TAX GUIDE
FOR THE INDUSTRY OF THE

VIDEO GAMES
IN THE CANARY ISLANDS

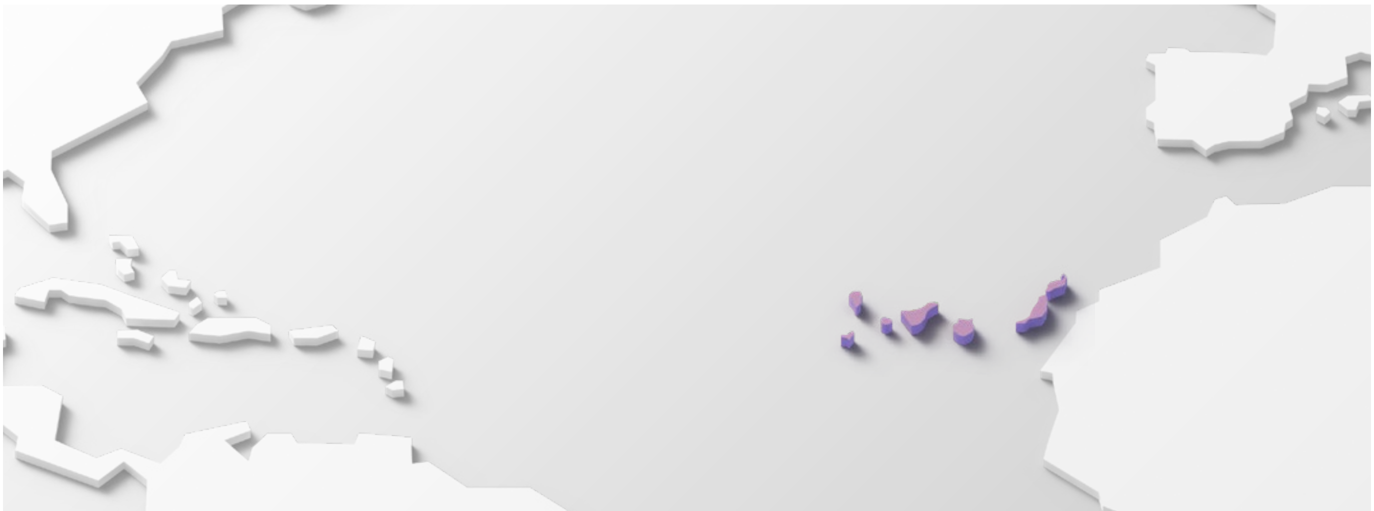
CanaryIslands GAMES

CONTENT:

1 Introduction

The Canary Islands offer a set of attractive tax advantages that are successfully applied for the development of videogames. This is possible thanks to the Economic and Tax Regime (REF)[1] of the Canary Islands, anchored in the Spanish Constitution and the State Aid authorized by the European Union.

This establishes the Canary Islands as one of the best places in Europe for videogame and tech development and innovation, as in addition to these benefits, the islands boast other advantages namely its climate, quality of life, industry and local talent, and infrastructure, amongst others.



THE TAX INCENTIVES:

- Tax Credit for investment in videogame development in the Canary Islands: 45%[2]
- 4% Corporate Income Tax Rate for companies registered in the Canary Islands Zone (ZEC)[3]. Compatible with the tax credit.

Other incentives of interest and compatible with the ones mentioned above are:

- 25% Tax Credit for investment in fixed assets.
- 10-15% Tax Credit on promotion and advertising expenses.

Videogames development is much more advantageous in the Canary Islands, as it is considered a Technological Innovation activity.

[1] Article 94 of 20/1991 Act, of 7th June, amending tax aspects of the Economic and Tax Regime of the Canary Islands, and AP13 of 19/1994 Act, of 6th July, Amending the Economic and Tax Regime of the Canary Islands (DA13).
[2] The development of videogames in Spain applies the tax incentive for R&D&I activities regulated by Article 35 of the 27/2014 Corporate Income Tax Act "Deduction for Research and Development and Technological Innovation activities".
[3] 19/1994 Act , of 6th July, amending the Economic and Tax Regime of the Canary Islands

CanaryIslands GAMES

2 Tax Credit for investment in Technological Innovation and Videogames Development

Videogames development in Spain can apply a tax credit on eligible expenses. To benefit from the 45% tax Credit exclusive to the Canary Islands, the expenditure has to be done in Canary Islands.

INCENTIVE	Spain	Canary Islands Special Case
Expenditure on Technological Innovation	12%	45%
Quota limits	25 - 50 %	60 - 90 %**
Deadline to apply the deductions ***	18 years	18 years

** The maximum tax credit limit is 60% of the positive adjusted gross income tax liability, increasing to 90% when the amount of the VG development credit corresponding to the expense for the year exceeds, by itself, 10% of the positive adjusted full quota.
*** If the activity generates more tax credit than the taxes to be paid in the relevant tax year, or more than the amount that can be cashed-back, it is possible to carry forward on the 18 following years.

There is the possibility to cash-back the tax credit on Video game development and Innovation
(not compatible under the ZEC regime. See 6)

3 What kind of development can be eligible?

All developments in videogames, including R&D+I regarding technology, up to a fully playable version. Updates are not eligible. (V3312-17 from the Directorate General of Taxes).

4 What kind of expenses are be deducted?

1.- Labour cost of the staff directly involved in the TI project.

2.- Acquisition of advanced technology in the form of patents, licenses, know-how and designs. The base corresponding to this concept may not exceed the amount of one million euros.

3.- Services used directly in the project, transportation costs, trials, tests and external consulting services, as long as they are directly related to the project.

4.- Depreciation of the assets directly involved in the project.

5 How is the Tax Credit Validated?

There are two main ways to obtain the tax credit:

A. Quantification of the tax deduction by the studio, without the assistance of third-party certifiers

It requires proper accountancy and tracing of expenditure with documents regarding amount and types of expenditure.

B. Validation report (Not mandatory)

This is the most commonly method used by videogame and innovation companies. It is done before the Ministry of Science. It can be done directly or through a third-party certifier.

6 Choosing the best option for your investment: Canary Islands Special Zone(ZEC) and Tax Credit/Rebate for Videogames

The tax credit enables to reduce the taxes to pay on 45% of the eligible expenditure to develop videogames, and in case of insufficient taxes to pay to offset with the credit, during the 18 following fiscal years. This is compatible with the tax incentives of the Canary Islands Special Zone (4% Corporate Income Tax, No Withholding Tax on dividends, interests and capital gains).

There is option to apply for the credit in cash. In case of applying the cashback, there will be a 20% cut on the amount resulting from the 45% tax credit and a maximum amount of 1 million per year, receiving the 80% of the credit in the tax return to submit the year after the year of the expenditure.

In case of applying for the cashback, these amounts must be reinvested in new projects of technological innovation, including videogames, within 24 months following the cashback.

Please note tha those establishments under the special regime of the Canary Islands Special Zone (ZEC) will not be able to ask for cashback. (See 7)

- If the project is going to have large profits in the future and there are other sources of finance, it is better to apply for the Canary Islands Special Zone and apply the tax credit.
- If the project is a small project with low profits and/or there are no other sources of finance, the project must remain outside the Canary Islands Special Zone.

In some cases it is possible to apply the Canary Islands Special Zone and the Tax Rebate simultaneously in cashback through speciall joint-venture vehicles (AIEs). Ask your advisor.

CanaryIslands GAMES

7 Legislation

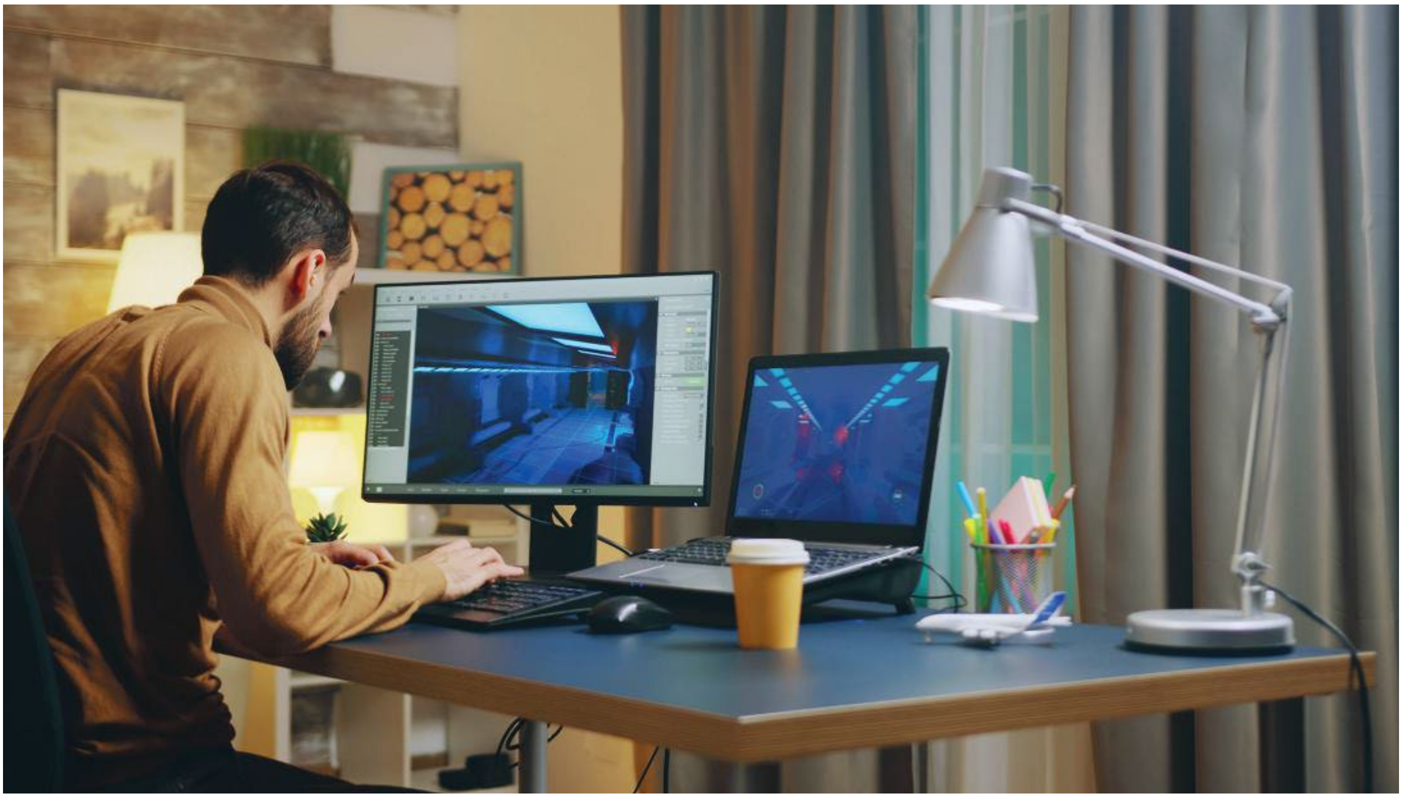
Article 35 of 27/2014 Act (former RDL 4/2004 – TRLIS) on Corporate Income Tax (in force on 01/01/2015). “Deduction for Research and Development and Technological Innovation activities”.

R.D. 1432/2003, of November 21st, which regulates the Issuance by the Ministry of Science and Technology of Reasoned Reports to compliance with scientific and technological requirements, for the purposes of the application and interpretation of tax credits for Research and Technological Development and Innovation activities.

19/1994 Act , of 6th July, amending the Economic and Tax Regime of the Canary Islands, Thirteenth additional provision. Tax Credit for technological innovation activities carried out in the Canary Islands.

14/2013 Act, of 27th September, on support for entrepreneurs and their internationalization, Article 26, Section 1.

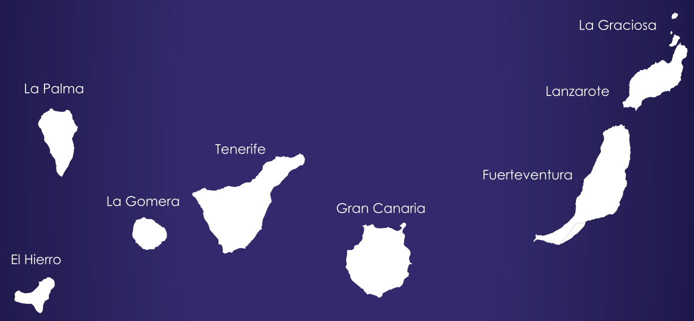
20/1991 Act, of 7th June, amending tax aspects of the Economic and Tax Regime of the Canary Islands. Thirteenth additional provision. Deduction for technological innovation activities carried out in the Canary Islands.



TAX GUIDE

FOR THE INDUSTRY OF THE

VIDEO GAMES IN THE CANARY ISLANDS



CONTACT US

For general enquiries:
Canary Islands Film
hello@canaryislandsfilm.com

For specific enquiries (tax incentives, company creation...)
Proexca-Government of the Canary Islands
invest@proexca.es

For ZEC :
sjagtani@canariaszec.gob.es

CanaryIslands GAMES