

PROLOGUE

I'm Just a Film Tax Credit

(In homage to the television educational series *Schoolhouse Rock*)

Oh, I'm just a tax credit, only a tax credit, but certainly not sitting here alone. By 2012 my numbers had multiplied. Not only did I have a limitless number of siblings waiting to be chosen, but I was part of a family known as the Louisiana Entertainment Tax Credits and Incentives. Touring concerts and Broadway shows picked up the music and theatrical tax credits, while video-game and software studios brought back interactive-media tax credits. But I'm just a film tax credit, and I'm waiting here in Baton Rouge for my blockbuster to set me free. Chances are very good.

Two thousand miles away, there's a film-studio executive sitting in committee with a folder full of pitches, producers, and budget plans. They're all waiting too. Pitches and producers await the "greenlight" to start production, and the budget plans give the studio committee plenty of fodder for their decisions. Luckily, the executive already knows me and finds me quite attractive. After all, I was created to catch her eye. So I'm introduced to the committee, along with product sponsorship and synergies, licensing and distribution deals, and a host of other offsets and incentives for films. Each film project is so expensive. The price of star personnel, from the headliner talent to the brand-name director, has driven up costs—while global success banks on sunk costs, such as showy special effects and massive media promotion. The studio needs a film that acts like a tentpole to fund the future productions and products captured in its field of vision. Turns out, I'm the perfect match for a project set in Los Angeles when aliens attack. It's no big deal because I'm what the studio needs right now: to cut costs in production next year. Plus, our pairing brings all other sorts of gifts, as I assure the lenders and insurance companies of upfront money. A quick rewrite of the script and off I go.

First to the production balance sheet: there I'm on a fast track for state verification and approval. Along with the millions of fellow Louisiana tax credits, I may be California dreaming, but I stay in state, where I have the most value. You see, I may be leveraged for venture investment coming from Manhattan or Silicon Valley, but my value can only be claimed by a Louisiana citizen or corporation. The studio wants me, but not enough to move. Nor are they going to risk their future if my project is a flop. They are so fickle. So the studio leaves me in the hands of the producer, who forms a limited liability company (LLC) to meet me on location. The LLC is really agile, living fast and dying after the film is done and sold back to the studio. No matter. On location, I'm really useful, giving discounts on everything from the hired hands to the executive hotel suites where we stay. This is the most high-profile time in my life. The newspapers and trade press celebrate me as the star behind Hollywood South. It's a whirlwind, though, as the production company is rushing to shoot and post-produce as quickly as possible. I'm also nervous, because in order to go further, the project has to wrap. Luckily, we do it all in just a year. The state looks me over on the balance sheet again, where I've already been approved by the LLC's handpicked auditor. It's time to go underground.

The LLC leaves me with the tax-incentive broker. Even as good as I was to the producers, they still have not gotten their promised payout. Nor will they get it unless they sell me. Louisiana LLCs do not owe either state or federal taxes as corporations would. Even the producers will likely go home owing nothing to the state, as they are residents elsewhere. Instead they have to find a local buyer with personal or corporate tax liability. The matchmaking is overseen by a broker, who bundles me with other transferable tax incentives and sells me to the highest bidder. In the best-case scenario, my stated value is relatively unchanged. In the worst-case scenario, the state still guarantees that I'm worth at least 85 cents on the dollar. Turns out, however, there's no shortage of firms and their executives who would love even a 5 percent discount on their taxes for a year. The bigger the buyer's tax liability, the higher my value as the market tilts to the highest bidder. The broker also wants to see me off for as close as possible to my original promised value. That generally means the broker is seeking the richest person or most taxed company to take as many credits as possible without a hassle. My dance card is likely to be full of potential suitors from energy and chemical, oil and gas, and other infamous industries—but I actually don't know who will take me home. Though everyone seemed to know about me before I came to this eerie place, now it seems like no one really knows about me, except for a select handful of very powerful brokers, lawyers, and buyers whose names are not public information.

As I suspected, I'm sold, and even if no one else knows, I still sense my true worth. Someone in Hollywood sponsored a film, and someone in Louisiana paid a little less to the state till. While I reassure the financiers, on the front end, that they risk almost nothing, I can help industrial and corporate giants, on the back

end, keep pace with those privileged investors who pay a lower tax rate than their employees. When I am finally cashed in, sometimes years later, I realize my new future with the “job creators.” Who knows what well I might frack or whose office I might renovate? Sure, sounds more glamorous than sitting around in the state capitol waiting to get allocated to a health clinic or a community college. Though they may gripe about their budget shortfalls and reduced services, even local government leaders think I’m better off in someone else’s pocket. After all, I have so many incentive friends in the film commissions and the municipal budget offices. Together, we have generated so many stories of local people. There’s the one about the small-business guy who now monopolizes the trucking industry for film and television. And I love the ones about the baker who sold more cupcakes to a hungry film crew or the hotel concierge who does such a great job introducing our authentic cuisine. My favorite stories, though, are the ones about the Hollywood actors who lovingly restore one of our decaying mansions, not to mention the indebted students who dream of being as famous as the actors, right before they move to Southern California.

As for the film I helped make? We parted ways so long ago. I’m just a film tax credit.