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U.S. News

North Carolina Reins in Tax Incentives for Movie Companies

State Ends Program in Retreat From Race to Lure Hollywood Productions

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RALEIGH, N.C.—North Carolina is eliminating one of the nation's most extensive programs for awarding tax breaks to film companies, in a retreat from a race among states to lure Hollywood productions.

A last-ditch lobbying effort to save the program fell short this week as the state legislature worked to wrap up its session as soon as Wednesday.

North Carolina has been offering producers a 25% refundable tax credit, which meant, state legislators note, that taxpayers offset about 25 cents of each dollar spent. Refundable credits reimburse a company for its investments, even if it doesn't owe state taxes. The state awarded \$61 million in incentives last year to production companies for films like the Melissa McCarthy comedy "Tammy" and television shows like "Under the Dome" and "Eastbound and Down."

Over the years, hundreds of movie productions have made Hollywood magic in North Carolina. Do you think you know which ones? Take our quiz.

The N.C. General Assembly is replacing that incentive package with a \$10 million competitive grant program starting Jan. 1. The cap per production would be \$5 million, a quarter of what the state paid in incentives just for "Iron Man 3" in 2012.

Film backers say the narrow scope of the grant program could mean the end of the film industry in North Carolina, which has been the site of more than 800 productions in the past 30 years.

"An incentive that is a fraction of what you received previously is not enough," said Johnny Griffin, president of Wilmington Regional Film Commission Inc., an advocacy group funded by local government and businesses. "People will say, 'Well, North Carolina is a pretty place,' but there's no logical reason to film here."

The Motion Picture Association of America Inc. said the state stands to lose 4,000 permanent, well-paying jobs, in addition to the film industry's boost to the local economy. "The MPAA and its members have concluded that the \$10 million grant program is significantly underfunded to support the level of jobs, spending and local investment in North Carolina," said Vans Stevenson, an MPAA senior vice president.

State legislators say they are evening the economic playing field for all businesses by getting rid of a tax-incentive program available to filmmakers but not manufacturers or other industries.

Republican Gov. Pat McCrory lauded the new grant program, adopted by the Legislature two weeks ago, as a "good compromise" between the generous existing tax credits and nothing at all. "It's still a good program, especially to induce long-term projects that are having an impact on the cities and towns of North Carolina," said Mr. McCrory, who recently toured a Wilmington sound stage.

Credits Roll | Notable films aided by soon-to-expire North Carolina tax breaks



TAMMY (filmed in 2013)

People employed: **382**

Total spent: **\$14.54 million**

State tax credits: **\$3.64 million**



IRON MAN 3 (2012)

2,377

\$81.02 million

\$20.0 million



THE HUNGER GAMES (2012)

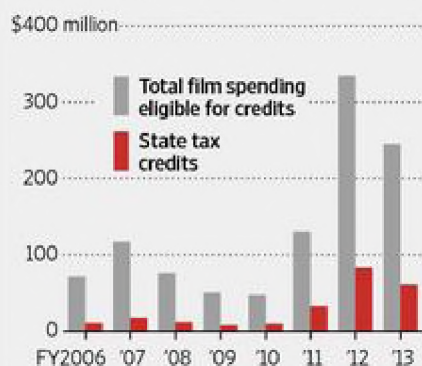
1,133

\$55.09 million

\$13.77 million

Photos: Everett Collection

Film production and credit in North Carolina



Tax incentives offered to film producers by select states

STATE	INCENTIVE	INCENTIVE TYPE	PER-PROJECT CAP
North Carolina*	25%	Refundable tax credit	\$20 million
New Mexico	25% + 5% for qualifying TV series	Refundable tax credit	No cap
South Carolina	30% for services, 25% resident labor, 25% nonresident labor	Refundable and transferable tax credits	No cap
Louisiana	30% + 5% on resident labor	Refundable and transferable tax credits	No cap
Georgia	20% + 10% for qualified Georgia promotion	Transferable tax credit	No cap

*North Carolina's current program will sunset on Jan. 1, 2015, to be replaced with a more restrictive \$10 million grant.

Note: North Carolina fiscal years end on June 30.

Sources: North Carolina Department of Revenue; Cast & Crew Entertainment Services (Incentives)

The Wall Street Journal

North Carolina's retrenchment comes as California is considering an expansion of its incentives package to lure producers back to Hollywood. The program, approved Thursday by a key legislative committee, would keep tax credits at between 20% and 25% of spending but quadruple the amount of money available to \$400 million. The new program would also broaden the criteria of eligible productions. Under the current program, only productions with budgets less than \$75 million can apply. The new program would open the bidding to any size production, but the tax credits could only apply to the first \$100 million spent in qualifying expenditures.

In addition to increasing the amount of money available and putting the state in competition with big programs like New York's, the legislators also want to see changes to the system used to pick eligible projects. The state currently uses a lottery that many producers in Hollywood say makes it hard to plan ahead. Lawmakers on Thursday said they want to see an amendment to the lottery system but didn't offer details on what might take its place.

The bill now goes to the Senate floor, where it will be voted on before the end of the month. It could face resistance from California Gov. Jerry Brown, who, when unveiling his budget earlier this year, said the state must be careful in expanding incentive programs because they can quickly get out of hand.

North Carolina originally attracted movie makers in the early 1980s because of its relatively low labor costs and its geographic diversity, with mountains, coastline and cities all within driving distance. The state was the setting for iconic films like "Bull Durham" and "Dirty Dancing," and Wilmington was home to the TV show "Dawson's Creek" for six seasons.

The state began offering incentives in the early 2000s to compete with other states and countries that developed tax breaks to lure non-Hollywood productions.



Robert Downey Jr. and Gwyneth Paltrow in the film "Iron Man 3," which benefited from North Carolina tax breaks. *Everett Collection*

Many states, including Michigan and Iowa, have since moved away from film incentives. Republicans and Democrats have questioned whether the incentives generate long-term jobs and were worth the money, particularly in the recent economic downturn. That left Georgia, Louisiana and North Carolina as the biggest players for filming outside Hollywood and New York, according to the North Carolina Film Office.

Georgia and Louisiana offer transferable tax credits valued at as much as 30% of costs. Transferable tax credits allow businesses that don't expect to owe much in taxes to sell the credit to a company facing a larger tax burden. Georgia Gov. Nathan Deal said recently that film is an important and growing industry worth \$5.1 billion in his state. Mr. Deal convened an economic-development summit last month to encourage state universities and agencies to better prepare workers for film jobs.

Mr. Griffin, of the Wilmington Film Office, said it is likely some of North Carolina's skilled crew members will move to Georgia. Mr. Griffin said he doesn't expect the Legislature to make any changes to the \$10 million grant program before adjourning this week. But he hopes the Legislature will reconsider next year.

House Speaker Pro Tem Paul Stam said in an interview Tuesday that there is "no chance" the General Assembly will sweeten the incentive package in the foreseeable future, while Republicans control the legislature and governor's mansion.

"I don't blame the film people at all for wanting money," Mr. Stam said. "But why in the world should we be giving tax money to make movies?"

—Erich Schwartzel contributed to this article.

North Carolina Kills Film Incentives: Which States Benefit?

5:00 AM PST 08/22/2014 by Alex Ben Block



CBS

A scene from CBS's 'Under the Dome,' which was shot in North Carolina

Shows including 'Under the Dome' and 'Sleepy Hollow' may relocate future production

When North Carolina killed its successful movie/TV incentive program Wednesday, there was immediate concern that other states would follow suit. That concern may not be warranted.

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"That doesn't appear to be the case for any state that is competitive and is attracting productions other than North Carolina," said **Vans Stevenson**, MPAA senior vp, state government affairs. "The only ones that have backed off are places where it hasn't really been competitive or it was a unique situation like Iowa where they had a scandal."

Among the most competitive states offering incentives are New York, Louisiana and Georgia, all of which have maintained or expanded their programs in recent years. Other states with competitive incentives include New Mexico, Illinois and Massachusetts; despite some opposition in the states' legislatures, the incentives have been continued.

Florida, which also has been aggressive about seeking productions, failed to fund its program for the coming year. Stevenson says that the failure is due to an in-state political squabble, not an effort to kill the incentive program.

At present, California is close to passing a bill to quadruple the state financial incentives to \$400 million. Even if that figure is cut as the legislature and Gov. **Jerry Brown** work out a final deal, California clearly sees incentives as key to keeping and attracting productions.

The North Carolina legislature did approve another incentive package that kicks in Jan. 1, 2015, when the current program that offers up to 25 percent incentives ends. The new plan provides grants to movie or TV

productions of up to \$5 million; but puts a cap on the annual expenditure of \$10 million — less than what the state paid to *Iron Man 3* in 2012. That makes the program nearly useless.

"It's disappointing," the MPAA said in a statement Thursday, "that the new grant program included in the budget agreement will prevent North Carolina from remaining competitive in attracting this prominent source of in-state economic activity."

Johnny Griffin, director, Wilmington (N.C.) Regional Film Commission, said the new plan will "obviously have an impact on the amount of business we will be able to sustain."

Griffin said they will see the real impact early next year when producers determine where to shoot pilots, and series decide whether to return to the state. He says this year, among others, CBS shot *Under the Dome* in North Carolina, while ABC made *Secrets & Lies* and Fox did *Sleepy Hollow*, but he worries none will return next year.

Spokespeople for ABC, CBS and Fox could not confirm their plans, but one studio executive said: "It definitely doesn't bode well for future new production there, or for the terrific infrastructure of production, personnel and vendors they've built up in the state."

In North Carolina, the first term Gov. **Pat McCrory** and the Speaker of the House **Thom Tillis** — a candidate for Senate — had both been vocal backers of film incentives until recently. However, as the state has seen a number of conservatives, Libertarian and Tea Party candidates elected, they have shifted to either a neutral position (the governor) or opposition (the speaker).

One big reason the North Carolina incentive legislation failed is because the **Koch** Brothers-backed nonprofit Americans for Prosperity bought radio commercials as the debate that slammed film incentives was going on. The ads were part of a larger campaign to eliminate a range of state-funded development programs.

"The money coming in from the outside has hurt the North Carolina programs for business development," said Rep. **Susi Hamilton**, a Democrat who fought to retain incentives. "The Americans for Prosperity spent a lot of money to try and end the program and unfortunately they have the ear of our leadership and appear to be successful."

Hamilton, however, doesn't believe this means other Southern states will follow suit. In fact, she sees the opposite happening as North Carolina stands to lose more than 4,000 good jobs.

"The implications for other states," says Hamilton, "particularly in the Southeast, are that they are going to pick up the work that otherwise would have come to North Carolina. That's good news for the other states."

Griffin says the irony is that there has been an influx of work into North Carolina in the past three or four years, and 2014 could be a record year.

Hamilton estimates that, in 2013, \$360 million was directly spent by productions, while the state paid out \$62 million in incentives. And that doesn't count millions more spent on services and by workers who have moved to the state for jobs that pay an average of more than \$65,000 per year.

"If productions are not here, those jobs have to go elsewhere," says Griffin. "If you work as a movie technician or a skilled artisan in the industry and there's not a lot of jobs, you definitely look elsewhere."

Chris Cates, president of C3 Studios in Charlotte, which in recent years housed the pilot for Showtime's *Homeland*, and has worked on eight films in the last five years, is considering moving his entire company to Georgia or another state.

"I know people that have lived here ten or twelve years and their only trade is related to filmmaking," says Cates. "I have been told by them, 'I am fixing up my house and putting it on the market. I'm going to have to go where the work is.'"

It's not just workers either. A Hallmark Channel movie that was to start production late this year is moving to Canada because the work will spill over into January. It was the first of three movies by the same author. The first two shot in North Carolina.

"There's a key location from the second movie that is only in North Carolina that is a big part of the third movie," says Cates, "but because of the timing, and not being able to complete by year's end, the consensus is that it's going to Canada."

Republican state Senator **Paul Stam**, who helped kill the incentives, was **quoted** in a local newspaper saying the movie business comes and goes and there is no point in giving them subsidies. That sentiment angers Cates.

"It's not about the productions coming here," Cates said. "It's about the businesses that support their effort that count on them coming here. We're not here today, gone tomorrow. We'd love to stay but if the business is in other states, we have to look elsewhere."

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