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B.C. BUDGET 2010 - FILM AND DIGITAL MEDIA INCENTIVES

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British Columbia released a Budget on March 2, 2010, which introduced several measures to maintain and enhance B.C.'s competitiveness in the film and digital media sectors. Other jurisdictions have recently implemented incentives targeting these same industries. For example, in 2009, both Ontario and Quebec augmented their Production Services Tax Credits by expanding the base upon which the credits are calculated. B.C. has responded by enhancing existing tax credits and introducing a new tax credit directed at digital media.

The video games industry and service productions, particularly with respect to animation and visual effects laden movies, will receive the largest benefit from these changes.

BC Interactive Digital Media Tax Credit

Budget 2010 introduces a new BC Interactive Digital Media tax credit in the amount of 17.5% of qualifying B.C. labour used to develop qualifying interactive digital media projects. It is available for projects beginning after August 2010 and is specifically directed at products that educate, inform or entertain an individual, and thus is of particular interest to the video game industry.

Production Services Tax Credit

Budget 2010 increases the B.C. Production Services Tax Credit rate to 33% from 25% of eligible labour expenditures, thereby increasing the tax credit percentage amount rather than expanding the base beyond labour. It is available to production companies with permanent establishments in B.C., for productions with qualifying principal photography beginning after February 2010. Additional regional, distant location regional, training and digital animation and visual effects tax credits continue to be available in certain circumstances.

Film Incentive BC Tax Credit

The Film Incentive BC tax credit (often referred to as the indigenous tax credit) is a 35% tax credit that is available to qualifying Canadian-controlled production companies with a permanent establishment in B.C. Budget 2010 increases the cap for labour expenditures from 48% to 60% of total production costs, which matches the federal Canadian Film or Video Production Tax Credit cap. Again, principal photography must begin after February 2010.

Digital Animation or Visual Effects ("DAVE") Tax Credit

The DAVE tax credit provides refundable tax credits for qualifying productions in respect of digital animation or visual effects activities. The DAVE tax credit operates in addition to the Production Services Tax Credit and the Film Incentive BC tax credit. Budget 2010 increases the DAVE tax credit from 15% to 17.5%, for productions with principal photography beginning after February 28, 2010.

Commentary

In spite of the fact that the rate applicable to the Film Incentive BC tax credit is not changing, some indigenous Canadian films which were butressing up against the labour expenditure cap will benefit from these changes. It is possible that for some film and television productions the B.C. Production Services Tax Credit could exceed the Film Incentive BC tax credit. In this case, producers can claim on a hybrid basis, claiming the "indigenous" credit federally and the "services" credit in B.C.

The Budget 2010 changes, which were initially announced in a Ministry of Finance news release on February 3, 2010, have already been welcomed by the film and digital media industries, and will help B.C. to continue to remain competitive internationally in both the traditional film and television production and the emerging digital media sectors.

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