion picture industry:"
    - "Number of Interns:"
- "TRAINING PROGRAMS: Briefly describe or attach additional information on your participation in training programs offered by Rhode Island colleges, universities, labor organizations and non-profit organizations associated with the motion picture industry:"

- o "Number of Training Program Participants:"

RIFTVO provided copies of the completed applications. In the application, the productions reported the number of interns and people participating in training programs as well as a description of any internship or training programs they offered. Of the 14 productions that received MPPTC, 12 of them hired interns, for a total of 83 interns across all productions. Most of these productions indicated that "interns were given the opportunity to assist from ground up, which included work in pre-production and assisting on film set. Interns attended meetings with producers, directors, coordinators in the weeks leading up to the movie." In addition, three of the 14 productions indicated that they had people participating in a training program, totaling 86 trainees across all productions.

The RIFTVO also provided information on the diversity of the individuals that worked for the 14 MPPTC projects analyzed in this report. Sixty-six percent of the individuals were male and 34% were female. The following chart shows the diversity of all of the people that worked at these productions:

**Diversity of MPPTC Recipient Workers:**




**Source:** ORA's calculation based on information from the "Diversity Goals Tracking Sheet" documents provided by the RIFTVO.

- *MPPTC Transferred Amounts*

According to R.I. Gen. Laws § 44-31.2-9, motion picture production companies are allowed to transfer or sell the MPPTC amounts they earned to other Rhode Island taxpayers following certain conditions.[20] Based on data provided by Taxation, 100% of the MPPTC amounts analyzed in this report were transferred or sold to other companies. In other words, none of the credit amounts earned were applied by the motion picture production companies to their income tax liabilities.

[20] Details on these conditions are explained under http://webserver.rilegislature.gov//Statutes/TITLE44/44-31.2/44-31.2-9.htm

The table below provides a breakdown of tax types against which the MPPTC amounts were assigned to be used by the transferees.

**Breakdown of MPPTC used by Transferees by Tax Type**

(Total Tax Years 2019-2021)

| Tax Type | Percent |
|---|---|
| Corporate Tax | 55% |
| Insurance Tax | 22% |
| Financial Institutions Tax | 15% |
| Personal Income Tax | 8% |
| **Total** | **100%** |

**Source:** Taxation

**Note:**

This table is reporting the percent of credits that were assigned to a taxpayer other than the MPPTC companies included in this report.

• This is not indicative of if the credit amount was used or not.

• The tax type breakdown is based on the tax type that was specified at the time of the credit issuance.

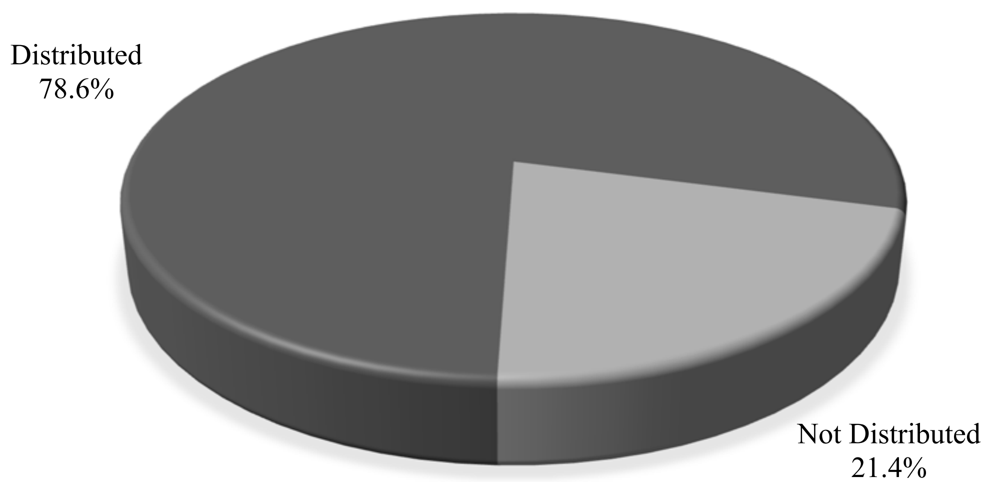
R.I. Gen. Laws § 44-31.2-9(a)(2) indicates that Taxation should collect a processing fee of up to $200 per transferee and deposit that amount as general revenues. The total amount of processing fee that was collected by Taxation for the productions that were sold or transferred in tax years 2019-2021 was $3,200.

- *Distributed Productions*

According to R.I. Gen. Laws § 44-31.2-2(7) "Motion picture" means a feature-length film, documentary production, video, television series, or commercial made in Rhode Island, in whole or in part, for theatrical or television viewing or as a television pilot or for educational distribution. In addition, under the definition of "State-certified production" pursuant to R.I. Gen. Laws § 44-31.2-2(11) the RIFTVO is required to approve those motion picture productions that have either a signed viable distribution plan or is producing the motion picture for a major motion picture distributor, a major theatrical exhibitor, a television network, or a cable television programmer. It is the responsibility of the RIFTVO to confirm the distribution plan or criteria prior to approving a film production.

The distribution of motion picture productions refers to the process of making these productions available to the public using different channels such as theaters or streaming services. Using the names of MPPTC recipient projects analyzed in this report, ORA found that some of them were not distributed for public showings:

**<u>Distributed MPPTC Projects</u>**
(Tax Years 2019 - 2021)




**Source:** ORA's Research

# Part IV: Evaluation of the Economic Impact of the Tax Credit

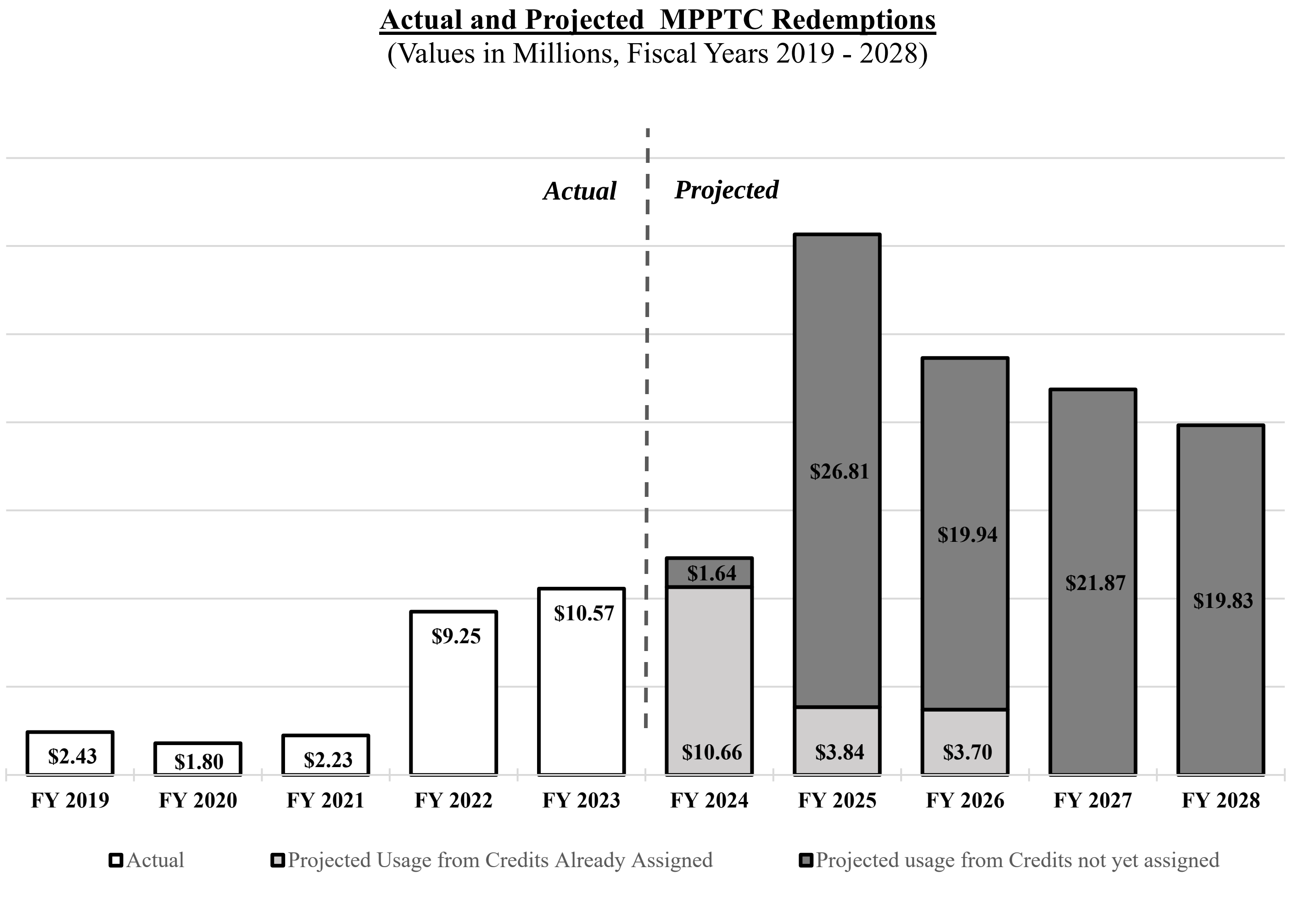
This section of the report addresses two major objectives defined in R.I. Gen. Laws § 44-48.2-5: first, to provide a projection of the potential impact of the Motion Picture Production Tax Credit on state revenues from projected future use and carryforward amounts of unused credits; and, second, to produce a breakeven cost-benefit analysis that can determine the net impact on state revenues resulting from the tax incentive.

## 1. Assessment and Five-Year Projection of Revenue

Current law includes a sunset of the MPPTC program, stating that no new credits shall be issued on or after July 1, 2029, unless a production has received approval prior to that date. However, it is anticipated that redemption activity will continue beyond this date as redemption of tax credits may not occur immediately following issuance. Redemption of credits under current law is limited to a tax credit certificate holder's tax liability. Unused credits are transferrable and eligible to be carried forward to be used against future tax liabilities. Carrying forward of tax credits is limited to an additional three years following the year in which the credit was earned.

In constructing a projected schedule of credit redemptions, ORA analyzed historic data on credit redemption by year of initial credit certification and assignment of an identification number by RIFTVO. ORA assumes that the redemption of MPPTC under current law will follow historical redemption patterns. ORA assumed the total amount of credit that would be issued in each future calendar year is equal to $20 million, the maximum amount of credit allowed to be issued annually under current law, except for 2023 and 2024 where the credit is capped at $40 million.

The following chart describes historical credit redemption amounts, shown in white, from FY 2019 through FY 2023, with a five-year projection of credit redemptions shown in shades of gray. The light gray shaded regions in the chart below represent credits that had already been assigned at the close of CY 2023 as they are projected to be redeemed over the next several fiscal years. The dark gray shaded region refers to future credits assumed to be assigned in the amount of the total cap as described before.




**Source:** ORA calculations based on credit assignment data from RIFTVO testimony and credit redemption data from Taxation testimony provided at the May 2024 Revenue Estimating Conference (REC).

## 2. "Breakeven" Cost-Benefit Analysis

- *Introduction to "Breakeven" Cost-Benefit Analysis Methodology*

Pursuant to R.I. Gen. Laws §§ 44-48.2-5(a)(6)(i)-(ii), ORA conducted a "breakeven" cost-benefit analysis to measure the net impact on state revenues resulting from the MPPTC under a variety of assumptions regarding what would have happened in the Rhode Island economy if the credit had not been available. To provide additional insight, ORA also produced breakeven analyses with respect to economy-wide Rhode Island employment and Rhode Island gross domestic product (RI GDP).

To execute these cost-benefit analyses, ORA utilized Regional Economic Models, Incorporated's (REMI) 70-sector model of the Rhode Island economy via the REMI Tax-PI software platform to produce estimates of the total economic effects of the tax credits issued in tax years 2019 through

2021.[21] The dynamic capabilities of the REMI Tax-PI model allows one to estimate the impacts of exogenous shocks to the state's economy, including changes to public policy, shifts in consumer behavior and demand, and developments in industry. The REMI Tax-PI platform operationalizes these insights by augmenting REMI's base economic and demographic model, PI+, with a module that allows the user to enter a state's customized budget, to run fiscal and economic forecasts. Specifically, for each budget item, one can choose an "Indicator," which is the economic or demographic driver of that budget item (e.g., personal income for personal income tax revenue, or age 5-18 population for K-12 education spending), and a "Policy Variable," which is the economic or demographic change associated with a change to the structure of that budget item (e.g., a change in consumer prices for a change in the sales tax).

The "breakeven" approach developed for this report allows a reader to assume that the MPPTC leveraged various levels of economic activity required of recipient firms to receive a tax credit. This assumption means that some varying portion of the economic activity required of recipient firms to receive a tax credit would not have occurred in the absence of the MPPTC program. Under this assumption, firms made some portion of their long-term production decisions based on the availability of a tax incentive over time, and removal of that tax benefit in a particular year would undo all such decisions.

- *Modeling Costs*

ORA assumed that the tax incentive is funded by an equivalent reduction in state government spending – that is, when the state government forgoes revenue by allowing a tax credit, there are fewer funds available for other spending priorities. ORA modeled these adjustments based on a comprehensive historical analysis of Rhode Island general fund expenditures for fiscal years 2019 through 2021. ORA compiled all state general fund expenditures and assumed that the level of these expenditures could be adjusted to maintain a balanced general fund budget. The breakdown of general fund expenditures by category is shown in the following table:

[21] Detailed documentation on the REMI Tax-PI v3.0.0 model employed in this analysis is available at: https://www.remi.com/model/tax-pi/

**Rhode Island General Fund Expenditures by NAICS**
(Average FY 2019-2021)

| Industry Description | NAICS Code | Percent of Total |
|---|---|---|
| Ambulatory Healthcare Services | 621 | 36.6% |
| Educational Services | 61 | 30.3% |
| State Wages | n/a (Entered as “state/local govt. compensation” and “employment”) | 24.3% |
| Local Government Spending | n/a (Entered as “state/local govt. spending”) | 3.5% |
| Social Assistance | 624 | 2.0% |
| Administrative and Support Services | 561 | 1.8% |
| Professional, Scientific, and Technical Services | 54 | 1.8% |
| Repair and Maintenance | 811 | 1.3% |
| Wholesale Trade | 42 | 1.0% |
| Remaining Industries | | 2.3% |
| | **Total:** | **100.0%** |

**Source:** ORA analysis of Rhode Island general fund expenditure data.

- *Modeling Benefits*

The cost-benefit methodology employed by this report assumes that the availability of the MPPTC resulted in an increase in motion picture industry output. employment, and compensation. In this way, the primary benefits associated with the MPPTC program are the number of FTEs added by the MPPTC-recipient firms, the direct wages they received, and the spending by the MPPTC recipients on goods and services from local vendors. The REMI Tax-PI model also allows for estimation of the indirect and induced impacts resulting from the increase in motion picture industry output increasing household income and increasing output in firms involved in the motion picture industry supply chain. ORA reviewed the certified production expenses and the wage and employee information available from Taxation, categorized this information into a coherent set of policy variables suitable for use with the REMI Tax-PI model, and made adjustments intended to capture the extent to which benefits remained in state consistent with R.I. Gen. Laws §44-48.2-5(a)(8).

One such data adjustment intended to account for spending that flowed outside the state was an adjustment for wages paid to highly paid out-of-state employees. To account for spending that flowed outside the state, an adjustment was made for wages paid to highly paid out-of-state employees. ORA excluded all non-resident "above-the-line" FTEs and their compensation from the cost-benefit analysis and included all "below-the-line" FTEs and their compensation in addition to all resident "above-the-line" FTEs and their compensation. The practice of dividing motion picture FTEs and wages into "above" and "below the line" categories for purposes of conducting a cost-benefit analysis is a standard practice employed by several studies that analyzed the impact of film tax credits. For example, the study by Industrial Economics Incorporated (IEc) commissioned by the Newport County Development Council also excluded above-the-line compensation.

- *The "Breakeven" Approach*

A fundamental challenge in evaluating economic development tax incentives is determining the extent to which a tax incentive stimulated or attracted new economic activity rather than subsidized economic activity that would have been largely present even in the absence of the tax incentive. On one hand, the availability of a tax incentive might have a decisive influence on a firm's production decision. In this case it might be appropriate for an evaluator to attribute all the firm's economic activity to the incentive. On the other hand, an incentive program may simply reward or subsidize behavior that likely would have occurred anyway. In this case the tax credit might have an impact on a firm's marginal productivity, but it would be inappropriate to attribute the full economic activity of the firm solely to the availability of the tax incentive. Real world conditions often make it difficult or impossible for an evaluator to assess where on this continuum the impact of any given tax incentive falls.

In the case of the MPPTC program, the determination of the extent to which production activity would have taken place in the absence of the credit is further complicated by a lack of statutory clarity. For example, a common feature of an economic development tax incentive is a "but for" provision, whereby recipients attest that they would not have engaged in the underlying activity if the credit were not available, possibly with some amount of due diligence taking place to confirm this attestation during the application process. While it should be made clear that a "but for" provision does not represent sufficient evidence in and of itself that the incentive-related activity is net new to the state, its presence at least signals the intent of lawmakers that the credit ought to be awarded to projects that might not otherwise have been undertaken. However, the MPPTC is available to *all* motion picture productions meeting statutory requirements *regardless* of whether the production company had considered competitive out-of-state alternative locations or would have been unable to engage in production without the credit. Given the competitive nature of the motion picture industry and the wide availability of film tax credits across states, it is possible that some portion of MPPTC recipient productions would not have located in Rhode Island but for the availability of the credit. However, it would overstate the economic benefits of the MPPTC program to assume that all productions would not have occurred but for the availability of the incentive.

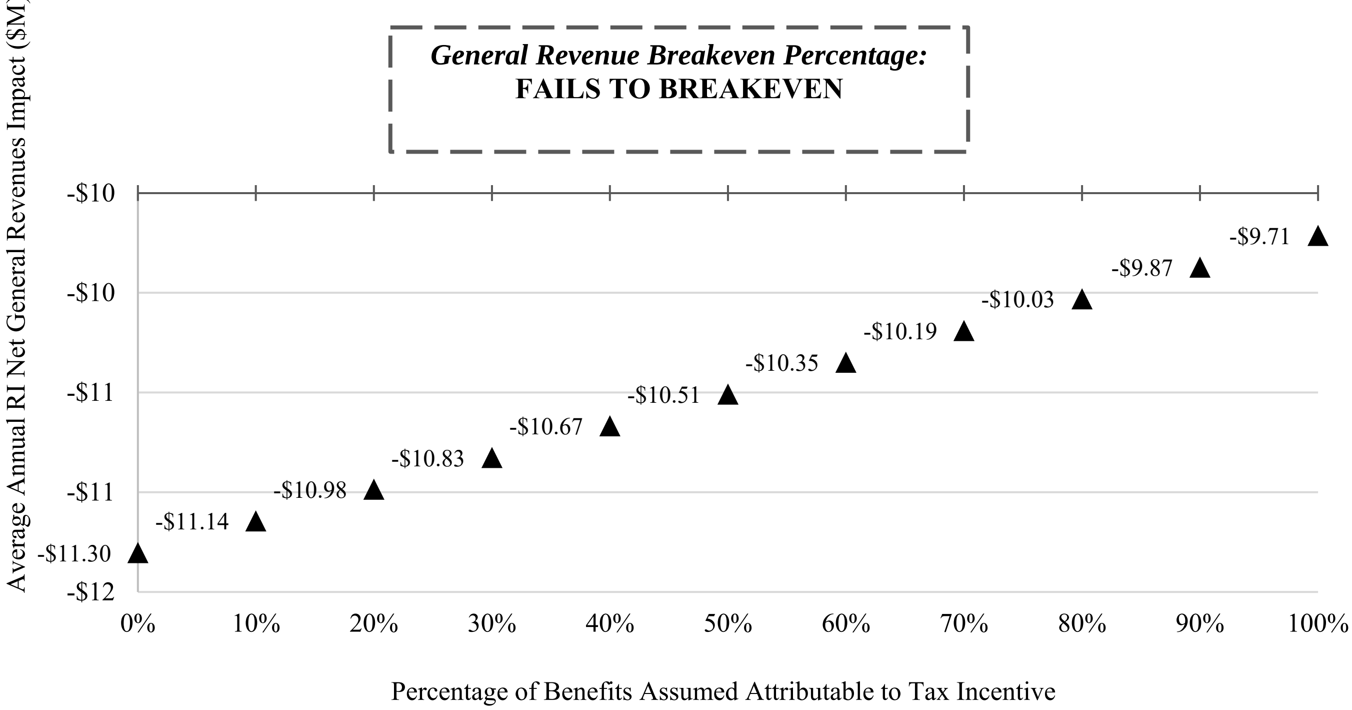
In this context, ORA conducted a breakeven analysis. This analysis allows for the evaluation of a tax incentive program's performance under a wide range of assumptions regarding the level of economic activity that would have taken place if the tax incentive had not been available. Furthermore, the breakeven analysis specifies the proportion of economic activity associated with the tax incentive program recipient that one must assume to have been attributable to the tax incentive program for the total benefits to equal its total costs, where benefits and costs are measured as the impact on state general revenues (i.e., the condition that must be satisfied for the incentive program to "pay for itself").

The breakeven percentage should be interpreted as follows: if the reader believes the assumption to be plausible, that at least the amount of economic activity implied by the breakeven percentage can be attributed to the availability of the tax incentive, then one can infer that the tax incentive has a net positive impact on state general revenues. In the opposite case, if the reader believes that the amount of economic activity attributable to the tax incentive was less than the level implied by the breakeven percentage, then one can infer that the tax incentive had a net negative impact on state general revenues. Holding other factors equal, a lower breakeven percentage is more desirable than a higher breakeven percentage if the goal of a tax incentive program is to cost the state as little revenue as possible.

A tax incentive program fails to breakeven, under any counterfactual assumption, when the breakeven percentage is greater than 100 percent. This implies that even if 100 percent of the economic activity associated with the tax incentive recipient was assumed to have taken place strictly because of the tax incentive's availability, a net negative impact on state general revenues would have resulted. Because breakeven percentages above 100 percent do not have a meaningful interpretation, under this outcome ORA simply publishes that the tax incentive program fails to breakeven.

The following chart provides results of the breakeven analysis with respect to Rhode Island net general revenues. Notice in the chart that as the percentage of economic activity attributed to the MPPTC increases, the net impact on State general revenues increases, but never becomes positive. That is, even if all the economic activity associated with motion picture productions that occur in Rhode Island only occur in the state because of the MPPTC, the return to the State in general revenues is less than the general revenues forgone by issuing the tax credit. Therefore, it can be said that the Motion Picture Production Tax Credits program "fails to breakeven" or, in other words, does not "pay for itself" via the increased economic activity associated with the tax credit.

**Motion Picture Production Tax Credits:**
**Rhode Island Net General Revenue Breakeven Analysis**
(Average Annual RI General Revenue Impact, Calendar Years 2019-2021)




**Notes:** Label accompanying each ▲ marker refers to the net general revenue impact associated with the percentage of economic activity that is assumed to be attributable to the tax incentive. The net general revenue impact is equal to the difference between state general revenues resulting from the direct, indirect, and induced economic impacts of the MPPTC and the direct cost in foregone revenue to the State.

**Source:** ORA calculations utilizing REMI Tax-PI

The following table provides more detailed information regarding the State net general revenue impact under the "best case" assumption that 100% of the economic activity associated with MPPTC recipient productions was "caused" by the credit.

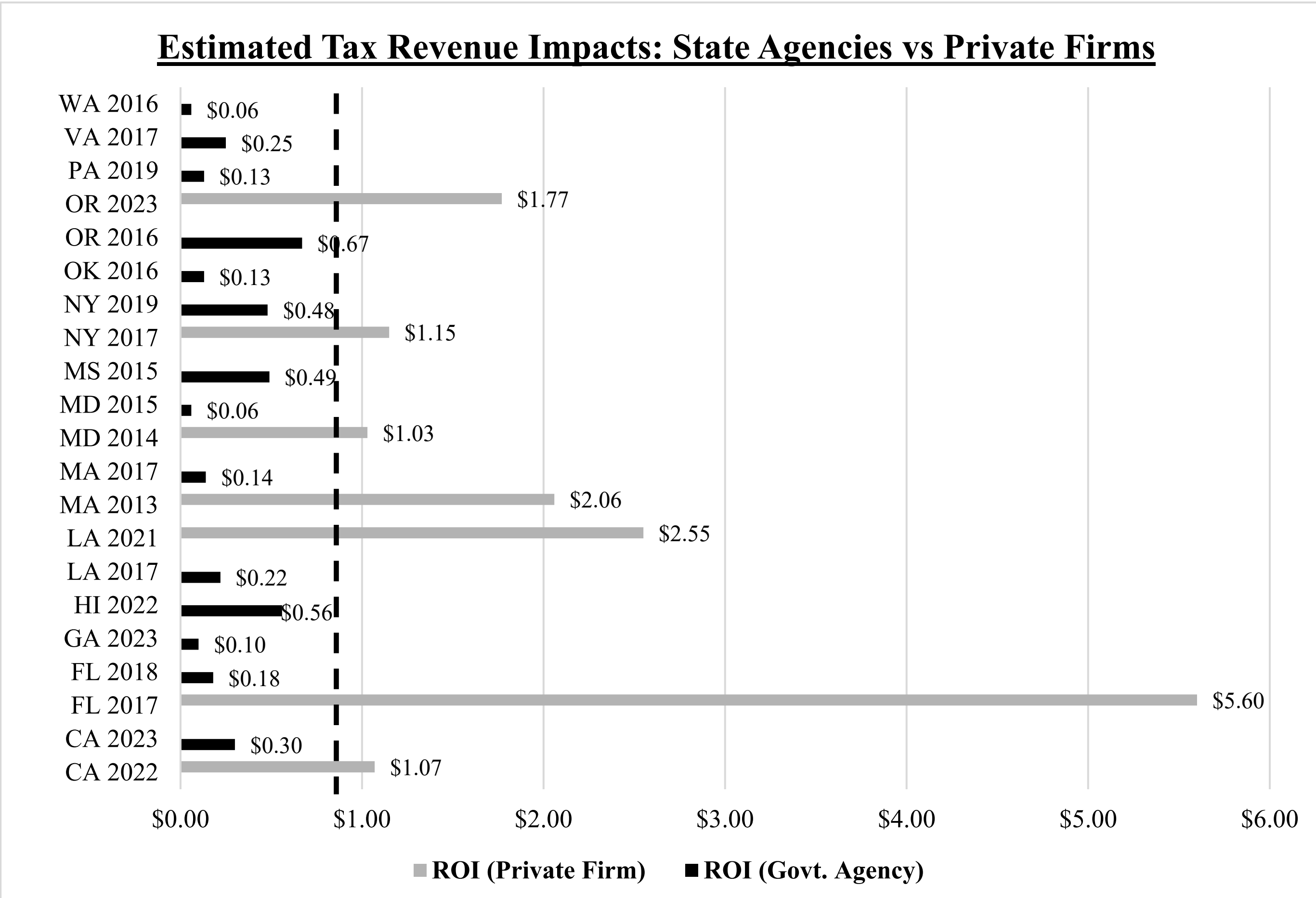
**"Motion Picture Production Tax Credits":**
**Detailed Net Revenue Impacts**
(Average Annual RI General Revenue Impact, Calendar Years 2019-2021)

| Item Description | | Amount |
|---|---|---|
| **Forgone Revenue Due to Incentive** | **$** | **(10,696,826)** |
| **Total General Revenue Generated by Incentive** | **$** | **984,522** |
| ***General Revenue Generated by Credit by Component*** | | |
| Personal Income Tax | $ | 384,660 |
| General Business Taxes | $ | 170,390 |
| Sales and Use Taxes | $ | 388,064 |
| Other Taxes | $ | 15,288 |
| Total Departmental Receipts | $ | 13,891 |
| Other Sources | $ | 12,229 |
| **Net Change in General Revenue, After Paying for Incentive** | **$** | **(9,712,304)** |
| **New Revenues Generated for Every Dollar of Incentive** | **$** | **0.09** |

**Source:** ORA calculations based on historical Rhode Island revenue amounts and REMI Tax-PI simulations
**Note:** Revenue impacts under the "best case" scenario that assumes 100% of economic activity associated with MPPTC program is attributable to the availability of the MPPTC.

The table above provides the REMI Tax-PI simulation results after removing the three-year average cost of $10,696,826 of the MPPTC program from the state government spending to account for the foregone revenue that the state undertakes due to the issuance of the MPPTC, and simultaneously adding the total production spending, FTEs, and wages gained by the state economy due to the availability of the MPPTC program.

These results indicate that, if all the production spending associated with the MPPTC program was "caused" by the tax incentive, then the economic activity associated with the MPPTC program generated a total $984,522 of state general revenues. The generated revenue of $984,522 does not account for the $10,696,826 cost of the tax incentive itself. To take into consideration the cost of the tax incentive, ORA subtracted the $10,696,826 average cost of MPPTC over tax years 2019 through 2021 from the $984,522 generated revenue. This is equal to an average annual net loss of $9,712,304 in general revenue. Expressed another way, for every dollar spent on the MPPTC the state generates nine cents of new revenue under the assumption that 100% of the productions spending would not exist in Rhode Island if not for the availability of the tax credit. This payback ratio shows that new revenues generated from MPPTC incentivized activity may help to mitigate costs of the MPPTC, but it is not enough for the tax credit to "pay for itself." Additional detailed revenue results from different percentage of assumed benefits attributable to the MPPTC program are provided in Appendix A. This return on investment (ROI) is in line with the ones found in several studies conducted by other states to estimate the fiscal and economic impacts from their film tax credits. The chart below is a summary of the studies that ORA reviewed:

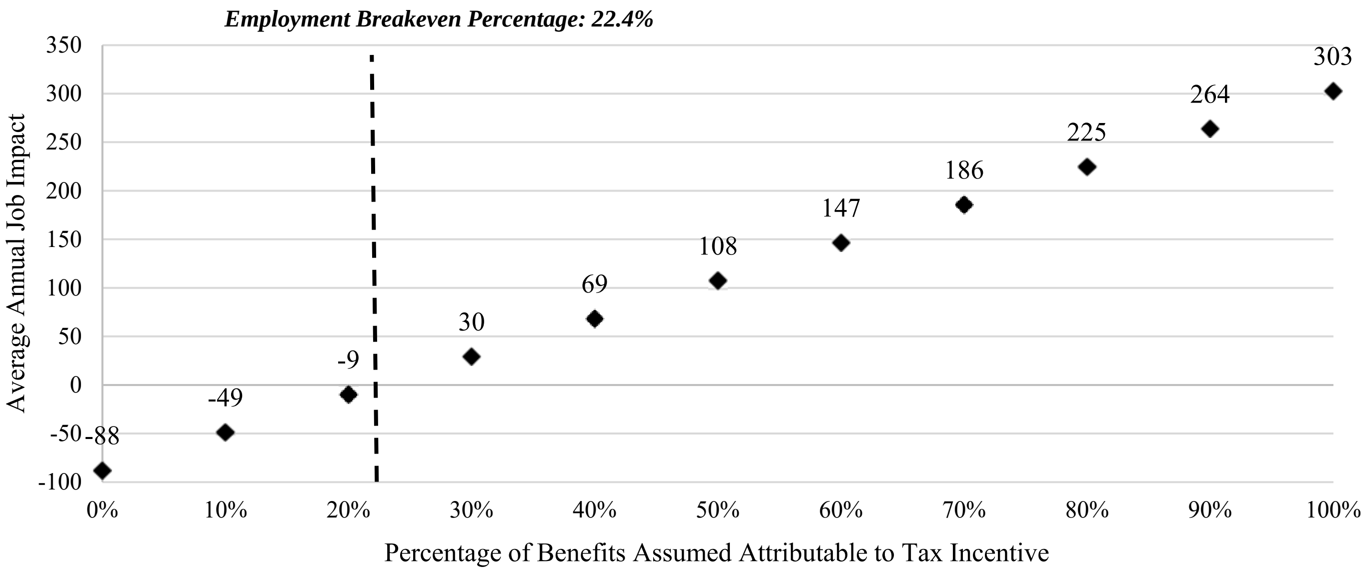



The chart indicates that the ROI estimates calculated by state government agencies ranged between $0.06 and $0.67 for every one dollar spend of the film tax credit. Studies conducted by private consultants calculated that new tax revenues generated by motion picture activity, ranged between $1.03 and $5.60 for every one dollar spend on the film tax credit.

The breakeven framework can also be extended to Rhode Island private non-farm employment, Rhode Island output and GDP. In these contexts, the breakeven percentage can be interpreted as the percentage of economic activity associated with MPPTC recipient firms assumed to be attributable to the availability of the tax credit necessary for the increase in total employment, output, or GDP resulting from new economic activity to outweigh the employment, output, or GDP losses resulting from the reduction in government spending necessary to fund the credit.

The following chart shows the results of a breakeven analysis with respect to Rhode Island employment.[22]

**Motion Picture Production Tax Credits:**
**Private Non-Farm Employment Breakeven Analysis**
(Average Annual RI Jobs Impact, Calendar Years 2019-2021)




**Notes:** Label accompanying each ◆ marker refers to net job impact resulting from a cost-benefit analysis assuming the associated percentage of benefits that are attributable to the tax incentive. Employment is equal to the employment impact resulting from the direct, indirect, and induced effects of the MPPTC in addition to the direct employment loss incurreed by the State.

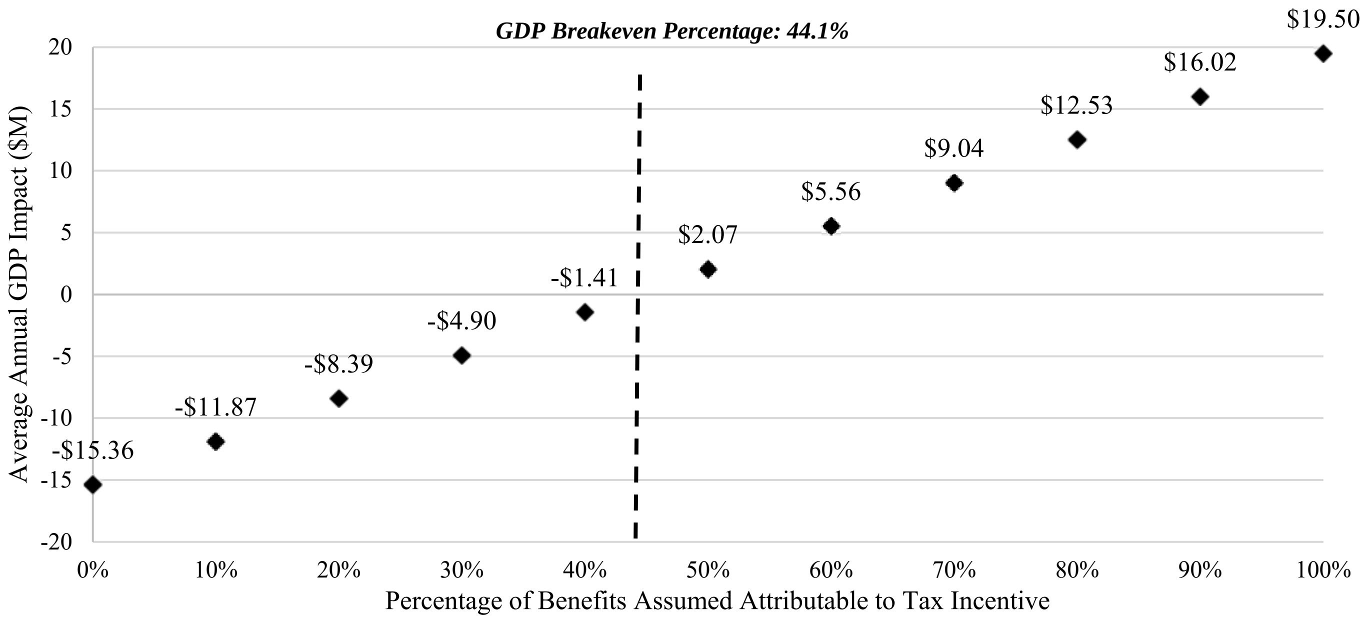
**Source:** ORA calculations utilizing REMI Tax-PI

The chart above shows the estimated new non-farm employment results for different scenarios on how much economic activity was caused by the MPPTC program. These results indicate that, under a best-case scenario, if 100% of economic activity associated with the MPPTC is attributable to the availability of the tax incentive, ORA estimated a net gain of 303 jobs in the state. Under the worst-case scenario, if the MPPTC economic activity would have taken place regardless of the availability of the tax credit, the estimated net loss is 88 jobs across the state economy. The breakeven point, where job losses from reduced state government spending are offset by employment gains due to the tax credit, is when approximately 22.4% of economic activity generated by firms receiving the MPPTC is caused by the tax incentive. In other words, non-farm employment breakeven percentage of 22.4% implies that the MPPTC has a net positive impact on employment if at least 22.4% of economic activity associated with the MPPTC recipients would not have occurred but for the availability of the tax credit. In addition, ORA decomposed the employment impact into government employment and private non-farm employment impacts. Appendix B shows the results of a breakeven analysis with respect to these types of employment.

[22] Employment represents the sum of private non-farm and government employment.

The following chart shows the results of a breakeven analysis with respect to Rhode Island gross domestic product (RI GDP).

**Motion Picture Production Tax Credits:**
**Rhode Island Gross Domestic Product (RI GDP) Breakeven Analysis**
(Average Annual RI GDP Impact, Calendar Years 2019-2021)




**Notes:** Label accompanying each ◆ marker refers to net RI GDP resulting from a cost-benefit analysis assuming the associated percentage of benefits that are attributable to the tax incentive. RI GDP is equal to the revenue impact resulting from the direct, indirect, and induced effects of the MPPTC in addition to the direct employment loss incurreed by the State.

**Source:** ORA calculations utilizing REMI Tax-PI

The chart above shows the estimated Rhode Island GDP results for different scenarios regarding how much economic activity was caused by the MPPTC program. These results indicate that, under a best-case scenario, if 100% of economic activity associated with the MPPTC is attributable to the availability of the tax incentive, ORA estimated a net gain of $19.50 million of GDP in the state. *This suggests that for every one dollar spent on the MPPTC program the state receives $1.82 of GDP*. Under the worst-case scenario, if the MPPTC economic activity would have taken place regardless of the availability of the tax credit, the estimated net loss is $15.36 million of GDP across the state economy. These GDP estimates reflect an assumption that Rhode Island forgoes state government spending to provide the tax incentive to eligible companies.

The break-even point, where GDP losses from reduced state government spending are offset by GDP gains due to the tax credit is when approximately 44.1% of economic activity generated by firms receiving the MPPTC is caused by the tax incentive. In other words, the Rhode Island GDP breakeven percentage of 44.1% implies that the MPPTC has a net positive impact on Rhode Island GDP if at least 44.1% of economic activity associated with the MPPTC recipient productions would not have occurred but for the availability of the tax credit.

Additionally, ORA estimated the impact of the MPPTC with respect to total state output. While GDP (also called value added) represents the sum of final goods and services produced within the economy, output adds to this sum the sum of intermediate inputs used to produce these final goods, which makes output larger than GDP. Under a best-case scenario, that is if 100% of economic activity associated with the MPPTC is attributable to the availability of the tax incentive, ORA estimated a net gain of $34.1 million of output in the state. *In other words, for every one dollar spent on the MPPTC program the state receives $3.19 of output*. Additional output results from different percentage of assumed benefits attributable to the MPPTC program are provided in Appendix A.

The fact that the MPPTC breaks even with respect to employment, output, and GDP but not with respect state general revenues means that it is possible for the MPPTC to increase employment, GDP and output in the state while still not generating sufficient tax revenue to "pay for itself." These findings are consistent with the analysis conducted by other public and private agencies. For example, a 2019 study titled "*Do Movie Production Incentives Generate Economic Development?*" published by economist J.C. Bradbury of Kennesaw State University, found that, nationwide, film incentive programs return an average of only 27 cents per dollar invested.[23]

- *Opportunity Cost*

The $32,090,479 of MPPTC used in tax years 2019-2021 reduced state government spending that could have been allocated to other programs/areas. This section estimates the opportunity cost of awarding the credit by modeling the increase in government expenditures that would have occurred if the credits were not awarded. While it is difficult to estimate the opportunity cost of a tax credit because it involves determining how the General Assembly would have spent those funds, it is reasonable to assume that, if the foregone revenue resulting from the tax credit issuance was made available, it will follow current actual state government spending. This opportunity cost is factored into the breakeven analysis outlined above and is described further here in order to give the reader a sense of how it impacts that analysis. The table below is a summary of economic and fiscal results from increasing state government spending by the average amount of MPPTC received in tax years 2019-2021:

[23] This study is available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3155407

**MPPTC Opportunity Cost Analysis**

Average Tax Year 2019-2021

| Result Category | Impact |
|---|---|
| **Economic Results** | |
| Total Employment | 189 |
| Private Non-Farm Employment | 88 |
| Government Employment | 101 |
| GDP ($M) | $15.4 |
| Output ($M) | $25.7 |
| **Fiscal Results** | |
| Total Revenues ($) | $606,234 |
| *Personal Income Tax* | $220,570 |
| *General Business Taxes* | $66,497 |
| *Sales and Use Taxes* | $239,837 |
| *Other Taxes* | $9,167 |
| *Total Departmental Receipts* | $37,313 |
| *Other Sources* | $32,849 |

**Source:** ORA calculations utilizing REMI Tax-PI

- *IEc Study*

Per a Newport County Development Council request, Industrial Economics Incorporated (IEc), an economic development consultant firm, conducted an impact analysis for two seasons of NOS4A2 television series. This included an assessment of tourism benefits associated with the historical drama television series named *The Gilded Age*.

In order to make an apples-to-apples comparison, ORA estimated the economic and fiscal impacts from *NOS4A2* (both seasons) spending activity using the same modeling approach described in previous sections. Based on data published by Taxation, the MPPTC amounts received by this production were $11,377,660 for season 1 and $11,472,127 for season 2 for a total of $22,849,787.[24] Similarly, the certified spending amounts were $37,925,533 for season 1 and $38,240,423 for season 2, with a total of $76,165,957. The following table compares the fiscal impacts generated by this production that were estimated by ORA to those estimated by IEc:

[24] This information is available in the "Tax Credit and Incentive Reports" published for FY22 & FY23 available at https://tax.ri.gov/guidance/reports/credit-programs/tax-credit-and-incentive-reports

**"NOS4A2, Seasons 1 & 2":**
**Comparison of Fiscal Impacts**

| Item Description | ORA | IEc |
|---|---|---|
| **Forgone Revenue Due to Incentive** | **$(22,849,787)** | **$(17,100,000)** |
| **Total Tax Revenue Generated by Incentive*** | **$1,979,280** | **$4,700,000*** |
| Personal Income Tax | $784,255 | N/A |
| General Business Taxes | 335,708 | N/A |
| Sales and Use Taxes | 792,167 | N/A |
| Other Taxes | 31,035 | N/A |
| Total Departmental Receipts | 19,207 | N/A |
| Other Sources | 16,909 | N/A |
| **Net Change in Tax Revenue, After Paying for Incentive** | **$(20,870,507)** | **$(12,400,000)** |
| **New Revenues Generated for Every Dollar of Incentive** | **$0.09** | **$0.27** |

**Source:** ORA calculations based on data from Taxation and REMI Tax-PI simulations and summary of the IEc study.
**Note:**
ORA revenue impacts reflect a “best case” scenario that assumes 100% of economic activity associated with MPPTC program is attributable to the availability of the MPPTC for this production.
*In the ORA results, this figure represents total general revenues. However, in the IEc study, this figure is a combination of state and local taxes.

An important fact to flag in these results is that the $4.7 million tax revenues estimated by IEc, as described in their report, represent all state and local taxes which include sales taxes, property taxes, motor vehicle taxes, corporate income taxes, and personal income taxes that were generated from production-related activities in the state. However, even after using this figure, the payback ratio is only 27 cents for every MPPTC dollar received by this production. In other words, the state loses 73 cents in tax revenues. This is in line with the findings of the current report and its previous versions.

In addition, ORA estimated the impact of the NOS4A2 production spending activity on employment, total GDP, and output. The following table compares the economic impacts estimated by ORA to those estimated by IEc:

**"NOS4A2, Seasons 1 & 2":**
**Comparison of Economic Impacts**

| Item Description | ORA | IEc |
|---|---|---|
| Forgone Revenue Due to Incentive (A) | $(22,849,787) | $(17,100,000) |
| Total GDP (Value Added) Generated by Incentive (B) | $35,045,914 | $65,000,000 |
| GDP (Value Added) Generated for Every Dollar of Incentive (B ÷ A) | $1.53 | $3.80 |
| Total Output Generated by Incentive (C) | $61,066,225 | $93,000,000 |
| Output Generated for Every Dollar of Incentive (C ÷ A) | $2.67 | $5.44 |
| Total Employment | 379 | 1,532 |
| *Private Non-Farm Employment* | *569* | *N/A* |
| *Govt Employment* | *-190* | *N/A* |

**Note:** ORA Economic impacts reflect a "best case" scenario that assumes 100% of economic activity associated with MPPTC program is attributable to the availability of the MPPTC.
**Source:** ORA calculations based on data from Taxation and REMI Tax-PI simulations and summary of the IEc study.

As the reader interprets the following comparative analysis and this larger report, ORA would like to note several key points:

- **Focus on state general revenues:** The *Rhode Island Economic Development Tax Incentives Evaluation Act of 2013* governing statute directs ORA to consider state revenue impacts, which ORA interprets as meaning state general revenue receipts and not local revenue.[25] Even though the cost-benefit analysis conducted in this report does not specifically report on the impact from local taxes, it is indirectly captured in the other economic metrics (i.e., employment and GDP) that are used to measure the performance of the tax incentive. For example, any certified production spending on accommodations is captured in the breakeven analysis and would impact the employment and GDP generated by the model (which then feeds into the calculation of general revenues).
    - The distinction between hotel taxes and other local taxes and general revenues is important. General revenues are revenues that can be appropriated for any general purpose the Rhode Island legislature deems important. In addition, a reduction in state general revenues is how the MPPTC program is paid for.[26] Hotel tax revenues are restricted to use by municipalities for general purposes, and to regional tourism bureaus and the Rhode Island Commerce Corporation for tourism promotion and business attraction.
- **Assessing if the program pays for itself:** ORA's evaluation provides a measure of the impacts resulting from the MPPTC program using three different metrics: general revenues, employment, and state GDP. However, when it comes to answering the question of whether this tax incentive paid for itself, the only relevant metric is general revenues. While there is no explicit requirement in law that this or any other tax incentive program pay for itself, the revenue benefits of the program are often cited by proponents. Sometimes, the general revenue metric and other metrics are used imprecisely: for

[25] For example, R.I. Gen. Laws § 44-48.2-5 directs ORA to assess a tax incentive by quantifying the "aggregate annual revenue that such taxpayers generate for the state."
[26] While there is not a specific spending line in the state budget, the state's biannual Revenue Estimating Conference factors MPPTC usage into the forecasts of state general revenues.

example, when citing that the IEc study showing that every $1 of tax credit yields $5.44, it is important to remember that this is a measure of output (the broadest possible measure of ROI) and not state general revenue.

- **The need to assess opportunity cost:** State and local governments undergo a decrease in their spending in order to fund tax incentives in exchange for certain economic and fiscal benefits. Therefore, an accurate evaluation of any tax incentive is one that draws a complete picture of the program's costs and benefits and thus ORA's analyses always take into consideration state revenue loss when estimating the impact of a tax incentive. This is considered a best practice in these types of evaluations.

A detailed explanation of the difference of the ORA results from the ones derived by IEc is provided in Appendix E.

ORA's analysis does not capture how the MPPTC program influences tourism in the state. Depending on the setting of the production, it is plausible that there is a positive benefit to the state's tourism industry from a film or television production receiving a tax credit. This benefit would seem more likely for a production set in Rhode Island (such as the Gilded Age television series set in Newport) rather than a production merely filmed in Rhode Island (such as Hocus Pocus 2, which is set in Salem, Massachusetts). ORA is unaware of any reliable data source or peer-reviewed studies that could be used to measure the impact of the MPPTC program on the tourism industry. A report from the Massachusetts Department of Revenue explains that such impact would rely heavily on several variables that are difficult to quantify.[27]

While the IEc study acknowledges that it is difficult to assess any tourism effect from the Gilded Age, their report estimates the exposure value of the Gilded Age.[28] The exposure value measures the cost that a tourism organization would have incurred to reach an audience through promotion and advertising. This concept is different from measuring the impact of the Gilded Age on the number of tourists that visited the state because of the series.

IEc follows an approach used by HR&A Advisors Inc, a consultant company, that was commissioned by the Motion Picture Association of America (MPAA) to conduct an economic impact analysis of the Massachusetts film tax credit in 2013. Using information on Massachusetts' top 20 highest-rated television shows during the 2011-2012 season, HR&A estimated an average 30-second advertising cost of $236,000, average views of 15.2 million, and an average cost of $0.015 per audience impression (i.e., $236,000 / 15,200,000). The IEc study multiplied the $0.015 figure by an estimated 3.0 million in average audience per Gilded Age episode to conclude that one episode of the Gilded Age has an exposure value of $45,000 (i.e., $0.015 * 3,000 000) for each distinct shot of Rhode Island. It should be noted that the Gilded Age viewership data source provided in the IEc study indicated that the 3.0 million viewers were from the series premiere. However, IEc assumed that the same viewers number applies to the other episodes.

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[27] See page 22 of this report: https://www.mass.gov/doc/dor-report-on-the-impact-of-massachusetts-film-industry-tax-incentives-through-calendar-year-5/download

[28] HR&A Advisors. Inc, full report is available at https://www.motionpictures.org/wp-content/uploads/2014/01/Economic-Impacts-of-the-Massachusetts-Film-Tax-Incentive-Program-.pdf

ORA believes that additional research is needed on this topic and an accurate assessment would likely require additional data collection (such as a survey of actual tourists). Finally, if tourism is the main goal of the MPPTC program, perhaps this tax credit should only be awarded to productions that include recognizable shots of Rhode Island.

# Part V: Discussion and Recommendations

## 1. Discussion of Data Concerns

As was the case for the previous evaluations of the MPPTC program,[29] the current evaluation has found significant non-compliance with data reporting requirements imposed on MPPTC recipient firms. Furthermore, even in instances in which firms have made good faith efforts to comply with data reporting requirements, submitted data may nevertheless be inconsistent or unreliable due to inappropriately structured data reporting procedures. A detailed description of data collection procedures is provided in Appendix C.

ORA has found that there is very limited compliance with the submission of RI Form 8201A. This form requires data from MPPTC recipients such as entity name, address, Federal Identification Number, total number of employees, and total payroll for the prior fiscal year as well as employee-level data including employee type (full-time, part-time, or seasonal), employee name, Social Security number, hourly wage, hours worked per week within Rhode Island, employee's state of residency, and whether or not the employee received health and/or pension benefits. A copy of the form is depicted in Appendix D.

A major cause of non-compliance with the required submission of RI Form 8201A relates to the timing of the data request as an "annual report" rather than a data submission due prior to the issuance of a tax credit certificate. Data from the Rhode Island Secretary of State Corporate Database suggest that most MPPTC recipient firms are single purpose corporate entities incorporated only for the purpose of a motion picture production.

While compliance with the filing RI Form 8201A is legally required per R.I. Gen. Laws § 44-31.2-6.1(h), there are no specified consequences for MPPTC recipient firm for non-compliance. Furthermore, the short-term nature of the existence of typical MPPTC recipient firms means that any sanctions for non-compliance, if they did exist, might be ineffective as they would take place after the production had been completed and in many cases after the production company had been dissolved or abandoned.

Even among firms complying with all data reporting requirements, including the submission of RI Form 8201A, there were significant quality issues associated with the data that was submitted. Employment counts and compensation information listed on reporting forms frequently do not match between various data collection sources. For example, an informal definition of "employee" might include all personnel engaged for hire in the motion picture production, which might include personnel such as vendors and contractors who are indirectly paid by the production company. Further, the definition of "employee" might be defined as only those individuals meeting the

[29] Previous reports can be accessed at https://dor.ri.gov/revenue-analysis/reports

Internal Revenue Service definition of employee for whom a Form W-2 and personal income tax withholdings are typically filed. For purposes of conducting a tax incentive evaluation, any one of these definitions might be sufficient, provided the information was reported clearly and consistently across data sources. However, characterizations such as "full time" "part time" and "seasonal" are subjective unless the meanings of the terms are properly defined.

Even when data was available, lack of clear guidance and definitions on RI Form 8201A makes the data insufficient for purposes of tax incentive evaluation. RI Form 8201A, for example, does not provide information regarding total length of employment or total wages paid per employee as these items are not required by statute.

In addition, RI Form 8201A would be the primary data source to comply with the requirement under R.I. Gen. Laws § 44-31.2-6.1(d). In this section of the statute, an analysis of MPPTC recipients' employees receiving RIte Care RIte Share benefits is required to be completed by the RIFTVO with the assistance of the MPPTC companies, the Department of Labor and Training, the Department of Human Services, and the Division of Taxation. Such analysis should be done annually and should be posted on Taxation's website to be available to the public. ORA was unable to find that such an analysis has been completed for any of the recipients of the MPPTC. Furthermore, Taxation has indicated that no report or request for information was received from the RIFTVO with regard to this reporting requirement.

## 2. ORA Recommendations

**Finding #1:** MPPTC program fails to breakeven with respect to state tax revenues; the program has a negative return on investment.

**Related Recommendations:**

- Limit the amount of qualified production expenses for "above-the-line" staff by imposing per person or absolute limits on compensation.
- Provide exceptions or extra incentive to firms that maintain a long-term presence in the state that create full-time employment or production companies that return for multiple productions or repeat seasons.
- Restructure the MPPTC to accommodate firms that make capital investments in the state such as the establishment and continuing use of sound stages, studios, and/or production spaces.

*Discussion Supporting Finding #1:*

For tax years 2019 through 2021, the amount of credit a production could receive under the MPPTC program was equal to 30% of total certified production expenses. This means that every dollar of state investment is matched by three dollars of private investment. However, much of the production spending leaks outside of the Rhode Island economy in the form of compensation payments made to highly paid "above-the-line" talent such as producers, directors, and featured actors, with little or no induced economic impact effects generated by this spending. Changing the MPPTC criteria to favor firms that have a long-term presence and full-time employment while limiting credit usage to subsidize highly paid out-of-state talent could increase the return on investment of the MPPTC.

Increasing the required level of capital investment made by MPPTC recipient firms could also improve the return on investment of the credit as current data show that MPPTC recipient firms make little or no capital investment during their short periods of production. Capital investments such as those in durable plant, property, and equipment including studio space, soundstages, and film equipment by their nature are used in multiple productions. The MPPTC is currently focused on subsidizing individual production projects rather than firms with ongoing operations and investments in the state. While it may technically be possible for firms to use the current MPPTC to subsidize capital investments, data reveal that this is not common.

**Finding #2:** The statutory goals of the MPPTC are poorly defined and performance measured against statutory objectives is relatively poor.

**Related Recommendations:**

- Revisit statutory goals to ensure they remain relevant and coherent.
- Impose job quality requirements.
- Provide explicit requirements for productions to prominently feature Rhode Island.
- Incorporate some type of “but for” due diligence.

*Discussion Supporting Finding #2:*

R.I. Gen. Laws § 44-48.2-5(a)(10) requires the Office of Revenue Analysis to offer recommendations “as to whether the effectiveness of the tax incentive could be determined more definitively if the general assembly were to clarify or modify the tax incentive’s goals and intended purpose.” Discussion related to the goals and purposes of the MPPTC are as follows:

**“Strong Capital Base”:** Production companies are generally incorporated for only a short time and do not make substantial capital investments in the state.

**“An Independent Self-Supporting Industry”:** The MPPTC program has been well-established for nearly 20 years, but it has not established a lasting, stable motion picture industry. Rhode Island motion pictures and sound recording industries output and Rhode Island motion picture and video industries employment are quite volatile exhibiting no clear trend. Employment remains low and jobs are short-term and low paying. Firms claiming the credit are incorporated for only the duration of the production. The credit program is not self-supporting as measured by a negative return on investment in terms of State general revenue. It is not inconceivable that some of this underperformance is a function of how the MPPTC program is structured with per production limits on tax credits that can be awarded and an aggregate annual maximum on the amount of credits that can be issued.

**“Substantial Rhode Island Content”:** While some productions have featured Rhode Island, it is not a requirement of the MPPTC program that productions include substantial Rhode Island content. Of the 14 productions considered in this report, all 14 were filmed in Rhode Island

and four of them had storylines that explicitly referenced Rhode Island. While tailoring the requirements for "substantial Rhode Island content" too narrowly would limit the possible productions that could take place in the state, it would enhance the reputational and tourism benefits touted by program supporters. It is also worth noting that the RIFTVO application for the program already requires applicants to a include a screen credit (including a RIFTVO logo) acknowledging the state.

**"Encourages Private Investment":** The fact that the credit is awarded in an amount equal to 30% of total certified production expenses implies that there are $2.33 of private investment associated with each dollar of credit granted.[30] However, in the absence of any statutory provision requiring that productions prove that production would not have taken place without the availability of the credit, it is difficult or impossible to prove that private investment took place due to tax credit availability. It is possible that tax credits are granted to projects that would have taken place even without the incentive being awarded.

**"Employment Opportunities":** While certified motion picture productions can employ a large number of people, a large portion of compensation is paid to a small number of "above-the-line" employees, who are disproportionately not Rhode Island residents.[31] Local jobs are typically temporary and low paying. Motion picture and video industries employment comprises a small portion of the total Rhode Island workforce when compared to both neighboring and top-performing states. Rhode Island motion picture and video jobs are generally lower paying in both absolute and relative terms compared to neighboring and top performing states.

**"Encourages New Education Curricula":** The anecdotal, qualitative data that was provided by RIFTVO regarding educational training programs was not sufficient for rigorous analysis. While it is clear that many of credit recipients offer educational and cultural enrichment opportunities, and that the RIFTVO takes its mission to promote film education seriously, it is not possible to track the effectiveness of film-related educational and labor force training programs in the absence of outcome data (e.g., Did labor force training programs improve job opportunities or wages for participants?).

Finally, while the program has been revised multiple times, increasing the annual credit cap, increasing the percentage of eligible expenses that generate the credit amount, and extending the sunset provision, it is necessary to also periodically revisit the statutory goals and objectives that the program is intending to achieve. Goals related to public relations and promotion, arts promotion, job development, and capital investment are vague, intermingled, and not prioritized. It is idealistic, but not practical, to assume that MPPTC program can achieve all these goals at once. Furthermore, it is difficult to assess the impact of the credit if it is not clear what metrics to utilize. For example, a cost-benefit analysis of an arts incentive could take a very different form

[30] For $1.00 spent on qualified motion picture production expenses, the motion picture production company receives $0.30 back in tax credits. This implies that motion picture production company's net actual spending on qualified motion picture production expenses is $0.70. Therefore, $1.00 of MPPTC results in $2.33 of spending by motion picture productions companies (i.e., $1.00/$0.30 *$0.70)

[31] Above-the-line employees are the highly paid employees such as producers, directors, and featured actors,

than one targeting job development or tourism. The act of revisiting the statutory goals ensures that the goals and intents of the program are in accordance with the realities and needs of the Rhode Island economy.

**Finding #3:** Current data reporting requirements lead to inconsistent and unreliable data on program performance.

**Related Recommendations:**

- Improve timing of data submissions so that all necessary data is captured prior to credit issuance.
- Improve coordination between RIFTVO and Taxation to unify definitions of data captured and reduce redundancy.
- Create consistent definitions, terms, and forms suitable for incentive evaluation.
- Create and enforce penalties for non-compliance with data submission requirements.
- Documents submitted as hard copies should be retained by Taxation after audit is completed.

*Discussion Supporting Finding #3:*

R.I. Gen. Laws § 44-48.2-5(a)(9) requires the Office of Revenue analysis to offer recommendations "[i]n the case of economic development tax incentives where measuring the economic impact is significantly limited due to data constraints, whether any changes in statute would facilitate data collection in a way that would allow for better analysis." Discussion related to this topic is as follows:

Evaluation of any tax incentive program requires access to complete, reliable, and timely data. Data related to the motion picture production tax credit was found to be lacking for each of these criteria.

The data requested through RI Form 8201A is currently the primary data collection tool to capture data on MPPTC related employment. The data collected as part of this reporting requirement could be improved if three things happen. One, there is a timing issue. Because this form is submitted after MPPTC credits have been granted, most of firms receiving the MPPTC failed to comply with this data submission requirements. While Taxation makes all appropriate efforts to elicit compliance, there is no penalty for non-compliance.

Secondly, the form to be completed by the production company requests data as required by statute, but additional data is needed in order for ORA to complete a more comprehensive evaluation. Even when MPPTC recipient firms make a good faith effort to comply with all data reporting requirements, the information reported is often inconsistent and unreliable. Statutory requirements and resulting data collection forms do not contain adequate definitions of important fields such as full time, part time, temporary, or seasonal jobs. Redundant data may be captured by forms submitted to RIFTVO and Taxation. Required employment data listed in the statute should be sensitive to the nature of short-term motion picture production employment. For example, the annual report RI Form 8201A captures only hourly wage and does not capture total length of employment or total wages paid. Motion picture employment is often intense and limited to the short duration of a production, so employment indicators designed with a traditional 52-week, 40-hour workweek, and salaried jobs in mind are inappropriate.

Thirdly, in many cases, employees of the production company are a small subset of all the individuals that actually work on a film production. The need to include all workers on this report (and not just the employees of the production company) would be necessary to complete adequate analysis, yet this is in contradiction to the statute.

Taxation is the most appropriate state agency to receive data related to the MPPTC. For data to be reliable and verifiable, it may need to contain personally identifiable information. Taxation is equipped to safeguard such data appropriately. Furthermore, the enabling statute of the MPPTC program provides the tax administrator with significant flexibility to define and structure data requests and modify existing forms' content as appropriate. By requesting data on Rhode Island tax forms, separate from any federal tax form, and requiring consent to limited sharing of data as condition of credit issuance, offices tasked with the evaluation of tax incentives can have sufficient access to timely data.

**Finding #4:** According to Taxation's data, 100% of MPPTC were transferred/sold to other Rhode Island taxpayers.

**Related Recommendations:**

- Consider eliminating or limiting the transferability of the MPPTC program as these tax credits might be transferred or sold to large companies that are not in need of this tax subsidy.

*Discussion Supporting Finding #4:*

As discussed in previous sections of this report, MPPTC projects tend to have a short duration in the state which results in these companies having little to no tax liability to Rhode Island. This explains the fact that all the projects analyzed in this report sold or transferred the MPPTC amounts that they were initially issued by Taxation. There are no restrictions on who can buy MPPTC certificates and therefore they can be sold to large companies that have nothing to do with the film and television industry.

ORA recommends that policymakers consider eliminating or limiting the transferability of the MPPTC as it might not serve the goals and intent of the program. For example, a recent proposal in Georgia would cap the amount of credits that can be transferred to 2.5% of the state's estimated revenue for the year.[32] Such a cap might be difficult to administer and redundant with the overall MPPTC program cap. However, the goal of limiting the transfer of credits would be to create an incentive for firms to locate in state, as those firms would be able to fully utilize their credits. This would further the goal of creating a "self-supporting industry" as defined in statute.

[32] "Georgia Tax Incentives Still Popular With Filmmakers and Voters Despite Political Issues," *Variety,* https://variety.com/2024/artisans/focus/georgia-tax-incentives-political-issues-1235994534/

**Finding #5:** The MPPTC program does contain a sunset provision, representing a best practice of tax incentive design.

**Related Recommendations:**

- Consider a moratorium on extending the sunset date of the MPPTC until appropriate changes are made to the current structure of the MPPTC to make it cost effective to the state.

*Discussion Supporting Finding #5:*

The MPPTC program is currently set to sunset on July 1, 2029. In the 2016 session of the General Assembly the sunset date was extended to July 1, 2021, which was an extension from the originally established sunset date of July 1, 2019 that was passed in the 2012 session of the General Assembly. In the 2017 session of the General Assembly the sunset date was extended to July 1, 2024. In the 2019 session of the General Assembly the sunset date was extended to July 1, 2027. A full years before that sunset, the 2024 General Assembly session chose to extend the program further through FY 2029. Policymakers should consider enacting changes to the MPPTC prior to any additional extensions of the sunset date.

## 3. ORA Conclusion and Overall Recommendation

R.I. Gen. Laws § 44-48.2-5(a)(11) requires the Office of Revenue Analysis to make a recommendation "as to whether the tax incentive should be continued, modified, or terminated." ORA recommends the program be modified as described above. Because the cost-benefit analysis of the program does not break even on a general revenue basis, it is logical to ask why the office is not recommending the program be terminated. There are several factors that inform this recommendation:

1. **Unquantified Benefits:** There are likely economic and fiscal benefits of the MPPTC program that are not quantified in this report, namely the possible increase in tourism associated with productions in the state. As discussed earlier, this is most plausible for productions where (a) the explicit setting is Rhode Island and (b) the production occurs in areas already attractive to tourists. This means that only some productions *might* help boost the local tourism industry. Capturing these benefits would take resources beyond the scope of this report.
2. **Possible Qualitative Benefits:** There are also qualitative benefits to the program that cannot be captured in a cost-benefit analysis, such as local pride that high-profile productions are choosing Rhode Island and the enhanced reputation of the state given its depiction in media.
3. **Unclear Goals:** While the MPPTC governing statute includes a findings and purpose section that runs to almost 400 words, it only lists two long-term objectives: (a) boosting motion picture employment and competitiveness with other states and (b) encouraging

education to build a better motion picture labor force.[33] This lack of specificity makes it hard to render a judgment about program performance.

The last point, about the program's goals, is the key point. If the goal of the program was specifically to generate a positive return on investment on a general revenue basis, it would clearly fail this test and should be terminated. (This is hinted at by the mention of a "multiplier effect" in the findings section but not stated explicitly.) Likely, the termination of the program would lead to fewer productions choosing Rhode Island, which would lower motion picture employment contrary to the stated goal of the program. However, this argument is self-reinforcing and would mean the program could never be seriously evaluated with termination as a possible outcome. If the goal of the program was to promote Rhode Island tourism or enhance state pride, the analysis would need to change, and the program would likely need to be modified along these lines (such as incentivizing or requiring local settings in productions). Until these goals can be clarified, ORA recommends the program to modified as described above to better serve the interests of the state.

[33] There are also several short-term goals stated in R.I. Gen. Laws § 44-31.2-1 but given the current program has been around for almost 20 years, the long-term objectives are more relevant.

## Appendix A: Additional Breakeven Scenarios

The following table presents a sensitivity analysis of the Motion Picture Production Tax Credits. ORA ran different economic scenarios across which the input parameters are being varied accordingly to provide the reader with additional possible breakeven analysis outcomes.

**"Motion Picture Production Tax Credits"**

**Detailed Economic & Revenue Impacts (Average TY 2019 Through 2021)**

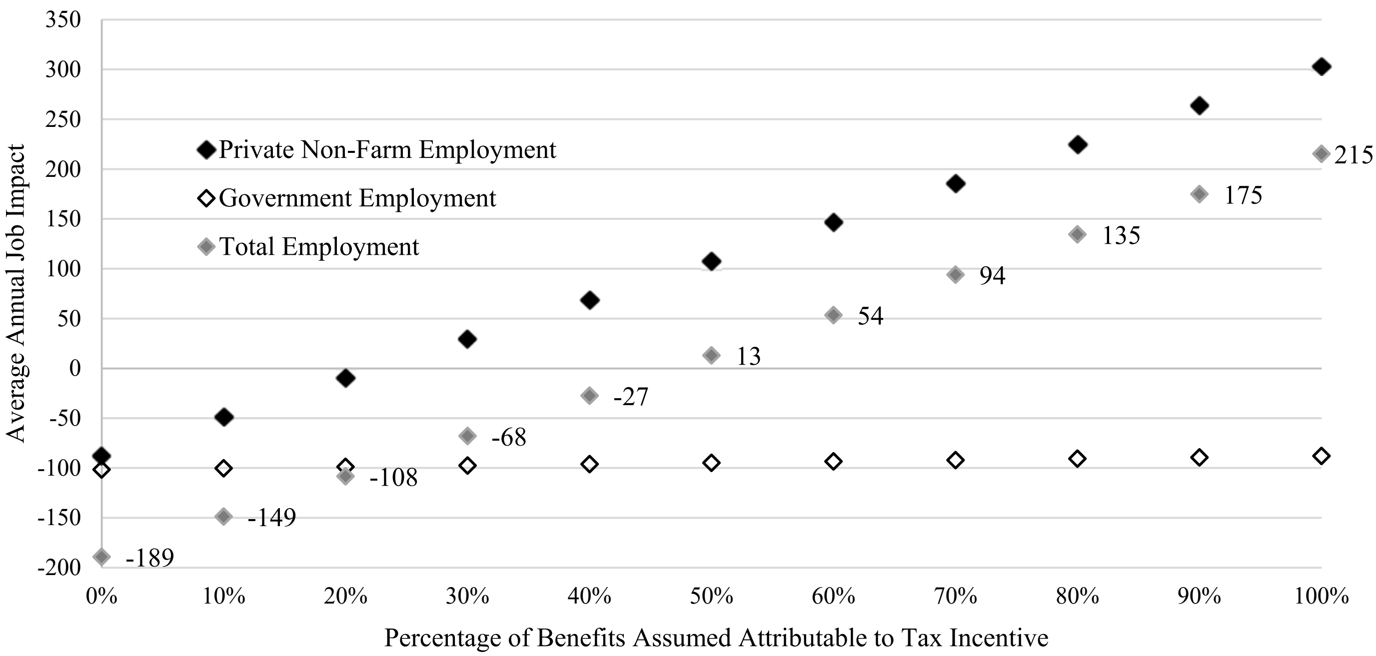
| | *Policy Variable Percentage Assumed* | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 100% | 90% | 80% | 70% | 60% | 50% | 40% | 30% | 20% | 10% | 0% |
| | *Economic & Revenue Impacts Calculated* | | | | | | | | | | |
| **Total Employment** | **215** | **175** | **135** | **94** | **54** | **13** | **-27** | **-68** | **-108** | **-149** | **-189** |
| Private Non-Farm Employment | 303 | 264 | 225 | 186 | 147 | 108 | 69 | 30 | -9 | -49 | -88 |
| Direct | 127 | 114 | 101 | 89 | 76 | 63 | 51 | 38 | 25 | 13 | 0 |
| Indirect | 56 | 47 | 39 | 30 | 21 | 12 | 4 | -5 | -14 | -23 | -31 |
| Induced | 120 | 103 | 85 | 67 | 50 | 32 | 14 | -3 | -21 | -39 | -56 |
| Govt Employment | -88 | -89 | -91 | -92 | -93 | -95 | -96 | -97 | -99 | -100 | -101 |
| **Total GDP ($000)** | **$19,503** | **$16,017** | **$12,531** | **$9,044** | **$5,558** | **$2,072** | **($1,414)** | **($4,900)** | **($8,386)** | **($11,872)** | **($15,359)** |
| **Total Output ($000)** | **$34,148** | **$28,161** | **$22,175** | **$16,188** | **$10,202** | **$4,215** | **$1,182** | **($7,758)** | **($13,744)** | **($19,730)** | **($25,717)** |
| **Generated Revenues by Component ($000)** | | | | | | | | | | | |
| Personal Income Tax | $385 | $324 | $264 | $203 | $143 | $82 | $22 | ($39) | ($100) | ($160) | ($221) |
| General Business Taxes | $170 | $147 | $123 | $99 | $76 | $52 | $28 | $5 | ($19) | ($43) | ($66) |
| Sales and Use Taxes | $388 | $325 | $262 | $200 | $137 | $74 | $11 | ($51) | ($114) | ($177) | ($240) |
| Other Taxes | $15 | $13 | $10 | $8 | $6 | $3 | $1 | ($2) | ($4) | ($7) | ($9) |
| Total Departmental Receipts | $14 | $9 | $4 | ($1) | ($7) | ($12) | ($17) | ($22) | ($27) | ($32) | ($37) |
| Other Sources | $12 | $8 | $3 | ($1) | ($6) | ($10) | ($15) | ($19) | ($24) | ($28) | ($33) |
| **Cost of Incentive ($000)** | **($10,697)** | **($10,697)** | **($10,697)** | **($10,697)** | **($10,697)** | **($10,697)** | **($10,697)** | **($10,697)** | **($10,697)** | **($10,697)** | **($10,697)** |
| **Total Net Revenues ($000)** | **($9,712)** | **($9,871)** | **($10,030)** | **($10,190)** | **($10,349)** | **($10,508)** | **($10,667)** | **($10,826)** | **($10,985)** | **($11,144)** | **($11,303)** |

**Source**: ORA calculations based on historical Rhode Island revenue amounts and REMI Tax-PI simulations.

**Note:** The total net revenues represent the difference between the sum of generated revenues and the cost of the tax incentive.

## Appendix B: Breakdown of Employment Breakeven Scenarios

**Motion Picture Production Tax Credits:**
**Private Non-Farm Employment Breakeven Analysis**
(Average Annual RI Jobs Impact, Calendar Years 2019-2021)




**Notes:** Label accompanying each ◆ marker refers to net job impact resulting from a cost-benefit analysis assuming the associated percentage of benefits that are attributable to the tax incentive. Employment is equal to the employment impact resulting from the direct, indirect, and induced effects of the MPPTC in addition to the direct employment loss incurreed by the State.

**Source:** ORA calculations utilizing REMI Tax-PI

## Appendix C: Detailed Description of Data Collection Procedures and Forms

### Data Reporting Tool: Motion Picture Production Company Tax Credit Application

| | |
|---|---|
| ***Components:*** | Initial Tax Credit Application, Final Tax Credit Application, and Motion Picture Production Tax Credit Information Request Form |
| ***Recipient Agency:*** | Initial Tax Credit Application and Information Request form submitted to Rhode Island Department of Education, Rhode Island Film and Television Office (RIFTVO).<br>Final Tax Credit Application Submitted in duplicate to Rhode Island Department of Revenue, Division of Taxation, Forms, Credits, and Incentives Section and RIFTVO. |
| ***Data Contained:*** | • The Initial Tax Credit Application requests comprehensive pre-production information including contact information, mailing address, and background information related to the production company, brief story synopsis, production information including budget and timeline, listing of above-the-line personnel, description of internship, training, and diversity initiatives, and a request for additional documentation.<br>• The Final Tax Credit Application requests the same information requested in the Initial Tax Credit Application updated following the completion of the production. |
| ***Comments:*** | • Involvement of RIFTVO ensures that question phrasing on the application forms and information requested reflects film industry norms.<br>• Job and employment information does not contain names and Social Security numbers or other personally identifiable information necessary for verifying employment and taxes paid (note that it may not be appropriate for RIFTVO to be in possession of confidential personally identifiable information).<br>• Job and employment information is not sufficiently detailed for purposes of conducting economic analysis. |

**Data Reporting Tool: CPA Certification of Motion Picture Production Expenses**

| | |
|---|---|
| ***Components:*** | Accountant-Certified Documentation of Qualifying Motion Picture Production Expenses |
| ***Recipient Agency:*** | Rhode Island Department of Revenue, Division of Taxation, Field Audit Section |
| ***Data Contained:*** | Production "Bible" contains complete line-item listing of all production expenses with sufficient supporting documentation to verify whether each expense can be designated as a "qualified" production expense. Any information submitted electronically is retained by Taxation, while files submitted in paper are routinely returned to the tax credit recipient at the conclusion of the review period. |
| ***Comments:*** | • Due to the timing of the application process, there is 100 percent compliance with this reporting requirement. This step is necessary to be awarded tax credit.<br>• Detail is comprehensive, but data from various projects are not formatted or organized consistently. Appropriate for accounting purposes, but not designed for economic analysis. |

**Data Reporting Tool: Rhode Island Form 8201A**

| | |
|---|---|
| ***Components:*** | Rhode Island Form 8201A, Motion Picture Production Company Tax Credits – Annual Employee Report |
| ***Recipient Agency:*** | Rhode Island Department of Revenue, Division of Taxation, Forms, Credits, and Incentives Section |
| ***Data Contained:*** | Production company contact information and federal employer identification number (FEIN), total number of employees, total payroll, employee-level information including employee type (seasonal, full time, or part time), employee name, Social Security number, date of hire, hourly wage, hours worked per week within Rhode Island, state of residency, and whether the employee received health insurance and pension benefits. |
| ***Comments:*** | • Data requested and wording of form does not reflect film industry norms and characteristics of recipient firms. For example, employees can be listed as part-time or seasonal, leaving it unclear how to designate an employee that is full-time for the duration of a project should be listed.<br>• Data is insufficient for purposes of economic analysis. For example, the form requests hours per week but not total hours or weeks worked for the duration of the project. Timing and structure of annual report leads to significant non-compliance. |

| **_Components:_** | Rhode Island Form 8201A, Motion Picture Production Company Tax Credits – Annual Employee Report |
|---|---|
| | • Annual report is requested after the credit has been awarded. In many cases this may be after a production company incorporated solely for the purpose of a single motion picture production have been dissolved or abandoned. This makes compliance highly unlikely and any sanctions for non-compliance moot.<br>• While the form is legally required, there is no consequence specified for non-compliance. This form does contain personally identifiable information necessary for employee identification, but significant non-compliance makes the sample size insufficient for rigorous analysis.<br>• Taxation is the appropriate entity with adequate policies and procedures in place to handle confidential and personally identifiable information such as is contained in this form. |

# Appendix D: Rhode Island Form 8201A "Annual Report

**Instructions for Form 8201A**
**Motion Picture Production Tax Credits**
**Annual Employee Report**

**Due September 1, 2023**

Complete all informational lines at the top of the form, including name, address, city, state and ZIP code, and federal identification number.

In addition, please provide your total number of employ-ees and your total payroll for the period of July 1, 2022 through June 30, 2023.

In the first column, please indicate if the employee is a full time employee, a part time employee or a seasonal employee.

In the space provided, or on a separate sheet(s), provide the following information for each employee: name, **full social security number**, date of hire, hourly wage as of July 1, 2023, the number of hours worked per week within the State of Rhode Island by the employee and the employee's state of residency.

In the last two columns, please indicate with either a yes or no, whether or not health insurance benefits and/or pension benefits are offered to the employee.

**All information is required for all company employees. This list should not include actors/actresses, directors, producers, etc who may have worked on the motion production, but who were not employed by the company.**

**This form must be filed by September 1, annually.**

This Annual Report is being sent as a guide. A fillable version can be found online. You may either complete the fillable version on-line, print it out and send it in; send the report as an Excel spreadsheet or a txt (csv) file (be sure to send in the file format) via CD-ROM or DVD; or you may send the file via secure ftp. In order to file via secure ftp, send an email to Tax.Credits@tax.ri.gov. You will then be sent an email containing the secure link.

Regardless of format, the report must contain all required information as shown on the Annual Report form.

A fillable version of this form is available online at: https://tax.ri.gov/forms/other-forms under Reporting Forms.

All Annual Reports, regardless of format, shall be submitted to Donna Dube by either:

mail: Rhode Island Division of Taxation
Forms, Credits & Incentives Section
One Capitol Hill
Providence, RI 02908
Attn: Donna Dube

or email: Tax.Credits@tax.ri.gov

Pursuant to RIGL 44-31.2-6.1, all companies receiving Motion Picture Production Tax Credits under § 44-31.2 shall file an annual report with the tax administrator containing information on each employee as deemed necessary by the tax administrator.

**Important Definitions:**

**"Health Insurance Benefits"** means any health insurance plan offered by the eligible company to its employees regardless of whether or not the employee takes advantage of the plan.

**"Retirement Benefits"** means any retirement plan offered by the eligible company to its employees regardless of whether or not the employee takes advantage of the plan. This could be in the form of a SEP, a SIMPLE, a 401K plan, a profit sharing plan, a defined benefit plan, a deferred compensation plan or any qualified employer plan.

**NOTE: An employee who is required to complete a reasonable probationary period to be eligible for healthcare or retirement benefits is deemed to have "earned" those benefits from day one of their employment.**

**Form 8201A**

**Annual Report**

**State of Rhode Island**
**Division of Taxation**
**Motion Picture Production Company Tax Credits - Annual Employee Report**
**Due September 1, 2023**

| | | | |
|---|---|---|---|
| ENTITY NAME | | | |
| ADDRESS | | | |
| CITY | | STATE | |
| FEDERAL IDENTIFICATION NUMBER | | | |

| | |
|---|---|
| TOTAL NUMBER OF EMPLOYEES | |
| TOTAL PAYROLL - JULY 1, 2022 - JUNE 30, 2023 | |

***** ALL INFORMATION IS REQUIRED FOR ALL EMPLOYEES *****

| Indicate Employe Type:Full time, Part time or Seasonal Employee | Employee Name | Social Security Number | Date of Hire | Hourly Wage as of 7/1/2023 | Hours Worked Per Week Within Rhode Island | Employee's State of Residency | Health Insurance Y/N | Pension Benefits Y/N |
|---|---|---|---|---|---|---|---|---|
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**If additional space is needed, please attach a separate sheet(s) with the additional information.**

Under penalties of perjury, I declare that I have examined this return, and to the best of my knowledge and belief, it is true, correct and complete .

Signature of authorized officer | Date | Signature of preparer | Date

Title | MAY THE DIVISION CONTACT YOUR PREPARER ABOUT THIS RETURN? YES [ ] NO [ ] | Telephone number

07/2023 **MAILING ADDRESS: DONNA DUBE, RHODE ISLAND DIVISION OF TAXATION, FORMS, CREDITS & INCENTIVES SECTION, ONE CAPITOL HILL, PROVIDENCE, RI 02908**

## Appendix E: Details on of the IEc Study

The key difference between ORA's analysis and the IEc study on the MPPTC economic impact for the *NOS4A2* production is each report's consideration of the cost of the program. ORA factors in the cost of the program by reducing government spending when modeling the impact, while the IEc study did not account for the opportunity cost of the credit. The remaining difference is due to variations in data inputs employed by both analyses that can be generally summarized as follows:

- The data used in the IEc analysis was provided by AMC on *NOS4A2* production spending, broken down into accounts payable (AP) and payroll expenditures. ORA received *NOS4A2* production certified spending from Taxation broken down into different spending categories (i.e., spending on compensation, travel and accommodation, catering, etc.…).
- IEc indicated that *NOS4A2* production spending totaled $66 million for both seasons, of which $21.4 million were spent on AP and $44.6 million were spent on payroll. According to Taxation, the total *NOS4A2* spending was $76.2 million, of which $56.6 million was spent on compensation and $19.5 million was spent on goods and services from local vendors.
- The IEc study excluded $9.2 million from the $44.6 million spending on payroll, to account for payroll expenses that were paid to out-of-state employees that are assumed not to contribute to the Rhode Island economy. This reduced the total spending in the IEc study from $66 million to $56.6 million. ORA excluded from its analysis $17.7 million of non-resident above the line compensation to account for benefits that "leak" of the state. This reduced the total spending in the ORA's analysis from $76.2 million to $58.5 million.
- IEc estimated that MPPTC amounts received by this production were $19.8 million. However, when calculating a ROI estimate, IEc reduced this number by $2.8 million claiming that it is the out-of-state employees subsidized pay portion (i.e., $9.2 million * 30%). ORA did not make such adjustment because the MPPTC program subsidizes total compensation regardless of the production employees' residency status. According to Taxation, *NOS4A2* production received $22.8 million of MPPTC.
- IEc analysis used the IMPLAN model to measure the economic impact generated from the $56.6 million of *NOS4A2* production spending without taking into consideration any cost to the state from awarding this tax credit. Excluding the cost of the incentive will overstate the economic and fiscal impacts. ORA's analysis used the REMI model and assumed awarding MPPTC would result in reduced state government spending.

**NOS4A2 Certified Spending Amount Breakdown**

| | Production | Accounts Payable (A) | Payroll (B) | Total Spending (A+B) | Payroll Included in the Analysis (C) | Total Spending Included in the Analysis (A+C) |
|---|---|---|---|---|---|---|
| **IEc Study** | NOS4A2 Season 1 | $10,600,000 | $21,400,000 | $32,000,000 | $16,500,000 | $27,100,000 |
| | NOS4A2 Season 2 | $10,800,000 | $23,200,000 | $34,000,000 | $18,700,000 | $29,500,000 |
| | **Total Spending** | **$21,400,000** | **$44,600,000** | **$66,000,000** | **$35,200,000** | **$56,600,000** |
| **ORA** | NOS4A2 Season 1 | $10,120,863 | $27,804,670 | $37,925,533 | $18,402,612 | $28,523,475 |
| | NOS4A2 Season 2 | $9,415,487 | $28,824,937 | $38,240,423 | $20,518,031 | $29,933,517 |
| | **Total Spending** | **$19,536,350** | **$56,629,607** | **$76,165,957** | **$38,920,643** | **$58,456,993** |

**Source:** ORA calculations based on data from Taxation and REMI Tax-PI simulations and summary of the IEc study.

**NOS4A2 MPPTC Amounts Received Breakdown**

| | Production | Credit for Accounts Payable (A) | Credit for Payroll (B) | Total Credit (A+B) | Credit for Payroll Included (C) | Total Credit Included in the Analysis * |
|---|---|---|---|---|---|---|
| **IEc Study** | NOS4A2 Season 1 | $3,180,000 | $6,420,000 | $9,600,000 | $4,950,000 | $8,130,000 |
| | NOS4A2 Season 2 | $3,240,000 | $6,960,000 | $10,200,000 | $5,610,000 | $8,850,000 |
| | **Total Credit** | **$6,420,000** | **$13,380,000** | **$19,800,000** | **$10,560,000** | **$16,980,000** |
| **ORA** | NOS4A2 Season 1 | $3,036,259 | $8,341,401 | $11,377,660 | $5,520,784 | $11,377,660 |
| | NOS4A2 Season 2 | $2,824,646 | $8,647,481 | $11,472,127 | $6,155,409 | $11,472,127 |
| | **Total Credit** | **$5,860,905** | **$16,988,882** | **$22,849,787** | **$11,676,193** | **$22,849,787** |

**Source:** ORA calculations based on data from Taxation and REMI Tax-PI simulations and summary of the IEc study.