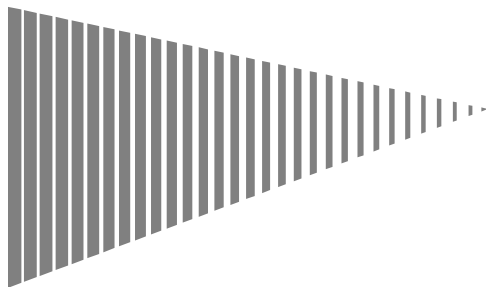


Tax incentives for film producers in the Canary Islands



EY
Abogados

MAIN TAX INCENTIVES

- ▶ Tax incentives for film and audiovisual production
 - ▶ International films – 35% tax rebate
 - ▶ Spanish films – 38%/40% tax credit
- ▶ Canary Island Investment Reserve
- ▶ ZEC

TAX INCENTIVES FOR FILMS AND AUDIOVISUAL PRODUCTION – (I)

1) INTERNATIONAL FILMS – Up to 35% rebate for production services

- 15% tax quote deduction in the Corporate Income Tax.
- Such tax quote deduction will be increased up to 35% for international films with production services made in Canary Islands.
- Maximum deduction: € 4,500,000 for film.
- Requirement: investing a minimum of € 1,000,000 of the film total budget in Spain/Canary Islands
- The tax base for film producers will be equal to the total cost spent in Spain/Canary Islands, specifically:
 - Creative staff costs (actors, screenwriter, technical head of sound, cinematographer, and so on), with tax residence in Spain or in other State of the European Union, capped to a limit of € 50,000 per person.

TAX INCENTIVES FOR FILMS AND AUDIOVISUAL PRODUCTION – (II)

- Other expenses incurred for hiring technical companies and other providers of services.
- Eligible productions:
 - Features films: animated or live action feature films
 - Audiovisual works
 - Spanish production service company must be contracted to manage the physical production.
- Collecting the tax rebate
- In order to apply for and obtain the mentioned tax rebate, payment of the relief may be claimed against the producer company's corporation tax liabilities. In the event the relief due is greater than any tax due by the Spanish producer company, then a payment of the excess will be made by Revenue.

TAX INCENTIVES FOR FILMS AND AUDIOVISUAL PRODUCTION – (III)

2) SPANISH FILMS

- 20%/18% tax quote deduction in the Corporate Income Tax.
 - Tax credits of up to 40% for the first million € invested in the production
 - 38% of the remaining amount invested
- Such tax quote deduction will be increased up to 40%/38% for Canarian film producers.
- Maximum deduction: € 5,400,000 for film.
- Requirement: at least 50% of the deduction basis must be done within Spain.
- This deduction may only be applied once the film is finished and operative.
- Cultural Test.

TAX INCENTIVES FOR FILMS AND AUDIOVISUAL PRODUCTION – (IV)

- The tax base for film producers will be equal to the total cost of the film (Canarian Cost and foreign cost) once deducted subsidies, later costs and the investment of the financial producers.
- Including:
 - Production cost.
 - Expenses incurred by the producer in copies, advertising and promotion up to 40 percent of the cost of production.
- Excluding:
 - The part of the budget financed by grants.
 - The part of the budget financed by financial producers.

TAX INCENTIVES FOR FILMS AND AUDIOVISUAL PRODUCTION – (V)

The film production must obtain a certificate from the “Registro de Empresas y Obras Audiovisuales de Canarias” (Canary Islands Administration).

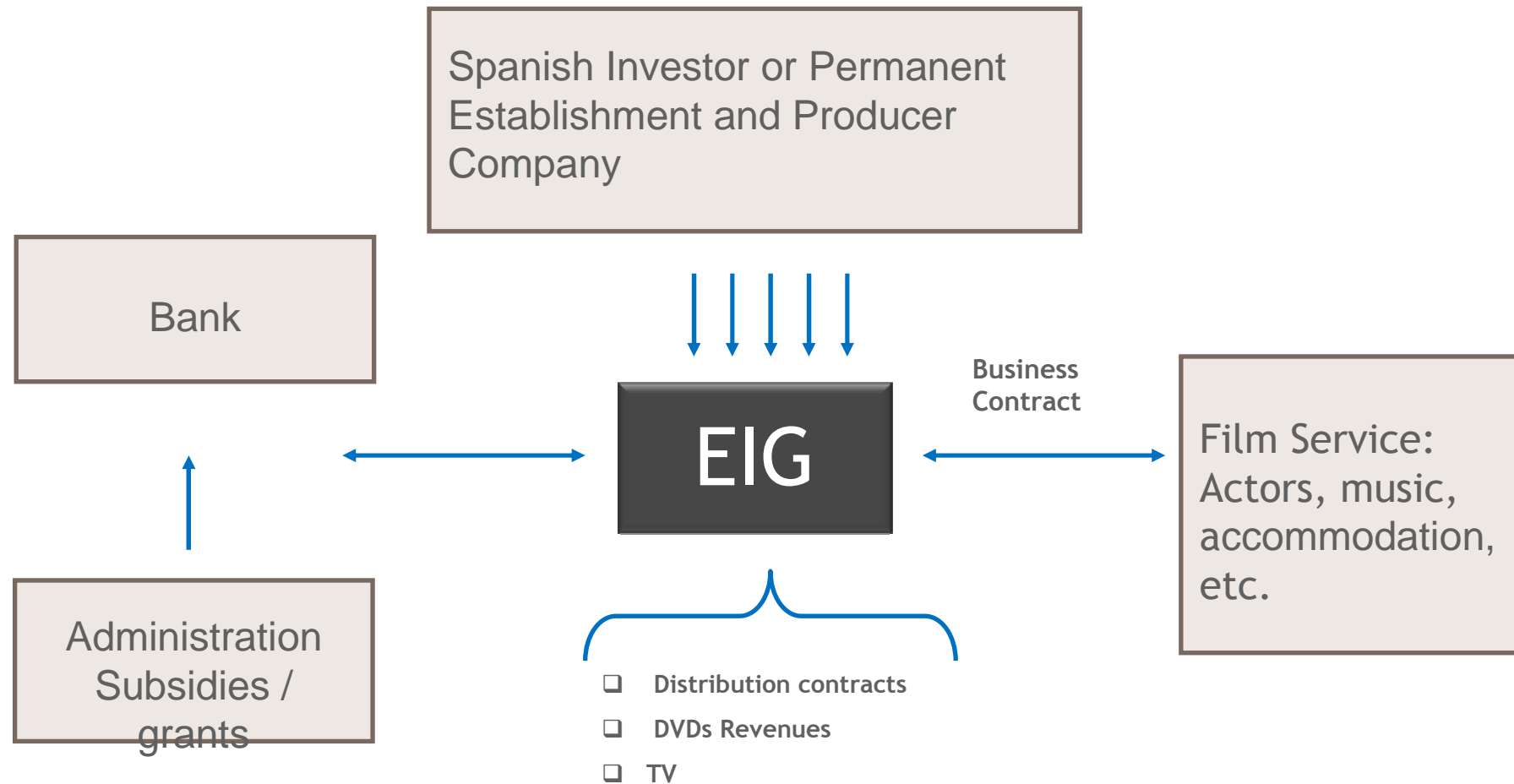
The requirements to obtain such certificate are:

- a. The producer must be Canarian (Economic Interest Grouping, hereinafter, EIG); or
- b. In case of co-production with a Canarian producer:
 - ▶ The Canarian co-producer must participate with either a principal actor/actress, a secondary actor/actress or a technician.
 - ▶ Productions must include at least two weeks of filming in the Canaries.

TAX INCENTIVES FOR FILMS AND AUDIOVISUAL PRODUCTION – (VI)

- Film producers are operating in the Canary Islands through an EIG with other partners in order to obtain Financial assistance at a very low cost.
- In this sense, the tax credit works as a transferable tax credit to Spanish Companies or natural persons who carry on business or professional activities in Spain.
- The EIG benefits from a special Corporate Income Tax regime which allows the partners to take advantage of its tax deductions or tax losses.
- This special regime is very attractive for Spanish Companies who would seek investing in this productions in order to obtain, among other, the tax credits.

TAX INCENTIVES FOR FILMS AND AUDIOVISUAL PRODUCTION – (VII)



TAX INCENTIVES FOR FILMS AND AUDIOVISUAL PRODUCTION – (VIII)

Production cost				100 €
- PRESALES / BANK				80 €
- EIG				20 €
Production revenues				125 €
Profit				25 €
EIG - Corporate Income Tax				
Corporate Income tax (30% of 25€)	-7,5 €			
Tax deduction (38% of 100€)	38 €	Net transferrable		30,5 €
Partners – Corporate Income Tax				
Partner A (50% EIG) → Investment 10 €		Partner B (50% EIG) → Investment 10 €		
Profit (50% of 25 €)	12,5 €	Profit (50% of 25 €)		12,5 €
Tax benefit (50% of 30,5 €)	15,25 €	Tax benefit (50% of 30,5 €)		15,25 €
Total benefit (net tax and profit)	27,75 €	Total benefit (net tax and profit)		27,75 €

THE CANARY ISLANDS INVESTMENT RESERVE (RIC)

- **Definition of the Canary Island Investment Reserve**

The Canary Island Investment Reserve, hereinafter RIC, is an instrument aimed at stimulating self-financed investment; i.e. companies that operate in the Canary Islands can finance their own investments.

- **Scope of the Canary Islands Investment Reserve**

Contributing to the RIC represents fiscal advantages. This special incentive is applied to the following persons or entities:

- All companies and other legal bodies subject to paying Corporation Tax in relation to their permanent establishments in the Canary Islands.
- Individuals subject to paying Income Tax, only if their net income comes from business activities who have their fiscal domicile in the Canary Islands.

- **Application and calculation of the RIC**

The RIC enables a company to reduce its tax base, for Corporation Tax, by up to 90% of its Undistributed Profits (BND). This is applicable to whatever amount of profits the establishments located in the Canary Islands decides to allocate to the Canary Island Investment Reserve.

The application of the RIC is exclusively limited to the benefits, obtained from economic activities, that have not been distributed, being excluded, among others, benefits obtained from the transmission of capital goods not allocated to an economic activity, being excluded also the benefits deriving from the transfer of property of capital goods already been used to invest the RIC.

THE CANARY ISLANDS INVESTMENT RESERVE (RIC)

• Requisites of the RIC

The requisites that must be met for a company to fully and effectively enjoy the fiscal benefits of the RIC are as follows:

1. Materialise the reserve.

Sums allotted to the RIC must be invested in one of the allowed investments. In this sense, the possibility of materializing the RIC in audiovisual productions has been confirmed by the Consultation to the Directorate General for Taxation number V0509-11.

2. Deadlines for investing RIC funds.

According to the stance adopted by the tax authorities, taxpayers have a maximum of five years to invest the RIC: the year in which the income is obtained, the year in which the reserve is recorded for accounting purposes and the following three years. Investments will be considered made when put into operation.

3. Minimum ownership of RIC assets.

The minimum period during which assets acquired with RIC funds must remain in operation depends on the investment option chosen investments in Fixed Assets: 5 years or the useful life of the asset in question, if this is less. For this purpose, useful life is considered to be the maximum depreciation installment listed in officially approved amortization tables.

4. Accounting the reserve.

The RIC must appear on balance sheets as completely separate account, under a suitable heading. The account may not be used during the compulsory period for keeping RIC assets.

THE CANARY ISLAND SPECIAL ZONE (ZEC)

• General requirements

The special ZEC regime may be applicable to newly incorporated legal persons which meet the following requirements:

- The entities should have their corporate seat and their effective place of management within the geographical limits of ZEC. The geographical limits should be consider the territory of the Canary Islands.
- At least one of the directors should be resident in the Canary Islands
- Their corporate purpose should be included in the list of permitted activities outlined in the Royal Decree with develops this special tax regime.
- Perform investments in tangible and intangible assets within the first two years following the authorization issued by the ZEC Committee. In Gran Canaria and Tenerife (main islands of the archipelago) such investments should amount to 100,000 euro.
- Create jobs within the geographical limits of the ZEC within the first six months following the authorization of the ZEC Committee and to keep a minimum number of five jobs (limit applicable in Gran Canaria and Tenerife).

• Tax treatment

The entities subject to the ZEC special tax regime will be subject to the Spanish Corporate Income Tax (CIT) with the following particular features:

- The tax rate applicable to these entities should be 4%.
- This reduced tax rate should be applicable to taxable profit linked to the transactions effectively performed within the geographical limits of the ZEC

GENERAL DATA / THE CANARY ISLANDS AT A GLANCE



Annual average temperature	7,447 km ² / 4,628 sq. miles
	1,114 km. (692.21 miles) of coast
	257 Km. (159.69 miles) of beach
Annual average temperature	Min. 18º C - Max. 24º C
Official language	Spanish
Local time	GMT
Currency	Euro
GDP 2014	€40,299,000 (£30,383,800)
Per capita GDP 2014	€19,15 (£14,44)
Population 2014	2,104,815 inh.
Population density 2014	283 inh /km ² (455 inh/sq. mile)
2 capitols:	
Santa Cruz de Tenerife	205,279 inh.
Las Palmas de Gran Canaria	382,283 inh.
Tourists arrivals 2014	12,911,012
Working week	40 hours a week
Minimum wage 2015	€648.60 (£489.02)/ month
Consumer price index 2013	2.1%
Infrastructure:	
Airports	8 (6 of them international)
Commercial Ports	27
Marinas	19
Road Network	4,256 Km. (2,644.56 miles)

EY Canary Islands Office

Julio Méndez

julio.mendezcalderin@es.ey.com

Jaime Sanz

jaime.sanzblanco@es.ey.com

35003 Las Palmas de Gran Canaria

Phone: +34 928 380 984

Fax: +34 928 370 249

This presentation contains only general information and does not constitute a professional opinion, or tax and legal advice of any kind. This information is not intended to provide and should not be relied upon for accounting, legal or tax advice or investment recommendations. You should consult your tax, legal, accounting or other advisors about the issues discussed herein.

PROEXCA CANARY ISLANDS OFFICE

Contact person in the Canary Islands:

Pilar Moreno Martínez

+34 922 470462

pilar.moreno@proexca.es

PROEXCA

Santa Cruz de Tenerife

Las Palmas de Gran Canaria

SPAIN