




Canary Islands **FILM**

TAX GUIDE





The Canary Islands offer a number of attractive tax advantages that are successfully applied to audiovisual production thanks to the Canary Islands Economic and Fiscal Regime (REF)¹ within the legal framework of the EU and Spain.

This circumstance consolidates the Canary Islands as one of the best places in Europe to host such shoots, as the islands add the climate, natural conditions, landscapes and a solid audiovisual sector with qualified teams and professionals with experience to meet any need.

THESE TAX INCENTIVES ARE:


- 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 Canary Islands at a reduced rate of 4% Corporate Income Tax, compatible with the above mentioned tax incentives.**

According to the Canary Islands REF, the specific incentives for audiovisual production in the Law on Corporate Income Taxes³ provide that the amount of deductions for audiovisual productions will be increased by 20 percentage points and the limits will be increased in 80%, compared to the rest of the national territory in general terms.

1- Royal Decree-law 15/2014 of 19 December, modifying the Canary Islands 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. Spanish Law 3/2017, of 27 June, on General State Budgets for the Year 2017. Additional provision one hundred and twenty-five.



1 40% TAX REBATE FOR FOREIGN PRODUCTIONS⁴

Producers with tax residence in the Canary Islands responsible for the execution of a foreign production (production service companies) benefit from a return of 40% of the eligible expenditure in the Canary Islands. This incentive is capped to a maximum deduction amount of 4.5 million Euros, so the maximum deduction base is 11.250.000 million Euros.

	Spain	Canary Islands Special Case
Incentive	20% deduction on eligible expenditure in Spain, being the expenditure at least 1,000,000€ and the service provided by a production service company with tax address in Spain.	40% deduction on eligible expenditure in the Canary Islands, being the expenditure at least 1,000,000€ and the service provided by a production service company with tax address in the Canary Islands.
Deduction BASE maximum limit	15.000.000€	11,250,000€
Deduction QUOTA maximum limit	3.000.000€	4,500,000€

WHAT KIND OF PRODUCTIONS QUALIFY?

Foreign productions of feature films leading to a master copy prior to its industrial produced copy. Therefore, feature films, animation films, fiction series and documentaries are included.

WHAT KIND OF EXPENDITURE IS ELIGIBLE?

Costs incurred in the Canary Islands directly related to production: Expenses for creative staff, provided they have their tax residence in Spain or in some State member of the European Economic Area, with a cap of 100,000€ per person and project.

The expenses derived from the use of technical industries and other suppliers.

In this binding Query you will find a complete list of eligible expenses:
V2402-15

WHO CAN BENEFIT FROM THIS DEDUCTION?

Production companies or production service companies, which have a tax address in the Canary Islands, registered in the Institute of Cinematography and Audiovisual Arts (ICAA) and have performed a feature film or foreign audiovisual production.

HOW IS THE TAX DEDUCTION OBTAINED?

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. In the event that the quota is insufficient, an application may be made to the Tax Department for the monetisation of the remaining non-deducted sum.

In Animation, the deduction may be applied for partial deliveries in accordance with work certificates issued (Binding Query V0065-17).

For the application of this deduction, and for greater legal security, it is necessary to request it previously to the National Agency of The Tax authority, which will answer in a maximum term of 20 days”.

WHAT REQUIREMENTS MUST BE MET?

- The eligible expenditure for the Canary Islands must be at least 1,000,000€.
- The total cost of production must be at least 2,000,000€ and eligible expenditure may not exceed 80% of the total cost of production⁵.
- This deduction together with the other aids and grants for the same production may not jointly exceed 50% of the cost of production.

5- Article 45 of Corporate Tax Regulations, Spanish Royal Decree 634/2015, of 10 July 2015.

2 45%-40% TAX CREDIT FOR INVESTMENT IN SPANISH PRODUCTIONS OR CO-PRODUCTIONS⁶

In the case of national productions that take place in the Canary Islands and obtain the Canary Islands audiovisual production certificate, the deduction percentages are of 45% over the first million euros, and 40% thereafter. This incentive is capped to a maximum return of 5.4 million euros, so the maximum deduction base is 13,375,000 million euros.

	Spain	Canary Islands Special Case
Deduction percentage up to 1,000,000€	25%	45%
Deduction percentage for the remaining deduction base	20%	40%
Deduction BASE maximum limit	14,750,000€	13,375,000€
Deduction QUOTA maximum limit	3.000.000€	5,400,000€
Conditions	Must obtain Spanish Nationality and cultural certificates.	Must obtain Spanish Nationality and cultural certificates, and the Canary Islands Film Certificate.

⁶-Article 36.1 of Law 27/2014, of 27 November on Corporate Income Tax. Spanish Law 3/2017, of 27 June, on General State Budgets for the Year 2017.

WHAT KIND OF PRODUCTIONS QUALIFY?

- Feature films.
- Audiovisual series of fiction, animation or documentary.

As long as they obtain the Canary Islands audiovisual production certificate⁷, issued by the Department of Culture of the Government of the Canary Islands, in addition to the certificates of Spanish nationality and culture to be issued by the Institute of Cinematography and Audiovisual Arts (ICAA).

WHAT KIND OF EXPENDITURE IS ELIGIBLE?

The deduction base comprises the production costs, and the expenses on making copies and expenses on publicity and promotion paid by the producer, these last two capped at 40% of the production cost. Grants obtained to finance investments qualifying for deduction will minor the total eligible amount.

WHO CAN BENEFIT FROM THE DEDUCTION?

Investors whose economic activity is based in the Canary Islands.

***Canary Islands Audiovisual Production Certificate**

To obtain the Canary Islands audiovisual production certificate, it is compulsory to have the company registered in the Registry of Canary Islands Audiovisual Companies. The production must be Spanish and it must also meet the following requirements:

- To shoot with the first unit, a minimum of 11 effective days in the Canary Islands, either in interior or exterior

locations, except for:

- Animation: proof of a minimum of the following production times in the Canary Islands must be provided:

- 10% for works with a budget exceeding €5M.
- 15% for works with a budget of less than €5M.

Rendering work cannot exceed 40% of total production time.

- Documentaries: no minimum time.
- Short Films⁸: 50% of the shoot must take place in the Canary Islands.
- TV Series: 20% of the season must be shot in the Canary Islands.

- To hire local crew (minimum one head of team, or a leading and / or supporting actor with tax address in the Canary Islands). Co-productions will be considered Canary Islands productions provided the Canary Islands producer's contribution exceeds 20% of the cost of the production.

7- Royal Decree-law 18/2009, of 10 February, which regulates the procedure to obtain the Canary Islands Film Certificate/ order 22 may 2015 which establishes the requirement criteria to obtain the Canary Islands film certificate.

8- 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

- In the case of financial coproduction, the contribution of the Canary Islands producer must not be below 10% or above 25% of the cost of production.

- The application will be submitted by the production company based in the Canary Islands, which must be registered in the Registry of Canary Islands Audiovisual Companies.

HOW IS THE TAX DEDUCTION OBTAINED?

The amount of tax deduction is a tax credit deductible from the tax payable in the corporate income tax. If the tax payable were 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 15 years. The deduction will be generated in each taxation period for the cost of production incurred during the same and it will be applied from the taxable period in which the certificate of nationality is obtained. For the application of this deduction, and for greater legal security, it is necessary to request it previously to the National Agency of The Tax authority, which will answer in a maximum term of 20 days.

WHAT REQUIREMENTS MUST BE MET?

- The total amount of aids received by the taxpayer, including deductions, grants and subsidies, must not exceed:

In general terms, 50% of the cost of production.

60% in the case of cross-border production with financing and participation of producers from more than one Member State of the European Union.

70% in the case of productions by a new director and whose budget is less than 1 million euros.

- At least 50% of the base of the deduction must correspond to expenses incurred in Spanish territory.

- The same investment cannot give rise to the application of more than one deduction in the same entity, nor to the application of a deduction in more than one entity.





3 CANARY ISLANDS SPECIAL ZONE (ZEC)

A company carrying out production activities and activities related to the film sector can be established as a ZEC entity and subject to a reduced rate of 4% on Corporate Income Tax instead of the general 25% 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

- Motion pictures, video, radio and television programmes

2. SERVICE TO PRODUCTIONS, 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
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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) Investment of 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 non capital islands).
- d) Creation of 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 non capital islands).
- e) The social object to be carried out by the company must comprise ZEC authorized activities.

TAX ADVANTAGES FOR ZEC ENTITIES:

- a) Reduced tax rate of 4% on Corporate Income Tax as opposed to the 25% currently in force.
- b) Exempted from the Property Transfer and Stamp Duty Tax.
- c) Exempted from IGIC on import (whether of raw materials and investment materials or finished products), and exemption in operations with other ZEC companies.
- d) Application of the International Double Taxation Agreements and the exemption at origin on taxes for capital gains 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 withholding tax at source, and the International Double Taxation Agreement applies at the destination country.
- e) The restriction to apply the deduction on domestic double 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 INCENTIVES FOR THE CANARY ISLANDS

THE RESERVE FOR INVESTMENTS IN THE CANARY ISLANDS (RIC)

This tax incentive enables a reduction in the tax base of corporate income tax of up to 90% of the undistributed profit. Producers can attract RIC from other companies to invest in their productions as long as they obtain the “Canary Islands Audiovisual Production Certificate” granted by the Government of the Canary Islands. The RIC can be materialized in feature films, short films and audiovisual series of fiction, animation or documentary, provided they have been produced in the Canary Islands. Up to a 90% reduction in the tax base for the Corporate Income Tax.

DEDUCTIONS BY R & D + IT (RESEARCH AND DEVELOPMENT AND TECHNOLOGICAL INNOVATION): 45%⁹

There is a 45% deduction for the Research, Development and technological innovation activities carried out in the Canary Islands. This deduction is applicable to animation production and video games. In the event of insufficient tax payable, the Tax Authorities may be requested for the monetization of the remaining non deducted sum.

TYPE ZERO IGIC (CANARY ISLANDS GENERAL INDIRECT TAX EQUIVALENT TO VAT):

The zero rate IGIC is applied in the delivery and import of goods and provision of services for the execution of feature films or audiovisual series of fiction, animation or documentary, under certain conditions. The application of type zero requires the prior recognition from the Canary Islands Tax Department (Agencia Tributaria Canaria).

9- Deductions from Article 35 of Spanish Law 27/2014, of 27 November, on Corporate Tax and additional provision thirteen of Spanish Law 19/1994, of 6 July, amending the text of the Economic and Taxation Regime of the Canary Islands in accordance with Spanish Royal Decree-Law 15/2014, of 19 December.

DEDUCTION FOR ADVERTISING AND promotion EXPENSES: 15% - 10%

Deduction of 15% to 10% of the amount paid in advertising and promotion expenses for launching products for opening and prospecting of markets abroad and participation in fairs and similar events including those held in Spain with an international scope.



5 DIRECTORY

GENERAL INQUIRIES:

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SPECIFIC INQUIRIES:

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