



Angelina and Brad

Have you ever wondered how you could get a chance of socializing with Brad Pitt and Angelina Jolie. Now here's your chance and the Belgian tax authorities will help you pay you for it. Does that sound too good to be true?

Producing a film is expensive. Belgian producers cannot finance the cost on their own and even advances on the sales are not sufficient. The Flemish and Walloon Authorities actively support the industry with subsidies, but these are just peanuts. American films dominate the market and the European audiovisual market is fragmented over the member states. And finally, production houses are undercapitalized.

Nevertheless, Belgium has a reputation for good film technicians and animated films. And Belgium is substantially less expensive than the major film production centers. This is why, a couple of years ago, Belgium introduced a tax concession to encourage Belgian companies to invest in the production of films and documentaries. And because it is fashionable this tax concession was called a tax shelter.

How does it work?

First of all, a Belgian production house must prepare the ground. It needs to come up with a plan and propose a framework agreement to make a Belgian film, documentary, or animated film. The framework agreement lays down the details of this deal. That is in particular the budget and the structuring of the investment. More importantly, about 45 per cent of the budget of the film must be spent in Belgium.

If a corporate taxpayer signs a framework agreement, it can invest up to one third of its taxable profits before tax in the production of an audiovisual work. As of 2006, this should also be possible for the feature films. The investor will be entitled to a tax exemption of 150 per cent of the funds invested. There is a maximum : he can not invest more than 500.000 euro per year and not more than 50 per cent of his taxable profit. This means that the tax shelter is only attractive for profit making companies, and their tax exemption is limited to 750,000 euro per year.

There is one catch. During the first four years, the investors must record the tax-exempt profit (that would be the 750,000 euro) on his balance sheet. The company cannot distribute it to its shareholders until it receives a certificate from the production house that all conditions have been met.

Production houses can get corporate investors to help finance the production, but they still need to come up with at least half of the budget for film.

The investment can be structured in such a way that the investor hardly takes any risk at all. First of all, he can advance up to 40 per cent of his investment by way of a loan. This loan will be paid back over time. The rest, some 60 per cent will be a participation in a joint venture. The return on investment on the equity will be fully liable to income tax. The tax exemption on his equity investment gives him a return of 51 per cent on his investment (that is just the corporate income tax at 33.99 per cent on the exempted profit). If the interest paid on the loan is high enough, an investor may even recover his entire investment.

Production houses are catching on. They are developing deals that must ensure that the



investor can sell on his participation in the production. Finally, investors can always make other payments to the production house by way of sponsoring, advertising, ... These are normally tax deductible.

The Dardenne brothers, Wallonia's famous film makers are considering a film on the life of Jesus. Would that be something for Brad and Angelina ?

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