

## **Investing In Films For Accredited High Net Worth Investors, Family Offices, Hedge Funds, Private Equity, Venture Capital Can Provide Federal And State Tax Credits, Incentives, Guaranteed Returns, Before Profit**

**By Yuri Rutman**

In order to attract film production and provide for economic development and incentives, many states and territories including Arizona, Rhode Island, Georgia, Connecticut, Illinois, New Jersey, Iowa, Pennsylvania, Louisiana, Massachusetts, Connecticut, and Puerto Rico have enacted aggressive legislation that provides for tradable Film Production Tax Credits.

Tradable tax credits have historically been part of state and federal programs aimed primary for real estate development, including historic structures rehabilitation, energy, and other activities that stimulate economic growth.

With film projects, Production companies earn a transferable tax credit on the total eligible production costs, and wage expenses. That can translate to 20% – 30 % of the total production cost for a film, in the form of a tax credit issued directly to the production company. It can be used to offset state tax liability, or sold to another taxpayer.

In Michigan, there is a 40% Cash Rebate.

In Illinois, a 20% tax credit based on "Illinois Production Spending" plus an additional 15% tax credit based on Illinois labor expenditures generated by the employment of residents of geographic areas of high poverty or high unemployment is available. New Jersey offers filmmakers a 20% tax credit for productions that film at least 60% in the state, as well as a 30% loan guarantee from the New Jersey Economic Development Authority.

In Connecticut, film makers can earn a tax credit worth 30% of their eligible Connecticut production costs, and in Massachusetts, productions with a minimum expenditure of \$250,000 earn 20% and 25% for production expenses and labor expenses, respectively, when at least 50% is shot within the Commonwealth. Note: in MA, pending regulations propose a flat 25% combined tax credit, a minimum spend of \$50,000, and removal of per-project cap.

In CT., the 4 new bills are being debated in the legislature, and the expected result in June will be a combination bill. Rhode Island offers a 25% tax credit to productions with a minimum eligible expenditure of \$350,000, when 51% of the total budget is spent within the State. For more information about qualifying for each states' tax credit, contact Tax Credits, LLC. In Puerto Rico, A tax credit is granted to the investors in a Film Project equivalent to 40% of budget items paid to Puerto Rico residents, up to 50% of the cash invested as equity in the project. 50% of the tax credit granted to the investor may be made available to the investor upon investment if a completion bond or a letter of credit

is obtained, including the Puerto Rico Secretary of the Treasury as one of the beneficiaries.

Tradable tax credits allow production companies earning credits to sell their credits to companies and/or high net worth investors who have a tax liability within the state, where the credit was earned. The tax credits are sold at a discount for cash, garnering the seller cash to lower their net production expense.

Any company may take advantage of these “Financial Assistance Programs” to reduce their state tax liability. Purchased credits can typically be used for any year in which a tax return has not been filed. In general, credits may be used to offset any, or all, of the following: Individual Income Tax, Corporate Business Tax, Franchise Tax, Premium Tax, and Utility Tax (qualified taxes allowed for offset vary by State).

Large corporations and high net worth investors with a significant state tax liability can benefit from the purchase of film production tax credits, as they are able to purchase a dollar's worth of tax credit at a discount.

NJ, RI, CT and MA film credits provide the buyer with the right to carry the tax credits forward for at least 3 years, which protects the buyer from investing significant dollars in tax credits that they cannot immediately use. In Illinois, tax credits can be carried forward for 5 years. The tradable, and thus marketable aspect of these state-issued tax credits means that tax credit investors can also retain an equity position in a film or a slate of films.

For example, let's say that a tax credit investor has \$3,000,000 in tax credits he needs to purchase. While normally the final tax credit amount is calculated after a film's production, he decides to benefit from the upside in potential profits and receive his tax credits.

So if a film has a budget of \$6,000,000, 50% of the budget is equity (\$3,000,000) and 25% is tax credits, an investor/tax credit buyer will receive benefits of \$1,500,000 and 50% equity in the total international film profits and revenues.

But what happens to the other \$1,500,000 he still needs to receive as tax credits?

Well if his or a company's film investment was part of a film package, that amount is rolled over to another film that can be shot in a state or province where there may actually be a higher tax credit incentive which would be transferable back to him and any other investors on a *pari passu* basis. For multinational firms and investors, this can also be leveraged and cross-collateralized to a multiple country and territory transaction where there is a significant tax credit incentives such as Manitoba, Saskatchewan, Spain, Hungary, UK, South Africa, Australia, New Zealand, and others.

Another option would be to leverage the initial tax credit investment with a direct equity co-investment and set up several additional tranches of debt for a larger film fund.

To find out how a tax credit investment can also turn into a film investment that would hedge the risk and revenues across multiple films, please contact [yuri@noci.com](mailto:yuri@noci.com)

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