Production incentives offered by states were introduced in the 1990s as a way to stem the loss of production to Canada and other countries. Since then, the entertainment industry has greatly expanded its domestic production volume as state incentives have encouraged the industry to invest in American labor and suppliers. Currently there are 31 U.S. states and multiple cities and regions that offer incentives for film and television production.

Incentives generally come in two forms: REBATES or TAX CREDITS.

**HOW REBATES WORK**

REBATE incentives are programs that offer productions cash back on qualified expenditures in the jurisdiction. Minnesota's current incentive program is a rebate, offering 20-25% cash back on qualified spending in the state. Funding for rebate incentives comes from an appropriation by the state legislature. Because of this, the amount available for a rebate incentive program can vary from year to year, making it difficult to build a sustainable, long-term industry. But rebate incentives work well for lower budget films, commercials, and post-production projects because of the relative simplicity of the process and the ability to receive cash back.

**HOW TAX CREDITS WORK**

TAX CREDIT incentive programs do not offer cash rebates to production companies. A tax credit program allows a production company to reduce its year-end tax liability using a fixed percentage of its overall in-state expenditure as the basis for calculating the amount of credit to be generated. The in-state expenditures, such as qualified labor, vendor services and purchases are all pre-defined with specific program guidelines to which production companies must adhere to remain eligible for the incentive.

For example, a production company would pre-determine, per reviewing state program guidelines, that it will spend $20 million on qualified in-state labor, vendor services and purchases for a film. For every dollar spent on qualified costs, the production would receive 25% back in the form of a state income tax credit. So $20 million in qualified expenditure would generate a state income tax credit of $5 million (25% of 20 million). However, since most production companies do not have significant state income tax liability, the tax credit can be sold and transferred to a business that wants to utilize the credit on its state income tax return. In exchange, the production company receives cash through the process of selling the credit, typically at a discount of 8% to 15% depending on demand, to an entity with an existing state income tax liability.

Therefore, the state does not need to appropriate funds to pay out any dollar amounts to a production company. A transferrable tax credit program supports two completely different industries: the industry receiving the credit and, separately, the industry claiming the credit on its tax return.

TAX CREDIT incentives are created by statute. The most effective programs have no “sunset,” meaning the program remains in place unless the statute is repealed. This is particularly attractive for the television industry which produces programs that run continuously for years.