

**Written Testimony of Sally Jefferson
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Entertainment Software Association
Presented to the
House Tourism and Recreational Development Committee
June 5, 2009**

Chairman Kirkland, Chairman Barrar and Members of the House Tourism and Recreational Development Committee:

On behalf of the Entertainment Software Association (ESA) and its members¹, thank you for the opportunity to provide written testimony related to the computer and video game industry in Pennsylvania and efforts across the country to expand film tax incentive programs to include video game development and production.

The ESA is the U.S. trade association representing companies that publish computer and video games for video game consoles, personal computers and the Internet. In addition, through the Entertainment Software Rating Board (ESRB), we have created a superior rating, advertising, and enforcement system to provide parents with accurate information about the age appropriateness and content of every game sold in the country.

This week is actually a very exciting time for our industry, as the Electronic Entertainment Expo (E3 Expo) just wrapped up in Los Angeles, California. The E3 Expo is the premiere North American computer and video game event, and it serves as the industry's biggest forum, showcasing its most innovative products. Approximately 40,000 stakeholders attended this event to catch a glimpse at some of the newest software and hardware developments. The strength of the industry during these uncertain economic times has allowed us to continue to provide consumers with the creative, cutting edge products that meet their increasing demands.

The entertainment software industry – with more than 600 developers and publishers nationwide – has a great story to tell. National sales figures show that computer and video game hardware, software and peripheral sales climbed to \$22 billion in 2008. Entertainment software alone comprised nearly \$12 billion of this total – a 23% jump over the previous year. In addition, according to PricewaterhouseCoopers², video games will remain “one of the above-average growth segments of the global entertainment industries through 2011.”

With the average game player now being 35 years old, and with nearly two-thirds of American households playing games, it is clear that computer and video games have evolved from a form of children's entertainment, to a mainstream medium that is one of the fastest growing industries

¹ ESA's Members: 505 Games; Atari, Inc.; Capcom USA, Inc.; Crave Entertainment; Disney Interactive Studios, Inc.; Eidos Interactive; Electronic Arts; Epic Games, Inc.; Her Interactive, Inc.; KOEI Corporation; Konami Digital Entertainment; Microsoft Corporation; MTV Games; Namco Bandai Games America Inc.; Natsume Inc.; Nintendo of America Inc.; Playlogic Entertainment, Inc.; SEGA of America, Inc.; Sony Computer Entertainment America; Sony Online Entertainment, Inc.; SouthPeak Interactive Corporation; Square Enix, Inc.; Take-Two Interactive Software, Inc.; THQ, Inc.; Trion World Network, Inc.; Ubisoft Entertainment, Inc.; Warner Bros. Interactive Entertainment Inc. and XSEED Games

² See *Global Entertainment and Media Outlook: 2008-2012*, PricewaterhouseCoopers

either new programs or expansions of existing film tax initiatives – to bring the high-paying, high-growth jobs of the video game industry to their states.

Production incentives not only create jobs at healthy wages, but they also help keep the states' brightest young people from moving away. Entry-level game designers earn almost twice as much as their peers because the competition between companies to develop top-selling games and advanced training programs is incredibly stiff. The playing field for entertainment software industry jobs and the economic benefits these businesses bring to a state is also incredibly competitive.

This year Texas expanded its existing entertainment grant program, which was providing more than a 30% return on investment to the state for computer and video game productions, to offer increased grants for eligible motion picture, television, commercial and video game productions. The Lone Star State currently hosts the third largest concentration of computer and video game companies, with over 90 companies employing almost 3,000 people across the state – all of which brings tens of millions of dollars into their state and local economies. The hope is that this expansion will make Texas even more competitive in attracting these lucrative jobs and game development projects.

In total, state legislatures in 18 states are considering legislation that would create or expand tax credits and/or rebates on in-state spending for video game development and productions in 2009. States are increasingly seeing the positive economic impact that these projects bring and are working to create attractive environments for these companies. Currently, seventeen states offer incentive programs for computer and video game development and production (see attached chart).

While the video game industry is a strong one, it is not immune from today's economic turmoil. With the costs of conducting business continuing to climb, incentive programs are critically important for growing our industry. The average cost to develop a video game in the 1990's was roughly \$40,000. In the 2000's that figure has climbed to an average of \$10 million and is expected to increase further to between \$15-\$25 million in the next few years, due to the increased demand for state-of-the-art technology. As these development and production costs continue to rise, incentives for start up and expansion are invaluable and can make the difference in whether a production or development project succeeds or fails. More importantly, they have a tremendous impact on a company's decision about where to locate their business – just as they do for film/television production.

Thank you again for this opportunity to present this testimony in support of expanding the Pennsylvania film tax credit to include video game development and production. If you have any questions or need more information, please contact Robb Bohannon, ESA's Senior Manager of State Government Affairs or me at (202) 223-2400.

	<p>http://www.azleg.gov/legtext/48leg/1r/bills/hb2322s.pdf</p>
<p>Arkansas</p>	<p><u>Digital Product and Motion Picture Industry Development Act of 2009 (HB 1939) Effective 4/3/09</u></p> <p>“Film and digital product” includes without limitation: motion pictures; documentaries; long-form programs, specials, mini-series, music videos, and television programming; interactive television; interactive games; video games; commercials; digital media created primarily for distribution or exhibition to the general public.</p> <p>Production companies are eligible for 15% rebates, with no cap per production, on all qualifying production and post-production costs of a state-certified film project.</p> <p>Companies must spend at least \$50,000 in a six-month period in connection with an eligible project.</p> <p>An additional 10% rebate is available for payroll of salaries and wages to Arkansas residents who are below-the-line employees on a state-certified production.</p> <p>Salaries of employees making \$500,000 or more are not eligible for rebates.</p>
<p>Connecticut</p>	<p><u>2006- Tax Credits for Movie and Digital Media Production (SB702 §20) Effective July 1, 2006</u></p> <p>“Qualified production” includes interactive television, interactive games, video games, and any format of digital media created primarily for distribution or exhibition to the general public.</p> <p>Beginning July 1, 2007, an eligible production company producing a qualified production in Connecticut may qualify for a tax credit equal to 30% of pre-production, production and post-production expenses incurred in the state, as long as qualified costs exceed \$50,000. Commencing January 1, 2009, only 50% of eligible costs actually incurred outside Connecticut will qualify. Commencing January 1, 2012, no expense actually incurred outside Connecticut will qualify regardless of where the goods or services are used.</p>

	<p>If tax credit exceeds liability, can be credited toward future payments (same as HB 539).</p> <p>Credit is transferable (same as HB 539).</p> <p>http://www.legis.ga.gov/legis/2007_08/versions/hb1100_HB_1100_AP_8.htm</p> <p><u>Amended Georgia Entertainment Industry Investment Act 2005</u> (HB539) Effective for taxable years beginning on or after January 1, 2006</p> <p>http://www.legis.ga.gov/legis/2005_06/pdf/hb539.pdf</p>
Hawaii	<p><u>Motion Picture Digital Media and Film Tax Credit 2006</u> (SB2570) Effective July 1, 2006 – January 1, 2016</p> <p>“Qualified production” includes interactive game design.</p> <p>Tax credit of 15% of qualified production costs incurred in any county of the State with a population of greater than 700,000; or 20% of qualified production cost in any county of the State with a population of 700,000 or less.</p> <p>Permits refund if credit exceeds tax liability.</p> <p>Requires company to make reasonable efforts to hire locally and work with local education and workforce development efforts.</p> <p>http://www.capitol.hawaii.gov/session2006/Bills/SB2570_CD1 .htm</p>
Indiana	<p><u>Media Production Expenditure Tax Credit Act</u> (HB 1125) Effective July 1, 2008</p> <p>“Qualified media production” includes a digital media production that is intended for reasonable commercial exploitation.</p> <p>Provides individuals and companies a refundable tax credit of up to 15% of qualified investment in a qualified media production project.</p> <p>Caps the amount of media production expenditure income tax credits that may be awarded to all taxpayers for a state fiscal year at \$5,000,000.</p> <p>http://www.in.gov/legislative/ic/code/title6/ar3.1/ch32.html</p>

	<p>This credit is available until September 30, 2015.</p> <p>http://www.legislature.mi.gov/documents/2007-2008/publicact/htm/2008-PA-0086.htm</p>
New Jersey	<p>(S2526) (A4250) Effective January 11, 2008.</p> <p>Covers digital media content. Provides a tax credit of 20% of production expenses. Tax credit is transferable subject to approval of the Commission.</p> <p>If the tax credit exceeds tax liability, it will be treated as an overpayment.</p> <p>http://www.njleg.state.nj.us/2006/Bills/S3000/2526_R1.PDF</p>
North Carolina	<p><u>Privilege Tax on Purchases by Software Publishing Companies</u> (HB 1473) Effective October 1, 2007</p> <p>Changes the type of tax that is applicable to the purchases of equipment for the publishing of software from a sales tax at the rate of 6.75% to a privilege license tax of 1% with an \$80 cap.</p> <p>http://www.ncga.state.nc.us/Sessions/2007/Bills/House/HTML/H1473v10.html</p>
Rhode Island	<p><u>Motion Picture Production Tax Credits 2006</u> (H7839) Effective April 12, 2006</p> <p>Motion picture is defined to include video games made in Rhode Island.</p> <p>Tax credit of twenty five percent (25%) of the state certified production costs incurred directly attributable to activity within the state where production budget is a minimum of \$300,000.</p> <p>Tax credit is transferable</p> <p>http://www.rilin.state.ri.us/BillText06/HouseText06/H7839.pdf</p>
Texas	<p><u>Moving Image Industry Incentive Program</u> (HB1634) Effective September 1, 2007</p> <p>Provides for a grant equal to 5% of in-state production expenses up to \$250,000 for video games.</p> <p>80% of production must be completed in Texas.</p>