Evaluation of the Film Production Activity Tax Credit Program



DEPARTMENT OF LEGISLATIVE SERVICES 2025

Evaluation of the Film Production Activity Tax Credit Program

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF POLICY ANALYSIS
MARYLAND GENERAL ASSEMBLY

December 2025

The Honorable Bill Ferguson, President of the Senate
The Honorable Joseline A. Peña-Melnyk, Speaker of the House of Delegates
Members of the General Assembly

President Ferguson, Speaker Peña-Melnyk, and Members:

The Tax Expenditure Evaluation Act (formerly the Tax Credit Evaluation Act) establishes a process for evaluating certain tax credits, exemptions, and preferences. The Department of Legislative Services (DLS) is required to evaluate a tax credit, exemption, or preference on a number of factors, including (1) the purpose for which the tax credit, exemption, or preference was established; (2) whether the original intent of the tax credit, exemption, or preference is still appropriate; (3) whether the tax credit, exemption, or preference is meeting its objectives; (4) whether the goals of the tax credit, exemption, or preference could be more effectively carried out by other means; and (5) the cost of the tax credit, exemption, or preference to the State and local governments. Under the former Tax Credit Evaluation Act, the film production activity tax credit program was reviewed in 2015. DLS must reevaluate the program in 2025 in accordance with a schedule published as required under the Tax Expenditure Evaluation Act.

DLS has conducted its evaluation of the program and makes several findings and recommendations about the program. The document is divided into seven chapters.

- **Chapter 1** provides an overview of the film production activity tax credit.
- **Chapter 2** provides a discussion of other states' film incentive programs.
- **Chapter 3** provides a discussion of the tax credit's objectives and goals.
- **Chapter 4** provides information on the tax credit's fiscal impact.
- **Chapter 5** summarizes the findings of the report.
- **Chapter 6** summarizes the recommendations of the report.

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We wish to acknowledge the cooperation and assistance provided by the Department of Commerce and the Comptroller's Office. DLS trusts that this report will be useful to members of the General Assembly in future deliberations about the film production activity tax credit program.

Sincerely,

Victoria L. Gruber
Executive Director

Ryan Bishop
Director

VLG:RB/GHB/bao

Contents

Executive Summary

Since the mid-1990s, the number of State business tax credits has grown significantly, as have related concerns about the actual benefits and costs of these credits. In response to concerns about the fiscal impact of tax credits on State finances, the Tax Expenditure Evaluation Act (formerly the Tax Credit Evaluation Act) establishes a process for evaluating certain tax credits, exemptions, and preferences.

As part of the Tax Expenditure Evaluation Act, the Department of Legislative Services (DLS) is required to evaluate the film production activity tax credit on a number of factors, including (1) the purpose for which the tax credit was established; (2) whether the original intent of the tax credit is still appropriate; (3) whether the tax credit is meeting its objectives; (4) whether the goals of the tax credit could be more effectively carried out by other means; and (5) the cost of the tax credit to the State and local governments.

DLS previously evaluated the tax credit during the 2014 interim and issued its report in 2015. DLS concluded that the tax credit did not provide sustainable economic development and provided only a small return on investment to the State and local governments. Thus, DLS recommended that the General Assembly allow the film production activity tax credit to sunset as scheduled on July 1, 2016, and instead focus economic development efforts on incentives that create permanent and lasting employment. However, the report included several recommendations to improve the tax credit program should the General Assembly opt to extend it. Among other things, DLS recommended that the General Assembly consider replacing the credit with a budgeted grant program; requiring local jurisdictions that benefit from film production activity to contribute a portion of the State's tax credit costs; capping the total amount of credits a single production may receive; and requiring the recapture of tax credits awarded to or claimed by a production entity that later leaves the State to film in another jurisdiction.

Film production incentives continue to be a popular economic development tool among states, with 37 states and the District of Columbia offering some form of film production incentive in 2025. Maryland's film tax credit was originally enacted under Chapter 516 of 2011 and made permanent under Chapter 486 of 2015. The tax credit program has undergone several legislative changes since its inception, with the most recent changes enacted under Chapter 434 of 2023 and Chapter 604 of 2025.

In this report, DLS finds that (1) the tax credit has been underutilized in recent years, in part due to the $10 million per production cap enacted under Chapter 595 of 2018; (2) major television series productions continue to reflect the majority of tax credit awards, but smaller productions have claimed an increasing share of tax credits; and (3) although small and independent film tax credits have increased in recent years, the 10% set-aside for small and independent films remains underutilized. DLS also finds that Maryland employment in the motion picture and video production industry has declined since 2010, and average wages in Maryland's motion picture and video production industry have lagged behind Maryland average wages across all sectors in recent years.

Consistent with the findings of the department's 2015 evaluation, DLS concludes that the tax credit program is unlikely to generate lasting economic development. Economic activity generated by film production is generally temporary in nature, and the size of Maryland's film tax credit program is modest relative to those of other states. Further, the existing research literature on state film tax incentives does not offer strong evidence that film tax credits are an effective economic development tool.

DLS recommends that the General Assembly consider terminating the film production activity tax credit and instead focus economic development efforts on incentives that generate lasting economic development.

However, should the General Assembly choose to continue the program, DLS makes the following recommendations to improve the program:

- **The General Assembly should define the objectives of the program in statute.**
- **The General Assembly should reevaluate the $10 million per project cap for non-small productions and consider limiting the amount of unused funding that may be carried forward.**
- **The Department of Commerce (Commerce) should develop a proposal to update, streamline, and improve the program statute and narrow eligible productions and costs to those that have the potential to generate the most economic impact.**
- **Commerce should continue to monitor and assess the long-term staffing needs of the Maryland Film Office and make recommendations to the General Assembly as appropriate.**

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Chapter 1. Overview and Background

Overview

Film production incentives continue to be a popular economic development tool among states, with 37 states and the District of Columbia offering some form of film production incentive in 2025. Another 2 states recently enacted film tax incentives, with benefits becoming available after 2025 (Iowa and Wisconsin). Maryland offers two film production incentives – the film production activity tax credit and a sales and use tax exemption for tangible personal property and taxable services used in connection with a qualifying film production activity. The Maryland Film Office within the Department of Commerce (Commerce) administers the application and certification process for these incentives. To date, Commerce has certified about $80 million in tax credits since the program began in fiscal 2012.

Tax Expenditure Evaluation Act

In response to concerns about the impacts of certain tax credits, Chapters 568 and 569 of 2012 established the Tax Credit Evaluation Act, a legislative process for evaluating certain tax credits. The evaluation process was conducted by a legislative evaluation committee and done in consultation with the Comptroller of Maryland, the Department of Budget and Management, the Department of Legislative Services (DLS), and the agency that administered each tax credit. The committee reviewed the following credits: enterprise zone; One Maryland; earned income; film production activity; sustainable communities (historic revitalization); businesses that create new jobs; job creation; research and development; biotechnology investment incentive; and the Regional Institution Strategic Enterprise Zone Program.

Chapter 575 of 2021 expanded the scope of the Tax Credit Evaluation Act, renaming it to the Tax Expenditure Evaluation Act, and eliminated the evaluation committee. Under the Tax Expenditure Evaluation Act, DLS must evaluate tax credits, exemptions, or preferences on request from the Senate Budget and Taxation Committee, the House Ways and Means Committee, the Executive Director of DLS, or the Director of the Office of Policy Analysis within DLS. In addition, beginning October 1, 2022, DLS must (1) evaluate at least once every 10 years each income tax credit that is primarily claimed by businesses and has an annual fiscal impact exceeding $5.0 million and (2) in consultation with the Senate Budget and Taxation Committee and the House Ways and Means Committee, publish on its website a schedule of the evaluations that will be conducted. This report is a reevaluation of the 2015 evaluation report published by DLS.

Under the Tax Expenditure Evaluation Act, DLS is required to evaluate the tax credit, exemption, or preference on a number of factors, including (1) the purpose for which the tax credit, exemption, or preference was established; (2) whether the original intent of the tax credit, exemption, or preference is still appropriate; (3) whether the tax credit, exemption, or preference is meeting its objectives; (4) whether the goals of the tax credit, exemption, or preference could be more effectively carried out by other means; and (5) the cost of the tax credit, exemption, or preference to the State and local governments.

Film Production Activity Tax Credit

Eligibility

The Secretary of Commerce is responsible for determining eligibility for the tax credit. In general, to qualify for the tax credit, a film production entity must be carrying out an eligible film production activity that is intended for nationwide commercial distribution, and total direct costs (as defined) incurred in the State must exceed $250,000. Total direct costs may not include any salary, wages, or other compensation for personal services of an individual who receives more than $500,000 in total compensation in connection with the film production activity. Commerce also requires that at least 50% of the filming must occur within the State.

To qualify for the tax credit as a Maryland small or independent film entity, total direct costs incurred in the State must exceed $25,000, and at least 50% of the filming must occur within the State. A film production entity qualifies as a Maryland small or independent film entity if the entity has been incorporated in Maryland for at least three months; is independently owned and operated; is not a subsidiary of another entity; is not dominant in its field of operation; employs no more than 25 full-time employees; and employs Maryland residents as at least 40% of its workforce in the film production activity.

Credit Value and Funding

In general, a qualified film production entity may receive a refundable tax credit in an amount equal to 28% of the qualified total direct costs of a film production activity (30% for a television series), subject to a $10 million cap per film production activity and certain statutory limits on the aggregate amount of tax credits that Commerce may award each year. A Maryland small or independent film entity may receive a refundable tax credit in an amount equal to 28% of qualified total direct costs, not to exceed $125,000.

For fiscal 2026 and each fiscal year thereafter, Commerce may award up to $12 million in film production activity tax credits, in addition to any unused amount carried forward from the previous year. Commerce must annually reserve 10% of authorized credits (excluding any amounts carried forward from previous years) for Maryland small or independent film entities.

Application Process

To be eligible for the tax credit, a production entity must submit an application to Commerce before the commencement of the film production activity. The application must describe the anticipated film production activity and include the projected total budget, estimated number of Maryland resident and out-of-state employees and total wages, and anticipated production schedule. Within 30 days of receipt of an application, Commerce issues either a letter of qualification notifying the applicant of the maximum tax credit for which the project is eligible or notice that the applicant is ineligible for the tax credit. Commerce generally requires that principal photography begin within 120 days of issuance of a letter of qualification.

A qualified film production entity must submit an application for final tax credit certification within 180 days after the production's completion date. The application must include proof of qualifying total direct costs and the number of employees hired and wages paid. For entities with total direct costs exceeding $250,000, Commerce requires submission of an independent, third-party auditor's report. The Maryland Film Office reviews the application; all closing documentation, receipts, and independent auditor's report (if required); and issues a final tax credit certificate to the production entity. The amount stated on the final tax credit certificate may not exceed the amount specified in the initial letter of qualification.

Claiming the Credit

The production entity may claim a credit against the State income tax in an amount equal to the amount stated in the final tax credit certificate. If the tax credit allowed in any taxable year exceeds the total tax otherwise payable by the qualified production entity for that taxable year, the qualified production entity may claim a refund in the amount of excess. To claim the credit, the production entity must file the applicable Maryland income tax return and attach a copy of the final certificate issued by Commerce along with Maryland Form 500CR (business income tax credits).

Legislative History

Chapter 516 of 2011 converted the preexisting Film Production Rebate Program to a tax credit program. The value of the subsidy was equal to 25% of qualified direct costs (27% for a television series). The Act authorized Commerce to award up to $7.5 million in credits annually in fiscal 2012 through 2014, after which the program was set to sunset.

Chapter 28 of 2013 increased, from $7.5 million to $25 million, the total amount of credits authorized for fiscal 2014 only and extended the termination date of the tax credit program by two years to July 1, 2016.

Chapter 486 of 2015 permanently extended the program and, for fiscal 2017 and beyond, limited annual tax credit awards to the amount appropriated to a newly established Maryland Film Production Activity Tax Credit Reserve Fund. The Act required Commerce to annually report the amount of tax credits necessary to maintain the current level of film production activity in the State and expressed legislative intent that the Governor include in the annual budget bill an appropriation to the reserve fund in the amount reported by Commerce. The Act also required Commerce to annually report a list of businesses that directly provided goods or services for film production activity and qualified as minority business enterprises or small businesses.

Chapter 595 of 2018 repealed the reserve fund, established annual dollar-amount limitations on aggregate tax credit awards ($8 million for fiscal 2019, $11 million for fiscal 2020, $14 million for fiscal 2021, $17 million for fiscal 2022, and $20 million for fiscal 2023 and each fiscal year thereafter), and required Commerce to reserve 10% of authorized credits each year for Maryland small or independent film entities. The Act also limited tax credit awards per single film production activity to $10 million; lowered the minimum Maryland spending requirement from $500,000 to $250,000 for non-small film production entities; and excluded from eligible direct costs any salary, wages, or other compensation for writers, directors, or producers.

Chapter 544 of 2019 reduced, from one year to three months, the minimum length of time an entity must be incorporated in Maryland to qualify as a Maryland small or independent film entity.

The Budget Reconciliation and Financing Act (BRFA) of 2020 (Chapter 538) decreased to $12 million the maximum amount of film production activity tax credits Commerce may award annually for fiscal 2021 and beyond.

Chapter 323 of 2022 expanded eligible film production activity to include digital animation projects.

Chapter 434 of 2023 expanded eligible film production activities to include documentaries and talk, reality, and game shows; restored cost eligibility for salaries, wages, and other compensation for writers, directors, and producers; increased the credit percentage from 25% to 28% (27% to 30% for a television series); and temporarily increased the annual program cap from $12 million to $15 million for fiscal 2024, $17.5 million for fiscal 2025, and $20 million for fiscal 2026. The Act also established the Maryland Entertainment Council to assess Maryland’s existing assets, opportunities, and competitive position within the film, television, and entertainment industry; study specified related topics; and make related recommendations.

The BRFA of 2025 (Chapter 604) reduced, from $20.0 million to $12.0 million, the aggregate amount of film production activity tax credit certificates that may be awarded in fiscal 2026, thereby accelerating by one year the phaseout of temporary enhancements to annual program funding.

2015 Evaluation of the Film Production Activity Tax Credit

DLS previously evaluated the film production activity tax credit program during the 2014 interim and issued its report in 2015. Issues highlighted in the report included the following.

- ***Credit Does Not Provide Sustainable Economic Development:*** Economic development activity generated by film productions is of short duration. As such, the tax credit does not stimulate long-term employment.

- ***Credit Not Linked to Taxable Income or Tax Liability:*** The tax credit is fully refundable. Thus, program benefits are not tied to the taxable income or tax liability generated by a participating film production entity in the State.

- ***Film Production Activity Benefits Some Local Jurisdictions More Than Others:*** Businesses in Baltimore City and Baltimore, Harford, and Anne Arundel counties primarily benefited from film productions receiving tax credits during the evaluation period. Meanwhile, Garrett, St. Mary's, and Somerset counties did not have any reported vendors benefiting from film productions.

- ***Vast Majority of Credits Awarded to Two Productions:*** More than 95% of authorized tax credits during the evaluation period had been awarded to two productions: *House of Cards* and *VEEP*.

- ***Film Production Companies Pit States Against One Another for Incentives:*** Film production is a relatively mobile industry. States face pressure to increase incentives in order to retain film production activity.

DLS recommended that the General Assembly allow the film production activity tax credit to sunset as scheduled on July 1, 2016, and instead focus economic development efforts on incentives that create permanent and lasting employment. The report also included several alternative recommendations to improve the tax credit program, some of which were at least partly incorporated in subsequent legislation (as detailed previously):

- consider replacing the credit with a budgeted grant program funded through the State budget and administered by Commerce;

- require local jurisdictions that benefit from film production activity to contribute a portion of the State's tax credit costs;

- require Commerce to monitor and report on the number of film production vendors that qualify as small, minority-owned, and women-owned businesses and consider methods by which film production entities can provide opportunities for small, minority-owned, and women-owned businesses;

- require Commerce to regularly report information on film production incentives provided in other states, particularly those with large tax credit programs;

- consider developing criteria for allocating tax credits and/or establishing limits on the amount of tax credits a single production may receive; and

- consider legislation to require the recapture of tax credits awarded to or claimed by a production entity that later leaves the State to film in another jurisdiction.

Chapter 2. State Film Incentive Trends

Types of State Film Production Incentives

Film production incentives include cash rebates, grants, and tax credits, including refundable and transferable tax credits. With a refundable tax credit, a taxpayer may claim a refund for all or part of the amount of any remaining credit after reducing tax liability to zero. Refundability substantially increases the value and cost of state film tax credits, as production companies with little to no state tax liability may be eligible for significant refunds. Transferable tax credits, on the other hand, may be sold by the recipient to another entity with state tax liability. A transferred tax credit is then claimed by the transferee and applied against the transferee's state tax liability. Nonrefundable, nontransferable tax credits may be used only to offset the recipient's state tax liability.

Tax credits are the most popular type of state film production incentive and were offered by 30 states in calendar 2025. As shown in **Exhibit 2.1**, three states' tax credit programs offer both refundable and transferable benefits: California, Massachusetts, and Nebraska. Notably, California's film tax credit is refundable for all projects and transferable for independent films only. An additional 11 states offer tax credits that are at least partially refundable, and another 13 states offer transferable tax credits. Only five states impose no annual program cap on film tax credits: Georgia (transferable credit); Illinois (transferable credit); Maine (nontransferable, nonrefundable credit); Massachusetts (transferable and partially refundable credit); and West Virginia (transferable credit).

Exhibit 2.1
Types of State Film Credits
Calendar 2025

	Uncapped	Annual Cap	Total
Refundable Only	0	11	**11**
Transferable Only	4	9	**13**
Refundable and Transferable	1	2	**3**
Nonrefundable and Nontransferable	2	1	**3**
Total	**7**	**23**	**30**

Source: Maryland Film Office; state legislative, economic development, and revenue departments; National Conference of State Legislatures; Department of Legislative Services

Nine states and the District of Columbia currently provide production companies with some form of rebate whereby production companies are reimbursed directly for a portion of their production costs. Of these, three states' film incentive programs include both tax credit and rebate components (Arkansas, Maine, and Utah). Grants are the least common form of film production incentive, with Texas offering only grants and Nebraska, Tennessee, and Virginia offering them in conjunction with tax credits.

Recent Trends in State Film Incentives

According to the National Conference of State Legislatures, as of August 2025, 18 states have implemented or expanded film incentive programs since 2021. Within the past two years:

- California more than doubled its annual program cap – from $330 million to $750 million;
- Texas allocated $300 million biennially over the next 10 years for film incentive grants;
- Wisconsin reestablished the Wisconsin Film Office and authorized up to $5 million in film tax credits annually;
- Indiana established transferability for film tax credits beginning in 2026;
- Iowa established a film rebate program;
- Colorado established a refundable tax credit program and authorized up to $5 million in tax credits annually through 2029; and
- Nebraska established a refundable film tax credit and authorized up to $500,000 in film tax credits annually.

Louisiana, however, has scaled back on film incentive spending. In 2024, the state lowered its annual cap on film tax credit issuances from $150 million to $125 million, similarly lowered its annual cap on film tax credit claims from $180 million to $125 million, and prohibited the rollover of any unused portion of the claims cap beginning July 1, 2025.

Film Production Incentives in Maryland and Surrounding States

Exhibit 2.2 shows the major characteristics of Maryland's tax credit program compared to those in surrounding states and the District of Columbia as of November 2025. As shown in the exhibit, Maryland and Virginia's film tax credit programs are relatively modest in size compared to those of nearby states. Notably, West Virginia's film tax credit is transferable, has a relatively low minimum spending requirement, and is uncapped at both the project level and aggregate program level. Delaware is the only surrounding state that does not currently offer any type of film production incentive.

Exhibit 2.2
Film Production Tax Incentives in Maryland and Surrounding States
As of November 2025

State	Incentive	Refundable/ Transferable	Credit Percentage	Possible Uplifts[1]	Minimum Spend	Compensation Cap	Statutory Per Project Cap	Statutory Annual Program Cap
District of Columbia	Rebate		* See below		$250,000	$500,000[2]		Subject to available funding
New Jersey	Credit	Transferable	30% to 40%	4% to 5%	$1,000,000 or 60% of total production expenses	$750,000[3]		$400,000,000[4]
North Carolina	Rebate		25%		* See below	$1,000,000	* See below	Subject to available funding[5]
Pennsylvania	Credit	Transferable	25%	5%	60% of total production expenses	$15,000,000 (aggregate ATL compensation)[6]		$100,000,000
Virginia	Credit and Rebate	Refundable	15% to 20%	* See below	$250,000			$6,500,000
West Virginia	Credit	Transferable	27%	4%	$50,000			
Maryland	**Credit**	**Refundable**	**28 to 30%**		**$25,000 or $250,000**	**$500,000[7]**	**$10,000,000**	**$12,000,000**

ATL: above-the-line

* District of Columbia: Eligible production companies may qualify for rebates of up to (1) 21% of qualified production expenditures (35% for qualified production expenditures subject to taxation in the district); (2) 10% of qualified personnel expenditures (30% for qualified personnel expenditures subject to taxation in the district); (3) 50% of qualified job training expenditures; and (4) 25% of base infrastructure investment.

* North Carolina: Minimum in-state spending requirements are as follows: $1.5 million for a feature-length film ($500,000 if made for television or streaming); $500,000 per episode for a television series; and $250,000 for a commercial. Per project benefits are capped as follows: $7 million for a feature-length film; $15 million for a single season of a television series; and $250,000 for a commercial.
* Virginia: In addition to the base income tax credit, Virginia offers (1) an Additional Virginia Resident Payroll Credit equal to 10% to 20% of total Virginia resident aggregate payroll and (2) an Additional Virginia Resident First-Time Industry Employee Credit equal to 10% of total aggregate payroll for Virginia residents who are employed as first-time actors or production crew members.

[1] An additional credit or bonus for productions that meet certain additional criteria (for example, relating to resident hiring or for filming in an economically distressed area).
[2] $500,000 cap applies ATL compensation.
[3] $750,000 cap applies to ATL compensation. Specified entities may be eligible to include excess ATL compensation as qualified expenses depending on the amount of total qualified expenses.
[4] Includes $150 million for designated studio partners, $150 million for New Jersey film-lease production companies, and $100 million for all other eligible taxpayers. Additional funds may be made available for credits to designated studio partners and New Jersey film-lease production companies, as specified.
[5] According to the North Carolina Film Office, the program is funded with a designated recurring starting amount of $31 million annually.
[6] $15,000,000 cap applies to aggregate ATL compensation.
[7] Maryland disallows benefits for compensation to individuals who receive more than $500,000 in total compensation in connection with the production.

Source: state legislative, economic development, and revenue departments; National Conference of State Legislatures; Department of Legislative Services

Chapter 3. Intent and Objectives

Intent of the Maryland Film Production Activity Tax Credit

Neither statute nor regulation specifies the intent or objectives of the film production activity tax credit. However, the preamble to Chapter 516 of 2011 enumerates 12 findings relating to Maryland film production activity and incentives, including the following:

- significant amounts of State and local tax revenues are generated by the economic activity created from producing films in Maryland;
- long-term benefits include development and establishment of spin-off film production activities such as editing, sound production, creative and artistic activities, and development of permanent facilities and cottage industries related to movie making;
- other states have established proven models for attracting film production activity to their states to the detriment of such activity in Maryland;
- Maryland can adopt such proven methods resulting in the immediate generation of new economic activity within the State; and
- the Governor and the General Assembly find and declare that the net benefit to Maryland as a result of this increased economic activity is positive and is necessary for strengthening the State's economic condition.

Rationale for and Effectiveness of Film Tax Incentives

The preamble to Chapter 516 implies that other states' film production incentive programs are attracting film production activity and related economic benefits away from the State, the State can regain this economic activity by adopting similar incentives, and the net benefit to the State of adopting such incentives is positive. This rationale suggests an underlying competition among states to attract and retain film production activity – a common theme surrounding state film tax incentives. The Department of Legislative Services (DLS) previously noted in its 2015 evaluation report that states' efforts to attract film productions had promoted an increasingly costly competition among states. Notably, a 2017 study on the diffusion of state film incentives found evidence that adopting states were largely influenced by the number of states that had previously adopted incentives, suggesting a competitive "bandwagon" effect.[1]

[1] Stephanie Leiser, "The Diffusion of State Film Incentives: A Mixed-Methods Case Study, *Economic Development Quarterly* 31, no. 3 (2017): 255-267.

Despite the popularity of state film tax incentives, existing research on such incentives presents mixed evidence of their effectiveness. As discussed previously, DLS's 2015 evaluation of Maryland's film production activity tax credit found that the program generated only temporary economic activity and limited return on investment (ROI) to the State and local governments. Other states' evaluations of film tax incentives have generally drawn similar conclusions. In a review of state film tax credit evaluations prepared or commissioned by state agencies over the past 10 years, DLS found that most estimate small, positive economic effects and limited returns on investment. Notably:

- ***California:*** a 2023 legislative analysis of California's film tax credit concluded that, while the tax credit program likely increased production activity in the State, it is unclear whether the program generated any growth in the state's overall economy;[2]

- ***Georgia:*** a 2023 evaluation of Georgia's film tax credit program prepared for the Georgia Department of Audits and Accounts estimated a significant net negative state fiscal effect and positive (though smaller in magnitude) net local fiscal effect after accounting for the share of production activity that would have occurred in the absence of the credit, and estimated revenue gains from alternative uses of the funding;[3]

- ***Louisiana:*** a 2017 evaluation of Louisiana's entertainment tax credits prepared for the Louisiana Department of Economic Development estimated that the state's film tax credit had a net negative state fiscal impact of $219.4 million and a per job cost to the state of $15,460 in calendar 2016;[4]

- ***Massachusetts:*** a 2020 report of the Massachusetts Department of Revenue on the state's film industry tax incentives estimated that the program generated net increases in personal income, gross state product, and jobs at a net cost to the state of $40.6 million in calendar 2016;[5]

- ***New York:*** a 2023 evaluation of New York State's film production tax credit prepared for the New York State Department of Taxation and Finance found that the program likely resulted in a net cost to the state;[6]

- ***Pennsylvania:*** a 2019 report of the Pennsylvania Independent Fiscal Office on the state's film tax credit noted that the size of the credit is moderate relative to other states and concluded that the tax credit "does not expand the industry, but rather retains jobs that would otherwise be lost[;]"[7]

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[2] Gabriel Petek, *The 2023-24 Budget: California's Film Tax Credit* (California Legislative Analyst's Office, 2023).

[3] Carlianne Patrick et al., *Tax Incentive Evaluation: Georgia's Film Tax Credit* (Georgia State University Fiscal Research Center, 2023).

[4] Loren C. Scott and Associates, Inc., *The Economic Impact of Louisiana's Entertainment Tax Credit Programs for Film, Live Performance, and Sound Recording* (2017).

[5] Kevin W. Brown, *Report on the Impact of Massachusetts Film Industry Tax Incentives Through Calendar Year 2016* (Massachusetts Department of Revenue, 2020).

[6] PFM Group Consulting LLC, *Economic Impact of Tax Incentive Programs* (2023).

[7] *Pennsylvania Film Production Tax Credit: An Evaluation of Program Performance* (Pennsylvania Independent Fiscal Office, 2019).

- ***Virginia:*** a 2017 report of the Virginia Joint Legislative Audit and Review Commission on the state's film incentives found that the economic impacts of the state's film tax credit and grant programs were positive but smaller than those of other economic development incentives in part due to the short-term nature of economic activity generated by film projects; and[8]

- ***West Virginia:*** a 2018 report of the West Virginia Legislative Auditor on the state's film tax credit concluded that the program produced minimal economic benefit to the state.[9]

Of the evaluations reviewed by DLS, eight estimated the ROI associated with film tax credits. As shown in **Exhibit 3.1**, these estimates ranged from $0.03 to $0.31 in state revenue for each dollar in tax credit awarded. For purposes of comparison, DLS estimated in its 2015 evaluation report that Maryland's film tax credit generated $0.06 in State tax revenue and $0.04 in local tax revenue for each dollar in credit awarded.

Exhibit 3.1
Estimated Return on State Investment in Film Tax Credits
Calendar 2017-2024

State	Year Published	State ROI Per Dollar in Tax Credits Awarded
Florida	2021	$0.07
Georgia	2023	0.15 to 0.19
Massachusetts	2020	0.14
New York	2023	0.31
Pennsylvania	2019	0.13
Rhode Island	2022	0.03
Rhode Island	2024	0.09
Virginia	2017	0.18 to 0.26

ROI: return on investment

Source: Florida Office of Economic and Demographic Research; Georgia State University Fiscal Research Center; Massachusetts Department of Revenue; New York State Department of Taxation and Finance; Pennsylvania Independent Fiscal Office; Rhode Island Department of Revenue; Virginia Joint Legislative Audit and Review Commission

[8] *Evaluation: Film Incentives* (Virginia Joint Legislative Audit and Review Commission, 2017).
[9] *Agency Review: Department of Commerce, West Virginia Film Office* (West Virginia Legislative Auditor, 2018).

It is worth noting that a 2014 report prepared by Towson University's Regional Economic Studies Institute (RESI) for the Maryland Film Industry Coalition, a private industry group, estimated that the State's film production activity tax credit generated $1.03 in State and local tax revenues for each dollar in credit claimed, with a majority of the estimated revenue generated by property and sales taxes.[10] However, the stated formula used by RESI for the ROI calculation – tax revenues divided by credits claimed[11] – does not take into consideration the opportunity cost of the credit. As highlighted in DLS's 2015 evaluation report, given the State's balanced budget requirement, tax expenditures for film production require either a corresponding reduction in State spending or a corresponding increase in revenue from other sources, both of which dampen economic activity. (DLS's 2015 ROI calculation assumed that State tax expenditures for film production were offset by a corresponding reduction in State spending.) Thus, the ROI estimate presented in the RESI report likely overestimated the State and local return on film production activity tax credits.

Other research on state film tax incentives published since DLS's previous evaluation of Maryland's film production activity tax credit does not offer any more conclusive evidence of the effectiveness of state film tax incentives.

- A 2017 paper analyzing the effectiveness of state movie production incentives found increases in film production employment and establishments for a few states, including California and New York, but did not find an increase across all states, suggesting a "crowding out" effect resulting from the number of state incentives.[12]

- A 2018 paper evaluating the impacts of state motion picture incentive programs found that outcomes varied by incentive design.[13] Specifically, transferable tax credits produced small but sustained employment effects but no wage effects, while refundable tax credits produced temporary wage effects but no employment effects. Neither incentive type affected gross state product or industry concentration. A 2019 paper by the same author analyzed the employment effects of motion picture incentive programs in five high-expenditure states (Connecticut, Georgia, Louisiana, Massachusetts, and New York) and found no employment effects that achieved both statistical and practical significance.[14]

- A 2019 paper analyzing the effects of U.S. state film tax incentives found evidence of effects on the filming location of television series but not feature films and found no meaningful effect on employment, wages, or establishments in the film industry or related

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[10] Daraius Irani et al., *Economic and Fiscal Impacts of the Film Production Tax Credit in Maryland* (Town University Regional Economic Studies Institute, 2014).

[11] *Ibid*., 11.

[12] Charles W. Swenson, "Preliminary Evidence on Film Production and State Incentives," *Economic Development Quarterly* 31, no. 1 (2017): 65-80.

[13] Michael Thom, "Lights, Camera, but No Action? Tax and Economic Development Lessons from State Motion Picture Incentive Programs," *American Review of Public Administration* 48, no. 1 (2018): 33-51.

[14] Michael Thom, "Do State Corporate Tax Incentives Create Jobs? Quasi-Experimental Evidence from the Entertainment Industry," *State and Local Government Review* 51, no. 2 (2019): 92-103.

industries.[15] A 2021 paper by the same author analyzing the effects of state film tax incentives in two early-adopting states – Louisiana and New Mexico – found evidence of increases in feature films but found no evidence of an increase in television series filming or film industry employment or business establishments, suggesting that "though there are some benefits to these incentives, their ability, under favorable circumstances, to develop a local film industry is very limited."[16]

- A 2020 paper analyzing the macroeconomic effects of state film incentives found no evidence of positive impacts on states' overall economic performances.[17]

- Another 2020 paper found that production incentives' effects on film location decisions vary by incentive type and firm size; specifically, the authors found that mid-sized studios are most sensitive to incentives and respond to all types of incentives, while major studios are responsive only to refundable and transferable tax credits, and independent studios are insensitive to incentives.[18] The authors found little evidence that incentives help develop permanent local film industries.

[15] Patrick Button, "Do Tax Incentives Affect Business Location and Economic Development? Evidence from State Film Incentives," *Regional Science and Urban Economics* 77 (2019): 315-339.

[16] Patrick Button, "Can Tax Incentives Create a Local Film Industry? Evidence from Louisiana and New Mexico," *Journal of Urban Affairs* 43, no. 5 (2021): 658-684.

[17] John Charles Bradbury, "Do Movie Production Incentives Generate Economic Development?" *Contemporary Economic Policy* 38, no. 2 (2020): 327-342.

[18] Mark F. Owens and Adam D. Rennhoff, "Motion Picture Production Incentives and Filming Location Decisions: A Discrete Choice Approach," *Journal of Economic Geography* 20 (2020): 679-709.

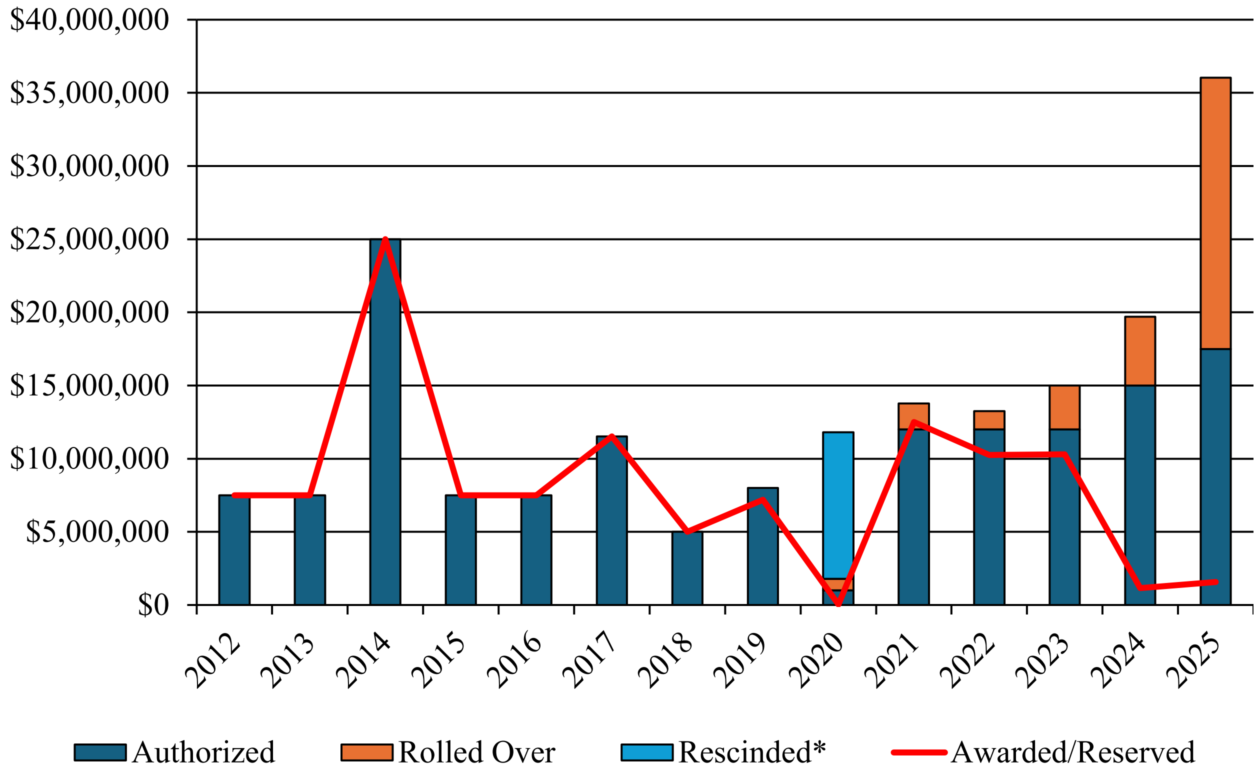
Chapter 4. State and Local Costs

State Fiscal Impact

For each year in which the program has been in effect, statute has limited the total amount of film production activity tax credits that the Department of Commerce (Commerce) may award. These limits have been modified several times since the program's original enactment. Notably, Chapter 486 of 2015 permanently extended the program beyond fiscal 2016, established the Maryland Film Production Activity Reserve Fund, and limited annual tax credit awards for fiscal 2017 and beyond to the amount appropriated to the reserve fund. Chapter 595 of 2018 subsequently repealed the reserve fund and established dollar-amount caps on aggregate awards for fiscal 2019 and beyond. Per statute, any unused amount may be rolled over and issued in a subsequent fiscal year.

Exhibit 4.1 displays the total amount of film production activity tax credits available in each year for which the program has been in effect – including the amount rolled over from prior years – compared to the total amount of credits awarded or reserved in each year. As shown in the exhibit, annual tax credit awards maximized available funding in each of fiscal 2012 through 2018. Since fiscal 2019, following the enactment of the small film set-aside and $10 million cap per production activity, annual tax credit awards have lagged behind available funding. Approximately $46.5 million is available for fiscal 2026, including $34.5 million rolled over from prior years.

Exhibit 4.1
Authorized and Awarded Film Production Activity Tax Credits
Fiscal 2012-2025



* Reflects a $10 million award that was reserved against fiscal 2020 funding and subsequently rescinded during the COVID-19 pandemic under State cost containment measures.

Source: Department of Commerce; Department of Legislative Services

State Revenue Impacts

The precise timing of resulting State revenue impacts depends on the timing of final tax credit certification and return filing. To claim the tax credit, a qualified film production entity must file the applicable Maryland income tax return, including the Form 500CR, and attach a copy of the final tax credit certificate issued by Commerce. Most film production activity tax credit dollars are claimed against the corporate income tax and thus reduce general fund revenues as well as Higher Education Investment Fund and Transportation Trust Fund revenues. To the extent the amount stated on a final tax credit certificate exceeds the qualified film production entity's State income tax for the taxable year, the qualified film production entity may claim a refund in the amount of the excess. Thus, the State revenue impact of the program is not limited by the amount of participating film production entities' State income tax liabilities.

Program Administrative Costs

Historically, the program has been administered by 1 staff person within Commerce in addition to other duties for the department's film and tourism offices. The program is currently administered by the acting director of the Maryland Film Office. Commerce advises that the introduction of the small film set-aside substantially increased the department's workload with respect to the tax credit program, which is already highly specialized compared to other Commerce-administered business tax credits. Thus, the department advises that the tax credit program requires a dedicated staff person with a background in production.

Local Fiscal Impact

Local governments receive a portion of corporate income tax revenues to support the construction and maintenance of local roads and other transportation facilities. Thus, film production activity tax credits claimed against the corporate income tax decrease local highway user revenues. As noted previously, most film production activity tax credit dollars are claimed against the corporate income tax. For illustrative purposes, a $10 million credit (the maximum allowed per film production activity) reduces local highway user revenues by roughly $300,000 to $400,000 annually.

Additional Maryland Film Tax Incentives

Sales and Use Tax Exemption

In addition to the State income tax credit for film production activity, the State exempts from the sales and use tax sales of tangible personal property, digital codes, digital products, or taxable services used directly in connection with a film production activity by a film producer or production company certified by Commerce. **Exhibit 4.2** displays the total estimated tax-exempt budget reported by participating film production companies and estimated foregone sales and use tax revenue in each of fiscal 2015 through 2025. As shown in the exhibit, total estimated tax-exempt spending averaged approximately $4.0 million annually over the last three fiscal years, reflecting a decline from prior years.

Exhibit 4.2

Estimated Impact of Maryland Film Production Activity Sales and Use Tax Exemption

Fiscal 2015-2025

Fiscal Year	Total Reported Tax-exempt Budget	Estimated Foregone Sales and Use Tax Revenue
2015	$11,099,000	$665,900
2016	10,518,600	631,100
2017	10,032,300	601,900
2018	6,419,900	385,200
2019	7,502,000	450,100
2020	10,047,000	602,800
2021	12,845,900	770,800
2022	12,659,700	759,600
2023	4,426,900	265,600
2024	4,218,600	253,100
2025	3,417,400	205,000

Source: Department of Commerce; Department of Legislative Services

Chapter 5. Findings

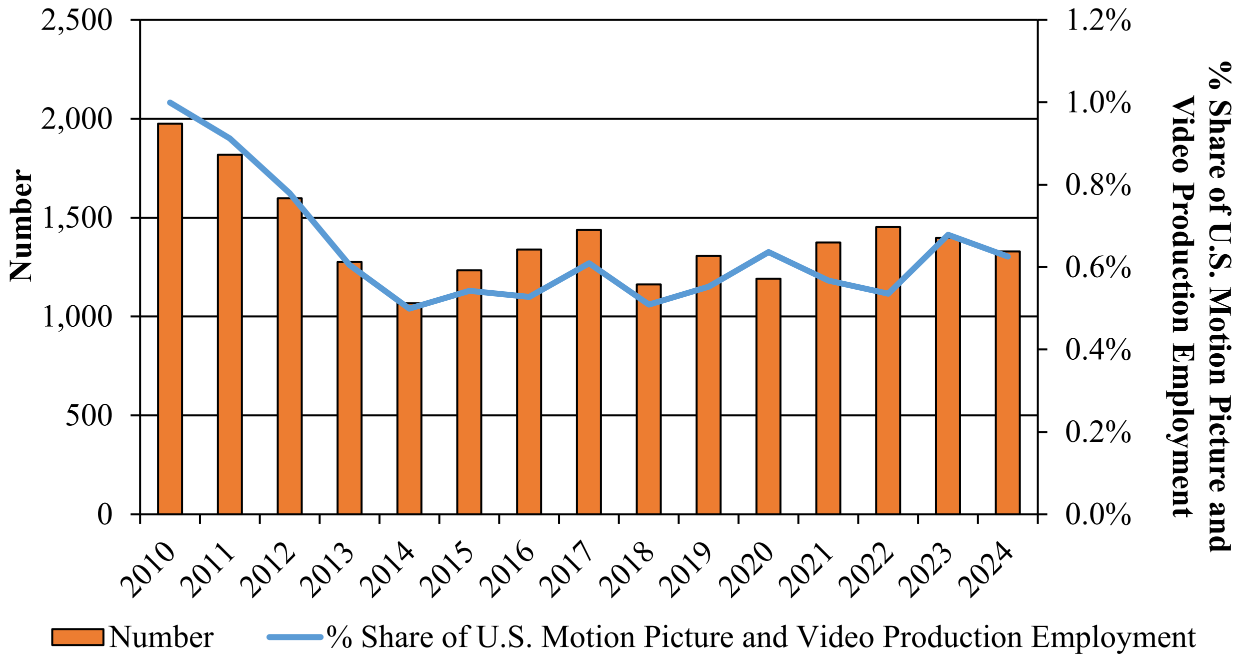
Tax Credit Program Is Unlikely to Generate Lasting Economic Development

Consistent with the findings of the Department of Legislative Services' (DLS) 2015 *Evaluation of the Maryland Film Production Activity Tax Credit*, DLS concludes that the tax credit program is unlikely to generate lasting economic development in the State. Economic activity generated by film production is generally temporary in nature, and the size of Maryland's film tax credit program is modest relative to those of other states. As discussed in Chapter 3, the existing research literature on state film production incentives presents mixed conclusions regarding the impact of these incentives and offers little evidence that state film production incentives are effective in developing local film industries or otherwise generating economic growth.

Maryland Employment in Motion Picture and Video Production Has Declined Since 2010

An analysis of Quarterly Census of Employment and Wages (QCEW) statistics for Maryland over the most recent 15-year period indicates that Maryland employment in motion picture and video production has declined since 2010 – both in number and as a percentage share of U.S. motion picture and video production employment – as shown in **Exhibit 5.1**. In the most recent 10-year period for which data is annual available (2015 to 2024), Maryland motion picture and video production employment has generally hovered around 0.6% of U.S. motion picture and video production employment.

Exhibit 5.1
Maryland Average Annual Employment in Motion Picture and Video Production (NAICS Code 512110)
Calendar 2010-2024



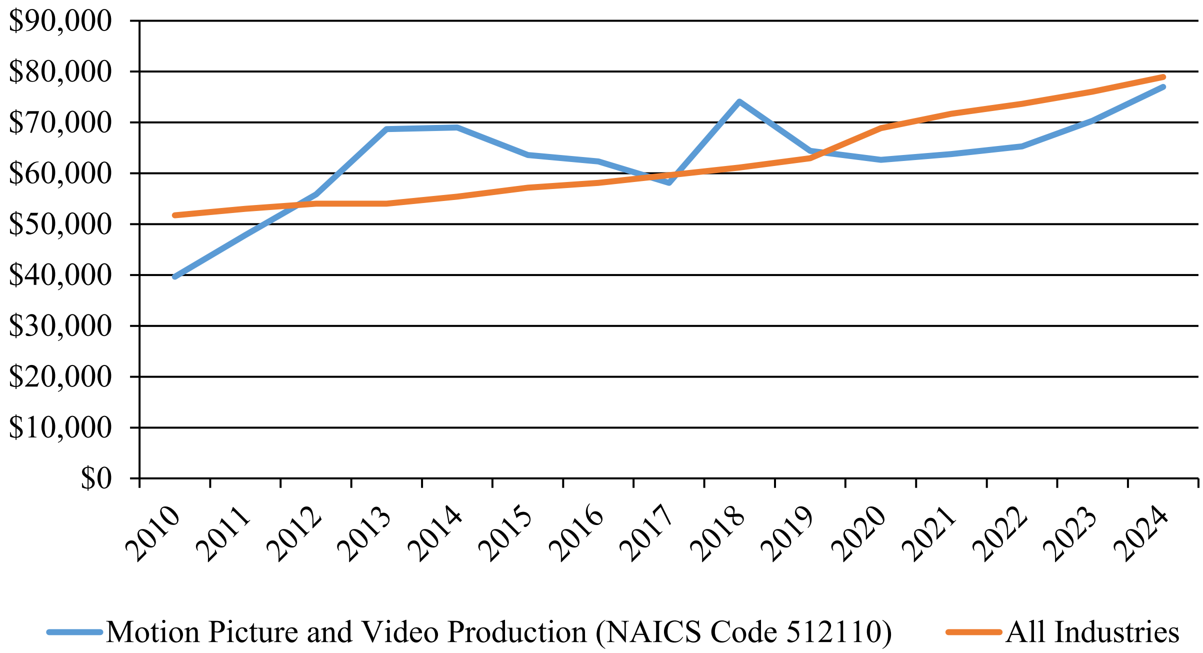
NAICS: North American Industry Classification System

Source: U.S. Bureau of Labor Statistics; Department of Legislative Services

In Recent Years, Maryland Average Per Employee Motion Picture and Video Production Industry Wages Have Lagged Behind Maryland Average Per Employee Wages Across All Sectors

According to the analyzed QCEW statistics for Maryland, average annual wages per employee in Maryland's motion picture and video production industry have fluctuated within the last 15 years relative to Maryland average annual wages per employee across all industries, as shown in **Exhibit 5.2**. Since 2020, average per employee wages in Maryland's motion picture and video production industry have lagged behind average per employee wages across all sectors in Maryland. By 2024, however, Maryland average per employee motion picture and video production industry wages had generally caught up to Maryland average per employee wages across all sectors.

Exhibit 5.2
Maryland Average Annual Wages Per Employee
Motion Picture and Video Production versus All Industries
Calendar 2010-2024



NAICS: North American Industry Classification System

Source: U.S. Bureau of Labor Statistics; Department of Legislative Services

Tax Credit Program Has Been Underutilized in Recent Years

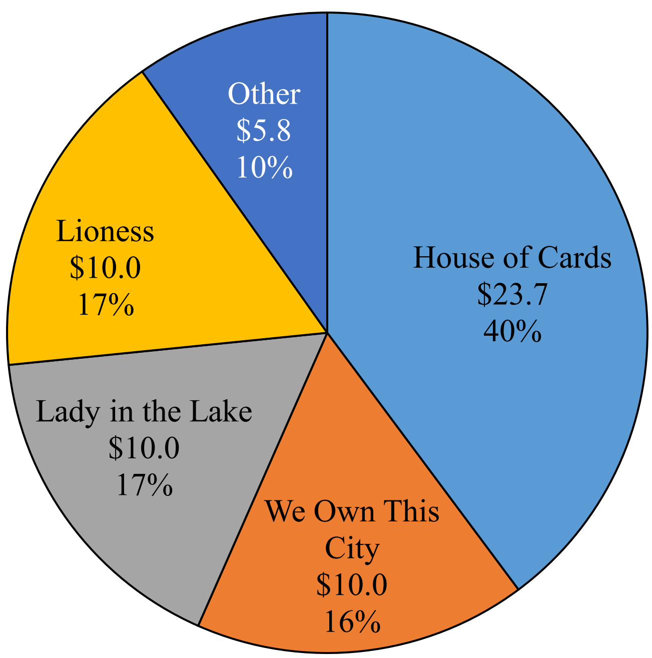
As discussed in Chapter 4, since fiscal 2019, following the enactment of the small film set-aside and $10 million cap per production activity, annual tax credit awards have lagged behind available funding. Unused, rolled-over funding from prior years totals approximately $34.5 million for fiscal 2026, or almost 40% of total authorized tax credits for fiscal 2019 through 2025. Prior to fiscal 2019, annual tax credit awards maximized available funding each year.

The Department of Commerce (Commerce) advises that the recent decline in tax credit utilization can be attributed at least in part to an overall slowdown in production, recent industry strikes, and a trend of production activity moving overseas, where costs are lower. Commerce also reports that the $10 million per production cap enacted under Chapter 595 of 2018 can deter large productions, which typically seek larger financial incentives from states.

Major Television Series Productions Continue to Reflect Majority of Tax Credit Awards, but Smaller Productions Claim Increasing Share

As highlighted in the 2015 DLS evaluation, two productions – *House of Cards* and *Veep* – received 97% of the total amount of tax credits awarded for fiscal 2012 through 2016. Since the 2015 evaluation, major television series productions continue to account for the majority of tax credit awards; however, smaller productions account for an increasing share of tax credit awards. As shown in **Exhibit 5.3**, four television series – *House of Cards*, *Lady in the Lake*, *Lioness*, and *We Own This City* – accounted for 90% of the total amount of tax credits awarded or reserved for fiscal 2017 through 2025, while smaller productions accounted for 10%. Since the conclusion of *House of Cards* – the final credits for which were awarded in fiscal 2019 – Commerce has awarded or reserved credits for over 50 projects.

Exhibit 5.3
Distribution of Maryland Film Production Activity Tax Credits
Fiscal 2017-2025
($ in Millions)



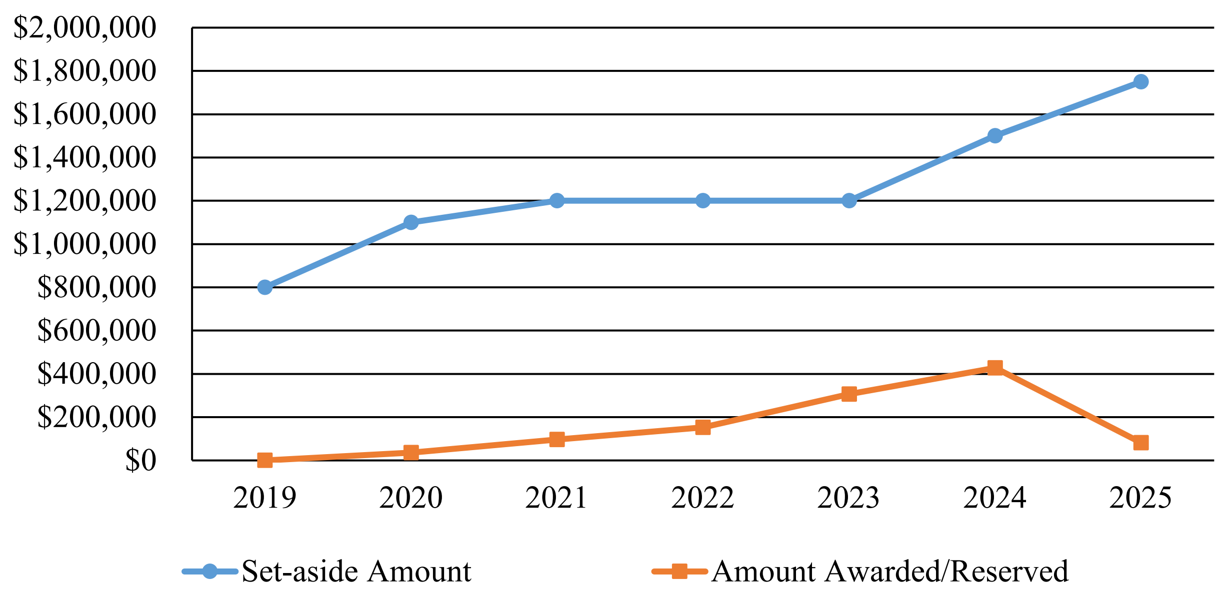
Note: Amounts shown above do not include a $10 million award that was reserved against fiscal 2020 funding and subsequently rescinded during the COVID-19 pandemic under State cost containment measures.

Source: Department of Commerce; Department of Legislative Services

Small and Independent Film Tax Credits Have Increased in Recent Years but Remain Below Set-aside Amount

As discussed previously, Chapter 595 required Commerce to set aside 10% of authorized credits (excluding any amounts carried forward from previous years) for Maryland small or independent film entities each year beginning in fiscal 2019. Tax credits for Maryland small and independent film entities are capped at $125,000 per production. No credits were awarded to small or independent film entities for fiscal 2019; for fiscal 2020 through 2025, $1.1 million in small and independent film tax credits have been awarded for 28 projects, for an average of $39,293 per production. As shown in **Exhibit 5.4**, small and independent film tax credits steadily increased in fiscal 2020 through 2024 but remain below the designated set-aside amount. Commerce advises that small and independent film projects are funded in the year in which they close; the decline in small and independent film tax credits in fiscal 2025 reflects the rollover of qualified fiscal 2025 projects to fiscal 2026. Fiscal 2026 small and independent film tax credits are projected to total approximately $548,000.

Exhibit 5.4
Small and Independent Film Tax Credits Awarded and Set Aside
Fiscal 2019-2025



Source: Department of Commerce; Department of Legislative Services

Chapter 6. Recommendations

Based on the information and analysis provided in this report, the Department of Legislative Services (DLS) makes a number of recommendations regarding the film production activity tax credit, as discussed below.

Recommendation: The General Assembly should consider terminating the film production activity tax credit and instead focus economic development efforts on incentives that generate lasting economic development.

DLS continues to conclude that the tax credit program is unlikely to generate lasting economic development in the State and likely has a net negative impact on State finances. Economic activity generated by film production is generally temporary in nature, and the size of Maryland's film tax credit program is modest relative to those of other states. Further, independent evaluations of state film tax incentives consistently conclude that film tax credits do not generate sufficient tax revenues to offset their costs.

However, should the General Assembly choose to continue the tax credit program, DLS makes the following recommendations to improve the program.

Recommendation: The General Assembly should define the objectives of the program in statute.

As discussed in Chapter 3, neither statute nor regulation specifies the intent or objectives of the film production activity tax credit. With additional specificity, DLS and the Department of Commerce (Commerce) can better evaluate the program's effectiveness and possible policy alternatives.

Recommendation: The General Assembly should reevaluate the $10 million per project cap for non-small productions and consider limiting the amount of unused funding that may be carried forward.

Commerce advises that the current $10 million per project cap deters larger productions, which have access to other, more generous incentive options in other jurisdictions. To the extent that the intended purpose of the $10 million per project cap is to expand access to credits for smaller productions, such a goal is already achieved by the program's small and independent film set-aside. Given the underutilization of the program in recent years, the General Assembly may wish to reevaluate the $10 million cap for non-small productions. However, the General Assembly should also consider limiting the amount of unused funding that may be carried forward and awarded in a subsequent year – especially if the General Assembly opts to increase or repeal the $10 million per project cap – in order to prevent large fluctuations in film tax expenditures from year to year. As discussed in Chapter 4, available fiscal 2026 funding includes $34.5 million in rolled-over funds from prior years.

Recommendation: Commerce should develop a proposal to update, streamline, and improve the program statute and narrow eligible productions and costs to those that have the potential to generate the most economic impact.

Commerce has offered a number of suggestions to update, streamline, and improve the program statute. For example, Commerce advises that, based on the advice of the Office of Attorney General, it does not enforce the statutory 40% resident hiring requirement for Maryland small and independent film credits; however, a bonus benefit for hiring State residents (as some other states have implemented) could avoid constitutional issues. Other suggestions include (1) increasing the minimum in-state spending requirement for non-small productions back to $500,000, as required prior to the enactment of Chapter 595 of 2018; (2) reevaluating qualifying costs, including whether qualifying costs would be better defined in regulation; (3) reevaluating the small and independent film tax credit eligibility requirements and designated funding level, which has exceeded small film program activity in recent years; and (4) reevaluating the list of eligible production activities. Given the limited size of the State's film tax credit program, the General Assembly may wish to focus film production tax expenditures on production activities that have the potential to generate the most economic impact, such as feature films and series.

Recommendation: Commerce should continue to monitor and assess the long-term staffing needs of the Maryland Film Office and make recommendations to the General Assembly as appropriate.

As discussed in Chapter 4, the small and independent film component of the tax credit program substantially increased the office's workload with respect to the program, which is highly specialized compared to other Commerce-administered business tax credit programs. Commerce has advised DLS that the tax credit program requires a dedicated staff person with a background in production.