



# MICHIGAN IS *Making* MOVIES

## Tax Credit Purchases Pump Up Local Film Production

*Tax credits have long been a popular tool for spurring development projects.*

For several years, the state has made Michigan Brownfield tax credits available to foster development on contaminated, functionally obsolete, or blighted property. It's a win-win proposition. The formerly dormant site becomes functional once again, contributing to a vibrant community. And the developer receives a tax break in the process.

Now, our state's economy is getting a much-needed boost, thanks to a film production tax credit that's luring movie-makers to Michigan.

The tax incentive for film production is similar to the Brownfield credit—but with an extra perk. While both types of credits are assignable, the film tax credit is also refundable.

### IT WORKS THIS WAY

In a Brownfield transaction, a developer may sell the rights to a tax credit to a purchaser prior to completing the project. The developer then uses the proceeds from the sale to cover project costs, and the purchaser uses the credit to offset tax liability. Generally, a company with state tax liability purchases a tax credit for about 85 cents on the dollar—saving about 15% on its state taxes. At the conclusion of a project, the developer submits an application for a certificate of completion, along with a credit assignment form. The tax credit certificate is issued directly to the purchaser, who then files the certificate with its business tax return.

The film production tax credit has broader appeal. Because it's also refundable, the market for this credit is much larger—extending to banks and other parties outside the state who have no Michigan tax liability.

That refundability factor can act as a powerful incentive and serves as an important element in the film finance structure.

Typically, funds are needed early in the film production process, creating a risk for the purchaser that the movie may not get made and the tax credits will never be received. But a purchaser can protect against that risk by executing an assignment agreement.

The agreement should provide adequate security to the purchaser that the film will be completed, that expenses will qualify as eligible expenses under the statute, and that the production company will file all required forms with the relevant state authority within required deadlines.

Assuming the full amount of eligible investment is made, the purchaser will receive the full amount of tax credit purchased. If the purchaser has no Michigan Business Tax liability, it will receive a tax refund check. This makes an attractive deal for investor and film producer alike. The purchaser gets a tax credit or refund, and the producer is able to fund a production.

If you'd like to know more about how tax credit financing works, and whether it might be a good option for you, call our office for help.

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### That's Entertainment... (and sports and multimedia and more)!

Entertainment, sports, film, and other media industries are booming—globally, and right here in Michigan. And that means new business opportunities for artists, producers, directors, distributors, entrepreneurs, investors, and other sports and entertainment professionals.

More and more, our firm is playing a starring role in this exciting arena. So we've formalized a group of knowledgeable attorneys with first-hand experience in the entertainment and sports world.

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