

TAX CREDIT AND TAX SHELTER UNDER ITALIAN LAW

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AGENDA

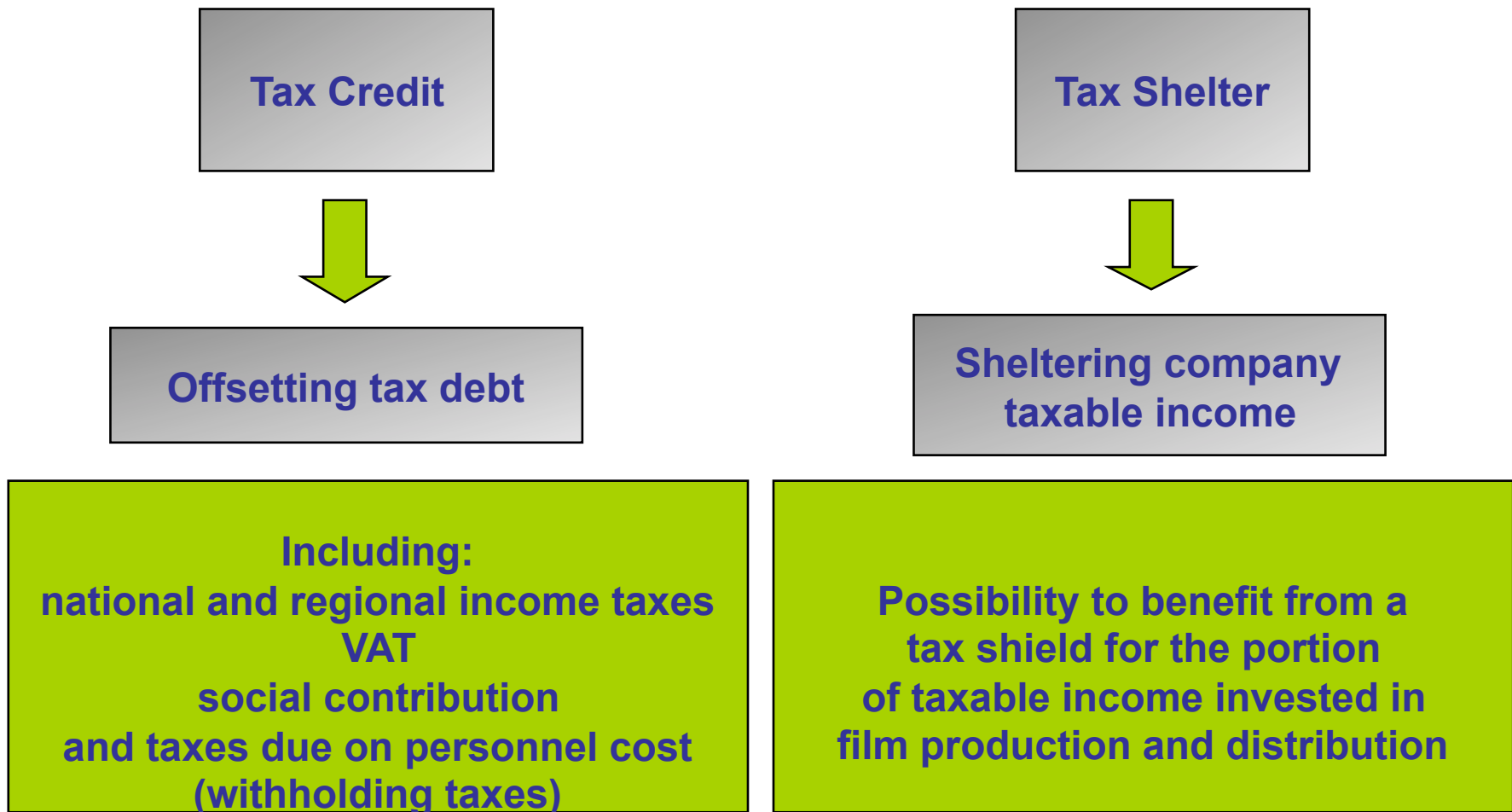
- I. Legal bases**
- II. Nature and Objectives**
- III. A taxonomy of beneficiaries**
- IV. The status of approval**
- V. Cultural requirements**
- VI. Aid intensity**
- VII. Tax credit rates**
- VIII. Tax shelter rates**
- IX. Limits and conditions**
- X. An example of tax credit for national productions**
- XI. Opportunities for foreign producers: some example**
- XII. Tax credit for foreign film: the application**
- XIII. Main conclusions**

I. LEGAL BASES

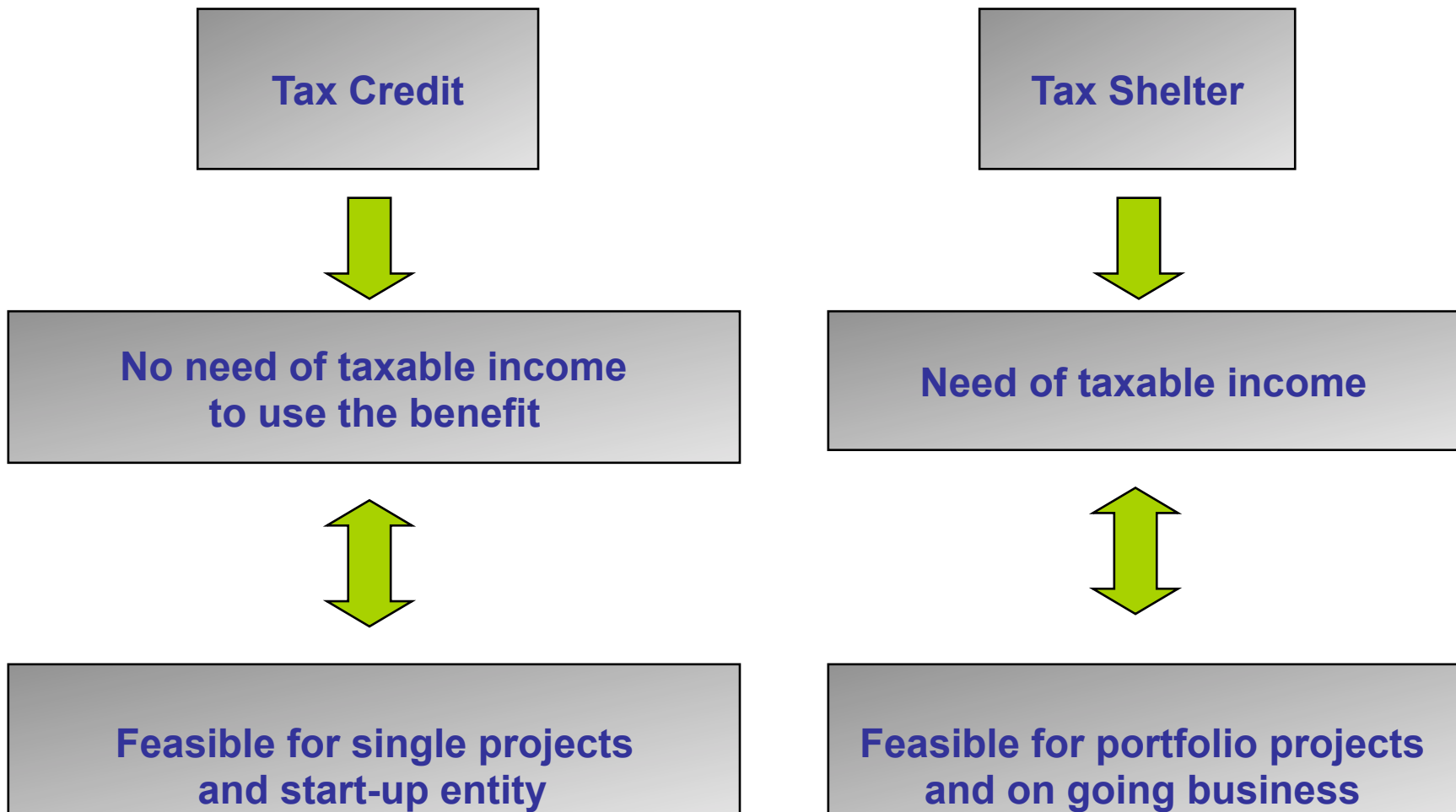
- The 2008 Financial Law (Italian Law No. 244/2007) introduced a package of tax benefits for the film sector.
- The rules are provided for by art. 1, section from 325 to 343. In detail:
 - Section 325-337 provide for measures for a **tax credit**;
 - Section 338-339 provide for additional benefits available as a **tax shelter**.

European Commission approved (on December, 18, 2008) the measures devoted to domestic and foreign film producers while the measures dedicated to distributors, exhibitors and outside investors have been approved on July 22nd 2009. The benefit devoted to digital equipment is under assessment.

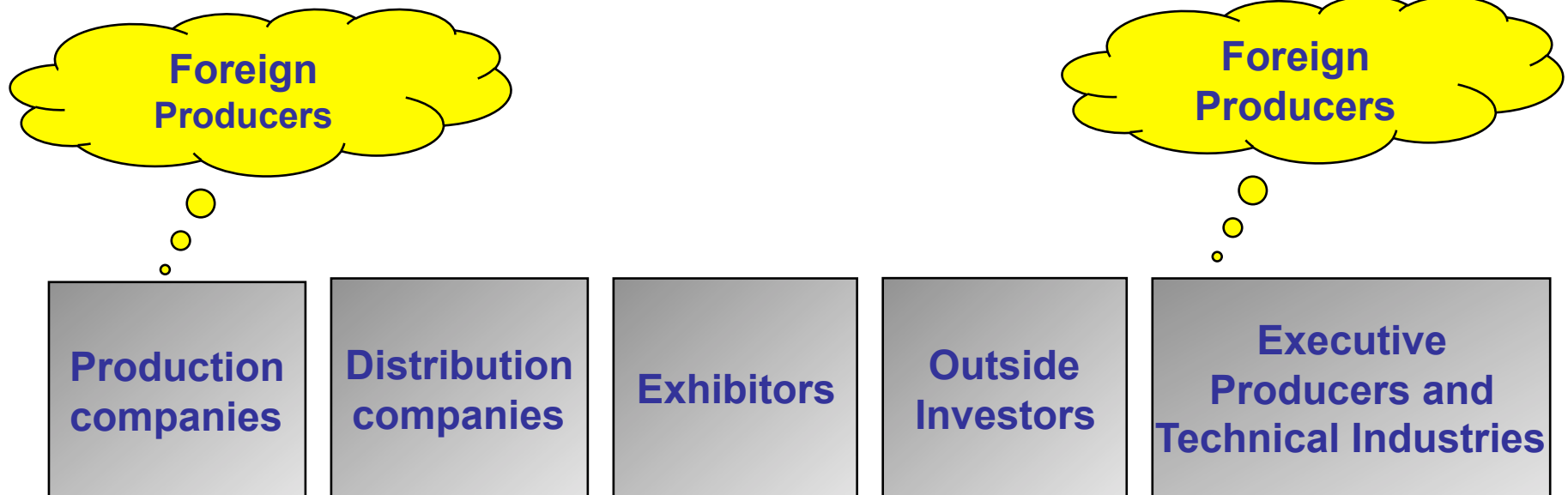
II. NATURE AND OBJECTIVES



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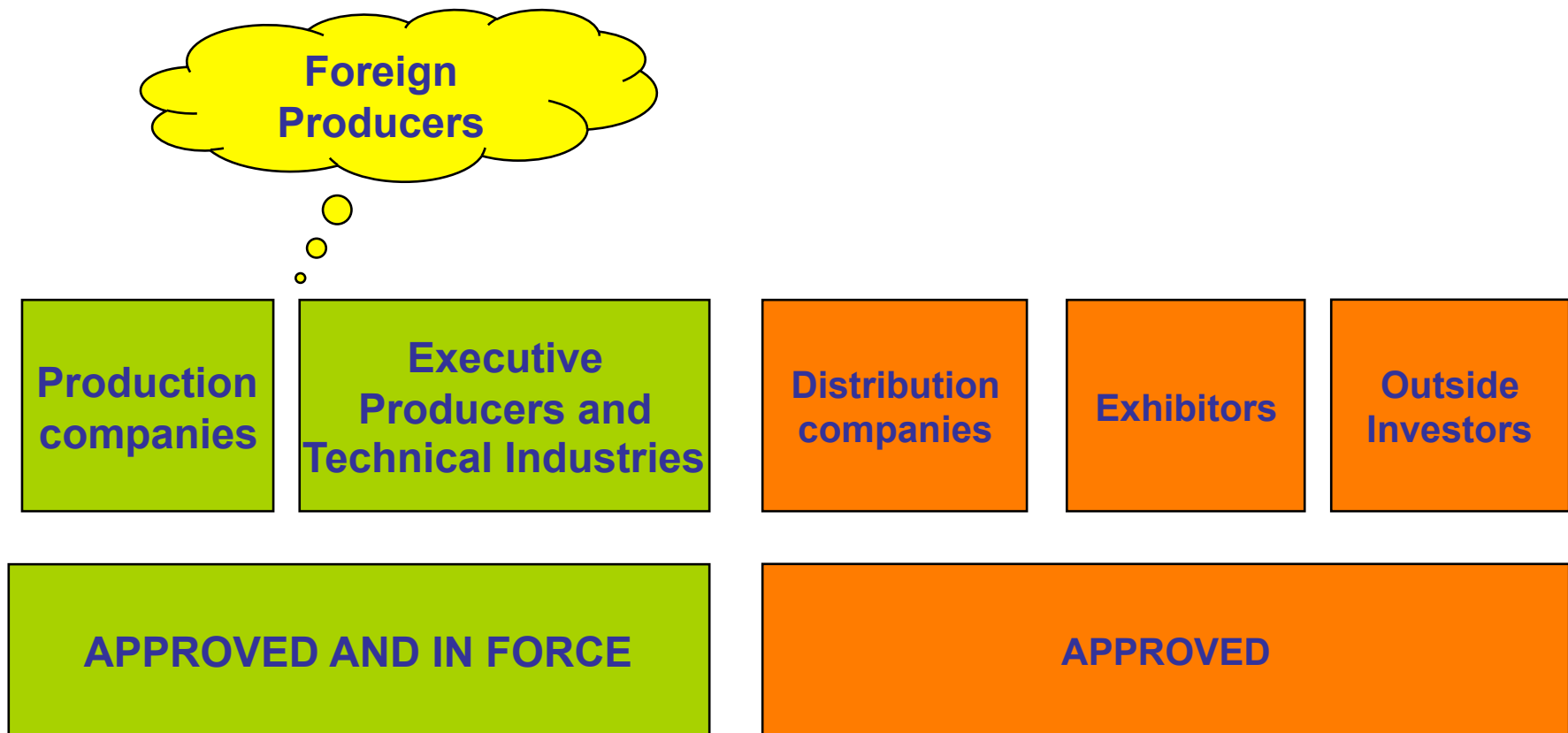


III. A TAXONOMY OF BENEFICIARIES



Subject to taxation in *Italy*:
Italian tax payer or permanent establishment of a non resident entity

IV. THE STATUS OF APPROVAL



V. CULTURAL REQUIREMENTS

All categories of film must pass a “cultural” test
To meet the EU requirement for State aid

Films of
Italian
Nationality

Cultural test A

Films of
Cultural Interest (CI)

Cultural test A + B

Foreign Films

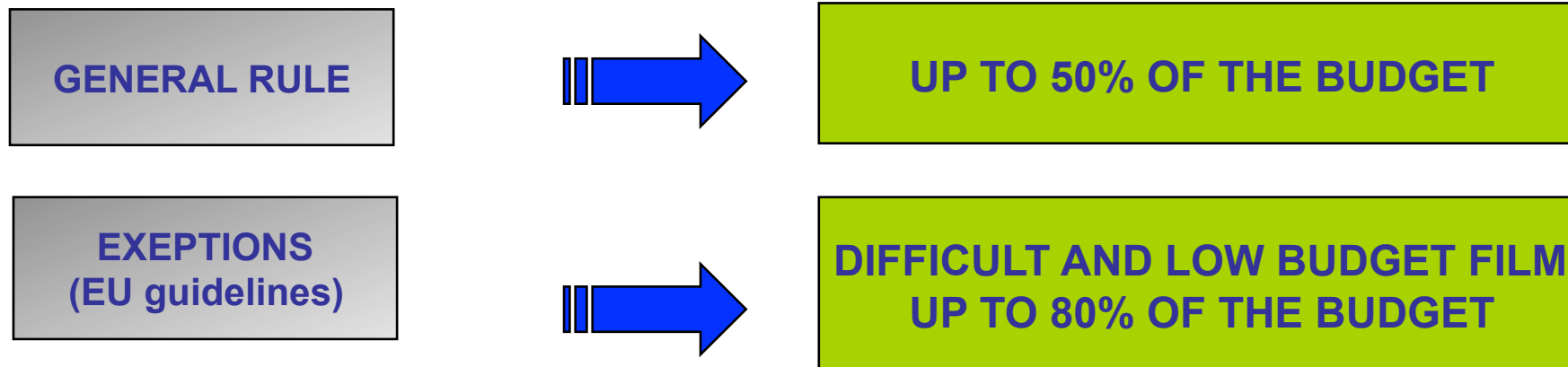
Cultural test C

V. CULTURAL REQUIREMENTS: TEST FOR FOREIGN FILM

➤ ***THREE BLOCKS: A, B AND C***

- | | |
|--|--------------------------|
| ➤ <i>BLOCK A: CONTENTS</i> | <i>60 POINTS</i> |
| ➤ | |
| ➤ <i>BLOCK B: CREATIVE TALENTS</i> | <i>20 POINTS</i> |
| ➤ <i>BLOCK C: PRODUCTION</i> | <i>20 POINTS</i> |
| ➤ <i>TOTAL</i> | <i>100 POINTS</i> |
| ➤ <i>AT LEAST 50 POINTS OUT OF 100</i> | |
| ➤ <i>AT LEAST 2 REQUIREMENTS OF BLOCK A</i> | |

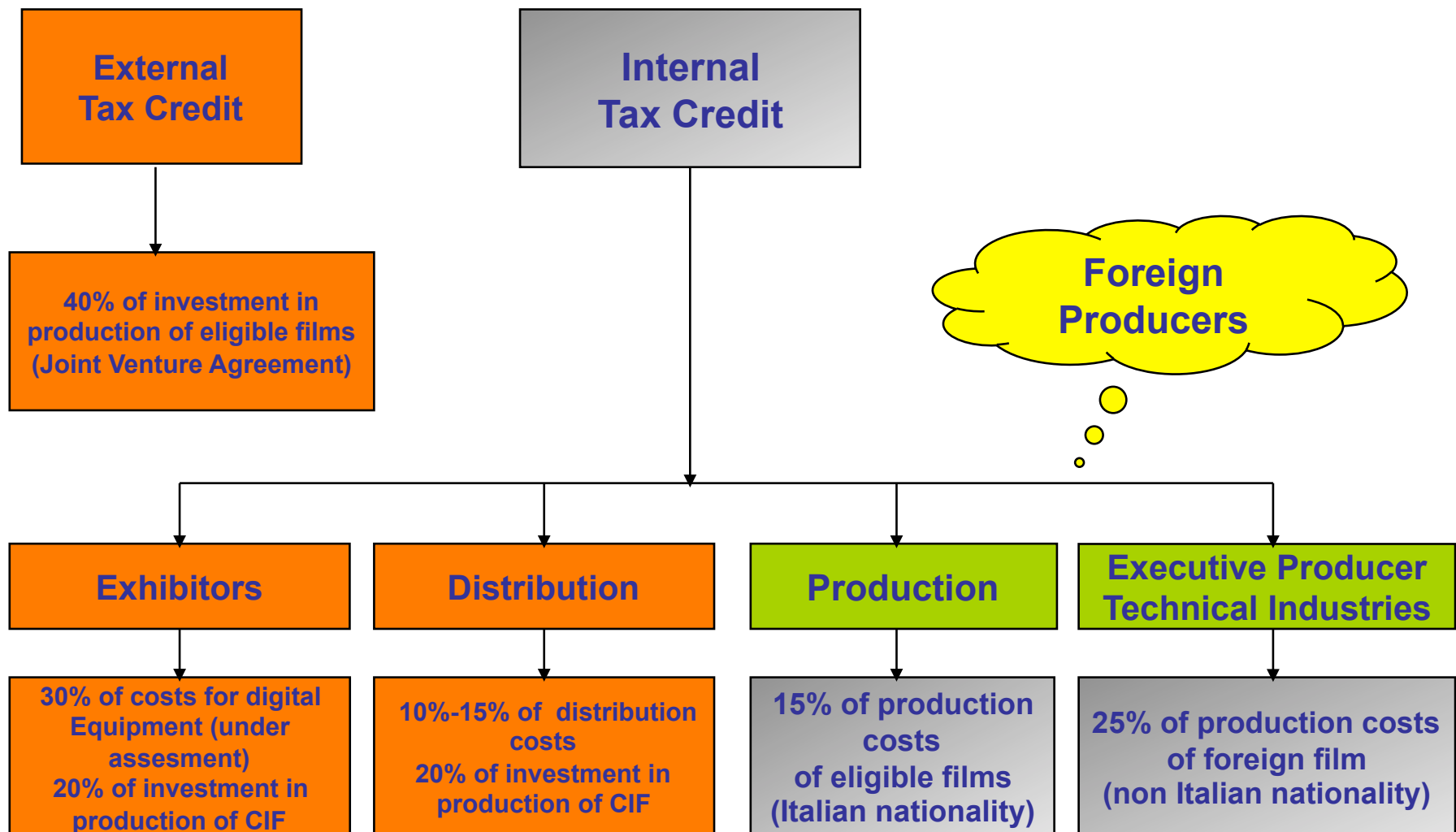
VI. AID INTENSITY



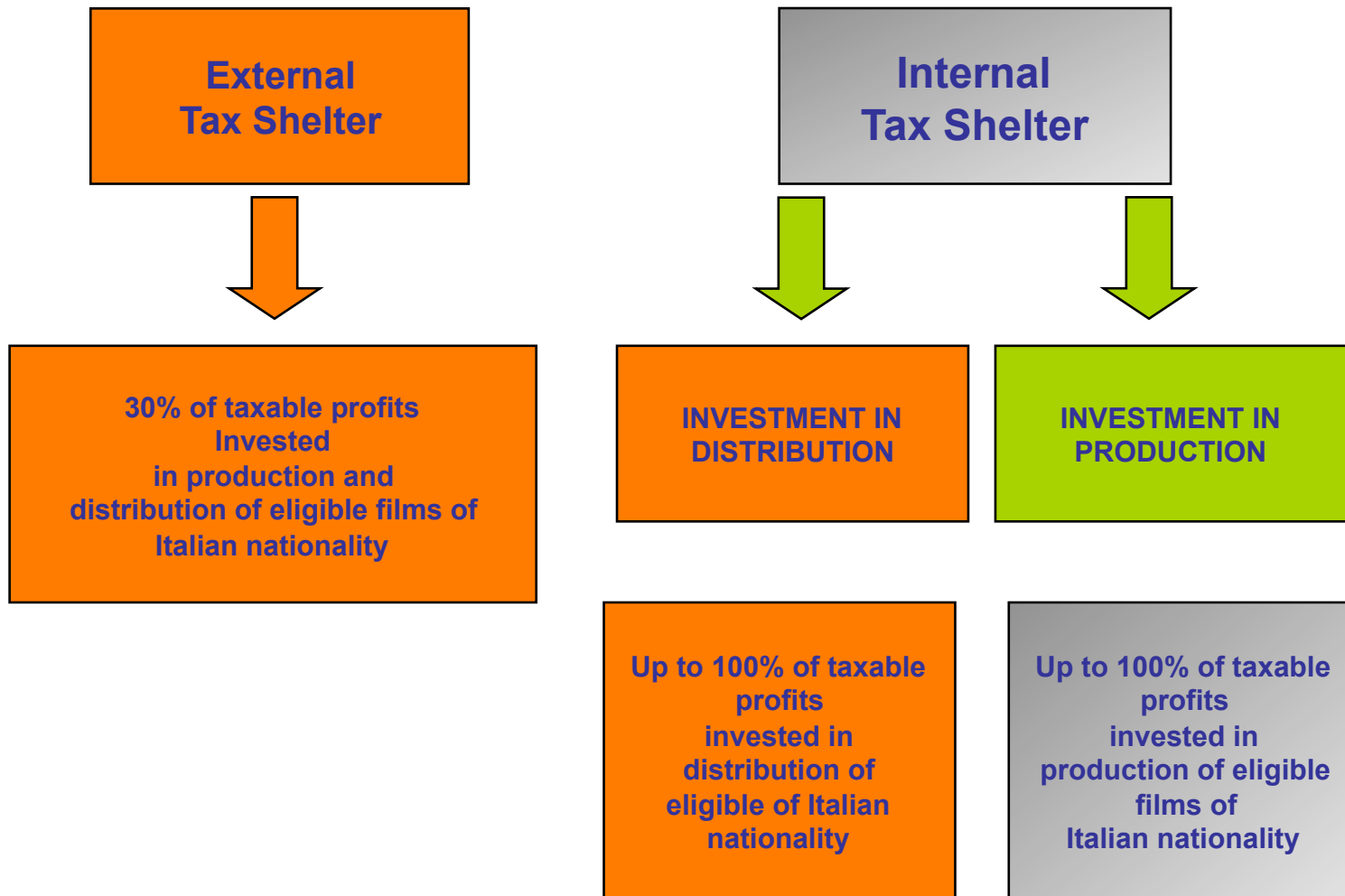
DIFFICULT FILMS:
FIRST AND SECOND FEATURE FILMS; SHORT FILMS; DOCUMENTARIES;
CULTURAL INTEREST FILM WITH MORE THAN 70 POINTS AT TEST B

LOW BUDGET FILMS:
€ 1.5 MLN

VII. TAX CREDIT RATES



VIII. TAX SHELTER RATES

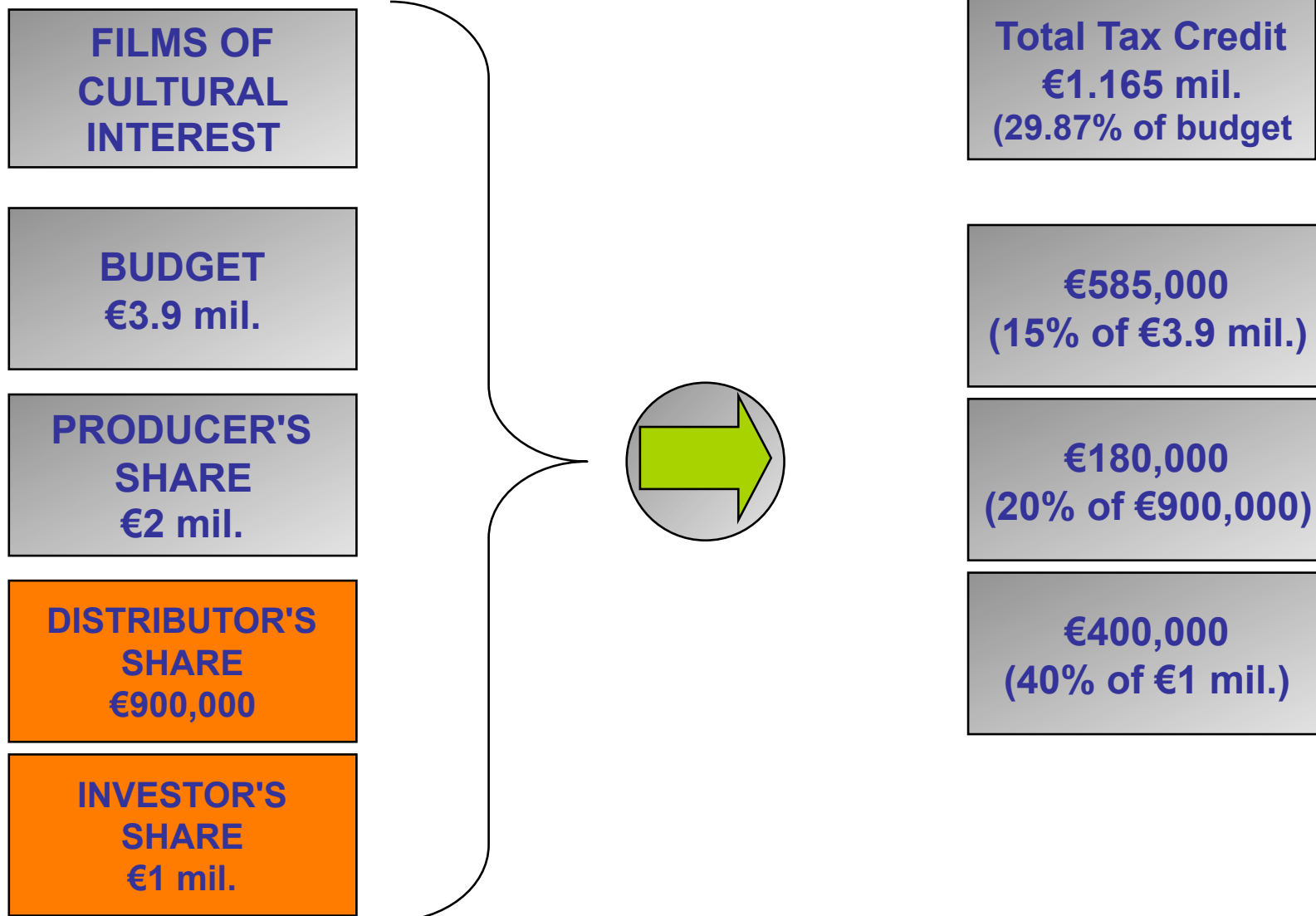


IX. LIMITS AND CONDITIONS

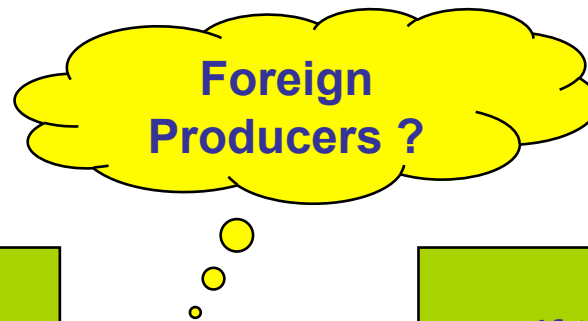
External Tax Credit	Producer Tax Credit	Distributor Exhibitor Tax Credit	Executive Producer Technical Industry Tax Credit
Max. annual credit: €1 mil. (€2.5 mil. invested)	Max. annual credit: €3.5 mil. (€22.5 mil. invested)	Max. annual credit: €1 mil. (€5 mil. invested)	Max. annual credit: €5 mil./film (€20 mil./film invested)
Max investment: 49% of budget 70% of profits	80% of the credit spent in Italy (12% of the investment: 15% x 80% = 12%)	Max investment: 49% of budget 70% of profits	Max investment: €20 mil./film
80% of investment spent in Italy			100% of the expenses in Italy Max. 60% of budget
Aid intensity: 19.6% (49% x 40%)	Aid intensity: 15.0%	Aid intensity: 9.8% (49% x 20%)	Aid intensity: max. 25%

- Investments allowed under joint venture and profit-sharing agreements
- Impossible to combine tax credit measures with tax shelter benefits
- Impossible to combine different tax credit measures for the same project at a group level

X. AN EXAMPLE OF TAX CREDIT FOR NATIONAL PRODUCTIONS



XI. OPPORTUNITIES FOR FOREIGN PRODUCERS



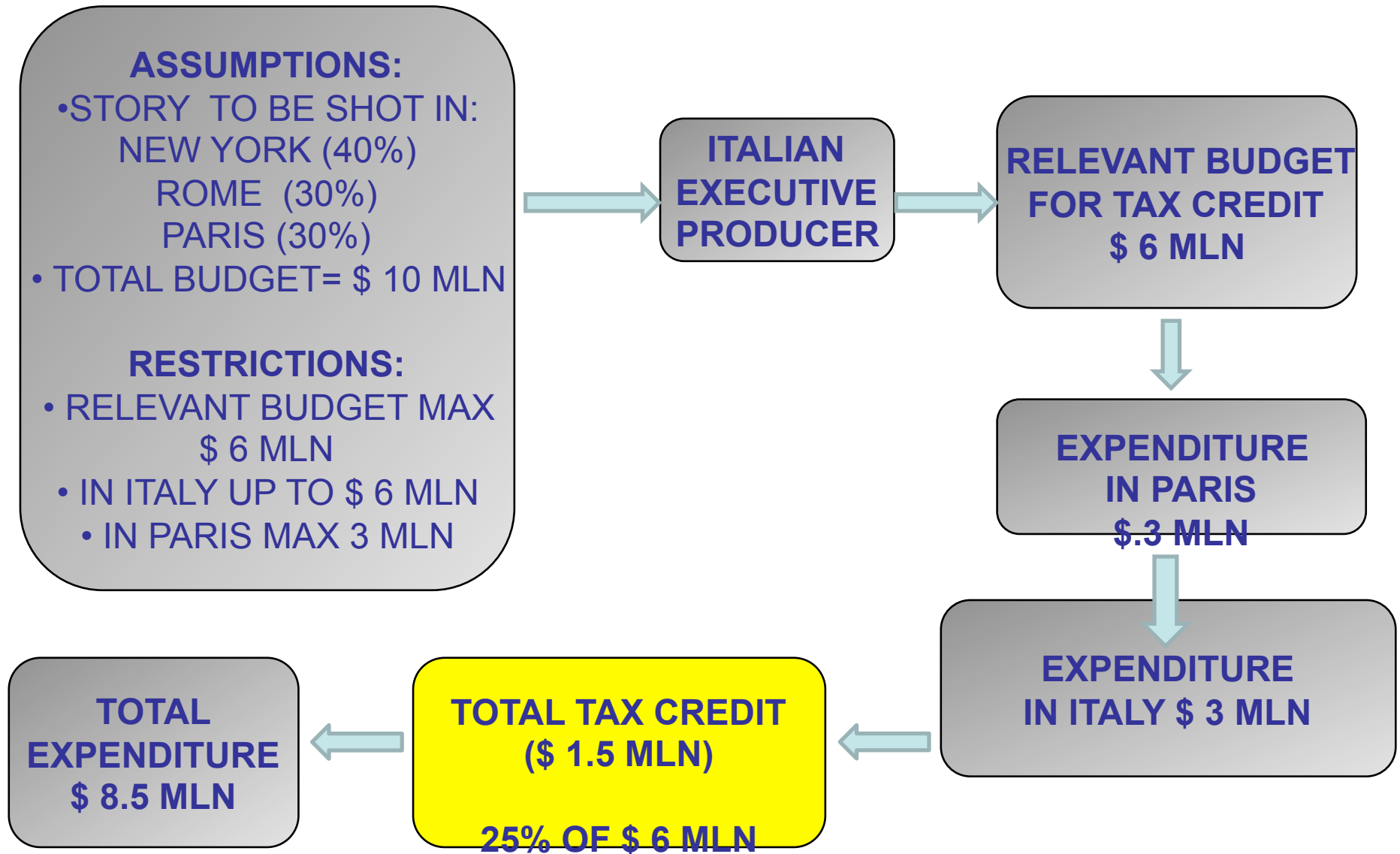
OPTION 1
The foreign producer makes use of an Italian tax resident executive producer

25% of tax credit up to 60% of the budget granted to the Italian executive producer

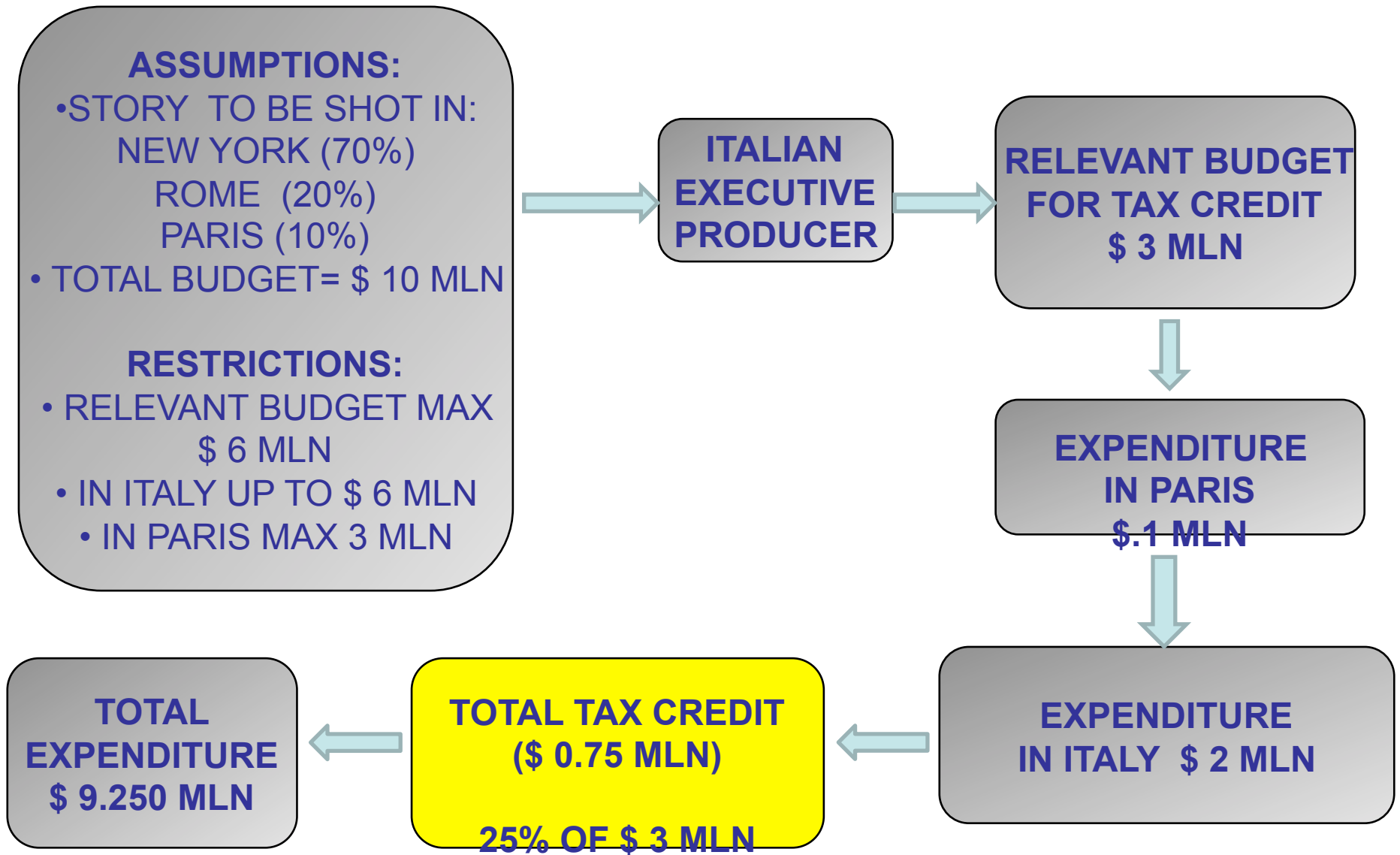
OPTION 2
If the film can be qualified as Italian the foreign producer may opt for an Italian production

15 % of the total budget (Plus other measures?) granted to its subsidiary or permanent establishment

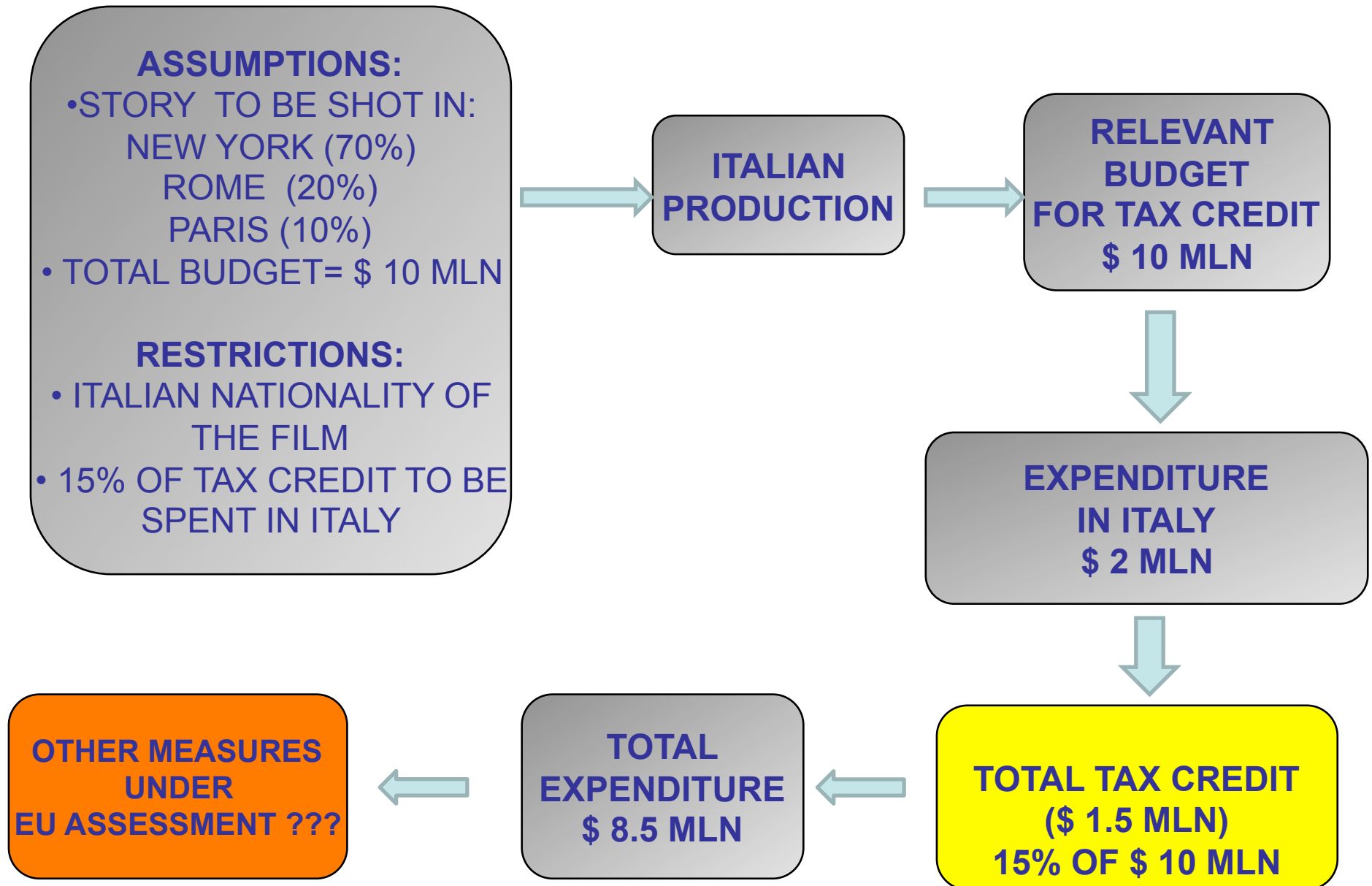
XI. OPPORTUNITIES FOR FOREIGN PRODUCERS: OPTION 1 – CASE A



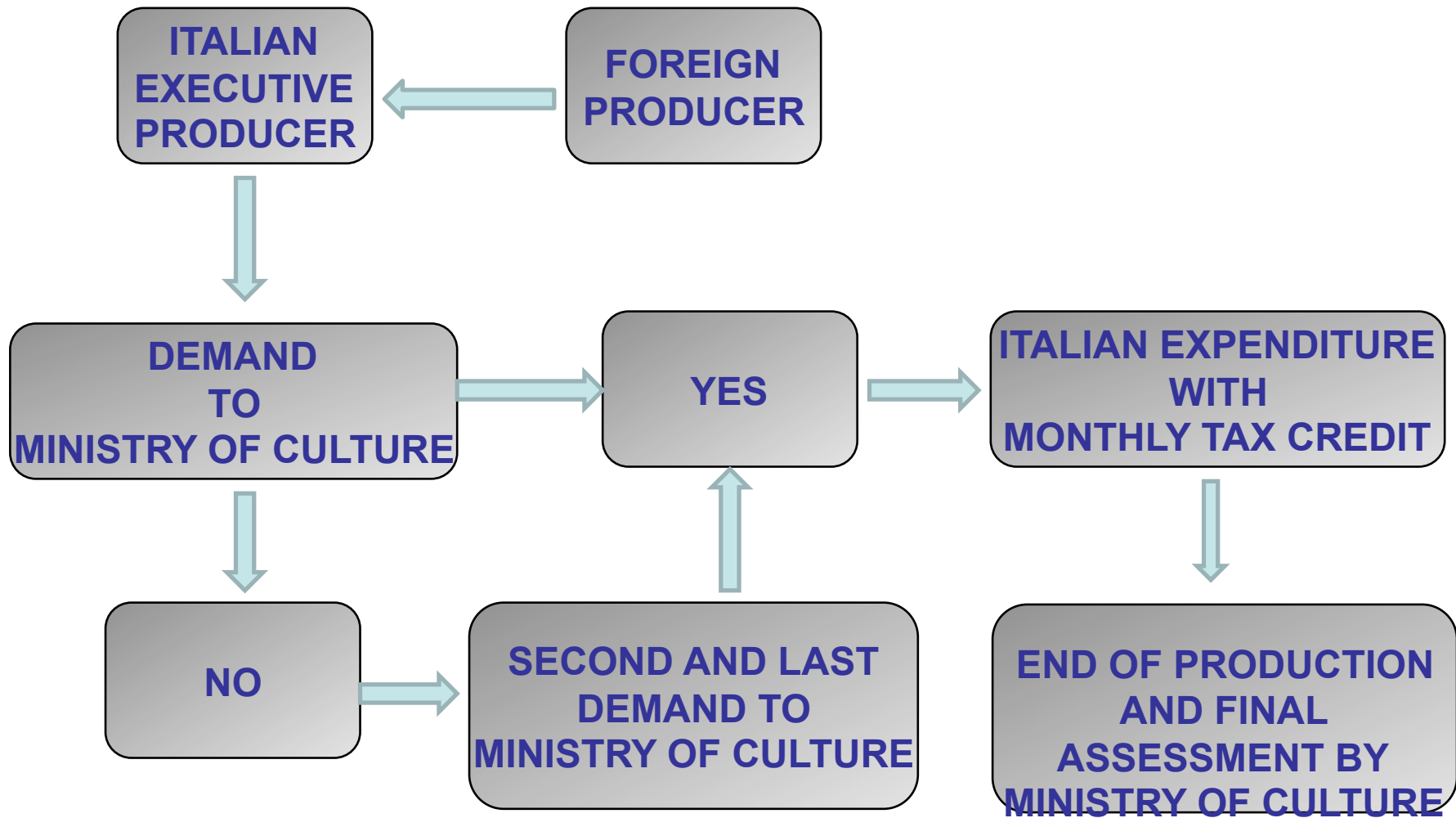
XI. OPPORTUNITIES FOR FOREIGN PRODUCERS: OPTION 1 - CASE B



XI. OPPORTUNITIES FOR FOREIGN PRODUCERS : OPTION 2 - CASE B



XII. TAX CREDIT FOR FOREIGN FILMS: THE APPLICATION



XIII. MAIN CONCLUSIONS

**TOTAL TAX CREDIT
(\$ 1.5 MLN)
25% OF \$ 6 MLN**

=

**TOTAL TAX CREDIT
(\$ 1.5 MLN)
15% OF \$ 10 MLN**

GO ALWAYS FOR THE TAX CREDIT FOR FOREIGN FILM IF:

- THE FILM IS NOT ELIGIBLE FOR ITALIAN NATIONALITY**
- IF THE LOCAL EXPENDITURE IN ITALY IS 60% OF THE BUDGET
(including a maximum of 30% of the budget spent in other EU countries)**

**TAKE INTO CONSIDERATION THE POSSIBLE APPLICATION OF THE
OTHER MEASURES EXPECTED TO COME INTO FORCE WITHIN THE
FOLLOWING MONTHS...**

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