



Finance & Treasury Board

Clarification on July 1st 2015 – Animation for Film Industry Tax Credit and New Animation Incentive for Digital Media Tax Credit

May 8, 2015

This clarification follows the April 24, 2015 note issued for film and television production, and follows discussion with the animation industry on May 7 2015 to clarify and simplify the formula for the Animation Incentive for the Digital Media Tax Credit. The current Nova Scotia Film Industry Tax Credit (FITC) will end on June 30, 2015 for production that has not commenced principal photography.

New Animation Incentive for Digital Media Tax Credit

On July 1, 2015 animation will be aligned with the digital media tax credit. All animation labour will be eligible for an animation bonus of 17.5% on animation-specific activities. There will be a maximum on salary levels eligible for consideration within the credit.

Below is an illustration of the new animation incentive calculation.

Assume a project with:

\$1,300,000 total Nova Scotia production costs

- of which \$800,000 is eligible labour, and \$600,000 of this \$800,000 is animation labour

The base digital media tax credit is the lesser of 50% eligible labour or 25% of total Nova Scotia production costs.

- 50% of eligible labour = 50% of \$800,000 = \$400,000
- 25% of Nova Scotia production costs = 25% of \$1,300,000 = \$325,000

So the base digital media tax credit = \$325,000

The animation incentive is

- 17.5% of eligible animation labour = 17.5% of \$600,000 = \$105,000

So the total credit for animation-specific activities is the base digital media tax credit + the animation incentive = \$325,000+\$105,000 = \$430,000

Further details will be developed in regulations to be approved before July 1, 2015, with input from industry. For interactive digital media products, the digital media tax credit (DMTC) remains the same. Under the new digital animation incentive, **Part A applications** will be mandatory. The point of first contact for DMTC and the animation incentive will be the Department of Finance and Treasury Board.

Current Film Industry Tax Credit

The point of first contact for the existing FITC is Nova Scotia Business Inc at FilmandCreative@nsbi.ca. Until June 30, 2015 for **Part B applications**, the FITC guidelines state:

“An eligible corporation must apply for the credit within thirty months of the end of taxation year that expenses for an eligible film were incurred.” With the proposed changes:

- All productions will continue to have 30 months from the end of the taxation year in which the expenditures were made to file their applications.
- Productions that commence principal photography before July 1, 2015 will receive the tax credit based on current rules.

The Department of Finance & Treasury Board will use the following Canadian Audio-Visual Certification Office (CAVCO) definition to determine when **principal photography** begins:

“The phase of film production during which the movie is actually shot, as distinct from pre-production and post-production. Principal photography begins with the first day of shooting of significant scenes which involve the main photography unit, e.g. in drama, scenes with actors rather than simple establishing shots. **For animation, it is specified as being the beginning of key animation.**”

Part A applications are currently optional and are intended to give a production company an initial assessment as to the eligibility of the film. Applicants whose Part A applications are approved will receive a letter from the Department of Finance & Treasury Board stating that the production proposal appears to be an “eligible animation production.” However if principal photography does not commence by June 30, 2015 then these productions will not be eligible for the FITC.