



HM Treasury

# **Call for evidence on the UK visual effects sector**

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November 2023



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# Contents

<b>Chapter 1</b>	<b>Introduction</b>	<b>7</b>
<b>Chapter 2</b>	<b>Background</b>	<b>12</b>
<b>Chapter 3</b>	<b>The visual effects sector</b>	<b>14</b>
<b>Chapter 4</b>	<b>The film and high end TV tax reliefs</b>	<b>16</b>
<b>Chapter 5</b>	<b>Summary of questions</b>	<b>18</b>
<b>Chapter 6</b>	<b>Processing of personal data</b>	<b>20</b>
<b>Chapter 7</b>	<b>Annexes</b>	<b>23</b>

## Foreword

From Harry Potter to Shakespeare, from Grand Theft Auto to Manic Miner, from Happy Valley to Sooty and Sweep, from Ed Sheeran to The Beatles, the UK has built a world-leading creative industries sector. The sector provides high-skilled jobs, high quality output and significant growth for the UK economy, growing at over one and a half times the rate of the wider economy between 2010 and 2019, contributing £126 billion in GVA in 2022.

The UK visual effects industry is one of the most innovative parts of the creative sector and has gone from strength to strength in the last two decades. Whether it is creating alien landscapes or digitally ageing cast members, our highly talented and adaptable workforce has made the UK a world-leading centre for visual effects.

The Government consulted on how the visual effects sector could be better supported through the tax system in 2013 and took action by amending the cultural test and the amount of expenditure that a company must place in the UK to qualify for the film or high-end TV tax relief. I am immensely pleased that there have since been many reports of films that are otherwise produced overseas sourcing visual effects from the UK, and that the strength of the UK's talent has been recognised with multiple Oscars.

I am proud to say that 10 years on, the Government remains as committed as ever to supporting the visual effects sector. I can confirm that we will provide more additional tax relief for expenditure on visual effects, to boost the international competitiveness of the UK's offer. This call for evidence takes the first, crucial step towards this, as it will provide the Government with the depth of understanding it needs to develop targeted proposals that best serve the needs of the visual effects industry.

I thank you in advance for your engagement.

**Jeremy Hunt MP**

**Chancellor of the Exchequer**

# Chapter 1

## Introduction

- 1.1 As set out by the Prime Minister, growing the economy is one of the Government's five priorities.
- 1.2 The UK economy has many strengths, which will underpin future growth, in particular, our digital, life sciences and creative sectors which are among the largest in the world. The creative sector alone employs over 2 million people in the UK, and grew one and a half times faster than the UK economy as a whole between 2010 and 2019.
- 1.3 In June 2023, the Government published a Sector Vision for the creative industries, which set out shared Government and industry ambitions to grow the sector by £50 billion in GVA, to build a skills pipeline to support one million more jobs in the sector, and to maximise the positive impact of the creative industries across society, the environment and the UK's global standing.
- 1.4 This year, the Government announced £77 million in new funding for the creative sector, bringing the total announced since 2021 to £310 million.
- 1.5 The Government continues to support the sector through the creative sector tax reliefs. These reliefs promote the sustainable production of culturally relevant productions and help to boost investment into those productions that might not otherwise be made in the UK.
- 1.6 The creative sector tax reliefs do this by allowing qualifying companies to increase their amount of deductible expenditure. This reduces the amount of Corporation Tax that the company needs to pay.
- 1.7 Under the current film and high-end TV tax reliefs, relief is calculated on the basis of their qualifying expenditure. This is capped at the lower of 80% of a production's total 'core costs' or 100% of the core costs that are incurred in the UK. This means that, in effect, additional tax relief is payable on up to 80% of qualifying expenditure.
- 1.8 At Autumn Statement 2022, the Government launched a consultation on a package of reforms for the audio-visual tax reliefs, covering, film, high end TV, animation, children's TV and video games. The aim of these reforms was to simplify and modernise the reliefs, and ensure they continue to work effectively following the implementation of the OECD 'Pillar 2' global minimum tax rules, and the UK's wider international obligations.
- 1.9 In that consultation, the Government acknowledged stakeholder views that the 80% cap on qualifying expenditure encourages the more portable aspects of production, such as visual effects, to move abroad.

Stakeholders claimed that productions place 80% of their budget in the UK, and then place the final 20% (which is often visual effects) elsewhere to benefit from the tax reliefs provided by other countries.

1.10 The Government invited views on the removal of the cap as part of reforming the reliefs to refundable expenditure credits but noted that this may necessitate a lower overall credit rate to avoid a substantial additional cost to the taxpayer and ensure value for money.

1.11 Responses to the suggestion of removing the cap, paid for with a lower overall credit rate, were overwhelmingly negative. Respondents, including representatives of the visual effects industry, felt that lowering the headline rate of relief would reduce the competitiveness of the UK as a place to invest and damage domestic production.

1.12 In line with consultation responses and to maintain the affordability of the reliefs, at Spring Budget 2023 the Government announced that the 80% cap on qualifying expenditure would be maintained under the new Audio-Visual Expenditure Credit. Animated programmes will benefit from an increased rate of relief of 5% under the Audio-Visual Expenditure Credit, which will be introduced in January 2024.

1.13 The Government has concluded that there is a strong case for further, targeted support through the tax system for visual effects expenditure. The Government is keen to boost the competitiveness of the UK's offer for investment in visual effects, to help to fully harness the cultural, technological and economic benefits of this innovative industry to the UK.

1.14 The Government intends to deliver further support through increasing the generosity of the Audio-Visual Expenditure Credit for visual effects expenditure. The Government has not decided exactly what type of change(s) it will pursue, and this decision will be informed by responses to this document.

1.15 The purpose of this call for evidence is to equip the Government with an up-to-date and detailed understanding of the visual effects industry. Information provided by respondents will help the Government develop targeted proposals for increasing the generosity of the Audio-Visual Expenditure Credit for visual effects, that reflect the nuances and specific needs of the visual effects industry.

1.16 The Government intends to consult on detailed proposals for changes to the Audio-Visual Expenditure Credit to better support visual effects expenditure in Spring 2024. It is the Government's intention to implement further support for visual effects expenditure from April 2025.

## **The UK visual effects sector**

1.17 Visual Effects or "VFX" is the digital manipulation of images to enhance, augment or replace elements of live-action shots in films and TV. It is intrinsic in most feature films and many TV dramas.



1.18 The UK has historically been a strong performer on visual effects production and is home to several award-winning visual effects studios. British studios are world-renowned for high quality and innovative work and for their highly skilled and talented workforce.

1.19 Nevertheless, there have been reports of visual effects activity moving overseas, with some UK-based companies reportedly focussing their expansion overseas.

1.20 In 2013 the Government consulted on further support for the visual effects industry and took the following actions to incentivise production companies to place more visual effects work in the UK:

- a) Reduced the amount of expenditure that had to be placed in the UK to qualify for tax relief from 25% to 10%
- b) Amended the cultural test to allow for 'European' as well as British films and to make it a 35-point test with a pass mark of 18, with an increase in the points available for principal photography/special effects/visual effects
- c) Increasing the generosity of film tax relief from a headline rate of 20% to 25%

1.21 The Government understands that there remain concerns that the continued existence of the 80% cap means visual effects expenditure continues to be placed overseas, and wishes to address this. However, the Government holds limited information on the extent of this issue, and of wider trends in the visual effects sector in the last 10 years.

1.22 The Government is keen to develop a detailed, accurate and up-to-date picture of the UK's visual effects industry, and the types of high-value visual effects activities that we should seek to further incentivise to take place in the UK. As part of this, the Government wants to understand how the 80% cap impacts decisions taken by production companies on where to spend money on visual effects work, and how amending it to benefit visual effects expenditure would affect investment decisions.

## **Call for evidence aims**

1.23 The Government is seeking responses from external stakeholders to inform its thinking on how best to amend the Audio-Visual Expenditure to provide more generous tax relief for visual effects. This includes the type of visual effects expenditure that should be in scope, and the type of eligibility requirements that would be appropriate.

1.24 To inform policy development, information is needed on:

- The current size and composition of the UK visual effects industry;
- The types of visual effects activities commissioned by production companies for film and high-end TV productions, and views on the

relative importance of these activities in terms of economic, cultural and technological benefits to the UK;

- Details of the economic and cultural contributions of the industry;
- Factors that impact a production company's decision on where to place visual effects expenditure;
- The competitive advantages of the UK as a destination for visual effects work compared to other jurisdictions;
- The disadvantages of the UK as a destination for visual effects work compared to other jurisdictions;
- Examples of international policies that have been effective at incentivising visual effects activities.

## Process

### Who should respond to this call for evidence?

The Government is interested in receiving representations from all interested parties and stakeholders. We are especially interested in responses from:

- Businesses in the film and high-end TV sectors
- Visual effects studios
- Business groups and trade associations
- Accountants and accountancy bodies

### How to respond

The Government welcomes comments before 10<sup>th</sup> January 2024.

Responses should be sent by email to: [VFXcfe@hmtreasury.gov.uk](mailto:VFXcfe@hmtreasury.gov.uk)

Please use the email address provided above to ensure your response is taken into account.

When responding, please say if you are making a representation on behalf of a business, individual or representative body. In the case of representative bodies, please provide information on the number and nature of people you represent.

The Government will be consulting relevant stakeholders and interested parties through meetings during December. If you would like to be included in a consultative meeting, please contact us at the email above by 29<sup>th</sup> November.

The Government will publish a response to this call for evidence and a consultation on detailed proposals for further support in due course.

# Chapter 2

## Background

2.1 The government intends to provide additional tax relief for visual effects through amendments to the Audio-Visual Expenditure Credit (AVEC). AVEC will be implemented from 1 January 2024. It will cover the existing film, high end TV, children's TV and animation tax reliefs.

2.2 No changes will be made to the existing film tax relief or high-end TV tax reliefs, which will sunset in April 2027. Further information on the current reliefs can be found in Annex A.

### Administration of the Audio-Visual Expenditure Credit

2.3 The main difference between the existing tax reliefs and AVEC is how relief is calculated. The amount of credit will be calculated directly from qualifying expenditure instead of being an adjustment to the company's taxable profit, which is the case under the existing reliefs. Visual effects expenditure will remain a qualifying production cost.

2.4 At its implementation, AVEC will retain the 80% cap on qualifying expenditure.

2.5 In order to qualify for AVEC, productions must be certified as culturally British by the British Film Institute (BFI). They must pass a cultural test or qualify through an internationally agreed co-production treaty.

2.6 The steps to calculate AVEC are as follows:

1. Step 1: Add together the company's 'relevant global expenditure' on the production for the current accounting period and all prior periods.
2. Step 2: Deduct any expenditure that is not UK expenditure, from both the current period and all prior periods.
3. Step 3: If the Step 2 amount is more than 80% of the Step 1 amount, the company must deduct the excess to reach its 'qualifying expenditure to date'. In other words, the company's qualifying expenditure to date will be the Step 2 amount or 80% of the Step 1 amount, whichever is less.
4. Step 4: Deduct the company's qualifying expenditure to date from the last period in which the company was entitled to and claimed an expenditure credit (if applicable) from the qualifying expenditure to date for the current period. This gives the company's 'qualifying expenditure for the year'.

5. Step 5: Apply the relevant percentage rate of relief for the production to the qualifying expenditure for the year. Film and high-end TV production will get a credit of 34% of its qualifying expenditure for the year.

# Chapter 3

## The visual effects sector

**3.1** The visual effects sector makes a valuable economic and cultural contribution to the UK, supporting the performance of the wider digital and creative content sectors. This includes the film and high-end television industries, which the Government aims to support through its targeted creative sector tax reliefs.

**3.2** This chapter requests information from stakeholders on the size, composition and characteristics of the visual effects industry, with a particular focus on recent changes and trends within the industry and the factors driving them.

**3.3** This information will support the development of options for further, targeted support delivered through the Audio-Visual Expenditure Credit.

**Question 1:** How do you define 'visual effects'? As part of your answer, please provide information on:

- The different sub-categories or types of visual effects and an indication of the cost of producing these subcategories.
- How visual effects is different from 'special effects'
- How visual effects is different from animation.

**Question 2:** Please provide information on the current size and composition of the UK visual effects industry. For example, information on the total number and size of UK companies, levels of employment, amounts spent on visual effects annually, estimates of total revenues or GDP contribution, and breakdown of activity by market (film, television, video games, advertisements etc.).

**Question 3:** How has the UK visual effects industry performed in recent years, and what have been the main business and wider economic trends? Please provide detailed information or examples, including (but not limited to) the following, and information on the factors that have driven these changes:

- changes in overall levels of activity and employment within the UK visual effects industry;
- trends in visual effects activity on culturally British films;

- examples of visual effects activity, companies or employment moving overseas, and estimates of the value of this activity; and
- details of British films (particularly large budget films) choosing to spend their visual effects budgets outside the UK.
- the proportion of production budgets for a) films and b) TV programmes that are spent on visual effects.

**Question 4:** What trends or changes do you expect to see in the visual effects industry in future? Please include information on how you expect technological advancements to affect the production of visual effects in future.

**Question 5:** What do you see as the most valuable types of visual effects work to the UK? What forms of visual effects would be most beneficial for the Government to attract to the UK? This could be in terms of economic, cultural and/or technological benefits.

**Question 6:** For production companies, do you source visual effects work 'in-house' (i.e from your own subsidiary companies) or from elsewhere?

**Question 7:** For production companies, if you source your visual effects from a subsidiary company or companies, are these companies based in the UK or overseas?

**Question 8:** For production companies, in cases where you choose to place the visual effects portion of your budget outside of the UK, what are the main reasons for this, which are the main countries that you place visual effects work in and why do you place visual effects work in these countries? The government is interested in both tax policies and wider policies or factors in other countries.

**Question 9:** For production companies, what are the average budget ranges of high end TV / film productions that have substantial VFX components? For the purpose of this question, assume that 20% of the total number of shots in the production are subject to visual effects.

**Question 10:** How much VFX (as a % of the total number of shots) is commonly in lower budget productions (< £10 million production)?

**Question 11:** For productions costing > £10 million, what are the average costs of VFX work? Please provide figures as range.

**Question 12:** For production companies, at which point in the production cycle do you choose the VFX studio that you will work with?

# Chapter 4

## The impact of tax reliefs on expenditure on visual effects

4.1 The film and high-end TV tax reliefs have played a pivotal role in the success of the UK's creative industries.

4.2 Since 2007, the film tax relief has provided more than £21 billion of support to over 4000 films and since 2013, high end TV tax relief has provided more than £10 billion of support to over 900 programmes.

4.3 An independent report on the impact, appropriateness, proportionality and claims process of film, high end TV, children's TV and animation tax relief shows strong evidence that all four tax reliefs have made the UK a more attractive filming and production location and led to more productions taking place in the UK than would have otherwise occurred in the absence of the reliefs.

4.4 Inward investors have highlighted how the reliefs complement the UK's other advantages, such as high-quality screen industry infrastructure and talented cast and crew, whilst a survey of predominantly domestic production companies claiming film tax relief suggested that 38% of productions would not have taken place without this relief.

4.5 However, some industry stakeholders have expressed concerns that the current design of the film and high-end TV tax relief could incentivise production companies to place visual expenditure outside of the UK.

4.6 In particular, the capping of the deduction for qualifying expenditure (at the lower of 80% of total 'core costs' or 100% of core costs that are incurred in the UK) means that a UK production is unable to benefit from the additional film/high end TV tax relief on the remaining 20% of its budget.

4.7 To note, companies currently benefit from 100% deductions on revenue expenditure under the normal Corporation Tax rules. We would expect most visual effects expenditure would be deductible as it would have been incurred wholly and exclusively for the purposes of the trade.

4.8 It has been stated that a possible unintended consequence of this is that VFX work, which is not tied to where filming takes place, and is therefore the most 'portable' part of the budget, can easily be moved



outside of the UK to a jurisdiction that will have additional tax relief available.

**4.9** Industry stakeholders cite this as a reason for reported trends of visual effects studios focussing their expansion overseas rather than in the UK.

**4.10** Internal analysis suggests that relatively few films and high-end TV productions have expenditure in the UK that is close to the 80% cap, though these are more likely to be higher-budget productions. The Government is keen to understand the impact of the cap on qualifying expenditure and decisions about which country to place visual effects work in, across businesses of different sizes.

**Question 13:** For production companies, how does the 80% cap on qualifying expenditure impact your decisions on where (ie. which country) to spend money on visual effects work?

**Question 14:** For production companies, please provide information about how many of your productions meet or exceed the 80% cap on qualifying expenditure. If possible, please specify the overall budgets of these productions and the proportion of expenditure on visual effects.

**Question 15:** For production companies, how would removing the 80% cap (only in relation to visual effects expenditure) impact your decisions about where to place visual effects expenditure?

**Question 16:** For visual effects studios, what features of the film and high end TV tax reliefs do you believe have impacted whether you have a) won and b) lost bids for visual effects work for feature film and TV programmes?

# Chapter 5

## Summary of questions

**Question 1:** How do you define 'visual effects'? As part of your answer, please provide information on:

- The different sub-categories or types of visual effects and an indication of the cost of producing these subcategories.
- How visual effects is different from 'special effects'
- How visual effects is different from animation.

**Question 2:** Please provide information on the current size and composition of the UK visual effects industry. For example, information on the total number and size of UK companies, levels of employment, amounts spent on visual effects annually, estimates of total revenues or GDP contribution, and breakdown of activity by market (film, television, video games, advertisements etc.).

**Question 3:** How has the UK visual effects industry performed in recent years, and what have been the main business and wider economic trends? Please provide detailed information or examples, including (but not limited to) the following, and information on the factors that have driven these changes:

- changes in overall levels of activity and employment within the UK visual effects industry;
- trends in visual effects activity on culturally British films;
- examples of visual effects activity, companies or employment moving overseas, and estimates of the value of this activity; and
- details of British films (particularly large budget films) choosing to spend their visual effects budgets outside the UK.
- the proportion of production budgets for a) films and b) TV programmes that are spent on visual effects.

**Question 4:** What trends or changes do you expect to see in the visual effects industry in future? Please include information on how you expect technological advancements to affect the production of visual effects in future.

**Question 5:** What do you see as the most valuable types of visual effects work to the UK? What forms of visual effects would be most

beneficial for the Government to attract to the UK? This could be in terms of economic, cultural and/or technological benefits.

**Question 6:** For production companies, do you source visual effects work 'in-house' (i.e from your own subsidiary companies) or from elsewhere?

**Question 7:** For production companies, if you source your visual effects from a subsidiary company or companies, are these companies based in the UK or overseas?

**Question 8:** For production companies, in cases where you choose to place the visual effects portion of your budget outside of the UK, what are the main reasons for this, which are the main countries that you place visual effects work in and why do you place visual effects work in these countries? The government is interested in both tax policies and wider policies or factors in other countries.

**Question 9:** For production companies, what are the average budget ranges of high-end TV / film productions that have substantial VFX components? For the purpose of this question, assume that 20% of the total number of shots in the production are subject to visual effects.

**Question 10:** How much VFX (as a % of the total number of shots) is commonly in lower budget productions (< £10 million production)?

**Question 11:** For productions costing > £10 million, what are the average costs of VFX work? Please provide figures as range.

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**Question 13:** For production companies, how does the 80% cap on qualifying expenditure impact your decisions on where (ie. which country) to spend money on visual effects work?

**Question 14:** For production companies, please provide information about how many of your productions meet or exceed the 80% cap on qualifying expenditure. If possible, please specify the overall budgets of these productions and the proportion of expenditure on visual effects.

**Question 15:** For production companies, how would removing the 80% cap (only in relation to visual effects expenditure) impact your decisions about where to place visual effects expenditure?

**Question 16:** For visual effects studios, what features of the film and high-end TV tax reliefs do you believe have impacted whether you have a) won and b) lost bids for visual effects work for feature film and TV programmes?

# Chapter 6

## Processing of personal data

This notice sets out how HM Treasury will use your personal data for the purposes of inviting views on the UK visual effects industry and explains your rights under the UK General Data Protection Regulation (UK GDPR) and the Data Protection Act 2018 (DPA). For the purposes of the UK GDPR, HM Treasury is the data controller for any personal data you provide in response to this consultation.

### **Data subjects:**

This privacy notice relates to the use of personal data of any individuals identifiable from information provided in response to this call for evidence.

### **The data we collect (data categories):**

Personal data will be collected through email submissions to a mailbox and is likely to include individuals' names, email addresses, job titles as well as their opinions. It is possible that respondents may also volunteer additional information which identifies them or third parties.

### **Legal basis of processing:**

Article 6(1)(e) UK GDPR – the processing of this personal data is necessary for the performance of a task carried out in the public interest or in the exercise of official authority vested in HM Treasury. For the purpose of this call for evidence, this task is seeking opinion to support development of effective Government policy.

### **Special category data:**

HM Treasury will not ask you to provide any special category data as part of your response to this call for evidence.

### **Purpose:**

The personal data will be processed for the purpose of obtaining opinion from members of the public and representatives of organisations and companies about the development of Government policy.

HM Treasury will use the personal data to record comments and views and take these into account – as far as possible with all other replies – when decisions are being made following the consultation process. Collection of the personal data is necessary to understand who has responded and in case we need to contact them to discuss their response.

**Who we share responses with:**

Within HM Treasury, personal data you provide will only be available to teams working on this call for evidence. Your personal data will be shared with officials from HM Revenue and Customs (HMRC) who are working on the call for evidence alongside HM Treasury. This is because HMRC is the lead department for tax issues and a policy partnership between HMRC and HM Treasury is a key relationship in the design and delivery of tax policy.

HM Treasury will be sharing consultation responses in full with HMRC to; ensure continued dialogue between the HMRC and HM Treasury over its preferred approach to regulating the retail investment market and to facilitate discussion about the regulatory approaches which respondents may propose. In some instances, HMRC might need to contact you to ask questions about your consultation response.

As the personal data is stored on our IT infrastructure, it will be accessible to our IT contractor, NTT. NTT will only process this data for the purposes of the consultation and in fulfilment with the contractual obligations they have with us.

HM Treasury will publish a summary of responses, but this will not include any personal data.

**How long we will hold your data (Retention):**

Personal data in responses will be retained for three calendar years after the consultation has concluded.

**Your data protection rights:**

You have the right to request information about how your personal data are processed and to request a copy of that personal data.

You have the right to request that any inaccuracies in your personal data are rectified without delay.

You have the right to request that your personal data are erased if there is no longer a justification for them to be processed.

You have the right, in certain circumstances (for example, where accuracy is contested), to request that the processing of your personal data is restricted.

You have the right to object to the processing of your personal data where it is processed for direct marketing purposes.

You have the right to data portability, which allows your data to be copied or transferred from one IT environment to another.

**How to submit a Data Subject Access Request (DSAR):**

To request access to personal data that HM Treasury holds about you, please email:

[dsar@hmtreasury.gov.uk](mailto:dsar@hmtreasury.gov.uk) .

## **Complaints**

For more information about how we will use your personal data for the purposes of this call for evidence, please email us at:

[VFXcfe@hmtreasury.gov.uk](mailto:VFXcfe@hmtreasury.gov.uk)

If you have any concerns about our use of your personal data, please contact our Data Protection Officer in the first instance at:

[privacy@hmtreasury.gov.uk](mailto:privacy@hmtreasury.gov.uk)

If we are unable to address your concerns to your satisfaction, you can make a complaint to the Information Commissioner's Office (ICO), the UK's independent regulator for data protection at:

[casework@ico.org.uk](mailto:casework@ico.org.uk)

Any complaint to the Information Commissioner is without prejudice to your right to seek redress through the courts.

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# Chapter 7

## Annexes

### **Annex A: Administration of the existing film and high-end TV tax reliefs**

**7.1** Productions that are in train on 31 March 2025 may continue to claim the existing film, high-end TV, animation, and children's TV tax reliefs until 1 April 2027. These tax reliefs will cease on 1 April 2027. No expenditure will be eligible for these reliefs from this date.

**7.2** There are two main components of the current tax reliefs: an additional tax deduction and a payable tax credit.

**7.3** The following steps are taken to calculate a claim:

- d) An additional deduction of up to 80% of the company's qualifying production costs is deducted to arrive at its taxable profit or loss. The additional deduction will be the lower of either 80% of total core costs or the amount of UK core costs. Visual effects expenditure is a qualifying production cost.
- e) If the additional deduction results in a loss for tax purposes, the entity can choose to carry this loss forward and offset against a future year's profit, or it can surrender it for the payable tax credit.
- f) The loss can be surrendered up to a maximum of the amount of the additional 80% deduction in the year plus any additional 80% deduction in prior years which has not already been surrendered, for a payable tax credit at a rate of 25% of the total loss being surrendered.
- g) When the loss is carried forward, that amount of loss can be surrendered as a credit in a later year, provided it hasn't already been offset against taxable profits.
- h) Productions must be certified as culturally British by the British Film Institute (BFI). They must pass a cultural test or qualify through an internationally agreed co-production treaty.

### **HM Treasury contacts**

This document can be downloaded from [www.gov.uk](http://www.gov.uk)

If you require this information in an alternative format or have general enquiries about HM Treasury and its work, contact:

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