The tax credit for the cinema and audiovisual industry (hereinafter also referred to as the “regime”) was introduced by the 2008 Italian Budget Law (Law no. 244/2007, Article 1, paragraphs from 325 to 337). Later, the Law Decree no. 91/2013 set the regime as permanent and extended the scope to independent producers of audiovisual works.

The tax credit can be offset against any future Italian tax liability or social security contribution arising in the company without any limit. The taxpayer who has applied for the regime, must give evidence of the tax credit in the RU section of the Italian tax return.

With the purpose to attract more investors in the cinema and audiovisual industry in Italy, the 2016 Italian Budget Law (Law no. 208/2015), in force from January 1, 2016, introduced several amendments and new provisions to the regime, with particular regard to the rates of the tax credits.
Overview of the new provisions referred to the tax credit

The “external” cinema tax credit

The so-called “external” cinema tax credit refers to the tax credit granted to investors not operating in the film/audiovisual industry who make contributions in cash via contracts of association in participation and profit-sharing contracts. This type of tax credit is now set at a maximum of 40% of the cash contribution. Prior to the new provision, the measure was set at a fixed rate of 40%.

A decree of the Ministry of Culture is expected to implement the regime and determine the rates of the tax credit in relation to the combination with other measures applicable for the same work.

The cash contribution of the investors can be for both “the production and the distribution in Italy and abroad” of films deemed to have Italian nationality. Therefore, it is now possible to benefit from the tax credit also in case of domestic and international distribution.

The “internal” cinema tax credit

The so-called “internal cinema tax credit” refers to the tax credit granted to the operators in the film/audiovisual industry. Tax benefits are addressed to production companies, distribution companies, movie theater companies and technical industries.

Production

The measure of the tax credit for the production enterprises has increased from a fix 15% rate to a flexible rate ranging between a minimum of 15% and a maximum of 30% of the production expenses for films deemed to have Italian nationality. The actual rate will depend on the potential combination of this tax benefit with other measures, such as the external tax credit, in relation to the same works.

Moreover, the limit for the maximum annual amount of the tax credit is now set at € 6 mln (previously set at € 3.5 mln).

Distribution

Distribution enterprises can apply for a tax credit up to 15% of the distribution expenses referred to eligible works of Italian nationality (prior the tax credit was set at the fixed rate of 15%), with a maximum of € 2 mln per year for each enterprise.

An important change brought by the new provisions is the inclusion of the expenses for the international distribution among those eligible for tax credit.

A decree of the Ministry of Culture is expected to set the maximum rate of the tax credit (15%) in relation to the international distribution and to the distribution projects which have major difficulties in the diffusion among a wide audience (the latter only for national distribution projects).

Executive production and post-production

National executive production and post-production enterprises can benefit from a 25% tax credit (with a maximum limit of € 10 million for each enterprise and for each fiscal year) in relation to production expenses for films, or part of films, made in Italy (not only “shot” in the Italian territory), using Italian or EU workforce, commissioned by foreign productions.

Movie theatres

The maximum limit of the tax credit for the expenses incurred for acquiring and replacing plants and equipment for the digital projection is now set at 40% (compared to the prior 30% fix), up to a maximum of € 50k for each screen.

Another important new provision consists in the extension of the tax credit (up to a maximum of 40%) for the expenses related to the structural and technological renovation of movie theaters, their plants and related services, as well as for the realization of new movie theaters or the recovery of inactive old ones.
In brief

The regime aims at promoting investments in the cinema and audiovisual sector as well as strengthening such crucial industry in Italy.

The cinema/audiovisual tax credit regime:
• is permanent;
• is addressed to all the business activities in the sector;
• can be combined with other measures granted on the same movie pursuant to the criteria which will be set forth by implementing decrees;
• complies with EU State aid law;
• confers entitlement to the tax credit which may offset tax payments on F24 form.

The 2016 Budget Law repealed the provision preventing the combination of the tax benefit on the same movie by the same enterprise or by enterprises belonging to the same group. Therefore, a cumulative approach to the cinema/audiovisual tax credit is now enabled.

The public expenses accounted in 2016 for the benefits described above amount to a maximum of € 140 million.

The actual impact of the regime, as amended by the 2016 Budget Law, will largely depend on the implementation measures.

<table>
<thead>
<tr>
<th>Cinema/Audiovisual Tax Credit</th>
<th>Relevant Expenses</th>
<th>Tax rate</th>
<th>Annual maximum amount of tax credit (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>External Company</td>
<td>Contributions for production and distribution in Italy and abroad of works of Italian nationality</td>
<td>40% (max.)</td>
<td>1 million</td>
</tr>
<tr>
<td>Production Company</td>
<td>Costs of production of works of Italian nationality</td>
<td>15% (min.) - 30% (max.)</td>
<td>6 million</td>
</tr>
<tr>
<td>Distribution Company</td>
<td>Costs of distribution in Italy and abroad of works of Italian nationality</td>
<td>15% (max.)</td>
<td>2 million</td>
</tr>
<tr>
<td>Distribution Company</td>
<td>Contributions for production of Italian works of a cultural interest</td>
<td>20%</td>
<td>1 million</td>
</tr>
<tr>
<td>Movie Theater Company</td>
<td>Acquisition and replacement of equipment for digital projection</td>
<td>40% (max.)</td>
<td>50k € for each screen</td>
</tr>
<tr>
<td>Movie Theater Company</td>
<td>Renovation and realization of movie theaters and recovery of inactive ones</td>
<td>40% (max.)</td>
<td>*</td>
</tr>
<tr>
<td>Movie Theater Company</td>
<td>Contributions for production of Italian works of a cultural interest</td>
<td>20%</td>
<td>1 million</td>
</tr>
<tr>
<td>Executive Production/Post-Production Companies</td>
<td>Costs of executive production and post-production of works realized in Italy, with Italian labor, commissioned by foreign producers</td>
<td>25%</td>
<td>10 million</td>
</tr>
</tbody>
</table>

* Limits and conditions to the tax credit for renovation and realization of movie theaters and restyling of old ones (Article 1, para. 327, let. c, n. 1, Law no. 244/2007) will be regulated by a decree of the Ministry of Culture together with the Ministry of Economy and Finance.
Why PwC

Integrated services

Tax
- Analysis of tax issues
- Comprehensive assistance during the procedure for verifying the eligibility for the tax credit
- Assistance in the preparation of the tax return and methods for benefiting from the tax credit

Legal
- Analysis of the requirements provided for being eligible to the tax credit
- Assistance in drafting contracts

Audit
- Assistance in the preparation of the budget for the eligible expenses
- Certification of the expenses incurred

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