

TAX INCENTIVES FOR FILM PRODUCTION IN SPAIN

Mainland Spain referred to as the Peninsula due to its location has a 20% tax rebate for foreign productions

TAX INCENTIVES FOR FILM PRODUCTION THE CANARY ISLANDS

The Canary Islands offer a range of attractive tax advantages which are successfully applied thanks to the Canaries Economic and Tax Regime (REF)¹ within the legal framework of the EU and Spain.

This makes the Canary Islands one of the best places to film in Europe as in addition to the above, the islands boast great climate, superb natural conditions, a full array of sceneries and a solid film sector including equipment and qualified experienced professionals ready to take care of your every need.

Our tax breaks are as follows:

- 1. Deduction for investment in foreign productions: 40%**
- 2. Deduction for investment in Spanish productions or co-productions: 45% – 40%**
- 3. The Canary Islands Special Zone (ZEC)², to set up your company in the Canaries at a reduced rate of 4% Corporate Income Tax, compatible with the above-mentioned tax breaks.**

According to the Canary Islands REF, the specific incentives on film production in the Corporate Income Tax Law³, are increased by 20 percentage points and the limit is 80% higher than in the rest of Spain in general.

1. 40% TAX REBATE FOR FOREIGN PRODUCTIONS⁴

Producers with tax domicile in the Canary Islands who are in charge of executing a foreign production (production service companies) benefit from a 40% deduction on the eligible expenditure in the Canaries. This incentive is capped at 5.4 million Euros, which means the maximum deduction base is 13.5 million Euros.

What kind of productions qualify?

Foreign productions of feature films leading to a master copy to be subsequently mass produced. Therefore, feature films, animation films, drama series, and documentaries are included.

What kind of expenditure is eligible?

Expenses in the Canary Islands directly related to the production: Expenditure on creative staff provided that their tax residence is in Spain or in a European Economic Area Member State, capped at 100,000€ per person. Expenditure on technical industries and other suppliers.

Who can benefit from this deduction?

Production companies or production service companies whose tax domicile is in the Canary Islands and are registered in the Film and Audiovisual Arts Institute (ICAA) and have executed a foreign film.

How do I get the tax deduction?

The amount of the tax break (40% of eligible expenditure) is deducted from the corporate income tax in the tax period in which the production service is completed.

2. 45%-40% TAX CREDIT FOR INVESTMENT IN SPANISH PRODUCTIONS OR CO-PRODUCTIONS⁵

In the case of national productions shot in the Canary Islands, which obtain the Canaries Film Certificate, the deduction percentage is 45% on the first million Euros and 40% from then on.

This incentive is capped at 5.4 million Euros, which means the maximum deduction base is 13,375,000 Euros.

What kind of production can benefit from the incentive?

- Films for cinema release
- TV, animation and documentary series
- Provided that they are granted the Canaries Film Certificate⁶, issued by the Culture Department of the Government of the Canary Islands, apart from the nationality and cultural certificates issued by the Institute of Film and Audiovisual Arts (ICAA).

What kind of expenditure is eligible?

The deduction base is made up of the production costs, the expenses on making copies and expenses on publicity and promotion paid by the producer. Both are capped at 40 per cent of the production cost. Grants obtained to finance investments qualifying for deduction are not deductible. At least 50% of the deduction base must be of expenditure in Spain.

Who can benefit from the deduction?

Investors whose economic activities are based in the Canary Islands.

***Canaries Film Certificate**

To obtain the Canaries Film Certificate, the company must be registered in the Registry of Canary Islands Film Companies. The production must be Spanish and it must also meet the following requirements:

– The first unit must film a minimum of 11 effective days in the Canaries, either in interior or exterior locations, except for:

Animation: 20% of production time in the Canaries

Documentaries: no minimum time

Short Films⁷: 50% of the shoot must take place in the Canaries

TV Series: 20% of the season must be shot in the Canaries

– Hire local crew (minimum one head of department, or a leading and/or supporting actor with tax residence in the Canary Islands) Co-productions will be regarded Canaries productions provided that the Canaries producer takes care of more than 20% of the cost of production.

– In the case of financial co-production, the contribution of the Canaries producer must not be below 10% or above 25% of the cost of production.

– The application is made by the production office based in the Canary Islands, which must be registered in the Canary Islands Film Companies Registry.

How is the tax deduction obtained? The tax deduction is a tax credit deducted from the corporate income tax. If the tax payable was not high enough to cover the full amount of the deduction, the remaining amount can be deducted from the corporate income tax in the following years.

3. CANARIES SPECIAL ZONE (ZEC)

A company doing production activities and activities related to the film sector can be established as a ZEC company and pay a reduced rate of 4% on Corporate Income Tax instead of the general 30% rate currently in force in Spain, provided that they meet the following requirements. ZEC companies can carry out a wide range of activities in the film sector like:

1. Production

- Film, video, radio and television programs

2. Production services on set assistance and post-production

- Casting, location services, and dubbing
- Publishing and reproducing film copies and recordings
- Reproduction and film duplicates, compositing and photoengraving
- Brokering services to obtain contracts

3. Photography and advertising

- Photography and film developing
- Directing catalogues, publications, and promotional materials
- Creating and carrying out advertising campaigns

4. Film distribution

Requirements to be a ZEC company:

- a) To be a new company or branch
- b) At least one of the administrators must reside in the Canary Islands.
- c) Invest a minimum of 100,000 € /50,000 € (depending on whether the activity takes place in a capital island –Tenerife or Gran Canaria – or in one of the smaller islands).
- d) Create at least 5 jobs / 3 jobs (depending on whether the activity takes place in a capital island –Tenerife or Gran Canaria – or in one of the smaller islands).
- e) The objects of the company must be one of the ZEC authorized activities.

Benefits a ZEC company enjoys:

- a) Reduced tax rate of 4% on Corporate Income Tax as opposed to the 30% currently in force.
- b) Exempted from the Property Transfer and Stamp Duty Tax.
- c) Exempted from IGIC on import (both of raw materials and investment materials or finished products), and exemption in operations with other ZEC companies.
- d) The Double Taxation Avoidance Agreements apply as well as the exemption at origin on taxes for capital repatriation through the application of the parent subsidiary directive. Therefore, dividends sent from the ZEC company to the parent company outside Spain would

be exempted from paying tax at source, applying the International Double Taxation Agreement at destination.

e) The restriction to apply the deduction on double domestic taxation on dividends has been lifted. This ZEC tax incentive – compatible with the tax incentives for film productions described in this document – was authorized by the European Commission in 2000, to encourage the economic and social development of the archipelago. For further information www.zec.org

4. OTHER CANARIES INCENTIVES

Canaries Investment Reserve (RIC)

This tax incentive allows a reduction on the tax base of the Corporate Income Tax of up to 90% of undistributed profits. Production companies can attract RIC from other companies to invest it in their productions provided that they get the "Canaries Film Certificate" granted by the Government of the Canary Islands. RIC can be invested in feature films, short films, drama series, animation or documentaries provided that they are made in the Canaries.

Deduction for innovation: 45%

45% deduction on technological innovation activities carried out in the Canary Islands.

Deduction for advertising and publicity: 15% – 10%

10% to 15% deduction on the amount invested in advertising and publicity to launch products to open and research foreign markets and take part in trade fairs and similar events, including those held in Spain of international scope.

- 1. Royal Decree-law 15/2014 of 19 December, modifying the Canaries Economic and Tax Regime.*
- 2. Law 19/1994, of 6 July, modifying the Canaries Economic and Tax Regime according to Law 15/2014, of 19 December.*
- 3. Law 27/2014, of 27 November, on Corporate Income Tax.*
- 4. Article 36.2 of Law 27/2014, of 27 November, on Corporate Income Tax.*
- 5. Article 36.1 of Law 27/2014, of 27 November, on Corporate Income Tax.*
- 6. Royal Decree-law 18/2009, of 10 February, which regulates the procedure to obtain the Canaries Film Certificate/ order 22 may 2015, which establishes the required criteria to obtain the Canaries Film Certificate.*
- 7. Deductions in article 36.1 and 36.2 of Law 27/2014, of 27 November on Corporate Income Tax are not applicable to short films.*