

## Checking in on the Film Tax Credit Program 2.0 Helps Keep Income-Generating Projects in California

### Summary

California and Hollywood are inextricably intertwined, with Los Angeles having long served as the entertainment capital of the world. The California film and television industry employs more than 190,000 people and pays over \$20 billion a year in wages. It is a signature California industry and a major economic driver in the state.

In 2009, California enacted its first film tax credit program. It allocated \$100 million a year for eight years to films and television projects made in the state. Referred to as “Program 1.0,” the first film tax credit achieved its goal of keeping projects that were in jeopardy of leaving the state. Of the projects that were denied tax credits, 83% left the state. Over the seven years of Program 1.0, there were 169 of these so called “runaway” projects. Tracking these projects shows that they accounted for \$3.86 billion in production spending outside California. Notably, all but two of these projects relocated to a jurisdiction with tax credits. These figures do not factor in the big budget productions that were ineligible because Program 1.0 excluded productions with budgets greater than \$75 million. Thus, the real runaway impact is far greater.

In 2014, a new film tax credit law was passed that increased the available tax credits to \$330 million a year from 2015 to 2020. The revised Tax Credit “Program 2.0” grants up to 20% credit on the first \$100 million of production spending. The credits are awarded according to a ranking of which projects will lead to the most spending on wages, equipment, and vendors to maximize the economic benefits. This revised “Tax Credit 2.0” is near the halfway point of its stated lifecycle and there is data available to evaluate its efficacy.

One of the goals of Program 2.0 was to stem the tide of “runaway” blockbusters leaving the state for more hospitable pastures. These big budget productions lead to hundreds of jobs for crew members and support thousands of vendors. Program 1.0’s exclusion of productions over \$75 million also was removed because of its effects on retaining big budget productions. Over the last few years, California has lost a disproportionate number of big budget movie productions. Of 2016’s top 100 grossing films, 17 were made in Georgia and 12 in California. In 2013, 9 of the top 100 were made in Georgia and 16 in California. Georgia has used its own film tax credit to take a huge chunk out of Hollywood productions.

More than 30 states have an active film tax credit and Georgia has been very successful in using its tax credit program to lure the blockbusters away from California. Georgia’s tax credit program offers a straightforward 20% credit to any production with \$500,000 or more spending in the state, and an additional 10% credit to any production that uses the Georgia peach state logo in its credits. The Georgia program originated in 2005 and has been in its current form since 2012. There is no sunset date, no caps, and productions that do not use their full tax credits can sell them. Georgia’s film tax credits totaled \$504 million in 2015 and \$606 million in 2016.

Taking the box office sensation Marvel Cinematic Universe movies as an example, the early movies, including *Iron Man* in 2008 and *Thor* in 2011, were filmed in California. However, *Captain America Winter Soldier* began filming in April 2013 and is the last Marvel movie to be made in California. Since then, Georgia has landed *Ant-Man*, *Captain America: Civil War*, *Guardians of the Galaxy*, *Spider-Man: Homecoming*, and *Black Panther*. Currently, the next two *Avengers* movies and the *Ant-Man* sequel are being produced in Georgia. Landing the Marvel movies has been a game changer for Georgia and also has led to a boom in studio construction.

Program 2.0 does not exclude movies with budgets over \$75 million like Program 1.0, but it caps the credit at \$20 million. Despite this limitation, the recent tax credit awards appear to be working. In summer 2017, *Captain Marvel* was the first Marvel movie awarded a California 2.0 film tax credit and plans were changed to film in California instead of Georgia. The other big budget movies that have been awarded the 2.0 credits also have filmed in California. These include *A Wrinkle In Time*, which completed filming and will be released in 2018. Further, in November 2017, the California Film Commission awarded credits to more big budget features that will be filmed in California—*Call of the Wild* and Quentin Tarantino’s *Untitled #9*.

Amy Lemisch, executive director of the California Film Commission, explains: “To date, the expanded Program 2.0 has attracted 12 TV series to move here from out of state and 8 big budget feature films. Bringing these high-quality, high-wage jobs back to California is precisely what Program 2.0 was designed to do.” She adds that Program 2.0 is accomplishing another of its goals—increasing shoots in California locations outside of Los Angeles: “We’ve also seen an increase in productions accessing film locations across California. Production companies are rediscovering the diverse locations available throughout the state.”

# Expanding Opportunity An Agenda for All Californians

## 2018 Business Issues and Legislative Guide

See the entire CalChamber 2018 Business Issues and Legislative Guide at  
[www.calchamber.com/businessissues](http://www.calchamber.com/businessissues)  
Free PDF or epub available to download.

Special Thanks to the Sponsors  
Of the 2018 Business Issues and Legislative Guide

Premier



Silver



Bronze



Iron



We're always with you.®

The Manatt logo consists of a solid yellow square. Inside the square, the word "manatt" is written in a white, lowercase, sans-serif font.

The first two years of data on Program 2.0 back this up. In fiscal year 2015–2016, \$173 million in tax credits were awarded to 47 projects. This resulted in \$509 million in qualified wages and \$1.3 billion in direct in-state spending. In fiscal year 2016–2017, \$339 million in credits were awarded to 64 projects. These are estimated to result in \$900 million in qualified wages and \$2.4 billion in direct in-state spending. In total, Program 2.0 has led to the retention of 100 film and television projects generating \$3.7 billion in direct in-state spending with \$1.4 billion in below-the-line wages.

Although Hollywood may feel like home for the movie industry, these projects have and will continue to relocate to jurisdictions with better economic environments. The Program 2.0 tax credit has been able to level the playing field, at least to some extent. Going forward, it will be important to update and tweak the program to ensure that California remains competitive and enable California to continue benefiting from the film and television industry.

### **CalChamber Position**

The California Chamber of Commerce supports a balanced, nondiscriminatory tax system that does not penalize any one industry. State programs that benefit the general public should be paid for by the general public. Similarly, although CalChamber supports any type of tax credit that incentivizes growth in any industry, we encourage more broad-based tax credits that will promote job growth in all industries throughout California.

**Kevin McKinley**

Policy Advocate

*kevin.mckinley@calchamber.com*

January 2018