CINA NEGOTIATION AND USE BOOKLET

(TRANSFERABLE TAX CREDITS)

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Front page: LA MIRADA DE LUCÍA-NUNCA DIGAS NUNCA AIE

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MEMORIA-BURNING

Law 1556 of 2012, which is part of the regulations for the promotion of the film and audiovisual industry in Colombia, establishes the incentives that promote Colombia as a destination and location for productions of:

Film Works

Series

Music Videos

Video Games

Advertising Audiovisual Production

What are the CINA?

SHARK TANK COLOMBIA 4-ROCKINGHAM PRODUCTIONS INC

The Certificate of Audiovisual Investment in Colombia, CINA, are transferable tax credits and marketable securities equivalent to 35% of the expenses of foreign audiovisual productions in audiovisual services and logistics services (hotel, food, and transport) hired with Colombian individuals or companies. The CINA are transferable to persons filing **income tax** in Colombia and can be used to apply a discount in the payment of this tax or for the payment of **self-withholdings** taxes.

The CINA, added to the exemption from sales tax (VAT) on services that are provided in the country to foreign companies, and to the favorable exchange rate, make Colombia a competitive venue for audiovisual production. The economic incentives are complemented by a diverse catalog of locations, creative teams and technicians, as well as institutions that permanently support the audiovisual sector.

What are their characteristics?

CINAs are freely negotiable **securities**, which are issued in the name of the foreign producer responsible for the audiovisual project.

Its nominal value is equivalent to thirty-five percent (35%) of the value of the investment made in Colombia.

According to a decision of the Ministry of Culture, the CINA are issued in a **dematerialized** form.

They can be negotiated in the **secondary market** or transferred to natural or legal persons that declare **income tax** in Colombia.

They can be used with a maximum validity of two (2) years from their issuance.

The **holder** can use them partially or totally, before their maturity, to:

- Pay **income tax self-withholdings**
- Discount on the **income tax** statement

The income from the transfer of the certificate is not subject to withholding at source in the country, and does not constitute tax income in Colombia.

The maximum amount of CINA that can be awarded is determined each year by the Colombia Film Promotion Committee (CPFC). [1]

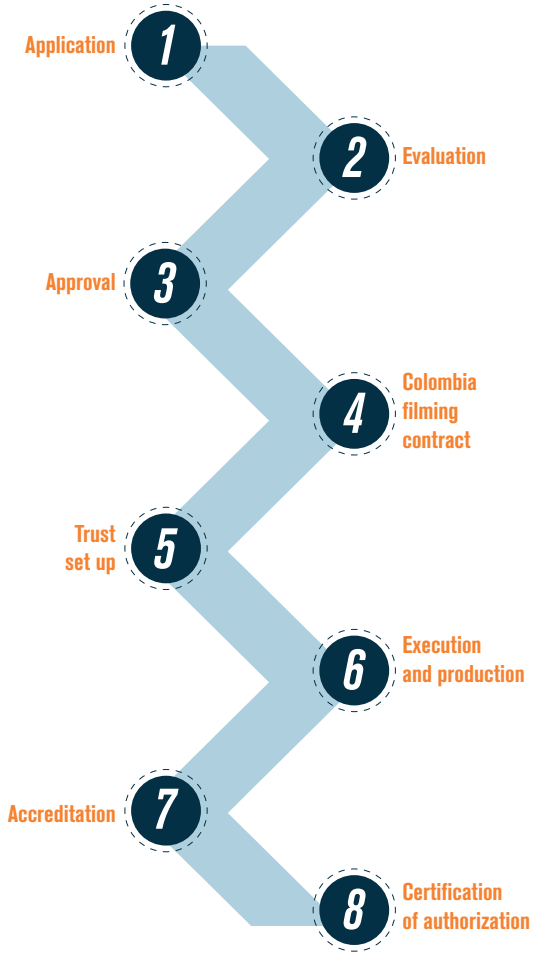
1 To find out the CINA's available resources in the current year, go to https://location-colombia.com/incentivos/#move_saldo

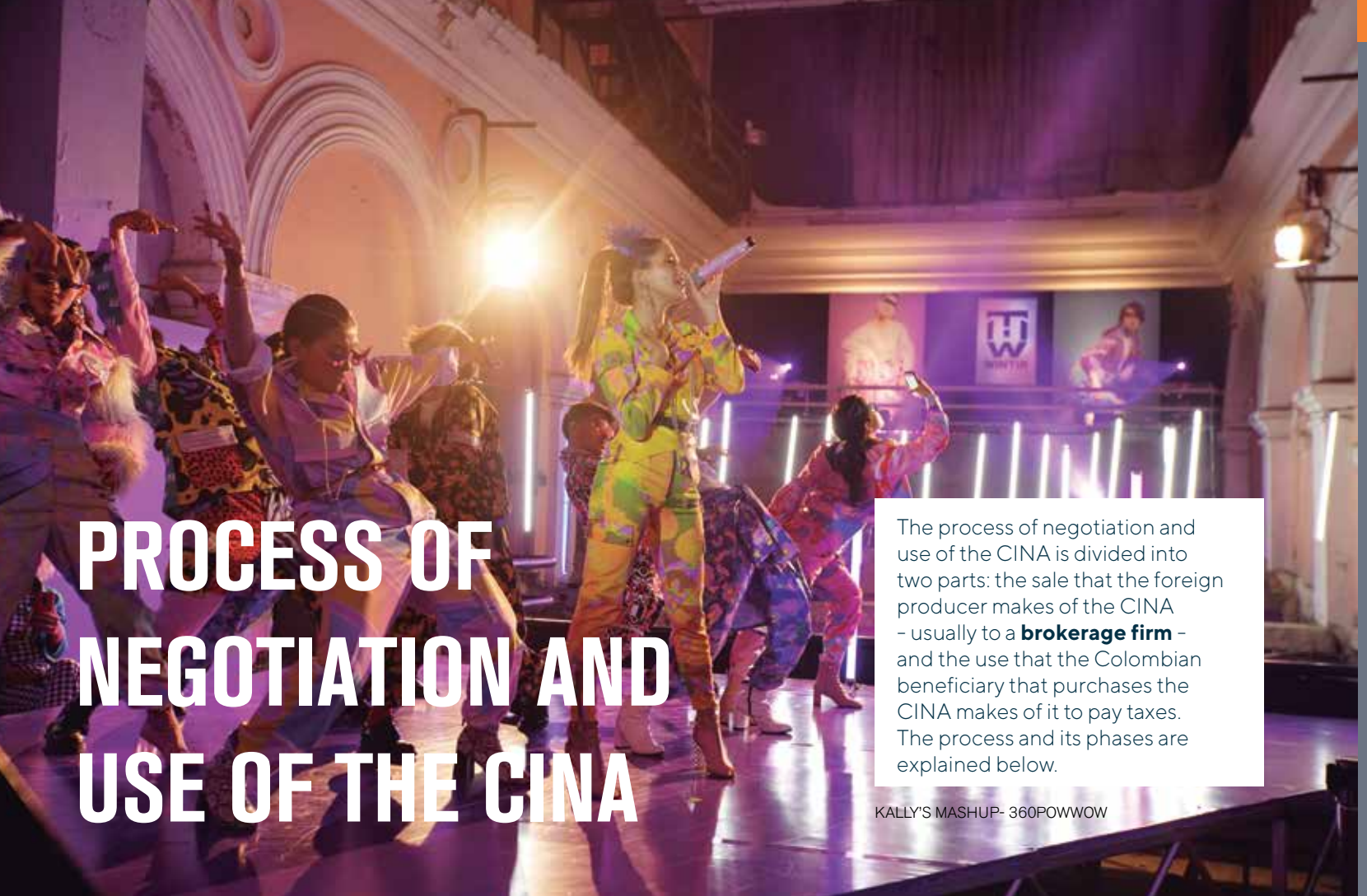
Requirements for the foreign producer before negotiating a CINA

Before negotiating the CINA, the foreign producer of the project must have fully complied with the requirements for applying for this incentive, in addition to having executed the project within the defined time limits.

The following graph shows the process prior to the CINA negotiation. For more information on the phases and requirements of application to the CINA, please read the Incentive **Booklet for the audiovisual sector Law 1556 of 2012**.

Once the accreditation process is completed, **Proimágenes Colombia** issues a certification of authorization to the **Ministry of Culture**. The process for the negotiation and use of the CINA starts at this point.



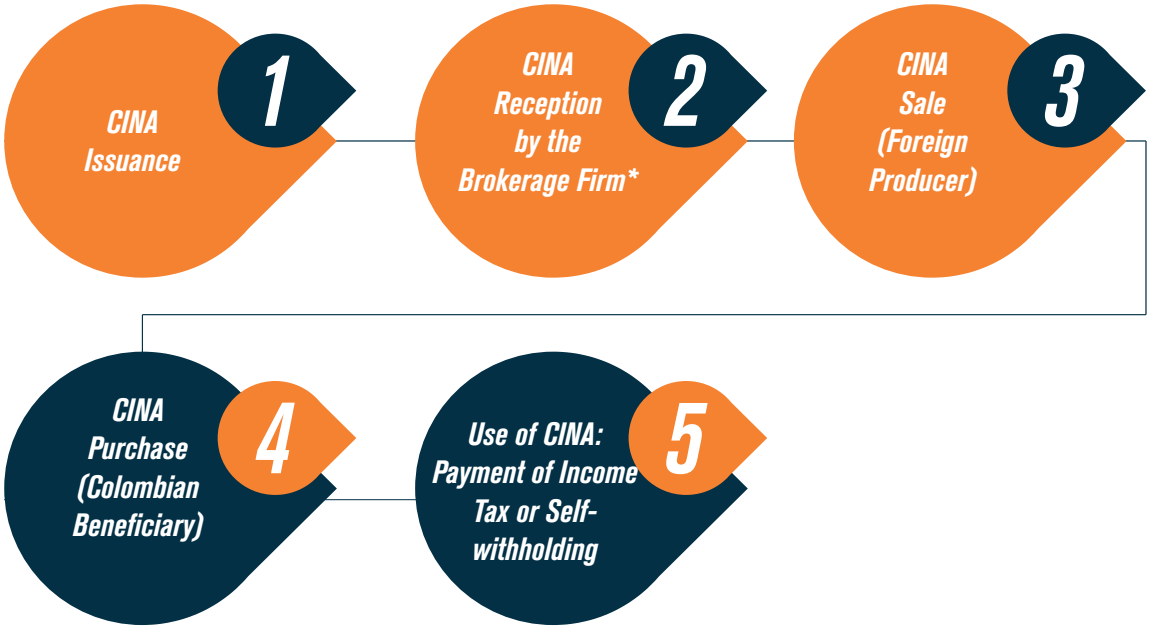


PROCESS OF NEGOTIATION AND USE OF THE CINA

The process of negotiation and use of the CINA is divided into two parts: the sale that the foreign producer makes of the CINA – usually to a **brokerage firm** – and the use that the Colombian beneficiary that purchases the CINA makes of it to pay taxes. The process and its phases are explained below.

KALLY'S MASHUP- 360POWWOW

Negotiation of the foreign producer



Use of the colombian beneficiary

2 It refers to the brokerage firm or other direct depositor that receives the CINA.

1. CINA ISSUANCE

The CINA is issued by the Ministry of Culture on behalf of the beneficiary foreign producer through the DECEVAL system, which administers a quota with the amount that is issued annually.

The Ministry of Culture sends a notification to the foreign producer informing them they are now a beneficiary of the CINA.

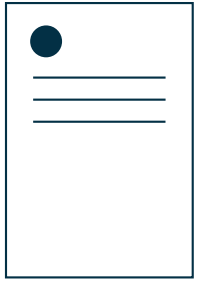
What is DECEVAL?

The Centralized Securities Depository of Colombia, DECEVAL, is the main subsidiary of the Colombian Stock Exchange, BVC, and is a fundamental part of the Colombian Equities Market. Its purpose is to facilitate the dematerialized issuance of securities and other financial instruments registered in the **National Registry of Securities and Issuers**. It has functions of custody, administration, and settlement of **securities** for individuals, companies, investors and all financial agents inside and outside the country.

What are the benefits of managing CINA through DECEVAL?

- Reduce physical risk on **securities**
- Eliminate the handling, verification, and control of the issued physical **securities**.
- Eliminate the risks inherent to the alteration of **securities** during the issuance and transaction registration processes.
- Avoid fraud and risks derived from forgery and adulteration of securities.
- Eliminate administrative processes and subsequent physical operations on the **securities** that have been issued.
- Allow security and quality in the administration of information.
- Transmit information on transactions in the primary or secondary market to the Ministry of Culture.

2.
RECEPTION OF THE CINA BY THE BROKERAGE FIRM OR OTHER DIRECT DEPOSITOR



The transfer to the CINA by the **beneficiary** foreign producer must be done through a **direct depositor**, which may be a **brokerage firm**, or another entity in the financial system, such as a bank or trust company.

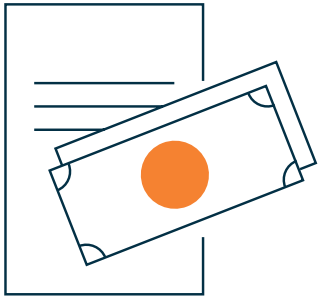
DECEVAL creates a code for the foreign production company that certifies it as a **beneficiary** of the CINA. This code must be issued by DECEVAL to the **stock broker**, so that it can be registered with the same identification.

The Ministry of Culture requests the foreign producer a certificate that legitimizes their relationship with the **stock broker** that represents them, in order to make the change of depositor in the DECEVAL application and deliver the CINA.

The CINA is automatically registered in the **National Securities Registry.**

The **stock broker** receives the CINA in favor of the foreign producer (the **beneficiary** of the paper) and from this moment the **security** is ready for negotiation.

3. CINA SALE (FOREIGN PRODUCER)



The foreign producer sells the CINA to individuals or companies declaring **income tax** in Colombia in the **secondary market**, through a **brokerage firm**, by negotiation in the transactional system (**Master Trader**)

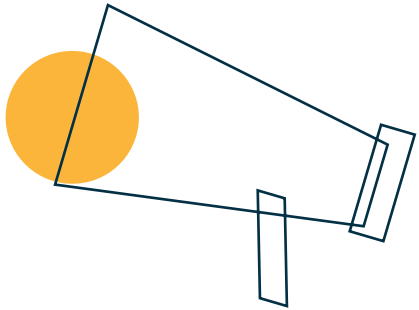
For their intermediation work, the **brokers** can apply a discount rate on the value of the CINA of around 10% of its nominal value, depending on the market conditions at the time of the negotiation. You can see on page 17 the simulation of the CINA incentive value under different discount rate scenarios.

The producer can also sell the CINA through an **over-the-counter market sale**, that it reports to DECEVAL, without going through an intermediary such as the banking system or the stock market.

The CINA Within the Cash Flow of an Audiovisual Project

For a bank to consider financing an audiovisual project, the producer must put together a package that includes a detailed cash flow budget, a schedule to produce it, and a guarantee fund. The latter is normally made up of resources such as public or international financing funds, project pre-sales and, potentially, CINAs. CINAs can be part of the minimum guarantees by virtue of which, once the project has been completed and has a distribution strategy, it will generate revenue in the future. These receivables serve as the basis on which a bank can grant the loan.

4.
CINA PURCHASE (COLOMBIAN BENEFICIARY)



The Colombian **beneficiary** may purchase the CINA from the foreign producer by negotiation in the **secondary market** or through an **over-the-counter sale.**

Subsequently, the Colombian **beneficiary** may sell the CINA again to natural or legal entities that file **income tax** in Colombia or use it to pay this tax.

3 To see the list of offices nationwide that accept payment of taxes with CINA, scan the code or the link https://locationcolombia.com/incentivos/#move_otros, section PAYING TAXES WITH CINA ENABLED BANK OFFICES.

5.
CINA USE

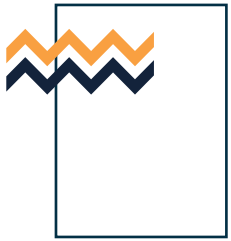
1 PAYMENT OF INCOME TAX OR SELF-WITHHOLDING

The Colombian **beneficiary** that intends to use it for the payment of income tax or self-withholding must request the **stockbroker** to change the depositor to a **bank** that can perform such an operation.

The bank, according to the instructions of the **new holder,** sends the tax payment request information to DECEVAL with the CINA. This process must be made at least two (2) days before the tax payment due date.

The bank generates and delivers a certificate to **the holder** that legitimizes the ownership and evidences the blocking of the title and available balance.
In any case, **the holder** must perform the following procedure:

- Request the certificate from **the bank**, which is the new **direct depositor.**
- Go to the branch authorized by **the bank** and pay the tax.
- Report the payment to **the bank**, so that it requests the Ministry of Culture and DECEVAL the payment or the allocation of the balance in the system.



2 Income tax deduction

The new **holder** may use the CINA to pay the income tax by discounting its value on the income tax statement. The taxpayer who uses the CINA for the income tax discount must notify the Ministry of Culture within three business days following the date of such use.

Simulation of the CINA Incentive Value
(in USD)

For the Foreign Producer

TOTAL EXPENDITURE BUDGET IN THE COUNTRY	1.000.000	1.000.000	1.000.000
CINA Incentive Value (35%)	350.000	350.000	350.000
Contribution of the Foreign Producer to the CINA System (5% of the incentive)	17.500	17.500	17.500
Value of the Incentive Subtracting the Contribution to the System	332.500	332.500	332.500
MARKET DISCOUNT RATE	**15%**	**10%**	**5%**
Discount Value	52.500	35.000	17.500
Final Value of the Incentive After Negotiation	280.000	297.500	315.000
Approximate Percentage of the CINA Incentive with Respect to the Total Expenditure Subject to Compensation	28%	30%	32%

For the income taxpayer

Purchase Value of the CINA	297.500	315.000	332.500
Nominal Value of the CINA for Tax Payment	350.000	350.000	350.000
Savings Due to Higher Value of Tax Discount	52.500	35.000	17.500
Approximate Percentage of Tax Savings With Respect to the Purchase Value of the CINA	18%	11%	5%

MASTER CHEF 2- TELEAMAZONAS ECUADOR

GLOSSARY

Book entry: It is the electronic representation of the rights of a holder over a security, in the accounting record kept by DECEVAL.

Self-withholding of income: The taxpayer withholds tax that would have been applied by the withholding agent on a monthly basis. Self-withholding of tax applies to taxpayers that apply income tax in their sales provided that they are national, foreign companies, or permanent establishments, and are exempt from paying social security and parafiscal contributions.

Bank: It is the entity that acts as payment agent for self-withholding taxes and that receives the CINA for their redemption and cancellation.

Beneficiary: It is the person to whom a financial asset is transferred.

Cancellation: Paying a financial obligation within the maturity date.

Direct depositor: They are the entities that according to the DECEVAL operations regulations can directly access its services and have signed the securities deposit contract, either in their name and on their own behalf and/or in the name and on behalf of third parties. These are entities of the financial system such as brokerage firms, banks, or trust companies.

OTC trading: The over-the-counter market or OTC is a type of non-brokered market in which securities are traded outside the stock market. These are operations that individuals and companies do directly with each other, without having to resort to an intermediary.

Dematerialization: It is the action by which the physical document is deleted and replaced by an accounting record. Physical titles (or papers) are replaced by book entries in the accounting records of each holder.

Income tax: This tax is levied on all income obtained by a taxpayer in the year, which is capable of producing a net increase in equity at the time of its perception, considering the costs and expenses incurred to produce them. Companies pay income tax according to the rate indicated in **article 241 of the Tax Law.**

Master Trader: It is the application of the BVC where the securities are traded, and they pay their holder a pre-established rate of return for their term. For example: bonds, certificates of deposit, and the CINA.

Secondary market: It is the place, physical or virtual, where financial assets are bought and sold, such as bonds, stocks, or any other value that is the object of a listing. It is a kind of resale or secondary market, where investors can go to buy those securities that have already been previously issued.

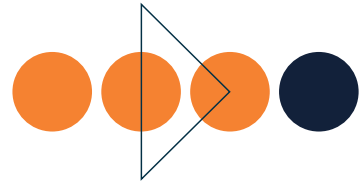
National Registry of Securities and Issuers: Its purpose is to register different classes and types of securities, such as CINA, as well as their issuers and issues. Registration in this registry is a requirement for those entities that wish to make a public offering of their securities and for them to be traded on the market.

Withholding tax: It is the system by which a tax is collected at the instant in which the payment of a transaction occurs. It is an advance collection of the tax in question. Withholding tax is not a tax but the way in which it is collected.

Brokerage firm: They are public limited companies whose purpose is the sale of securities in the secondary market. Brokerage firms are classified as banking, if their owner is a bank, and traditional, if their owners are individuals or a family group. In order to carry out their activity, brokerage firms have professionals specialized in the market (brokers) who carry out securities purchase and sale negotiations on behalf of their clients. This service runs under what is called a "commission contract".

Stock holder: The legal holder of a security, who is in a position to exercise the political or economic rights associated with such condition.

Security: From a financial point of view, a security is a certain document that guarantees economic rights to the person who owns it. It is possible to refer to securities such as the shares of a company, bonds issued by a country, checks, bills of exchange, etc. All these items have a specific price and can be traded freely on the market.



KILL CHAIN- CHILL CAIN PRODUCTIONS INC

QUESTIONS AND ANSWERS

How to identify potential buyers of CINA? One way is through a brokerage firm, which identifies companies or individuals who need to pay self-withholding and income taxes in Colombia. Another way is by identifying individuals or legal entities that file income tax returns in Colombia to negotiate with them directly.

Can I trade CINA without a commission agent? Yes. It is possible to do it through an over-the-counter operation, directly between individuals or companies. This type of operation requires the intervention of DECEVAL, which will be in charge of certifying the transaction and timely settlement of the negotiation. However, ideally, in order to trade CINA, the foreign producer must have a direct depositor, which may be a bank, a fiduciary or a brokerage firm.

Can I segment the CINA among different buyers? The CINA is issued in favor of the foreign producer and they may negotiate it partially or totally. If it is done in parts, the value for which this title can be negotiated must be validated with DECEVAL. The Colombian beneficiary may negotiate it in parts or may make partial use of it for the payment of income tax or self-withholding.

Who are authorized as brokers? Any brokerage firm can fulfill the functions of direct depositor of any security. It up to each brokerage firm if it accepts or restricts the negotiation and/or custody of the CINA.

Can the CINA be accessed without having finished the audiovisual project? Yes, as long as the project has certified the minimum planned expense.

Back cover: KILL CHAIN- CHILL CAIN PRODUCTIONS INC

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