




Canary Islands **FILM**

TAX INCENTIVES
FOR FILM PRODUCTION IN
THE CANARY ISLANDS





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

This establishes the Canary Islands as one of the best places in Europe to host film shoots as in addition to these tax breaks, they boast an excellent climate, natural conditions, wide-ranging landscapes and a strong local film industry with equipment and qualified, experienced staff ready to meet your every need.

THESE TAX INCENTIVES ARE:

- 1 Deduction for investing in foreign productions: 50%-45%**
- 2 Deduction for investing in Spanish productions or co-productions: 50% - 45%**
- 3 The Canary Islands Special Zone (ZEC)², to set up companies in the Canary Islands at a reduced rate of 4% on Corporate Income Tax, which is compatible with the above-mentioned tax reliefs.**

According to the Canaries REF, the specific incentives for film production provided for in the Corporate Income Tax Law³, are increased by 20 percentage points on the amount of the deduction for film productions and the limit is 80% higher than in the rest of Spain in general terms.

1. Royal Decree-law 15/2014 of 19 December that amends the Economic and Tax Regime of the Canary Islands

2. Law 19/1994 of 6 July that amends the Economic and Tax Regime of the Canary Islands as per Law 15/2014 of 19 December

3- Law 27/2014, of 27 November, on corporate income tax.

1 50%-45% DEDUCTION FOR FOREIGN PRODUCTIONS⁴

Producers with tax domicile in the Canary Islands who take care of a foreign production (service production companies) benefit from a 50% tax rebate on eligible expenditure in the Canaries on the first million euros, and 45% from then on”. This incentive is capped at 18 million euros⁵. Therefore, the maximum deduction base is 39.888.888,88€ million euros.

	Spain	Canary Islands special case
Incentive	30%-25% deduction on eligible spend in Spain, provided that expenditure amounts to at least 1,000,000€ and a production company with tax domicile in Spain is hired. (200,000 € for preproduction and postproduction expenditure on animation and visual effects)	50%-45% deduction on eligible spend in the Canary Islands provided that expenditure amounts to at least 1,000,000€ (200,000€ for animation & postproduction) and a production company with tax domicile in the Canary Islands is hired.
Maximum limit of deduction BASE	39.800.000,00€	39.888.888,88€
Maximum Limit of deduction QUOTA	10.000.000€	18.000.000€ ⁵

4- Article 36.2 of Law 27/2014, of 27 November, on Corporate Income Tax.

5 Publication pending further legislative amendments

WHAT TYPE OF PRODUCTION QUALIFIES?

Foreign productions of feature films or audio-visual work leading to a master copy to be subsequently mass produced. Therefore, feature films, animation feature films, fiction series, tv movies and documentaries.

WHAT TYPE OF EXPENDITURE IS ELIGIBLE?

Expenditure in the Canary Islands which is directed connected to the production:
Expenditure on creative staff, provided that their tax residence is in Spain or in any other European Economic Area Member State, capped at 100,000€ per person.

Expenditure related to the use of technical industries and other suppliers.

Please see the binding consultation V2402-15 for a full list of eligible expenditure.

WHO CAN BENEFIT FROM THE DEDUCTION?

Production companies or production service companies whose tax residence is in the Canary Islands, are registered in the Instituto de la Cinematografía y de las Artes Audiovisuales (ICAA) [Film & Audiovisual Arts Institute] and have executed a foreign film or audiovisual work.

HOW DO I GET THE TAX DEDUCTION?

The amount (50-45% of eligible expenditure) is deducted from the amount payable in the corporate income tax in the tax period after the production service is completed. 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 Animation the deduction can be applied by partial instalments arranged by the work delivery certificates issued (Binding Consultation V0065-17).

To be able to benefit from this deduction, and have greater legal certainty, it is necessary to previously apply to the Agencia Estatal de Administración Tributaria (AEAT) [Inland Revenue Office] that will answer within 20 days.

WHAT ARE THE REQUIREMENTS?

- The eligible expenditure on the Canary Islands will be at least 1,000,000€ (200,000€ for animation and postproduction).
- The total cost of the production will be at least 2,000,000€ and eligible expenditure cannot exceed 80% of the total cost of the production⁶.
- This deduction together with other subsidies for the same production cannot be above 50% of the production cost.

6- Article 45 of RD 634/2015, of 10 July, that approves the Regulation of Corporate Income Tax.

2 50%-45% DEDUCTION FOR INVESTING IN SPANISH PRODUCTIONS OR CO-PRODUCTIONS⁷

In the case of national productions shot in the Canaries which are granted the Canarian Certificate of Audiovisual Production⁸, the deduction percentages are those provided for in article 36.1 of the 27/2014 Law, of 27 November, on Corporate Income Tax, which amount to 50 % on the first million euros, and 45 % from then on. This incentive is capped at a maximum of 18 million euros⁵. Therefore, the maximum deduction base is 39.888.888,88€. This deduction could reach 54% in film productions whose intensity level allows it.

	Spain	Canaries special case
Deduction percentage up to 1,000,000€	30%	50%
Deduction percentage for the remaining deduction base	25%	45%
Maximum limit of the deduction BASE	39.800.000,00€	39.888.888,88€
Maximum limit of the deduction QUOTA	10.000.000€	18.000.000€
Conditions	Must obtain Spanish nationality and cultural certificates	Must obtain Spanish nationality and cultural certificates, and the Canarian Certificate of Audiovisual Production.

7- Article 36.1 of Law 27/2014, of 27 November, on Corporate Income Tax.

8- Decree 88/2019, of 22 May, that modifies Decree 18/2009, of 10 February, which creates the Canary Islands Registry of Audiovisual Companies and Works and governs the procedure to obtain the Canarian Audiovisual Work Certificate regarding feature films, short films, fiction series, animation and documentaries produced in the Canary Islands.

WHAT TYPE OF PRODUCTION IS ELIGIBLE?

- Feature films for theatrical release.
- Fiction series, animation, documentaries or short films.

Provided that they are granted the Canarian Certificate of Audiovisual Production, issued by the Department of Culture of the Government of the Canary Islands, in addition to the other Spanish nationality and cultural certificates issued by Instituto de Cinematografía y de las Artes Audiovisuales (ICAA).

WHAT TYPE OF EXPENDITURE IS ELIGIBLE?

The deduction base consists of the cost of production, the expenditure on copies and publicity and promotion costs paid by the producer which are both capped at 40 percent of the cost of the production. Grants or subsidies obtained to finance investments qualifying for deduction are not deductible.

WHO CAN BENEFIT FROM THE DEDUCTION?

Investors whose business activity is based in the Canary Islands.

REQUIREMENTS TO OBTAIN THE CANARIAN CERTIFICATE OF AUDIOVISUAL PRODUCTION⁹

To be granted a Canarian Certificate of Audiovisual Production⁹, the company must be registered in the Registry of Canary Islands Audiovisual Companies. The production must be Spanish and it must also fulfil the following requirements:

a) SHOOT TIME:

-In the case of Real image feature films:

- 11 days for budgets below two million €.
- 14 days for budgets equal or over two million € and below four million €.
- 16 days for budgets equal or over four million € and below eight million €.
- 18 days for budgets over eight million €.

EXCEPTION: 9 shoot days if there is a proven minimum expenditure of 15% of the budget on postproduction in the Canary Islands.

-Regarding real image series: a minimum of 20% of the shooting time for the episodes that make up the series season must be spent in the Canaries.

EXCEPTION: 15% of the shooting time in the Canaries of the episodes that make up the series season, if a proven minimum expenditure of 15% of the budget goes to postproduction processes in the Canary Islands.

-Regarding Documentaries: there is no shooting time requirements.

⁹- Please do not mistake this Certificate with the Canarian Audiovisual Work Certificate, which is needed to benefit from the Canarian Investment Reserve (RIC), but it is not necessary for the deductions described in article 36.1 of the Law 27/2014, of 27 November on Corporate Income Tax.

-Regarding Animation: The following shoot times are required:

- 15% production time for budgets over 5 million €
- 20% production time for budgets under 5 million €

Rendering cannot exceed 20% of the production time corresponding to the Spanish part.

b) Requirements relating to HIRING staff whose tax residence is in the Canary Islands:

The film applying for the certificate must at least include the participation of:

-ONE person regarded as CREATIVE STAFF, in agreement with that contained in article 4j, of the Ley del Cine [Spanish Film Act].

-NINE professionals regarded as TECHNICAL STAFF, who are part of at least five different departments:

- Production Crew
- Locations Crew
- Direction Crew
- Camera Crew
- Lighting and Grip Crew
- Sound Crew
- Art Crew
- Costume Crew
- Make-up and Hairdressing Crew
- Special Effects Crew
- Postproduction and Effects Crew
- Stunts

EXCEPTION: Regarding Documentaries at least TWO of the following professionals must be hired:

- Director
- Scriptwriter
- Composer of the original soundtrack
- Director of Photography
- Executive Producer

EXCEPTION: Regarding Animation the following must be hired:

- Head of team at the production office in the Canaries or, failing that, a lead; a senior or dubbing actor in a leading or supporting role.

c) In the case of co-productions, the contribution of the Canarian producer must exceed 20% of the cost of the production.

d) The financial participations of financial coproducers must not be under 10% or over 25% of the cost of the production.

HOW IS THE TAX DEDUCTION OBTAINED?

The amount of tax deduction is the tax credit which is deducted from 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 said period and it will be applied in the taxable period after the certificate of nationality is obtained.

WHAT ARE THE REQUIREMENTS TO QUALIFY?

The total of aids received by the taxpayer, including deductions and subsidies, cannot exceed:

In general terms, 50% of the production cost. However, this limit can be higher in certain projects as described in article 36.1 of Law 27/2014, of 27 November on Corporate Income Tax.

At least 50 per cent of the deduction base must be on expenditure in Spain. The same investment cannot involve more than one deduction for the same company, nor can the deduction be applied to more than one company.

To have access to this deduction, and for greater legal certainty, you need to apply in advance to Agencia Estatal de Administración Tributaria (AEAT) [Inland Revenue Office] that will answer within 20 days.



3 CANARY ISLANDS SPECIAL ZONE (ZEC)

A company dealing in production activities or activities related to film production can be set up as a ZEC entity and pay a reduced corporate income tax rate of 4% -as opposed to the general rate of 25% which applies in the rest of Spain- provided that it fulfils certain requirements. ZEC entities can be involved in a wide range of activities within the film production sector, such as:

1. PRODUCTION

- Film, video, radio and TV programmes.

2. PRODUCTION SERVICES, SHOOTING AND POSTPRODUCTION ASSISTANCE

- Casting, locations and dubbing.
- Publishing and reproducing film copies and recordings.
- Reproduction and film duplicates, compositing and photoengraving.
- Brokerage services to obtain contracts.

3. PHOTOGRAPHY AND ADVERTISING

- Photography activities and film developing.
- Directing catalogues, publications and promotional material.
- Creating and carrying out publicity campaigns.

4. FILM DISTRIBUTION

REQUIREMENTS TO BE A ZEC COMPANY:

- a) Being a newly set up company or branch.
- b) At least one of the administrators must reside in the Canary Islands.
- c) Making a minimum investment of 100,000 € (if the activity is carried out on a main island -Tenerife/ Gran Canaria) or 50,000 € (if carried out on any of the other islands).
- d) Creating at least 5 jobs / 3 jobs (if the activity is carried out on a main island -Tenerife/Gran Canaria) or 50,000 € (if carried out on any of the other islands).
- e) The purpose of the company must be one of the activities authorised in the ZEC area.

THE BENEFITS A ZEC COMPANY ENJOYS:

- a) A reduced rate of 4% on Corporate Income Tax.
- b) Exempt from the Property Transfer Tax and Stamp Duty.
- c) Exempt from IGIC on imports (both for raw materials and investment material or finished products) and exempt in operations with other ZEC companies.
- d) The International Double Taxation Agreements apply as well as the exemption at origin on taxes for capital repatriation through the Parent-Subsidiary Directive. Therefore, the dividends sent from the ZEC entity to the parent company outside Spain would be exempt from paying tax at source while the Double Taxation Agreement will be applied at destination.
- e) The restriction to apply the deduction on double domestic taxation on dividends has been lifted.

This ZEC tax incentive, which is compatible with the tax incentives for filming described in this document, was authorised by the European Commission in 2000, with the aim of encouraging the economic and social development of the islands. For further information please see canariaszec.com



4 OTHER INCENTIVES IN THE CANARY ISLANDS

THE CANARY ISLANDS INVESTMENT RESERVE (RIC)¹⁰:

This tax break allows a reduction in the taxable base of the Corporate Income Tax of up to 90% of undistributed profit. Production companies can attract RIC from other companies to have it invested in their productions provided that they obtain the Canarian Audiovisual Work Certificate (please do not mistake with the Canarian Certificate of Audiovisual Production) granted by the Government of the Canary Islands. The RIC can be invested in feature films, short films and fiction audiovisual series, animation or documentaries, whenever they have been shot in the Canary Islands.

DEDUCTION FOR R&D+IT (RESEARCH & DEVELOPMENT AND TECHNOLOGIC INNOVATION): 45%¹¹

A 45% deduction on Research, Development and technological innovation carried out in the Canaries. It applies to animation and videogames. 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.

IGIC ZERO RATE (CANARIAN INDIRECT GENERAL TAX)¹²:

The zero rate IGIC applies to the delivery and imports of goods and rendering of services to the execution of feature films or fiction audiovisual series, animation or documentaries, under certain conditions. To be able to apply the zero rate, the Canarian Tax Office must previously entitle you to do so.

¹⁰- Article 27, Law 19/1994 of 6 July in its wording currently in force according to RDL 15/2014, of 19 December.

¹¹- Deductions of article 35 of Law 27/2014, of 27 November, on Corporate income tax and addition provision thirteenth of Law 19/1994, of 6 July, amending the Canary Islands Economic and Tax Regime in its wording according to Royal Decree-law 15/2014, of 19 December.

¹²- Order of 23 May 2017, that governs the recognition of the application of the zero rate IGIC to the delivery and imports of goods and rendering of services for the purpose of making a feature film production or other audiovisual works.

DEDUCTION FOR EXPENDITURE ON PROMOTION AND PUBLICITY¹³: 15% - 10%

15% to 10% deduction on amount paid for promotion and publicity to launch products and researching foreign markets as well as participating in trade fairs and similar events, including those held in Spain of international scope.

13- Article 27 bis, RDL 15/2014, of 19 December



5 DIRECTORY

FOR GENERAL ENQUIRIES:

www.canaryislandsfilm.com
hello@canaryislandsfilm.com

FOR SPECIFIC ENQUIRIES:

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ZEC: companies that set up in the Canary Islands will benefit from a low taxation scheme, with a ZEC 4% rate on the corporate income tax:

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