## SB 1524A Section 1: Strike the increase in film subsidies

House Committee on Revenue |Bennett Minton | 3/1/2022

Chair Nathanson and members of the committee:

I'm Bennett Minton, on behalf of Tax Fairness Oregon, a group of volunteers who advocate for a rational and equitable tax code.

We urge the committee to strike the provision (Section 1 of SB 1524A) that would increase two subsidies administered by Oregon Film. One would double reimbursements for labor costs (from 10% to 20%), the other would increase by 25% (from 20% to 25%) reimbursements for other expenses. To be clear, these increases would have no revenue effect. Rather, the provision is another incremental expansion of the Oregon Film program that as a byproduct gives greater and greater tax benefits to the wealthy, in-the-know Oregonians who finance it. My testimony places this proposal in context.

Most states subsidize the movie industry. Legislatures grant payouts to compete with other states, a vicious circle like the largess bestowed on professional sports in the form of new stadiums and the like. I won't argue with your choice to subsidize the movie business but note the inefficiency and inequity of the method.

This industry subsidy dates to 2003. These days, the Department of Revenue runs an auction of $500 tax credits, and participants bid whatever price they estimate can win some at a discount. The process is not an "auction," it's a closed bid. DOR awards the highest bids.

The legislature has steadily increased the total value of tax credits. In fiscal 2016, Oregon sold $10 million. The following year it was $12 million. In fiscal 2018, $14 million. Last year you raised it to $20 million.

Meanwhile, revenue gained or lost has varied. Some years the tax credits were sold for more than their value. Why would Oregonians buy tax credits for more than they were worth in income tax savings? Because they were treated partly as charitable contributions under federal law. That changed after the 2017 tax act, when the IRS issued rules that limited their value. In response, the legislature in 2019 lowered the bid floor from 95% of the credits' tax value to 90%. Thus a federal subsidy became a state subsidy.

As a result, in fiscal 2020 and 2021, the state sold $14 million in tax credits for about 91% of their value, and $1.3 million went to the tax credit purchasers. Oregon Film's public data lists who they are.

The greatest beneficiary in 2021 was Kelly Richardson, president of Richardson Sports, a company in Eugene. He bought $600,000 in tax credits, saving himself $50,000 in state income taxes.

In October—fiscal 2022—the most prolific bidder was US Bank, which bought $7 million in credits, saving $420,000 in Oregon income tax. The top individual bidder bought $3.4 million, saving $258,000 in income tax.

We don’t ask you to buck this race to the bottom by, at last count, 34 states. Moviemakers tell great stories, and last year a bunch of them testified in this committee about the projects Oregon taxpayers helped pay for.

Nor do we blame Oregon Film for coming to you year after year asking for ever greater tax credits and production payouts. Tim Williams’s job is to dispense money, and you haven’t slapped his hand.

But we are depressed watching the legislature bestow a no-risk investment opportunity on Oregon’s wealthiest citizens. And companies.

We have two impressions. One, the film biz can’t compete in the Ways and Means process, so you give it this back door through the tax code. And two, legislators think this is an efficient method of disbursement, though the subsidy this year leaked more than 7%, and 9% the two preceding years.

Back to this proposal. Oregon Film asks for increases in the auction volume. Then it asks, without analysis, for increases in the subsidy per film. That will deplete the fund faster. Mr. Williams’s testified in response to a question that he has no “plans” to request an increase in volume. History—the last six years, in which the legislature has doubled the volume—suggests he will return soon, perhaps requesting $25 million or $30 million. Investors will provide the demand to meet the supply of tax credits, because you have structured the program as a gift to them. Their profits—and losses to the General Fund—will grow.

It's time to rethink how you fund production subsidies.