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Impact analysis of fiscal incentive schemes supporting film and audiovisual production in Europe

A report by
Jonathan Olsberg and Andrew Barnes
OLSBERG • SPI

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Impact Analysis of Fiscal Incentive Schemes Supporting Film and Audiovisual Production in Europe

Director of publication

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Foreword

"Passion is one great force that unleashes creativity,
because if you're passionate about something,
then you're more willing to take risks."

The quote linking passion to creativity is from the award winning cellist Yo-Yo Ma and it is likely that many creative souls in the audiovisual sector will subscribe to it; yet, even the most passionate among the creative community might prefer to mitigate risks, especially with regard to the financing of their activities. For certain creative products such as cinematographic works or TV productions, securing the necessary funds is unavoidable before any camera can capture the creative moment. It is here where governments have the opportunity to intervene by offering funding, thereby reducing risk and unleashing creativity. In addition to passion therefore, the availability of financial resources is a major determining factor for the generation of creative content.

Public authorities have three major possibilities for providing financing for film and audiovisual productions: Direct funding, managed in most cases by national or regional film agencies, is the most frequent. Less common is for countries to name stakeholders as mandatory financial contributors to the productions (for example broadcasters, providers of pay-TV platforms, providers of on-demand audiovisual services). The third possibility is for countries to establish indirect financial support by offering fiscal incentives. The European Audiovisual Observatory is charged with providing more transparency of the audiovisual sector in its economic and legal context. For many years it has been providing information on direct public funding and mandatory contributions. Until now, we have lacked the resources to include fiscal incentives in our research which was something that we were always keen to remedy. Thanks to a donation from the Finnish Ministry for Education and Culture, the Observatory was able to commission, through tender, an "Impact Analysis of Fiscal Incentive Schemes Supporting Film and Audiovisual Production in Europe". This study goes some way to addressing the lack of information and analysis on fiscal incentives for funding the film and audiovisual production and, because we are aware of the tremendous interest in this very specialised area, our plan is to continue this work.

The high relevance of fiscal incentives for the production of audiovisual works was a huge motivation for us to cover an ambitious range of topics in the study. Olsberg·SPI, the London based boutique strategy consultancy, to whom the study was entrusted, specialises in creative industries and shared our enthusiasm and growing passion for unleashing as much of the widely requested information as possible. Preliminary results of the research presented by the consultancy at our Brussels Conference (organised in October 2014,[1]) immediately showed how broad the scope of researching fiscal incentive schemes could be. In order to glean these first very interesting insights, many difficulties had to be overcome and significant time invested to amass and interpret the factual information and data in an area that is far from transparent.

The final study confirms the need for a Phase II in order to dig deeper into the issue. For this to happen, we will have to count on the willingness of the sector itself and the entities administering the support schemes to make more data available. Ideally, data providers would follow one single agreed upon methodology, irrespective of size, type or country location of the scheme in question and efforts would be increased for collecting data relevant for measuring the economic impact of fiscal incentive schemes. Given our long standing experience in developing methodological approaches for data collection in the audiovisual sector and more generally in advising on

[1] See https://www.youtube.com/watch?x-yt-cl=85027636&x-yt-ts=1422503916&v=bWqZ4KSRg5s&feature=player_embedded

information collection, this study includes our recommendations on how to proceed in order to measure impact. The recommendations take into account our fresh (and sometimes sobering) experience of the collection of data on fiscal incentive schemes and have been elaborated together with the network of researchers of the film agencies (EFARN). The need for more transparency is certainly one underlying theme of the study and it is a conclusion whole-heartedly endorsed by the Observatory. We see our recommendations on the methodology as a first step towards this goal since transparency is the very mission of the Observatory.

The Observatory maintained its neutrality regarding how the study was conducted and the results it produced however, we were able to accompany the consultants in developing the agenda of the study from its original general concept and helping to establish contacts with the Observatory's existing networks, whilst highlighting relevant information and information sources. We commented on the various drafts that the study underwent and gave feedback when required. Most importantly perhaps, we set the parameters of the study. The availability of information permitting, these were namely to cover tax shelters, tax credits and rebate systems. Almost equally importantly, we determined what should be omitted from the study to keep it manageable and not duplicate other sources already providing coverage, namely to leave out information on direct public funding and mandatory obligations. Since these areas are not covered by the study we would encourage you to consult our databases, our website (www.obs.coe.int) or contact us directly for specific information at tel. +33 (0)3 90 21 60 00.

This study would still be on the wish list of many stakeholders as well as the European Audiovisual Observatory and its clients, were it not for the passion and tireless work of various other data and information collectors. The European Audiovisual Observatory and the authors of the study would like to thank all the countries who supplied data for this report, in particular the national and regional governments and film agencies in the countries covered by this report. Without their help this analysis would not have been possible. We would also like to thank all the consultants, who provided invaluable help, both formal and informal, advice, and experience in the development of this analysis.

Dr. Susanne Nikoltchev

Executive Director
European Audiovisual Observatory

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1 Introduction

This study has been written by Olsberg•SPI (SPI) for the European Audiovisual Observatory. It measures the impact of fiscal incentives on investments in the production of film and audiovisual works in Europe.

The use of fiscal incentives – i.e. tax shelters, tax credits or rebates - to stimulate greater levels of production in the film and audiovisual industries has become a popular policy tool in Europe and around the World in recent years. On the one hand this report identifies all existing fiscal incentive schemes in Europe and summarises those evaluations carried out at national levels up until 2014.

On the other hand it provides an overall view of the impact of fiscal incentive schemes from a pan-European perspective by means of a quantitative as well as qualitative comparative analysis.

Key questions addressed by this report

This report addresses the issues surrounding the impact of fiscal incentives currently operating in Europe, taking a comparative approach, analysing schemes from the individual perspectives of the national markets in which they operate, and evaluating their impact at a pan-European level. In doing this, we consider:

- The **landscape** for fiscal incentives targeting film, television, and video game production, including where they operate and what structures they use (Chapters 5 and 6);[2]
- What **trends** exist within the European fiscal incentive system (Chapter 7);
- The **impact,** in particular the economic impact, of fiscal incentive schemes (Chapter 8), including questions such as
  - Have incentives influenced the production levels, employment prospects, and direct funding systems within their own countries?
  - What is the impact of fiscal incentive structures on neighbouring countries through production flows and movement of employment?
  - Have incentives altered the business model for European independent production companies?
  - What is the fiscal impact for the States offering such incentives?
- How such incentives have been **evaluated** by the countries in which they operate, and how the conclusions of these evaluations compare with one another (Chapter 9);
- Recommendations on **future assessment** of fiscal incentive schemes in Europe (Chapter 10).

As part of this analysis, SPI have looked in greater detail at eight selected schemes presently operating in Europe where the most substantial amount of comparative data is available; these schemes are more fully described in an Annex, chapters 11 to 18.

As well as the direct impact of the film and audiovisual industries, it is possible to look at the **indirect** impacts on output and employment – arising from the industries' supply chain – and the **induced** impacts – arising from those directly and indirectly employed in these industries using their earnings to buy other goods and services. The indirect and induced impacts comprise the film industry **multiplier** – the ratio of the total economic impact of the film industry to the direct impact.

[2] For the purposes of this report, where the term “audiovisual” is used, this should be taken to refer to all three sectors (film, television, and video games); these sectors will otherwise be separately described.

Issues not addressed

Most of the incentives studied for this report exist within broader national systems aimed at supporting film and television production, with some now also supporting video games. These include direct funding schemes and, in various countries, mandatory investments or contributions by various categories of stakeholders such as broadcasters, video distributors, pay-TV operators and/or providers of on-demand audiovisual services. The impact of these other initiatives has not been considered as part of our analysis, as the available data do not allow for this. Our analysis has been *ceteris paribus* at the European level, with more detailed analyses of individual countries conducted in the individual country sections.[3]

While the broader focus of this report is on incentive structures to support film and television production – with video games also noted where relevant – the bulk of our analysis has focussed on the impact for national film production sectors. This is due to the higher quality of long-term data available for film when compared to television, allowing us to understand the impact incentives have had. As a result of this, unless otherwise noted, our European-level analysis has focussed on film production, with the impact on television noted more broadly in country sections in the Annex.

This report will also not address the cultural impact of such incentives. Though countries are increasingly considering the cultural impacts of the productions supported by their fiscal incentive schemes, this process is not advanced enough to provide comparable, pan-European conclusions. As with other such aspects of our analysis, we anticipate that future advances in data collection and analysis within Europe will allow for broader conclusions on this to be drawn over the next few years.

Finally, this report does not include a detailed compendium of all the relevant regulations and elements that make up the operation of each fiscal incentive. For each country, that information is available online from a variety of sources, such as national screen agency, film commission or governing authority. Links to these are provided in the individual country guides, found in the Annex.

Limitations of analysis

In many cases, the analysis contained in this report is restricted by the availability of comparable data from the countries we have studied. While most of the countries that operate schemes of interest to this work produce data, it proved largely impossible in several cases for this to be manipulated into datasets that were comparable with one another.

Consequently, a large amount of our primary and secondary analysis has focussed on consultations and literature reviews, particularly with regard to the secondary or downstream impacts of the incentives studied.

With regard to data collection and evaluation, we have made a number of recommendations in Chapters 9 and 10, which we believe, could usefully aid future researchers undertaking a comparative analysis of incentive schemes. If these recommendations are implemented, we believe that such future research will be able to provide even richer conclusions about the nature of incentives in Europe, and how they have altered the production market which operates in the continent both positively and negatively.

[3] Certeris Paribus – all things being equal.

Executive summary

2 Executive summary

The following section summarises the definition and categorisation of "fiscal incentives" underlying this report as well as the principal findings of analysis carried out by Olsberg•SPI, which are described in more detail elsewhere in the report.

2.1 The European fiscal incentive landscape

Three types of fiscal incentives

There are three main types of incentive structures commonly used in Europe: tax shelters, rebates, and tax credits.

Tax shelters

Tax shelters are designed to attract investment from high net-worth individuals or high tax-paying firms who are permitted to deduct investments in qualifying production against their tax liabilities – while still being able to realise any long-term profits arising from a project, although these would be subject to tax when received.

Rebates

Rebates are driven by production spend rather than levels of investment – repaying productions a percentage of their qualifying budget items according to a clear set of regulations – and are funded directly from the state budget. The payment is normally made after the production expenditure has been completed and audited (although some systems accommodate partial earlier payments) and, of critical importance, typically some months after the nation's treasury has collected a range of taxes from the production activity itself.

Tax credits

Tax credits are similar to rebates in that they are designed to repay a percentage of qualifying production costs based on a pre-determined formula. However, rather than being paid from a demarcated fund, the incentive is instead set against the producer's tax liabilities when a corporate annual return is filed. In doing so, the incentive will reduce the amount of tax due, and where excess is still available after the liabilities are cleared, which normally is the case, this is paid in cash.

Overview of existing fiscal incentive schemes in Europe as of December 31, 2014

As at December 31, 2014 a total of 26 fiscal incentive schemes could be identified in 17 European countries, with France offering five different incentive schemes, the UK four and Italy three.

The 26 schemes can be broken down into eleven tax credits, nine rebates, and six tax shelters.

Table 1 Overview of existing fiscal incentive schemes in Europe at 31st December, 2014

	SCHEME				COVERS			
#	ISO	Scheme name	Scheme Type	Year	Film	TV	Video Games	Other
1	AT	FISA	Rebate	2010	X	-	-	-
2	BE	Tax Shelter	Tax Shelter	2003	X	X	-	-
3	CZ	FISP (Film Industry Support Programme)	Rebate	2010	X	X	-	-
4	DE	DFFF	Rebate	2004	X	X	-	-
5	ES	Tax Credit	Tax Credit	2004	X	X		
6	FR	SOFICA	Tax Shelter	1985	X	-	-	-
7	FR	Crédit d'impôt cinéma	Tax Credit	2004	X	-	-	-
8	FR	Crédit d'impôt audiovisuel	Tax Credit	2005	-	X	-	-
9	FR	Crédit d'impôt jeux video	Tax Credit	2009	-	-	X	-
10	FR	Crédit d'impôt international (C2i or TRIP)	Tax Credit	2009	X	-	-	-
11	GB	Film Tax Relief	Tax Credit	2007	X	-	X	-
12	GB	High-End Television Tax Relief	Tax Credit	2013	-	X	-	-
13	GB	Animation Programme Tax Relief	Tax Credit	2013	-	X	-	[1]
14	GB	Video Games Tax Relief	Tax Credit	2014	-	-	X	-
15	HR	Cash Rebate	Rebate	2012	X	X	-	-
16	HU	Indirect Subsidy	Tax Shelter	2004	X	-	-	-
17	IE	Section 481	Tax Shelter[2]	1997	X	X	-	-
18	IS	Reimbursement	Rebate	1999	X	-	-	-
19	IT	External Tax Credit	Tax Shelter	2009	X	X	-	-
20	IT	Producers Tax Credit	Tax Credit	2009	X	X	-	Web Video
21	IT	International Tax Credit	Tax Credit	2009	X	X	-	-
22	LT	Film Tax Incentive	Tax Shelter	2014	X	-	-	-
23	MK	Production Incentive Programme	Rebate	2014	X	-	-	-
24	MT	Cash Rebate	Rebate	2008	X	-	-	-
25	NL	Film Production Incentive	Rebate	2014	X	-	-	-
26	SK	Cash Rebate	Rebate	2014	X	-	-	-

[1] Animation Tax Relief allows for animated programmes to be broadcast through other media, such as OTT providers; Tax Relief for live-action childrens' television was announced in the Autumn Statement, December 2014; reliefs have also been announced for theatre and orchestras. [2] Tax Credit from January 2015.

Source: SPI

2.2 Trends

There is a remarkable amount of discussion of fiscal incentives at the present time and below are some of the noticeable trends observed while undertaking this project.

Growing recognition of the creative economy in general, and the film & television sectors in particular

Considering the broader policy space around the creative sector, one important trend is the growing recognition of the cultural and economic positives that the film and television sectors deliver in terms of national public value, particularly because these sectors are also major drivers of growth in several of the other creative industries.

Many countries are aiming to grow their Creative Industries because of the broad-based advantages they deliver, for example in terms of employment, heritage awareness, consumer interest, economic growth, exports, tourism and so-called national 'soft power.' Fiscal incentives (as described in this report) have become increasingly recognised as a straightforward and effective policy tool to support the attainment of such goals. The recognition of this fact – that incentives are an investment from government rather than a cost – is leading to a deeper policy discussion in many countries.

Continued introduction of new fiscal incentives

We note that, within the last year, a number of European countries – such as Lithuania, the Former Yugoslav Republic of Macedonia, the Netherlands, and Slovakia – have all introduced fiscal incentive structures, with others such as Finland, Norway, Poland and Serbia giving the matter serious consideration. This reflects the broader trend that we see in Europe towards the adoption of such structures, as part of a holistic creative sector support environment.

Such schemes often reflect a desire to build local production activity; attract international portable productions from outside Europe and participate to a greater degree in European co-productions, as majority or minority partners. Generally speaking, the introduction of a fiscal incentive can empower smaller, newer, or less mature markets to build their production sector while partnering with larger markets, benefitting from the increased links and cross-investment that these bring.

Preference for rebate-style structures among new incentives

Within this trend, there is – among newly introduced schemes - a distinct preference for rebate-style structures over the more traditional tax shelter. Of the seven rebates introduced in Europe between 2010 and 2014, six were structured as rebates, with only one taking the form of a tax shelter. We believe that this is predominantly a result of policymakers increasingly recognising the self-funding nature of rebate-style fiscal incentive schemes and wishing to have systems that are as transparent and straightforward to operate as possible.

Updating, expanding and modifying existing systems

In conjunction with the addition of new structures, there is also a trend towards more frequent adaptation and updating of existing systems. This can take several forms – for example in the UK, the incentives have been expanded to new sectors such as video games, while in Belgium rates of return and procedures have been altered to address operational concerns. In Italy, the tax credit system initially established on a yearly basis was made permanent in 2013.

The most substantial change, however, will be in Ireland, where the long-established Section 481 tax shelter will be replaced by a tax credit on 1st January, 2015. This represents a broader change in government policy, with many incentive structures in the country being revised following the recession.

2.3 Key findings of the impact evaluation

When evaluating the economic impact of fiscal incentive schemes on a pan-European level by way of quantitative analysis, we encountered a number of challenges including the lack of comparable, extensive data for markets or the incompatibility of datasets when they have been available. The impact analysis is consequently based on a combination of quantitative and qualitative research and consultations.

It is also important to note that in all the countries studied there are additional support measures, such as direct funding, which would also have an effect on the economic variables analysed in this study. It was, however, not possible to control for their impacts in a systematic manner. As such, our analysis has been *ceteris paribus* at the European level, but there is more detailed analysis of individual countries conducted in the individual country sections.

Impacts on production levels and capacity utilisation

Increase in production levels and capacity utilisation…

An immediate impact of the introduction of a fiscal incentive in most countries is an increase in production levels to a point where full (or almost full) capacity utilisation is reached. The effect of using up spare capacity delivers various economic benefits and improves productivity.

… but risk of cost inflation

Conditions of full capacity might put pressures on costs of production. Therefore any new fiscal incentive scheme should be accompanied by strategies to grow capacity in crew and infrastructure.

Countries with fiscal incentive schemes have comparatively large film sectors

This analysis shows that countries with fiscal incentives in place have larger film sectors (as a share of GDP) than countries with no incentive in place. On average, the production spend in film productions comprises 0.06% of GDP for countries with incentives in place compared with only 0.01% for countries with no incentive in place.

Above average production sector growth

Growth in production spend is found to be strongest in countries that have fiscal incentives, for example in Belgium and Croatia and where average annual growth in film production expenditure exceeded 15%. On average, production spend in film productions grew by around 9 per cent in the Treatment group countries compared to 4 per cent for Control group countries with no scheme in place.[4]

Countries without incentives that increased their direct funding also experienced some growth although at more modest levels (such as the Netherlands and Poland).

4 For the purposes of this study, a number of Control group countries – those without fiscal incentives, but with good data for comparison – were identified and studied; Treatment group countries are those with schemes, against which the Control group was measured. For more details on this process, please see Chapter 4, below

Impacts on production flows

The study had aimed to evaluate production flows to, from and within Europe by way of quantitative analysis. However, as many countries do not – at present – appear to track the origin of projects, or the funds that are used to pay for them, we have used qualitative research and consultations as the basis for this analysis. When reviewing the impact of fiscal incentives on production flows, it is important to keep in mind that fiscal incentives generally are but one among several factors determining the production location decision, with creative decisions generally considered being the most important factor.

Portable productions tend to flow into Europe, rather than out of Europe

Both the data examination and the consultations which we have carried out as part of this research suggest that, to the extent production flows can be quantified, they are generally into European countries rather than out of them. In mature Western European production sectors in particular – such as the UK, France, and Ireland – there are significant numbers of **international portable productions** attracted to the market. In many cases, portable productions are sourced from the major US studios, which are important users of production incentives.

Inner-European production flows tend to be linked to increasing levels of co-production

Consultees have also noted the positive impacts that the introduction of an incentive can have on the ability of countries to be attractive co-production partners. Central to this is the guaranteed element of finance that the incentive provides, making the structuring of a co-production significantly easier when compared with the uncertainties of a selective direct funding system. This factor has enabled smaller countries to become more active co-production partners.

Loss in portable productions in adjacent economies

Looking at adjacent economies with incentives, there is some evidence of an initial loss of business to competing countries with a more attractive overall offer, if all other variables are the same. We note, though, that this is more relevant to the attraction of international productions, with no meaningful example of impacts on domestic productions. Incentive structures, where they are introduced or changed, can exacerbate or contribute to this movement. The Netherlands and Belgium as well as the Czech Republic and Hungary provide two interesting case studies for the effect resulting from the introduction and / or removal of a fiscal incentive scheme in adjacent economies.

Impacts on employment

Growth in employment

The data that we have examined – in conjunction with the consultation process – suggests that there has been strong jobs growth in response to the introduction of an incentive. An example of this is in France, where the most recent EY survey evaluating the various incentive schemes shows a 38% increase in film sector employment since 2004, and a 27% increase in the television sector.[5]

Increase in crew mobility and skill improvements

There is evidence that establishing an incentive, and the consequent increase in capacity utilisation, has the effect of attracting a mobile workforce from adjacent countries. This improves their experiences of production in different countries and generally contributes to the development of greater skills.

[5] EY & CNC (2014), *Evaluation des dispositifs de crédit d'impôt*, pp. 25 & 35

There is also a phenomenon where adjacent countries which both have incentives can often grow production capacity as a whole rather than take productions away from each other. Hungary and the Czech Republic, for example, can be seen to operate an increasingly common labour and facilities market for portable productions, though domestic productions remain unaffected by this. Similar trends are also found regarding Ireland and the UK and Belgium and France.

Impact on direct funding

Fiscal incentive schemes are generally complementary to direct funding

In some cases producer associations have expressed concern that the introduction of a new incentive in a particular country will automatically be accompanied by a corresponding reduction in currently available direct funding. There is little evidence of this actually happening. In general, fiscal incentives fit well alongside other support initiatives and in most countries do not have the effect of reducing or inhibiting other funding sources.

The virtually “self financing” aspects of rebate and tax credit models are better understood than in past years and there is a realisation that if there is sufficient added activity then the scheme could pay for itself, or even generate a surplus for the treasury. Where a reduction in direct funding has been observed, it has been attributed to across the board government cuts rather than being caused by the introduction of or improvement to a specific fiscal incentive programme.

Other impacts on local film sector

Opportunity to diversify business models

There is qualitative evidence from consultations that the emergence of inward investment productions has done much to stimulate the growth of the broader industry. Across a range of countries – from Ireland to Croatia – consultees said that the ability to service portable productions provided them with a new business opportunity, supporting their broader creative goals.

Where fiscal incentives have expanded from the film into the television sector, in particular high-end television, this has provided producers with further business opportunities. Previous SPI reports have highlighted that company sustainability is best built on a diversified revenue stream, and the addition of new opportunities for local companies in markets offers the potential to develop in this regard.[6]

Increased confidence can draw private investments into sector infrastructure

Where an incentive system is considered to be permanent, and well established, it underpins confidence in the sector. This can result in further investment in physical infrastructure and facilities, often from the private sector, which delivers additional capacity and expansion potential. Such investment in facilities tends for the most part to be from domestic sources as direct foreign investment in facilities appears, from the data which are currently available, to be less common.

[6] *Building sustainable film businesses: the challenges for industry and government*, Olsberg•SPI (July 2012)

Fiscal impact

Incentives deliver strong ROI performance

Data on the estimated budget of the schemes may be obtained in the documentation published by the European Commission in the certification of the schemes[7]. These data are, in principle, related to the initial cost of the scheme, meaning that they estimate of foregone tax revenues without taking account of further tax revenues generated by the activities made possible by the scheme. As noted later, there is a significant time gap between foregone tax revenues and any fiscal return to the state; therefore measuring fiscal impact can probably be done only through modeling as it is done in various countries (including the Czech Republic, France, and Ireland) or GVA calculations (the UK).

Table 2 Estimated Budgets for Schemes

Country	Scheme	Estimated Annual Budget
Belgium	Tax Shelter	EUR 60 m
Croatia	Cash Rebate	HRK 20 m (EUR 2.6 m)
Czech Republic	FISP	CZK 800 m (EUR 32 m)
France	CIC & CIA [1]	EUR 210 m
France	CIJV	EUR 14 m
France	TRIP	EUR 110 m
France	SOFICA	EUR 37.1 m [2]
Hungary	Indirect Subsidy	HUF 23 bn (EUR 76 m)
Ireland	§ 481 Tax Shelter	EUR 35 m
Ireland	§ 481 Tax Credit	EUR 45 m
Italy	3 Schemes [3]	EUR 110 m
UK	FTR	GBP 340 m (EUR 392.5 m)
UK	HETR	GBP 70 m (EUR 80.8 m)
UK	ATR	GBP 15 m (EUR 17.3 m)
UK	VGTR	GBP 35 m (EUR 40.4 m)

[1] The budget for the CIC and CIA in the EU State Aid documentation is presented as a single figure [2] No estimated budget is presented for SOFICA, this represents a ten-year average [3] The Italian schemes share a single budget

Source: SPI

As the country evaluations presented in the Annex demonstrate, almost all of the incentive structures provide a greater return to the government in tax revenues than they cost to operate, whilst also providing standard trickle-down benefits to the broader economy, also including in areas such as tourism and exports. Especially in countries where incentive systems have been in place for some years, the return on investment (on the amount of the incentives) has been impressive. For example, in France EUR 12.8 has been invested in the sector for every EUR 1 of incentive provided. The UK shows that for every GBP 1 of tax relief there is an additional GBP 12 of GVA created.

[7] http://ec.europa.eu/competition/elojade/isef/index.cfm?clear=1&policy_area_id=3

Fiscal incentives regularly produce a positive cash flow

Rebate or tax credit systems have the advantage that the tax income generated by relevant additional production activity is received well before the incentive needs to be paid out. In France, for example, the domestic tax credit creates tax and social revenues that are four times the amount of the incentive that is ultimately paid out.

2.4 Limitations of a pan-European impact evaluation

Lack of data, limited comparability

One of the major challenges within this project has been the lack of comparable, extensive data for markets, and the incompatibility of datasets when they have been available.

A particular challenge we have found has been the different ways of accounting for the year in which production spend takes place. This can, depending on the country, be allocated on the first day of principal photography, the last day, or the date when the production receives clearance for exhibition. No country amortises production spend over the entire process, which would create a more accurate perspective, and this leads to a number of irregularities and misleading statistics.

One potential limitation of the evaluations studied is that few, if any, analyse the interplay between the fiscal incentive and other national support structures. This proved to be a significant limitation for us during this project, as it inhibited our ability to perform such an analysis at a pan-European level.

The television sector, we have found, presents a particular challenge with regard to measuring the impact of a fiscal incentive. Often, production expenditure for the industry can be unclear, particularly for national television channels. This lack of clarity means that determining the impact of a policy intervention can be extremely hard, as we have noted elsewhere in this report.

2.5 Recommendations how to improve impact evaluation

In order to address these issues in future research, SPI in collaboration with the European Audiovisual Observatory present some recommendations for best practices with regard to impact evaluation methodologies and indicators to be collated.

The first – most basic – recommendation would be for national authorities to attempt – at appropriate intervals – to collect and analyse information and data about the costs and benefits of their fiscal incentive schemes and publish corresponding evaluation reports.

It is also desirable that the methodologies behind the collection of such statistics are transparent. It is to be expected that individual countries adopt their own approaches, but so long as it can be determined what these are, separate comparisons and analyses can be conducted.

Basic data to be collected

With regard to film and TV sector incentives, relevant key data could include information about schemes, such as:

- basic data on projects benefiting from the scheme, e.g. project list, amounts received, countries of origin, budgets, financing structures;
- basic sectoral data, e.g. number of productions, production spend, number of employees, facilities investments;
- basic data on direct and indirect economic impacts;

- data on fiscal impact (gross and net benefit/cost for the State).

In order to collect some of these data – in particular basic sectoral data – it would be useful for film institutions to reinforce the work on structural business statistics, e.g. in collaboration with national statistics institutes / EUROSTAT and the European Audiovisual Observatory.

Definitions and methodology

3 Key definitions

Key definitions related to the term "fiscal incentives"

Fiscal incentive

In the context of this study the term fiscal incentive refers to three main types of incentive structures: tax shelters, rebates, and tax credits.

Nota bene: *There are other measures that some may consider to be fiscal incentives that have not been analysed in this report, including adjustments to VAT rules as a measure of film policy (such as in the Russian Federation, where the film company benefits from a zero rate); the use by film companies of other fiscal policies generally available to promote investments (such as the UK's EIS structures) or regional fiscal incentives or general business support schemes accessible to the film industry (such as the ZEC in the Canary Islands).*

Tax shelters

Tax shelters are designed to attract investment from high net-worth individuals or high tax-paying firms who are permitted to deduct investments in qualifying production against their tax liabilities – while still being able to realise any long-term profits arising from a project, although these would be subject to tax when received.

Rebates

Rebates are driven by production spend rather than levels of investment – repaying productions a percentage of their qualifying budget items according to a clear set of regulations – and are funded directly from the state budget. The payment is normally made after the production expenditure has been completed and audited (although some systems accommodate partial earlier payments) and, of critical importance, typically some months after the nation's treasury has collected a range of taxes from the production activity itself.

Tax credits

Tax credits are similar to a rebate in that they are designed to repay a percentage of qualifying production costs based on a pre-determined formula. However, rather than being paid from a demarcated fund, the incentive is instead set against the producer's tax liabilities when a corporate annual return is filed. In doing so, the incentive will reduce the amount of tax due, and where an excess is still available after the liabilities are cleared, which normally is the case, this is paid in cash.

Key definitions related to "economic impact"

Economic impact

In this report, we use the term 'Economic Impact' to discuss the range of available impacts that a fiscal incentive can have on the economy of a country or region. These can include Inward Investment, Foreign Investment, GVA, GDP, and ROI, discussed below.

Fiscal impact

This represents the benefits of the scheme to the country or finance ministry/exchequer, set against the costs of the scheme in deferred taxation or eligible spend rebated. Fiscal Costs – the negatives to the exchequer through foregone taxation or rebate spending – are estimated in Chapter 2, above.

Gross Fiscal Impacts are the overall returns to the exchequer as a result of the spend generated by this fiscal cost. For the state, returns come though a variety of taxes, including VAT, corporation tax, income taxes paid by the company and employees, social charges or national insurance, and taxes on downstream revenues accruing to rights-holders.

The fiscal cost of the scheme can then be deducted from its gross fiscal impact to provide a perspective on the actual benefits to the state, producing a Net Fiscal Impact.

Inward investment production

Throughout this report, we use the term 'Inward Investment' to refer to non-national production spend which enters the country, in many cases to utilise the incentive structure. Often, such Inward Investment is US-originated, coming from one of the 'Big Six' Hollywood studios, though the exact mix is dependent on the country.

Foreign investment

Foreign investment is generally defined as flows of capital from one nation to another in exchange for significant ownership stakes in domestic companies or other assets. In the context of this report, the term "Foreign Investment" is used to denote – in comparison to Inward Investment - foreign investment in facilities, such as studios, rather than productions.

GDP (Gross Domestic Product)

Gross Domestic Product is an economic measure commonly used to measure the economic performance of a country or region. It aggregates the production of an entire economy, "equal to the sum of the gross values added of all resident institutional units engaged in production (plus any taxes, and minus any subsidies, on products not included in the value of their outputs.)"[8]

GVA (Gross Value Added)

Gross Value Added is a measure in economics of the value of goods and services produced in an area, industry, or sector of the economy. Compared to GDP, GVA includes subsidies included in the generation of outputs, but discounts taxes on products. GVA is often used to discuss the outputs of the film and television sector, in economies where the statistics allow it.

Production spend

Production Spend, as used in this report, discusses the amount of spending on film productions undertaken in the nation for which the incentive applies (for Croatia, both film and incentive-eligible television spending is stated). In most cases, this will be the same level of production spending stated by the competent authority, however as this on occasion includes non-national production spend, SPI have analysed this data to ensure comparability. More details on each country's production spend can be found in the Annex, in the country guides.

ROI (Return on Investment)

Return on Investment is the implied additional economic output or tax income accruing to the government as a result of productions supported by the incentive. In general, such calculations require an estimation of productions which would have taken place regardless of the incentive, and are hence an ROI loss. Each country has a distinctive model for calculating such ROI, and these are discussed in the Annex.

[8] *Glossary of Statistical Terms*, OECD, available at http://stats.oecd.org/glossary/detail.asp?ID=1163, accessed 19th January 2015

Other

Film or television production

Unless otherwise stated, “film” refers to feature production (fiction, documentary or animation) intended for theatrical distribution. “Television production” refers to production (in principle fiction, documentary or animation) conceived to be broadcast on TV. In some countries (e.g. Italy) it may also include production for online release.

Film sector

Unless otherwise stated, the term “Film Sector” in the context of this report generally refers to development, production, and post-production activities related to theatrical feature films, excluding TV productions.

Production flight

Production Flight implies the movement of a production from its home territory – where it would ordinarily be expected to shoot – to another country mainly as a result of the intervention in the market of cost differentials, which themselves can be affected by an incentive. This could either reflect a situation where one country has an incentive and another does not, one where there is a disparity of incentives, or a situation where market failure leads to production in a home market being uneconomical.

We note that there are other reasons for movement of productions which do not, from our perspective, count as production flight. These are discussed in more detail in Section 8.2, below.

4 Research methodology

The purpose of this research is to determine the impact of the selected fiscal incentive schemes on the film and television industries within which they operate. SPI uses an approach that combines qualitative and quantitative assessment, recognising that there are at present limits to the development of a single, overarching, data-only analysis. A dual approach is also helpful given the differences between the countries in which the incentives operate. Each has its own policy priorities to address with qualitative analysis being used to highlight such differences.

In order to produce as holistic an analysis as possible, we have adopted top-down and bottom-up approaches that sought to consider both the perspectives of government and film agencies alongside producers and producers’ associations.

A detailed econometric analysis was also undertaken for the selected countries, with data harmonised and cleansed to create a perspective on the impact of fiscal incentives. In many cases, the available data for the television production sector proved insufficient for this analysis, and as such our focus has been mostly on film. Individual television schemes are commented on in the country sections, from Chapter 11 onwards.

Our analysis has taken national definitions of film sectors for the most part – encompassing pre-production, production, and post-production spend – but has looked to isolate only the spend within a country from published data. As an example, while data in the CNC’s annual reports include an element of French-generated spend in other countries, this was removed for the purposes of our analysis.

Quantitative analysis of economic impact

Definition of economic impact

In this report, the **economic impact** of a fiscal incentive or similar scheme is defined as the increase in economic activity generated by the scheme, relative to a counterfactual situation in which the scheme was not in place.

- **Increase in economic output of the film and audiovisual industry.** The standard way to measure this is Gross Value Added (GVA) in the industry;
- **Increase in employment in the film and audiovisual industry** (for example, number of full-time equivalent employees working in the industry);
- **Impact on the public finances,** in terms of the amount of tax and social contributions paid by the additional people employed in the industry as a result of a fiscal incentive or similar scheme, as well as any other tax revenue generated on the additional output (e.g. additional VAT generated by the overall activities made possible by the implementation of the scheme, corporation tax on operating profits, etc.) Depending on the success of the scheme, it is feasible for such impacts to be negative, where costs exceed returns;
- **Increased investment in the film and audiovisual industry;**
- **Increased contribution of the film and audiovisual industry to exports.**

As well as the direct impact on the film and audiovisual industries, it is possible to look at the **indirect** impacts on output and employment – arising from the industries' supply chain – and the **induced** impacts – arising from those directly and indirectly employed in these industries using their earnings to buy other goods and services. The indirect and induced impacts can be describedas the film industry **multiplier** – the ratio of the total economic impact of the film industry to the direct impact.

Indicators used to analyse economic impact

The metrics used to measure economic impact resulting from a fiscal incentive or similar scheme are, primarily:

- Production spend, both through scheme and in the broader sector;
- Number of Full-Time Equivalent employees working in the industry;
- GVA or other measure of economic output for the industry;
- Indirect and induced economic impacts resulting from incentive-supported production (often analysed using a multiplier);
- Tax revenues, or fiscal benefits for the industry;
- Investment in facilities, such as studios or post-production;
- Employment in related sectors, such as distribution and exhibition; and,
- Number of shooting days of national films undertaken in domestic locations or facilities.

The exact balance of these tends to be dependent on national preferences and the availability of data. For the *crédit d'impôt cinéma* in France, as an example, shooting days in France are of particular importance given the original aims for the scheme. However, the UK report emphasises downstream impacts of UK film, considering the employment supported in distribution and exhibition, as one of its priorities.

Treatment and Control groups

For the purpose of analysing the economic impact of fiscal incentive two groups of countries were created – the Treatment and Control groups. Respectively, these groups included countries with and without an incentive and analysed all the economic indicators we could collect and validly compare.

A major consideration in selecting the countries to be studied in detail was the volume, depth and comparability of available data in each as well as the need to have a reasonable spread of examples in terms of size and industry longevity. Sufficient data were required to undertake a detailed analysis of the sectors, which regrettably ruled out a number of smaller countries. The final selection was also made with a view to geographical balance, and the selection of two countries with recently-introduced schemes, to allow us to identify short- as well as long-term trends. We therefore selected eight countries (see Table 3) with fiscal incentives and three without these measures and undertook data analysis in a process known as the “difference-in-differences” approach.

Table 3 List of countries analysed

Treatment Group	Control Group
1. Belgium	1. Finland
2. Croatia	2. Norway
3. Czech Republic	3. Poland
4. France	
5. Hungary	
6. Ireland	
7. Italy	
8. United Kingdom	

Difference-in-differences analysis…

Given the type of data available to conduct this study, economic impact is best measured using a 'difference-in-differences' approach. Difference in differences analysis is a statistical econometric technique that – in the context of this study – is meant to calculate the effect of a fiscal incentive on the indicators listed above by comparing the average change over time in the indicators for the Treatment group to the average change over time for the Control group. This methodology can also be inverted to evaluate the impact of abolishing or adjusting a previously existing fiscal incentive or similar scheme. The difference-in-differences analysis is described in further detail in the Annex.

… and its limits due to incomplete data

It is important to note that in all the countries studied there are additional support measures, such as direct funding, which would also have an effect on the economic variables noted above.[9] It was not possible to compare their impacts in the difference-in-differences analysis because, in part, of the non-comparability of the schemes across the countries studied. However, they were reviewed in our literature research and especially during the consultations that we held.

[9] Both selective and automatic/performance-related direct funding

Furthermore there is only a limited amount of data of the type we would have liked to examine for a study such as this. It was difficult to source deep, quantitative records on some topics such as source or origin of projects or comprehensive employment data. Formal identification of infrastructure investment is also rare. An added issue is that, where data is available, it is not always comparable across countries. Most of the results from the difference-in-differences analysis in this report hence relate to economic output rather than any of the other indicators, as in many cases the data studied did not allow for this. However, the other economic variables are also discussed in the report.

Given the lack of comprehensive data and the complexity of analysis, the data resulting from this analysis are not shown in the report but have only been used as background data for the textual impact evaluation.

Time period

For the quantitative elements we sought to measure a variety of economic indicators for the film and audiovisual sectors during the years 2009 to 2013.

The time period used for most of the countries analysed is the five years between 2009 and 2013. Only one country in the Treatment Group (Croatia) introduced a fiscal incentive scheme in this time period where previously there was no scheme in place. However, some of the other countries in the study made significant changes to their fiscal incentive schemes in this time period (e.g. Czech Republic). In addition, France and the United Kingdom were able to provide a much longer time series of film industry output data back to the mid-1990s, and so for these countries it is possible to do a 'before/after' analysis of the impact of introducing particular incentive schemes (the Film Tax Credit in the UK and TRIP in France) over a longer period.

Qualitative analysis

Our qualitative research involved a substantial review of existing literature on the topic and included analysing all the information available on the incentive structures used in the countries mentioned above.[10]

This was supplemented by over 80 consultations with professionals and officials from these and other European countries that were crucial to determining impacts not revealed by the data alone. These consultations were conducted with a range of different professionals, including:

- Professionals at Competent Authorities managing incentive systems;
- Executive Council members of the European Audiovisual Observatory;
- Members of the EFADs and EFARN networks;
- Public officials from countries without incentive systems;
- Producers Associations’, from countries both with and without incentive systems;
- Individual producers, working in countries with and without incentive systems; and,
- Other European Professionals, including Lawyers, Consultants, and Financiers.

[10] A bibliography of over 190 documents appears as appendix 3.

Main data sources

In principle, economic structural indicators - such as number of companies, GDP / GVA contributions, employment figures – are measured by national statistics units since 2008. Data related to film industries should be measured under the NACE code 59[11]. The data published under this code are however considered to be of insufficient reliability to be used as a European reference measurement tool.

The majority of the data for this report were hence collected from public bodies, using publicly available data. Various kinds of public sources were used, including legal texts, reports published by the Ministries in charge of monitoring the fiscal schemes, yearbooks or reports published by the national films agencies. The notification of decisions published by the European Commission for the certification of the national schemes in relation to the EU State Aid rules are also an interesting source of information.

These data were discussed with the national bodies in question to ensure our understanding of collection methodologies, and as a result the limits of the data.

Where publicly available data were insufficient, the relevant national authorities kindly provided us with data to match the needs of the assignment. Please refer to the country guides in the Annex, and the bibliography, for a full list of data sources used for this report.

Other sources such as independent evaluation reports, academic publications, press articles were also used to document the implementation and evolution of the schemes.

We would very much like to acknowledge here the substantial help, time and effort committed by the data authorities for the countries we covered in this research. We are very grateful indeed for their willingness to engage with our team, on multiple occasions, in providing the great levels of information that the Study required.

[11] NACE 59 covers motion picture, video and television programme production, sound recording and music publishing activities.

Fiscal incentive schemes in Europe

5 Types & modalities of fiscal incentives

5.1 Types of fiscal incentives

There are three main types of incentive structures commonly used in Europe: tax shelters, rebates, and tax credits. This chapter discusses some of the key characteristics of each and provides further commentary that may assist with evaluating their comparative merits.

Each fiscal incentive system we have studied has its own specific regulations, structures and characteristics and these have been summarised in the annex. The following are general comments resulting from the qualitative and quantitative findings of this study. For a detailed description of each country's incentive we recommend website searches of the competent authority in each case.[12]

Tax shelters[13]

The tax shelter model of investment has been used to support a number of different sectors, not just audiovisual, in many countries where individuals or corporations pay significant amounts of tax. Broadly speaking, such entities are incentivised to invest in production projects by their ability to set off the amount of the investment against their tax liabilities in the year the investment is made. Factors that separate the operation of the tax shelter model from other models include:

- The provider of funds (investor) receives a profit share in the projects
- A variety of intermediaries are involved in creating collective investment vehicles under this system, such as brokers, banks, accountants and lawyers
- These added elements increase the cost of the model, resulting in the yield to the production being substantially less than the amounts actually invested
- These intermediaries sometimes create sophisticated and complex structures when creating schemes and in recent years some countries' tax authorities have challenged the basis on which deductions have been claimed
- The model normally provides funds from the incentive during production: a major benefit for producers.

From the tax authorities' perspective there are also some factors worth noting:

- Although the tax received from investors is reduced because of the initial deduction, if the project creates future profits then tax would normally be payable on such income when received by the investor
- It might be considered an advantage that the actual costs of this model to the government are to some degree initially 'hidden' in that they do not appear as a line item in any ministry's budget – as is usually the case with other models
- Some authorities hope that the involvement of such investors might ultimately result in a more permanent participation of the private sector in the industry, which the evidence of facilities investment in markets such as the UK suggests.

[12] Details of such websites are listed in the country guides, to be found in the Annex.

[13] The words 'tax shelter' are also often attributed to a country where low rates of tax are applied (e.g. The Cayman Islands) but that represents a completely different use of the phrase.

In general, many countries' finance authorities have become increasingly reluctant to use or amend their tax systems to support individually selected sectors using tax benefits and consequently the tax shelter model of incentive has rather fallen out of favour. This is also partly due to the recognition that some systems can lack transparency and also appear less cost efficient. Accordingly, and for different reasons, tax shelter systems in Luxembourg, Ireland, the UK, Belgium and the Netherlands have all been amended or eliminated in recent years.

These concerns are enhanced when the disadvantages of the tax shelter model are compared to the more straightforward, transparent and efficient rebate and tax credit models.

Rebates

In recent years this has been an increasingly popular model to use where a new or improved incentive is under consideration. This is because there are fewer parties involved, and the system is more transparent, easier to control and evaluate and also administratively more simple to operate.

One advantage that is less obvious is that the system can in many cases be self-financing. This takes into account the fact that the timing of the rebate payment normally occurs months after the expenditure has taken place and the accounts have been subsequently audited. As a result, the taxes payable by the production (including income tax, social security contributions, VAT etc.) will have been collected prior to the timing of the rebate. They are also frequently sufficient in quantity to cover the amount of the eventual rebate. Furthermore, the rebate is paid on qualifying costs only whereas taxes are collected on all costs.

This advantage would not accrue unless creating the incentive clearly stimulates additional activity (which is the case in the countries studied). If the levels of production expenditure in a country remain the same before and after the rebate's introduction then clearly no added activity has been created. Therefore the rebate system will have had no effect and the amounts paid out would be considered added (and unnecessary) costs.

Tax credits

This model closely resembles the Rebate model except with regard to the procedure for claiming the tax credit (rebate).

Some national finance departments do not wish to pay rebates to companies that also owe tax. Under a tax credit model there is generally a requirement for the rebate claim to be submitted along with that company's annual tax return. Therefore the treasury can set off amounts of tax owed by the company against the tax credit (rebate) pay out, although this appears to be a relatively rare occurrence.

A further advantage is that a new rebate structure can more easily be introduced or legislated by adding the details to an existing revenue/pay out model such as the nation's current tax regime.

5.2 How do fiscal incentives operate?

Legal Basis & Administration

The legal structures underpinning the various incentives in the countries we analysed have been introduced or amended in various ways: through the general national budget (Ireland), through the fiscal law (France), through law related to cultural policy (Italy) or by passing a law specific to the incentive. All of the structures operated by European countries require State Aid clearance to ensure compatibility with the *acquis communautaire*, which has generally been granted for a period of five years[14]. No consultee commented on the difficulty of achieving this, as the importance of culture is well acknowledged.

The legislation put in place for a scheme often places the tax agency or Ministry of Finance for the country in a position of oversight for the incentive, either funding projects directly after certification or ensuring that the process is managed within the legal framework set down. In tax credit systems, it is the tax agency that takes responsibility for the final settlement of the incentive, with the producer appending certification documents to their tax return to access the credit. Italy also provides for producers to take the incentive against regional or monthly taxes, with final certification used to determine any amount remaining.

Schemes are generally created on a multi-year basis in order to provide visibility to both producers and investors. The initial production tax credit in Italy was created on a yearly basis but the 2013 reform has transformed it in a permanent scheme.

Our research indicates that management of fiscal incentives within Europe is often split between two separate entities, either different departments of the same government – such as a Finance and a Culture Ministry – or with arms-length bodies, such as film institutes or funds, being involved. Within this split, the trend is for one agency to operate the cultural element of the incentive, providing certification and expert guidance, while the other agency manages the payment of the finance, and has oversight.

Depending on the model used for the management of the incentive, funding related to the incentive might be provided as grant-in-aid to the body charged with managing the structure, or it could be held in escrow at the ministry until claimed by the production. Such decisions tend to reflect national norms.

Varying certification requirements

While there is commonality in this overall management approach, the processes operate very differently by country. A number of systems require or recommend pre-certification, with reasons for this differing by territory. In Croatia, for example, pre-certification is required as the Croatian Audiovisual Centre (HAVC) will then allocate funds in its accounts, given there is a cap on the total spend for the scheme. Such pre-certification can, in countries where the banking system allows, also be helpful to producers seeking otherwise to discount the incentive, providing funds to cash flow the production.

[14] Member states' aid schemes have to be communicated in advance to the European Commission for authorisation (Article 108.3 TFEU). The Commission assesses whether the aid scheme respects the "general legality" principle, i.e. whether or not the scheme contains clauses that would be contrary to the provisions of the EU Treaty in fields other than state aid (including its fiscal provisions). It then assesses the compatibility of the support scheme with the provisions of the TFEU dealing with state aid. For further information see: The New Cinema Communication: All's Well that Ends Well? Author: Francisco Javier Cabrera Blázquez & Amélie Lépinard, European Audiovisual Observatory. Available at:
http://www.obs.coe.int/documents/205595/7944996/iris+plus+2014-1+EN_LA.pdf

For tax shelter countries, like Belgium, pre-certification is often required, to allow the certification of investments to be undertaken, and these are provided at the start of production, rather than the end. In all cases, a local producer is required to apply for the production, and must be credited in a senior production role for the project.[15]

Certification processes within countries also vary markedly, depending on the particular aim of the structure with regard to the broader development of the industry. Under EU State Aid rules, the definition of cultural activities is primarily a responsibility of the Member States, and the European Commission limits itself to "verifying whether a Member State has a relevant, effective verification mechanism in place bale to avoid manifest error.[16] However, while the broad categories of these are common, the individual metrics used are very different country-by-country.

The amount of documentation required also tends to reflect national priorities. For example, some authorities require more details on the origin of funding, while others focus on the location of post-production, or the use of particular national resources. All countries require acknowledgement of the origin of funding in the main credits for the production.

Many of the countries studied utilise these data collection opportunities to increase the amount of information they have on the industries they manage, leveraging the incentive as an opportunity to ensure producers provide data.

Spending caps

Some of the rebate and tax credit incentives covered by this report operate with an annual spending cap, though the reasons for doing this vary. For some smaller markets, this is a precaution against forming a bubble, as it allows the agency to ensure that the growth of the sector does not outrun the ability of the industry to service productions. In other cases it reflects caution on the side of the government, particularly during the first years of a new system.

One major challenge with a cap is the uncertainty it can bring for the industry. For the most part, European governments budget on a year-to-year basis, with sectoral funding included in this process. The result of this can be an unexpected reduction in funding, undermining the ability of the incentive to be viewed with confidence, particularly as projects need to be planned far ahead. With rebate-style incentives the need for a cap is hard to justify as they are often self-funding: requiring a larger amount of money to be invested than is rebated, with payment occurring long after the initial outlay from the production. The uncertainty created by a cap is, as a result, arguably unnecessary.

Even where a cap does not exist, countries do provide budgets for the projected spending, as required by the European Commission. Such budgets can also be fed into national budgetary processes as well, though the need for this is lessened in tax credit systems where projected spend for the following year should be relatively well established via the certification process.

[15] The issue of certification was at the core of the public debate and polemics in Belgium in 2013 and was solved by a reform in 2014. (See below, Chapter 11 on Belgium in the Annex).

[16] See Communication from the Commission on State aid for films and other audiovisual works (Text with EEA relevance) (2013/C 332/01), available at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2013:332:0001:0011:EN:PDF

6 Fiscal incentives schemes in Europe

This chapter outlines the current range of schemes operating within Europe matching the definition set out for this research. As noted in Chapter 5 there are various other support measures that lay outside these definitions, and these have not been included in the study.

Only schemes operating in late 2014, at the time of publication, are considered although various countries, including Spain and Norway, are presently looking to introduce or improve incentives.

Countries offering Tax Shelters

1. Belgium

Belgium operates a scheme, known as the **Tax Shelter,** which has been in operation since 2003. This has proven highly successful in generating additional activity, but is currently undergoing a series of changes, in part to address perceived leakages between investors and intermediaries and other inefficiencies.

2. Ireland

Ireland's **Section 481** has been operating since 1997, though the country has had an incentive in operation in various guises since 1984. Though operating as a tax shelter until the end of 2014, this will switch to a 32% tax credit in January 2015.

3. Lithuania

Lithuania introduced a corporate tax shelter, the **Film Tax Incentive** in January 2014. This provides a 20% incentive on Lithuanian spend, where provided by companies with a Lithuanian tax liability.

4. France

France's *sociétés de financement de l'industrie cinématographique et de l'audiovisuel*, or **SOFICA**, have been operating since 1985. SOFICA work under the framework of societies raised on an annual basis for investment in a variety of productions, with the investor's income tax liability reduced after holding shares for a period of five years.

5. Hungary

Hungary introduced its **Indirect Subsidy** in 2004, providing a corporate tax shelter for investments in film and television. This structure was altered in 2012, with the Hungarian Film Fund now providing a deposit account, and taking the role of linking investors and producers together.

6. Italy

Italy operates an **External Tax Credit**, providing a corporate tax shelter for investors other than production companies in productions, providing a discount against corporate taxes worth 40% of the investment made. Such investors can include distribution companies, or others in the film value chain.

Countries offering Rebates

1. Austria

Austria introduced its **FISA** cash rebate in 2010, with the programme recently extended. This provides a 25% rebate on eligible expenses, with the fund having a total budget of EUR 7.5 million per annum.

2. Croatia

Croatia's **Cash Rebate** is one of the newest systems in Europe, having been introduced in 2012. The system has been remarkably successful, having helped attract productions such as *Game of Thrones*.

3. Czech Republic

The Czech Republic's Film Industry Support Programme, or **FISP** was introduced in 2010, providing a 20% incentive to qualifying spend, with 10% available to cast and crew who pay withholding tax in the country. This was recently extended, with an annual budget of CZK 800 million.

4. Former Yugoslav Republic of Macedonia

The Former Yugoslav Republic of Macedonia introduced its **Production Incentive Programme** at the start of 2014. This provides a 20% cash rebate on gross expenditures for projects with a minimum Macedonian spend of EUR 100,000.

5. Germany

Germany has operated the **DFFF** since 2007, providing a 20% rebate on eligible expenditures, with a budget currently set at EUR 50 million; both film and television projects are eligible for this.

6. Iceland

Iceland operates a 20% **Reimbursement** programme for film and TV productions made in the country. The scheme has been in operation since 1999, and is currently extended to 2016.

7. Malta

Malta introduced its **Cash Rebate** in 2008, revising this in 2013 to increase the rebate on offer to 25% of eligible expenditure. An additional 2% is available for productions of particular Maltese cultural interest.

8. Netherlands

The Netherlands introduced a new **Film Production Incentive** in 2014, offering a 30% rebate for eligible productions. This operates on the basis of four deadlines per year, with a maximum budget for 2014 of EUR 19.4 million. Until 2007, the Netherlands operated a separate system called the 'CV-Measure', which was structured as a tax shelter; this is discussed in more detail in Section 8.2.

9. Slovakia

Slovakia operates the newest incentive in Europe, a 20% **Cash Rebate** which was introduced on the 1st of July, 2014. This requires a minimum qualifying Slovakian spend of EUR 2 million.

Countries offering Tax Credits

1. France

France operates four separate tax credit systems, the first of which – the ***crédit d'impôt cinéma*** – is available for domestic or co-productions. Currently capped at EUR 4 million of rebate per film, this operates alongside other direct funding from the CNC as part of a holistic support system. Domestic incentives are also available for television (the ***crédit d'impôt audiovisuel***) and video games (the ***crédit d'impôt jeux video***.)

France also operates the **TRIP** (or *crédit d'impôt international*) for international productions; this offers a higher cap of EUR 20 million, though no access to the CNC's direct funding.

2. Italy

Italy has two separate tax credits, created under a single piece of legislation – the **Tax Credit for Internal Investors** is a 15% credit offered to producers of Italian qualifying productions. Alongside this, there is a **Tax Credit for Executive Producers**, which provides a 25% tax credit, on 60% of eligible spend, for line producers of international productions filming in Italy.

3. Spain

The Spanish corporate tax law of November 2014 allows for a production incentive to offset corporate tax liabilities, in the form of a Tax Credit. This allowed for a 20% Tax Credit up to EUR 1 million, with the remaining eligible expenditure being able to claim an 18% credit against the producers' corporate tax liabilities.

4. United Kingdom

The UK has offered **Film Tax Relief** since 2007; this incentive provides relief of 20% on 80% of qualifying UK spend, with a minimum UK spend of 10% of the overall budget. Since 2013, this has been expanded to High-End Television and Animation Productions – as the ***High-End TV Tax Relief*** (HETV) and ***Animation Tax Relief*** respectively. A ***Video Games Tax Relief*** was also inaugurated in 2014.

Overview of European fiscal incentive schemes

As of December 31, 2014 a total of 26 fiscal incentive schemes could be identified in 17 European countries, with France offering five different incentive schemes, the UK four and Italy two.

The 26 schemes can be broken down into eleven tax credits, nine rebates, and six tax shelters. Table 4 overleaf lists all 26 fiscal incentive schemes existing in Europe as of December 31, 2014.

Table 4 Summary of existing European schemes by scope as of December 31, 2014
Year refers to introduction year of initial scheme.

	SCHEME				COVERS			
#	**ISO**	**Scheme name**	**Scheme Type**	**Year**	**Film**	**TV**	**Video Games**	**Other**
1	AT	FISA	Rebate	2010	X	-	-	-
2	BE	Tax Shelter	Tax Shelter	2003	X	X	-	-
3	CZ	FISP (Film Industry Support Programme)	Rebate	2010	X	X	-	-
4	DE	DFFF	Rebate	2004	X	X	-	-
5	ES	Tax Credit	Tax Credit	2004	X	X		
6	FR	SOFICA	Tax Shelter	1985	X	-	-	-
7	FR	Crédits d'impôt cinnéma	Tax Credit	2004	X	-	-	-
8	FR	Crédits d'impôt audiovisuel	Tax Credit	2005	-	X	-	-
9	FR	Crédits d'impôt jeux video	Tax Credit	2009	-	-	X	-
10	FR	Crédits d'impôt international (C2i or TRIP)	Tax Credit	2009	X	-	-	-
11	GB	Film Tax Relief	Tax Credit	2007	X	-	X	-
12	GB	High-End Television Tax Relief	Tax Credit	2013	-	X	-	-
13	GB	Animation Programme Tax Relief	Tax Credit	2013	-	X	-	[1]
14	GB	Video Games Tax Relief	Tax Credit	2014	-	-	X	-
15	HR	Cash Rebate	Rebate	2012	X	X	-	-
16	HU	Indirect Subsidy	Tax Shelter	2004	X	-	-	-
17	IE	Section 481	Tax Shelter[3]	1997	X	X	-	-
18	IS	Reimbursement	Rebate	1999	X	-	-	-
19	IT	External Tax Credit	Tax Shelter	2009	X	X	-	-
20	IT	Producers Tax Credit	Tax Credit	2009	X	X	-	Web Video
21	IT	International Tax Credit	Tax Credit	2009	X	X	-	-
22	LT	Film Tax Incentive	Tax Shelter	2014	X	-	-	-
23	MK	Production Incentive Programme	Rebate	2014	X	-	-	-
24	MT	Cash Rebate	Rebate	2008	X	-	-	-
25	NL	Film Production Incentive	Rebate	2014	X	-	-	-
26	SK	Cash Rebate	Rebate	2014	X	-	-	-

[1] Animation Programme Tax Relief allows for OTT and other non-television broadcasts to claim; Tax Relief for live-action childrens' television was announced in the Autumn Statement, December 2014; reliefs have also been announced for theatre and orchestras. Tax Credit from January 2015.

Source: SPI

7 Current trends in shaping fiscal incentives

This chapter summarises the various trends we have identified within the fiscal incentive landscape in Europe over the course of this project. Such trends include an increasing political focus on the creative industries, the introduction of schemes in new locations, and the modification of existing schemes to achieve various economic or political goals.

Creative Industries receive more political support

Considering the broader policy space around the creative sector, one important trend is the growing recognition of the cultural and economic positives that the film and television sectors deliver in terms of national public value. It is not for this study to set out what those benefits are, except to identify one key macro trend, and that is the central role these sectors play in the Creative Industries or Cultural Economy as a whole and, consequently, how a fiscal incentive can support the attainment of these goals.

Many countries are aiming to grow their Creative Industries because of the broad-based advantages they deliver, for example in terms of employment, heritage awareness, consumer interest, economic growth, exports, tourism and so-called national ‘soft power.’ The film and television sectors themselves account for a substantial portion of activity.

What might not be universally understood, however, is the degree to which these sectors are also major drivers of growth in many of the other creative industries. This can be seen when examining typical production expenditures of feature films and high-end television drama as contained in their budgets. There is normally substantial expenditure into other creative sectors (for example performance, music, publishing and writing, design, fashion) to a much larger degree than is the case for the other creative sectors. This fact underpins the importance of the film and television sectors and a fiscal incentive (as described in this report) has become increasingly recognised as a straightforward and effective policy tool.

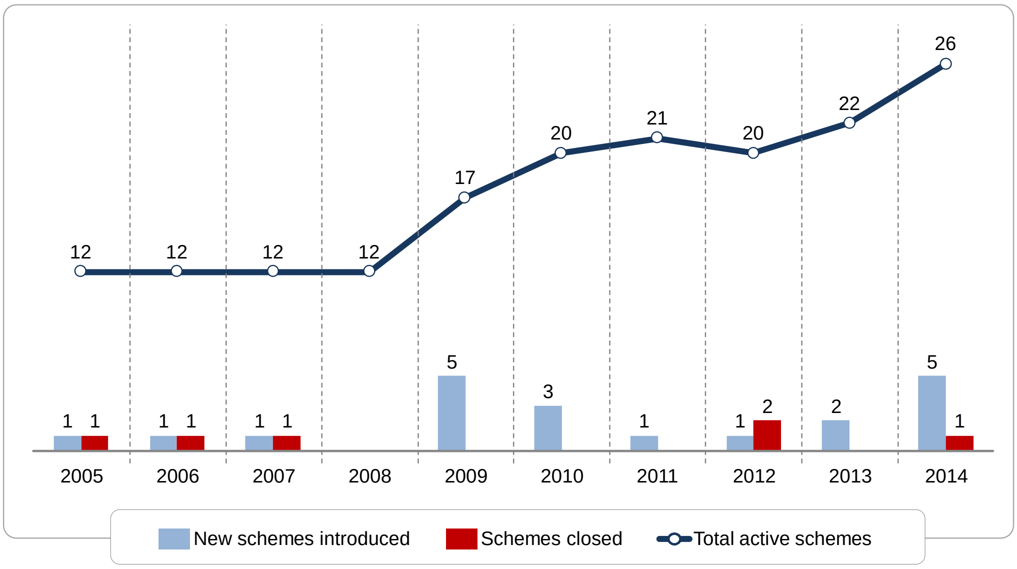
Countries are introducing fiscal incentive schemes to attract portable productions and foster co-productions

In recent years, there has been a significant acceleration in the number of fiscal incentive schemes operating in Europe; as Figure 1, below, demonstrates, this change has been particularly marked in the last few years. Over a ten-year period, we believe that only in one year (2012) did more schemes close than open, with both the Bulgarian and Serbian incentives lapsing in this period.

Between 2010 and 2014, European countries introduced twelve new fiscal incentives to support film, television, and video game production. These newer schemes are listed in the table 5 overleaf.

In addition to these new schemes, discussions are underway in various countries regarding the introduction of new incentives. Countries where discussions have been noted during the consultation process for this report include Finland, Norway, Poland, and Serbia.

Figure 1 **Timeline of fiscal incentive schemes becoming operational in Europe 2005-2014**



Source: SPI

Table 5 **New schemes becoming operational in Europe 2010-2014**

Year	Country	Scheme name	Type	Scope
2014	LT	Lithuanian Film Tax Incentive	Tax Shelter	Film
2014	MK	Former Yugoslav Republic of Macedonia's Production Incentive Programme	Rebate	Film
2014	NL	Netherlands Film Production Incentive	Rebate	Film
2014	SK	Slovakian Cash Rebate	Rebate	Film
2014	GB	Video Game Tax Relief	Tax Credit	Video Games
2013	GB	High-End TV Tax Relief	Tax Credit	TV
2013	GB	Animation Tax Relief	Tax Credit	TV[1]
2012	HR	Croatian Cash Rebate	Rebate	Film, TV
2011	RS	Film Incentive (Lapsed 2012)	Rebate	Film
2010	BG	Movie Production Tax Incentive (Lapsed 2012)	Rebate	Film
2010	AT	FISA	Rebate	Film
2010	CZ	FISP	Rebate	Film

[1] Animation Tax Relief is available to Broadcast Animation, including productions intended only for OTT services, such as Netflix

Source: SPI

As the above table demonstrates a number of the smaller countries of Europe that have attractive locations for filming as well as capacity, infrastructure and skills, have considered and in some cases introduced new fiscal incentives within the last few years. Such schemes point to a desire to enhance domestic productions, participate to a greater degree in European co-productions, as majority or minority partners, and perhaps to attract international portable productions.

Some examples are the Former Yugoslav Republic of Macedonia, Lithuania and Slovakia all of which have introduced new incentives within the last year. Serbia is also considering reintroducing the concept of an incentive that it has discussed in the past. Alongside Bulgaria, Serbia has previously introduced an incentive, but enabling legislation on both lapsed in 2012; in the case of Bulgaria, further legislation was proposed in 2013 to retain the incentive, but the parliament did not take this forward.[17] In the Serbian case, consultees have advised that the nation's film law requires further modernisation before an incentive is considered workable.

There is also serious interest in some Nordic countries of creating new incentives. The success of Iceland's rebate system has been noticed and currently a serious evaluation of an incentive is being done in Norway. Discussions surrounding incentives is also prominent as Finland and Sweden review national film policy initiatives.

All of the above-mentioned countries are either already heavily involved in co-productions as a default structure, or keen to become so. This reinforces the view that smaller countries generally anticipate more co-productions as a result of establishing a fiscal incentive. Indeed, several are part of a geographical cluster where content is already able to travel reasonably well to adjacent countries, such as the area covered by the Nordic Film and TV Fund.

Generally speaking, the introduction of a fiscal incentive can empower smaller, newer, or less mature markets. Smaller countries can also become partners for larger markets, benefitting from the increased links and cross-investment that these bring.

Move away from tax shelters

When looking at the more recent schemes introduced or scheme adjustments between 2010 and 2014, one can identify a trend away from tax shelters to – primarily - rebate systems. This partially reflects recent disquiet among both governments and the production sector with the tax shelter model, historically the preferred structure for a fiscal incentive. These were commonly used when incentives for the film industry were introduced – and indeed in some cases they continue and deliver some positive outcomes as with France's SOFICA – but the trend away from tax shelters is evident and caused by two related factors:

- The perceived disadvantages of the structures themselves, which are noted as being complex in operation, and prone to the leakages seen in schemes such as the UK's former Sale and Leaseback model, and
- The comparable advantages that rebate (or tax credit) structures provide, in particular the self-funding aspects of their operation, and the increased control over eligible expenditures provided to national authorities

Examples of countries moving away from tax shelters, or seeking to simplify them, include Ireland, Belgium, and Luxembourg. However, this trend is not entirely one-way, as the introduction of the Lithuanian scheme, and the expansion of the Hungarian incentive demonstrates.

[17] Film New Europe (2013), *Bulgaria Halts Tax Incentives for Film*, available at http://www.filmneweurope.com/news/bulgaria/104934-bulgaria-halts-tax-incentives-for-film/menu-id-147, accessed 29th January, 2015

Adjustment of existing schemes

In addition to the creation of schemes, European countries also adjust schemes on a relatively frequent basis. This underlines the trend for established incentive structures being modernised and updated in response to:

- Government recognition of the benefits that the film and television sectors deliver and the consequent desire to see them grow
- The effectiveness of these incentives as policy tools
- Growing interest from the private sector in investing in infrastructure and facilities as long as the incentives remain competitive and permanent.

The major steps taken to alter schemes include changing the annual limit of funds available to support the incentive (as in the Czech Republic); increasing the proportion of the eligible costs that are rebated (Malta) and expanding the scheme to include allied genres of production with the screen-based creative industries such as television drama and video games (UK).

Table 6 overleaf lists major changes made to schemes operating within Europe between 2010 and 2014.

With so many of the schemes operating in Europe having recently been introduced or revised, further changes are not anticipated in the near future in most cases. An exception to this is Italy, where an animation tax credit has been proposed.

Table 6 Adjustments made to European fiscal incentive schemes 2010-January 2015

Year	Country	Change
2015	Spain	Modification of Corporate Income Tax Law which increases tax credit for local productions from 18% to 20% (for the first EUR 1m) and introduces a tax credit of 15% for Spanish production companies related to foreign productions.
2015	Ireland	Modification of Section 481 into a Tax Credit
2014	Italy	Increase in the annual budget of the tax credits from EUR 100 million to EUR 110 million
2014	Belgium	Revisions to structure and operations of Tax Shelter
2014	UK	Expansion of tax reliefs to video games
2014	Lithuania	Closure of CIAV system
2014	Germany	Reduction in DFFF budget from EUR 60 million to EUR 50 million
2014	France	Increases in rebate amounts for CIC and TRIP – Extension of scheme for animation and international co-production of TV fiction.
2014	Hungary	Increase in value of shelter from 20% to 25%
2013	Malta	Increase in rebate amount to 25%
2013	UK	Expansion of tax reliefs into High End TV and Animation works
2013	Italy	Expansion of the scheme into television and web video production – Tax credit scheme become permanent
2012	Czech Republic	Reduction in annual budget from CZK 1,000 million to CZK 800 million, creation of the State Cinematography Fund
2012	Hungary	Structure of Indirect Tax Credit modified, introduction of deposit account system

Source: SPI.

Impact analysis

8 Impact of European fiscal incentives

This chapter summarises the results of SPI's comparative analysis of the impact of fiscal incentive schemes operating in selected European countries for which data were available. More detailed analyses of the individual countries are presented in the annex.

Nota bene: *For the purposes of this analysis other factors – such as direct funding – that can also have a significant impact on production have not been considered. This is because available data did not allow for effects to be analysed in a consistent manner across the selected territories.*

8.1 Impact on production levels

The analysis also suggests that fiscal incentive schemes are associated with higher growth rates in the film sector as well as being associated with a larger film sector in countries that have introduced a scheme or schemes relative to those countries that have not. This observation is based on a comparative analysis of the size of film sectors (measured as the share of production spend of GDP) as well as the growth of production spend.

It is, however, worth noting that production volumes are constantly fluctuating, and that there are a variety of causes for this – many of which are not in the control of the film and television sector authorities. Direct public support, movements in exchange rates, other national policies, and the creative demands of producers all impact the ability to attract productions. The following analysis does not control for the impact of these factors.

Countries with fiscal incentive schemes have comparatively large film sectors

This analysis shows that countries with fiscal incentives in place have larger film sectors (as a share of GDP) than countries with no incentive in place, as shown in Figure 2 overleaf which compares film sector production spending as a percentage of GDP for the eight Treatment group countries and for the three Control countries without fiscal incentive schemes in place over the years 2010 to 2013. On average, the production spend in film productions comprises 0.06% of GDP for countries with incentives in place compared with only 0.01% for countries with no incentive in place.

Fiscal incentive schemes associated with higher growth rates in production spend

Figure 3 shows average growth rates for the overall production spend of the film sector between 2009 and 2013 in the Treatment group countries, compared to the Control countries. On average, production spend in film productions grew by around 9 per cent in the Treatment group countries compared to 4 per cent for Control group countries with no scheme in place.

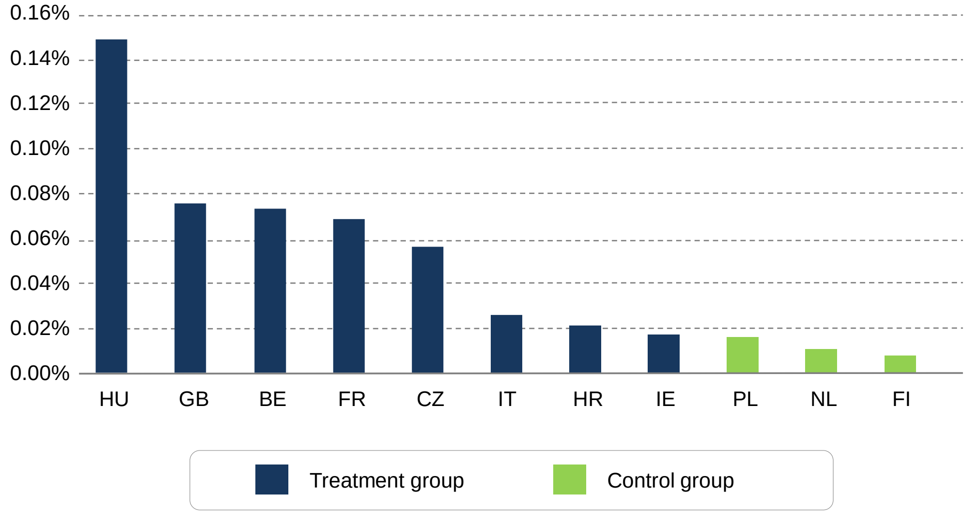
There is considerable variation in the growth performance of the film sectors of countries with schemes in place; the Czech Republic, Ireland, Belgium and Croatia experienced strong growth over the period, whereas the rate of growth was lower in Italy, Hungary, France and the United Kingdom.

As shown in Chapters 14 and 18 respectively, the lower rate of growth for France and the UK may reflect the fact that both these countries have relatively large film sectors and fiscal incentives which have been in place for many years, so that capacity for future growth is more limited than in other countries.

For Italy and Hungary the data show greater year-on-year fluctuations in activity and taking slightly different start and end points would lead to much higher measured growth (for example, 2011-2013 in Hungary, and 2009-2012 in Italy).

Figure 2 Production spend on film productions as an average of national GDP, 2010-13[18]

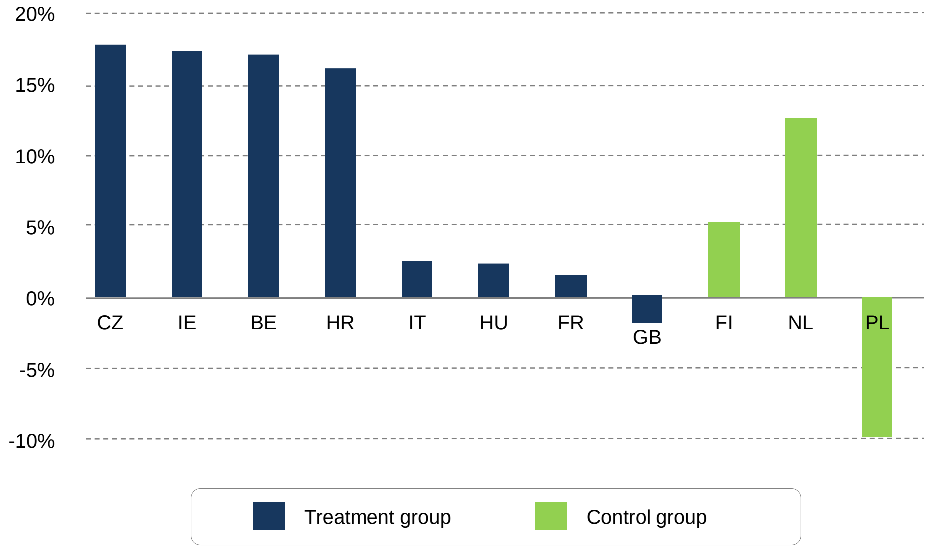
In %



Source: SPI analysis of national data

Figure 3 Average annual growth in production spend in film productions, 2009-2013

In % per year and real terms



Source: SPI analysis of national data

[18] Film sector spending derived from nationally published statistics; results for Poland, the Netherlands, and Finland represent SPI analysis of national productions and co-productions, with data adjusted to count only national spend from co-productions, data from France has been edited to discount non-French geographic spend, and data for Croatia includes eligible TV production spend.

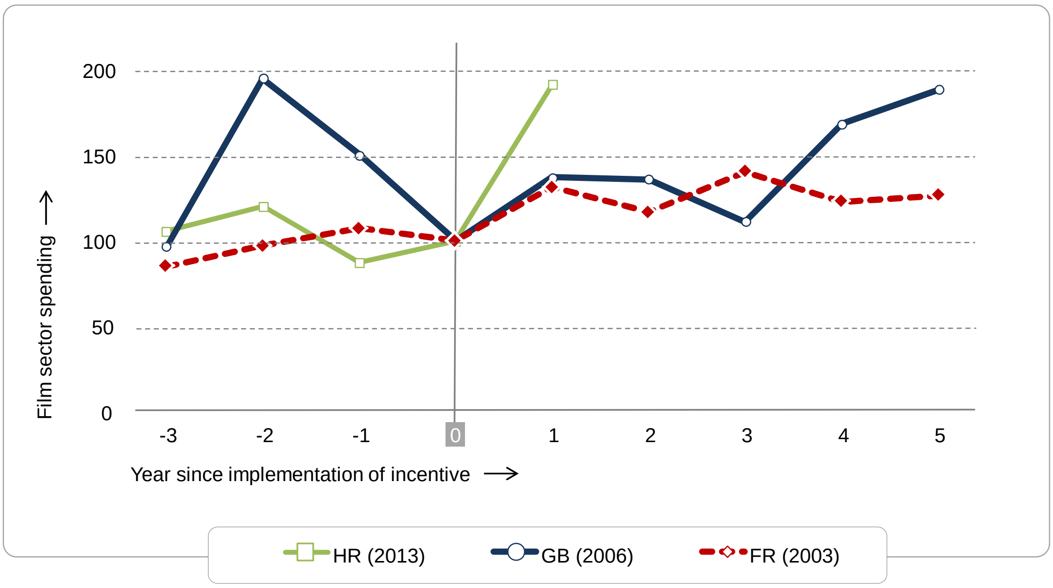
Fiscal incentives can have catalytic impact on the scale of production levels in a country…

Our analysis shows that the immediate impact of many of the incentives studied for this report has been the increased scale of production in nations which introduce them. In some cases, such as Croatia or the Czech Republic, an incentive has an immediate, catalytic impact on the scale of a national film sector, helping it reach fuller capacity utilisation in a relatively short time.

Figure 4 shows the economic impact of adopting a scheme on overall production spend for the three countries for which we have the best data on film sector production before and after the introduction of the scheme (Croatia, the UK, and France).

Figure 4 Film sector spending by country, before and after introduction of incentive

Indexed; HICP deflated = 100 at year opf implementation



Note: Incentives in graph: Croatian Cash Rebate, French *credit d'impôt cinema*, and UK Film Tax Relief

Source: SPI analysis of national data

For the recently-introduced Croatian film sector incentive, Figure 4 shows a clear increase in film sector spending immediately after the incentive was introduced. The same immediate boost provided to production spend could be observed in the Czech Republic in 2010. Our interpretation of this phenomenon is that the industry is quickly able to use up latent capacity, with new capacity – such as crew moving over from comparable fields, such as domestic television or theatre – being created as well. The success of the UK's HETV tax relief also shows this, with the movement of crew from the film sector driving a first-year production spend that was almost 30% higher than projected production levels.

… provided the availability of infrastructure capacity and skilled crews

There is however a flipside to this phenomenon. In the absence of spare capacity, both with regard to infrastructure and crew availability, a rapid increase in production levels can lead to cost inflation and put pressure on the cost of production.

Whereas schemes to attract or improve the level and quality of productions often demand a higher standard of crew and technical expertise from a country, there is often no direct path between the increase in production spend and increase in numbers of crew or facilities. The example of Ireland underlines this – while Section 481 has been successful in attracting productions, further government intervention has proven necessary to address the challenges in providing sufficient studio space.[19]

Complementary strategic interventions by government – as seen in Ireland and Wallonia for example– may be necessary to support infrastructure growth or crew expansion, particularly as this tends to lag behind the introduction of an incentive structure.[20] In the interim, we note that cost inflation has the potential to cause challenges for the sector, where an increasing number of productions chase scarcer production resources.

Fiscal incentives to support long term growth

In other cases, such as France, and the UK, the effects of a fiscal incentive take slightly longer to materialise. The introduction of the *Crédit d'Impôt* in France in 2003 led to a more modest upswing in film sector spending but this may reflect the fact that France already had an incentive scheme in place – SOFICA – prior to 2003, in addition to significant direct funding. For the UK, film sector production spending was more variable before the Film Tax Credit was introduced in 2006 - 2007, but shows strong growth by the fourth year after the introduction of the incentive.

This suggests that a new incentive helps to sustain growth, building the confidence needed for future investment in skills and infrastructure capacity, which is essential for the long term health of the sector. This seems to be the case particularly where a new incentive scheme replaces an existing incentive scheme (or runs alongside it) while the existence of other direct funding schemes – falling outside of the scope of this work – may provide an explanation for the slower pace of growth in established markets. Consultations with producers from France, where the *crédit d'impôt cinéma* operates in a tight ecosystem with other support mechanisms, suggested that this is the case.

Again, this is to highlight that often additional policy interventions are needed to address specific challenges within the market. The French experience tends to support this assertion, as the *crédit d'impôt* exists within a broader policy environment which addresses such challenges.

[19] *Major film production hub set for Limerick*, Limerick Leader (23rd November, 2014)

[20] The Wallonian 'Wallimage Companies' scheme, through which the regional fund has invested in the development of companies supporting the production of film and television works, is credited with supporting the development of a stronger regional production sector which is able to leverage the tax shelter, through both domestic and international productions. Source: http://www.wallimage.be/entreprises.php?lang=uk [accessed 11th December, 2014]

8.2 Impact on production flows between countries

This study had aimed to address a number of questions by way of quantitative analysis - including the mapping of production flows to and from Europe as well as within individual European countries, quantifying the cost of production flight and analysing border-crossing productions by origin, budget size and origin of financing. However, no data sourced during the course of our investigation can provide a solid map of production flows in Europe. The available statistics tend to look only at the overall volume of production, which did not, in most cases, provide the necessary granularity to address these questions in a quantitative manner. We have consequently used qualitative research and consultations as the basis for the analysis.

Furthermore, many countries do not – at present – appear to track the origin of projects, or the funds which are used to pay for them. There is a suggestion that the recently-updated Cinema Communication will require countries to provide more data on a project-by-project basis – allowing for this kind of analysis – but consultations suggest that not all competent authorities are interpreting the data in this way.[21]

We anticipate that future studies might be able to determine these issues more exactly through quantitative analysis, though this is likely to require the collection of an increased range of data by the countries operating schemes. Suggestions for the data, which would be of interest in understanding such trends, are presented in the Recommendations section (Chapter 10) below.

Key factors in attracting portable productions

Although the focus of this report is on the impact of fiscal incentives, it is important to note that producers will take many factors into account, in addition to such incentives, before making a production location decision (see Figure 5 overleaf). Creative decisions are, above all, the most important – if a vital location can't be found at home, or built for reasonable cost, then a production is certain to move[22]. Such considerations are behind a large number of the productions crossing borders within Europe. Within Europe, co-productions also offer a further reason to cross borders.

Of course, incentive structures do play a part in all of these calculations and, on occasion, they may lead a production to leave its home territory entirely where the cost differential is too great to justify producing at home. It is however important to briefly examine other relevant decision factors in order to place the relevance of fiscal incentives in these decisions in context and, indeed, in order to properly assess the impact of the incentives themselves.

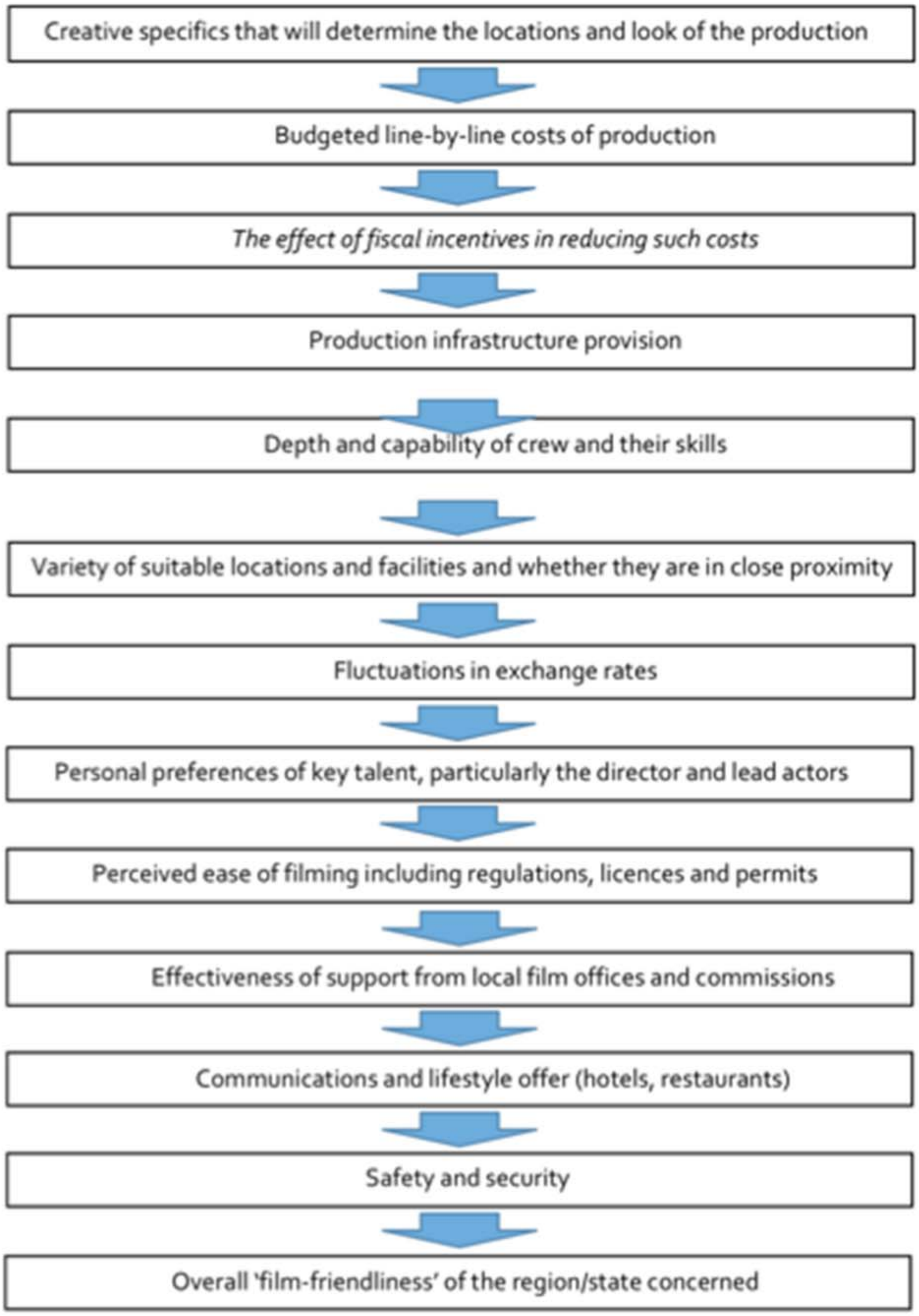
These factors obviously differ in detail from one project to the next, but some generalisations about the decision process are possible. Figure 5 overleaf lists the factors which are often (but not always) the key variables that affect a decision, listed in a broad order of importance. We note that, while the hierarchy shown below tends to apply to most productions, not all factors apply uniformly to each project.

The relevance here is that a country with an attractive incentive but no studio provision will e.g. be challenged in appealing to local or international productions that require these facilities. Consequently, any nation considering a new fiscal incentive should also evaluate the state of current infrastructure provision, such as studios, and plan for any gaps accordingly.

[21] *Communication from the Commission on State aid for films and other audiovisual works*, European Commission 2013/C 332/01 (15th November 2013) clause 52.7

[22] For example, even where there was clear market failure in the UK in advance of the HETV tax relief, productions such as *The White Queen* moved to Belgium as much for the authentic mediaeval locations as it did to access the Belgian Tax Shelter.

Figure 5 The producer decision flow chart



Source: SPI

Portable productions tend to flow into Europe, rather than out of Europe

Both the limited amount of presently-available data and the consultations which we have addressed as part of this research tend to suggest that, to the extent production flows can be quantified, they are generally into European countries rather than out of them.

In mature Western European production sectors in particular – such as the UK, France, and Ireland – there are significant numbers of international portable productions attracted to the market, supporting domestic industries. In many cases, portable productions are sourced from the major US studios, who are important users of production incentives. Such trends are particularly pronounced in the UK and Ireland; in the UK, films backed by US studios accounted for 70.3% of total spend in 2013, while in Ireland income expenditure was 58.1% of Section 481 spend between 2005 and 2011.[23, 24] Though this is suggestive of a US-dominated market in both countries, data and consultations do not support this perspective. UK data show that while the US studio films have a majority of spend, a large majority of productions are in fact UK independent films, being around 90% in all years between 2004 to 2013.[25]

For the French sector, the percentage of foreign financing for 2013 was markedly lower – at 21.7% – but consultations suggested that working with inward investment and co-productions was nonetheless an important source of finance and experience for independent producers in the sector.[26] An interesting impact of the French incentive model – in this case, the *crédit d'impôt* – has been the effect which it has had on repatriating French spend. This trend, which has seen the number of shooting days in France for French productions increase from 65.1% in 2003 to 75.5% in 2013, is a clear sign that it is addressing the market failure which gave rise to its introduction.[27]

Intra-European production flows tend to be linked to increasing levels of co-production

In addition to their impact on repatriating domestic and attracting international productions, consultees have also noted the positive impacts that the introduction of an incentive can have on the ability of countries to co-produce with other countries. Central to this is the guaranteed element of finance which the incentive provides, making the structuring of a co-production significantly easier when compared with a selective direct funding system. The studies on the Dutch film sector (following page) provide an example of this, noting the decreases in co-production which were a result of the closure of the former CV Measure.

The introduction of a fiscal incentive can result in higher co-production budgets, as domestic producers increase their spending to the levels which qualify their projects for the incentives. This improves the ability of productions to attract star names, or increase spending in other areas – for example music and post-production – which have a direct impact on the cultural and creative quality of the final work. Though quantitative data showing this trend are difficult to come by, consultees have advised that this has been a clear impact of the introduction of incentive structures in a number of countries.

[23] *BFI Statistical Yearbook*, BFI (2014) p. 181
[24] *Economic Impact Assessment*, Department of Finance (2012) p. 20
[25] *BFI Statistical Yearbook*, BFI (2014) p. 183
[26] *Results 2013*, CNC (2014) p. 75
[27] *Evaluation des dispositifs de crédit d'impôt*, EY/CNC (2013) p. 23

Loss in portable productions in adjacent economies

Looking at adjacent economies with incentives, there is some evidence of loss of business to competing countries with a more attractive overall offer, if all other variables are the same. We note, though, that this is more relevant to the attraction of international productions, with no example of impacts on domestic productions. Incentive structures, where they are introduced or changed, can exacerbate or contribute to this movement.

The Netherlands and Belgium as well as the Czech Republic and Hungary provide interesting case studies for the effect resulting from the introduction and / or removal of a fiscal incentive scheme in adjacent economies:

The Dutch CV measure

The example of the Dutch CV Measure – the former tax shelter operating in the Netherlands – provides information of the impact of fiscal incentives in Europe, and the challenges that occur when they are removed. Opened in 1999, the CV Measure was aimed at providing an incentive to invest in films in the Netherlands, with private individuals able to invest in films through a limited partnership ('CV'), thus creating an offset against personal income. Initially, this provided a significant boost to the Dutch film sector, which showed 20.3% GVA growth between 2000 and 2004, though this slowed after the 2003 introduction of the Belgian Tax Shelter.[28]

Around the same time that the Belgian system was introduced, capturing some of the growth which had previously been seen in the Netherlands, doubts began to appear within the Dutch government and film sector regarding the sustainability of the CV Measure. As we see in other tax shelter systems, it was felt that there was a certain degree of leakage occurring, which impacted the perceived stability of the system both in the Netherlands and abroad.

In 2007, the Dutch government closed the system, around the same time as some neighbouring countries were introducing or improving theirs. This closure had a markedly negative impact on various measures of market sustainability within the Netherlands, such as film exports: following a 404% growth in these between 2001 and 2004, there was a 31% decline to 2011.[29] Employment in the Dutch film and TV sectors has also been impacted, contracting 3.2% between 2008 and 2011. Total employment over the same period contracted 2.8%.[30]

Since the closure of the CV Measure, Dutch filmmakers became more dependent on selective funding, run through the Netherlands Filmfonds. However, over the course of the global financial crisis, this support has been subject to budget cuts, with annual spend decreasing from EUR 35 million in 2011 to EUR 24 million from 2013.[31] Within this environment, the Dutch film sector became less attractive to inward investment or co-production partners, as they were aware of the limited funding available in the Dutch sector.[32]

Consultees have advised that these trends led to further movement of production to the Belgian market which might once have come to the Netherlands, while producers also looked to co-produce in Flanders to be able to access the increased funding through the tax shelter. Furthermore, various supporting facilities for the sector also relocated or opened offices in Flanders, denuding the remaining Dutch industry of some experienced talent in fields like visual effects.

Despite these negative trends, there were some positives for the Dutch film sector over the period. Broadcaster funding in Dutch film productions increased slightly from 2009 to 2012, as did private sector

[28] *Economic Contribution of the Dutch Film and Audio-visual Industry*, Oxford Economics (September 2013) p. 29
[29] *Economic Contribution (Netherlands)*, Oxford Economics (2013) pp. 40-41
[30] *Economic Contribution (Netherlands)*, Oxford Economics (2013) p. 39
[31] *Study on Dutch Film Industry and Inward Film Investment*, Peacefulfish (February 2012) p. 6
[32] *Study on Dutch Film Industry*, Peacefulfish (2012) pp. 8-9

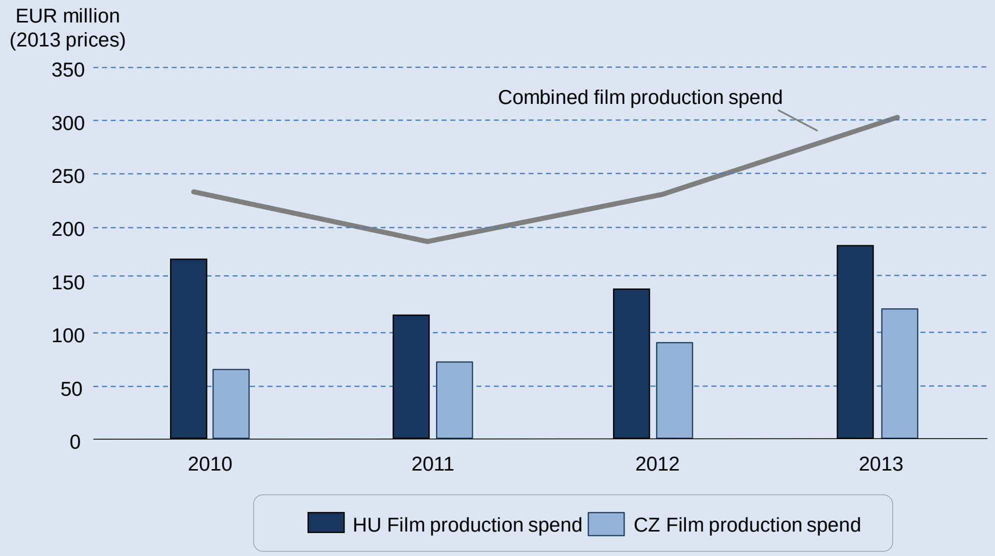
funding, helping to fill some of the gaps left by decreasing public investment, though consultees noted that this was not entirely evident from their perspective.[33] The Dutch Government has also moved to introduce a new rebate structure, which became operational in 2014. Consultees from the Netherlands suggest this has had an immediate impact on enquiries for co-productions and inward investment, which should help to spur future industry growth akin to the former success of the CV Measure.

Fiscal incentives in Hungary and the Czech Republic

The impact of the introduction of a fiscal incentive in a neighbouring country can be observed in the Czech Republic following the introduction of the Hungarian incentive, a measure that contributed to the number of inward investment productions entering the Czech market dropping significantly. Between 2003 and 2004, consultees have advised that the spend amounts for foreign films in the Czech Republic fell by around 70%, with this only picking up for specific productions such as *The Chronicles of Narnia: Prince Caspian.* Attracted to the Czech Republic for broadly artistic reasons, this project underlines the importance of these in the producers' decision process, even in the absence (at that point) of an incentive. The introduction of the Czech fiscal incentive in 2010 has led to a reversal of this. Despite the introduction of this 'competing' Czech incentive, growth still continued in the Hungarian market. There followed the emergence of a quasi 'single market' for inward investment productions, at least regarding crew and many support services and facilities. Our analysis of the economic data from both industries confirms this trend as shown in Figure 6 below.

It is worth noting that, with regard to production flight, the introduction of the Hungarian incentive had no impact at all on the production of Czech domestic films within the Czech market, which remained wholly local. This mirrors trends we have been advised of in other markets, where production flight is focussed on inward investment films – often entering Europe – and co-productions between European countries, rather than domestic films chasing incentives. In this, we can see the introduction of a fiscal incentive empowering smaller, newer, or less mature markets – a trend also seen in Croatia. Smaller countries can also become partners for larger markets, benefitting from the increased links and cross-investment that these bring.

Figure 6 Combined film sector spending for Hungary and the Czech Republic, 2009-2013



Source: SPI analysis of data from Hungarian National Film Fund and State Fund for Cinematography

[33] *Economic Contribution (Netherlands)*, Oxford Economics (2013) p. 19

8.3 Impact on employment

The introduction of a fiscal incentive triggers growth in employment

The growth in employment is a helpful measure of the economic success of a support initiative, as it is one of the key drivers of spreading the benefits of additional production into the real economy. Consequently, some authorities that oversee incentive schemes track employment as part of their regular data collection through incentive applications, providing an analysis of the current status of the workforce, and some level of ability to track the impact of incentive structures.

The data which we have examined – in conjunction with the consultation process – suggests that there has been strong jobs growth in response to the introduction of an incentive. An example of this is in France, where the most recent EY survey evaluating the various incentive schemes shows a 38% increase in film sector employment since 2004, and a 27% increase in the television sector.[34] Furthermore, consultations with producers underline a perspective that freelancer skills have been very positively impacted where they have worked on an international production, supported by the TRIP.

The BDO study undertaken for the Czech Republic provides a similarly positive message about the impact of the incentive on employment, stating that of the 2 060 jobs supported by the FISP, between 985 and 1 075 would not exist without it.[35] This correlates with the perspective of consultees, that the number of productions, which can be simultaneously crewed in the Prague region, has gone up substantially since the introduction of the FISP.

Fiscal incentives tend to increase crew mobility across borders

As observed in the Czech and Hungarian case study above, an important consequence of the introduction of incentives has been the increasing cooperation between the Czech and Hungarian production sectors. Consultees in both nations have identified increased crew mobility between the countries. This started after the Hungarian incentive was introduced, as freelancers from the Czech Republic worked in Hungary, helping to alleviate labour shortages there. This rebalanced with the introduction of the Czech incentive, as the above mentioned BDO report shows.

There is qualitative evidence for such crew mobility in other markets as well, particularly in the UK where the introduction of the HETV tax relief has seen crew come from Ireland – the most proximate market – as well as Central Europe to support productions benefitting from the scheme. Across Europe, we can identify these increasingly strong pairs of markets – including France and Belgium, and Germany with the Czech Republic – where productions work across borders.

For the UK, where there are perceived labour shortages in some parts of the production sector, such movement helps to ensure the continuation of production which the indigenous crew base might not be able to support. It is also a strong vindication of the European single market, as freelancers move across the continent to address specific skills shortages as they occur. Though consultees suggest that this largely occurs between adjacent markets with common links, nonetheless it is an emerging, positive trend for the single market in the EU.

[34] *Évaluation des dispositifs de crédit d'impôt,* EY & CNC (2014), pp. 25 & 35
[35] *Evaluation Study on Film Incentives,* BDO (2013)

Incoming portable productions contribute to improving skill levels

Furthermore, many consultees felt there were crossover advantages to be gained by the domestic production sector resulting from a permanent improvement in the experience and capabilities of the workforce – most of whom are able to work on domestic and international productions.

In countries such as France, consultees highlighted the value the TRIP had in helping to increase the standards of crew, which provided beneficial when they worked again on French productions. These perspectives were mirrored in a diverse range of markets, including Belgium, the Czech Republic, and the UK. Despite this, it appears that displacement of production talent and facilities from domestic to inward investment productions does occur in a number of markets. Such challenges require careful consideration by governments, and potentially the adoption of additional policy measures to compensate for this.

8.4 Impact on direct funding

Another key challenge concerns whether the introduction of a new incentive might result in or cause authorities to require a reduction in other funding in the support system, particularly in regard to direct, discretionary funding for national independent productions. This is a concern sometimes expressed by national producers associations and in the past has had the effect of halting the introduction of a fiscal incentive in Norway, where producers had previously expressed a preference for retaining the status quo rather than changing the system.

However, our research did not find any specific example of this correlation. Most nations follow the strategy that a rounded platform of incentives – including direct funding for specific aims – offers the best form of support. In fact, the Norwegian production community appears to have reversed its position as the setting up of an incentive is again being considered in the country.

There was one example of a reduction in direct funding at the same time as a fiscal incentive was enhanced and this was in Italy. But the reduction was caused by a general policy of cutbacks across government departments and perhaps the incentive expansion was designed to compensate, to some degree, rather than being the cause of the reduction.

We anticipate that this concern might further reduce in the future as governments increasingly recognise that rebate-style systems are largely self-funding and therefore should not disturb the balance of available direct finance

8.5 Other impacts on local film sector

Inward investment productions offer local film companies the possibility to diversify their business model

We note that there are significant benefits for local production companies offered through the introduction of incentives, which a number of consultees in newer markets also highlighted.

There is qualitative evidence from consultations that the emergence of inward investment productions has done much to stimulate the growth of the broader industry. Across a range of countries – from Ireland to Croatia – consultees said that the ability to line produce portable productions provided them with a new business opportunity, supporting their broader creative goals. Many noted that they were initially hesitant about working on foreign productions, but experience with this has shown them that it offers significant value personally and to the broader sector.

Where fiscal incentives have expanded from the film into the television sector, in particular high-end television, this has provided producers with further business opportunities. As HETV tends to use a production model which is more similar to film than traditional TV, it provides new opportunities for producers from both sides to diversity their business models, gaining additional experience. Consultees in both the UK and Croatia highlighted the opportunities this has brought for their marketplaces.

Various markets, including Belgium and Italy, also note the attraction of productions from major markets, driven by the incentive and the underlying characteristics – both creative and technical – of their sectors. Smaller production locations such as the Czech Republic, Hungary, and Croatia have also been successful at drawing in portable productions, including from less familiar partners, such as India and South Korea. Consultees in these markets have also underlined the role of incentives in being able to market production services to international portable productions, leveraging the opportunities such productions offer to build up their businesses.

Previous SPI reports have highlighted that company sustainability is best built on a diversified revenue stream, and the addition of new opportunities for local companies in markets offers the potential to develop in this regard.[36]

Fiscal incentives can draw private investments into infrastructure provision

The provision of an incentive is also good way to draw in private investment into infrastructure provision. Such investment in facilities tends for the most part to be domestic, as exemplified in the infrastructure spending noted in the annex for countries such as the UK.

Direct foreign investment in facilities appears, from the data which are currently available, to be rarer. We note, though that such investments are often not clearly tracked. Consultees did note that in some areas, such as Croatia, there is an expectation of foreign investment in a new studio, but at the time of writing this appears to be at best in the planning process. Fiscal impact and cost of schemes

8.6 Fiscal impact

In addition to the impact of fiscal incentives on the production of films, television series, and video games, stakeholders often also wish to ascertain a perspective on the impact which such incentives have on governmental finances. Various different models exist within different countries to determine the financial impact of fiscal incentive schemes for the national balance sheet of the countries operating them. At their simplest, these use a multiplier to determine the GVA effect of spend generated by the incentive, removing the deadweight of spend which would have occurred anyway. A tax weighting is then used to determine the expected tax yield of this spend, using national norms – this model is used in the UK and France, for example.

Other countries adopt different models of analysis, taking into account a range of other factors such as the decrease in unemployment benefits paid out as a result of the additional work. Such analyses are undertaken in the form of a model calculation, determining the anticipated impact of a single, hypothetical project for the treasury. Models exist in many countries to quantify the relationship between an annual amount of production expenditure and the associated amount of total tax generated from such activity. These models are created at a national level, using established multipliers and relationships between, for example, GVA and the tax yield associated with GVA.

[36] *Building sustainable film businesses: the challenges for industry and government*, Olsberg•SPI (July 2012).

We have been unable to uncover data on this relationship on an individual, project-by-project basis, however. It is likely that this is a result of the difficulty of reconciling the two sets of data – tax returns come a long time after spend, and are generally considered confidential, while the outlay itself may be accounted for many years in advance of the tax paid.

The confluence of these different measurement techniques, along with the different models of accounting for production spend used per country, means that for the most part the conclusions reached by each individual authority are not comparable with one another. Nonetheless, these approaches generally show that there is a positive fiscal impact for the government from the schemes in question.

Table 7 Overview fiscal impact of schemes

Country	Scheme	Stated Impact
Belgium	Tax Shelter	EUR 1.21 in tax return for each EUR 1 sheltered
Croatia	Cash Rebate	HRK 1.26 in government earnings for each HRK 1 of incentive disbursed
Czech Republic	FISP	Between CZK 1.5 and CZK 1.625 of return to the state for each CZK 1 of FISP received by productions
France	Crédit d'impôt cinéma	EUR 4 in taxes and social revenues for each EUR 1 of incentive granted
France	TRIP	EUR 2.1 in taxes and social revenues for each EUR 1 of incentive granted
Hungary	Indirect Subsidy	HUF 1.25 in net tax benefit for each HUF 1 sheltered
Ireland	Section 481	EUR 0.51 in fiscal return for each EUR 1 in tax foregone[37]
Italy	Foreign Tax Credit	EUR 1.4 in VAT and income taxes for each EUR 1 in incentive granted
UK	Film Tax Credit	GBP 12 in GVA return for each GBP 1 of relief, generating GBP 498 million in tax returns

Source: SPI analysis of national data

For further details on the analyses undertaken by each national authority, please see the individual country guides within the Annex.

[37] Irish Department of Finance estimate – various analyses for Ireland have produced a range of different results, these are explored in detail in Chapter 16.

Recommendations on measuring impact

9 Overview of existing evaluations of schemes

Many of the studies currently undertaken regarding the impact of incentive schemes focus on a number of key characteristics, including:

- Production spend,
- Employment growth, and,
- Ancillary benefits, such as tourism.

In doing this, the focus of the studies tends to be on data declared for the purposes of receiving the incentive. National-level statistics can also be used to provide context, but in many cases these do not allow for the granularity needed to explore the impact of incentive schemes in detail.

Table 8 Overview of existing evaluations of fiscal incentive schemes

Country	Year	Indicators analysed	Remarks on methodology	Data sources	Published by
BE	2011	• Funding through Tax Shelter • Fiscal impact for Belgian State	Uses a mixture of data analysis and consultation	Belgian Government, CWFB, AWT	Louvain School of Management
CZ	2013	• Production spend through scheme • Fiscal impact for Czech government	Utilises a model to determine fiscal impact	State Cinematography Fund	State Cinematography Fund
FR	2014	• Spending through *crédits d'impôt* • Utilisation of CIC by budget range • Number of shooting days in France • Sectoral employment • Fiscal impact for French government	Covers all sectors addressed by *crédits d'impôt*	CNC, Film France	EY & CNC
GB	2012	• Production spend • Multiplier and spinoff impacts • Employment in the sector • Capital investment • Fiscal impact	Takes a supply chain approach, analysing the impact of UK films only in the distribution and exhibition sectors	BFI, DCMS, OFCOM	Oxford Economics
IE	2012	• Total budget • Eligible spend for §481 purposes • Section 481 funds raised • Labour, materials, and services components of eligible spend	Uses a highly conservative methodology with regard to fiscal impact	IFB, Irish Revenue Commissioners	Irish Department of Finance
IT	2012	• Investments in each project • Spend on labour • Genre • Number of copies in the cinema on the first weekend after release	Analyses films which started before the introduction of the incentive, but which were nonetheless eligible	ANICA, Beni Culturi	ANICA, Luiss Business School

Source: SPI

A number also analyse downstream spending, such as that generated by productions in other sectors of the economy. Such induced spending occurs in areas such as legal services or catering, supporting but not being directly part of film production. Rather than being analysed fresh for each study, the general model for such analyses – following established practice in economics – is to use a multiplier, though this will itself have been established originally through primary research into production budgets.

As we note elsewhere, a limitation of this approach is that a multiplier might not provide a completely accurate perspective on the GVA and tax yields from productions supported by incentives. However, the significant amount of primary research required to undertake a full analysis makes them a much more cost-efficient model of evaluation than a complete end-to-end analysis.

Compared to the other evaluations noted, the UK's model appears to be unique in adopting a supply-chain model for the analysis of the impact of the incentive. In doing this, the studies have considered not just the impact that films supported by the incentive have on production, but also considered how British-made films impact on the distribution and exhibition segments of the market. This has been achieved by calculating the percentage of British-made films released, and using this as a weighting for British content in the downstream market segments.

It might also be noted that, given the cultural role such incentives play, the majority of evaluations conducted to date focus solely on their economic impact. Whereas this is of great consequence to national governments, the cultural derogation remains of crucial importance to such incentives' passage through EU State Aid guidelines, and as such the generation of more evidence with regard to their cultural value is desirable. Consultations, though, suggest that this is a point increasingly recognised within nations, and as a result we anticipate the emergence of a broader evidence base on this issue in future.

Complimentary to reports on their own schemes, it is also interesting to note that various film agencies or Ministries in charge of film policy, including the CNC, IFB, and MiBAC have commissioned comparative studies on schemes existing in other European countries or outside of Europe. Such comparative reports are demonstrative of a desire to ensure that schemes continue to meet international standards for both mechanical and financial competitiveness.

Within the annex, individual country evaluations are described in greater detail; the titles of evaluations studied for this report can be found in the Bibliography (chapter 21).

10 Challenges & recommendations

10.1 Challenges of measuring impact on a comparable basis

One of the major challenges within this project has been the lack of comparable, extensive data for markets, and the incompatibility of datasets when they have been available.

Many countries we have consulted with, for example, do not collect

- the country of origin data for their productions;
- statistics for employment;
- formal identification of investment in supporting production infrastructure.

In addition, a range of data are collected but not necessarily published, such as the list of projects utilising the scheme, the country of origin for these projects and their financing, and the overall budget, including the budget share of the incentive. It would be useful to understand further detail, such as the impact of the scheme on production costs, though as we note above this is likely to be dependent on other issues and policies as well, and would require careful analysis.

A particular challenge we have found has been the different ways of accounting for the year in which production spend takes place. This can, depending on the country, be allocated on the first day of principal photography, the last day, or the date when the production receives clearance for exhibition. No country amortises production spend over the entire process, which would create a more accurate perspective, and as a result there are a number of irregularities and misleading statistics available.

One potential limitation of the evaluations studied is that few, if any, analyse the interplay between the fiscal incentive and other national support structures. As we have noted, this proved to be a significant limitation for us during this project, as it inhibited our ability to perform such an analysis at a pan-European level.

The television sector, we have found, presents a particular challenge with regard to measuring the impact of a fiscal incentive – often, production spend for the industry can be unclear, particularly for national television channels. This lack of clarity means that determining the impact of a policy intervention can be extremely hard, as we have noted earlier in this report.

10.2 Recommendations

At present, there is a clear disparity in the quality and availability of data between individual countries studied as part of this report. For countries – such as France, the UK, and Ireland – the collection of data with regard to the film and television production sector has been a long-term project, whereas other countries find they are starting more or less with a blank canvas in evaluating their industries. It is also the case that, for a number of countries, data and analysis are available privately, or only in native languages, limiting the ability of independent researchers to understand and evaluate the impact of schemes.

In order to address these issues in future research, SPI in collaboration with the European Audiovisual Observatory have summarized some recommendations for best practices with regard to impact evaluation methodologies and indicators to be collated.

Methodology suggestions

The first – most basic – recommendation would be for national authorities to attempt – at appropriate intervals – to collect and analyse information and data about the costs and benefits of their fiscal incentive schemes and publish corresponding evaluation reports.

The analysis of the impact of any incentive structure requires the collection of various data pertaining to the issues the scheme aims to address. A recent report from the UK's National Audit Office, entitled 'The effective management of tax reliefs' provides some general guidelines in this regard which we feel are helpful in exemplifying this. It suggests that the effective management of incentives requires five things:

1. The collection, analysis, and reporting of information about their costs and benefits;
2. A review, where relevant, of the extent to which they are achieving their objectives;
3. Identification to tackle risks, including evidence of abuse;
4. Sufficient governance to manage the overall administration of reliefs, share knowledge and practice, and achieve proportionality; and,
5. Accountability to provide evidence to policy-makers and the government where reliefs are not working as intended.[38]

[38] *The effective management of tax reliefs*, National Audit Office (November 2014) p. 5

The key methodology to determine the downstream impacts of incentives will be the development of a multiplier. In general, this will be undertaken by the sampling of budgets, undertaking primary research to determine where money is spent by a range of film and TV productions, and determining the impact of this spending on the GVA of suppliers. Given the cost and complexity of this work, we would not anticipate it be undertaken on a regular basis – as an example, for the UK such research was last undertaken in 2005 by Optima and Cambridge Econometrics.[39]

Determining indirect impacts is likely to be trickier, given that many of these have multiple originators – an increase in available dedicated shooting space, for example, is likely to be driven by domestic film and television as well, which are not necessarily subject to the introduction of an incentive. As such, the collection of data becomes paramount, as these will allow analysis to be undertaken to determine the net contribution of the incentive structure to indirect benefits. The need to remove other factors from such calculations also suggests data about direct funding for productions in the same sector, and production spend from other sectors – including national television channels and advertising – is also desirable.

Finally, from the perspective of the independent researcher, it is also desirable that the methodologies behind the collection of such statistics are transparent. It is to be expected that individual countries adopt their own approaches, but so long as we are able to determine what these are, separate comparisons and analyses can be conducted.

Basic data to be collected

With regard to film and TV sector reliefs, various key data points can be highlighted as relevant in understanding whether these aims are being fulfilled. Regular data collection could include

- **Key information about scheme, such as**
  - Text of law, decrees, rules organising the scheme or amending it (in English)
  - Forecast of net yearly cost for the state (amount to be identified, in principle, in the finance law/state budget). This indicator is important as it is the only one with some objective basis that may be considered for the analysis of a national public policy integrating fiscal incentives and direct public funding.
  - Basic description of the scheme and its aims, including eligibility criteria for investors / producers, eligibility criteria for works, eligible expenditures, percentage of production budget eligible, ceilings, modalities of payment, compatibility with other national/European support
  - Reports from private stakeholders in the incentive scheme – i.e. SOFICA investment companies – pertaining to their involvement

- **Basic data on projects benefiting from the scheme, such as**
  - List and number of projects
  - Amount received from the scheme per project
  - Countries of origin including % shares by country (→ national / co-productions / inward investment productions)
  - Budget size
  - Financing structure (→ national / European / non-European investments)

[39] *Economic Impact of the UK Screen Agencies*, Optima/Cambridge Econometrics (May 2005)

- **Basic sectoral data**
  - Number of productions shooting in a country (by origin)
  - Production spend in country, including location of spend and origins of financing for the production
  - Production spend by national films
  - Numbers of sectoral employees, both permanent and freelance, including a baseline number from before the start of the incentive
  - Size and nature of supporting industries, such as post-production, sound, and VFX
  - Facilities investment and the overall capacity of dedicated shooting space

- **Basic data on direct and indirect economic impact**
  - Volume of investment generated (with breakdown by national companies, subsidiaries of foreign companies)
  - Volume of services purchases (by national companies / by foreign companies)
  - Employment generated
  - The downstream impact of reliefs, including a deadweight analysis removing productions which would have been made anyway
  - A film and TV sector multiplier, providing a perspective of the standard indirect impact for a national industry

- **Basic data on fiscal impact**
  - Gross benefit (volume of taxes generated thanks to the scheme) for the State
  - Net benefit (gross benefit minus the actual cost of the scheme) for the State

In order to collect some of these data – in particular basic sectoral data – it would be useful for film institutions to reinforce the work on structural business statistics, e.g. in collaboration with national statistics institutes / EUROSTAT and the European Audiovisual Observatory. [40]

Additional data may be required to address specific aims of individual schemes

In addition, further data points are likely to be of interest given the specific aims of individual schemes – for the Italian tax reliefs, where capitalisation of companies is a key aim, one would expect that studies are undertaken to measure this.

[40] Theoretically, structural business statistics (SBS), which cover business in trade and services according to NACE activity classifications could provide for this. The data currently collected – of which audiovisual production has been included since 2008 – allows for the statistics to be broken down for detailed sectoral analysis, to a greater degree than national accounts. However, at present there are various issues, including the fact that many of the data currently collected are unreliable, and that SIC categories including 59.11 (Motion picture, video and television production activities) and 59.12 (Motion picture, video and television post-production activities) include companies which are not eligible for incentives, such as advertisers and distributotrs. For further information, see http://ec.europa.eu/eurostat/web/structural-business-statistics/structural-business-statistics/business-services

Annex – Scheme analysis by country

The following eight chapters provide a detailed assessment of the eight countries and ten schemes we have studied as Treatment group countries as part of this project, considering:

- The background, aims, and legal framework to the scheme(s), and any proposed or anticipated changes;
- A précis of any studies which have been undertaken about the schemes; and,
- The various perspectives on their impact, including any identified employment and infrastructure contributions.

Annex overview:

11 Belgium

<table>
<tr><td colspan="2">Country:</td><td>Belgium</td><td>Name:</td><td colspan="2">Tax Shelter</td></tr>
<tr><td colspan="2">First Year</td><td>2003</td><td>EU State Aid Re-certifications</td><td colspan="2">2007, 2009, 2013, 2014.</td></tr>
<tr><td colspan="2">Modus Operandi:</td><td colspan="4">The Tax Shelter is designed as a shelter for private investment in Belgium film and TV production; certification is conducted through the regional screen agencies, with the federal tax authorities controlling investors’ tax payments</td></tr>
<tr><td>Sheltered Investment</td><td>2009</td><td>2010</td><td>2011</td><td>2012</td><td>2013</td></tr>
<tr><td>EUR (m)</td><td>124.5</td><td>149.9</td><td>180.7</td><td>180.0</td><td>180.0 (est.)</td></tr>
</table>

Reference website: http://finances.belgium.be/fr/entreprises/impot_des_societes/avantages_fiscaux/tax_shelter/

11.1 Background to the scheme

Original aims

Introduced in 2003 on the joint initiative of the Belgian Federal Ministry of Culture and the audiovisual sector, the Belgian Tax Shelter was developed with the aim to build and develop the Belgian film and television production industry. A key aim was the attraction of European co-productions, building on the broader economic links which Belgium has with its neighbouring economies, particularly France and Netherlands.

In comparison to other incentives, the Tax Shelter has always operated on a broad basis, with multiple possible forms of production being eligible for investment through the scheme. These include feature films – created through live action or animation, and either fiction or documentary – which are scheduled for theatrical release, and television entertainment, both single episodes and series.

Later revisions to the Tax Shelter have not acted to change these original aims, focussing on mechanical changes to the operation of investments and ensuring alignment with revisions to the EU’s broader cultural policy framework, such as the Cinema Communication.

Legal framework[41]

The legislation enabling the tax shelter was adopted in 2002 as a modification to the 1992 Belgian Federal Tax Code (CIR 92), adopted as article 194ter.[42] This law allows for a maximum of 40% of the investment in the production of one Belgian audiovisual work to be placed as a loan into the production, implying a minimum of 60% as equity. For this investment, the investing individual or company receives a 150% tax shelter, in addition to the interest on the loan and a put option for the equity, which guarantees a minimum sale price back to the producer of the content. Companies as well as individuals can shelter their profits through the Tax Shelter. For both, the maximum investment is EUR 750,000, while companies cannot shelter more than 50% of profits per fiscal year.

As currently constituted, the Tax Shelter does not have a specific cultural test. The law foresees the assimilation of a Belgian work with a ‘European work’ as defined in the “Television without frontiers” Directive and now in the Audiovisual Media Service Directive. This implies that the work is originated from a European country, from a third party to the European Convention on Transfrontier Television, or be a co-production within the framework of an agreed treaty. Under the co-production framework, the production must be controlled in the EU, with the majority of spend also being European. Common to other incentives, there is no requirement for local labour to be used; rather they must be predominantly from the EEA.

But this definition is tempered by territorialisation criteria: a minimum 150% of the equity value to be spent on the production in Belgium, this amount coming from non-Tax Shelter investments. A maximum of 50% of the budget can be raised through Tax Shelter investments, with the budget required to be divided into ‘normal’ and ‘Tax Shelter’ sections to ensure clarity on how this division occurs. In order to access the incentive, the law requires that the production company be Belgian-registered, with a minimum of 90% of Shelter-derived investment being spent in the Belgian market. No pre-certification is required, though the project must be certified prior to the end of the production process.

Figure 7 overleaf highlights the financial flows within the incentive, as it is presently constituted.

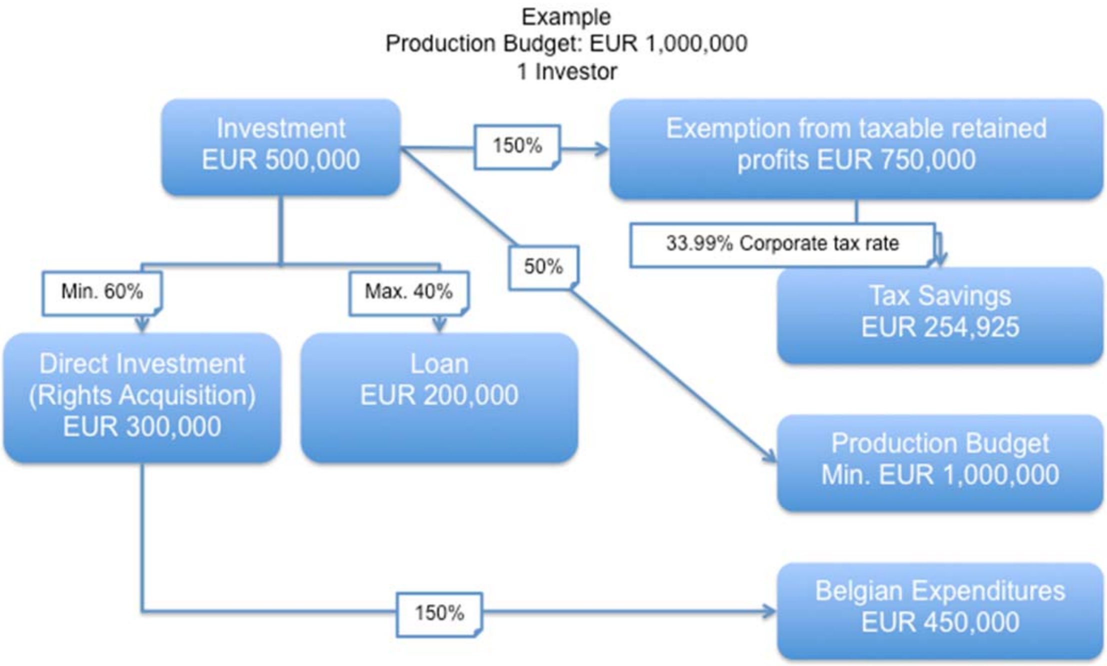
Unusually, there is no specific list of eligible spend items for the incentive. Instead there is a general guideline that 70% of incentive funding must be spent on creative and technical production work, with a 30% cap on administrative and financial management aspects. The Office for Advance Decisions in Tax Matters at the Belgian Federal Public Service for Finance can provide an advance ruling on whether spend counts as eligible, but it is to be noted that the final certification of the project is not obliged to agree with this. In practice, however, the level of familiarity with the system from the Belgian production community is seen to avoid problems with eligible spend, in conjunction with the 50-50 split required between shelter and normal investments in a project.

At the time of writing, the competence for the certification of projects is devolved to the French, Flemish, and German Communities, following the standard division of cultural competence within the Belgian federal structure. The Federal Government becomes involved for the purposes of applying the final deduction to the investors’ taxes, these being a federal-level competence. As part of the proposed changes, however, a greater level of record-keeping is intended to move to the Belgian Federal Government, which will have the benefit of allowing a common statistical overview of the operation of the Shelter.

[41] The legal basis is the art. 194ter, CIR 92, included in the article 128 of the „loi-programme“ of 2 August 2002 (Moniteur Belge 29.08.2002 - errata M.B. 13.11.2002) and modified by the art. 291 pf the „loi-programme“ of 22 December 2003 (M.B. 31.12.2003), by the article 2 of the Law of the 17 Mai 2004 (M.B. 04.06.2004) as well as by art. 7 of the law of 21 December 2009 on fiscal measures (M.B. 31.12.2009). The amendment of the scheme was accepted by the European Commission 21 February 2014.

[42] http://ccff02.minfin.fgov.be/KMWeb/browseCategory.do?method=browse&params.selectedCategoryId=40 [accessed 12 December, 2014]

Figure 7 Belgium: Structure of a Tax Shelter Investment



Source: Belgian Federal Ministry of Finance, SPI

The reform of the system in 2014

One of the particular challenges within the initial constitution of the Tax Shelter has been the role of intermediaries. Given the complexity of the structure, finance companies have acted to provide a management layer between individual investors and the producers of the content. Though this in some ways makes life easier for both sides, involving a type of escrow function, some activities within this sector have led to concerns for the various authorities (Ministry of Finance at the Federal level, Ministries of the Communities in charge of the certifications), the Parliament and the two main professional organisations of producers. Abusive practices were reported in March 2013 during hearings of the Finance Committee.[43] In July 2013, the two organisations of producers (UPFF and VFPB) submitted proposals of reform, including the introduction of a certification process.[44]

A significant challenge had been the growth of guaranteed returns for investors of up to 20% per annum, together with broader misuse within the system.[45] This had led to a significant public debate in Belgium regarding the nature and role of the Tax Shelter, with the active participation of stakeholders from across the production and financing sector.

The main issue of the debate was that some of the intermediary companies (specialised in identifying investors and projects) were accused of promoting to the investors a return of 20 to 25% (against a level allowed for in the legislation of 4.42%) and taking a margin of 7 to 15%. The impacts of these practises

[43] A. Lorfèvre, „Consensus en faveur de la réforme du tax shelter“, *La Libre Belgique*, 28 mars 2013. http://www.lalibre.be/culture/cinema/consensus-en-faveur-de-la-reforme-du-tax-shelter-51b8fb01e4b0de6db9ca1a33

[44] „Le secteur de l'audiovisuel demande d'actualiser le tax shelter“, *Trends Tendances*, 11 July 2013. http://trends.levif.be/economie/politique-economique/le-secteur-de-l-audiovisuel-demande-d-actualiser-le-tax-shelter/article-normal-174297.html

[45] „Cinéma: le nouveau tax sheleter sur les rails“, la Libre Belgique, 14 février 2014.

have been to limit the volume of investment entering the productions themselves, as producers have been forced to provide guarantees on returns in order to get projects financed. Though unconfirmed by any data which we have been given for this study, consultees have advised that in some cases as little as 20% of the investments made in some films have actually been used for production funding.

While film professionals had long-recognised the need to reform the system, historically there had been a concern that discussion of the abuses within the Tax Shelter risked the government deprecating the entire system. It might be considered that, had the scheme been more open before this in making data avaialble, this discussion could have occurred earlier, which would hae been positive for both the producers and the public purse.

After various proposals by Members of the Federal Parliament, a reforming bill was adopted by the Council of Ministers in February 2014 and by the Parliament in May 2014.[46] The reform, which now seems to have been accepted by all stakeholders, has placed a cap on the volume of returns which investors can be guaranteed, at 5% of tax savings and 5% on the equity of the project. Such reforms aim to tie returns on the investment far more into the success of the film, and will also be expected to change the current system which, in some cases, has led to the investors not even being aware of which productions they were involved with.

Within the Federal Government, additional controls will be in place – a special unit of the Government will in future control the Tax Shelter, with significant additional data flows being required between the Communities and the Federal Government. Intermediaries will also be required to register with the Ministry of Finance to operate, with licensing being used to ensure that they act in line with the new guidance. A framework-convention (“convention-cadre”) has to be signed between the investor and the producer. A certificate has to be issued by the SPF Finances (the arm of the Ministry of Finance) in order to make sure that 90% of the investments are effectively available for the film.

The changes were validated by the European Commission the 11 November 2014 and should be implemented in 2015. [47]

11.2 Economic impact of scheme

Studies undertaken

No official study has ever been undertaken into the impact of the Tax Shelter. Consultations with both the Federal and Community governments have advised that no requirement to undertake an evaluation exists at either level. Two private studies have been undertaken: a 2009-10 Master’s level study at the Louvain School of Management entitled *A qui profite le tax shelter?*, and a 2012 report by uMedia and Deloite, *Tax Shelter: een zeer rendabele belegging voor de Staat.*[48,49]

[46] 12 Mai 2014 – Loi modifiant l’article 194ter du Code des impôts sur les revenus 1992 relatif au régime de tax shelter pour la production audiovisuelle, available at http://www.ejustice.just.fgov.be/cgi/article_body.pl?numac=2014003237&caller=list&article_lang=F&row_id=1&numero=8&pub_date=2014-05-27&pdda=2014&dt=LOI&language=fr&fr=f&choix1=ET&choix2=ET&pdfa=2014&pddj=01&fromtab=+moftxt+UNION+montxt&nl=n&pddm=05&pdfj=31&sql=dt+%3D+%27LOI%27+and+pd+between+date%272014-05-01%27+and+date%272014-05-31%27+&pdfm=05&rech=74&tri=dd+AS+RANK+&trier=promulgation, accessed 17 December 2014

[47] http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3_SA_38370
The text of the decision was not available as at 12.1.2015.

[48] *A qui profite le tax shelter?* (Who profits from the Tax Shelter?), Pierre-Antoine Simon, 2010.

[49] *Tax Shelter: een zeer rendabele belegging voor de Staat* (Tax Shelter: a very profitable investment for the State), uMedia-Deloitte, 2012, A press release (in Flemish) is available at: http://ufund.be/wp-content/uploads/2013/12/tax-shelter-rendabele-belegging-voor-de-staat.pdf

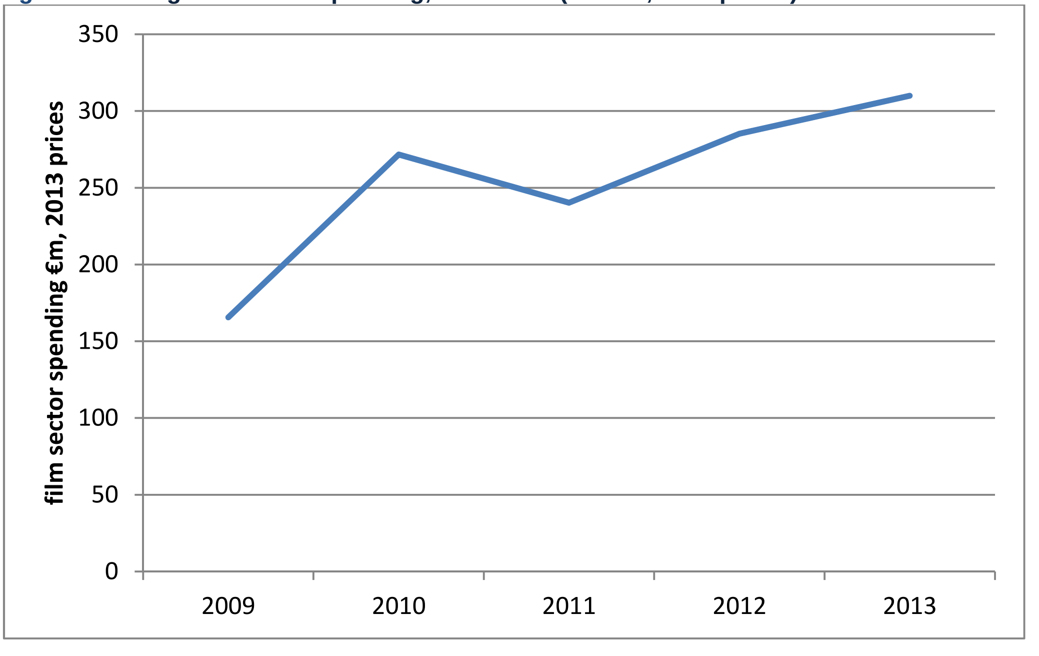
Both of these studies concluded that the shelter offered significant, positive impacts for Belgium, both with regard to fiscal impacts and for the development of the production sector in the country. However, Simon even in 2010 notes a level of caution about how the shelter has developed, noting the desire of the producers to ensure licensing of intermediaries, with the aim of limiting the amount of leakage from the system.[50]

Fiscal impact

The uMedia-Deloitte study provides the best analysis of the fiscal impact of the shelter, with the calculation that for each EUR 1 sheltered through the incentive, the Belgian Federal Government receives EUR 1.21 in tax revenues arising from the investment.[51] These resulted in a EUR 77 million profit to the Belgian state between the introduction of the shelter in 2003 and 2012. Consultations with the Community governments show that these figures are accepted at certain levels of the Belgian Government as being accurate.

Sector spending

Figure 8 Belgium: sector spending, 2009-2013 (EUR m, 2013 prices)[52]



Source: CCA and VAF

Figure 8 shows that film sector spending in Belgium shows a strong upward trend over the years 2009-2013 with average real growth of 16% per year in the sector. The scheme originally started in 2003 but changes were made recently by the Belgian Federal Government in response to a series of criticisms, which suggested that limited amounts of sheltered money were actually being used to fund film

[50] Simon (2010) p. 75

[51] uMedia-Deloitte (2012) *Persbericht* p. 2

[52] In this and following sections, 'Film Sector Spending' refers to the annual production spend reported by the competent authority in question; this includes national film production spending which did not qualify for the incentive structure, though where possible discounts non-film sector spending, for example on TV, and non-national spending, ie in other EU or non-EU countries.

production. The changes looked to ensure that the money invested was actually being used to fund film production, rather than simply to limit investors' tax liabilities.

11.3 Impact on the sector

Employment

Specific data on employment within the Belgian production sector does not exist over a long time scale – though some data were received from the Community governments, these only covered part of the period in question, and we were unable to ascertain either the methodology behind their creation or confirm which geographical areas they covered. Nonetheless, consultations with both industry and government have underlined the success of the Tax Shelter in generating additional sectoral employment within Belgium. Unpicking this from the impact of investments from the Belgian communities is, however, a major challenge, as various consultees noted.

It is also clear from consultations that Belgium is facing particular future challenges in crewing productions, as there is at present a tight market within the country. Various consultees noted that getting crew for productions – in particular local ones – is a significant challenge, and that costs have gone up as the market has become tighter. This is a trend which we see in other countries, and underlines the fact that, for all their positive impacts, fiscal incentives do not provide a direct impact on employment, with other policies often being required to address such concerns.

Infrastructure investment and capacity

Similar to employment, specific data on infrastructure investment are not available for the purposes of this study, but various consultees highlighted the importance of the shelter in spurring infrastructure growth over the past ten years. The introduction of the Tax Shelter in Belgium was followed swiftly by the removal of the Dutch CV-system tax shelter, which also led to the relocation of originally Netherlands-based service companies into Belgium. Since this point, significant domestic growth has seen the emergence or expansion of Belgian service companies, a number of whom are expected to profit from the re-introduction of an incentive in the Netherlands as well.

In recent years, the public agencies supporting the audiovisual industry have looked to incentivise the development and growth of companies addressing the post-production and VFX segments of the market. Wallimages, the fund of the Walloon Region[53] has created Wallimages Companies. The scheme acts to stimulate this investment and growth, but the need for such additional funding further acts to underline the degree to which further policy structures are needed to address broader market concerns.

Production flows

While no specific study underlines the production flows into Belgium arising from Tax Shelter investments, there is general agreement between the consultees about the nature and origin of such productions. The majority of projects benefitting from the incentive are European-origin co-productions, with a much smaller number being American in origin. Belgian producers frequently take a minority position in such works, with a smaller number of Belgian majority or wholly Belgian productions being beneficiaries; such projects are more often seen as cultural, benefitting from the selective funding provided by the communities.

[53] http://www.wallimage.be. Wallimages also include a line „Wallimages/Bruxelles supported by both Walloon and Brussels Regions.

Table 9 Number of films produced in Belgium (2009-2013)

	2009	2010	2011	2012	2013
Fiction - 100% national	4	2	5	6	13
Fiction - maj. co-productions	13	16	12	14	17
Fiction - min. co-productions	21	24	21	27	34
Total national fiction films	**17**	**18**	**17**	**20**	**30**
Total fiction films (incl. min. co-prod.)	**38**	**42**	**38**	**47**	**64**
Feature documentaries - 100% national	1	0	2	1	4
Feature documentaries - maj. co-productions	3	3	1	3	1
Feature documentaries - min. co-productions	1	1	1	4	1
Total national feature documentaries	**4**	**3**	**3**	**4**	**5**
Total feature documentaries (incl. min. co-productions)	**5**	**4**	**4**	**8**	**6**
Total feature films - 100% national	5	2	7	7	17
Total feature films - maj. co-productions	16	19	13	17	18
Total feature films - min. co-productions	22	25	22	31	35
Total national feature films	**21**	**21**	**20**	**24**	**35**
Total feature films (incl. min. co-prod.)	**43**	**46**	**42**	**55**	**70**

Source: European Audiovisual Observatory from data provided by the CFWB and the VAF[54]

This said, at least 100 Belgian films have benefitted from Tax Shelter investments over the 10 years the system has been in operation. The number of Belgian feature film productions (including minority-co-production and including documentaries) increased from 43 in 2009 to 70 in 2013.

The single largest co-production partner for Belgium is, unsurprisingly, France; this results from a combination the linguistic compatibility between the French Community of Belgium and France, and the relative ease of structuring the Tax Shelter and French *crédit d'impôt cinema* systems into one financing plan. Consultees have noted that more than 200 French-majority films have benefitted from the Tax Shelter in the past ten years. Though it might be perceived that the French industry was, as a result, taking advantage of Belgian taxpayers, the general feeling in Government and the industry was that this volume of production was not one which the Belgian industry could have independently supported: the size of the market and bifurcation between French and Flemish speakers would not allow for it.

Such joint growth of the French and Belgian production industries has, from the perspective of most consultees, been of benefit to both industries, with one noting that a single market has effectively developed between French Community of Belgium and France. Nonetheless, there was some concern expressed about the role of French producers in the Belgian market: one consultee noted that it's getting harder for Belgian producers to get a meeting with financers, as French-majority films are seen as more commercial. The hope is, though, that with the introduction of changes to the incentive structure, this issue will be resolved.

Aside from France, Germany and the Netherlands were noted as Belgium's major co-production partners, with the UK also having a presence in the TV market. The introduction of the new Dutch incentive was seen as a particular reason for optimism in Belgium, with Flemish producers and authorities noting that they would expect further growth in Dutch-Flemish co-productions as a result.

[54] European Audiovisual Observatory, *Yearbook 2014*, p. 219.

Perspective from producers

The producers we spoke to as part of this project all highlighted the Tax Shelter as being the single most important driver in the growth and development of the Belgian industry over the last ten years. At least one noted that, without its presence, they wouldn't be able to produce films at all. Meanwhile, significant hopes were expressed about the potential for future growth, including in the High-End TV sector.

Nonetheless, a number of consultees noted criticism about the complexity of the model used for the Tax Shelter, not least with regard to the amount of time and energy which is needed to manage investors. Closing finance within the system was noted as being quite difficult, particularly in comparison to rebate-style incentives which often act to close financing. Meanwhile, a number of consultees highlighted the gap between the intentions of the Federal Government in setting up the law and the practice of its operation, in particular noting the challenges posed by the demands of intermediaries on returns for the production. These dovetail with the comments of Government consultees, who also highlighted the challenge of investors wanting to limit risk.

It is worth noting that such comments with regard to investors are common in tax shelter incentive systems, where the demands of investors and intermediaries often have a significant bearing on projects. All of the producers and associations spoken to, however, were hopeful that the present reforms to the incentive system in Belgium would have the desired impact and act to kerb abuses, with more funding directed into projects and less pressure to guarantee returns.

Overall, producers saw the system as being invaluable to the industry, while noting that improvements were nonetheless desirable, and that further investments in crew and facilities were needed.

12 Croatia

Country:	Croatia	Name:	Film Production Incentive Programme
First Year	2012	EU State Aid Re-certifications	2014
Modus Operandi:	The Film Production Incentive Programme (also referred to as a 'Cash Rebate') operates a rebate-style incentive, with a maximum annual spend of HRK 20 million (EUR 2.6 million). The HAVC is in charge of certification, after which funds are reserved for productions in the accounts. As a result, the system operates on a 'first come, first served' basis to avoid overspending.		

Eligible Spend	2009	2010	2011	2012	2013
HRK (m)	n/a	n/a	n/a	24.6	58.0

Reference site: http://filmingincroatia.hr/en/cash_rebate_for_film_and_television_production

12.1 Background to the scheme

Original aims

The introduction in 2011 of a production incentive for Croatia was a key element of the 2010-14 National Strategic Plan for the Audiovisual Industry, adopted by the Croatian Audiovisual Centre (HAVC) in conjunction with the Ministry of Culture of the Republic of Croatia. This plan covered a range of activities within the Croatian audiovisual sector – taken in their definition to cover all technologies, from film to web – and aimed to ensure alignment with the regulations of the EU (which Croatia was then in the process of joining) and the broader development of the Croatian creative sector.

In her foreword to the Strategic Plan, Vera Škarica – the Chair of the HAVC – noted that in the 30 years between 1980 and the introduction of the plan, Croatia had gone from an exporter of audiovisual work to a position of almost exclusively importing. This correlates with the press release from the HAVC when the incentive was approved, which stated: "the introduction of incentives is a major step forward, the step which will benefit us all in the longer run. The bigger the market, the bigger the volume and quality of work."[55]

Within this framework, the Cash Rebate can be seen as a key element in the development of a stronger production sector within Croatia. It is aimed at attracting international productions into Croatia, as well as stimulating domestic Croatian production. However, the HAVC recognises that the Cash Rebate is only a part of a broader strategy, with other direct funding and strategic interventions required to ensure that the domestic industry is able to benefit from the growth in international productions, which are the initial beneficiaries of the incentive.

[55] *Croatian Parliament approves a Bill introducing tax incentives for foreign and domestic film production!,* HAVC Press Release, 16th July, 2011

The need for this longer-term strategy is apparent through consultations with both the HAVC and the broader industry: various players within the sector, in particular financial institutions, require time to adapt their processes to the norms seen in other, more developed production sectors. As a result of this, there is an acceptance within the Croatian industry that the incentive cannot reasonably be expected to solve all the challenges the sector faces. Rather, in helping to attract international productions such as *Game of Thrones*, it is intended to provide a strong base of technical skills, international knowledge, and contacts upon which to base the future development of the sector.

Legal framework

The Croatian Parliament passed the enabling legislation for the Cash Rebate on 15th July, 2011 as Article 39a, a modification of Paragraph 6 of the 2007 Act on Audiovisual Activities. This was subsequently renewed on 25th January, 2014, the original act having only been valid until December 2013; consequently, the European Commission has approved the scheme until 31st December, 2019.[56]

The framework outlined by the Act provides for a Cash Rebate, to be paid following the certification of eligible spend at the completion of the project. Under the present framework, the maximum rebate ordinarily granted to a project is HRK 4 million (approximately EUR 520,000), but the HAVC is able to provide dispensation for a larger rebate to be granted where under special circumstances. *Game of Thrones* 4th season received such a dispensation, being granted more than HRK 8.5 million in 2013, reflecting its importance as a production.

At present, the HAVC is provided HRK 20 million (EUR 2.6 million) per annum funding for the incentive through the Croatian State Budget; this is provided as grant-in-aid funding. In managing the funding, the HAVC operates a ‘first-come, first-served’ model, within which the funding is reserved to productions in the order in which their applications are granted. In doing this, the HAVC will avoid a situation in which more money is promised to productions than they are able to spend in a single year.

Minimum Croatian spend is dependent on the kind of project, being:

- HRK 2 million (EUR 261,000) for feature films;
- HRK 300,000 (EUR 39,000) for documentaries;
- HRK 500,000 (EUR 65,000) for animation films;
- HRK 1 million (EUR 130,000) for television films; and,
- HRK 750,000 (EUR 98,000) for an individual television episode.

This minimum Croatian spend cannot exceed 50% of the overall production budget for the project.

For the purposes of applying for the Cash Rebate, a cultural test exists within which the producer has to score 12 out of 34 points to qualify. Points are spread across three categories, including the use of European cultural content, creative collaboration – with Croatians or Europeans in leading roles and the crew – and the use of Croatian production capacities, such as studios or locations. No spending on training is mandated, save for productions granted more than HRK 4 million, where at least one Croatian trainee is required in each of the main production departments.

[56] *C(2014) 4342 final*, European Commission, 24th June, 2014

In order to apply for the incentive, the production company has to be a Croatian-registered company, with a track record in the sector and solid financing. For the purposes of the application, the company must submit:

- A budget,
- Financing plan,
- Crew list,
- Croatian shooting schedule,
- Overall production schedule, and
- Proof of the 70% finance already in place, required for eligibility

Following the completion of production in Croatia, final audited accounts must be provided, alongside proof that the production has met the cultural requirements. Any production applying for the incentive must be intended for public release, and feature films, documentaries, animations, TV films, and TV series are all eligible.

Current or proposed changes

The Cash Rebate was re-validated by the European Commission in 2014 with an annual budget of HRK 20 million (EUR 2.6 million), and an overall budget of HRK 120 million (EUR 15.6 million).

12.2 Economic impact of scheme

Studies undertaken

An evaluation of the scheme was undertaken after the first two years of the incentive, noting a variety of aspects including spending, employment growth, and tourism benefits. While not providing economic metrics such as a multiplier for the Croatian film sector, this report nonetheless provides a solid base of evidence for the current and future assessment of the Cash Rebate's impact.

The study highlights the growth in various metrics achieved between 2012 and 2013, the first two years of the incentive. These include the fact that productions qualifying for the incentive spent a total of 139 days shooting in Croatia, already accounting for 46% of the total.[57] Given that no production received both the incentive and direct funding – the primary source for wholly Croatian spend – it is implied that such shooting days would not have occurred in Croatia without the Cash Rebate.

Data within the study also highlight the significant impact which the incentive had on professionals within the industry. Between 2012 and 2013, the amount of qualifying expenditure spent on wages rose by 227% to HRK 24.9 million; income taxes from those wages rose by 477% to HRK 4.25 million.[58] In addition, 24 trainees were hired by qualifying productions in 2013, helping to provide a base for the future growth of the Croatian audiovisual sector.

Fiscal impact

Though not a specific category of investigation for the study, the data contained within the HAVC's Economic Impact report allow us to calculate a fiscal impact ratio for the first two years of the incentive. During this period, the HAVC disbursed HRK 17.2 million in Cash Rebate, receiving from these

[57] *Economic Impact of the Production Incentive Programme,* HAVC (2013), p. 11.
[58] *Ibid*., p. 12.

productions HRK 21.7 million in VAT and personal income taxes; this implies a fiscal impact of HRK 1.26 for each HRK 1 in incentive spent.

Table 10 Croatia: Fiscal impact of cash rebate

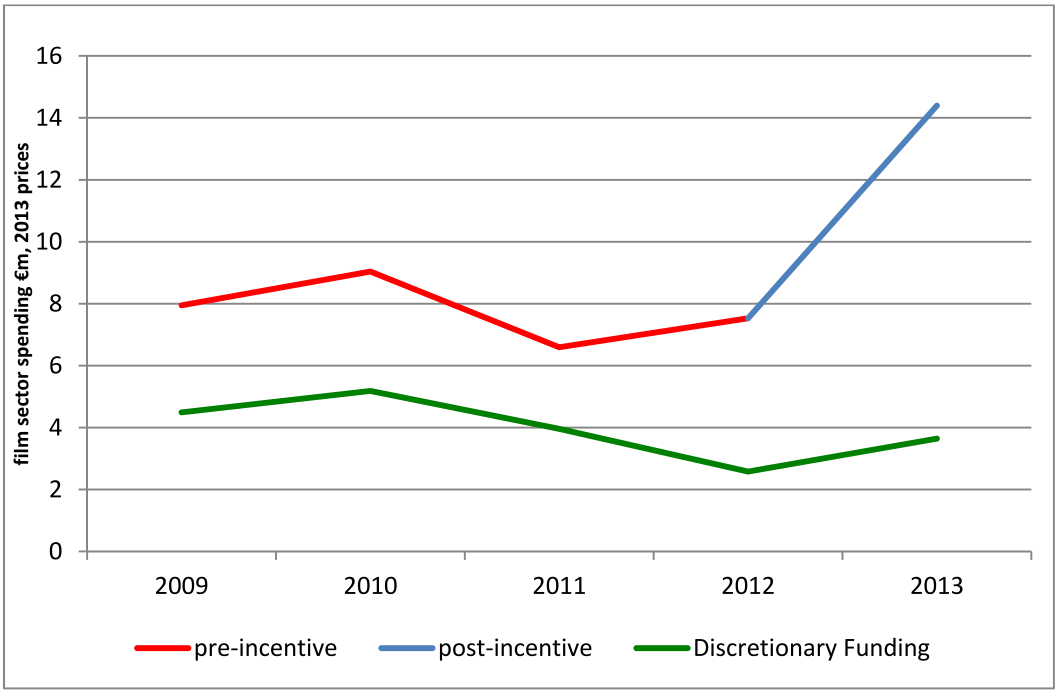
	Incentive Disbursed	Government Earnings	Ratio
2012	4.57	4.89	1.07
2013	12.62	16.79	1.33
Total	17.20	21.69	1.26

Source: SPI analysis

As the data show, there has been significant growth in this ratio from the first year to the second, and with further incentives available it is likely that the number will settle towards the higher end. It also appears that the figures quoted by the HAVC do not include other routes to government revenues – such as taxes on the earnings of line production companies – which would likely increase this ratio further if they were included.

Sector spending

Figure 9 Croatia: sector spending, 2009-2013 (EUR m, 2013 prices)[59]



Source: HAVC

[59] Spending includes TV projects certified through the incentive and film production in Croatia; domestic TV production figures were not available for this report.

Croatia is the only country in this study for which we have data on film industry spending before and after the fiscal incentive was introduced. The red line in Figure 9 (pre-incentive) shows film spending roughly flat in real terms between 2009 and 2012. This is followed by a very large increase (of just over 90%) in production spend in 2013 (the blue 'post-incentive' line). Given that the Croatian film production incentive scheme started in 2012, it seems highly likely that the introduction of the scheme was responsible for the substantial increase in film sector output in 2013. Certainly, other discretionary funding for the film sector (the green line) did not change much between 2012 and 2013, and so does not explain the increase. Given that real GDP in Croatia declined by around 1 per cent in 2013, the increase in film sector spending after the introduction of the fiscal incentive is particularly impressive.

Projections for 2014 suggest that this growth track is set to continue further, as CZK 95 million in local expenditure was reserved for projects in the autumn. Assuming no additional projects were certified after this point, this represents a growth of 64% in eligible spend between 2013 and 2014.

12.3 Impact on the sector

Employment

While the scheme has not been in place long enough to have a significant impact on the sectoral employment situation in Croatia, positive impacts have nonetheless been noticed by both the HAVC and the industry. As noted above, the data in the impact study highlight that there has been a small increase in the number of professionals hired in the first two years of the incentive, together with a small number of trainee positions.

Consultations with people working in and around the Croatian sector suggest that these data don't in fact tell the whole story. A number of consultees highlighted the growth in crew availability which has been spurred by the introduction of the incentive. This has seen the available crew in the north of Croatia grow from enough to crew one international film or HETV series to more than two simultaneously, while a crew is now available in the south, which has historically not had any.

These consultees stated that many of the individuals now making themselves available to film and TV producers have moved from other sectors such as theatre; this is an example of a 'low-hanging fruit' transition, seen in other such industries. It has also been commented on that the quality of crew available to Croatian domestic production has increased in the last two years, suggesting that the incentive is having an impact also for productions that aren't able to access it.

Infrastructure investment and capacity

At present, there has been no facilities investment since the introduction of the incentive. Nonetheless, a number of consultees expressed hope that a studio project would soon be forthcoming, various investors having purportedly expressed an interest.

Production flows

As previously noted, at present only one wholly domestic production – *Dva i Dva* – has been able to use the rebate structure, together with two co-productions, both of which included Switzerland and Bosnia. This reflects the particular challenge of financing films or high-end TV series solely within Croatia. Whereas the way in which the rebate system reserves money tends to prefer an application early in the year - with most of the financing already in place - at present, there are not sufficient private financiers in Croatia to facilitate this.

Outside of these domestic productions, there has been a wide range of different countries from which projects have entered Croatia. The USA has been the leading country of origin, with *Game of Thrones* being the single largest project for the scheme. Other productions have come from a variety of European countries, including the UK, Germany, France, Sweden, Finland, Slovenia, Switzerland, and the Netherlands.

Perspective from producers

Producers consulted for this project have noted the difficulties in using the incentive, but in general there appeared to be that many of these reflect the broader challenges of financing within Croatia. In particular, it was noted that banks in Croatia had no interest in lending to productions, meaning that cash-flowing the production would be almost impossible at this moment in time.

Nonetheless, positive impacts were noted with regard to the availability and skills of Croatian crew, while consultees also noted the possibility for new business opportunities working as line producers for inward investment productions. Overall, while there was some frustration that the incentive wasn't necessarily applicable to domestic Croatian productions at this stage, there was nonetheless significant positivity in our consultations, with producers noting the broader industrial benefits the introduction of the incentive has created.

13 Czech Republic

Country:	Czech Republic	Name:	FISP
First Year	2010	EU State Aid Certifications	2010, 2013.
Modus Operandi:	The FISP is operated as a rebate-style incentive, with a maximum annual spend of CZK 800 million. Certification is conducted through the State Cinematography Fund, who took over from the Ministry of Culture in 2012.		

Eligible Spend	2009	2010	2011	2012	2013
CZK (m)	N/A	905.5	1,371.7	1,797.1	3,633.5 (est.)

Reference site: http://www.fondkinematografie.cz/english/film-incentives.html

13.1 Background to the scheme

Original aims

Introduced in 2010, the Film Industry Support Programme (FISP) of the Czech Republic was designed to create a legal and financial framework to facilitate the creation of film co-productions in the Czech Republic. Within this, it was intended that productions would come both from the wider European industry and from third countries, in particular the United States.

By introducing the incentive, the Czech government also aimed to support Czech film culture both domestically and internationally. While the Czech film industry has historically been very strong at a national level, this has not always translated to export success, but it was hoped that with additional funding further export sales might also be achieved.

In many ways, the introduction of FISP can be seen as a response to the 2004 introduction of the Hungarian indirect rebate system (described below), which had led a greater number of inward investment productions to shoot in Hungary rather than the Czech Republic. Consultees have advised that, as a result of this, a large number of Czech crew had taken to working in the Hungarian industry, acting to denude the Czech sector of workers, presenting a further challenge to successful domestic production.

Legal framework

The FISP was originally legislated for in Decision 1304 of the government of the Czech Republic of 19th October, 2009. It was latterly changed in the 2012 Act on Audiovisual Works, which created the State Cinematography Fund; the Fund now manages the application process for the incentive, which the original Decision had placed in the hands of the Ministry of Culture.[60]

[60] The full title of the Act in English is: *Act on Audiovisual Works and Support for Cinematography, and an Amendment to Certain Acts (Audio/Video Act).*

The incentive is structured as a cash rebate on qualifying spend in the Czech Republic, valued at 20%; a 10% incentive is available for non-resident cast and crew who, nonetheless, pay withholding tax in the Czech Republic. Funding for the scheme is provided to the State Cinematography fund from the State Budget of the Czech Republic; the Ministry of Culture has oversight of this process. In the original request for certification from the European Commission, the annual budget for the FISP was stated at CZK 1,000 million (EUR 36 million), but when the programme was brought under the control of the State Cinematography Fund, this was reduced to CZK 800 million (EUR 29 million).[61]

The FISP provides for different minimum spend requirements depending on the kind of project:

- CZK 15 million (EUR 579,000) for feature films or animated films intended for cinematic exhibition or television broadcast;
- CZK 3 million (EUR 116,000) for documentary films intended for cinematic exhibition; and,
- CZK 10 million (EUR 386,000) for live action or animated television series or episodes.

Films, whether for cinema or television, must have a minimum length of 70 minutes, whereas each television segment or episode must have a minimum length of 40 minutes.

For the purposes of accessing the incentive, a cultural test is required, from which the production must gain 23 points out of a possible 46, of which a minimum of 4 points must be gained for cultural criteria. This section of the test covers Czech and European culture, history, society, and values, and is worth a maximum of 16 points, with two available in each of 8 separate sections. The other section of the cultural text covers production criteria, requiring the use of Czech production and post-production facilities, locations, and EEA cast and crew. In line with the cinema communication, the producer is able to spend 20% of the budget outside of the Czech Republic without detriment to the amount of incentive.

Companies applying for the incentive must be registered in the Czech Republic for taxation purposes, and they cannot be subject to enforcement proceedings or in receipt of aid for rescuing and restructuring firms. Neither can the firm be in arrears to the state on social premiums, or behind on payments to the tax or health insurance bodies. Following the acceptance of the application, the producer is obliged to archive all documents pertaining to the production in question for five years after the completion of the project.

Following the acceptance of interim certification for the project, the producer is obliged to spend 70% of the minimum costs within 12 months; following this, an interim auditors report and authenticated copy of the production's insurance policy are to be submitted within one month to the State Cinematography Fund. The producer is also obliged to report the most recent data on the project to the Fund within 15 days of any request, at any time during the project, and to provide a free digital copy of the production to the Fund within three months of its first theatrical presentation.

The Ministry of Culture is also, per the legislation of October 2009, required to provide regular evaluations on the implementation of the programme; consultees have advised, however, that this does not mean that regular impact studies are a requirement.

Current or proposed changes

No current or proposed changes were noted during the research period.

[61] *C (2010) 4193*, European Commission (17th June, 2010) pp. 2-3; and *C (2013) 4991 final*, European Commission (2nd August, 2013) p. 8

13.2 Economic impact of scheme

Studies undertaken

Various studies have been undertaken regarding the impact of the FISP in the Czech Republic, by PwC, BDO, and EEIP (a Czech consultancy) respectively. Of these, the BDO study is the most recent one, covering data up to 2013, and taking the form of an audit of the scheme.

This study highlights that, in the period covered, the number of foreign production companies working in the Czech Republic has grown steadily, reaching CZK 2.6 Billion production volume in 2013. Overall, the total additional film production generated as a result of the incentive is calculated by BDO at CZK 1.9 billion, with these generating an average of 2,060 additional jobs per annum.[62]

In addition to this direct impact, the BDO study also highlights a tourism impact of approximately CZK 4.08 billion as a result of the additional film-related spend. This is calculated at 4% of overall non-resident tourism spend in the Czech Republic for 2011, the lower boundary of an identified 4-12% band within which film tourism is perceived to sit. The EEIP study also highlights the positive impact of *Mission Impossible 4*'s production in Prague, noting the increased search traffic on Google which arose from the production's work.

Both the BDO study and that from EEIP, which we have also seen an English-language précis of, highlight a broad range of positive benefits arising from the introduction of the incentive, noting that it provides a strong base for future Czech production activity.

Fiscal impact

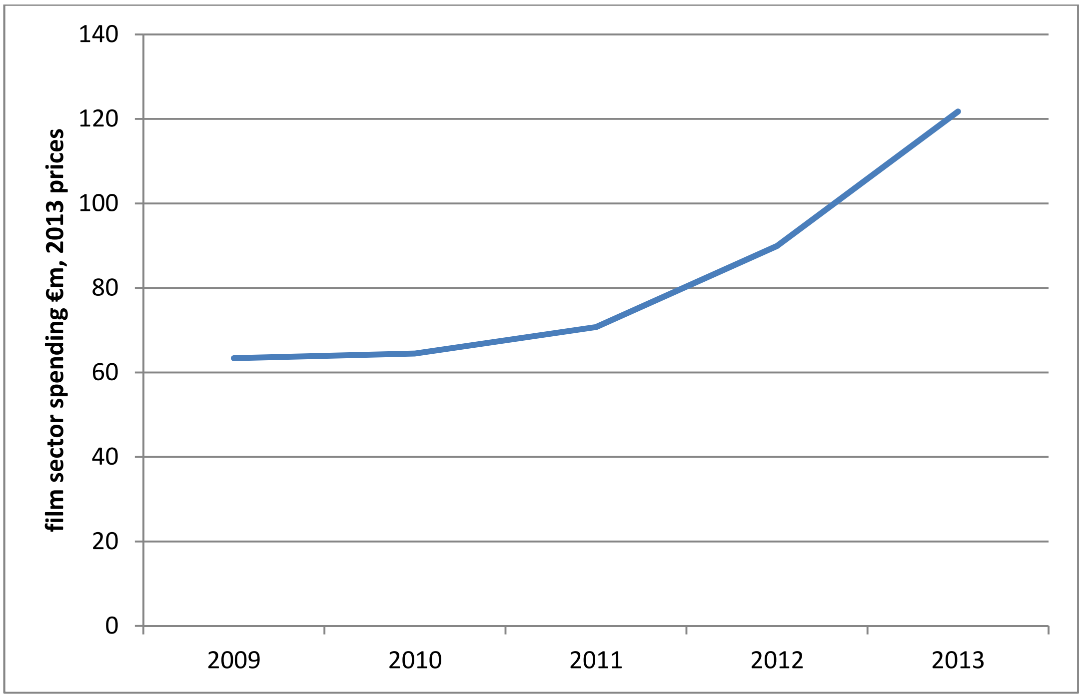
Though a fiscal impact figure comparable to those used in other countries is not available in the studies currently available, the data in the BDO study nonetheless allow us to approximate one, based on spend data to 2013. The calculation from BDO is structured as a hypothetical, rather than following actual production data, but is based on a standardised multiplier effect. These data suggest that from a total FISP spend of CZK 160 million, the total fiscal impact for the state should be between CZK 240 million and CZK 260 million, implying a ratio of CZK 1.5 to CZK 1.625 for each CZK 1 of FISP received.

It is worth noting that, in comparison to the figures stated for other countries, this calculation includes the estimated fiscal impact from downstream suppliers to the production, as well as savings to the state budget which arise from not having to pay social security benefits. However, it does not appear that the fiscal impacts arising from downstream sales are taken into account, while BDO state that the figures chosen are conservative in their nature.

[62] *Evaluation Study on Film Incentives*, BDO Audit (2014)

Sector spending

Figure 10 Czech Republic: sector spending, 2009-2013 (EUR m, 2013 prices)[63]



Source: Czech State Cinematography Fund

Figure 10 shows film sector spending in the Czech Republic increasing over the period 2009-13, with the rate of increase accelerating in more recent years. Overall the film sector in the Czech Republic grew by almost 18 per cent per year over the period 2009-13 – the highest rate of increase of any of the countries studied in this report.

The FISP began in late 2009, so the time period of data presented here is not long enough to provide a comparison between industry growth rates before the incentive was introduced and afterwards. However, the Czech film industry has grown at a particularly fast rate since the introduction of the scheme, which suggests a substantial positive impact.

13.3 Impact on the sector

Employment

The BDO study provides some detail on the employment impact of the FISP, which has been ratified through our consultation process. As noted above, it is stated in the report that 2,060 jobs per annum have arisen from the productions accessing the incentive. Of these, BDO estimates that between 985 and 1,075 would not be working in the sector if the FISP did not exist.

[63] Film sector only.

Consultees in the Czech production sector ratify this perspective, noting that – by comparison with 2009, the year before the FISP was introduced – the crew situation in and around the Czech Republic is much improved. One consultee noted that at that point, many crews had left the business, but that now it's possible to crew 6 or 7 major shoots simultaneously in the Prague area alone.

Infrastructure investment and capacity

The most recent investment in Barrandov, the Czech Republic's major studios, was made in 2006, preceding the introduction of the FISP. While consultations suggest that such facilities are busier as a result of the introduction of the incentive, it is not clear that further investments have yet been made which can be directly related to the FISP.

Production flows

In line with the aims of the incentive, since the introduction of the FISP the Czech Republic has had significant success in increasing the volume of co-productions between the country and its neighbours. Of these, Slovakia has proven to be the most prolific co-production partner, with Germany and France also co-producing significant numbers of films with the Czech industry. Smaller numbers have come from other European countries, including Denmark, Poland, and Norway, while bigger-budget productions have been attracted from the USA and the UK.

One interesting trend, highlighted by the EEIP report, has been the filming of two Indian films in the Czech Republic. The consultancy highlighted these as having been used as the basis for a Czech tourism campaign in India, with Indian travel agencies preparing tour itineraries to the locations used.[64] Small numbers of productions from other non-traditional partners – including Hong Kong and South Korea – have also filmed in the Czech Republic since the FISP was introduced.

Perspective from producers

Producers spoken to as part of this study highlighted the major difference they have seen in the Czech film sector since the introduction of the FISP. They felt that the incentive is vital for the production both of wholly Czech and international films, particularly given the increased reticence of other financiers to invest in Czech productions. The consultees, who noted that there is significant interest coming from the German sector now, which didn't exist in the early-2000s, highlighted co-production potential with Germany, in particular.

Consultees were also positive about the management of the FISP, noting that it is very simple and quick to receive payment after the audit. While there were some comments relating to the volume of required paperwork, there was a general recognition that such robustness is a positive attribute for the system in the long-term. Overall, the message received from producers was that without the FISP, the Czech film sector would be much quieter, and focus solely on domestic films rather than international productions.

[64] *Introduction to the Cost Benefit Analysis of FISP*, EEIP http://www.eeip.cz/en/home/regulatory-impact-assessment/references/film-industry-support-program/ [accessed 28th November, 2014]

14 France

14.1 SOFICA

Country:	France		Name:	SOFICA	
First Year	1985		EU State Aid Re-certifications	2009	
Modus Operandi:	The SOFICA operates as a tax shelter, with the majority of collected funds invested in French film and television productions. Societies are raised annually, with the funding being disbursed over the calendar year. Tax relief is granted after five years of shareholding, with the societies closed ten years after their creation.				
Film Financing	2009	2010	2011	2012	2013
EUR (m)	36.2	50.0	36.4	44.7	32.9

Reference page: http://www.cnc.fr/web/fr/sofica

Original aims

SOFICA (*les sociétés de financement de l'industrie cinématographique et de l'audiovisuel*) have been in operation in France since 1985, being the original incentive structure developed by the French film and TV production sector. They are aimed at collecting funds on an annual basis within a tax shelter structure, which are then used for investment in film and television productions within France. Since 2009, these societies have been required to guarantee a minimum level of their investment to films with a budget of less than EUR 8 million, first, or second films, with the aim of supporting independent production in France.[65]

Legal framework

SOFICA operate under the framework of investment societies, gathering investment on an annual basis through a tax shelter to invest in productions. Primarily, these are ones which take place in France, though up to 20% can occur in the wider single market.[66] As noted above, since the most recent changes to the structure in 2009, SOFICA have been obliged to invest a minimum amount in more difficult productions, with the aim of supporting this segment of the market.

The incentive offers investors a reduction of 36% of their investment against capped income taxes, provided shares in the SOFICA subscription are kept for 5 years; where the SOFICA invests at least 10% of its revenue in the capital of companies to encourage development of projects, this is increased to 43%. Both of these reductions were lowered in 2010, with SOFICA from this and previous years

[65] *Carte des SOFICA agréées en 2013 pour les investissements de 2014* p. 1

[66] *Les SOFICA, Un dispositif original de financement du cinéma et de l'audiovisuel*, CNC (August 2011) p. 3

generating 40% and 48% shelters, respectively.[67]

SOFICA are raised on an annual basis by a variety of financing and film production companies, including for example Pathé and Wild Bunch. Such societies generate funding for investment in the following year, agreeing a minimum percentage of the fund to be invested in particular market segments, including first and second films, productions of less than EUR 8 million, television, and animation. Since 2005, SOFICA are not permitted to invest more than 50% of funding in productions or companies within which they have capital links.[68] Within 12 months of the date of registration of the SOFICA, it is obliged to invest 90% of the collected funds; the remaining 10% can be used to finance the society's operation.[69]

The societies are, subject to normal EU law, able to provide up to 50% of the budget of a single production, but in reality we are advised that they do not operate in this way. Consultees have advised that, given the requirement that they take a part of the production's downstream revenues, producers normally approach them for gap financing, filling the outstanding 5-10% of a film's budget. Larger productions also often don't need to approach SOFICA, as they can find finance directly.

Each SOFICA has a statutory life of ten years, after which they are liquidated and their net assets are distributed to shareholders, *pro rata* and *pari passu*.

Importance of SOFICA finance

On average, SOFICA contributions accounted for 3.4% of the budgets for "French initiative films" approved between 2004 and 2013 (being 3.1% in 2013) but. SOFICA contributions declined sharply in 2013 (-23.9% compared to 2012).[70], [71] The importance of the SOFICA in the financing of films is different according to the level of budget dependent on the budget level of the production. In 2013, it represented 3.2% of the budget of films with budgets lower than EUR 1 million; 1.9% for films with budgets between EUR 1-4 million; 4.3% for films with budgets between €4-7 million and 2.9% for films with budget higher than EUR 7 million.

SOFICA companies were involved in the financing of 99 approved films in 2013, 19 fewer films than in 2012. The average SOFICA investment per film was EUR 332,300, versus EUR 378,400 in 2012. On average this covered 7.4% of the budget for the films in question, compared to 7.1% in 2012. In 2013, the average budget for films in which a SOFICA invested was EUR 4.48 million, compared to EUR 4.64 million for all approved films. This average budget was lower than in 2012 (EUR 5.34 million).

Fifteen SOFICA companies were active in 2013, compared to fourteen in 2012. Their involvement was slightly more concentrated than in 2012, with the three most active SOFICA companies covering 40.2% of total investment for films in 2013, compared to 39.0% in 2012.

According to the producers we have interviewed, SOFICAs operate in their current incarnation broadly as a gap financier.

67 *Les SOFICA*, CNC (August 2011) p. 2
68 *Ibid.,* p. 4
69 *Ibid.* p. 3
70 In the CNC terminology "French initiative films" means films with 100% French financing and majority co-productions. The statistics on budget of films are done on the basis of cost estimates provided to the CNC for the agreement and not *ex post* once the film completed.
71 CNC*, Results 2013*, p. 78

Table 11 SOFICA financing of supported films (2004-2013)

	films	of which FIP	contributions (€M)	average contribution per film (€M)	*% of budgets of the films concerned*	*% of budgets of approved films*
2004	55	53	27.67	0.50	6.8	2.6
2005	78	70	31.63	0.41	6.9	2.5
2006	78	72	32.78	0.42	6.7	2.9
2007	88	81	40.59	0.46	7.2	3.4
2008	97	86	38.34	0.40	4.8	2.6
2009	98	91	36.21	0.37	5.6	3.3
2010	108	100	50.03	0.46	7.9	3.5
2011	104	93	36.43	0.35	6.6	2.6
2012	118	102	44.66	0.38	7.1	3.3
2013	99	91	32.89	0.33	7.4	2.6

Source: CNC

Current or proposed changes

There is an active current debate in France about the SOFICA system. The Bonnel report presented to the CNC in January 2014, recognised the importance of the SOFICA in the financing of productions, even if the return on investment is generally not substantial (when it exists).. [72], According to the report, the evolution of the regulation has encouraged taking a greater level of risk and therefore of support to the independent production sector. In 2012 79% of SOFICA investments were not supported ("non adossés") by major groups, meaning without guarantee of take-over. By placing a ceiling on the potential return on investments, the changes aim to reduce the amounts collected through banks and asset management companies.

The report proposed various modifications, including:

- An increase in the tax benefit to further encourage investment in medium budget films
- Permitting the SOFICA to invest in productions through taking shares in the production funds. Currently SOFICAs can only take shares in companies financing the development of films

There were some concerns that the SOFICA system would not be maintained in 2015, but the Fiscal Law adopted in October 2014 maintained the system for three further years. The CNC announced that 12 SOFICAs will be allowed to invest in 2015 an amount of EUR 63,07 million.[73]

The 12 companies have signed a professional charter in order to define and adhere to various good practices and investments modalities, such as:

- The share of investment "non adossés" (i.e. not supported by major groups) should be higher than 50%
- One single group cannot support for the overall SOFICAs more than EUR 4 million.
- The investments may not be made in films with budget higher than EUR 8 millions
- Attention should be given to investments by independent producers ("producteurs délégués") and in first or second movies
- Attention should be given to investments in animation works as well as in TV programmes.

[72] Bonnel R. (2013) *Le financement de la production et la distribution cinématographiques à l'heure du numérique,* http://www.cnc.fr/web/fr/actualites/-/liste/18/4485755

[73] CNC Press release, 22 October 2014.

14.2 Crédit d'impôt cinéma

Country:	France		Name:	*Crédit d'Impôt Cinéma*	
First Year	2004		EU State Aid Re-certifications	2006, 2011, 2013, 2014	
Modus Operandi:	The *crédit d'impôt* operates as a tax credit, within the framework of the broader CNC support structure for French domestic production; as a result of this, there is a cap imposed of EUR 4 million per project. Certification is managed by the CNC, with the French tax authorities responsible for final payment.				
Eligible Spend	2009	2010	2011	2012	2013
EUR (m)	298.0	320.5	314.9	307.7	304.7

Reference page: Crédit d'impôt cinema: http://www.cnc.fr/web/fr/credit-d-impot-cinema1

Original aims

France has various tax credits (*crédits d'impôt*), introduced between 2004 and 2009 for three key sectors – film production, television production, and video games.

The film production incentive (*crédit d'impôt cinema*), the first of these introduce, has the primary aim of assuring cultural diversity, ensuring the financial viability of domestic productions being made in France, and stimulating the competitiveness of the French production sector. In this, it aimed to solve a market failure which had been noticed, as smaller French productions in the early-2000s increasingly found themselves priced out of the market, being forced to produce overseas.

Legal framework

The *crédit d'impôt cinema* was first introduced in article 88 of the French budget law for 2004, being codified in the French General Tax Code as articles 220 and 220f.[74]

Since the introduction of the incentive, various changes have been made in 2005, 2006, 2012, 2013 and 2014. The basic principle is a tax credit of 20% of the total expenses in one year when realised in France (fees to authors or actors, pay of direction and production crew, facilities costs, and acquisition of archive rights for documentaries). The eligible expenses cannot represent more than 80% of the total budget of the production. The reform in 2012, validated by the Commission in 2013, included an increase in the maximum spend from EUR 1 million to EUR 4 million, from January 2013 and the extension of eligible expenses to transport and catering costs.[75] While this was relatively low by international standards – a factor noted in the international comparison report published by the CNC in October 2014 – it reflects the broader policy space in which the incentive operates. As domestic French

[74] *Evaluation des dispositifs de crédit d'impôt*, EY and CNC (October 2014) p. 55

[75] *Ibid.*, p. 19. For the most recent version (as amended by the par LOI n°2014-1655 du 29 décembre 2014 - art. 91) and former versions of the text, see: Article 220 quaterdecies du Code général des impôts http://www.legifrance.gouv.fr/affichCodeArticle.do;jsessionid=4A2BDC7FCD6ADB60DF653FB7423B7940.tpdjo10v_3?idArticle=LEGIARTI000030062584&cidTexte=LEGITEXT000006069577&categorieLien=id&dateTexte=20150123

productions of the kind the *crédit d'Impôt cinema* supports have access to a broad range of automatic and selective direct funding, the tax credit is theoretically not as crucial as it is in other markets, with a narrower range of production support mechanisms.

For the purposes of the incentive, productions must be made in French or a French regional language, must be largely produced in France, and should contribute to the development and diversity of film and TV creation in France and Europe. The producer is obliged to have received both a provisional and a final agreement for the tax relief.

Producers consulted noted that while the application process for the incentives was relatively involved, in the broader context this was not a problem.

Non-reimbursable public funding is removed from the calculation, so that the credit is not earned on public monies; this is conducted on a *pro rata* basis considering the total eligible spend against the total spend for the production.[76] Such calculations must also take into account the broader framework of European law, limiting aid intensity to 50%, or 60% for difficult films.

An expert committee at the CNC selects beneficiaries of the tax credit, with the documentation around the scheme noting the importance of the conditions of realisation – such as the development of the sector – for passage through this process.[77] As the tax credit is only available for French domestic producers, the production company must be registered with the CNC, and subject to French corporation tax; it must also be in compliance with all applicable social legislation.

In order to receive the final incentive, final audited accounts must be provided for the work, together with a financing plan and a list of the eligible costs spend in France. The producer also has to provide additional documentation, including a list of the personnel involved in the production and the technical industries and service providers engaged. It is required as part of the legislation that the producer applies for final certification within eight months of the issuance of a license to exhibit the work; if such a licence is not provided within two years of the production being granted interim certification, the producer is liable to repay any credit claimed.[78]

Current or proposed changes

Various consultees noted (before the reform adopted in December 2014) that discussions were currently underway with regard to the future of the tax credit, as there is a belief that it is less generous and more difficult to apply for than other European incentives.

The "Bonnel report" presented by the CNC in January 2014 noted that the formula before the 2013 modifications had considerable benefits.[79] For example, in 2012, 91% of the expenditure of the 122 films benefiting from the scheme (EUR 734.5 million) was made in France. The cost of the scheme was found to be EUR 58.3 million generating a multiplier effect of 12 to 1. The report also noted another positive effect which was the broad range of budgets supported by the scheme in that 98.7% had a budget between EUR 1-15 million.

The CNC's comparative study of Fiscal Incentives in Europe and Canada published in October 2014 would seem to demonstrate this, coming to the conclusion that while the forms of the incentives were variable, most of those considered were more flexible than the *crédit d'impôt*, and all had a higher cost ceiling.[80] The report also notes the occasional difficulties producers have in achieving gap financing, forcing them to partake in economic co-productions to close financing for their films. Some producers

[76] http://cnc.fr/web/fr/credit-d-impot-cinema1, CNC, accessed 10th December, 2014.
[77] *Ibid*.
[78] *Ibid*
[79] Op.cit. p.137.
[80] *Étude comparative des crédits d'impôts en Europe et au Canada*, Hamac Conseils and CNC (October 2014) pp. 7-8

consider the tax credit system as a good alternative to pure economic co-production.

The last reform, adopted in April 2014, integrated in the fiscal law in December 2014 and validated by the European Commission in November 2014, has increased the eligible share of the budget of film to be covered by the tax credit from 20 to 30% for films with a budget lower than EUR 7 million. [81, 82] Consultees have advised that this increase in the budget level was a political decision, which came as a pleasant surprise to the creative sector in France.

The animation incentive was also increased from 20 to 25% with the objective of long-term repatriation of animation films and TV series in order to make the French animation sector more competitive at the international level.

The new regime is validated by the European Commission till the 31st December 2017. The French authorities forecast that the annual cost of the reform (including the reform of the audiovisual tax credit) will be EUR 6 million. The total annual budget of the film and audiovisual tax credits is estimated at EUR 216 millions, with a total cost for the period 2015-2017 of 648 million.

14.3 Crédit d'impôt audiovisuel

Country:	France	Name:	*Crédit d'Impôt audiovisuel*
First Year	2005	EU State Aid Re-certifications	2006, 2011, 2013, 2014.
Modus Operandi:	The *crédit d'impôt audiovisuel* operates as a tax credit, with a similar framework to the CIC. Certification is managed by the CNC, with the French tax authorities responsible for final payment; while a minimum cost per minute exists, there is no cap on receipts.		

Eligible Spend	2009	2010	2011	2012	2013
EUR (m)	49.7	50.1	50.9	55.6	60.5

Reference page: Crédit d'impôt audiovisuel: http://www.cnc.fr/web/fr/credit-d-impot-audiovisuel

Original aims

The *crédit d'impôt audiovisuel* (television tax credit, or CIA) was created in 2005, along much the same lines as the CIC – to assure cultural diversity, ensure the financial viability of domestic productions being made in France, and stimulate the competitiveness of the French production sector. In this, it aimed to address much the same market failure noted for the film sector in France.

Although we address the incentive in this section, we will not undertake a comparative analysis of this against other European schemes; whereas data on film production proved readily available, for the most part similar data on television production is not, and as a result no reliable comparison can be made by

[81] CNC (2014) *« Un geste fort pour la création et l'emploi en France » Renforcement des crédits d'impôt pour le cinéma et l'audiovisuel,* available at http://www.cnc.fr/web/fr/actualites/-/liste/18/6122830, accessed 17th December 2014.

[82] EC**,** SA.38539 Crédit d'impôt cinéma et audiovisuel, Decision 19.11.2014. The letter from the Commission to France, as published the 21 January 2015, quotes films with a budget lower than 4 millions.

this report.

Legal framework

Originally created in 2005, aid gaining EU state aid certification in March 2006, the CIA has since been revised in 2012 and 2014 by the French Government. The 2012 revision saw an enlargement of the eligible expenditure categories available for the incentive, as well as a lowering of the minimum costs per hour.[83]

Akin to the CIC, productions must be largely made in France, and should contribute to the development and diversity of film and TV creation in France and Europe. The producer is obliged to have received both a provisional and a final agreement for the tax relief. Legislation surrounding the credit provides for minimum lengths and spends for the productions benefitting from it:

- EUR 1250 per minute for fiction productions;
- EUR 1150 per minute for documentaries; and,
- EUR 1300 per minute for animation works.[84]

Currently, the incentive is provided at a rate of 20% on eligible production expenses, with a minimum length for the production of 45 minutes for a fiction production, or 24 minutes for either animation or documentaries.

Applications are made along much the same lines as those for a CIC, requiring the delivery of an administrative dossier – including a demand letter, financing plan, cost estimate, list of authors, and cultural test – together with an artistic dossier. This latter element includes elements such as a treatment, synopsis, and other leading artistic details. As the tax credit is only available for French domestic producers, the production company must be registered with the CNC, and subject to French corporation tax; it must also be in compliance with all applicable social legislation.

In order to receive the final incentive, final audited accounts must be provided for the work, together with a financing plan and a list of the eligible costs spend in France. The producer also has to provide additional documentation, including a list of the personnel involved in the production and the technical industries and service providers engaged.

Current or proposed changes

The CIA was revised under the same legislation on 29 December 2014 which altered the CIC. The eligible amount for fiction is increased from EUR 1 250 to EUR 5 000 per minute in case of international co-production with a production cost higher than EUR 35 000 per minute. As for feature animation, the eligible expenses are increase from 20 to 25% of the production budget. The eligible amount for animation work is also increased from EUR 1300 to EUR 3000 per minute.

[83] *Evaluation des dispositifs de crédit d'impôt*, EY and CNC (October 2014), p. 30.
[84] CNC, *Crédit d'impôt audiovisuel*, available at http://www.cnc.fr/web/fr/credit-d-impot-audiovisuel, accessed 17th December 2014

14.4 Crédit d'impôt jeux vidéo

Country:		France	Name:		*Crédit d'Impôt Cinéma*
First Year		2009	EU State Aid Re-certifications		2014
Modus Operandi:		The *crédit d'impôt audiovisuel* operates as a tax credit, akin to the CIC and CIA. Certification is managed by the CNC, with the French tax authorities responsible for final payment.			
Eligible Spend	2009	2010	2011	2012	2013
EUR (m)	11.4	6.2	5.5	3.0	2.9

Reference page: Crédit d'impôt jeux video: http://www.cnc.fr/web/fr/credit-d-impot-jeu-video

Original aims

The *Crédit d'impôt jeux vidéo* (Video games tax credit, or CIJV) is a relatively recent introduction to the French incentives landscape, being introduced in 2009. This followed a judgement from the EU that video games could be cultural products, and as such they were eligible under the cultural derogation to state aid.

Within the countries of interest, only the UK presently has a comparable fiscal incentive for video games, and this was only introduced in 2014; as such it is not possible yet to undertake a comparative study.

Legal framework

The CIJB was created under decree 2008-508 of the 29th May 2008, with amendments subsequently made in 2014; the European Commission validated these on 11th December 2014.[85] This change saw the minimum spend for the scheme lowered from EUR 150,000 to EUR 100,000, brought the expenditures of technical and administrative staff into the eligible expenditure bracket, and allowed for "certain video games for an adult audience" to access the credit.[86]

At the present time, the incentive is based on a minimum spend of EUR 150,000, with the game produced being destined for public sale – this is equivalent to cinematic or televisual release requirements for other tax reliefs. As with the other incentives, developers must be French or EU citizens, or from a state party to a co-production treaty with France. The game must also contribute to the development of video game culture in France or Europe, and cannot be pornographic or highly violent.[87]

Applications are similar to those for other credits, requiring the delivery of an administrative dossier – including a demand letter, financing plan, cost estimate, list of authors, and cultural test – together with

[85] EC, SA.39299 Crédit d'impôt en faveur de la création de jeux vidéo – modifications, Decision 11.12.12014 ;, http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3_SA_39299 ; CNC (2014), *Le crédit d'impôt jeu vidéo: la Commission européenne donne son feu vert*, available at http://www.cnc.fr/web/fr/actualites/-/liste/18/6185855, accessed 17th December 2014

[86] « la possibilité pour certains jeux vidéo destinés à un public adulte de bénéficier du crédit d'impôt »

[87] CNC, *crédit d'impôt jeu vidéo*, available at http://cnc.fr/web/fr/credit-d-impot-jeu-video, accessed 17th December 2014.

an artistic dossier. This latter element includes elements such as a treatment, synopsis, and other leading artistic details. The developer is required to be subject to French corporation tax; it must also be in compliance with all applicable social legislation. There is a requirement that the developer applying must be actively engaged in the production.

In order to receive the final incentive, final audited accounts must be provided for the work, together with a financing plan and a list of the eligible costs spend in France. The developer also has to provide additional documentation, including a list of the personnel involved in the developer and the technical industries and service providers engaged. Proof that the game is being sold commercially is also required.

Current or proposed changes

The EU has validated in December 2014 the modifications and the extension of the scheme till the 31 December 2017. No further changes are consequently expected in the near future.

14.5 Crédit d'impôt international – "C2i" or "TRIP"

Country:	France	Name:	TRIP/ *Crédit d'Impôt International*
First Year	2009	EU State Aid certifications	2009, 2013
Modus Operandi:	The TRIP acts as the international counterpart to the domestic French *crédit d'impôt,* providing a fiscal incentive for non-French qualifying production. Akin to the domestic model, it operates as a tax credit managed by the CNC, and paid by the tax authorities, though with a maximum credit per project of EUR 20 million.		

Eligible Spend	2009	2010	2011	2012	2013
EUR (m)	30.0	85.0	54.0	95.0	110.0

Reference page: http://www.cnc.fr/web/fr/c2i

Original aims

The French Tax Rebate for International Production (*crédit d'Impôt international*, CII or C2i in the French professional jargon, commonly referred to internationally as the TRIP) was approved by the French Parliament in 2008, and introduced on the 1st January 2009. Its introduction was deemed necessary, as producers had increasingly been shooting films based on French stories, characters and locations outside of France, for net cost reasons. The incentive also helps French technical industries to expand their involvement in production, including animation and visual effects.[88]

[88] *The Incentives Guide*, Film France (2013) p. 22

Legal framework

As with the domestic French tax credit, the TRIP was introduced as part of the French budget law, on this occasion being article 131 of the French budget for 2009 (law 2008-1425).[89] Since its introduction, film, television, and animation productions have all been eligible for the incentive, though unlike the domestic credit video games is not covered.

Since its introduction in 2009, the incentive has been extended to 2017, with its budget also expanded to allow it to attract more international production. In its initial guise, the TRIP had a budget of EUR 369 million for three years, with an annual budget of 123 millions, but its most recent certification through the EU states that this has now been expanded to EUR 110 million annually.[90] This most recent certification also notes the requirement that the incentive be changed if required by the then-forthcoming cinema communication, though it does not appear that this has proven necessary.

As with the domestic credit, the TRIP is structured as a tax credit to a company which is subject to corporate income tax in France, and which has been contracted as a line producer for the purposes of the production. The contract between the parties is required as part of the provisional application for the incentive; the provisional application must also include data such as a financing plan, projected eligible expenses for France, and an artistic dossier. This must be submitted both on paper and on a DVD or CD. Provisional certification is a requirement of the scheme, as only expenses occurring after this are ineligible for the credit.

Various cultural tests exist for the purposes of the application, with separate ones for live action productions and animations; for live action, 18 of a possible 38 points are required for passage, while the animation test requires 36 from a possible 74. These points are attributed over the same broad range of issues:

- Dramatic Content – use of French, or in some cases European locations, French of French-speaking characters, French or European plot and story, and a final version dubbed or subtitled in French; for the animation incentive, an indeterminate location is also a possibility (maximum 18 points for live action of which a minimum of 7 is required; maximum 20 points for animation of which a minimum of 9 is required);
- Nationality of Creators and Creative Collaborators – French or European professionals in leading roles, or as a majority of the crew (12 points for live action, 23 for animation); and,
- Production Infrastructure – use of French shooting or technical production and post-production facilities (8 points for live action, 31 points for animation).[91]

The rebate for producers is set at 20% of eligible expenditure in France, with a minimum spend of EUR 1 million in eligible expenses required; these must be incurred by the French production services company who submits the application to the CNC.[92] Since 2014, the maximum eligible rebate for a single production is EUR 20 million, increased from EUR 4 million when the scheme was introduced.[93]

Receipt of the TRIP requires certification of the final production accounts by a statutory auditor, which must be submitted to the tax authorities along with the provisional TRIP approval.[94] As is common with other incentive structures, where the credit is greater than liabilities due, it will be paid in cash; it is noted that, in some cases, the tax authorities can pay the rebate in advance of final approval, but the production company is liable to repay this if approval is refused.

[89] *C(2009)5084 final*, European Commission (2nd July, 2009) p. 1
[90] *C(2009)5084 final*, European Commission (2009) p. 2 and *C(2013) 7278 final*, European Commission (28th October, 2013) p. 2
[91] *Incentives Guide*, Film France (2013) pp. 87-92
[92] *Ibid.,* p. 24
[93] *Results 2013 (CNC Dossier No 330)*, CNC (May 2014) p. 183
[94] *Incentives Guide*, Film France (2013) p. 28

Current or proposed changes

By its decision of 11.1 2013 (Case 35633) the Commission has accepted the extension of the TRIP scheme to 31 December 2017. However, a number of changes in 2013 were authorised to 31 December 2013.[95] The fiscal law of 29 December 2014 adopted an increase in the value of the TRIP from 20% to 30% of eligible expenditure, together with an increase in the maximum rebate from EUR 20 million to EUR 30 million. This will be passed to the EU for state aid certification in 2015.[96]

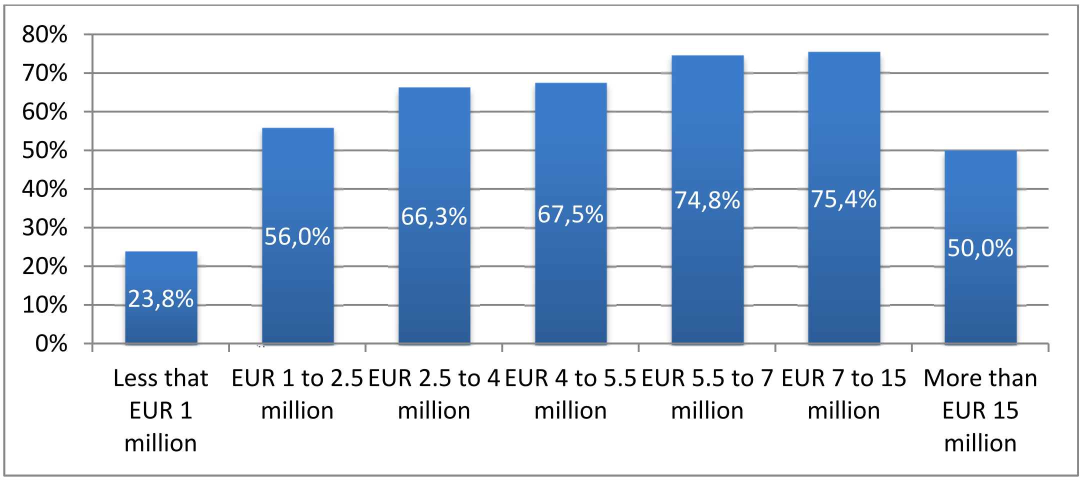
14.6 Economic impact of schemes

Studies undertaken

Various studies have been undertaken with regard to the impact of the tax credits in operation in France, the most recent of which were conducted in September 2010 and October 2014 by Greenwich Consulting and EY respectively. These considered the various impacts which the introduction of the credits has had, presenting these both times in three categories: adoption by producers, favourable impacts for the cinematographic industry, and positive impacts for the nation's receipts.

The most recent notes the large take-up of the incentive for the French production community, and the fact that the incentive represents 7.8% of total film costs for eligible French films between 2005 and 2013; the simplicity of the mechanism is highlighted as a reason for this take-up.[97] Utilisation was noted as being particularly high for films in the EUR 1 million to EUR 15 million budget range, being between 63% and 79% over the period – films to either side of this budget range showed a smaller usage of the scheme.

Figure 11 France: utilisation of *crédit d'impôt cinéma* by budget range, 2005-2013



Source: EY/CNC

[95] EC, SA.37444 Crédit d'impôt pour les oeuvres cinématographiques étrangères - prolongation 2014, http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3_SA_37444

[96] CNC (2014), *« Un geste fort pour la création et l'emploi en France ». Renforcement des crédits d'impôt pour le cinéma et l'audiovisuel,* available at http://www.cnc.fr/web/fr/actualites/-/liste/18/6122830, accessed 17th December 2014

[97] *Evaluation des dispositifs de crédit d'impôt*, EY/CNC (2014) p. 21

Though the effect is variable year by year, the report also shows clear evidence that since the introduction of the incentive, the percentage of shooting days for French productions inside France has increased. Whereas in 2003, 65.1% of French films' shooting days were at home, this was 75.5% in 2013, having peaked at 78.5% in 2006. During no year following the introduction of the incentive had the percentage of days dipped below 70%.[98] For animation, the percentage of days is somewhat less stable though, peaking at 95.8% over the period, with a minimum of 52.1%.[99] A similar trend is noted in the TV sector as for film, with the steady increase in the volume of spend in France, and the number of days shot in France, since the introduction of the relief.[100]

Since the introduction of the tax credit, the report notes that the value of producer contributions to the budget of films has increased from 24.8% to 28.8%, which will allow producers to benefit from the downstream revenues generated by the production. Meanwhile, the report also states cultural diversity of productions has increased, though increasing the confidence of other financiers in investing in previously less commercial productions.[101]

The EY report notes the impact of the TRIP as well, but the data presented suggest that this has had a particular impact in the animation sector. Of the 3,677 FTEs noted for 2013 TRIP productions, 3,171 of these worked in the animation sector – animation productions also have a large majority of TRIP employees in three of the other four years for which data are presented.[102] The report also notes that post-production, such as VFX, has also been done under the TRIP by the US studios.

Fiscal impact

The *CNC Results* (*Bilan* for the French Publication) provides a perspective on the fiscal impact of the schemes, both for the French industry and the tax authorities. In its most recent incarnation, this states that the impact for the Film Production Tax Credit – the *crédit d'impôt* – equals EUR 4 of taxes and social revenues for each euro of incentive granted. Each euro of relief also generates EUR 11.3 of investment in the sector.[103]

Results are also given for the TRIP, for which each euro of relief granted generates EUR 6 of sectoral spend, and EUR 2.1 in induced tax and social revenues.[104]

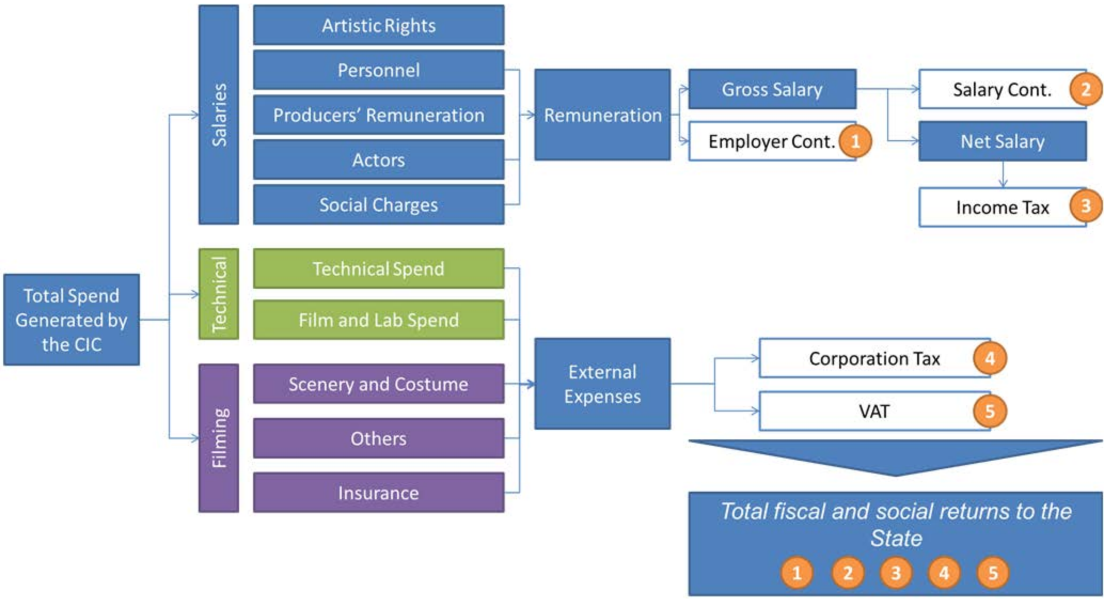
Sector spending

For France, a consistent time series of data was available for a longer time period than for most of the other countries in this study. Figure 13 presents real terms film sector spending for France for the period 1996 to 2013. The time period is divided into three according to which incentive(s) were in place in each period:

- SOFICA only (1996 - 2004);
- SOFICA and Crédit d'Impôt (2004-09);
- SOFICA, Crédit d'Impôt and TRIP (2009-13).

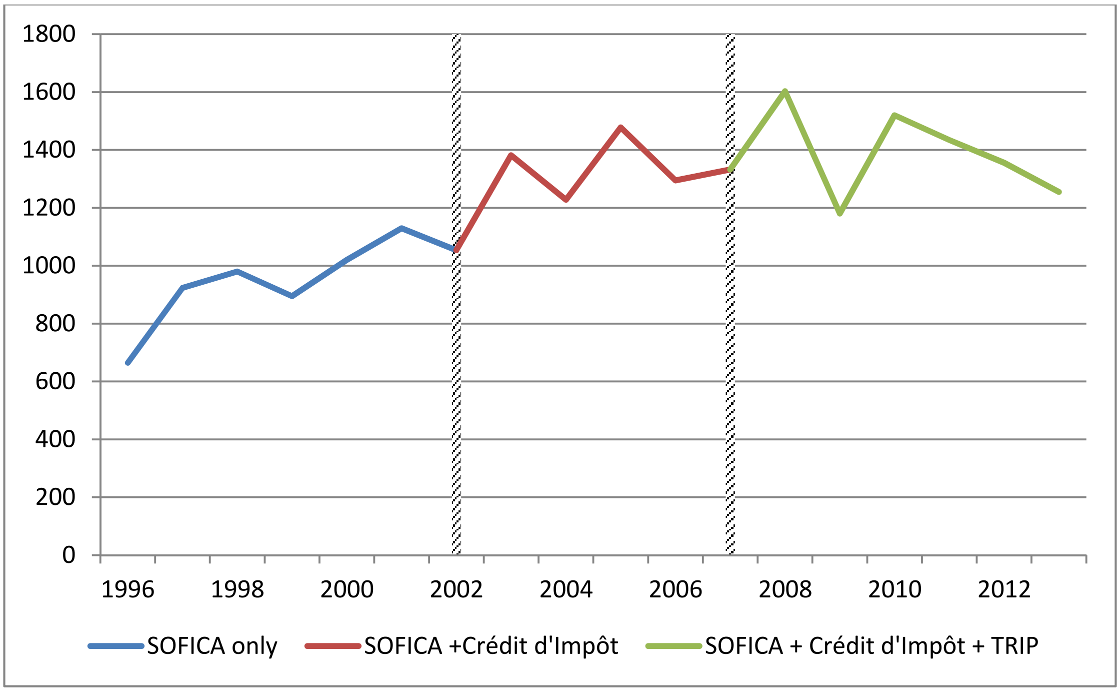
[98] *Evaluation des dispositifs de crédit d'impôt*, EY/CNC (2014) p. 23
[99] *Ibid.,* p. 24
[100] *Ibid.,* p. 32
[101] *Ibid.,* p. 26
[102] *Ibid.,* p. 48
[103] *Results 2013*, CNC (May 2014) p. 176
[104] *Ibid.,* p. 183

Figure 12 France: Means of fiscal impact (CIC)



Source: SPI, adapted from EY/CNC

Figure 13 France: film sector spending, 1996-2013 (EUR m, 2013 prices)[105]



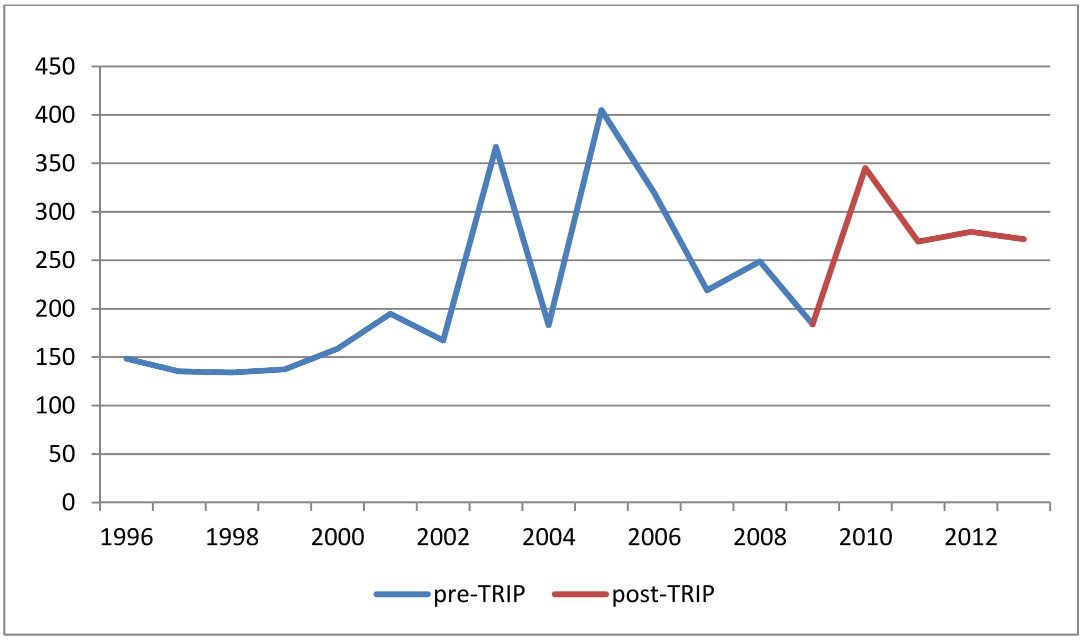
Source: SPI analysis of CNC Data

105 Comparable data for TV productions were not available, so this analysis focusses on film production; the data has been analysed to remove French qualifying spend which did not take place in France.

Figure 13 shows a strong rate of real-terms growth in the film sector (around 11 per cent per year) during the period 1996-2004 when only the SOFICA scheme was in place. In later years the growth rate in the French film sector slows down; the French film industry showed zero growth in real terms between 2004 and 2009 after the Crédit d'Impôt was introduced, and then growth of around 1.5 per cent per year between 2009 and 2013 after TRIP was introduced.

Figure 14 shows spending on foreign majority co-productions in France before and after TRIP (which was specifically designed to attract additional foreign majority co-production funding to France) was introduced. Foreign majority film production spending grew in real terms by an average of 1.5 per cent per year between 1996 and 2009 when TRIP was introduced. Between 2009 and 2013 the rate of increase was 10 per cent per year - much faster than before 2009, and a much better performance than the French film sector as a whole (which experienced growth of only 1.5 per year over this period). This suggests that targeted production incentives like TRIP can have a significant positive impact on the aspects of film production on which they are focused, even against a backdrop of slow-growing overall production.

Figure 14 **France: foreign majority film production spending, 1996-2013 (EUR m, 2013 prices)**[106]



Source: SPI analysis of CNC data

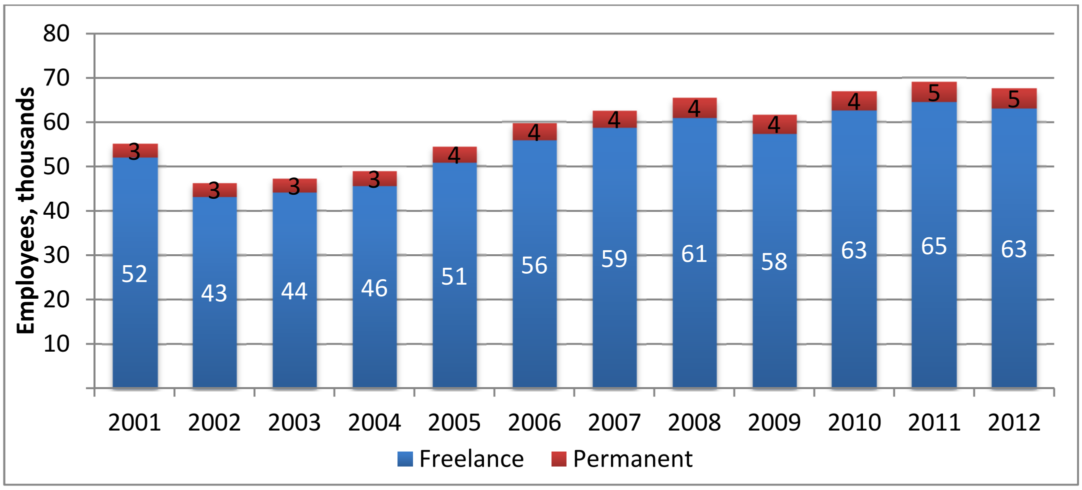
[106] Foreign majority spending as defined by the CNC, i.e. films without majority or full financing from within France.

14.7 Impact on the sector

Employment

The most recent EY study provides a perspective on the changes of employment which have followed the introduction of the incentives structure. It notes that, prior to the introduction of the incentive, the employment rate in the French film production sector had dropped from 55,000 in 2001 to 48,500 in 2003; since then, however, there has been a 38% increase in employment to 68,000. Over this same period, the number of productions grew only 25%, which the study suggests means that a greater number were employed in each production, increasing the quality of the films.[107]

Figure 15 France: Employment in French film production, 2001-2012



Source: EY/CNC

For the television sector, the report also notes a significant increase in the number of employees in the sector, with this increasing by 27% from 58,173 in 2004 to 73,746 in 2012; over the same period production spend increased only 14%.[108]

The conclusions for both film and television production have been supported by consultees, who note that there are not felt to be any skills shortage in France. This is partially attributed to the French system of paying freelancers working in the creative sector a stipend, equivalent to EUR 30,000 per annum, when they are between roles. The stipend system is also seen as a positive in helping such individuals to work on smaller productions in France, without worrying about the impact of this on personal finances.

[107] *Evaluation des dispositifs de crédit d'impôt*, EY/CNC (2014) p. 24
[108] *Ibid.,* p. 34

Infrastructure investment and capacity

Since the introduction of the incentives, at least one major studio complex has been announced in France, the Cinema City in Paris.[109] However, it is not clear that much activity has occurred since this introduction, possibly on account of the financial crisis.

Production flows

Within the framework of the TRIP, the EY report highlights two territories that have used the incentive most extensively: the US and the UK.[110] Many of these UK productions, such as *Death in Paradise*, were location-driven decisions, with producers utilising the incentive to shoot scenes in Europe where they might have been previously produced elsewhere.

Consultees have also highlighted that, since the introduction of the incentive, spend on French productions has returned to the country from other locations, in particular Belgium. Despite this, the co-production market between the two countries remains strong, with producers on both sides of the border noting the strong collaboration between the two markets.

Perspective from producers

Consultees from the French production community noted that the *crédits d'Impôt* were the most positive incentive structure for France, and has been very effective in addressing the issues for which it was intended. Despite this, a number stated that there were issues with regard to the low cap, which was seen as an inhibition for medium-budget productions, which are of particular relevance to the French exhibition market. While an active debate was currently noted about whether some smaller productions are possibly too well funded through the combination of direct and incentive funding, nonetheless the combination and stability of incentives was felt to be a major positive for the growth of the French film sector.

Fewer consultees had experience with the TRIP, but most noted a perception that the overall impact of the incentive was positive. Working on major international productions was seen as a way of increasing skills for French staff, while the funding was also credited with providing line producers with funding to invest in domestic French productions

As noted previously, consultees highlighted that the SOFICA was an important, though by financial volume relatively a small, part of the French funding map. In the current market, their role as providing gap finance was seen as valuable, though the expense and loss of downstream revenues was commented upon. The system was also seen as becoming more restricted over time, and of limited relevance to big budget productions which can attract their own investors directly.

[109] France 24 (2012), *Luc Besson unveils 'Cinema City' production studio in Paris*, available at http://www.france24.com/en/20120921-besson-unveils-cinema-city-film-production-studio-paris-france-cite-du-cinema/, accessed 17th December 2014.

[110] *Evaluation des dispositifs de crédit d'impôt*, EY/CNC (2014) p. 44.

15 Hungary

Country:	Hungary	Name:	Indirect Subsidy
First Year	2004	EU State Aid re-certifications	2008, 2013, 2014
Modus Operandi:	The Hungarian Indirect Subsidy operates as a corporate tax shelter for firms liable to pay Hungarian corporation tax. Since 2012, the Hungarian Film Office has operated a deposit account system to funnel funding to productions, removing the layer of intermediaries previously engaged.		

Eligible Spend	2009	2010	2011	2012	2013
HUF (bn)	n/a	36.5	31.6	17.0	51.7

Reference site: http://mnf.hu/en/filming-in-hungary.html

15.1 Background to the scheme

Original aims

The stated aim of the Hungarian Indirect Subsidy, per the 2004 Motion Picture Act, was to develop the industry to make it internationally competitive, and create an incentive structure which promotes an efficient use of resources to develop film culture. Within this, the incentive was expected to enhance and preserve the values of the Hungarian motion picture industry, allowing for more international co-productions, as well as raising the international profile of Hungarian motion pictures.

Since the introduction of the incentive, the legislation has been revised on several occasions, but none of these have altered the underlying aim of the system.

Legal framework

Hungary's Indirect Subsidy was introduced as part of the 2004 Motion Picture Act to provide support for film production – such films have to be intended for public release, either cinematically or on television. Since its initial introduction, there have been two further legislative changes to the incentive, in 2008 and 2013 respectively. Both of these were structured as modifications to the original act, and acted to add in an allowance of 25% non-Hungarian spend as eligible, and to change the value of the relief, respectively.

The Motion Picture Act structured the Indirect Subsidy as a corporate tax shelter, with companies registered in Hungary being able to use the investment to lower their tax base, the benefit of which can be taken from any corporate tax bill in the six years following investment. In addition to the support for the film, additional support to the Hungarian National Film Fund – levied at 75% of the corporate tax which would be due on the investment – is also required, pursuant to the Hungarian Corporate Tax Act. Additional support does not reduce the tax base.

Table 12 Hungary: Corporate taxation, with and without film support

	No Film Support	Film Support
Profit	1000	1000
Support for Production	n/a	100
Tax Base	1000	900
Tax Payable at 19%	190	71 (900*1.9-100)
Additional Support	n/a	14.25 (100*19%*75%)
Total Payments	190	185.25
Savings	n/a	4.75

The framework of the incentive as originally structured was relatively open – while the Film Office was required to provide certification of the project, the producer was left to identify sources of finance themselves. As a result of this, various intermediaries entered the market to broker transactions, acting to funnel money between corporate investors and producers – this mirrors the model seen in other tax shelter systems.

While such a model ensured investment in the industry, by 2012 the system had started to show significant leakage, with intermediaries taking a significant amount of the incentive's value in commission. Consultees have noted that, in some cases, this accounted for up to 40% of total value, limiting the investment in the production.

As a result of this, the Hungarian Film Office started in 2012 to operate a deposit system of their own, operating with a 2.5% administrative fee for producers, as a result dramatically lowering overheads. Under the law as currently constituted, the Film Office are entitled to collect a maximum of HUF 9 billion (EUR 29.2 million) per annum in this account, with HUF 7 billion attracted in 2013. Producers note that the Fund effectively acts to cashflow the production as a result of this, with the producer able to determine whether to receive the incentive on a quarterly basis throughout the production, or at the end when the film is finally certified. As such, financing is available as required throughout the production.

The National Film Office is also responsible for the management of the cultural test, which is scored out of 32; 16 points are required for passage. Eight points are available for Section A of the test, covering Hungarian or European culture, stories, and settings, while 24 points are available for the use of EEA citizens in leading positions and roles, as well as the use of Hungarian locations and facilities.

In addition to the cultural test, the production company must submit a production schedule, service agreement (if relevant), company documents, and a statement declaring the schedule on which they desire the incentive is paid. As a result of this, a provisional cost calculation will be made, with the Film Office indicating to the producer the expected value of the incentive. All documents must be submitted 30 days prior to the start of shooting in Hungary.

The rules for the incentive require that the production company is registered in Hungary, and that a majority of the executives are EEA citizens, or citizens of a state party to the European Convention on Transfrontier Television. When the company is registered, the National Film Office will check that there are no outstanding debts to the government, including Taxes and Social Charges.

After the completion of the production, the producer is required to supply audited accounts, which the NFO's financial controller has 30 days to respond to; if no response is given, they are deemed to have been accepted. Consultees have noted that, in recent years, the documentation requirements for the initial application and final certification have become more onerous, with the Film Office being more inclined to reject documentation. However, in many cases this is seen as a positive, as contracts are now required from investors, rather than simply statements of intention.

Within the framework of the incentive, eligible spend is defined as all payments made to Hungarian taxpayers, with the exception of prints and advertising, distribution costs, royalties (above a 4% cap) and producers' fees (above a 4% cap.) As noted above, the incentive allows for 25% of the eligible expenses to be non-Hungarian.

Current or proposed changes

In May 2014, the Hungarian Parliament passed an extension to the scheme, prolonging the legislation to 2019, whilst simultaneously increasing the value of the rebate to 25% of production spend. This was certified by the EU as being in accordance with State Aid requirements in June 2014.[111]

15.2 Economic impact of scheme

Studies undertaken

Consultees have noted that various studies of the system have been undertaken, but they were unable to provide these to us for the purpose of this report.

Fiscal impact

As part of our research for the project, the National Film Office provided us with an example tax calculation for a film production in receipt of the incentive. This includes various macroeconomic multipliers and assumptions, including the additional tax spend generated by sub-contractors to the production and their employees.

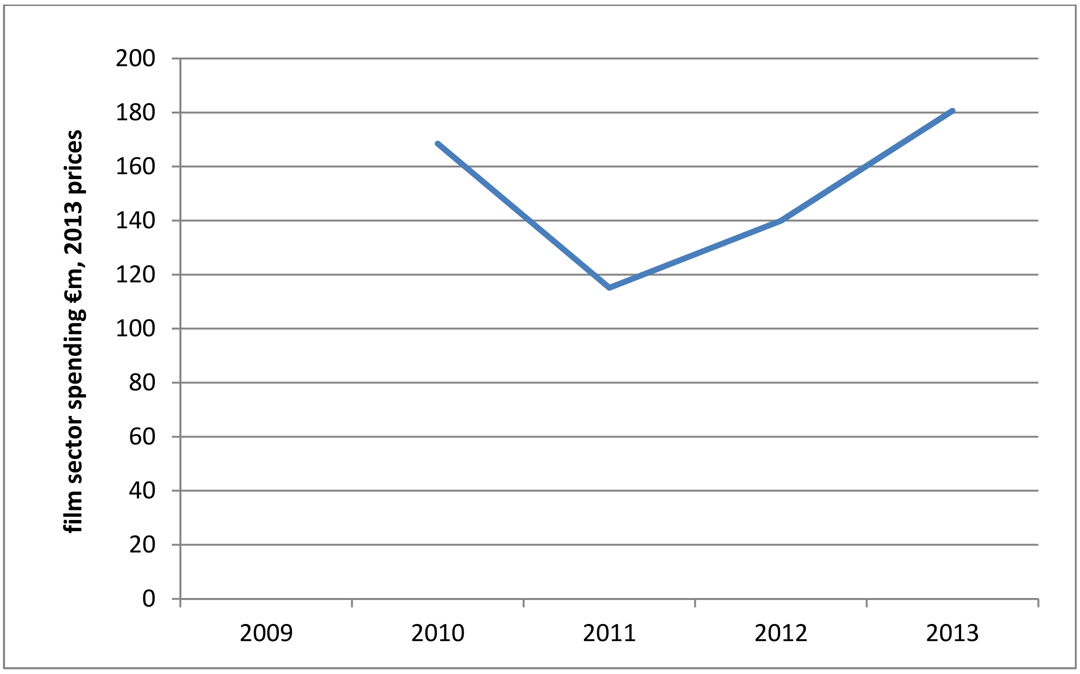
From this, the model concludes that for HUF 1.26 billion of production activity, approximately HUF 240 million will be sheltered through the incentive. The production will generate HUF 297 million in additional tax revenues, when the various indirect revenues are taken into account, in addition to fees, VAT, and other taxes, such as fuel duty. As a result, the model concludes that for every HUF 1 of tax sheltered, the net tax benefit for the Hungarian state is HUF 1.25.

Sector spending

Figure 16 shows a decrease in film sector spending in Hungary between 2010 and 2011, followed by an increase between 2011 and 2013. The overall rate of increase in real film sector spending averaged 2.3 per cent between 2010 and 2013. The fiscal incentive scheme for film production in Hungary began in 2004 so had been in place for several years by the time of the spending data shown in Figure 16.

[111] European Commission (26th June, 2014), *C(2014) 4340 final, State aid SA.38425 (2014/N) - Hungary*, Brussels.

Figure 16 Hungary: Sector spending, 2009-2013 (EUR m, 2013 prices)[112]



Source: Hungarian Film Fund

15.3 Impact on the sector

Employment

No data was noted in consultations about the impact of the incentive on sectoral employment, however a number of consultees in both Hungary and the Czech Republic noted that labour between the two markets has become more mobile since the respective incentives were introduced. Labour has also travelled to the UK, addressing short-term gaps in that market for both film and high-end television production.

Infrastructure investment and capacity

Consultees noted that there has been a significant increase in the volume of infrastructure investment since the introduction of the relief in 2004. The Korda Studios complex opened within a few years of this in April 2007, at an initial investment of EUR 91 million for four stages.[113] Since this point, two additional stages have also been inaugurated, while Origo Film Group has built a USD 76 million, nine stage facility close to Budapest.[114]

[112] Total film production spend in Hungary.
[113] *Korda Studio opens its doors*, Variety (19th April, 2007) http://variety.com/2007/film/news/korda-studio-opens-its-doors-1117962491/ [Accessed 28th November, 2014].
[114] *Is Hungary the New Hollywood of Europe?*, Time (17th July, 2010) http://content.time.com/time/arts/article/0,8599,2003733,00.html [Accessed 28th November, 2014].

In addition to this private investment, the Hungarian government is also looking at the possibility of investing in the publicly-owned National Film Lab and MaFilm Studios, in response to the demand the country has seen in recent years. Neither of these facilities is presently usable by international productions.

Production flows

No specific data was available to analyse the origin of productions utilising the incentive, but consultations suggest that there are a range of locations from which inward investment productions and co-productions originate. Several US studio films have shot in Hungary since the introduction of the incentive, with Germany highlighted by all consultees as being the largest co-production partner. France was also noted, as were the Nordic markets.

A number of consultees noted that co-production numbers could be higher with other Central European countries, but the difficulties in financing these currently preclude closer cooperation. Poland was mentioned as being a particular challenge, with producers speculating that an increase in cooperation would follow any introduction of an incentive there.

Perspective from producers

The general response from producers when asked about the incentive was highly positive – funding was felt to be relatively straightforward, and producers were happy that the abuses seen prior to 2012 had been alleviated. The broader impact across the sector was seen as very positive, not just for films receiving the incentive, but also for others, including first-timer directors where aid has also increased.

The only negative noted was that it was, occasionally, difficult to manage invoices for the National Film Office. A number of producers noted that they could be rejected with no reason given, impacting the amount of incentive received, and also negatively affecting the perspective of the incentive for co-production partners. Nonetheless, all consultees noted the significant, positive impact that the structure has had on the Hungarian film sector since its introduction.

16 Ireland

Country:	Ireland	Name:	Section 481
First Year	1997	EU State Aid Re-certifications	2006, 2009, 2012[115]
Modus Operandi:	Section 481 is presently a corporate and individual tax shelter for investments in Irish film and television production. Applications are managed by the Irish Revenue Commissioners, with cultural questions in the hands of the Ministry of Arts, Heritage, and the Gaeltacht		

Eligible Spend	2009	2010	2011	2012	2013
EUR (m)	106.7	164.6	119.6	143.0	183.1

Reference page: http://www.irishfilmboard.ie/financing_your_film/Section_481/5

16.1 Background to the scheme

Original aims

Ireland's Section 481 was introduced in 1997 as a replacement for the Section 35 tax relief, which had been in operation since 1987, and was itself a replacement for a non-sector specific incentive, the Business Expansion Scheme, introduced in 1984. Whereas Section 35 had been successful, various changes were seen as desirable by the government of Ireland at the time, which Section 481 aimed to address.

Section 481 made two particularly significant changes to the nature of the incentive, in capping the total value of shelter funds within a production at IEP 7.5 million (EUR 9.5 million), and reducing the amount of investment qualifying for the relief from 100% to 80%.

Various changes have been made subsequent to this, in 2000, 2006, and 2008 respectively, all of which have modified this original legislation, modifying the nature and amounts of funding available to be sheltered through the incentive. The most significant change came in 2013, when the Irish Government decided to change the fundamental nature of the incentive, switching from a Tax Shelter to a Tax Credit model, with a 32% rate.

Legal framework

An Irish fiscal incentive for film and television production has been in existence since the 1984 Business Expansion Scheme, which allowed individuals to claim tax relief on investments in designated enterprise section, with film production being allowed under Section 16. This was replaced in the 1987 Finance Act with the introduction of Section 35, with Section 481 replacing this as part of the Taxes Consolidation act 1997. Since the introduction of Section 481, various changes have been made, largely in relation to

[115] The changes to section 481 beginning in 2015 were legislated for in 2012.

capping funding and altering structures; in 2004, however, a particularly significant change was made which passed the certification role from the Ministry of Arts, Heritage, Gaeltacht and the Islands to the Revenue Commissioners.

The various changes are logged in the following table 13 overleaf.

Within the framework of Section 481, applications must be made to the Revenue Commissioners, who are given the responsibility for management of the incentive. As part of their application, the producers must provide to the commissioners:

- A diagram showing the parties to the agreement, their responsibilities, and the flow of funds between them;
- An outline of the agreements between them, and the purpose of these;
- Any letters of intent in relation to the non-§481 funds;
- Any issues which might impact §481 relief; and,
- Copies of completion bond as and when this is agreed and signed

Applications also require a personal meeting between the commissioners and the producers, and no certificate – allowing the investment to be sheltered – will be issued without this having occurred.

Though the Revenue Commissioners are responsible for the oversight of the scheme, the Ministry of Arts, Heritage and the Gaeltacht undertakes the cultural test, with the Irish Film Board providing advice. The Ministry also considers the professional capability of the crew, the net contribution of State Aid Schemes, and the opportunities provided for employment and training, ensuring that the production is in line with EU legal requirements, as well as assessing its benefits for the Irish film and TV sector.

Under the tax shelter regime, the maximum project investment, which can be raised through Section 481, is EUR 50 million, with the producer required to spend whatever percentage of the budget benefits from Section 481 in Ireland. The maximum budget percentage, which can be raised through Section 481, has been set at 80% since 2006, with the investor able to set 100% of their investment against their tax, with this cap raised in 2008 from 80%.

In its final incarnation, the §481 Tax Shelter had an estimated annual budget of EUR 35 million per annum, or EUR 105 million over its anticipated three-year lifespan.[116]

As part of the application, the Ministry of Arts, Heritage and the Gaeltacht will consider various issues. Eight criteria are set down as part of the Irish cultural test, of which the production must meet three to pass, with the producer indicating which ones as part of the application:

- The project must be a stimulus to production in Ireland, and of importance to national creativity and culture;
- The screenplay is mainly set in Ireland or the EEA;
- At least one of the principal characters or subjects is connected with Irish or European culture;
- The storyline or underlying material is part of, or derived from, Irish or European culture or heritage;
- The screenplay is an adaption of an original literary work;
- The storyline of the film concerns art and/or an artist or artists;
- The storyline concerns historical figures or events; and,
- The storyline addresses actual, cultural, social, or political issues of relevance to Irish or European people.

[116] European Commission (10th May, 2012), *C(2012) 3130 final, State aid No. SA.34581 (2012/N) - Ireland*, Brussels, p.2.

Table 13 Evolution of Ireland's production incentives, 1984-2015

Year	Change
1984	Introduction of Tax Relief as part of Business Expansion Scheme
1987	BES replaced by section 35, requiring 75% of production work be carried out in Ireland, limiting budget contribution to 60%, and opening scheme only for corporate investors
1989	Amendment of upper limits of investment and capital gains (CGT) holding periods
1993	Extension of the relief to personal investors as §481; maximum personal investment set at IEP 25,000 (EUR 31,750); increase in corporate investment limit; reducing holding period for CGT
1994	Department of Arts takes certification role; 75% production requirement becomes subject to ministerial discretion
1997	§35 consolidated into §481; maximum budget contribution is changed to a banded structure by overall budget of film; maximum corporate investment capped at IEP 7.5 million (EUR 9.5 million) for corporate investors; investment relief capped at 80%; off-peak and post-production incentives added; reduced CGT holding period
2000	Maximum budget contributions increased and cap increased to IEP 8.25 million (EUR 10.48 million)
2003	Maximum budget contributions formula modified
2004	Certification role moved to Revenue Commissioners from Department of Arts; investment prior to certification no longer eligible for scheme; cap increased to EUR 15 million; changes to eligible expenditure
2005	Changes to residence requirements for recipients of eligible expenditure
2006	Cap increased to EUR 35 million; maximum percentage of costs §481 can fund increased to 80%
2008	Cap increased to EUR 50 million; individual investment per year increased to EUR 50,000
2015	§481 transitioned to a tax relief structure, set at 32% of eligible spend

Source: SPI expansion of PwC report

The production company applying for the incentive must be incorporated and registered in Ireland, or the branch of a foreign company trading in Ireland. It is a requirement that the company is a Special Purpose Vehicle – existing solely for the purpose of producing and distributing the qualifying film – and the company cannot include various words, including Irish, Éire, and National, in its name. For the purposes of the incentive, the Irish producer must be credited in the opening or main titles of the finalised film or TV episodes, with a minimum title of ‘co-producer’ or ‘producer’. A certificate will not be provided if production starts before the application is made.

As part of the compliance requirements for the incentive, audited accounts are required to be submitted to the Revenue Commissioners at the end of the production, for certification of spend. At the national level, there is no specific requirement enshrined in law for the production of regular reviews, though this was a recommendation made by the 2009 Irish Commission on Taxation; historically, reviews have been conducted on a regular basis. Until 2015, the Revenue Commissioners have reported aggregate figures at the end of each year, but from the introduction of the new incentive data will be reported on a per-project basis, following the Irish interpretation of the EU’s new Cinema Communication.

Current or proposed changes

Ireland’s production incentive is currently undergoing the most significant change since its creation, with the movement from the current tax shelter model to a tax credit – also called Section 481 – from January 2015. This change has been driven to a large degree by the financial crisis, during which the Irish Government undertook a wholesale review of their fiscal incentive system – across the entire economy. In reviewing Section 481, it was determined that there was significant leakage, estimated at 7% of the total budget, occurring between the investor and the production. At a point in time when the Irish budget was under significant strain, this was considered unsustainable.

Despite this significant leakage, the government recognised that Section 481 generated significant value to the Irish economy, so it determined to replace it with an incentive. This has been set at 32%, the average value which was determined to have accrued to productions once leakage had been taken into account. The annual budget for this revised §481 is estimated at EUR 45 million.[117]

Initially, this change was scheduled to have been made in January 2016, however continuing budgetary challenges led the Irish Government to move this forward by a year. Though structured as an incentive, the ongoing weaknesses of the Irish banking system have led the government to adopt a model where 90% of the incentive is available in advance of spend, so long as the production can prove to the exchequer commissioners that they have the remaining funding in place.

It is expected that this model will aid in the cashflowing of productions, thought producers continue to note a certain reticence as they approach the new model. Given the success of the tax shelter model, including the various intermediaries whose services have acted to cashflow the system throughout its existence – and whose role in the new system is somewhat unclear – this is perhaps unsurprising.

[117] European Commission (20th October, 2014), *C(2014) 7687final, State aid SA.38959 (2014/N) - Ireland*, Brussels p. 2.

16.2 Economic impact of scheme

Studies undertaken

Since the introduction of Section 481, various studies have been commissioned by the Irish Film Board; Irish Department of Arts, Sport and Tourism; Irish Department of Finance; and IBEC's Audiovisual Federation respectively. These studies have also been undertaken by a variety of parties, including PwC and Indecon, while the Department of Finance's review was conducted internally.

All of these reports highlight the broad range of positive impacts that Section 481 had had on the Irish production sector, with the 2003 PwC report noting that "the existence of tax incentives particular to film production has been the main driver of the audiovisual sector in Ireland, which has shown exponential growth in the past decade."[118] In this, the report highlights that Section 481 was not just a driver of production spend, but also aided with the development of infrastructure, which was perceived as being crucial for the attraction of US productions into Ireland.

In 2007, the Irish Film Board's submission to the Indecon review of Section 481 recognised many of the same benefits, noting that "without Section 481, the feature film, television drama and animation sectors [in the Republic of Ireland] would fail to survive."[119] This report highlights the centrality of Section 481 to the attractiveness of Ireland as production location for film and television, highlighting a Screen Producers Ireland study from 2003 which demonstrated that 82% of Section 481-supported productions would not be produced in Ireland if the incentive didn't exist.[120] The study also highlighted the importance of the incentive for the Irish tourism sector, not just from English-language countries, but also from other European nations, not least Germany.

More than the PwC report, the IFB study considers the centrality of film and television production to the preservation and enhancement of Irish cultural and linguistic heritage. In particular, the report highlights that, without Section 481 – in conjunction with other funding – the production modern Irish-language feature films would not have been possible.[121]

In their 2012 report, Indecon noted that, for producers in Ireland, Section 481 was the most important funding source for the Irish production sector, with 100% of the producers surveyed considering it very important for the ongoing development of the sector.[122] Despite this, a smaller percentage of producers – 61% – considered that their film would not have been made without the incentive, a smaller figure than reported in the 2007 IFB paper.[123]

The most recent report, in December 2012, was conducted by the Fiscal Division of the Irish Department of Finance as part of a broader review of the incentive structure for Ireland post-2015, in the light of the broader Irish fiscal challenges, and with a view to the international situation within which Ireland competes. However, as a report from the Irish Department of Finance, this report doesn't particularly consider the cultural benefits accruing from the existence of Section 481, specifically discounting these from its cost-benefit analysis of the scheme.[124]

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118 *Review of Section 481 of the Taxes Consolidation Act 1997*, PricewaterhouseCoopers Report to the Irish Film Board and the Department of Arts, Sport and Tourism (Undated) p. 15.
119 *Creating a Sustainable Irish Film and Television Sector*, Irish Film Board (29th June, 2007) p. 17.
120 *Ibid.,* p. 19.
121 *Ibid.,* p. 20.
122 *Review of Section 481 Film Relief on behalf of IBEC's Audiovisual Federation*, Indecon (29th August, 2012) p. ii.
123 *Ibid.*
124 *Economic Impact Assessment of Section 481 Film Relief*, Department of Finance (December 2012) p. 66.

Fiscal impact

The various evaluations of Section 481 have all provided their own perspectives on the fiscal impact of the incentive for the Irish Exchequer. PwC's report undertook a detailed evaluation of the various benefits, such as additional direct and indirect tax revenues, induced impacts including tourism, and the welfare benefit savings derived from increased employment, together with a multiplier analysis. This analysis concluded that, over the three years from 1999 to 2001, the Irish government forewent EUR 76 million in revenues, gaining EUR 83.1 million in fiscal benefits, adjusted for deadweight; this implies a return of EUR 1.09 for each EUR 1 in taxes foregone.[125]

In comparison to the PwC analysis, the IFB's 2007 report demonstrates a small net loss arising from the incentive, though on the basis of a much simpler model of the locations from which benefits to the treasury arise. Whereas the PwC report counted welfare savings and spin-off benefits, the IFB calculation only considered direct and indirect corporate and labour taxes, adjusted for deadweight, together with VAT on box office receipts of productions. From this, the study calculated a return of EUR 21.5 million from total spend of EUR 23.7 million; this implies EUR 0.91 in return for each EUR 1 of tax foregone.

Indecon's 2012 report provides another complex analysis of the costs and benefits of the incentive, taking into account the wider economic benefits delivered by the industry. This concludes that, adjusting for deadweight, the total benefits for the exchequer in 2011 were EUR 58.5 for total costs (including IFB financing) of EUR 56.1 million. These figures imply a return of EUR 1.04 for each EUR 1 spend, but as this includes direct financing through the IFB, it is not a figure which is directly comparable with those produced for other reports.[126]

In undertaking the cost-benefit analysis for their 2012 work, the Irish Department of Finance – as is common when finance departments consider the benefits of such a scheme – did not consider the impact of indirect and induced benefits. The study also reduces the tax recouped on direct and indirect wages by the 'shadow cost', based on a perspective that only 20% of the tax recouped accrues from an economic benefit related to the reduction in involuntary unemployment. This is seen as the only real net economic gain, with no particular gain attributed to the generation of other employment.[127]

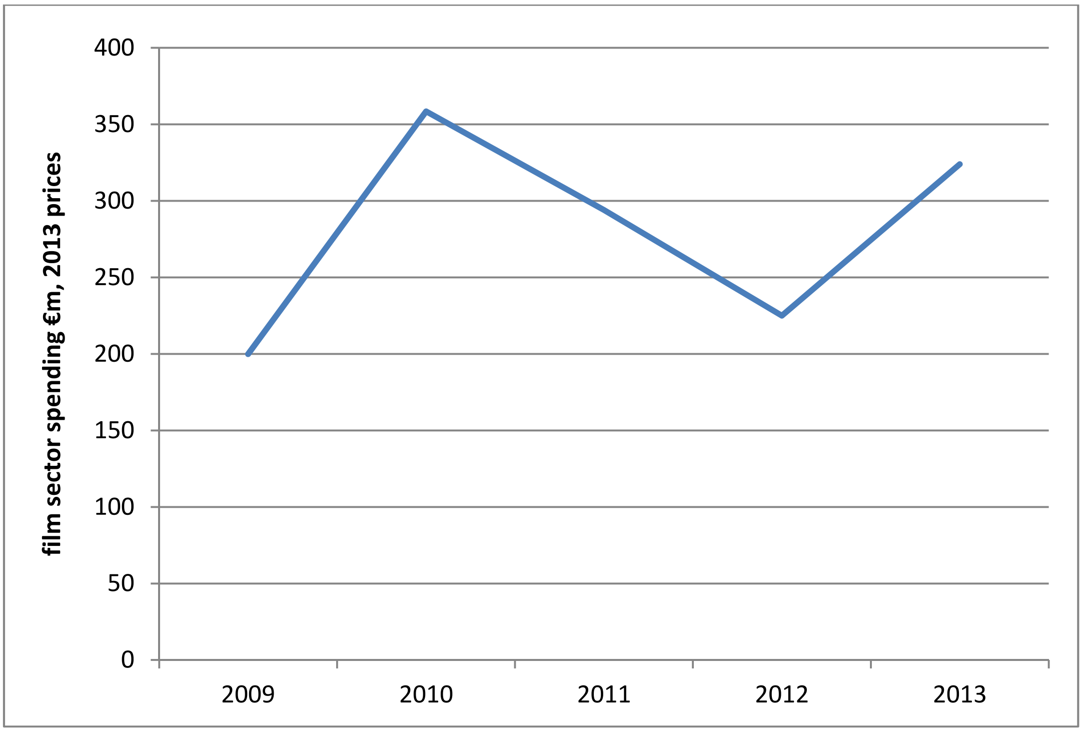
The impact of this approach is a reduction of a significant proportion of the taxes recouped from the net benefits element of the calculation, leading to a reduced treasury benefit accrued. For the costs calculation, the shadow cost of public funding leads to a net adjustment upwards, adding 50% to the tax foregone as an additional public cost. As a result of this calculation, the Irish Department of Finance concluded that while the net benefits of Section 481 were EUR 35.5 million in 2011, net costs were EUR 70.2 million; this implies a fiscal return of just EUR 0.51 for each EUR 1 in tax foregone.[128]

The Department of Finance's report highlighted the significant differences between their cost-benefit model and that adopted by Indecon, though without deep expiration of the nature of these. It is, of course, understandable that a department of finance takes a highly conservative position with regard to the fiscal benefits of an incentive, but in this regard it does appear to be something of an outlier. Nonetheless, it is difficult to conclude from the data presented that unless additional downstream benefits are added, the data do not show that Section 481 as currently constituted is particularly profitable for the Irish exchequer.

[125] *Review of Section 481,* PwC*,* p. 34; deadweight is an element of the calculation which removes the impact of films which would have been made regardless of the incentive, as these are considered not relevant to the calculation.
[126] *Review of Section 481*, Indecon (2012) p. 45
[127] *Economic Impact Assessment*, Department of Finance (2012) p. 54
[128] *Ibid.,* p. 64

Sector spending

Figure 17 Ireland: Sector spending, 2009-2013 (EUR m, 2013 prices)[129]



Source: Irish Film Board

Figure 17 shows mixed performance for the film sector in Ireland over the period 2009-2013, with strong growth in 2009-2010 followed by a decline between 2010 and 2012, and then another year of growth in 2012-2013. Overall, spending in the Irish film sector grew by an average of around 17 per cent between 2009 and 2013. This was a particularly strong rate of growth and is all the more impressive considering the economic difficulties which the Irish economy faced in the wake of the 2008 banking crisis.

16.3 Impact on the sector

Employment

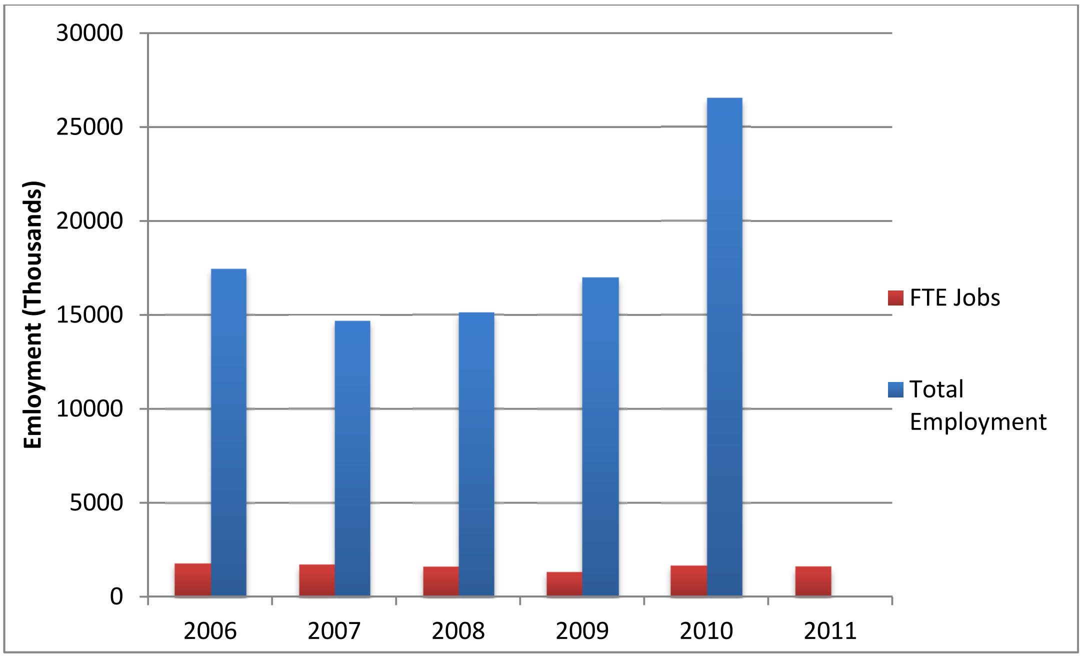
While data on employment have historically been available, consultees have advised there are some queries with regard to its reliability; as a result of this, the Irish Film Board hasn't published data recently. As part of the new incentive structure, data collection on employment will be improved and revitalised, so in future this situation should improve.

At the current time, the most recent available data are provided in the Department of Finance's

[129] For the purposes of this report, the Irish Film Board provided SPI with data on film production and post-production in Ireland over the period, removing television production; this followed a discussion which indicated that Irish domestic broadcasters production spend figures were generally unavailable.

economic impact report, which shows that there are around 1600 FTE jobs between 2006 and 2011; however, this comes from a total employment of between 14,700 to 26,500 individuals.[130] The difference between these numbers is likely explained by the fact that many freelancers work between higher-budget productions, accessing Section 481, and domestic TV shows which tend not to.

Figure 18 Ireland: Employment in §481 productions, total and FTE jobs



Source: Irish Film Board

These data come from surveys and analysis conducted by IBEC's audiovisual federation of their members, and the interpretation given with consultees suggests there are no particular concerns at present with regard to crew numbers. They advised us that crewing Section 481-qualifying productions was rarely a problem, but that ensuring sufficient crew for smaller, domestic productions could be more of a problem, as many Heads of Department moved to the UK during the economic crisis.

Infrastructure investment and capacity

Though the current supportive environment in Ireland spurred the development of Ashford Studios outside Dublin, which opened in 2012 to host the production of *Vikings*, there is still felt to be a shortage of adequate facilities for film and high-end television production in the country. Aside from Ashford, the historic Ardmore Studios in County Wicklow are set up to produce high-end content, with the remainder being smaller, television-focussed studios.

Consultees advised that it can be difficult to find adequate dedicated shooting space, and that further investment is needed. As a result of this, the Irish Government is presently tendering for a public-private partnership to support the development of a third high-end production facility, allowing additional incentive-supported projects to come to Ireland.

130 *Economic Impact Assessment*, Department of Finance (2012) p. 23.

Production flows

While there have been a number of large co-productions between Ireland and non-European countries, in particular Canada and the United States, consultees advise that the majority of incoming productions are European in origin. This is partially the result of the requirement for Section 481 that monies being sheltered through the system are European in origin; as a result, financing non-European productions through the system as currently constituted can be challenging.

Consultees noted that Irish producers both co-operate and compete with the UK, forming what is in many ways a contiguous market; *Game of Thrones* is noted as an example of this, with the first series shot in Northern Ireland and post-production undertaken in the Republic of Ireland. Germany was also noted as a co-production partner; however a number of consultees noted a belief that the IFB's outreach work was of more consequence to the development of these links than the incentive was.

As noted above, exact details of the productions benefitting from Section 481 will be made available under the new system – this will allow production flows to be more easily and precisely tracked.

Perspective from producers

The perceived importance of Section 481 to the development of the production sector in Ireland can be clearly seen through a survey conducted as part of Indecon's 2012 review of the incentive. As part of this report, 82 production companies in Ireland were surveyed, ranking the incentive as the single most important form of assistance for the future development of the film industry in Ireland. 94.8% felt that the incentive was 'very important', and 3.9% stated it was important; only 1.3% - one respondent, assuming 82 responses to the survey – stated it was unimportant.[131]

This perspective correlates with that stated by our consultees, who stated that Section 481 – or an equivalent incentive – was crucial to the Irish production sector. Such a point of view informs the present nervousness seen in the sector around the introduction of the new incentive, with significant concerns expressed around the change process, as well as the reasoning behind the changes. As consultees noted, though, the present system has been very successful for the Irish production sector, so nervousness around any changes is an understandable reaction.

[131] *Review of Section 481 Film Relief*, Indecon (2012) p. 17.

17 Italy

<table>
<tr><td>Country:</td><td colspan="2">Italy</td><td>Name:</td><td colspan="2">Tax credit</td></tr>
<tr><td>First Year</td><td colspan="2">2009</td><td>EU State Aid Re-certifications</td><td colspan="2">2013, 2014</td></tr>
<tr><td>Modus Operandi:</td><td colspan="5">Italy operates various credits for different kinds of film and investors, with separate tax credits for domestic production and foreign production shot in the country, and a tax shelter for external (non-prodtcion companies) investors. The Ministry of Culture is responsible for management of the cultural test, with the tax authorities in charge of payment. In addition to production, distribution and exhibition are also eligible for the credit, though only production figures are noted below.</td></tr>
<tr><td>Credit claimed</td><td>2009</td><td>2010</td><td>2011</td><td>2012</td><td>2013</td></tr>
<tr><td>Internal (Producers) EUR (m)</td><td>10.3</td><td>40.1</td><td>41.7</td><td>41.1</td><td>33.4</td></tr>
<tr><td>International, EUR (m)</td><td>4.0</td><td>6.0</td><td>3.0</td><td>5.4</td><td>6.0</td></tr>
<tr><td>External Investors, EUR (m)</td><td>N/A</td><td>0.1</td><td>5.7</td><td>13.0</td><td>20.1</td></tr>
</table>

Reference page: http://www.cinema.beniculturali.it/direzionegenerale/57/tax-credit-produzione-e-distribuzione/

17.1 Background to the scheme

Original aims

Italy has various tax credit schemes related to the film industry. The first tax credit scheme was introduced in 2007 as support to the exhibition branch. Two schemes for supporting production were operational from 2009 and a third one from 2010. A scheme for supporting distribution of Italian films and a scheme for digitization of theatres are also operational since 2010. As far as we are aware, Italy is the only country in Europe to have created tax credit for exhibition and distribution. In the official publications and statistics, the various schemes are presented as being part of an overall film policy based on tax credits.

Italy's two initial tax credits supporting production – the Tax Credit for Internal Investors ("Tax credit interno") and Tax Credit for Executive Producers ("Tax credit estero") respectively – were introduced in 2007 as part of Italy's Budget Law for 2008. The rationale behind the tax credits was to address market failure in the Italian production sector, which was seen to “threaten cultural identity, stifle creative force, impoverish production capacity, and limit domestic and European reach.”[132] It was also noted within the law that the majority of companies within the Italian production sector were small, poorly capitalised and relatively unstable, with a specific aim of the incentive being to address this.

Consultees have also noted that there are benefits to an incentive system in comparison to direct funding, as in Italy decisions on such funding could often be perceived as politicised, and were controversial as a result. The incentive system, by ensuring that anyone who meets the requirements has access to funding, is seen to avoid a lot of this controversy.

While the law was originally passed in 2007, State Aid certification was not forthcoming from the European Commission until December 2008, with the incentives subsequently starting in 2009 (though retroactive for 2008 spend), following the publication of the decrees enabling this.[133] Since the incentives began operation, there have been two further changes to the incentives, with their prolongation in 2011, and expansion in 2013 and 2014. The 2013 change saw the main articles of the 2007 law becoming permanent (and not submitted anymore to yearly renewal). The incentives also became available to independent producers of television productions; this expansion was aimed at increasing the independence of the production companies for television from the major broadcasters in Italy. The 2013 law has fixed that, as from 2014 the annual budget for the scheme is EUR 110 million per annum.[134]

In addition to the Tax Credit for Internal Investors, there is also a Tax Credit for Outside Investors (“Tax credit esterno”) which operates as a corporate tax shelter. This scheme, operational since 2010, is accessible to film distributors and to companies external to the film industry.

Legal framework

Originally introduced through law 244/2007, the Italian Budget law for 2008, and proclaimed through the 2009 Film Producers ‘Tax Credit’ Decree, the Italian incentive structures have gone through several changes in their existence to date. Whereas the incentives were originally introduced to support the film industry in Italy – including support for distribution and exhibition – but since then have been extended, in 2013, to television and web-TV production. Within the film sector, feature productions, short films, documentaries, and animations all have access to the incentive.

Responsibility for the operation of the incentive is presently split between the Ministry of Culture and the Ministry of the Economy. Whereas the Ministry of Culture is given the responsibility of greenlighting the projects, and certifying that they meet the legal requirements to access the incentive, the Ministry of the Economy funds the reliefs through the revenue agency.

The various different reliefs on offer have slightly different values and conditions, which can be summarised as follows:

- The *credito d’imposta per investimenti da parte dei produttori cinematografici (tax credit interno)* is accessible to Italian film production companies investing in an Italian film or cultural interest film. The tax relief is set at 15%, with a minimum of 80% of this to be spent in Italy. The maximum amount eligible to be spent through the incentive is EUR 3.5 million. For cultural interest films, the *Commissione per la cinematografia* may provide the qualification of “difficult film” which may lead to an increase of public support, including a derogation of the ceiling for the tax credit.

[132] *Budget Law for 2008 (Law 244 of 2007)*, Italian Parliament (2007)
[133] *Le Ricadute del Tax Credit, L’impatto economico delle forme de incentivazione alla produzione cinematografica*, ANICA and LUISS Business School (March 2012) pp. 80-81
[134] Decreto-legge 8 August 2013, n.91 converted, with modifications, in the Legge 7 ottobre 2013, n.112

- The *credito d'imposta per produzione esecutivi* in Italia di film stranieri (tax credit estero), is accessible to executive producers and technical industries involved in the production of films shot fully or partly on the Italian territory, and commissioned by foreign producers.135 Those productions should promote Italian territory and culture, avoiding artificial script localisations. The tax credit is set at 25% on a maximum of 60% of the film budget (net 15%, as with domestic productions), with the incentive able to assimilate non-Italian EU spend at a rate of up to 30% of the film's overall budget. For foreign productions, there is a maximum spend of EUR 20 million in Italy, with a cap on foreign productions of EUR 5 million per project. Separately, all production companies are subject to a cap of EUR 10 million in relief per year.136
- The *credito d'imposta per investimenti da parte di sogetti diversi dai produttori cinematografici (tax credit esterno)* is accessible to companies not being film production companies, and in particular to film distribution companies.[137] The scheme works as a tax shelter, set at 40% of eligible investment, of which 80% must be spent in Italy; the maximum investment is 49% of the production budget.[138]

These tax credits became available to television and web video productions from the 1st January, 2014.

Within the framework of the tax credits, there is significant flexibility for the producer around how they are used, and the taxes against which they are set. Consultees have advised that following the initial certification – which can be made at any time during production – they can set the incentive against monthly social contributions, provided that their paperwork, including invoices, are arranged to prove the spend which entitles them to such. For productions that don't wish to do this, certification can be undertaken at any time before the final production is presented to the ministry to gain a certificate for public exhibition; for international productions, the requirement is that it is certified before production is finished in Italy.

In order to access the tax relief, various data are required from the applicant, with the exact mix depending on the form of credit being requested. These can include such documents as: data proving Italian nationality or cultural interest of a production, the work plan for the film, co-production structure, and proof of insurance coverage. A completed cultural test is also required, with various different tests existing, each tied to different kinds of productions. Local films are also required to fulfil the requirements set out in the Cinema Law, passing the acknowledgement of Italian Identity. Applications were historically made on paper, but have been moved online during 2014.

The cultural tests for each of the incentives follow a broadly similar pattern, focussing on:

- Content – including contents such as a screenplay based European or Italian topics, history, arts or culture, set in Italy or Europe, original dialogues in Italian or an Italian dialect, or a screenplay designed for training purposes (60 points);
- Creative Talents – use of Italian or EEA creative talents in leading roles for the production (20 points); and,
- Production – at least 50% of shooting days in Italy, and use of Italian technical production and post-production facilities (20 points).[139]

A score of 50 points out of a total 100 available is required for passage; for foreign productions, there are four requirements out of the six within the content section of particular significance, concerning the nature, genesis and setting of the script. The production is required to achieve passage in at least two of these sections to be granted the incentive.

[135] Art.1, comma 335, l.244/2007 and drecree 7.5.2009 „tax credit produttori")
[136] *Decree 83*, Italian Government (31st May, 2014)
[137] Art.1, comma 435, Law 244/2007 and Decree 21.1.2010 „tax credit investitori esterni e distributori"
[138] *C(2014) 5517 final*, European Commission (31st July, 2014) pp. 3-4
[139] *Film Producers 'Tax Credit' Decree*, DG Cinema, Ministry for Cultural Assets and Activities (7th May, 2009) pp. 13-31

The requirements of the incentive are that an Italian producer or line producer makes the application, with the rebate being paid to them through their taxation. It is also a requirement that the producer is registered in the Official Film Industry List.[140]

At the end of the production, the final budget must be presented for final authorisation; this must include audited costs, production costs incurred in Italy and elsewhere in the EU, and overall shooting days, with the number in Italy noted. The production company also has to certify the amount of relief already taken through other tax payments – either social charges or provincial taxes – to ensure that they are not receiving the credit twice for a single item of spend. The deadline for the final response to this submission is 30 to 60 days, and if no response is received the system allows the producer to interpret this as final certification.

It is a requirement for Italian national productions that they are released in Italy, but international productions have no Italian release requirement.

Within the framework of the “decree Fransechini” on cultural policy, adopted 31 May 2014 and still to be validated by the European Commission, various new modifications were introduced related to the tax credit:[141]

- The total amount for the scheme is raised from 100 to 110 million EUR
- The amount eligible for the “tax credit estero” for investment in foreign film is raised from EUR 5 million to EUR 10 million.
- The possibility is introduced to offset various fiscal debts (Ires, Irap, Irpef, Iva, contribution to the social security) with credit obtained as a result of investment in the film production.

Current or proposed changes

Until 2013, a concern of the Italian production sector was the fact that the system had to be renewed every year, creating instability and delays. However in 2013 the system was made permanent, and the professional organisation ANICA is confident that this will stabilize the system as the new law provides that the tax credits is definitely a permanent tool with its own source of financing in the state budget.[142]

The system has also the support of important stakeholders as the BNL, one of the banks with a long tradition of support to the film industry. In a press interview, Luigi Abete, Deputy Director of this bank was underlying the importance of the tax credit system and suggested the introduction of a further scheme along the lines of the French SOFICA.[143]

While no consultee highlighted proposed changes to the incentive, there was some discussion at MIP TV in April about the possibility of extending the credit to the TV animation sector.

[140] *Italian Tax Credit for Foreign Films*, DG Cinema, Ministry for Cultural Assets and Activities (2014)

[141] DECRETO-LEGGE 31 maggio 2014, n. 83, Disposizioni urgenti per la tutela del patrimonio culturale, lo sviluppo della cultura e il rilancio del turismo. http://www.governo.it/backoffice/allegati/75767-9458.pdf. At the time of writting, the new law had still tob e validated by the European Commission.

[142] G. MACNAB, „Italy backtracks tax credit scrapping“, Screen Daily, 4.9.2013. http://www.screendaily.com/news/italy-backtracks-tax-credit-scrapping/5059944.article

[143] N. COTTONE, „Abete: tax credit scelta giusta per il cinema italiano“ Il Sole 24 Ore, 22.10.2014, http://www.ilsole24ore.com/art/cultura/2014-10-22/abete-tax-credit-scelta-giusta-il-cinema-italiano-e-l-attrazione-investimenti-esteri-e-si-studiano-sofica-francesi-150022.shtml

17.2 Economic impact of scheme

Data published by MiBAC

The Ministry of Culture (MiBAC) publishes data elaborated by the joint unit for studies of the Ministry and of the professional organisation ANICA, on the various schemes in its annual report Mercato e Industria in Italia.[144] The overall outlay of the tax credit system (limited in the year 2007 and 2008 to exhibition) has grown from EUR 19.9 million in 2007 to EUR 99.7 million in 2012 with a small decrease in 2013 (EUR 95.4 million). For the production sector, the total amount has grown from EUR 14.3 million in 2009 to EUR 59.6 million in 2013.

Table 14 Evolution of the Tax Credit in Italy (2007-2013, EUR (m))

		2007	2008	2009	2010	2011	2012	2013
Production								
Tax credit interno	Film producers	_	_	10,293	40,141	41,67	41,136	33,429
Tax credit esterno	Investors external to the film industry and distributors	_	_	_	0,11	5,674	12,975	20,155
Tax credit estero	Foreign films shot in Italy	_	_	4,033	6,023	3,003	5,423	6,008
Totale	Total	_	_	14,326	46,274	50,35	59,534	59,592
Distribution								
Film di nazionalità italiana	Film with Italian nationality	_	_	_	0,37	4,893	2,655	4,48
Exhibition								
Tax credit digitale	Digitization theaters	_	_	_	3,153	8,772	5,48	4,954
Benefici fiscali	Theaters	19,899	17,747	18,246	22,316	27,5	32,061	26,393
Totale tax credit	Total tax credit	19,899	17,747	32,572	72,116	91,52	99,733	95,422

Source: MIBAC

MiBAC analysis of the schemes

In its report, the Ministry highlights the importance of the system for the overall Italian industry. The reduction in applications and spending in 2013 is explained both by the general scarcity of investment in the overall Italian economy, and also by the fact that the confirmation of the system in 2013 arrived only in middle of the year. In relation to 2012, the investment through the tax credit schemes decreased by EUR 7.2 million (-12.05%) but the system still was one of the largest sources of funding (together with the direct funding provided by the Fondo Unico Spettacolo – F.U.S.).

According the data published by MiBAC, in 2013 the investments flowed through the tax credit system represented 26.16% of the EUR 280 million invested in Italian production. In 2012, total film sector investments were EUR 332 million, of which the tax credit system accounted for 26.05%.

Considering the external tax credit, the report notes the growing importance of the role of the banks, financial companies and insurances in the usage of the system in 2013. They have represented almost 64% of the investments, up from 51% in 2012. Investors in 18 companies have participated in the

[144] Last edition available: MiBAC, Rapporto 2013 mercato e industria del cinema in Italia, Roma July 2014. http://www.cinema.beniculturali.it/Notizie/3129/66/il-mercato-e-l-industria-del-cinema-in-italia-rapporto-2013/

production in 2012 of 36 films; in 2013 these figures were 21 investors with 35 films.

MiBAC also publishes data on the number of application by type of stakeholders. As the system allows various categories of investors (national producers, foreign producers, distributors) to benefit from the scheme, the number of applications is higher than the number of films with at least one application.

Table 15 Applications for the Italian Tax Credit (2011-2013)

	Number of applications				EUR million				Average (EUR)		
	2011	2012	2013		2011	2012	2013		2011	2012	2013
Tax Credit Produzione	98	105	96		39,31	37,07	32,29		401,1	353,0	344,1
Tax Credit Esterno	33	54	53		10,02	19,31	16,88		303,6	357,6	318,5
Tax Credit Distribuzione	39	41	48		3,7	3,68	4,75		94,9	89,8	99,0
Total	170	200	197		53,03	60,06	52,82		311,94	300,3	268,1
Total number of films with at least one application	100	106	96		53,03	60,06	52,82		530,3	566,6	550,2

Source: Unità di studi congiunta DG Cinema'ANICA on data MIBAC

It is interesting to compare the number of application with the number of Italian films (100% + majority co-production) during the year:

Table 16 Italian films produced (2011-2013)

	2011	2012	2013
Total tumber of films produced	146	150	152
% of application related to Italian production in the year	68,5%	70,7%	63,2%

Studies undertaken

One impact analysis has been undertaken with regard to the Tax Credit, being authored by ANICA and Luiss Business School.[145] Consultees have advised that this showed some interesting data, noting that as the system was retroactive to 2008, it allowed an analysis of the impact on budgets which weren't expecting the relief, against those which were.

The study looked at 26 productions which were retroactively able to claim the incentive against 21 which knew they would be able to, looking at the differences this created for overall costs, spending on leading artists, and social contributions. This concluded that all three elements increased for productions which knew they were to receive the incentive: overall costs were up 23% over the sample, to EUR 4.19 million, artistic costs increased 35% to EUR 1.41 million, and social charges increased 25% to EUR 358 thousand.[146]

While the sample size was relatively small, the study felt able to state that all things being equal, there is a statistically significant improvement of the quality of human capital in incentivised productions. This is attributed to the investments made as a result of the higher effective production budget the incentive

[145] *Le Ricadute del Tax Credit,* ANICA/LUISS (March 2012).
[146] *Ibid.,* p. 86.

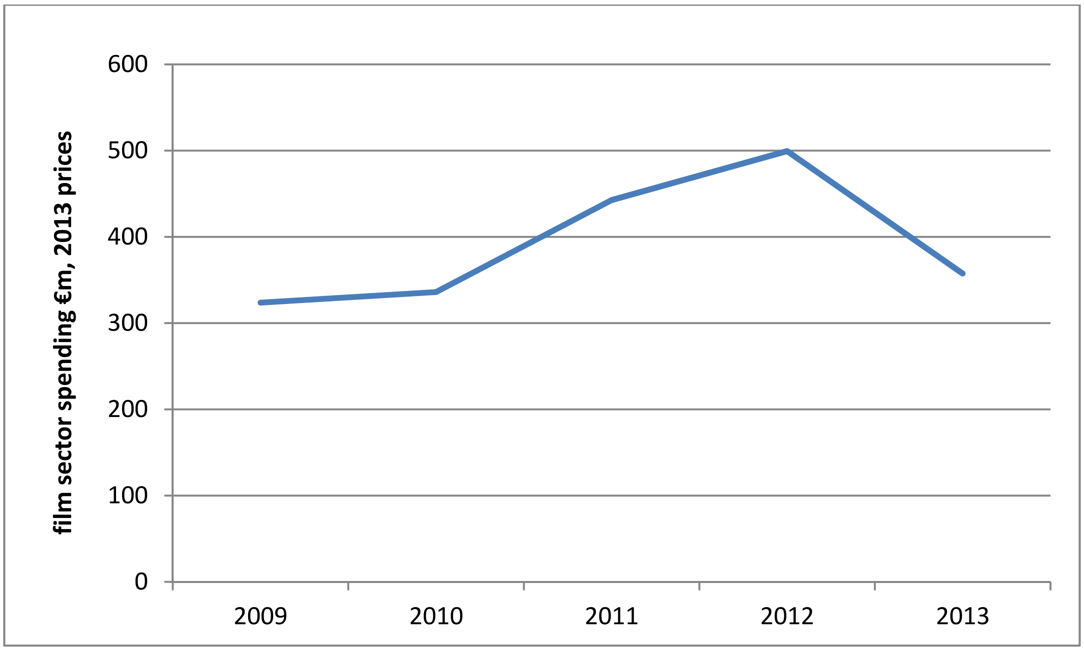
provides for.[147] The analysis also suggested that, having compared similar incentivised and non-incentivised films, a statistically significant uplift in box office receipts and admissions was also seen in productions receiving the tax credit.[148]

The study states that eight foreign films entered Italy in the first year of the incentive, with total budgets of EUR 226 million, and eligible costs of EUR 49 million; these generated EUR 10 million of tax credits for the line producers.[149] From these, the study estimates that the state generated EUR 5.6 million of VAT, and EUR 8.4 million of income taxes – these imply a fiscal return of EUR 1.4 for each euro granted in relief.[150]

An overall perspective is stated in the conclusions of the study, which states that approximately EUR 60 million of relief has been granted to December 2010, generating EUR 77 million in taxation; this implies an overall fiscal impact of EUR 1.28 to the tax authorities for each euro of relief.[151] It is not, however, clear that this includes other taxes – such as regional taxation or social – which are of interest, while no deadweight is removed.

Sector spending

Figure 19 Italy: sector spending, 2009-2013 (EUR m, 2013 prices)[152]



Source: ANICA

Figure 19 shows rapid growth of film sector spending in Italy over the years 2009 to 2012, followed by a marked decline in 2013. Overall, the average rate of real growth per year for the Italian film sector was

[147] *Le Ricadute del Tax Credit*, ANICA/LUISS (March 2012) p. 93.
[148] *Ibid.,* p. 95.
[149] *Ibid.,* p. 95.
[150] *Ibid.,* p. 96.
[151] *Ibid.,* p. 99.
[152] Total budgets for domestic and foreign film production in Italy.

2.5 per cent per year between 2009 and 2013. This reflects broader trends within the Italian economy though – with the new *Ben Hur* film and *Spectre* – the next Bond film – scheduled in Italy in 2015, there is already an expectation of growth next year.

17.3 Impact on the sector

Employment

Neither data sources nor consultees were able to provide clear data on the employment impact of the introduction of the fiscal incentives in Italy, with a few noting that such data weren't routinely collected. It may also be that there has not yet been enough time since the introduction of the incentive for this to be impacted.

Infrastructure investment and capacity

Similar to employment, neither consultees nor data were able to describe impacts which the introduction of the incentive has had on infrastructure within Italy. However recent news stories, around the use of Cinecittà in Rome for productions such as *Ben Hur* and *Spectre*, the new Bond film, quote sources at the studios stating that the introduction of the incentive has had a large impact on their use.[153]

Production flows

Consultees noted various production partners, in particular France, Germany, Spain, and the US – all of these are traditional participants in Italian productions, but where interest has been piqued by the introduction of the incentive. The Variety story, noted above, also underlines this in noting the impact of the incentive in drawing Hollywood productions to Italian facilities. No other locations were noted as having provided a particular volume of productions in response to the introduction of the incentive.

Perspective from producers

While the majority of consultees noted that they feel the introduction of the incentive has been a broadly positive experience for the Italian production sector, a number felt negatively about it, as at the same time selective direct funding for certain productions had decreased. Those consultees who saw it positively felt that it was the biggest step forward for the Italian industry in decades, and helped companies to professionalise. Though many accepted it required a significant shift in mind-set and attitude, this was not felt to be a problem, as it was expected that it would – in the long term – provide the stability and competitiveness that the industry requires.

Consultees who bemoaned the loss of selective funding felt that, even with the tax credit for cultural and difficult films, this would make production harder, and came at a time when other funders (i.e., television channels) were also withdrawing funding. It was also noted that funding was going to 'American' productions through the incentive, though the Culture Ministry has stated that the introduction of the incentive was decided separately to the reduction in direct funding.

With regard to the external tax credit, the producers who were able to talk about it noted that while it works well on occasion, funders remain difficult to manage, and there is a lot of leakage to people who

[153] *Rome's Cinecittà Studios Lures 'Ben Hur' Redo And Other Hollywood Picks*, Variety (24th November, 2014)

take no risk, particularly the banks. Some consultees felt it would be preferable for the government to remove this incentive, adding the funding to the tax credit instead, and bringing the level of this up.

18 United Kingdom

<table>
<tr><td>Country:</td><td colspan="2">UK</td><td>Name:</td><td colspan="2">Film Tax Relief</td></tr>
<tr><td>First Year</td><td colspan="2">2007</td><td>Re-certifications</td><td colspan="2">2011, 2014</td></tr>
<tr><td>Modus Operandi:</td><td colspan="5">Film Tax Relief operates as a tax credit for certified production in the UK, with certification managed by the BFI, and the tax authorities managing final payment through the tax system. Since 2013, parallel systems have been adopted for high-end television and animation, with video games receiving a relief in 2014.</td></tr>
<tr><td>Eligible Spend</td><td>2009</td><td>2010</td><td>2011</td><td>2012</td><td>2013</td></tr>
<tr><td>GBP (m)</td><td>444.6</td><td>905.1</td><td>1533.5</td><td>878.5</td><td>1107.0</td></tr>
</table>

Reference page: http://www.bfi.org.uk/film-industry/british-certification-tax-relief/about-tax-relief

18.1 Background to the scheme

Original aims

Film Tax Relief was introduced in the 2006 Finance Act as a replacement for the UK's previous tax shelter model, which was generally known as 'Sale and Leaseback'. This had been in operation since 1997, but by the mid-2000s was felt to suffer from significant leakages and distortions, with the government deciding to close it as a result. Film Tax Relief was adopted as a replacement, with the aim of providing an incentive within the British tax system for the production of culturally British films.

As part of this introduction, the government at the time undertook an analysis of the needs of the sector, coming to the conclusion that the shelter should be replaced with a tax credit. The need for this was aimed at sustaining "the UK film industry's reputation for excellence in a globally competitive market", and supporting the "sustainable production of British films, [recognising] the cultural and economic benefits that they bring."[154]

Since the initial introduction of the scheme, the scheme has been extended twice, in 2011 and 2014, with the latter change also making some technical adjustments to the operation of the scheme. In 2013, similar schemes were adopted for high-end television – produced at a cost of more than GBP 1 million per television hour – and animation, with a video games tax relief also beginning in August 2014. The limited depth of available data on the impact of these schemes means that their impact is not addressed in this present report.

[154] *Pre-Budget Report*, HM Treasury (5th December, 2005) sub-chapter 5.95

Legal framework

Film Tax Relief was introduced in 2006 as a replacement for the previous tax shelter system operating in the UK. The British Government at the time replaced the system relatively swiftly, initially announcing the change as part of the July 2005, legislating for it in the March 2006 Finance Act, with the system becoming operational on the 1st April, 2006.[155]

Since this initial introduction, only one piece of legislation has made significant changes to the Film Tax Relief model, with the Finance Act 2014 both extending the incentive, and altering the operation of the scheme. The Tax Relief model was also extended to High-End Television and Animation Programming in 2013, with a Video Games Tax relief being introduced in 2014.

From its introduction to 2014, the relief maintained a distinction between 'limited budget' productions – costing less than GBP 20 million – and other productions; the first group were entitled to 25% relief while the second were entitled to 20% relief. This relief is calculated on the basis of 80% of total core spend, or core spend in the UK, whichever is lower. In 2014 this step was removed, with all productions now entitled for 25% relief on the first GBP 20 million of UK spend, and 20% thereafter, with the 80% eligibility clause remaining in place.

The 2014 legislation also altered the minimum spend requirement in the UK in order to make the incentive more attractive to European co-productions; whereas this was set at 25% of the production budget in 2006, the government reduced this to 10% in 2014. This legislation also modernised the cultural test, allowing European as well as British cultural elements, and increasing the points available for the use of the English or EEA languages and also for principal photography, special effects, and visual effects. The result of this was an increase in the number of total points on the test from 31 to 35, with 18 required to pass the new test. As a result of this legislation, the annual forecast cost of FTR is GBP 340 million per annum, with a total budget for 2014-2019 inclusive of GBP 1,700 million.[156]

As noted, the Film Tax Relief operates under the framework of a tax credit, with relief being granted based on certified UK spend, claimed through the production's tax returns. Interim certifications are possible, either in advance of the production starting or at some point during the production process. While such certifications might be useful for a production as collateral for cash-flowing the project, final certification is nonetheless a requirement for receiving the incentive.

The certification for FTR and the other incentives is implemented by the British Film Institute, with the Inland Revenue – the UK's tax agency – being responsible for final payment. As with other tax credit models, the relief is used firstly to reduce the amount of tax owed by the production company, with any outstanding being returned in cash.

As part of the application for the incentive, the producer is required to submit various documentation to the BFI, including the completed cultural test (if relevant), a shooting script and synopsis in English, a shooting schedule, a production budget or cost report (depending on the timing of the application), and chain of title for the film. In order to gain acceptance for the incentive, the film must be intended for public release, and the production company must be liable to pay UK corporation tax. Though the incentive can be applied for online, the requirements of the law require that a paper copy of the application also be submitted, including the original signature of the applicant.

For most productions, a completed cultural test is required, though official co-productions – qualifying

[155] T*he Reform of Film Tax Incentives: Promoting the sustainable production of culturally British films* , HM Government (29th July 2005) and *Finance Act 2006*, HM Government (Budget Statement 22nd March 2006, Royal Assent 19th July, 2006) clauses 31-53.

[156] European Commission (27th March, 2014), *C(2014) 1786 final, Commission Decision of 27.03.2014 on the State Aid Scheme SA.36139 (2013/C) (ex 2013/N)*, Brussels, p. 5.

under either the European Convention on Cinematographic Co-Production, or a UK bilateral treaty – are exempt from this. The UK cultural test has four sections, requiring 18 from a possible 35 points to pass; these are:

- Cultural content, dealing with the setting, characters, subject, and language of the production (18 points);
- Cultural contribution, demonstrating British creativity, heritage, and diversity (4 points);
- Cultural hubs, requiring a level of production or post production in the UK (5 points); and,
- Cultural practitioners, with leading practitioners or the majority of the crew being UK or EEA citizens or residents (8 points).

Passage in the first section of the test, cultural content, is sufficient to pass the test in its entirety, and it is recommended that where productions do this, the remainder of the test is not completed, as this lowers the amount of evidence – and consequently time and expense – needed.

The original test for film and the tests for HETV, animation and games had 31 possible points, with 16 required for passage; similar to the current film test, passage in the cultural content section (worth 16 points) is sufficient for passage overall, and the same guidance consequently applies.

The annual budgets for the HETV and Animation Tax Reliefs are set as follows:

Table 17 Annual budgets for HETR and ATR, 2013/14-2017/18[157]

Year	HETV Tax Relief	Animation Tax Relief
2013/14	GBP 5m (EUR 5.8m)	GBP 5m (EUR 5.8m)
2014/15	GBP 25m (EUR 28.8m)	GBP 10m (EUR 11.5m)
2015/16	GBP 45m (EUR 51.9m)	GBP 15m (EUR 17.3m)
2016/17	GBP 60m (EUR 69.2m)	GBP 15m (EUR 17.3m)
2017/18	GBP 70m (EUR 80.8m)	GBP 15m (EUR 17.3m)
Total	GBP 205m (EUR 236.5m)	GBP 60m (EUR 69.2m)

Source: European Commission

Final certification of the production is required to access the relief, with the production obliged to submit further data in hard copy to the BFI to achieve this. These include final accounts, a copy of the final production on DVD, and the completed cultural test with any proof required that the production has met the requirements of the sections under which it has applied. An audited finance plan is only required for co-productions, as part of certification of the location of spend.

The Certification Unit at the BFI has 28 days to return the application, with this timeline only beginning when the paper application is received; consultees advise that generally, applications are processed in two or three weeks, except when data are required from co-production partners. Following certification, the paper certificates are then forwarded to the Department of Culture, Media and Sport for signature. The legislation currently requires that the minister in charge or their nominated representative must

[157] European Commission (25th March, 2013), *C(2013) 1815 final, SA.35563 & SA.35564 - United Kingdom*, Brussels, p. 2

personally sign them.

Specific data on the timescales for HMRC to pay out are not available, on the grounds of taxpayer confidentiality, though consultees noted that it tends to take between six and eight weeks. HMRC also do not disclose the final reliefs granted to each production on the same grounds, though lists of certified films are made available on the BFI's website.

Current or proposed changes

Though only introduced in 2013, the government has recently announced that it will consult with the sector on altering the High-End Television Tax Relief, proposing that the minimum expenditure be lowered to 10%, and that the cultural text be altered, also to mirror film. At the same time, the government also announced the introduction of a tax relief for live-action children's television, starting April 2015.[158] Consultees also noted that the requirement for the certificates to be personally signed by the Minister is currently being reviewed, to try to streamline the process.

18.2 Economic impact of scheme

Studies undertaken

To date, four studies have been undertaken looking into the impact of the film industry in the UK for the UK Film Council (the former industrial body for UK film), with the British Film Institute taking over this role when the UK government in 2010 closed the film council. These reports were written in 2005, 2007, 2010, and 2012 respectively – these have all been written by Oxford Economics, though only the latter two consider the Film Tax Relief. In addition to these evaluations, the Film Council and BFI have produced annual statistical dossiers – the Statistical Yearbook – which provide an ongoing data source for the production volume in the UK, including eligible spend for the incentive.

Consultees have advised that the UK Film Council and BFI have not been under any specific requirement to undertake these investigations, but do so as UK Government policy prefers such ongoing analysis of interventions.

The most recent of these reports identified various benefits to the UK government, public, and film production sector arising from the existence of Film Tax Relief, noting that if the incentive did not exist, the UK production sector would be around 71% smaller.[159] This underlines the report's perspective that without incentive, a globally competitive UK film production sector would not exist.

Various issues of interest are noted by the study, in particular that the UK film sector generates GBP 1.6 billion in GVA for the UK per annum, contributing 117,400 FTE jobs once indirect and induced spending is taken into account. The sector is seen to be a significant engine of growth, a picture ratified by government statistics from January this year, which highlighted that the creative sector in the UK – of which film and TV production are a significant part – now accounts for one in twelve jobs in the UK.[160]

The reports note a long-term growth trend in the UK film sector which has seen production grow from around GBP 100 million in 1992 to more than GBP 1.2 billion in 2011, generating exports of GBP 2.1 billion in 2010 alone.[161] Culturally, the report notes the large contribution the production sector makes to the way the UK sees itself, and how others abroad view it as well. Film is also noted as a driver of

[158] *Autumn Statement 2014*, HM Treasury (3rd December, 2014) pp. 47-48
[159] *The Economic Impact of the UK Film Industry*, Oxford Economics (September 2012) p. 7
[160] *Creative Industries Economic Estimates – January 2014*, DCMS p. 7
[161] *Economic Impact,* Oxford Economics (September 2012), p. 7 and p. 21

tourism to the UK, though the figures presented in the most recent report are under a degree of scrutiny at present.[162]

It is worth noting that, in comparison to other reports about the sector, evaluations of the UK film sector have been conducted on a value chain model, focussing on the core UK film sector only. By this, we mean that they consider distribution and exhibition as well as content creation, but within these elements consider only the impact of UK-produced film, stripping out the economic impact of non-UK productions.

Fiscal impact

As part of their evaluations of the incentive, Oxford Economics have conducted various evaluations of the fiscal impact of the Film Tax Relief. These evaluations have taken the form of an analysis of the GVA impact of the incentive, considering the increase in sectoral output created by the investment from the British state. Such calculations discount deadweight, the production which would exist even if the incentive didn't, considering these as an effective loss to the Treasury. However, the calculation has historically been conducted across the direct and indirect value chain, looking not just at the value of core UK film, but also the value generated by suppliers, which would not exist without this film production.

As a result of these calculations, Oxford Economics have determined that the following fiscal impacts have been generated, together with the given tax returns:

Table 18 **GVA and tax returns for FTR, 2009 and 2011**

Year	GVA Return	Calculated Tax Revenues
2009	GBP 13 per GBP 1 of relief[163]	GBP 445 million[164]
2011	GBP 12 per GBP 1 of relief[165]	GBP 498 million[166]

Source: Oxford Economics

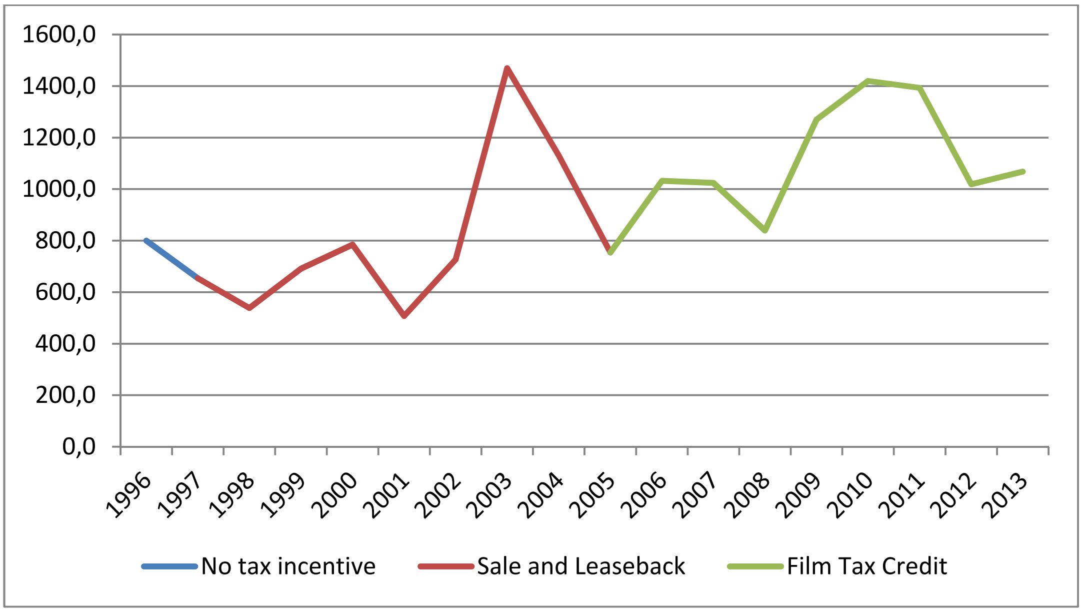
Sector spending

For the United Kingdom, as for France, a longer time series of consistent data on film sector spending is available. This allows us to examine the impact of the Sale and Leaseback scheme (introduced in 1997) and the Film Tax Credit (introduced 2005). Figure 20 shows film sector spending from 1996, 2013, divided into three time periods:

- 1996-97: no fiscal incentive in place for the film sector;
- 1997-2005: Sale and Leaseback in operation;
- 2005-2013: Film Tax Credit in operation.

[162] *Economic Impact*, Oxford Economics (September 2012) p. 7
[163] *Economic Contribution of the UK Film Industry*, Oxford Economics (June 2010) p. 1
[164] *Economic Contribution*, Oxford Economics (June 2010) p. 22
[165] *Economic Impact*, Oxford Economics (September 2011) p. 7
[166] *Economic Impact*, Oxford Economics (September 2012) p. 29

Figure 20 UK sector spending, 1996-2013 (GBP m, 2013 prices)[167]



Source: BFI Statistical Yearbook

The figure shows that during the period 1997-2005 when Sale and Leaseback was operational, UK film production spending grew by around 2 per cent per year in real terms. However, there was considerable volatility around this average growth rate, with a peak in annual production spending of almost GBP 1.5 billion a year reached in 2003, after which production fell back to GBP 750 million per year in 2005.

Between 2006/7 and 2013, with the Film Tax Credit in operation, film production grew on average by around 4.5 per cent a year – more than twice the growth rate that was achieved under Sale and Leaseback. On the face of it this suggests that the Film Tax Credit is a more effective scheme than Sale and Leaseback was. However, volatility in annual UK film spending persisted over this later period, with annual production spending increasing to around GBP 1.4 billion in 2010 and 2011 before falling to just over GBP 1 billion in 2012 and 2013.

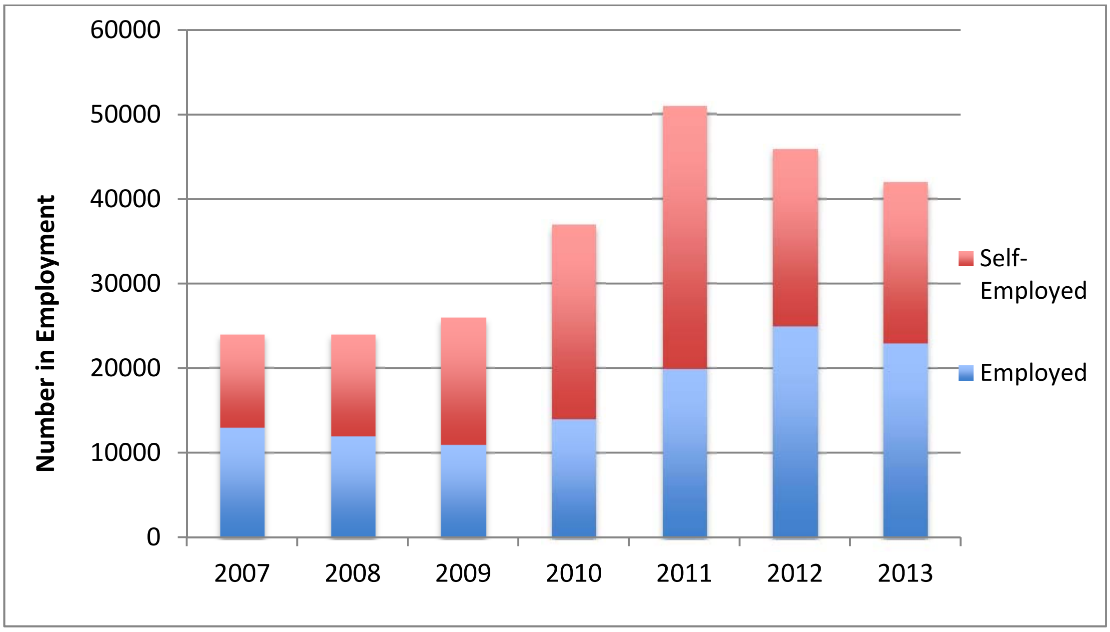
18.3 Impact on the sector

Employment

Data on employment in the UK production sectors are relatively available, with a verity of periodical surveys and analyses produced by various government agencies. These are collated annually by the BFI as part of their statistical yearbook, with the data showing growth in the film workforce to 2011, followed by a drop in 2012 and 2013. This correlates with the drop in production spend seen at the same time, as a result of the recession.

[167] Stated production spend of feature films which began production in the years noted.

Figure 21 Size of UK film production workforce, 2007-2013



Source: BFI Statistical Yearbook 2014, British Film Institute p. 234168

Though these data show growth within the sector, consultees note that there are significant concerns about sustainability within over the next decades, as a number of sub-sectors of the industry are increasingly ageing. Policy initiatives are being developed to address these challenges, particularly through Creative Skillset, but the data underline the degree to which separate policy approaches are often needed to address specific challenges, such as sectoral employment.

In addition to direct employment in the production, distribution, and exhibition sectors, Oxford Economics' studies provide a perspective of the overall employment impact of UK core film production, including indirect and induced impacts. For the most recent study, this is stated at 117,400 FTE jobs, with 43,900 FTEs indirectly employed, and 29,600 FTEs induced through cultural, tourism, trade, and merchandise impacts.[169]

Infrastructure investment and capacity

While consultees have advised that the stability of the UK's incentive has helped to spur significant investment in UK infrastructure since its introduction, specific data about this have been difficult to come across. Our research indicates that more than GBP 400 million have been invested in this period, but we feel that this under-estimates the total amount, as it discounts investments from public bodies – for example Titanic Studios in Belfast, used for *City of Ember* and *Game of Thrones* – as well as projects without publicly stated accounts or press releases. Nonetheless, we feel that the following list shows the major investments made since the introduction of Film Tax Relief, covering the UK's largest dedicated shooting facilities:

[168] These data from the Office for National Statistics' Labour Force Survey and Annual Population Surveys; The employment figures are from the Labour Force Surveys and Annual Population Surveys covering the period October to September so, for example, the data labelled 2013 refer to the period October 2012 to September 2013.

[169] *Economic Impact*, Oxford Economics (September 2012) p. 6

Table 19 Investment in UK production facilities, 2007-2014

Facility	Investment (GBP m)
Pinewood Studios Development Framework	200.0
Pinewood – other since 2007	89.7
Leavesden (including Studio Tour)	130.0
Total[170]	**c. 400**

Source: SPI analysis

We note that in recent years, the pace of investment has increased substantially, for example with the announcement of a new Industrial Light and Magic faculty employing 200 staff in London. Press releases detailing such investments rarely give an economic value though, suggesting that our GBP 400 million figure is something of an underestimate.

Production flows

Data from the BFI Statistical Yearbook show that the majority of production spend in the UK since the introduction of the Film Tax Relief is UK-US Studio productions – that is to say, UK-based productions where the origin is one of the 'big six' US Studios. UK independent production in this period has grown slightly, while wholly non-UK films form only a small part of overall spend:

Table 20 Value of UK production spend, 2007-2013, GBP million[171]

	2007	2008	2009	2010	2011	2012	2013
UK/US Studio	566.3	409.6	772.1	983.4	1007.3	672.8	751.5
UK Independent	266.4	288.2	295.6	284.2	270.3	313.4	313.4
Non-UK	18.2	24.3	47.7	21.9	43.3	8.0	3.7

Source: BFI Statistical Yearbook 2014

Though these data might be seen to support the proposition that the US studios are the major beneficiaries of Film Tax Relief, by numbers of productions the picture looks somewhat different. Whereas around 70% of spend is accounted for by US studio productions, around 70% of productions are UK domestic films. Various consultees highlighted this fact, arguing that it showed the valuable role which Film Tax Relief has in supporting a vibrant independent film sector in the UK, with production roles supported by US-originated spend:

170 GBP 20 million deducted, as estimated cost of the Harry Potter Studio Tour.
171 *Statistical Yearbook*, BFI (2014) p.181

Table 21 Number of feature films produced in the UK, 2007-2013[172]

	2007	2008	2009	2010	2011	2012	2013
Inward Investment	33	32	37	30	36	39	37
Domestic UK	175	231	258	303	264	242	167
Co-Production	33	30	38	36	45	45	37

Source: BFI Statistical Yearbook 2014

Perspective from producers

Consultees for the project emphasised the positivity with which the Film Tax Relief is viewed in the UK film production sector, particularly with regard to its open nature, with the complete lack of editorial control from gatekeepers seen as a major positive. No complaints were noted with regard to the processing or payment of the relief, with many of the issues noted being market- rather than incentive-driven.

Though it was not a stated aim of the revised incentive model, the decrease in minimum spend to 10% was seen as good for the UK post-production and visual effects sector. Historically, the 80% spending cap has been seen as a negative for this element of the sector, as it has meant productions might move post-production as they get towards this level of spend. With the introduction of a lower floor of 10%, rather than 25% – even if it was aimed at co-production – there is a hope that this will spur more post-production of non-UK produced films and TV series (should this be similarly lowered) in the UK.

[172] *Statistical Yearbook*, BFI (2014) p.182

Appendices

Appendices overview:

Appendix 1 – Glossary

AV – Audiovisual

AVMSD – Audiovisual Media Services Directive

BFI – British Film Institute

CIAV – Lithuanian film production incentive

CNC – *Centre national du cinéma et de l'image animée*

DiD – Difference-in-Differences analysis

DFFF – *Deutscher Filmförderfonds*

EEA – European Economic Area

EU – European Union

FISA – Film Location Austria

FISP – Film Industry Support Programme (Czech Republic)

FTE – Full Time Equivalent (a measure of employment)

GDP – Gross Domestic Product

GVA – Gross Value Added

HAVC – *Hrvatski audiovizualni centar* (Croatian Audiovisual Centre)

HETV – High-End Television (in the UK's definition, TV made at more than GBP 1 million per hour)

SOFICA – *Sociétés de financement de l'industrie cinématographique et de l'audiovisuel*

ROI – Return on Investment

TRIP – Tax Rebate for International Production (France)

VAT – Value Added Tax

Appendix 2 – Research method

The difference in differences method

The originally proposed methodology to measure the economic impact of fiscal incentive schemes supporting film and audiovisual production in Europe in this project was a 'difference-in-differences' (DiD) approach. This type of approach uses data on output and employment in the film industry for each country in a panel of European countries. The DiD approach works as follows:

- Countries are divided into two groups: a ‘Treatment’ group of countries who introduced a fiscal incentive or other kind of scheme to stimulate investment in the film industry over the time period in question, and a ‘Control’ group of countries who do not have such a scheme in place.
- The economic impact of film industry fiscal incentive (or subsidy) schemes can be estimated by looking at the response of each of the indicators listed above (e.g. employment in the film industry, economic output in the film industry, level of investment, amount of tax paid by the industry, etc.) for a country that introduces an incentive scheme over the time period for which data are available, relative to employment and output in countries which do not have such schemes. In other words the Control group is used as a baseline scenario against which changes in economic activity and employment in the Treatment group can be evaluated.
- The methodology can also be used ‘in reverse’ to evaluate the impact of abolishing a previously existing fiscal incentive or similar scheme.
- A third possibility is to look at the impact of incremental changes to a scheme (for example if a fiscal incentive is more or less generous).
- Finally, it is possible to evaluate the impact of a scheme remaining in place from year to year, with no changes, relative to a situation in which no scheme is in place (with no changes).

In practice, limitations with data availability meant that we were not able to use the DiD framework to the extent we had originally hoped. There were two main problems with data availability:

1. We focused on the time period 2009 to 2013, but of the 11 countries included in our study dataset (8 countries with incentives, and 3 Control countries) only one of them – Croatia – introduced a fiscal incentive scheme during this period (in 2012), having had no scheme in place before that, while none of the countries in our dataset abolished a pre-existing scheme during this period. Hence, our opportunities to assess how the introduction of a fiscal incentive scheme affected production in the relevant country were limited. Apart from the Croatian case, the best we could do was to look at countries where an existing fiscal incentive was modified during the time period 2009-13 (e.g. Czech Republic.) For the UK and France we were able to use a longer time series of data to look at the impact of schemes introduced in earlier years. We also attempted to do this for Ireland, but ran into problems with comparability of data from different sources for the earlier years compared with more recent Irish data.
2. For most of the countries in the study we were only able to obtain data on total production spend for the film and audiovisual industries in each year (plus, in some cases, total spending eligible for fiscal incentives, and/or domestic productions compared to productions originating from abroad). Data on employment and investment in the film and audiovisual industries, which we had also intended to use for the DiD analysis, was not available for most countries. This meant that for employment and investment we have had to rely on qualitative evidence and analysis of existing evaluation studies on a country-by-country basis.

There were also problems with the comparability of the data from different countries that was used for the study. In particular, countries often have different models for how to account for the year in which production spend takes place and it would appear that none of the systems amortises production over the whole production process, leading to irregularities and misleading statistics.

Qualitative analysis

Desk research, focussing on the data and publications provided by the various countries involved in this study, has been the primary mythology which we have used to analyse questions such as the operation and management of the scheme. Consultations with individuals within both the bodies in charge of the incentives and the broader industry have been used where queries have arisen from such paperwork, and to outline where the evolution of such schemes has moved away from the initial aims.

A full bibliography is attached in the following appendix.

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Appendix 4 - About Olsberg•SPI

Olsberg•SPI is a creative industries strategy consultancy, providing advice to public and private sector clients, specialising in the worlds of film, television and digital media. Formed in 1992, and based in London, it has become one of the leading international consultancies in these fields.

The firm's expert advice, trusted vision and proven track record create high levels of new and repeat business from a diverse group of companies and organisations, including:

- Multi-national public authorities
- National government bodies, including culture and economics ministries, film institutes and screen agencies
- Regional development agencies for the creative industries
- Independent companies involved in all aspects of the screen business value chain
- National and international broadcasters
- Trade associations and guilds
- Training and skills development organisations
- Publishers and conference organisers.

With expertise in all areas of the fast-moving global creative sector, Olsberg•SPI offers a wide range of services, including:

- Analysis and strategic advice for building healthy and sustainable national and regional industries, and recommendations for public policies to support this
- Advice on the creation of fiscal incentives for film and television productions
- Mapping and economic impact studies
- Helping businesses and governments interpret the strategic implications of digital media innovations
- Business development strategies for content companies
- Evaluations of publicly-funded investment schemes
- Acquisition and divestment advice for owners or managers of SMEs
- Writing prospectus-style funding proposals
- International cost comparisons for small and large film and television productions
- Marketing and business strategies for small and large-scale studio facilities
- Strategic advice on inward investment and exports for national and regional public bodies
- Analysing and explaining the links between growth in tourism and a nation's film and television output
- Providing strategic advice for screen commissions, including business and marketing plans

Olsberg•SPI's recent clients have included:

- The British Film Institute
- The European Audiovisual Observatory
- The Canadian Media Production Association
- Bristol City Council
- Film City Studios, Glasgow
- The New Zealand Film Commission
- Screen Yorkshire
- The Government of Hong Kong
- Mauritius Board of Investment
- BBC Worldwide
- Motion Picture Association of America
- Directors UK
- Film i Väst, Sweden
- Screen Australia, Sydney.

The team assembled by Olsberg·SPI for this study included the economist Howard Reed of Landman Economics, an economics research consultancy, which specialises in sophisticated data analysis of industry and labour market statistics. Howard was deeply involved in the quantitative empirical analysis of production and employment data in the countries covered in the report.

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EUROPEAN AUDIOVISUAL OBSERVATORY
EUROPÄISCHE AUDIOVISUELLE INFORMATIONSSTELLE

The European Audiovisual Observatory

Set up in December 1992, the European Audiovisual Observatory's mission is to gather and distribute information on the audiovisual industry in Europe.
The Observatory is a European public service body comprised of 40 member states and the European Union, represented by the European Commission. It operates within the legal framework of the Council of Europe and works alongside a number of partner and professional organizations from within the industry and with a network of correspondents. In addition to contributions to conferences, other major activities are the publication of a Yearbook, newsletters and reports, the compilation and management of databases and the provision of information through the Observatory's Internet site.

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Formed in 1992, it has become one of the leading international consultancies in these fields. The firm's expert advice, trusted vision and proven track record create high levels of new and repeat business from a diverse group of companies and organisations including:

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