Testimony concerning the Motion Picture Production Tax Credit: H-8180
House Committee on Finance
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The Economic Progress Institute (EPI) wishes **to express serious concerns about H-8180,** which would change how the state defines qualified vendors and qualifying expenses for the state's motion picture production tax credit program.

In principle, although EPI thinks this tax credit program is a bad investment for Rhode Islanders, we would support a proposal that would tighten the definition for state-certified production costs. However, our review of the proposed legislation, coupled with our review of the letter submitted by Rhode Island's Division of Taxation, raises serious concerns. **We are worried that the proposed legislation would weaken current rules intended to protect Rhode Island-based businesses.**

We have two main concerns.

First, proponents of the film tax credit frequently talk about all the money spent in-state for catering and hotels, but it is pretty clear that money paid to A-list actors, as well as directors and producers, does qualify, and it would appear that film editing services done out-of-state for filming done in Rhode Island also qualifies. We have no idea what percentage of qualifying expenses such compensation includes, but so long as such expenses are eligible, **Rhode Islanders are paying (through the tax credit) 30% of the cost and not just for the catering and hotels and other local expenses. We expect most of the money for the actors and such is going out-of-state and not generating economic activity the way the hotel and catering spending might be doing.**

Therefore, we are concerned about the proposed language about "without limitation as to the person or business providing the goods or services," which **would seem to allow a shift from Rhode Island-based businesses to those from out-of-state.** Obviously, this would not apply to hotels, but could wind up shifting qualifying expenses to other vendors, whether for food or supplies or construction, to those based out-of-state, so long as they bring people and materials into the state. **This would mean Rhode Island taxpayers would be paying <u>more</u> of the credit for expenses paid out-of-state.** As the Division of Taxation concludes, "In essence, this bill would negate the long-term primary objective of the motion picture production tax credits of encouraging 'increased employment opportunities' and development in Rhode Island."

Second, we are concerned about the legislation's proposal to make some changes **retroactive,** including not disqualifying expenses paid to out-of-state vendors, even though they were clearly not eligible at the time they were made. In this regard, Taxation comes to the weighty conclusion that "Undermining the administrative hearing and appeal process with legislation that seeks to retroactively redefine well-established law and regulation weakens the rule of law and creates chaos and confusion for taxpayers."

Given the above, we are seriously concerned with the current proposal and cannot recommend passage.

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