

Corporation tax: increasing the rate of film tax relief

Who is likely to be affected?

Companies within the charge to corporation tax that are directly involved in the production of films.

General description of the measure

This measure will increase the rate of film tax relief (FTR) to 25% for all qualifying core expenditure, for all eligible film productions. The distinction between limited budget films and all others will be removed.

Policy objective

This measure is to encourage the production of culturally British films in the UK. Moving to one rate for all expenditure will also contribute towards simplifying the tax system.

Background to the measure

This measure was announced at Budget 2015.

Detailed proposal

Operative date

Subject to state aid approval by the European Commission, the changes will have effect on and after 1 April 2015 or the date of state aid approval, whichever is the later date.

Current law

FTR currently applies at a rate of 25% for the first £20 million of qualifying core expenditure, and 20% to amounts thereafter, for all eligible film productions. FTR can be claimed on eligible UK production expenditure, up to a maximum of 80% of the total film budget.

For a film to be eligible for relief, it must be certified as British by passing a cultural test administered by the Department for Culture, Media and Sport (DCMS) (though the British Film Institute actually administrate the scheme on a day to day basis) or qualifying as an official co-production. In addition, a minimum of 25% of its budget must be spent on UK qualifying production expenditure.

Proposed revisions

Subject to state aid approval, Part 15 Corporation Tax Act 2009 will be amended as follows:

Section 1200 (3) (a) and (b) sets out the additional deduction (enhancement) that a film production company can claim on its qualifying expenditure. The additional deduction is intended to create a loss which can be surrendered in exchange for a tax credit. The rate of enhancement is dependent on whether a film is a limited budget film (which gets 100% enhancement) or any other film (which gets 80% enhancement). This distinction will be removed to allow for all films to be treated equally and be enhanced by 100%

Section 1202 (3) sets out the rate of the payable credit that a company is entitled to. Until recently, this was based on whether the film was a limited budget film (which got 25% credit) or any other film (which was entitled to a 20% credit). However Finance Act 2014 removed some of this 'cliff edge' by allowing all films up to the 'limited budget' band to claim 25% credit and 20% credit for the remainder. This distinction will be removed so that all films, regardless of budget, are entitled to a 25% credit.

Summary of impacts

Exchequer impact (£m)	2015-16	2016-17	2017-18	2018-19	2019-20
	-5	-	-	-	-
	These figures are set out in Table 2.1 of Budget 2015 as 'Creative industries: extend support' and have been certified by the Office for Budget Responsibility. They represent the combined Exchequer impact of 'Extend film tax relief to 25% for all expenditure', 'Extend high-end TV relief' and 'Orchestras relief'. More details can be found in the policy costings document published alongside Budget 2015.				
Economic impact	This measure is expected to have a positive impact on the film industry, but is not expected to have significant wider macroeconomic impacts.				
Impact on individuals, households and families	The relief will only be available to companies producing films and so is not expected to impact on individuals, households or family formation, stability or breakdown.				
Equalities impacts	The government has carefully considered whether this measure impacts on groups of people sharing protected characteristics differently to other groups, and has not identified any equalities impacts.				
Impact on business including civil society organisations	<p>This measure is expected to have a negligible impact on businesses.</p> <p>The tax relief for film production allows qualifying businesses to claim a payable tax credit, supporting the production of culturally British films in the UK. There are around 200 to 300 films a year benefiting from film tax relief.</p> <p>Because this relief is an extension to the existing rate of film tax relief, it is unlikely that many eligible businesses will face one-off and ongoing administrative costs in order to qualify, as they will already have some knowledge of the existing relief. It is expected that a very small number of businesses, with no knowledge of any of the creative industry taxes, may incur negligible one-off costs associated with familiarisation with new legislation, processes and requirements. The negligible ongoing costs include the costs of calculating and claiming the relief. On average, it is expected that businesses will make 2 claims per year.</p> <p>This measure is expected to have no impact on civil society organisations.</p>				

Operational impact (£m) (HMRC or other)	The additional costs or savings for HM Revenue & Customs and other government departments (Department for Culture, Media & Sport) in implementing this change are anticipated to be negligible.
Other impacts	<u>Small and micro business assessment</u> : this measure is expected to have no impact on small and micro businesses. Films produced with a budget below £20 million already qualify for the tax credit at 25%. Other impacts have been considered and none have been identified.

Monitoring and evaluation

The measure will be kept under review through communication with affected taxpayer groups.

Further advice

If you have any questions about this change, please contact Kerry Pope on 03000 585740 (email: Kerry.Pope@hmrc.gsi.gov.uk).