

# Ministry of Finance

## Tax Bulletin



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[www.fin.gov.bc.ca/rev.htm](http://www.fin.gov.bc.ca/rev.htm)

## British Columbia Digital Animation or Visual Effects (DAVE) Tax Credit

*Income Tax Act (British Columbia)*

Does your production include digital animation or visual effects activities?

Do you need to know how to claim DAVE tax credits?

This bulletin provides specific tax information on the British Columbia Digital Animation or Visual Effects Tax Credit Program.

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### Overview

The DAVE Tax Credit Program provides refundable tax credits on a corporation's digital animation or visual effects activities that qualify for the basic film and television tax credit or the production services tax credit.

The tax credits are claimed when filing the *T2 Corporation Income Tax Return*, and are refundable to the extent they exceed the corporation's tax payable. The Canada Revenue Agency (CRA) administers the processing of claims and issues the refunds.

## **Definitions**

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The DAVE Tax Credit Program includes important terms that apply for the purposes of the two credits:

- accredited production,
- accredited production corporation,
- accredited qualified BC labour expenditure,
- assistance,
- BC labour expenditure,
- eligible production corporation, and
- principal photography.

**Please note:** The above terms are defined in [Bulletin CIT 009](#), *British Columbia Film and Television Tax Credit*, or [Bulletin CIT 010](#), *British Columbia Production Services Tax Credit*.

## **Eligibility Requirements**

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Your corporation may apply for a DAVE tax credit if it meets the following requirements:

- your production is eligible for, and your corporation has claimed, the basic film and television tax credit; **or** the production is eligible for, and your corporation has claimed, the basic production services tax credit,
- **principal photography** of the production begins after March 31, 2003,
- your production consists of DAVE activities as discussed below,
- your DAVE activities are created primarily with digital technology, and
- your DAVE expenditure is a **BC labour expenditure** incurred after December 31, 2002.

## **DAVE Terms**

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### **Industry Terms**

Certain terms used in the DAVE legislation and related Film and Television Tax Credit Regulation are intended to have their common meaning or usual meaning in the digital animation industry and visual effects industry.

**Animation** is commonly used to refer to an animated sequence or production which is a series of 2D or 3D images rendered in sequence to create artificial moving images. Animation may be contrasted to a live action sequence or production which records live subjects in motion.

**Digital animation** is animation created primarily with the use of digital technology including computer animation hardware and software.

**Visual effect** is commonly used in connection with live action productions or sequences to refer to a special effect which is usually inserted into the production after filming to create a visual impression which would be impossible, impractical or unsafe to achieve during shooting using physical effects. The effect may be created by digitally augmenting and manipulating visual imagery originating on film, tape and/or 2D or 3D digital elements generated in the computer and compositing the modified imagery back onto film or tape.

## **DAVE Activities**

Activities undertaken to produce DAVE activities include, but are not limited to:

- designing – digitally creating a graphic representation, especially a detailed plan for construction or manufacture,
- modeling – for the purposes of painting, drawing and photography, giving a three-dimensional appearance to an object (for example by shading or highlighting or representing something, usually on a smaller scale),
- rendering – converting a high-level object-based description into a graphical image for display,
- lighting – in animation, creating the illusion of reflection, lights or shadows in the image to enhance the mood and emotion of a scene,
- painting – in animation, the act of filling in the colours to add life and texture to the image,
- animating – creating animation as defined under industry terms,
- compositing – combining or layering computer graphic elements resulting in a completed composition or scene, and
- visual effects photography.

Visual effects photography includes, but is not limited to:

- blue or green screen photography,
- element photography,
- plate photography,
- motion control photography,

- miniature photography,
- motion capture sessions,
- texture photography, and
- digital scanning and/or surveying of actors, set pieces or entire sets.

For more information on DAVE activities or visual effects photography, please see Frequently Asked Questions located on the [Film and Television Tax Credit Program](#) or the [Production Services Tax Credit Program](#) websites.

## Excluded Activities

The following activities are specifically excluded by regulation and do not qualify for the DAVE tax credits:

- audio effects – includes sound effects added during post-production by the sound crew. However, voice-overs, the narration or non-synchronous dialogue that takes place over the action onscreen, are not excluded activities,
- in camera effects – includes an effect that is achieved using single or multiple passes of film through a camera,
- credit rolls – a sequence of text credits that roll up the screen at the end of the production. However, title sequences, in which the title of the movie is displayed on screen and which appear at the beginning of a production or in another manner, are not excluded activities,
- subtitles – words which are superimposed over a film which mirror the dialogue that is heard at the time,
- animation or visual effects, all, or substantially all, of which are created by editing activities, or
- animation or visual effects created for use in promotional material for the production.

**Please note:** Labour expenditures that are not eligible for the basic film and television tax credit or the production services tax credit, such as audit fees and marketing expenses, are not eligible for the DAVE tax credits.

## Primarily with Digital Technology

To qualify for a DAVE tax credit, your effect must be created primarily with digital technology. An effect is created primarily with digital technology if more than 50% of the effect is created with digital technology.

To determine if more than 50% of the effect is created with digital technology, you may use:

- cost method – divide the labour expenditure for digital work by the total labour expenditure (mechanical and digital) of creating the effect,
- hour method – divide the hours spent on digital work by the total work hours (mechanical and digital) spent on the effect, or
- other method – that can be substantiated and that reflects the total effort expended to create the effect.

The method you use must be reasonable, clearly documented and applied consistently to the production.

For example, a company creates a visual effect and pays \$15,000 in labour expenditures that are directly attributable to creating that effect, and those expenditures are allocated as follows:

- \$10,000 to digital visual effects employees, and
- \$5,000 to mechanical special effects employees.

The percentage of the labour expenditure for digital work is 67% of the total labour expenditure (\$10,000 divided by \$15,000). As the percentage is greater than 50%, the effect is created primarily with digital technology. Therefore, the effect meets the requirement for the DAVE tax credit.

### **Directly Attributable**

Your labour expenditures must be directly attributable to DAVE activities to be included in computing the credit. The labour expenditure is directly attributable if the salary or wages can be traced back to that activity.

The expenditure must relate to time spent on the DAVE activities or to time spent in direct support of those activities. There must be a direct link between the labour expenditure and the specific DAVE activity. You may determine the link for any given employee or sub-contractor by reviewing contracts, production sheets or other detailed documentation.

If the duties performed by an individual include some activities that are not directly attributable to the effect, you may allocate only a portion of that individual's salary or wages to the effect. For example, if an individual works 70% of the time on non-DAVE activities, then only 30% of the individual's salary or wages would be considered directly attributable to DAVE activities. The allocation method used must be reasonable, clearly documented and applied consistently.

Labour expenditures that are directly attributable to DAVE activities include the salary or wages of individuals who create the effect, and personnel that support those individuals performing that DAVE activity. Positions and job activities that may qualify include, but are not limited to, the salary or wages paid to:

- computer animation and visual effects staff directly engaged in the work,
- supervisors who are involved directly with the activities,
- evaluation, recruitment and hiring of those directly engaged in the work, and
- work performed by administrative staff in support of those directly engaged in the work.

## **DAVE Tax Credits**

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The DAVE Tax Credit Program includes two tax credits:

1. DAVE tax credit (Film and Television Tax Credit Program), and
2. DAVE production services tax credit (Production Services Tax Credit Program).

The DAVE tax credit rate and the DAVE production services tax credit rate are equal to 17.5%. The list below details the tax credit rates since the program was introduced in 2003.

<b>Digital Animation or Visual Effects Tax Credit</b>	<b>Rate</b>
DAVE expenditure incurred after February 28, 2010, for productions that started principal photography after February 28, 2010	17.5%
DAVE expenditure incurred after December 31, 2002, for productions that started principal photography after March 31, 2003	15%

### **Digital Animation or Visual Effects Tax Credit**

The DAVE tax credit is calculated as the DAVE tax credit rate for the year multiplied by:

$$ALE - (TA+PA+ARE)$$

ALE means the total of the corporation’s **BC labour expenditure** incurred for the current and preceding taxation years directly attributable to DAVE activities.

TA means the total **assistance** that can reasonably be considered to be in respect of the corporation’s ALE that the claimant has received or is entitled to receive, has not been repaid under a legal obligation to do so, and has not otherwise reduced the corporation’s ALE.

PA means all amounts determined under this formula in respect of the production for preceding taxation years.

ARE means the total of amounts included in ALE for which the corporation has received or will receive a reimbursement.

## **Digital Animation or Visual Effects Production Services Tax Credit**

The DAVE production services tax credit is the DAVE production services tax credit rate for the year multiplied by the **accredited qualified BC labour expenditure** for the taxation year directly attributable to DAVE activities.

### **Assistance**

If you receive assistance related generally to the production, such as grants from a film or television fund, you must determine the portion of the assistance to be deducted from your DAVE labour expenditures. A reasonable portion can be determined by:

- dividing your corporation's cost of DAVE activities for the production by the total cost of the production, and then
- multiplying the result by the value of the assistance.

**Please note:** Any assistance your corporation receives in respect of DAVE activities is generally considered to have been received in respect of DAVE labour expenditures.

## **Applying for the Credits**

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For detailed information on applying for the film and television DAVE tax credit, please see [Bulletin CIT 009](#), *British Columbia Film and Television Tax Credit*.

For detailed information on applying for the production services DAVE tax credit, please see [Bulletin CIT 010](#), *British Columbia Production Services Tax Credit*.

## **Canada Revenue Agency and the Ministry**

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The Ministry of Finance has contracted with the CRA to review and audit the British Columbia DAVE tax credit claims. The CRA is responsible for issuing refund cheques where appropriate. If you disagree with the amount of credit assessed by the CRA, you have the right to file a *Notice of Objection* with the CRA within 90 days of the date of the *Notice of Assessment*.

 **Need more info?**

**Ministry of Finance**

Income Taxation Branch  
PO Box 9444 Stn Prov Govt  
Victoria BC V8W 9W8

Telephone (Victoria): 250 387-3332  
Telephone (Toll-free): 1 877 387-3332  
Fax: 250 356-9243  
E-mail: [ITBTaxQuestions@gov.bc.ca](mailto:ITBTaxQuestions@gov.bc.ca)

**Canada Revenue Agency**

Surrey Tax Centre  
Film Services Unit  
9755 King George Boulevard  
Surrey BC V3T 5E1

Telephone (Vancouver): 604 666-7911  
Website: [www.cra-arc.gc.ca](http://www.cra-arc.gc.ca)

**BC Film**

2225 West Broadway  
Vancouver BC V6K 2E4

Telephone (Vancouver): 604 736-7997  
Fax: 604 736-7290  
Website: [www.bcfilm.bc.ca](http://www.bcfilm.bc.ca)

The information in this bulletin is for your convenience and guidance and is not a replacement for the legislation. The *Income Tax Act* and Regulations are on our website at [www.sbr.gov.bc.ca/business/Income\\_Taxes/Corporation\\_Income\\_Tax/legislation.htm](http://www.sbr.gov.bc.ca/business/Income_Taxes/Corporation_Income_Tax/legislation.htm)