



HM Treasury

# Consultation on additional tax relief for visual effects

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March 2024



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## Foreword

At Autumn Statement 2023, I set out that even more could be invested in our world-leading visual effects sector if we increased the generosity of the film and high-end TV tax credits for visual effects.

To provide the government with the depth of understanding needed to effectively design the additional tax relief, the government published a call for evidence on the visual effects industry, which closed on 10 January 2024. I greatly appreciate the constructive engagement and support provided by stakeholders across the film, TV and visual effects industries and tax experts.

At Spring Budget 2024, I announced that the government would remove the current 80% cap on qualifying costs in the Audio-Visual Expenditure Credit for UK visual effects. In addition, qualifying UK visual effects costs will receive a 5 percentage point increase in tax relief, for a total credit rate of 39%. The objective of these changes is two-fold: to address businesses' longstanding concern that the 80% cap drives visual effects work away from the UK, and to boost the UK's offer in an increasingly competitive international environment. These changes will take effect from 1 April 2025.

This consultation summarises the key themes in responses to the call for evidence and sets out the policy design of the additional tax relief.

As I set out at the Autumn Statement, the government is committed to ensuring the additional tax relief best serves the needs of the visual effects industry. I thank you in advance for your engagement on this next stage of policy development.

**Jeremy Hunt MP**

**Chancellor of the Exchequer**

# Chapter 1

## Introduction

### Background

1.1 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 an intrinsic part of many feature films and many TV dramas.

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

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

1.4 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%

1.5 Visual effects costs already receive additional tax relief, beyond normal Corporation Tax deductions, through the previous film and high-end TV reliefs and the new Audio-Visual Expenditure Credit (AVEC). However, the government announced at Autumn Statement 2023 that it will boost the competitiveness of the UK’s offer for investment in visual effects. This will help to fully harness the cultural, technological and economic benefits of this innovative industry to the UK.

1.6 On 22 November 2023, the government published a call for evidence on the visual effects industry, to equip the government with an up-to-date and detailed understanding of visual effects in the UK.

1.7 The call for evidence closed on 10 January 2024 and received 25 responses, which the government has considered carefully. HM

Treasury held 5 meetings with stakeholders and DCMS also held several meetings.

1.8 The government would like to thank stakeholders for providing detailed responses to the consultation, and for responding to additional requests for information. The government has used the information provided by respondents to design additional tax relief for visual effects costs, which is outlined in this document. The government looks forward to continued engagement with stakeholders as it moves to the next stage of the tax policy making process.

## Additional tax relief for UK visual effects costs

1.9 At Spring Budget 2024, the government announced that it would provide a 5 percentage point increase in tax relief for visual effects costs in film and high-end TV productions, for a total credit rate of 39% under the AVEC. The government will also remove the AVEC's 80% cap on qualifying expenditure, for UK visual effects costs. These changes to AVEC will take effect from 1 April 2025.

1.10 The government will publish draft legislation for the additional tax credit in Summer 2024.

1.11 No changes will be made to the existing film tax relief or high-end TV tax reliefs, which will cease to exist after 1 April 2027.

## Consultation objectives

1.12 The objective of this consultation is to set out in detail how the additional tax relief for visual effects will work and what types of costs will be in scope. The government is keen to identify and, if necessary, resolve any unintended consequence in the policy design before the publication of draft legislation for the policy.

1.13 The government is interested in feedback from a wide range of sources including individuals, companies, representative and professional bodies. The government especially invites comments from visual effects companies and film and high-end TV production companies. The government also particularly welcomes the assessment of accountants, tax advisors and lawyers.

## Consultation process

### Who should respond to this consultation

The government is interested in receiving comments 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 Wednesday 22 May 2024.

Where possible, when responding to questions please indicate the number of the question you are responding to.

Please emailing your response to [vmxconsultation@hmtreasury.gov.uk](mailto:vmxconsultation@hmtreasury.gov.uk). You can also send any questions on any aspects of this document to this address.

The government will publish a response to this consultation in due course.

## Chapter 2

# Key themes in responses to call for evidence on the UK visual effects industry

**2.1** The government ran a call for evidence on the visual effects from 22 November 2023 to 10 January 2024. The objective of the call for evidence was to provide the government with the depth of understanding needed to effectively design the additional tax relief for visual effects, and ensure it best serves the needs of the UK visual effects sector.

**2.2** The call for evidence received 25 responses.

**2.3** Key themes that emerged in responses to the call for evidence are summarised below.

### Recent trends and future opportunities in the UK visual effects industry

**2.4** Respondents agreed the UK visual effects sector is highly successful and has experienced steady growth in recent years. Some respondents noted that the sector has recently been negatively impacted by the actors' and writers' strikes in the US, but that it is expected to make a strong recovery. Many respondents highlighted the UK's strong reputation for excellent skills and deep expertise in visual effects.

**2.5** Most respondents highlighted increasing competition from other countries for visual effects work and noted that the UK's film and high-end TV tax relief regime has become less attractive to production companies since some jurisdictions have introduced visual effects-specific tax incentives. Respondents highlighted the visual effects tax incentives offered by Canada, France and Australia as being particularly attractive to production companies considering where to place visual effects activity.

**2.6** On future trends, respondents said that the use of visual effects in film and TV will continue to increase. Some respondents mentioned that virtual production, where visual effects are used in filming in real-time, will become increasingly common. Several respondents said that

artificial intelligence, including generative artificial intelligence, will become increasingly used in visual effects work.

## Definition of visual effects

**2.7** The majority of respondents suggested that the Government should follow the British Film Institute's (BFI) guide definition of 'visual effects' for the purpose of determining the types of costs that will be in scope of the additional tax relief. Respondents said that having a different definition of visual effects would add complexity to the additional tax relief and cause confusion amongst businesses.

**2.8** Some respondents suggested that virtual production costs and generative artificial intelligence costs should be in scope of the additional tax relief, to 'future-proof' the policy as these technologies become increasingly used in film and TV production.

**2.9** In response to the question about how visual effects differs from special effects, most respondents agreed that special effects are created physically whereas visual effects are created digitally. Several respondents noted that the BFI guidance on the Cultural Test provides a definition of special effects, which respondents agreed with.

**2.10** In response to the question about how visual effects differs from animation, most respondents said that animation is created entirely digitally, whereas visual effects is the digital alteration of live-action footage. Several respondents said the criteria for the animation tax relief will be sufficient to separate visual effects from animated productions: *A film or television programme is an "animation" if (and only if) (a) the imagery of the completed film or programme includes animation, and (b) the core expenditure on the completed animation constitutes at least 51% of the total core expenditure on the completed film or programme.*

## Government response

**2.11** The government is keen to avoid adding complexity to the UK tax credit regime and agreed that as far as possible, the definition of visual effects for the purpose of the additional tax relief should be consistent with the current guidance. The government will use the BFI's guide definition of visual effects as a starting point for the types of cost that will qualify for the additional tax relief. Special effects and animated productions will not qualify for the additional tax relief. Animated productions already receive an elevated rate of tax relief (a rate of 39%) through the AVEC. Further information on costs that will be in scope is provided in Chapter 3.

**2.12** The government appreciates the need to ensure the scope of the additional tax relief accounts for technological advancements, such as the use of AI. Regarding suggestions to include generative AI costs in the scope of the additional relief, the government assesses that this is not appropriate as generative AI does not involve live-action filming. It therefore does not meet the central principle of the BFI's definition of visual effects as the digital alteration of a production's images. In

addition, generative AI is not currently being used in visual effects production. Generative AI costs will therefore not qualify for the additional tax relief.

## Differences in the amount of visual effects work in higher-budget productions (budgets greater than £10m) and lower-budget productions (budgets less than £10m).

**2.13** Respondents broadly agreed that there is less visual effects work in lower budget productions. A few respondents stressed that the government should not introduce a minimum production budget that must be met for a production to qualify for the additional tax relief.

**2.14** There were mixed views on whether the government should require a minimum portion of a production budget to be spent on visual effects for a production to qualify. Some respondents said that implementing such requirements would be detrimental to lower-budget productions and that the quality of these would suffer from being ‘priced out’ of visual effects work.

### **Government response**

**2.15** The government is keen to encourage the use of UK visual effects services in production budgets of all sizes.

**2.16** The government will not introduce any budget requirements to the eligibility criteria for the additional tax relief. All qualifying UK visual effects costs in a film or high-end TV production will be eligible for the additional tax credit.

## Impact of the 80% cap on qualifying costs on the visual effects industry

**2.17** Respondents unanimously agreed that the 80% cap on qualifying costs incentivises production companies to place visual effects work on UK-based productions overseas.

### **Government response**

**2.18** The government acknowledges the concern amongst industry that the 80% cap on costs that may qualify for AVEC has led visual effects work on some UK productions to be placed overseas. To resolve this, the government will remove the 80% cap for qualifying UK visual effects costs.

## Impact of increasing competition from other jurisdictions on the visual effects industry

**2.19** The majority of respondents raised the targeted uplifts and/or specific visual effects tax reliefs offered by a small number of other jurisdictions. Most respondents agreed that these specific incentives have contributed to visual effects work on UK productions being placed overseas.

2.20 Several respondents recommended that the government should provide different levels of tax relief for visual effects costs incurred within and outside of London. These respondents suggested that costs incurred outside of London should receive a higher rate of relief, to encourage the growth of visual effects companies outside of London.

### **Government response**

2.21 The government will increase the rate of AVEC to **39%** for qualifying visual effects costs in film and high-end TV productions.

2.22 The government believes that the 5 percentage point increase will provide a substantial boost the competitiveness of the UK's offer for visual effects and lead to more visual effects work being done in the UK. Beyond the headline rate, our incentive compares favourably to other jurisdictions because the additional relief will be available on a wide range of costs. In addition, there will be no additional eligibility requirements that companies must meet to access it. This uplift comes on top of an already generous rate of relief for all other production costs. It will complement the existing strengths of the UK as a destination for visual effects work, including our world-class skills base.

2.23 The 39% credit rate for qualifying UK visual effects costs will align with the targeted tax credit uplifts for animated productions, and children's TV. This will prevent arbitrage between these different tax reliefs.

2.24 The 39% rate will apply UK-wide. The government will not pursue different rates for different regions of the UK. The government expects that a single enhanced rate will be effective in incentivising additional visual effects activity across the UK, which is the government's objective. A single rate will also ensure fairness and avoid adding additional complexity to policy, which would increase the administrative burden on businesses and government. In addition, the digital nature of visual effects would make it extremely difficult for the government to verify where in the UK the visual effects work has taken place.

### **Suggestions to review eligibility criteria for the Audio-Visual Expenditure Credit**

2.25 Some respondents suggested that the government should review the eligibility requirements of the AVEC, to better support companies in placing only the visual effects portion of their production budget in the UK. In particular, some respondents suggested that the government should review:

2.26 **The Cultural Test:** some respondents said that the need for productions to be certified as culturally British makes the UK less attractive for visual effects work, compared to jurisdictions which do not have a Cultural Test for visual effects-only projects. However, others said that the government should retain the Cultural Test requirements. Respondent said this will allow productions to continue to qualify as European Works, as defined by the Council of Europe's European

Convention on Trans-frontier Television. This allows productions shot in the UK to be counted in European broadcast and streaming quotas, defined by the EU's Audio-Visual Media Services Directive.

**2.27 The requirement for film and high-end TV productions to place at least 10% of their costs in the UK and set up a Film or Television Production Company to qualify for AVEC:** some respondents said that removing these requirements would allow more visual effects-only projects to be done in the UK.

#### **Government response**

**2.28** Whilst the government keeps the tax system under review, the government is not planning to change the eligibility requirements for the AVEC. These requirements help ensure that the AVEC meets its objective of supporting and incentivising culturally British productions. They also help safeguard the scheme from abuse.

# Chapter 3

## Design of additional tax relief for visual effects in film and high-end TV

3.1 This chapter sets how the additional tax relief for UK visual effects costs will be designed and invites stakeholders to comment. Following the consultation, the government will publish draft legislation for the additional tax relief, which stakeholders will again be invited to comment on.

### Eligibility requirements

3.2 Film and high-end TV productions claiming the Audio-Visual Expenditure Credit will be eligible for the additional credit. This means film and high-end TV productions will be required to meet the eligibility criteria of AVEC, in order to qualify for the additional visual effects tax relief.

### Visual effects costs in scope of the additional tax relief

3.3 The government will publish a full, draft definition of 'visual effects' as part of draft legislation for the additional tax relief, in Summer 2024. Industry will be invited to comment on the draft legislation.

3.4 The government will use the British Film Institute's definition of visual effects as a starting point for the legislation. The definition reads as follows: *Visual effects is defined to mean the digital alteration of a film's (or high-end programme's) images. This will include the following activities carried out as part of Asset Build, Shots and Facility Overhead, but not those activities relating to principal photography: Pre visualisation, Concept Design, Computer Generated Images (CGI), Character/Creature Animation, Colour Correction, 2D Compositing, 3D Animation, 3D Modelling, Software Development, Digital Intermediate, Stereo Conversion, Virtual Sets/Studio Motion Capture, Digital Matte Painting, Lighting and Rendering, Images as well as supervision, support and management of the artists and individuals engaged in this activity.*

3.5 The government agrees with the principle that visual effects involves the digital alteration of filmed footage.

3.6 It therefore proposes that the following types of costs will be **excluded** from the additional tax relief.

**3.6.1 Special effects:** Special effects are created physically rather than digitally. The BFI defined special effects in their guidance for the Cultural Test as follows: *Special effects is designed to mean artificial techniques or processes, which are not visual effects, used to create an illusion in a film. Special effects include, but are not limited to: Miniatures, Animatronics, Prosthetics, Atmospheric, Mechanical Effects, Flying Effects, Pyrotechnics, Animation and Puppets, Special Costumes, Action Props.*

**3.6.2 Generative artificial intelligence (AI):** Generative AI will not qualify for the additional tax credit, as it does not involve filmed footage and therefore does not meet the basic principle of the BFI's guide definition of visual effects.

**3.6.3 Animated TV and animated films:** films and TV programmes that qualify for the animation tax credit (now part of AVEC) will not qualify for the additional visual effects tax credit. They will only be able to claim AVEC as an animated film/TV programme, under which they will receive an enhanced rate of 39%.

**3.7 Virtual production:** Visual effects costs incurred in virtual production will be eligible to receive the additional tax credit. Other costs incurred in virtual production, such as filming in front of an LED screen, will not be eligible. The government expects companies to apportion virtual production and visual effects costs.

**Question 1:** Do you anticipate there to be any issues or unintended consequences with the government's approach to defining 'visual effects' for the purpose of the additional tax relief?

## Requirement for visual effects costs to be incurred in the UK

**3.8** To ensure the additional tax relief is targeted at supporting the UK visual effects industry, visual effects work must be carried out by UK-based staff in order to qualify for the additional tax relief..

**3.9** The government will work with the British Film Institute to develop a process for accrediting visual effects costs as genuine and incurred in the UK. Details will be published with draft legislation for the additional tax credit, in Summer 2024.

## Removal of 80% cap on qualifying costs, for UK visual effects costs

**3.10** The 80% cap will not apply to qualifying UK visual effects costs. This means that even if a company has placed 80% of its non-visual effects production costs in the UK, it can place visual effects work in the



UK and still receive the 39% credit rate on that visual effects expenditure.

**3.11** All other types of production costs will continue to be subject to the 80% cap.

### 5 percentage point increase in rate for UK visual effects costs

**3.12** Qualifying UK visual effects in film and high-end TV productions will receive a 5 percentage point increase in tax credit. The total rate of tax credit for UK visual effects expenditure will be 39%.

**3.13** The 39% rate applies to all qualifying UK visual effects in a production, regardless of whether the visual effects costs exceed or are below the 80% cap.

**Question 2:** Do you have any general comments on the government's proposed policy design for the additional tax relief for visual effects? If so, please state these.

**Question 3:** What factors should the government consider when writing draft legislation for the additional tax relief?

## Chapter 4

# Administration of the additional visual effects tax relief

**4.1** The additional tax credit will be delivered through the Audio-Visual Expenditure Credit (AVEC). The following steps will be used to calculate the additional tax credit:

**4.2** To qualify for the removal of the 80% cap and the 5 percentage point uplift in credit, the government intends that companies will have to verify their visual effects spend as genuine and incurred in the UK with the British Film Institute (BFI). HM Treasury and HM Revenue and Customs will work with the BFI to determine the details of this process. Further information will be provided in Summer 2024.

**4.3** UK visual effects costs should be separated from other production costs. The 80% cap will be applied as normal to non-visual effects costs. The 80% cap will not apply to UK visual effects costs (at Step 3 of section 1179CA CTA 2009).

**4.4** At Step 5 of section 1179CA CTA 2009, the relevant percentage for the production's qualifying costs that are UK visual effects will receive an uplifted AVEC rate of 39%. The relevant percentage for other costs will remain at 34%. Companies should show the amount of expenditure credit given at each rate in their computations.

**4.5** The process of redeeming expenditure credits in section 1179CC CTA 2009 is expected to remain unchanged.

# Chapter 5

## Summary of questions

Question 1: Do you anticipate there to be any issues or unintended consequences with the government's approach to defining 'visual effects' for the purpose of the additional tax relief?

Question 2: Do you have any general comments on the government's proposed policy design for the additional tax relief for visual effects? If so, please state these.

Question 3: What factors should the government consider when writing draft legislation for the additional tax relief?

# Chapter 6

## Processing of personal data

This section sets out how we will use your personal data and explains your relevant rights under the UK General Data Protection Regulation (UK GDPR). 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**

The personal data we will collect relates to individuals responding to this consultation. These responses will come from a wide group of stakeholders with knowledge of film and high-end TV production, including visual effects and/or the UK tax system.

### **The personal data we collect**

The personal data will be collected through email submissions and are likely to include respondents' names, email addresses, their job titles and opinions.

### **How we will use the personal data**

This personal data will only be processed for the purpose of obtaining opinions about the government's design of additional tax relief for UK visual effects costs in film and high-end TV production.

Processing of this personal data is necessary to help us understand who has responded to this consultation and, in some cases, contact certain respondents to discuss their response.

HM Treasury will not include any personal data when publishing its response to this consultation.

### **Lawful basis for processing the personal data**

Article 6(1)(e) of the UK GDPR; the processing is necessary for the performance of a task we are carrying out in the public interest. This task is consulting on the development of departmental policies or proposals to help us to develop effective government policies.

### **Who will have access to the personal data**

The personal data will only be made available to those with a legitimate need to see it as part of consultation process.

We sometimes conduct consultations in partnership with other agencies and government departments. This consultation is being

conducting in partnership with HM Revenue and Customs (HMRC). 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.

Personal data received in responses will be shared with HMRC in order for them to also understand who responded to the consultation.

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

### **How long we hold the personal data for:**

We will retain the personal data until work on the consultation is complete and no longer needed.

## Your data protection rights

Relevant rights, in relation to this activity are to:

- request information about how we process your personal data and request a copy of it
- object to the processing of your personal data
- request that any inaccuracies in your personal data are rectified without delay
- request that your personal data are erased if there is no longer a justification for them to be processed
- complain to the Information Commissioner's Office if you are unhappy with the way in which we have processed your personal data

## How to submit a data subject access request (DSAR)

To request access to your personal data that HM Treasury holds, please email: [dsar@hmtreasury.gov.uk](mailto:dsar@hmtreasury.gov.uk)

## Complaints

If you have concerns about Treasury's use of your personal data, please contact our Data Protection Officer (DPO) 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 at [casework@ico.org.uk](mailto:casework@ico.org.uk) or via this website: <https://ico.org.uk/make-a-complaint>.

### **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:

Correspondence Team  
HM Treasury  
1 Horse Guards Road  
London  
SW1A 2HQ

Tel: 020 7270 5000

Email: [public.enquiries@hmtreasury.gov.uk](mailto:public.enquiries@hmtreasury.gov.uk)