My name is Eileen McAnneny and I am the President of the Massachusetts Taxpayers Foundation. The Foundation is a nationally recognized, independent, non-partisan, and non-profit public policy research organization focusing on the state’s fiscal and economic health. It has a long track record of providing accurate analysis that has earned it a reputation for credibility and objectivity.

I am here today to testify in support of House Bill 62, An Act to Support Working Families, and in particular the proposal to link expanding the state’s earned income tax credit, or EITC, with repeal of the state’s film tax credit. This proposal will replace a program that funnels precious resources out-of-state with one that rewards hard working, low-income residents and families of Massachusetts.

The film tax credit provides a refundable or transferable tax credit equal to 25 percent of production and payroll costs, as well as a sales tax exemption, for film production in the state. It is an expensive and inefficient way to stimulate economic activity in the Commonwealth. Each year, the state’s Department of Revenue publishes a detailed dynamic analysis of the film tax credit that accounts for both the direct and indirect economic, employment, and tax revenue effects of the credit. These reports document many of the film tax credit’s shortcomings.

For example, in sharp contrast to the state’s earned income tax credit, a large share of the economic activity generated by the film tax credit benefits out-of-state residents and businesses. The DOR reported in 2014 that since the credit was first implemented in 2006 through 2012, approximately two-thirds of film production spending eligible for the 25 percent state tax credit
actually occurred out of state or was paid to non-Massachusetts residents. There is no requirement that spending must occur in Massachusetts to be eligible for the credit.

For the jobs that are created in Massachusetts, it is startlingly expensive for the state. Between 2006 and 2012, it cost the state more than $115,000 per job for the estimated 3,000 direct and indirect jobs created for Massachusetts residents. This estimate is based on full-time equivalent jobs meaning that it would require multiple temporary jobs to amount to one full-time equivalent because many film productions are short-term.

In practice, the film tax credit is highly inefficient. Most beneficiaries of the credit have little or no tax liability in Massachusetts. Instead, since the credit is transferable, credits are sold to other businesses or individuals at a discounted rate. Therefore, not even the film production companies themselves capture the full value of the state’s cost to provide this credit.

On the other hand, the earned income tax credit is a targeted program with strict eligibility requirements. It requires taxpayers claiming the credit to have earned income from wages below a certain threshold that adjusts with family size. House Bill 62 includes a three-year phase in that will increase the amount of credit a resident may receive from 15 percent to 30 percent of the federal credit.

The earned income tax credit provides a modest tax benefit to more than 450,000 low-and middle-income Massachusetts workers and the positive impacts primarily stay in the state. For example, a married couple with two children and an adjusted gross income of less than $50,000 would be eligible for a maximum credit of $1,665. By contrast, the Foundation estimates that more than $100 million of the state’s $400 million in distributed film tax credits are tied to wages for individuals earning $1 million or more—all of them non-Massachusetts residents.
There are other advantages to the earned income credit. By administering it through the tax system, it uses an existing process to distribute the benefit rather than creating a new entity. In addition, unlike the film tax credit, earned income tax credits are not transferable so only the intended beneficiaries may use them. Furthermore, the progressivity of the state’s personal income tax is enhanced by expansion of the EITC.

However, the Foundation’s support for expanding the EITC in fiscal 2017 comes with two caveats.

First, the EITC program must be administered carefully to ensure its benefits are distributed as intended. The Government Accountability Office reported that approximately one quarter of all payments at the federal level are deemed “improper,” meaning that either the filer made an error or the claim is fraudulent. It is important that any expansion of the state program also take into account the appropriate methods of oversight to avoid improper distributions and fraud.

Second, in a year with little budget flexibility, expanding the credit must be paired with a reasonable source of offsetting revenue. In such a fiscal year, the worst case scenario would be to expand the credit without funding it.

The EITC encourages and rewards employment and provides tax relief for the state’s lowest wage earners, while the film tax credit rewards highly compensated individuals and out-of-state businesses for providing a temporary boost to the local economy. It is the Foundation’s view that funding an expansion of the earned income tax credit by repealing the film tax credit would be a better use of precious state resources.