

## 36. B.C. DIGITAL MEDIA INDUSTRY: GROWTH ENGINE

### Background

The B.C. TV/Film industry has three main revenue generating sectors: Live Action; Video Effects (VFX); and Digital Animation.

B.C. leads the country in annual Film/TV production revenues (\$2.6 billion).<sup>1</sup>

Also contributing to B.C.'s 'Digital Media' production sector is Canada's Video Game Industry, with \$3.7 billion GDP.<sup>2</sup> In 2016-2017 B.C. saw company growth of +19% and employment growth of +7%. The B.C. government estimates that the videogame sector contributes \$1 billion+ to the B.C. economy, of note for the TV/Film production sector in B.C. in 2016-17, 88% was foreign production work qualifying for PSTC<sup>3</sup> tax credits while only 12% is FIBC<sup>4</sup> domestic production work. The videogame industry also has a large foreign component: 83% of all companies are Canadian-owned and controlled with only 17% of all companies being Foreign-owned. 86% of all employment in the industry is in Foreign-owned companies while only 14% of all employment in the industry is in Canadian-owned companies. 5% of the leading videogame companies in Canada provide 90% of the employment.

### Tax Credits – In B.C. and Competing within Canada and the U.S.

B.C.'s main competitors for digital media production work are both national and international.<sup>5</sup> B.C.'s main competitor for Film/TV work nationally is Ontario while its major competitor for videogame production is Quebec; Ontario is gaining ground.

Most foreign off-shore jurisdictions have some form of production tax incentives, so they can compete for work that increasingly is becoming internationally distributed, dubbed for worldwide markets. Often when BC studios are competing for work from major studios with worldwide distribution capabilities, competitive bid prices for contracts are determined by international markets vs. domestic pricing based on local costs. Markets and demand are growing due to streaming video on demand (SVOD) services like Netflix, Amazon and Hulu and other online distribution models. Regardless, B.C. competes successfully against jurisdictions with lower labour costs due both to provincial and federal incentives.

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1 Estimated by Creative BC to be \$2.6 billion between April 1, 2016, & March 31, 2017. The Canadian Media Producers Association (CMPA) estimates the 2016 - 2017 fiscal year saw production volume in the country reaching an all-time high of \$8.38 billion. The CMPA estimates B.C. was the top province with its volume hitting \$2.991 billion, just ahead of Ontario with \$2.977 billion. Quebec, with its thriving French-language industry, placed third with \$1.754 billion. BC's industry directly employs approx. 25,000 professionals. An estimated 17,000 are involved in Live Action Feature Film and TV production with 5,000 in VFX and 3,000 in the Digital Animation sectors.

2 In a 2017 report published by the Entertainment Software Association of Canada (ESAC), the national games industry contributes \$3.7 billion to the country's GDP.

3 Film or Video Production Services *Tax Credit (PSTC)* provides eligible production corporations with a *tax credit* at a rate of 16 per cent of the qualified Canadian labour expenditures incurred in respect of an accredited production.

4 FIBC – Film Incentive BC is a labour-based tax incentive that provides refundable tax credits to Canadian controlled production companies based on eligible BC labour costs.

5 Internationally Canada's most significant competitors are from the US, Malaysia, Singapore, China, France and India. In the US the jurisdictions that compete directly with BC by state are the 'Big 5': California, New York, Texas, Florida and Georgia. These states all have substantive tax incentive systems similar to BC's designed to compete against Canadian incentives from mostly BC and Ontario. On a per capita basis BC's industry rivals both California's and New York's which are the two largest US markets.

In recent years the B.C. provincial government has placed a significant focus on implementing measures to retain jobs and revenues in the industry as markets become more international and competitive. All three sectors that drive B.C.'s industries are experiencing similar impediments to expansion due to talent shortages and industry capacity issues. Like other sectors in B.C. industries, not enough skilled workers are available to produce content in all segments. This makes tax policy issues even more relevant, i.e., government participation in how the industry grows or stagnates based on its tax incentives.<sup>6</sup>

### **Education – Immigration**

98% of B.C.'s productions are currently in the lower mainland. The region has issues: skilled workforce retention, upskilling, reskilling and job entry. The shortage of talent creates upward pressure on salaries for intermediate and senior staff. There are entry level positions available, but B.C.'s 19 digital media schools are not graduating enough Canadians, and many graduates need extensive additional training to be employable, leaving the industry continuously short of skilled labour. 30-50% of students receiving training in B.C.'s private digital media school network are international students who cannot legally enter the workforce after graduating.

Additionally, the lack of experienced talent means work produced with less experienced talent is often of a reduced quality and may not meet the benchmarks required by major studios and marquee clients. This shortfall has led to filling skills gaps with intermediate and senior talent recruited internationally or outsourcing parts of productions overseas.<sup>7</sup>

### **B.C.: Regional & Rural Diversification Beyond Vancouver**

Vancouver's production and post-production capacity is an estimated 3,000,000 sq. feet of production space, capable of supporting the biggest Hollywood movies in casting, set-building, location filming, audio, special effects and digital animation.

If B.C. is to maintain its leadership position in the global Film/TV and videogame sectors and capture the opportunity to retain and create thousands of jobs in the future, an optimized tax credit program is required to incentivize new growth and investment. With such an enhanced program in place, the size of the industry, and the prospect of creating new jobs in the coming five years is a realistic goal.

B.C., and particularly Vancouver, houses the world's largest cluster of production services for digital media sectors for streaming video content development, VFX, digital animation and video game production. Approximately 1 in 10 of the 150,000 high tech jobs in B.C. are attributed to the digital media sector (~15,000 jobs). Digital media is a major contributor to any regional jobs plan and if properly supported creates high paying long-term jobs.<sup>8</sup>

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<sup>6</sup> Tax credits to the Film/TV and Videogame industry are not subsidies. Since 1992 Film/TV tax incentives have created \$6 billion in spending on domestic productions and have attracted and imported over \$20 billion in foreign capital to the provincial economy for production service work, creating an economic impact of over \$60 billion in BC.

<sup>7</sup> For example, up to 20%-30% of staffing at some major BC digital animation studios is recruited internationally to meet the needs of clients and produce the required levels of quality to remain competitive internationally. The BC PNP (Provincial Nominee Program) NOC 5241 (National Occupational Classification for Graphic Designers and Illustrators) jobs is helpful. Most foreign staff must qualify via Express Entry due to the nature of production contracting in the Film/TV industry and Canadian work experience requirements.

<sup>8</sup> A recent Federal government labour market study by Immigration, Refugees and Citizenship *Canada* (IRCC) indicates 6,800 new NOC 524 (digital artists) jobs alone are required in the next 5 years to support BC's growing industry. In addition, IRCC

## **How to Grow the Industry in the Thompson Okanagan**

In Kelowna, the high-tech sector is growing at 30% biennially. The Thompson Okanagan area accounts for 7.5% of all employment by programmers and digital media artists in B.C. according to WorkSafe B.C. data. This compares to 76% of these jobs in the lower mainland and 15% in the Vancouver Island/Coast regions.

Given this regional pattern of employment the Thompson Okanagan would get approximately 510 of the 6,800 new NOC 5241 jobs forecasted for digital animation and video effects. If regional and location distant tax credits were optimized to double the 7.5% estimate, that would equate to 1,020 jobs for the region. If spread over the digital media sector's three main silos this would mean 300+ new jobs for each of digital animation, video effects and videogame production sectors. With average studio sizes for medium or large-sized studios this would equate to about 7-10 new studios being established, thus making Kelowna a top 10 animation production cluster in North America.

If the same math of 7.5 % and a target of 15% of the total 21,900 jobs is calculated, the Thompson Okanagan would see 1,640 and potential for 3,280 new and replacement jobs occur in the region. Many of the requirements for this kind of job growth are in place in the region to support parts of this forecasted growth for the area.<sup>9</sup>

## **Home Grown Digital Media Skills Training**

Currently the rural Okanagan region is home to three digital media schools that help create home grown talent to facilitate regional growth. The longest operating school in Kelowna is CATO – the Centre for Technology and Arts. Approximately 40 graduates from CATO have been hired by Bardel Entertainment & YetiFarm Creative in Kelowna over the past two years increasing staffing to 80 and 60 employees for the two companies respectively.

Okanagan College offers a new two year 'Classical Animation' program that when fully enrolled will graduate 20 animators per year. UBC Okanagan has a new Bachelor of Media Studies, a 4-year degree that will produce another 20-30 graduates per year. Central Okanagan School District #23 has announced that in conjunction with the province's leading animation school (Vancouver Film School - VFS) they will provide a dual credit 'Foundations of Animation' curriculum starting September 2018. The plan is to have 30+ students able to enter any of the region's digital media schools including schools in the lower mainland with advance placement. Course will be expanded to include 3D and VFX curriculum and the pilot program rolled out to other high schools in the northern and southern Interior school districts.

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forecasts 11,900 NOC 217 (interactive media developers) and 3,200 NOC 522 (graphics art technicians) are required by 2022 for an estimated cumulative job number of 21,900.

<sup>9</sup> There are about 20 VFX and digital animation studios that employ the bulk of content production staff in BC. In digital animation, 80% of the animators in the province work at DHX, Sony, Bardel, Atomic Cartoons, Rainmaker-WOW Entertainment Unlimited, and Animal Logic Titmouse. In VFX, there are 5,000 VFX artists working in BC at Digital Domain, Industrial Light & Magic, MPC, Zoic, FuseFX, CineSite, Image Engine, Stargate, Hydrualx, UMedia, COSA and Sequence. All maintain larger studios in Vancouver.

Lastly, in-migration from the lower mainland and from international sources will bring additional talent to the region. This talent will bring intermediate and senior talent to support the new studios which could be attracted to the region, augmenting the lack of regional talent.

## **Conclusion**

The digital media industry is a significant economic driver in B.C. with no signs of slowing down in future if incentivized. With this growth B.C. can set up additional infrastructure necessary for this industry to lead globally across all its sectors, strengthening provincial economies.

Tax credits for the Film/TV sector in B.C. are administered by Creative B.C. and legislated by the Ministry of Finance. Creative BC is a crown corporation and has been shifted under the new government to the Ministry of Tourism, Arts and Culture.

Tax credits for B.C. basic labour are 35% for domestic productions, and 28% for foreign productions. The regional tax credits are 12.5% and 6% respectively, outside of the lower mainland. A distant location tax credit of 6% is applicable to both domestic and foreign production work when performed outside of the Vancouver region. Additionally, DAVE (Digital Animation, Visual Effects and Post-Production tax credits) is designed to provide an incentive to production companies employing BC based talent to create DAVE in BC. DAVE must be claimed as part of either an FIBC application or a PSTC application. (See Notes 3, 4)

These provincial Film/TV tax incentives can be stacked and include a 16% federal tax credit for qualifying PSTC BC labour for the Videogame, mobile, online and VR/AR productions in the province. Lastly, a 30% training tax credit is paid to a B.C.-based individual registered in an approved training program. The tax credit is capped at 3% of the corporation's qualified B.C. labour expenditure and must be accessed in conjunction with the basic tax credit and is only currently available for domestic productions that provide training specifically to Canadians.

For the videogame industry the tax incentive system is simpler. Interactive Digital Media Tax Credit (IDMTC) is 17.5% for qualifying labour for content creation that involves interactivity. Some examples of IDM products are Videogames, Educational software, Edutainment products, Simulators, AR/VR applications.<sup>10</sup>

## **THE CHAMBER RECOMMENDS**

That the Provincial Government:

1. Continue tax credits to enable emerging digital-based companies to set up and expand;
2. Support, through increased funding formulas, local educational institutions, pre- and post-secondary to create industry-recognized accreditation for digital media skills;
3. Expand training tax credits to include foreign productions;
4. Support program delivery through broadening intake numbers and tuition funding, to align with

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<sup>10</sup> If 7.5% of these existing jobs could be attracted to Kelowna this would equate to 375 VFX jobs in the region. This would equate to approximately \$22 million in VFX salaries alone flowing through the region. If 7.5% of the 5,800 videogame jobs in BC could be moved to the region another 435 jobs would bring in \$33 million in game developer salaries to Kelowna.

provincial programs including BC Jobs Grant; LMP/CJG/PBLMT funding<sup>11</sup>;

5. Withdraw tax clarifications issued March 10, 2016, to make incentives more attractive to regional productions; and
6. Re-implement post-secondary temporary working permit (2011) for graduates of B.C. digital media programs.

**Submitted by Kelowna Chamber of Commerce**

**Supported by the Burnaby Board of Trade, Greater Vernon Chamber of Commerce, Greater Westside Board of Trade**

**The Policy Review Committee supports this resolution.**

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<sup>11</sup> LMP: Labour Market Partnership; CJG: Canada-BC Job Grant; PBLMT: Project Based Labour Market Training (PBLMT) - WorkBC