



HM Treasury

Audio-visual tax reliefs: consultation

Summary of responses

March 2023

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consultation

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ISBN: 978-1-915596-70-3 PU: 3290

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Chapter 1

Introduction

1.1 At Autumn Budget 2022, the government launched a 12-week consultation into the audio-visual tax reliefs which ran from 17 November 2022 to 9 February 2023. This consultation covered the five audio-visual tax reliefs: Film Tax Relief (FTR), High-End Television Tax Relief (HETV tax relief), Animation Tax Relief (ATR), Children’s TV Tax Relief (CTR) and Video Games Tax Relief (VGTR).

1.2 The objectives of this consultation were to ensure that:

- a. The UK has modern audio-visual tax reliefs that enhance the UK’s audio-visual industries;
- b. The reliefs maximise the contribution of the audio-visual industries to the growth of the UK economy;
- c. The reliefs remain affordable, with additional costs of the reforms consistent with the government’s fiscal rules and commitment to sustainability in the public finances.
- d. The reliefs are straightforward to administer and that the reformed audio-visual tax reliefs should not significantly increase administrative burdens for businesses or HMRC;
- e. Current and future commercial needs are anticipated without significant future changes being required;
- f. The reforms do not create additional avoidance opportunities.

1.3 This document summarises the main issues raised by stakeholders as part of their responses and the reforms that the government plans to take forward.

1.4 The government would like to thank respondents for their helpful and constructive feedback and active engagement throughout this consultation.

Summary of key policy decisions

Expenditure Credits

1.5 The government is committed to ensuring the audio-visual tax reliefs remain world-leading and continue to best serve the needs of creative companies. It therefore intends to reform all 5 audio-visual tax reliefs to expenditure credits.

1.6 The government will use the Research and Development Expenditure Credit (RDEC) as a basis for the expenditure credits. The government will adapt the RDEC model to ensure the exact process of claiming the expenditure credits is designed in a way that will work effectively for the audio-visual subsectors.

1.7 The steps of the RDEC calculation can be found in Annex A.

1.8 The reform to expenditure credits will change the way that relief is calculated. The expenditure credits will be calculated directly from qualifying expenditure instead of being an adjustment to the company's taxable profit as under the existing regime.

1.9 The government will implement two models: one for the film and TV expenditure credits, which will be merged into a single scheme (the Audio-visual Expenditure Credit), and one for video game expenditure credits (the Video Games Expenditure Credit).

1.10 Both models will retain the existing eligibility requirements and definitions of qualifying expenditure, subject to the points raised later in this document. Both models will have an 80% cap on qualifying expenditure. For both expenditure credits, Step 2 of RDEC will be amended to preserve the flexibility of the current Creatives reliefs. Step 3 of RDEC will not be introduced.

1.11 The government will set out full details of the expenditure credits, including the design of all steps of the calculation, as part of the draft legislation at L-Day 2023. Stakeholders will be invited to comment on the detail of the model.

Credit rates

Audio-Visual Expenditure Credit (AVEC):

- Films and high-end TV programmes will have a headline rate of 34%
- Animations and children's TV programmes will have a headline rate of 39%

Video Games Expenditure Credit (VGEC):

- Headline rate of 34%

Transition to expenditure credits

1.12 The government recognises the need to implement effective transitional arrangements that support companies in adapting to the

expenditure credits. The expenditure credits will be phased in to the following timeline:

- Companies may claim expenditure credits from accounting periods on or after 1 January 2024.
- From 1 April 2025, claims for new productions and games must be made under the expenditure credits system.
- Film and TV productions that have begun but not concluded principal photography, and video games that have begun but not concluded development on 1 April 2025 may continue to claim relief under the current system until 31 March 2027. Any expenditure incurred from 1 April 2027 must be claimed under the expenditure credit regime.

High end TV tax relief

Minimum expenditure threshold

1.13 The minimum expenditure threshold will remain at £1 million per slot hour. As with all tax reliefs, the government will keep this under review.

Minimum slot length

1.14 The minimum slot length will be reduced to 20 minutes, applying on an episode-by-episode basis. This reform will apply only to the Audio-Visual Expenditure Credit.

Definition of a documentary

1.15 The government will put a definition into legislation based on guidance by the British Film Institute: *a factual or realistic programme based on real events, place or circumstances and intended to record or inform.*

1.16 The documentary definition will apply to both the Audio-Visual Expenditure Credit and the current high end TV tax relief.

1.17 Final wording and exclusions to the definition will be published as part of draft legislation in Summer 2023 for comment.

Video games tax relief

European Economic Area expenditure

1.18 European Economic Area (EEA) expenditure will be excluded from the qualifying costs of the Video Games Expenditure Credit. Instead, expenditure will qualify if it is incurred on 'goods or services used or consumed in the UK'.

1.19 Eligibility criteria for the Video Games Expenditure Credit will require a minimum of 10% of expenditure to be on goods or services used or consumed in the UK, in line with the rules for the film and TV tax reliefs.

1.20 The government will work with industry and provide further guidance on how the 'used or consumed in the UK' requirement will apply in the video games context.

1.21 From 1 April 2025, new games must claim the Video Games Expenditure Credit. Games in development on 1 April 2025 may continue to claim the existing VGTR until 31 March 2027. EEA expenditure will continue to be a qualifying cost for VGTR until 31 March 2027, when the relief will sunset. If a business chooses to opt into the Video Games Expenditure Credit, they will no longer be able to claim EEA expenditure from that point.

Subcontracting limit

1.22 The government will remove the £1 million per game subcontracting limit.

1.23 This reform will only apply to the Video Games Expenditure Credit.

80% cap on qualifying expenditure

1.24 The government will maintain the 80% cap on qualifying expenditure. As with all tax reliefs, the government will keep this under review.

1.25 The government acknowledges industry concerns that the maintenance of the 80% cap leads to companies placing more 'portable' expenditure such as visual effects and animation elsewhere.

1.26 The government will increase the rate of relief for qualifying animated programmes to 39% under the Audio-Visual Expenditure credit.

1.27 The government will consider the case for further targeted support for visual effects work and will provide an update on this later in the year.

Administrative changes

1.28 The government stated in the consultation document that a number of technical changes to the administration of the creative sector tax reliefs were under consideration.

1.29 The following reforms will be implemented:

1.29.1 **IT changes** - The government will be required to make IT and reporting changes to deliver the expenditure credit system. All claims, under both the existing reliefs and new expenditure credit system will be required to be made digitally, and more information will be required as part of a claim.

1.29.2 **Addressing unforeseen consequences** - The government will implement several measures across all the creative sector tax reliefs to address incidental features of the current legislation, unintended when

drafted, which cause anomalies or make operation of the rules difficult for claimants or HMRC. These measures include:

- Amending the time limit for making a claim to two years from the end of the period of account to which they relate, rather than 12 months from the statutory filing date. This will prevent companies which do not receive a notice to file, either because they fail to register or notify HMRC that they are no longer dormant, from benefiting by having more time to make a claim.
- Introducing a power for HMRC to collect overpayments in specific circumstances, such as when a company withdraws its claim.
- Clarifying the position where expenditure can potentially qualify for relief under both the creative tax reliefs and the research and development (R&D) schemes.

1.30 Anti-abuse measure - The government will be introducing an anti-abuse measure on payments between connected parties to restrict qualifying expenditure to the costs incurred by the group.

1.31 Undertakings in difficulty- The government will legislate to prevent credits being paid out to companies that are undertakings in difficulty.

1.32 Full detail on these measures will be published as part of draft legislation for the reforms at L-Day 2023. Stakeholders will have an opportunity to comment.

Next steps

1.33 The government will publish draft legislation for these reforms at L-Day in Summer 2023. The government welcomes feedback on the draft legislation.

1.34 These reforms will be legislated for in a future finance bill. Companies will be able to claim expenditure credits in respect of accounting periods that fall after 1 January 2024.

1.35 The reforms announced at Spring Budget 2023 and the timing of their implementation are subject to the Subsidy Control Act 2022.

1.36 The government will work with industry and provide substantial guidance and education about how the expenditure credits will operate to support the transition for companies.

Chapter 2

Summary of Responses

2.1 A total of 63 written responses were submitted to the consultation and the government also benefited from several meetings with stakeholders during the process. These included responses from individuals, industry groups, businesses, and accounting and legal firms. Some respondents surveyed their members or customers and shared the outcomes with us. A full list of respondents is provided in Annex B.

2.2 The overwhelming majority of respondents to the consultation emphasised the success of the current creative tax reliefs and their importance to the audio-visual sectors and welcomed the opportunity to engage with the government.

Film and TV

2.3 This section covers the government's response to the consultation questions specific to the film and TV tax reliefs. This includes decisions on merging the film and TV tax reliefs, the minimum slot length, the HETV minimum expenditure threshold and how the government intends to define a documentary.

Merging film and TV sector into a single scheme

2.4 The consultation document proposed to merge FTR, ATR, HETV tax relief and CTR into a single tax credit scheme.

Question 1: What factors should the government consider when drafting legislation to merge the film and TV reliefs into a single scheme?

2.5 Respondents to this question were broadly content with the proposal to merge the reliefs into a single scheme, provided that the reliefs retained their simplicity, speed and ease of use.

2.6 A few respondents raised the risk of unintended consequences and the potential of complicating the legislation by merging the reliefs. Some respondents suggested looking at the cultural test to ensure that the approach taken to the test is consistent across the sub-categories.

2.7 It was also emphasised that any merger would have to ensure that distinctions between the different sub-categories remained and that there would be sufficient flexibility to continue to make distinctive changes for the individual sub-categories, particularly on rates.

2.8 Some respondents highlighted that the animation and children's TV relief specifically as needing to retain their distinctive characteristics

and exclusions. Some respondents suggested that a higher rate would benefit these industries to provide them with extra support and increase their competitiveness.

Government Response

2.9 The government agrees that the specific criteria for the individual film and TV reliefs should be preserved if the schemes are to be merged. The government will merge the film and TV reliefs into a single scheme for the Audio-Visual Expenditure Credit.

2.10 Distinctions and eligibility criteria for each sub-section will remain as will the ability to make changes to them individually in the future, including on rates. Claimants' experience will be taken into consideration throughout and we do not anticipate that this merger will have any effect on the ease of claiming.

2.11 Taking on board consultation responses, animated programmes and children's TV will benefit from an uplifted rate of 39% in the new expenditure credit system in order to ensure these industries continue to grow.

2.12 The government will continue to take steps to avoid unintended consequences from the reforms, including by inviting comments on draft legislation published at L-day 2023.

2.13 Video games will remain separate to reflect structural differences between the video games and film/TV subsectors.

2.14 The existing reliefs will remain as they are and will not be merged.

Amending the minimum slot length for HETV tax relief

2.15 Due to inconsistent interpretation of the legislation, the government proposed updating the minimum slot length criteria for HETV tax relief.

Question 2: If you are a claimant of HETV tax relief, how does the current legislation for a minimum slot length impact you?

Question 3: How would the removal of the minimum slot length legislation impact your production activities?

Question 4: How would your production activities be impacted if legislation reducing the minimum slot to 20 minutes, applying on an episode-by-episode basis, was introduced?

2.16 Respondents broadly supported the government's intention to update the minimum slot length to ensure there was clarity and a consistent understanding of this rule across the industry. Most respondents did not expect a reduction in the minimum required slot length to have a significant impact on production, as most

programmes currently qualifying for HETV tax relief had episodes that were longer than 20 minutes.

2.17 There were mixed preferences between reducing the minimum slot length to 20 minutes and removing the minimum slot length completely.

2.18 A large number of respondents favoured removing the slot length completely, stating that the minimum expenditure threshold provided a sufficient barrier to entry and that the removal of a slot length criteria would enable them to maximise their creative freedom and take advantage of the evolving trend of shorter content. Respondents acknowledged that this may lead to unintended consequences and that exclusions would have to be added in order to prevent abuse of the reliefs.

2.19 Some respondents expressed a preference for a reduction of the minimum slot length to 20 minutes, applied on an episode-by-episode basis, due to the clarity that it provided and to ensure that the HETV tax relief continued to target the type of content it was intended for.

Government Response

2.20 Having considered the responses received, the government will reduce the minimum slot length to 20 minutes, applying on an episode-by-episode basis. This will provide clarity and consistency across the industry and benefit genres such as comedy, which often have episodes under 30 minutes.

2.21 Whilst the government acknowledges the additional creative freedom that removing the minimum slot length entirely would bring businesses, it feels that on balance, a reduced slot length requirement will provide additional flexibility whilst preventing unintended consequences and opportunities for boundary pushing.

Defining a documentary

2.22 The government asked for views from stakeholders on the factors that should be considered when legislating a definition and any expected impacts.

Question 5: What factors should the government consider when writing a definition for a documentary?

Question 6: Do you anticipate legislation for a definition of a 'documentary' leading to any negative impacts on your production activities?

2.23 Respondents were clear that a definition for a documentary would provide certainty and clarity to the industry and would be welcomed. There was also agreement that the BFI definition was well understood and the use of it would be supported.

2.24 Most respondents were particularly supportive of a broad definition with specific exclusions, on things such as reality TV and product promotion. Respondents felt that this approach would provide sufficient flexibility over production decisions whilst ensuring the tax reliefs incentivised the intended types of production.

2.25 Some respondents recommended a definition which was not restrictive and which did not exclude all unscripted factual entertainment. These respondents felt that a strict definition would discourage innovation and reduce the UK's ability to take advantage of growing genres.

2.26 Several respondents were keen for further consultation on the documentary definition and said that they would welcome further guidance.

Government Response

2.27 The government is grateful to respondents for providing views on a legislated definition of a documentary. Having considered the responses received, the government will put the definition used by the British Film Institute into legislation: *"a factual or realistic programme based on real events, place or circumstances and intended to record or inform"*.

2.28 The government expects to add exclusions to the definition, in line with the consultation responses to ensure that the HETV tax relief continues to support and incentivise the intended content.

2.29 A full definition, including exclusions, will be published as part of draft legislation in summer 2023. The government welcomes views on the full definition and approach and will provide further detail and guidance.

Minimum expenditure threshold

2.30 In the consultation document, the government stated that it was *considering increasing the minimum expenditure threshold to better reflect current production costs and budgets*.

2.31 Whilst the government was not consulting on this proposal and the consultation did not include a specific question on this reform, most respondents expressed views on the raising of the minimum expenditure threshold for HETV tax relief.

2.32 Responses to the suggestion of raising the threshold were overwhelming negative. Analysis provided by respondents suggested that raising the threshold significantly would damage domestic production, particularly regional productions, comedies and documentaries as these productions often have lower budgets.

2.33 They also suggested that raising the threshold could have a further inflationary impact on production costs in the sector. There

were suggestions that there could be knock on effects for inward investment, as smaller productions often provide opportunities for training and building a talent pipeline. Respondents suggested that if the threshold were to be raised there would be a risk of certain productions being made abroad instead or not at all.

Government Response

2.34 The government acknowledges respondents' concerns about this reform and has made the decision to keep the minimum expenditure at £1 million per hour slot. As with all tax reliefs, the government will continue to review this.

Video Games

2.35 This section covers the government's response to the consultation questions specific to video games tax relief (VGTR). This includes the removal of legacy EU rules including the removal of European Economic Area (EEA) expenditure from the scope of VGTR and the removal of the £1 million per game subcontracting cap.

Removal of the eligibility of EEA expenditure

2.36 The government was interested in the views of stakeholders on removing the eligibility of EEA expenditure from VGTR and replacing this with a requirement for expenditure to be 'used or consumed' in the UK to align with the other tax reliefs.

Question 7: Would the removal of European expenditure from the qualifying costs of VGTR impact your production activities? Please describe how and include any quantitative/qualitative evidence.

Question 8: Do you anticipate any issues with the requirement of video games expenditure to be 'used or consumed' in the UK?

2.37 Respondents were broadly negative about the removal of the eligibility of EEA expenditure as a qualifying cost and felt that this would negatively affect game development, particularly given the globalised nature of the video games workforce.

2.38 A number of respondents felt that removal of EEA expenditure eligibility should be considered in conjunction with other elements of the relief (e.g. the subcontracting cap) to manage any adverse effects.

2.39 The majority of respondents raised concerns that there is not currently a sufficient amount of skilled labour or capacity in the UK to reallocate existing EEA spend.

2.40 Many respondents emphasised the importance of suitable transition arrangements, particularly for those games currently in development. Many respondents highlighted the importance of clear guidance on the meaning of 'used and consumed' and that the scope

of this definition would affect how the removal of EEA expenditure would impact games development.

Government response

2.41 In order to ensure that the UK is compliant with international trade obligations, EEA expenditure will not be included in the qualifying costs of the Video Games Expenditure Credit from its implementation on 1 January 2024. Qualifying expenditure will be goods or services that are 'used or consumed' in the UK.

2.42 Eligibility criteria for Video Games Expenditure Credit will be as follows: at least 10% of expenditure must be used or consumed in the UK.

2.43 This aligns the Video Games Expenditure Credit with the Audio Visual Expenditure Credit and the existing film and TV tax reliefs. The eligibility requirement for the Video Games Expenditure Credit marks a significant decrease from the current VGTR requirement of 25% of expenditure to be placed in the UK or EEA. The government expects this will support companies in adjusting to the new rules.

2.44 The government will work with industry and provide further guidance on the 'used or consumed in the UK' definition to ensure that it is fit for purpose in the video games context.

2.45 The government acknowledges the concerns of the video games sector about this shift. There will be a generous transition period to allow companies to adjust: games in development on 1 April 2025 may continue to claim the current VGTR, which will continue to allow EEA expenditure as a qualifying cost. VGTR will sunset on 31 March 2027. Any expenditure incurred from 1 April 2027 must be claimed under the expenditure credit regime.

2.46 If a business chooses to opt into the Video Games Expenditure Credit, they will no longer be able to claim EEA expenditure from that point.

Removal of the £1 million per game subcontracting cap

2.47 The government was also keen to understand subcontracting activities within the video games industry and how this would be impacted by changes to the subcontracting cap and to the eligibility of EEA expenditure.

Question 9: Please describe your current subcontracting activities, including the proportion of work that you tend to subcontract relative to your overall production activities, the type of work you subcontract, and the cost of the activity you subcontract.

Question 10: Would the removal of European expenditure from the qualifying costs of VGTR impact your subcontracting activities?

Please describe how and include any quantitative/qualitative evidence.

Question 11: Would an increase to or removal of the £1 million subcontracting limit impact your production activities? Please describe how and include any quantitative/qualitative evidence.

2.48 A large proportion of video games producers subcontract at least some of their work. The amount varies between firms, with larger producers tending to utilise subcontractors more and being more likely to exceed the £1 million per game cap.

2.49 Respondents were supportive of proposals to increase or remove the subcontracting cap, although it was felt that this could have limited impact for those companies who did not currently hit the cap, with larger firms more likely to benefit.

2.50 Respondents expressed a preference for a removal of the cap altogether, rather than an increase.

2.51 Many respondents again highlighted the importance of clear, digestible guidance on any changes to the regime.

Government response

2.52 The government will not introduce a subcontracting cap for the Video Games Expenditure Credit.

2.53 The subcontracting cap will be maintained in VGTR.

Reform of audio-visual reliefs to expenditure credits

2.54 This section relates to questions asked in the consultation on proposals to reform all the audio-visual tax reliefs to expenditure credits.

Question 12: Do you claim more than one audio-visual relief? If so, which ones?

2.55 Most respondents in the film and TV sectors claimed more than one tax relief. HETV tax relief was the most commonly claimed relief by respondents. Many respondents reported claiming ATR and CTR significantly less frequently than FTR and HETV tax relief.

2.56 Most respondents that claim VGTR reported that they do not claim FTR, HETV tax relief, ATR or CTR.

Expenditure credit model.

Question 13: Do you think the expenditure credit should fully replace the existing audio-visual reliefs? If not, please explain why and what changes to the expenditure credit design might change your view.

Question 14: Do you expect the implementation of the OECD Pillar 2 model rules in the UK and globally to impact the benefit of the UK's reliefs in their current form? And if so, how?

Question 15: Assuming the same level of overall generosity, would an expenditure credit model alter the benefit of the relief(s) to you? If so, how? Please include any expected impacts of the global implementation of the OECD Pillar 2 Rules on an expenditure credit model.

Question 16: For businesses operating internationally and advisors to businesses operating internationally, are you aware of any impact on a tax liability in another country that might follow the UK moving to an expenditure credit?

2.57 Several respondents stated that the implementation of the Pillar 2 rules would reduce the benefit of the existing reliefs and this was a significant concern for them. Many respondents agreed that the government should make any necessary reforms to ensure the reliefs continue to work as intended following the implementation of the OECD 'Pillar 2' rules in the UK and elsewhere. Many respondents confirmed that a reform to expenditure credits would achieve this.

2.58 Respondents unanimously expressed the importance of the expenditure credits providing the same economic value as the current regime. Most respondents commented that they would not be opposed to the reliefs being reformed to expenditure credits if the benefit provided by the new model was the same and if the ease of the claims process and speed of delivery of the credits would be unaffected.

2.59 Some respondents felt that the consultation document did not provide enough information for respondents to effectively comment on the proposed expenditure credits. Many respondents recommended that specific steps of RDEC should be omitted or reformed for the expenditure credits. The most common suggestions were as follows:

- a) The government should carefully consider the treatment of surrenderable losses as many respondents felt that this was an important feature of the current reliefs. Respondents also noted that the government should ensure the approach to surrenderable losses under the expenditure credits was compliant with the OECD definition of a 'qualified refundable tax credit'. This would be essential for fulfilling the government's aim of putting beyond doubt concerns about the negative impact of the implementation of Pillar 2 on the reliefs.
- b) Step 3 of the RDEC calculation, which caps the credit a company may receive against a company's total expenditure on workers' PAYE and NICs for the accounting period, should be removed creative expenditure credits as staff are generally freelance and not subject to PAYE.

2.60 A small number of respondents raised concerns about how the current reliefs and proposed expenditure credits would interact with the US' global intangible low-taxed income regime (GILTI).

Government Response

2.61 The government will proceed with introducing expenditure credits for the film, TV and video games tax reliefs.

2.62 As suggested by several respondents, the equivalent rate for the expenditure credits model would be 33.3% recurring. For simplicity and to further improve the competitiveness of the UK regime, the expenditure credits will have a rate of 34% for film, high end TV and video games and 39% for animation and children's TV.

2.63 The basic principles of the expenditure credits are set out on page 6. The government will set out the detail of the expenditure credits alongside draft legislation in Summer 2023 and welcomes feedback.

2.64 The government will explore how it can ensure that the tax reliefs maintain their generosity in conjunction with the US' GILTI.

Transitional arrangements

2.65 The consultation document asked for comments on transitional arrangements to the new system and how this could be eased for companies.

Question 17: For businesses and advisors, what challenges do you envisage encountering on taking up the expenditure credit? If necessary please provide details of any specific procedural changes and/or associated costs.

Question 18: What specific steps could the government take to help businesses who currently claim the existing audio-visual reliefs manage the transition to claiming expenditure credits?

2.66 The overwhelming majority of respondents stated that the government should ensure a smooth transition to the expenditure credits. Many respondents stressed that the transition would particularly impact small businesses.

2.67 Several respondents recommended a transitional arrangement lasting at least 2 years where companies would have the option of either claiming expenditure credits or continuing to claim the current reliefs.

2.68 Others suggested that a pilot or trial period could be run for the expenditure credits with the large companies that are in scope of pillar 2. This would allow unintended consequences to be identified and remedied before the expenditure are rolled out to the rest of the subsectors.

2.69 Many respondents stated that a high level of support and guidance should be provided HMRC to educate companies about how the expenditure credits will operate in practice.

Government response

2.70 The government agrees that the successful introduction of expenditure credits will be contingent on a smooth transition. The government welcomes the points raised in the consultation.

2.71 Transitional arrangements are outlined on pages 6-7.

2.72 The government recognises that there is currently significant uncertainty about how the expenditure credits will operate in practice. The government will provide thorough guidance and education about the expenditure credits after the detail of how these credits will work is published in Summer 2023.

Cross-cutting questions

2.73 The consultation asked a number of additional questions relevant to all of the audio-visual tax reliefs, including on the administration of the reliefs and compliance. This section summarises the responses received on these questions and sets out the government's response.

Question 19: What changes not covered in this consultation would improve the administration of the audio-visual tax reliefs?

Question 20: Is there anything within the design of the current schemes that might be lost if they were reformed?

Question 21: Do you expect the Subsidy Control Act 2022 to impact the reforms proposed in this consultation? If so, please describe how.

Question 22: What changes could be made to the reliefs to safeguard them from abuse?

2.74 Most respondents highlighted the ease of administration of the current reliefs and speed of payment as major reasons for the success of the regime. Respondents felt that changes to the administration of the reliefs should be moderate and subject to discussions with industry and that any reforms should not have a negative impact on the administration of the reliefs.

2.75 Most respondents felt that the Subsidy Control Act 2022 would not impact the proposed reforms. Some respondents noted that the removal of the 80% cap on qualifying expenditure may cause an issue and that the government should obtain legal advice and ensure reforms are compliant with the Act and any international treaty obligations.

2.76 The overwhelming majority of respondents felt that overall levels of abuse of in the scheme are low and that the current measures in place to prevent abuse are sufficient. Respondents felt that proposals for further compliance should be consulted on and that guidance should be published.

Government response

2.77 The government is committed to ensuring the audio-visual tax reliefs remain straightforward to administer and do not allow opportunities for abuse.

2.78 The government will implement limited administrative changes to improve compliance and address unintended consequences in April 2024. These measures are outlined on pages 8-9.

80% cap on qualifying expenditure

2.79 The consultation document stated that the government acknowledges a perception that the 80% cap on qualifying expenditure encourages the more portable aspects of production, such as visual effects, to move abroad. The document stated that the government *will* explore removing the cap but this may necessitate a lower overall credit rate to avoid a substantial additional cost to the taxpayer.

2.80 The consultation did not include a specific question about this proposal, however most respondents expressed views on the removal of the cap in their responses.

2.81 Responses to the suggestion of removing the cap and setting a lower overall credit were overwhelmingly negative. Respondents felt that lowering the headline rate of relief would reduce the competitiveness of the UK as a place to invest and damage domestic production. Several respondents suggested that this reform could lead to the UK losing productions to countries with higher rates of relief.

2.82 Many respondents commented that removing the cap without lowering the headline rate of relief would be welcomed and would lead to increased spend on UK visual-effects work and animation. Other respondents noted that many productions do not exceed the 80% cap due to editorial choices to place more than 20% expenditure elsewhere and therefore the positive impact of removing it would be limited.

2.83 Some respondents suggested that the government should introduce further targeted support for visual effects and animation instead of removing the cap for all expenditure, to prevent deadweight and improve the competitiveness of the UK's offer for visual effects.

Government response

2.84 In line with consultation responses and to maintain the affordability of the reliefs, the government will maintain the 80% cap on qualifying expenditure in the current regime and in the new expenditure credit model.

2.85 The government will consider the case for targeted support for visual effects and will provide an update on this later in the year.

Animated programmes will benefit from an increased rate of relief under the new regime.

Chapter 3

Annexes

Annex A: Current steps to calculate Research and Development Expenditure Credit

- A.1** The expenditure credit discharges the Corporation Tax liability for the accounting period to which the expenditure credit claim relates.
- A.2** If the amount of credit remaining after step 1 exceeds the net value of the credit (gross credit minus the notional main Corporation Tax rate), you must use the net value of the credit in step 3. The remainder is carried forward for use in future accounting periods.
- A.3** The credit must not be higher than your company's total expenditure on your workers' PAYE and NICs for the accounting period. Amounts in excess of the cap can be carried forward for use in future periods.
- A.4** The remaining amount is used to discharge any outstanding Corporation Tax liabilities for any accounting periods.
- A.5** The credit can be surrendered in whole or part to any group member.
- A.6** The credit can be used to discharge any other company liabilities
- A.7** The final amount can be paid to your company.

Annex B: List of respondents

RD Studios

Fruity Systems

Haines Watts

Grasp The Nettle Films

Wildseed Studios

Magic Dust VFX

Equity

Entain

Kindred Communications

PWC

ICAEW

JL Media

BBC

Sky

Directors UK

Film Export UK

TIGA

Eagle Eye Drama

UKIE

MG Alba

Mac TV

MPA

Animation UK

Welsh Government

Channel 4

Documentary Producers

TAC

Merman TV

S4C

Netflix

Adastra Development

Institute for Creative and Cultural Entrepreneurship (Goldsmith
University)

Paramount

NBC

Film London

Saffery Champness

Deloitte

Grant Thornton LLP
Moore Kingston Smith LLP
Children's Media Foundation
RSM UK Tax and Accounting Ltd
Wiggin
British Screen Forum
STV Studios
Warner Brothers Discovery
British Film Institute
UK Screen Alliance
Bectu
British Film Commission
SRLV
All 3 Media
Screen Skills
ITV
Sumo Group
Framestore
Peter Denison-Pender
Innovate UK
beloFX
Creative UK
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