Research Briefing

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The creative industries tax reliefs: Policy and development

OFFICIAL

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Summary

The creative industries tax reliefs allow companies in a number of creative sectors to reduce the amount they have to pay in corporation tax. The relevant sectors are those involved in the making of films, high-end TV, children's TV, animation, video games, theatrical productions, orchestral productions, and exhibitions in museums and galleries. The calculation of the relief is broadly similar across these sectors, although in some cases different rates apply. For example, the rate of payable tax credit for films is 25%, whereas for theatrical productions it is 45% or 50% (according to the type of production). Depending on the type of creative output, different eligibility criteria also apply.

These tax reliefs have been legislated for in separate Finance Acts. These provisions are consolidated in parts 15 to 15E of the Corporation Tax Act 2009, as amended.

Cost and benefit of the reliefs

Between 2006/07 and 2022/23 (the last year where data is available), these tax reliefs had a cumulative cost of £12.5 billion to the government. Of this sum, just over £2.2 billion was paid in 2022/23. In this year, it was claimed by 3,615 companies relating to just over 9,000 projects. Half of the relief in this year was given to high-end TV productions, which accounted for £1.1 billion in relief. Research undertaken by industry bodies, as well as by HM Revenue and Customs (HMRC), has shown the reliefs have been successful in attracting investment to the UK creative industry.

How do the reliefs work?

Although different eligibility criteria apply according to the reliefs, their structure is broadly similar and was modelled around the format of the Film Tax Relief (FTR), the first relief introduced. Production companies can deduct part (in some cases, all) their qualifying expenditure from profits before calculating tax. This deduction is known as the 'additional deduction'. If the additional deduction results in the production no longer making a profit, or increasing the size of a loss, then some (or all) of this loss can be surrendered in exchange for a payable tax credit. The rates of payable credit vary according to the creative industry concerned.

Recent history of the creative tax reliefs

Prior to 2007, there were already existing provisions to support British film-making, but there was concern that filmmakers were not receiving the benefit of it, and that the set-up of the relief left it open to avoidance schemes. The Labour Government therefore introduced a new tax relief for film production: The creation of FTR was announced at Budget 2004 (PDF), and it came into force on 1 January 2007.

As the new relief proved successful, the Coalition and Conservative Governments introduced new reliefs for animation, video games, and high-end TV (at Budget 2012); for theatre (at Budget 2014), children's TV (at Budget 2015), orchestras, (at Budget 2016), and museum and galleries (at Autumn Statement 2016).

Recent developments: 2020 to 2024

The Covid-19 pandemic posed major challenges to creative sectors. The creative tax reliefs were fundamental to these industries as the Covid-19 pandemic put companies at risk. Aside from a package of measures provided by the Department for Digital, Culture, Media and Sport and HM Treasury to support recovery of the arts industry, in October 2021 the government also introduced temporary higher rates of tax relief for theatres, orchestras, and museums and galleries. Although the rates were supposed to be phased back to their pre-pandemic levels by 2024/25, the higher rates were extended to last until 2026/27 at Spring Budget 2023. At the Budget in March 2024, then Chancellor Jeremy Hunt announced the reliefs would be permanently set at a higher rate. Industry representatives and professionals, who had campaigned for this measure, reacted positively to the announcement. Provision for this was made in sections 16 to 18 of the Finance (No. 2) Act 2024.

Alongside policy changes to the reliefs for theatres, orchestras, and museums, in 2022 the government consulted on introducing a new fiscal support model for the 'audio-visual' tax reliefs (covering film, high-end TV, children's TV, animation, and video games). In March 2023, the government announced that these reliefs would be replaced by two new 'expenditure credits' (one covering film, animation, and TV productions, and the other one covering video games). At Budget 2024, the Conservative Government also announced that a higher expenditure credit rate would apply to low-Budget independent British films. Provision for this new credit is made by sections 14 and 15 of the Finance (No. 2) Act 2024.

Although several elements of the new expenditure credits are similar to the existing reliefs, the credits' calculation and accounting is different. The new expenditure credits will ensure production companies will not be subject to a 'top-up tax' under the Organisation for Economic Cooperation and Development's (OECD) Pillar Two rules.

Production companies can already claim under the expenditure credit regime if they wish. Productions beginning from 1 April 2025 will only be able to claim under the expenditure credit regime. They will completely replace the audio-visual tax reliefs from 1 April 2027.

Provision for the expenditure credits is made in the Finance Act 2024, section 3 and schedule 2. The measure is consolidated in part 14A of the Corporation Tax Act 2009, as amended.

1 Introduction

The creative tax reliefs allow companies in several creative industries to subtract certain expenses from their profits before calculating their corporation tax. This allows them to reduce their overall liability for tax.[1]

The first modern example of such a relief in the UK is the film tax relief (FTR), which was introduced in the Finance Act 2006 by the Labour Government.[2] In the following years, the Coalition and Conservative governments introduced reliefs to other creative industries (theatre, TV and children's TV, orchestras, video games, museum and galleries, and animation), broadly mirroring the format of the film tax relief.[3]

The creative tax reliefs have been hailed as a success by the industry, and the creation of additional reliefs after 2007 has never been a source of contention in Parliament. The main parties have always substantially welcomed this type of support for the creative industries. When new reliefs were introduced in financial statements after 2006, their inclusion in the relevant Finance Bill was always approved on the nod (therefore, without a division).

The tax reliefs are broadly split into two subsets: the 'audio-visual' tax reliefs, encompassing film, high-end TV, children's TV, animation, and video games; and the 'cultural' tax reliefs, which include theatre, orchestras, and museums and galleries. Between 2021 and 2024, the Conservative Government announced substantial changes to both of these subsets of reliefs. Policy changes have partly been made in response to the Covid-19 pandemic, and partly because of new requirements to introduce a global minimum tax rate.

The existence of the reliefs became particularly important during the Covid-19 pandemic, when creative industries (and especially performance-related ones) were affected by lockdowns and public health restrictions. The Johnson Government introduced temporary higher rates of tax reliefs for those industries to support them through the pandemic.[4] The higher relief rates were legislated to be temporary. Since then, there have been continuous calls from the industry as well as a number of MPs to make the higher rates of relief permanent. At Budget 2024, the then Chancellor of the Exchequer, Jeremy

1 HM Revenue and Customs (HMRC), Creative industry tax reliefs for Corporation Tax, updated 19 January 2024
2 HMRC, Film Production Company Manual, updated 7 August 2024, paragraph FPC10010
3 HM Revenue and Customs (HMRC), Creative industry tax reliefs for Corporation Tax, updated 19 January 2024
4 HMRC, Cultural Relief Rate Rises for Theatre, Orchestra, and Museums and Galleries Exhibition Tax reliefs, 27 October 2021

Hunt, announced that the rates would not return to their pre-pandemic levels, and would instead be permanently set at a higher level.[5]

Separately, to ensure compliance with the OECD 'Pillar Two' rules on a global minimum tax rate, the government announced in 2023 that the audio-visual tax reliefs would transition to the Audio-Visual Expenditure Credit; and the Video Games Tax Relief would transition to the Video Games Expenditure Credit.[6] The operation of the credits will broadly mirror that of the tax reliefs they are replacing, whilst ensuring no additional tax will be due on those companies as a result of the application of the Pillar Two rules.

This briefing outlines the current status and operation of the reliefs. The rates of relief reflect their status at the time of publication. The briefing then analyses their overall cost to the government, and their impact on the economy, and outlines their introduction and development between 2007 and 2017. After, it discusses the policy development to move the audio-visual tax reliefs to an expenditure credit model.

5 HM Treasury, Spring Budget 2024, 6 March 2024
6 HM Treasury, Audio-visual tax reliefs: consultation, 15 March 2023

2 What are the creative industries tax reliefs?

Companies who are liable for corporation tax and are involved in the development of creative outputs may be eligible for the creative industry tax reliefs.

Qualifying companies have to be directly involved in producing and developing either of the following to qualify for the relief:

- Films
- High-end television
- Children's television
- Animated television
- Video games
- Theatrical productions
- Orchestral concerts
- Exhibitions at museums or galleries[7]

Other eligibility criteria apply. For example, screen and video-game productions have to satisfy criteria relating to the origin of the creative output, and whether they are regarded as a 'cultural product':

> All films and television programmes or video games must be certified as British. They must pass a cultural test or qualify through an internationally agreed co-production treaty.[8]

Because of their structure and their overarching medium, these tax reliefs are commonly divided into two broad subsets: the 'audio-visual tax reliefs' (film, high-end and children's TV, animation, and video games), and the 'cultural tax reliefs' (theatre, orchestras, and museum and galleries).

[7] HM Revenue and Customs (HMRC), Creative industry tax reliefs for Corporation Tax, GOV.UK, updated 19 January 2024

[8] As above

2.1 Key concepts

Although there are differences between the criteria for each of the creative tax reliefs, there is a number of shared characteristics, which are described in this sub-section.

Core costs (or core expenditure)

If they satisfy certain criteria, qualifying companies are eligible to deduct part (or all) of their "core costs" from their taxable profit, to reduce the amount of corporation tax payable. The definition of core costs varies according to the type of production. For films, for instance, costs classified as 'core' are incurred on pre-production, principal photography, or post production.[9] For video games, to give another example, design, production, and testing of the video game are classed as core costs, but costs such as debugging are not included.[10]

Core costs related to activities incurred in the UK/EEA

Another common condition to most creative tax reliefs is that a portion of core expenditure has to "relate to activities in the UK".[11] The reliefs had to satisfy certain conditions to be permitted as State Aid by the European Commission. For some reliefs, the European Commission required the UK to legislate that the core costs had to relate to the European Economic Area (EEA), rather than the UK only. Following the UK's exit from the EU, this requirement has been abolished for all reliefs but the one covering video games. Section 3.5 of this briefing discusses this issue in more detail.

HMRC defined UK expenditure as "expenditure on goods and services which are used or consumed in the United Kingdom."[12] They specify that the goods'/services' nationality does not matter for this qualification, as the definition focuses on their recipient.[13]

HMRC gives practical applications of this in paragraphs FPC50060 to FPC50110 of their Film Production Company Manual. For example, they give the example of a stunt actor hired for a film:

> A [Film Production Company] hires a stuntman to take part in filming which takes place on location in the UK.

9 HMRC, Film Production Company Manual, GOV.UK, updated 28 March 2024, para FPC50010
10 HMRC, Video Games Development Company Manual, GOV.UK, updated 20 June 2023, para VGDC50010
11 HMRC, Claiming Film Tax Relief for Corporation Tax, GOV.UK, updated 19 January 2024
12 HMRC, Film Production Company Manual, GOV.UK, updated 28 March 2024, para FPC50050
13 As above

> The nature of the service is the provision of a specialist performance which is required by a specific scene which is filmed during the process of principal photography.
>
> Because this principal photography takes place in the UK, the stuntman's service is used or consumed by the [Film Production Company] within the UK and therefore meets the definition of UK expenditure. This remains the case if the stuntman has been supplied by a company outside of the UK, or if he were a non-UK national, or both.[14]

The manual adds that if the stuntman had been hired for filming in a location outside of the UK, the service would have been 'used or consumed' outside of the UK and would not class as expenditure related to UK activities.[15]

State aid

What is EU state aid?

European rules on state aid – part of EU competition legislation – are aimed at creating a level playing field for businesses in the EU single market. As an EU Member State, the UK was part of its regime for state aid.

Under Article 107 of the Treaty on the Functioning of the EU (TFEU), state aid is prohibited in the EU, if it threatens to distort competition and trade between Member States. The rules limit public financial support which gives selective advantage, through grants, tax incentives or by other means, to certain businesses or industries. The threshold for an aid instrument to be typed as "distorting competition and trade" is generally low and many public support schemes in areas such as business innovation, support to local businesses, investment in renewable energy, or culture and heritage preservation are subject to EU state aid controls.[16]

When is state aid permitted?

The European Commission (EC) has strong powers to assess cases of state aid, approve them and enforce 'claw-back' mechanisms when state aid is deemed unlawful. Member States are required to notify the European Commission before paying out larger amounts of state aid. The Commission can authorise such aid if there is evidence it helps achieve defined policy goals such as regional economic development or improved environmental protection.

In practice, most new public support measures do not require a notification, provided they comply with a range of exemptions, such as the Commission Regulation (EU) No 651/2014 of 17 June 2014 (the General Block Exemption Regulation/ GBER). The GBER (section 11) includes an exemption for culture and heritage conservation, which determines how much support is permitted

[14] HMRC, Film Production Company Manual, GOV.UK, updated 28 March 2024, para FPC50060
[15] As above
[16] European Commission, State aid control webpage, accessed 15 October 2020

for specific types of activities (aid intensity and eligible costs) and outlines transparency requirements.

Accounting period

For corporation tax, an accounting period is the "time covered by [a] company tax return."[17] It is normally the same as the financial year covered by a company's annual accounts and cannot be longer than 12 months.[18]

Tax relief

A tax relief is a mechanism that allows a taxpaying entity (such as a company) to deduct certain costs from their profit before calculating a tax liability. There are a number of reliefs in the tax system, and they are broadly divided in 'structural' and 'non-structural' reliefs.

Structural reliefs are integral ('structural') parts of a tax and define its scope. An example of this is the income tax personal allowance, which allows earnings up to a threshold (currently £12,570) to be income-tax free.[19]

Conversely, non-structural tax reliefs are introduced by governments to incentivise certain behaviours to achieve certain economic or social objectives.[20]

The creative tax reliefs are non-structural tax reliefs, introduced to incentivise investment in the UK arts and cultural sector.

Surrenderable loss

A 'surrenderable loss' is important if a calculation for a creative industry tax relief results in the creation or the increase of a loss for a production. Section 14 of the Finance (No. 3) Act 2010 defines how to calculate a surrenderable loss. It is the lower amount of the following:

- The entire company's available loss for the relevant accounting period
- The lesser of the UK core expenditure to date, or 80% of the total core expenditure to date, from which any amount surrendered in previous periods is subtracted[21]

17 HM Government, Accounting periods for Corporation Tax, GOV.UK, accessed on 8 April 2024
18 As above
19 HMRC, Quality and methodology information report (December 2023), GOV.UK, updated 7 December 2023
20 As above
21 HMRC, Film Production Company Manual, GOV.UK, updated 28 March 2024, para FPC55100. The "available loss" is the sum of the total loss for that period and any loss from previous periods that is being 'brought forward' (therefore, it has not been surrendered or carried forward previously) – see para PFC55100 of the HMRC manual for more detail.

Tax credit

A tax credit works in a similar way to a tax relief and is linked to a company's tax liability. For tax credits, however, instead of a reduction in tax liability, the relevant company receives a monetary amount (the 'credit'). In some cases, this may be allowed to be used for any purposes the company wishes to, or to settle a tax liability.[22] In the case of the creative industry tax reliefs, this nearly always results in a cash payment to the company.

Relevant legislation

Provision for the creative industry tax reliefs is contained in the Finance Act of the year when they were legislated, as outlined in the table below.

Creative industries tax reliefs legislation

Relief	Relevant legislation
Film	Finance Act 2007, chapter 3, schedule 5
Animation	Finance Act 2013, section 36, schedules 16 and 17
High-end TV	Finance Act 2013, section 36, schedules 16 and 17
Video Games	Finance Act 2013, section 36, schedules 16 and 17
Theatre	Finance Act 2014, section 36, schedule 4
Children's TV	Finance Act 2015, section 30
Orchestra	Finance Act 2016, section 54, schedule 8
Museums and Galleries	Finance (No. 2) Act 2017, section 21, schedule 6

All the statutory provisions for the reliefs are consolidated in Parts 15 to 15E of the Corporation Tax Act 2009, as amended.

Provision for the expenditure credits which will wholly replace the tax reliefs covering animation, high-end TV, children's TV, film, and video games, was made in the Finance Act 2024 (section 3 and schedule 2) and is consolidated in part 14A of the Corporation Tax Act 2009.

22 For example, see how the relevant tax credit works for films in HMRC, Film Production Company Manual, GOV.UK, 28 March 2024, para FPC55100

Section 7.3 of this briefing analyses the development of the expenditure credits in further detail.

3 Film and other audio-visual tax reliefs

3.1 Introduction

Of the existing audio-visual tax reliefs, Film Tax Relief (FTR) was the first one to be introduced in 2007. Following reliefs (especially the other audio-visual reliefs) were structured similarly to FTR.

3.2 Criteria for Film Tax Relief

FTR allows a qualifying company to offset certain costs from their profits before calculating tax if certain conditions apply:

- The film is certified as British (this designation is given by the British Film Institute)
- The film is intended for theatrical release (in a cinema)
- At least 10% of its core costs (see definition in section 2.1) are related to UK activities[23]

3.3 How is FTR calculated?

Companies are able to deduct certain costs, such as day-to-day costs like wages, from their revenue before calculating tax.[24]

The creative industries tax reliefs, including FTR, allow companies involved in these productions to make an additional deduction when calculating their taxable profit. In some cases, this can be all the relevant core expenditure. The amount subtractable is the lower number of:

- 80% of the film's total core expenditure
- All of the UK core expenditure[25]

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23 HMRC, Claiming Film Tax Relief for Corporation Tax, GOV.UK, updated 19 January 2024
24 Institute for Fiscal Studies, IFS TaxLAB – Corporation tax explained, last updated 30 November 2022
25 HMRC, Claiming Film Tax Relief for Corporation Tax, GOV.UK, updated 19 January 2024

Once this amount is calculated, it is subtracted from the profits (or losses) of a production.[26]

Because this deduction occurs in conjunction with the 'regular' subtraction of costs from profit, this amount subtracted is known as the "additional deduction".[27]

There are differences depending on whether the production has enough profits to sustain this deduction or not.

If the company does not have enough profit before the deduction was included (or no profit at all), then the loss can be surrendered in return for a tax credit (in this case, known as the Film Tax Credit).[28] The loss in this calculation is the surrenderable loss defined in section 2.1.

The example in the box below puts this in practice.

1 How is FTR calculated?

Lightyear Productions has created and released a film. The production is entitled to claim FTR. It has spent £10 million in core costs, all of which were incurred in the UK. The following three scenarios show the application of FTR depending on the level of profit or loss incurred by the production.

These calculations only intend to show how the additional deduction applies, rather than any other deductions available in the corporation tax system.

If the production has a profit

In this scenario, the movie has made £20 million in income. The production has a profit of £10 million. Without FTR, it would pay corporation tax at the 25% rate, which would result in a tax bill of £2.5 million.

FTR allows Lightyear to deduct 80% of the £10 million core costs (as it is the lower number). It can therefore deduct £8 million from the profits before calculating tax, leaving a taxable profit of £2 million. The production's tax bill is therefore £500,000, saving the company £2 million.

If the production does not have enough of a profit

In this scenario, the movie has made £16 million in income, leaving the production with a £6 million profit. The previous calculation of 80% of the production's core costs still applies. When this is subtracted from the trading

26 HMRC, Film Production Company Manual, GOV.UK, updated 28 March 2024, para FPC55040
27 As above
28 As above, para FPC55110

profit, however, it leaves the production with a loss of £2 million (in other words, the deduction has "created a loss").[29]

This loss can be surrendered in return for a payable tax credit. The surrenderable loss in this case is £2 million, as it is lower than 80% of the core costs of the production (£10 million). Since the Film Tax Credit is available at a 25% rate, the maximum amount of credit due (if all the loss is surrendered) is 25% x £2 million = £500,000. The company receives this amount in payment and has no corporation tax liability.

If the production does not have a profit

In this scenario, the movie has made £6 million in income, leaving the company with a £4 million loss. With the previous calculation in place, the loss is increased to £12 million (£4 million of existing loss + £8 million of additional deduction).

This loss can also be surrendered in return for a payable tax credit. In this case, the available loss is greater than the core expenditure deduction, so the maximum surrenderable loss is £8 million, payable at a 25% rate = £2 million.

The remaining £4 million loss is carried forward for use against future profits.

3.4 Audio-visual tax reliefs after FTR: High-end TV, children's TV, animation, and video games

There are many similarities between FTR and the other audio-visual tax reliefs (relating to high-end television, children's television, and animation). This is because other audio-visual tax reliefs that were introduced after 2007 were modelled around FTR, which was seen as a successful mechanism to incentivise investment in the industry.[30]

However, there are additional conditions unique to those individual reliefs, which are outlined in the table below.

29 HMRC, Film Production Company Manual, GOV.UK, updated 28 March 2024, para FPC55040

30 For example, when announcing the introduction of new reliefs for video games, high-end TV, and animation, then Chancellor George Osborne said that the film tax credit had "helped to generate over £1 billion of film production investment in the UK in the last year alone", see HC Deb 21 March 2012, c799

Eligibility conditions
For high-end television, children's television, animation, and video games

High-end television tax relief (HETV)	Children's television tax relief (CTTR)	Animation tax relief (ATR)	Video-Games tax relief (VGTR)
Have to be certified as British by the British Film Institute			
At least 10% of their core expenditure has to be on UK-related activities			At least 25% of the core expenditure has to be on EEA-related activities
Intended for broadcast (including streaming)			Intended for supply to the general public
Average core cost has to be at least £1 million per hour of slot length	The primary intended audience has to be children under 15 years of age	At least 51% of their core costs have to be on animation	
Programme slot length has to be at least 30 minutes			
Has to be a drama, comedy, or documentary			

Source: HMRC, Claiming High-end Television Tax Relief for Corporation Tax, GOV.UK, updated 19 January 2024; HMRC, Claiming Children's Television Tax Relief for Corporation Tax, GOV.UK, updated 19 January 2024; HMRC, Claiming Animation Tax Relief for Corporation Tax, GOV.UK, updated 19 January 2024; and HMRC, Claiming Video Games Tax Relief for Corporation Tax, GOV.UK, updated 19 January 2024

Additionally, there are criteria that exclude certain productions from the reliefs. For example, a company cannot claim VGTR if the game is produced for gambling, advertising, or promotional purposes.[31] Quiz shows, game shows, panel shows, or variety shows are not eligible for HETV tax relief.[32]

The calculations for HETV, CTTR, ATR, and VGTR are the same as for FTR. The payable tax credit rate is also the same at 25%.[33]

VGTR and the EEA expenditure condition

Unlike the other creative industry tax reliefs, VGTR still has a core expenditure condition related to the EEA, rather than the UK.[34] As explained in section 2.1, some of the creative industry tax reliefs had to have a requirement related to

31 HMRC, Claiming Video Games Tax Relief for Corporation Tax, GOV.UK, updated 19 January 2024
32 HMRC, Claiming High-end Television Tax Relief for Corporation Tax, GOV.UK, updated 19 January 2024
33 HMRC, Claiming High-end Television Tax Relief for Corporation Tax, GOV.UK, updated 19 January 2024; HMRC, Claiming Children's Television Tax Relief for Corporation Tax, GOV.UK, updated 19 January 2024; HMRC, Claiming Animation Tax Relief for Corporation Tax, GOV.UK, updated 19 January 2024; and HMRC, Claiming Video Games Tax Relief for Corporation Tax, GOV.UK, updated 19 January 2024
34 HMRC, Claiming Video Games Tax Relief for Corporation Tax, GOV.UK, updated 19 January 2024

EEA expenditure, rather than UK expenditure, for the European Commission to approve it as state aid.

Due to the nature of video game production, the UK maintained the EEA expenditure condition for longer than the other reliefs. This is due to change. After a consultation ran between 2022 and 2023, the government decided to restrict the core expenditure condition to only apply to the UK, similarly to how FTR, HETV tax relief, CTTR and ATR work.[35]

Games that will be already in development on 1 April 2025 will be eligible to use the EEA expenditure condition until 31 March 2027. At this date, VGTR will be abolished and be wholly replaced by the Video Game Expenditure Credit (VGEC).[36] This change is analysed in detail in section 7.3 of this briefing.

35 HM Treasury, Audio-visual tax reliefs: consultation – summary of responses (PDF), GOV.UK, March 2023, paras 1.18-1.21, pp7-8

36 As above

4 The 'cultural tax reliefs': theatre, orchestras, and museums and galleries

Another set of tax reliefs apply to theatrical and orchestral productions, and museum and gallery exhibitions. They are sometimes known as the 'cultural tax reliefs'.

4.1 Theatre Tax Relief

Eligibility criteria

HMRC defines a "qualifying theatrical production" as the following:

> A play, opera, musical or other dramatic piece that tells a story, where the performances are live and the performers give their performances through the playing of roles, [or] a ballet.[37]

Additionally, to qualify:

- Audience members must be there to observe the performance as their main purpose
- A high proportion of the performances have to be for educational purposes, or for paying members of the public
- At least 10% of the core costs must relate to UK activities (similarly to the screen-related tax reliefs).[38]
  - Prior to 1 April 2024, the core costs requirement was different: 25% of the core costs had to relate to EEA activities. The change of this condition is discussed further at the end of this section.

The definition of a theatrical production has undergone several changes between 2022 and 2024. Commentary about this is outlined in the box below.

2 Changes to the definition of a theatrical production

[37] HMRC, Claiming Theatre Tax Relief for Corporation Tax, GOV.UK, updated 19 January 2024

[38] As above

The definition of a theatrical production is included in section 1217FA of the Corporation Tax Act 2009, as amended. Schedule 3 of the Finance Act 2024 amended this section to include the following changes:

- An increased focus on "the depiction of a story". Where the definition previously only focussed on performers playing roles, the Finance Act 2024 adds that the chief focus of the performance is "the depiction of a story, or a number of related or unrelated stories."[39]
- Added a requirement for the audience of a performance to have a main purpose of observing, rather than assisting the performance.[40]

The last amendment to the definition in particular was subject to some scrutiny by the performing arts industry. Two industry bodies, the Society of London Theatre (SOLT) and UK Theatre mentioned this in a press release, when the Finance Act 2024 was still a Bill, saying that the wording took "a narrow view of the role of an audience".[41] It listed types of theatre that have a more participatory role for an audience, such as pantomimes. The organisations asked for reassurance that pantomimes and other participatory types of production would not be deemed ineligible for TTR as a result of the changes in definition.[42]

This argument was also raised when the Finance Bill was debated in Committee stage on 16 January 2024. Then Shadow Financial Secretary James Murray (Labour) referenced SOLT and UK Theatre's questions around the proposed new definition of theatrical production, and asked whether pantomimes would be excluded from making claims for TTR under the new definition. Answering, then Financial Secretary Nigel Huddleston confirmed pantomimes would still qualify for the relief, as although audience participation was relatively higher in pantomime performances, they would still be "predominantly observing, so they [would not be] disqualified for production."[43]

Calculations

The calculation of the relief is the same as for the audio-visual reliefs. Qualifying companies can deduct the lower amount of 80% of the total core costs, or the entirety of the UK-related core costs, as an additional deduction.

39 This provision is consolidated in the Corporation Tax Act 2009, as amended, section 1217FA
40 As above, see subsection (bb)
41 SOLT and UK Theatre, Finance Bill Committee Debate Briefing – Implications for Theatre Tax Relief (PDF), January 2024, p4
42 As above
43 Finance Bill Deb 16 January 2024, cc7-10

If such deduction results in the creation or increase of a loss, the loss can be surrendered in return for a payable tax credit at the following rates:

- 45% for non-touring productions
- 50% for touring productions (in recognition of the additional costs incurred in touring productions)[44]

From 1 April 2025, the rate of credit for single-venue productions will be permanently set at 40%, and at 45% for touring productions.[45]

4.2 Orchestra Tax Relief

A qualifying orchestral concert is defined by HMRC as:

> - [a concert that] is performed wholly or mainly by instrumentalists who are the primary focus of the concert, this can be by a:
>   - Orchestra
>   - Ensemble
>   - Group
>   - Band
> - Consists of a minimum of 12 instrumentalists
> - All or the majority of the instruments are not electronically amplified
> - Is intended to be performed live for the paying public or for educational purposes
> - […] At least 10% of the 'core costs' must relate to activities in the UK[46]

Calculations

The calculation of the relief is the same as for Theatre Tax Relief.

Where the additional deduction results in the creation or increase of a loss, the loss can be surrendered in return for a payable tax credit at a rate of 50%. This is the same regardless of whether the production is touring or not.

44 HMRC, Claiming Theatre Tax Relief for Corporation Tax, GOV.UK, updated 19 January 2024; see also HMRC, Theatre Tax Relief, GOV.UK, updated 2 August 2023, para TTR55030

45 HMRC, Permanent 40% and 45% rates for theatre, orchestra, museum and galleries tax reliefs, GOV.UK, 6 March 2024

46 HMRC, Claiming Orchestra Tax Relief for Corporation Tax, GOV.UK, updated 19 January 2024

From 1 April 2025, the rate of credit will decrease to 45%.[47]

4.3 Museum and Galleries Exhibition Tax Relief

Primary and secondary production companies that produce a qualifying exhibition are eligible for this relief. To qualify, companies have to be a charitable company, or a company owned entirely by a charity or a local authority, which maintains a museum or gallery.[48]

A primary production company is the main agent in putting up the exhibition, and has to be responsible for the production, and running of the exhibition, and must make a creative contribution.[49]

If an exhibition is held at multiple venues, a "secondary production company" may also be involved. This type of company has to be responsible for the production and running of the exhibition in relation to that specific venue.[50]

To qualify, an exhibition:

- Is a curated public display of an organised collection of objects or works considered to be of interest in one of the following ways:
  - Scientifically
  - Historically
  - Artistically
  - Culturally
- Can be a single object
- Has […] at least 10% of the 'core costs' […] relate to activities in the UK[51]

Calculations

The calculation of the relief is the same as for Theatre Tax Relief.

If such deduction results in the creation or increase of a loss, the surrenderable loss can be surrendered in return for a payable tax credit at the following rates:

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47 HMRC, Permanent 40% and 45% rates for theatre, orchestra, museum and galleries tax reliefs, GOV.UK, 6 March 2024

48 HMRC, Claiming Museum and Galleries Exhibition Tax Relief for Corporation Tax, GOV.UK, updated 19 January 2024

49 As above

50 As above

51 As above

- 45% for exhibitions in one venue
- 50% for touring exhibitions[52]

Unlike other credits, there is a cap in place for the amount of money a museum or gallery exhibition can claim in payable credit. This amount is £80,000 for non-touring exhibitions, and £100,000 for touring ones. This cap is applied to each exhibition, rather than to each company.[53]

From 1 April 2025, these rates will be set at 40% for exhibitions in one venue, and 45% for touring exhibitions.[54]

4.4 Former calculation of the 'core costs' condition

For reliefs relating to theatre, orchestras, and museum and galleries, the 'core costs' condition has recently changed.

Prior to 1 April 2024, qualifying productions had to have at least 25% of their core costs provided from within the UK or EEA.[55] The Government announced at Budget 2023 that the EEA requirement would be substituted with the UK requirement.[56] The document adds that "productions that have not concluded by 1 April 2024 may continue to claim EEA expenditure until 31 March 2025."[57]

The Budget document stated that this would align the cultural reliefs with the audio-visual ones, and "ensure these reliefs remain compliant with the UK's international obligations."[58]

At the second reading of the Finance Act 2024 (in Bill form), then Financial Secretary to the Treasury Nigel Huddleston addressed this point. In answer to a question by Barbara Keeley (Labour) on the risk of removing the EEA cost requirement for orchestras, he responded:

> She will be aware, though, that we are not in the European Union any more, so some of the EEA measures no longer apply. Instead, we have to be World Trade Organisation-compliant.[59]

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52 HMRC, Claiming Museum and Galleries Exhibition Tax Relief for Corporation Tax, GOV.UK, updated 19 January 2024

53 HMRC, Museum and Galleries Exhibition Tax Relief, updated 4 September 2020, paragraph MGETR70100

54 HMRC, Permanent 40% and 45% rates for theatre, orchestra, museum and galleries tax reliefs, GOV.UK, 6 March 2024

55 See, for example, HMRC, Claiming Museum and Galleries Exhibition Tax Relief for Corporation Tax, GOV.UK, updated 19 January 2024

56 HM Treasury, Budget 2023 (PDF), GOV.UK, March 2023, para 4.50, pp86-87

57 As above, para 4.50, p87

58 As above, para 4.50, p88

59 HC Deb 13 December 2023, c925

Changes to the core costs conditions were legislated in Schedules 3-5 of the Finance Act 2024.

5 Costs and impacts of the reliefs

5.1 What is the cost of the reliefs?

The most recent statistical publication for the creative tax reliefs was released in August 2024, relating to the 2022/23 tax year.[60] There is a lag between the year analysed and when the statistics are published. The reason for this is outlined in the box below.

3 HMRC statistics methodology

HMRC's methodology for publishing statistics has recently changed.[61] HMRC has said that it now publishes tables only on an accruals basis. The accruals basis "allocates claims to the financial year in which a company's accounting period ends", and it differs from the receipts basis, which "assigned claims to the year in which the relief was paid."[62]

HMRC has added that as companies have a year after the end of their accounting period to file Corporation Tax returns, and another year to make, amend, or withdraw them, there is a lag in the data. HMRC no longer publishes data on the creative industry tax reliefs on a receipts basis.

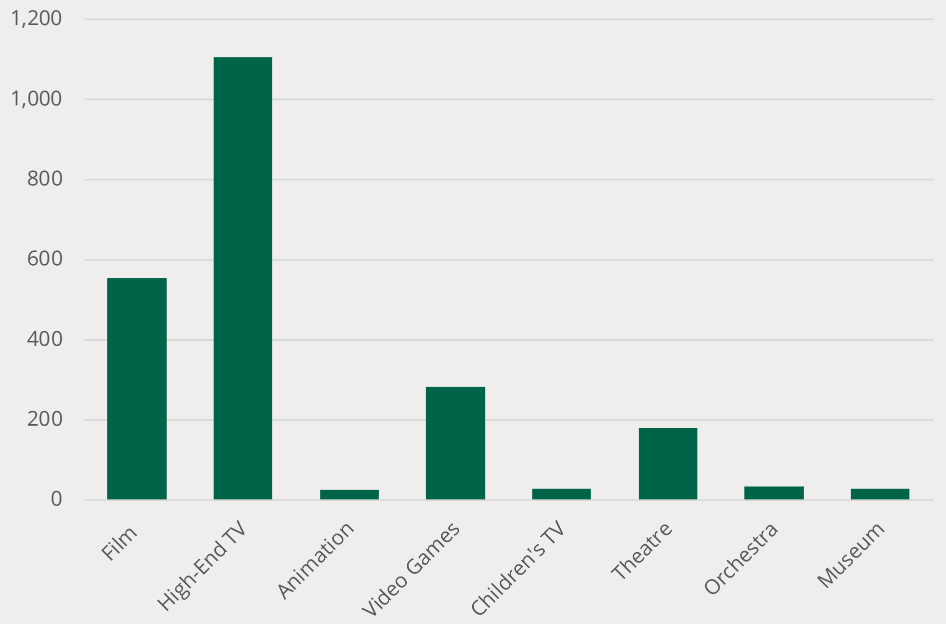
Just over £2.2 billion was spent in the creative tax reliefs in 2022/23. This covers a total of 3,980 companies claiming for around 9,000 projects (as a single company can submit multiple claims).[63]

The table below shows the breakdown in the amount of money given per relief.

60 HMRC, Creative industries statistics: August 2023, GOV.UK, 24 August 2023
61 HMRC, Creative industries statistics commentary: August 2023, GOV.UK, 24 August 2023
62 As above
63 HMRC, Creative industries statistics commentary: August 2024, 29 August 2024

Creative industries tax reliefs, 2022/23

£ million, accruals basis



Source: HMRC, Creative industries statistics commentary: August 2024, 29 August 2024

The highest amount of relief was given to high-end TV (around £1.1 billion, accounting for around 50% of total relief given. The relief targeting animation received the lowest amount of relief (£26 million), closely followed by children's television (£27 million), museum and gallery exhibitions (£29 million), and orchestras (£33 million).[64]

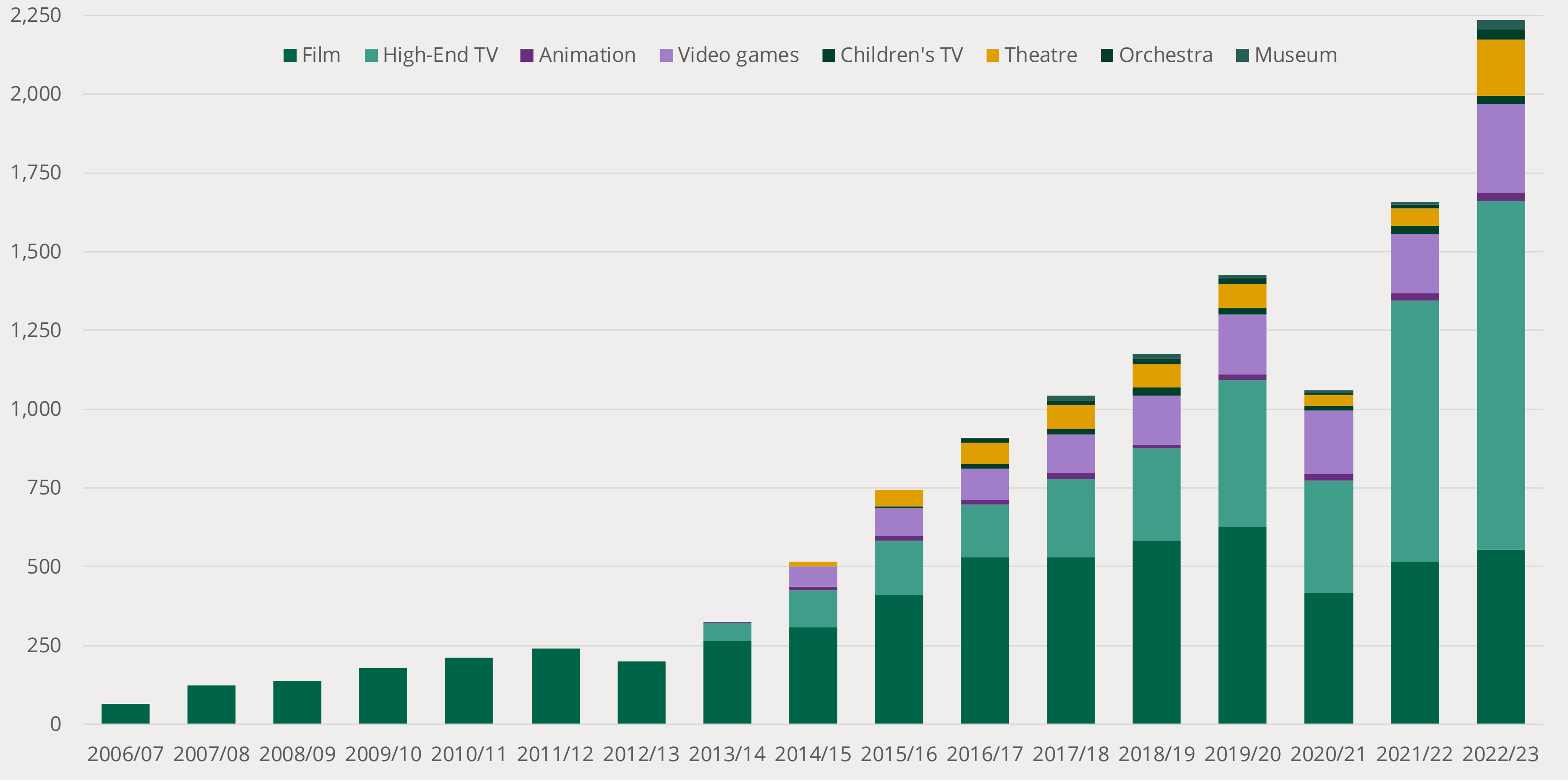
Overall, since FTR was introduced in 2006/07, around £12.5 billion has been spent by the Government on the creative tax reliefs, with the yearly amount paid out growing in most years.[65] This is shown in the chart below.

64 HMRC, Creative industries statistics commentary: August 2024, 29 August 2024

65 As above

Creative industries tax reliefs expenditure, 2006/07-2022/23

£ million, accruals basis



Source: HMRC, Creative industries statistics – contents, August 2024

For all years up to 2021/22, Film Tax Relief was the most expensive relief in this group. In 2021/22 and 2022/23, however, high-end television cost considerably more than any of the other reliefs. HETV tax relief cost 131% more in 2021/22 than it did in 2020, and this increase grew again in 2022/23.[66] HMRC has commented in 2023 that this steep increase reflects the growth in high-budget TV shows:

> This growth is driven largely by an increase in high-budget productions. The increase in HETV relief is in line with recent statistics produced by the British Film Institute on HETV production expenditure, which has seen substantial growth in recent years.[67]

In its commentary on the 2024 release, HMRC added that although FTR claims had increased again since the Covid-19 pandemic, they had not reached pre-Covid levels. HMRC said that this was partly due to the increase in movies produced for streaming services (such as Netflix), which usually claim for high-end television tax relief rather than FTR.[68]

5.2 What is the impact of the reliefs?

There is evidence showing that the creative tax reliefs have significantly supported the development of the industries concerned in the UK.

In particular, HMRC commissioned external research (conducted by Ipsos, Olsberg-SPI and London Economics) to evaluate the screen-related tax reliefs.[69] The results of the research were published in November 2022.[70] The summary of the review highlights the positive impact the reliefs have made on the industry:

> There is strong evidence that the tax reliefs across film, high-end TV, animation and children's TV have made the UK a more attractive filming and production location, and led to more productions taking place in the UK.
>
> The reliefs were seen as having aspects which made them competitive beyond their headline rate, including simplicity, consistency, and speed of payment. This meant that claimants could confidently factor the relief into their plans.[71]

The research also highlights that the presence of the reliefs is seen as a primary factor for the choice of the UK as an attractive location to film, and said that according to the evidence, the presence of the reliefs allowed productions to happen that otherwise would not have happened at all.[72]

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66 HMRC, Creative industries statistics commentary: August 2023, GOV.UK, 24 August 2023
67 As above
68 HMRC, Creative industries statistics commentary: August 2024, 29 August 2024
69 HMRC, Creative Industry Tax Reliefs Evaluation, GOV.UK, 17 November 2022
70 As above
71 HMRC, Creative Industry Tax Reliefs Evaluation: final report, GOV.UK, November 2022, p4
72 As above, pp4-5

The review adds that there was a perception that employment was being positively impacted by the presence of the reliefs.[73]

The research estimates the impact of the reliefs on overall economic activity and concludes that the impact of Film Tax Relief was between £1.2 billion and £1.7 billion in 2019/20, and high-end television between £0.7 billion and £1.0 billion. Due to the constraints of the survey, the research adds that "the finding is likely to understate the economic impact of FTR and HETV tax relief".[74]

In 2018 and 2021, the British Film Institute analysed the impact of the audio-visual tax reliefs as well, commissioning a report to Olsberg-SPI with Nordicity.[75] These analyses were conducted in line with Government methodological policy according to the Treasury Green Book.[76] The reports highlight the success of the audio-visual tax reliefs. For example, the 2021 BFI report highlights a return on investment (the additional value added to the UK economy) ranging between £1.72 for every £1 invested in VGTR, to a return of £8.30 for every £1 invested in FTR in 2019.[77]

The Government announced more favourable rates for the cultural tax reliefs in 2024. This is discussed in more detail in Section 7.5

Generally, performing arts industry professionals have argued that these reliefs have a positive impact to the national and local economies. For instance, when the higher rates of theatre tax relief were announced in the 2024 Budget, Eleanor Lloyd (President of the Society of London Theatre, SOLT), Kate Varah (Executive Director of the National Theatre), and Andrew Lloyd Webber (composer and theatre producer) overwhelmingly welcomed the higher rates of relief. [78] The joint President of UK Theatre, Stephanie Sirr, said that the permanent higher rate of TTR would result in additional investment in regional communities too:

> This new permanent rate [...] will be transformative for regional producing theatres. [...] This results in investment in local communities up and down the country, as for every £1 spent on a theatre ticket, we know that £1.40 is spent in local economies, generating local employment and economic growth.[79]

Research conducted by industry bodies SOLT and UK Theatre, who have campaigned for higher rates of tax relief, also concluded that the presence of TTR was driving up investment in the sector.[80]

73 HMRC, Creative Industry Tax Reliefs Evaluation: final report, GOV.UK, November 2022, pp4-5

74 As above, p5

75 BFI, Screen Business – How screen sector tax reliefs power economic growth across the UK (PDF), October 2018; and BFI, Screen Business – How screen sector tax reliefs power economic growth across the UK 2017-2019 (PDF), December 2021

76 BFI, Screen Business – How screen sector tax reliefs power economic growth across the UK 2017-2019 (PDF), December 2021

77 As above

78 UK Theatre press release, SOLT & UK Theatre: theatre sector respond to announcement in Spring Budget of new permanent rates of Theatre Tax Relief, accessed 10 April 2024

79 As above

80 SOLT and UK Theatre, Theatre Tax Relief Brief – November 2023 (PDF), November 2023

In relation to orchestra tax relief, Chief Executive of the Royal Scottish National Orchestra, Alistair Mackie, said in 2024 that the relief "[made] a hell of a difference to our economics."[81] The Chief Executive of representative body UK Music similarly welcomed the announcement. A press release by UK music added that the Musicians' Union and the Association of British Orchestras had called for the higher rate of relief to be made permanent, showing the importance of the incentive for orchestral productions.[82]

81 "Sadness over funding cuts as RSNO wheels out Top Guns", Herald Scotland (via Factiva), 27 March 2024

82 UK Music press release, UK Music Welcomes Chancellor's Move To Make Orchestra Tax Relief Permanent, 6 March 2024

6 History of the introduction of the creative tax reliefs

This section outlines the recent history and developments of the creative tax reliefs, concluding with the introduction of the last relief in the suite, the museum and galleries exhibition tax relief, in 2017.

This section only looks at the introduction of the reliefs. The impact of the Covid-19 pandemic on the industry and consequent changes to the reliefs is analysed in the section 7.

6.1 2004-2007: Fiscal support for films and the introduction of the Film Tax Relief

The Labour Government first announced proposals to reform the existing tax relief for film production in Budget 2004. The system of fiscal incentives for the filmmaking industry that operated before is detailed in the Library standard note on the tax reliefs for production of British films (last updated 16 March 2007).[83]

2004: The new film tax relief is announced

At the 2004 Budget, then Chancellor Gordon Brown announced a new relief for low-budget films (with a production cost not exceeding £20 million). The then Chancellor said the new relief would be targeted more effectively and would be accessible to film producers, rather than intermediaries, and would cover 20% of the production costs, rather than the 15% allowed under the previous system.[84]

The Government said the relief would be implemented in July 2005.[85]

83 Commons Library standard note SN-3927, Tax reliefs for production of British films (updated 16 March 2007)

84 See HM Treasury, Budget 2004 – Encouraging enterprise, investment and productivity (PDF via National Archives), 17 March 2004. One of the criticisms levied against the previous system of tax reliefs for films was that it was usually accessible to financial intermediaries (such as banks) rather than filmmakers directly. the Library standard note on the tax reliefs for production of British films has more on this.

85 HM Treasury, Budget 2004 (PDF), GOV.UK [via National Archives], March 2004, para 3.115, p77. More details were given in September 2004, see HM Treasury press release, Treasury announces new tax relief for British films, 21 September 2004

2005: Delay of the implementation and consultations

At the 2005 Budget, the government said the implementation of the new relief would be delayed due to concerns from the industry about its practical operation.[86]

Whilst these discussions were ongoing, the government also consulted with the film industry on how an effective relief could be applied to large-budget productions (exceeding the £20 million limit).[87] In 2005, the government decided that a relief for large-budget films would be merged with the scheme announced for low-budget productions in 2004, to "[reflect] the desire for a single coherent regime applicable to all films".[88] As a result, the government announced different levels of payable credit for different films. The consultation response summarised the key elements of the new relief, which would:

- Be provided directly to film-makers themselves
- apply to films that are certified as culturally British films, under a new test that the Department for Culture, Media and Sport is consulting on from 29th of July 2005;
- be provided on qualifying UK production expenditure where a minimum UK spend threshold of up to 40% has been met, and subject to a maximum of 80% of the total qualifying production expenditure in order to comply with EU state aid rules;
- allow a payable tax credit at a level of 30% for films that cost up to £20 million;
- allow a payable credit at a level of 25% for other qualifying films;
- provide an enhanced deduction of 50% for films that cost up to £20 million; and
- provide an enhanced deduction of 25% for other qualifying films.[89]

Overall, the new devised relief was an expansion of the plan originally announced in 2004 to apply to all films regardless of their budget.

2006 and 2007: Further delay and implementation

As mentioned earlier, the implementation of this new relief was subject to the EU approving it as state aid. The delay in the UK receiving this approval meant that the relief could not be implemented in 2006. The government

86 This was announced at the 2004 pre-Budget report, see HM Treasury, Pre-budget Report 2004 – Chapter 5 (PDF via National Archives), 2 December 2004, para 5.91; and HM Treasury, Budget 2005 (PDF), GOV.UK, March 2005, paras 3.50-3.51, p57

87 As above

88 HM Treasury, Reform of film tax incentives: Promoting the sustainable production of culturally British films [hardcopy], July 2005, p19

89 HM Treasury, Film tax reform – Frequently asked questions, 29 July 2005

therefore had to introduce transitional provisions to ensure the industry was supported in the meantime.[90]

After receiving state aid approval by the EU, the new film tax relief was implemented on 1 January 2007.[91]

The introduction of the other tax reliefs and parliamentary commentary

The film tax relief was received positively by the industry, and it was quickly shown that the relief was attracting investment in the British film industry.[92]

The Conservative-Liberal Democrat Coalition Government, which took office in 2010, recognised the success of FTR, and sought to expand it to cover other creative industries. These efforts led to the introduction of several other tax reliefs for the creative industries.

Parliamentary commentary

The introduction of the new reliefs was supported by the main parties. For example, when the introduction of VGTR was debated in the Public Bill Committee of the Finance Bill, speaking for the Opposition, Cathy Jamieson (Labour) expressed Labour's support for the introduction of the new relief, adding that Labour's 2010 manifesto had included a commitment to introduce a similar relief if returned to government.[93]

The table below outlines the relevant Budget, Finance Bill, and Committee when the introduction of the other creative industry tax reliefs was discussed. These clauses were always agreed to stand part of the Bill without a division, meaning no Member has ever formally opposed their introduction.

Introduction of the creative tax reliefs after 2007

Relief	Financial Statement	Budget Document	Public Bill Committee
Animation	21 March 2012, column 799	Budget 2012, paragraph 2.101	5 June 2013, columns 265-298, and columns 301-336
Video Games	21 March 2012, column 799	Budget 2012, paragraph 2.101	5 June 2013, columns 265-298, and columns 301-336

90 The transitional rules were legislated in the Corporation Tax (Taxation of Films) (Transitional Provisions) Regulations 2007

91 HC Deb 5 March 2007, c1677W

92 For example, then Chancellor George Osborne acknowledged that the film tax credit "helped to generate over £1 billion of film production investment in the UK" in 2011/23 – see HC Deb 21 March 2012, c799

93 Labour Party, The Labour Party Manifesto 2010 – A future fair for all (PDF), p7:6

High-End TV	21 March 2012, column 799	Budget 2012, paragraph 2.101	5 June 2013, columns 265-298, and columns 301-336
Theatre	14 March 2014, columns 789-790	Budget 2014, paragraph 1.132	2 July 2014, columns 961-991[94]
Children's TV	N/A	Budget 2015, paragraph 2.124	25 March 2015, column 1438[95]
Orchestras	N/A	Budget 2015, paragraph 2.121 Budget 2016, paragraph 2.88	5 July 2016, columns 55-58 (PDF)
Museum and Galleries	16 March 2016, column 962	Budget 2016, paragraph 1.254 Autumn Statement 2016, paragraph 4.30	19 October 2017, columns 75-79

[94] Unlike the other reliefs, which were included in the Bill as introduced, Theatre Tax Relief was introduced in the Finance Bill via a Government new clause at the report stage of the Finance Bill 2014-15, which was discussed on the floor of the House at the report stage of the Bill.

[95] The measure was not mentioned during the discussion of the Bill. Unlike other bills, all the stages of the Finance (No. 2) Bill 2014-15 took place in one day before the dissolution of Parliament ahead of the 2015 General Election.

7 2020-2024: The Covid-19 pandemic and the creation of the expenditure credits

7.1 A timeline

The table below provides a broad overview of the recent developments to the creative industry tax reliefs.

Since 2020, there have been several policy changes to all of these reliefs. Broadly speaking, policy developments have been announced in two strands: changes to the cultural tax reliefs, and to the audio-visual tax reliefs.

These developments are analysed in detail in section 7.2 (for the cultural tax reliefs) and 7.3 (for the audio-visual tax reliefs).

Timeline of recent developments to the creative tax reliefs

When	Cultural tax reliefs	Audio-visual tax reliefs
Event		
23 March 2020	Then Prime Minister Boris Johnson announces a national lockdown, effective immediately. Non-essential venues, including production studios, theatres, museums, and production studios, have to close to comply with public health restrictions.	
27 October 2021	Then Chancellor Rishi Sunak implements temporary higher rates of relief on TTR, OTR, and MGETR. The higher rates were due to be phased back to normal by 1 April 2024	
17 November 2022		The Government launches a consultation to reform the audio-visual tax reliefs (HETV tax relief, FTR, CTTR, ATR and VGTR)
15 March 2023	Then Chancellor Jeremy Hunt announces an extension to the temporary higher rates of TTR, OTR, and MGETR for two further years (to be phased back to pre-Covid by 1 April 2027)	The response to the consultation on the audio-visual tax reliefs is published. The Government announces that an Audio Visual Expenditure Credit (AVEC) will replace ATR, FTR, CTTR, and HETV tax relief. A Video Games Expenditure Credit (VGEC) will replace VGTR.
1 January 2024		Production companies can begin claiming AVEC and VGEC on qualifying expenditure incurred from this day.

6 March 2024	The then Chancellor announces that the rates of TTR, OTR, and MGETR will be permanently set at a rate higher than their pre-Covid level	The then Chancellor announces the introduction of a new expenditure credit, the Independent Film Tax Credit (IFTC), available at a higher rate of credit than AVEC.
1 April 2024		Production companies of UK independent films can begin claiming IFTC on qualifying expenditure from this day.
Upcoming developments		
1 April 2025	The permanent rates of TTR, OTR, and MGETR take effect from this day.	Production or developments beginning after this date can only claim relief under AVEC or VGEC. Productions and developments that had begun beforehand can still claim under the relief regime.
		Qualifying production companies can begin claiming IFTC
1 April 2027		FTR, HETV tax relief, ATR, CTTR and VGTR are phased out. All expenditure has to be claimed under AVEC or VGEC from this day.

7.2 Recent developments to the cultural tax reliefs

March 2020: The Covid-19 pandemic

The Covid-19 pandemic brought significant challenges for the creative industries, particularly the performing arts. This was noted in a July 2020 report by the Culture, Media and Sport (CMS) Select Committee on the impact of Covid-19, which warned that the pandemic was the biggest threat faced by the sector in a generation.[96] For example, the report noted over 15,000 theatrical performances had been cancelled in the first months of lockdown, with over £300 million lost in revenue.[97]

In July 2020, the Government announced it would allocate over £1.5 billion in funding to support cultural and heritage institutions, including capital investment funding, loans, and grants.[98]

The Library research briefing on Covid-19 and the arts and culture sectors has more information about the impact of the pandemic on the arts industries.[99]

96 Culture, Media, and Sport Committee, Impact of Covid-19 on DCMS sectors, 23 July 2020, HC 291 2019-21
97 As above
98 Department for Digital, Culture, Media & Sport, and HM Treasury press release, £1.57 billion investment to protect Britain's world-class cultural, arts and heritage institutions, 5 July 2020
99 Commons Library research briefing CBP-9018, Covid-19 and the arts and culture sectors, updated 25 February 2021

In the written submission to the CMS Committee inquiry, several respondents argued that the rates of tax relief on those industries (particularly the performing arts) should be increased. This was also echoed by a campaign by the Society of London Theatre and UK Theatre, which argued that the TTR rate should be increased to 50%.[100]

Treasury Committee inquiry on 'Tax after Coronavirus'

In July 2020, the Treasury Select Committee launched an inquiry called 'Tax after Coronavirus'.[101] The Committee's call for evidence stated that, as a result of the pandemic, "the UK [would] need a strong tax base to maintain the level of public services at sustainable rates of borrowing."[102] It added that the economic consequences of the pandemic had created an opportunity to reflect on how the tax system could be changed.

The responses to the enquiry came from all types of industries in the UK economy, including the creative industries. All creative industry representatives which responded to the enquiry referred to the creative industries tax reliefs, overwhelmingly in a positive way.[103]

Calls to extend the relief to other creative industries

Two key industries are not covered by the existing tax reliefs: Audio production, and the music industry. During the Treasury Committee's inquiry, several representative bodies made representations to the Government, calling for the introduction for a similar relief to be applied to those industries.

The audio production industry

In their written evidence to the Treasury Committee, Audio UK, the trade body for the audio-led production sector, highlighted the importance of the tax reliefs for the industries it supported, and made the case for the creation of the Audio Production Tax Relief (APTR). Audio UK said that "with an already-established professional sector, the UK is in a good position to become one of the major global centres of audio production."[104] They made the example of museum audio guides and podcasts and said the APTR would enable them to expand audio content, such as via audiobooks and podcast dramas. Audio UK singled out podcasts as a continuously growing sector which would significantly benefit from the existence of a tax relief.[105] They also said that the cost of producing audio content was significantly lower than audio-visual

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100 "Coronavirus: SOLT and UK Theatre call for Theatre Tax Relief increase", The Stage, 29 May 2020

101 Treasury Committee, Tax after coronavirus (PDF), 1 March 2021, HC 664 2019-21, para 2

102 Treasury Committee, Call for Evidence – Tax after coronavirus, accessed 17 April 2024

103 For example, UK Theatre and SOLT in Treasury Committee, Tax after coronavirus (PDF), 14 January 2021, HC 664 2019-21, Ev TAC0045; UK Interactive Entertainment (PDF, Ev TAC0048), the BFI (PDF, Ev TAC0054), and the Creative Industries Federation (PDF, Ev TAC0055)

104 Treasury Committee, Tax after coronavirus (PDF), 14 January 2021, HC 664 2019-21, Ev TAC0032

105 As above

content, meaning the overall cost of the proposed relief would be relatively low.[106]

The music industry

Similarly, an umbrella body representing different parts of the music industry, UK Music, submitted evidence to the committee to present the case for a tax relief specifically targeting music production.[107] The body talked about the challenges facing the UK music sector, particularly the increase of streaming, and the difficulty to attract investment in a very high-risk industry.[108] UK Music said that other countries had already stepped up to this challenge:

> [...] many foreign governments have already recognised that they can intervene to correct this market failure and give their artists and advantage in a hyper-competitive global space.[109]

They said countries like South Korea had significantly incentivised music production, quoting Professor Hyunjoon Shin of Sungkonghoe University, who said that K-Pop (a music genre seen as a significant challenge to UK music), was “a product of [...] government driven policy.”[110] Other countries similarly incentivising the industry were France, Australia, several US and Canadian states, and Ireland.

UK Music argued that a tax relief on the music industry could be similar to the existing tax reliefs, “tackling the same kind of markets failures and creating a level playing field for fiscal incentives in the creative sector.”[111]

They added that the support scheme for the music industry in France had yielded a x2.7 return on government investment.[112]

In a separate submission, the Incorporated Society of Musicians also called for the creative sector tax reliefs to be extended to the music industry, and also suggested a specific relief targeting live music, and one for “new works and new tours”, similarly structured to Theatre Tax Relief.[113]

Government engagement

The Treasury Committee did not include such a recommendation in their final report on the inquiry. The government has not publicly engaged or suggested it would implement new tax reliefs on audio or music production following the inquiry.

However, extending the relief to the music industry (beyond orchestral productions) had already been raised in the past. In 2019, the Digital, Culture,

106 Treasury Committee, Tax after coronavirus (PDF), 14 January 2021, HC 664 2019-21, Ev TAC0032
107 Treasury Committee, Tax after coronavirus (PDF), 14 January 2021, HC 664 2019-21, Ev TAC0066
108 As above
109 As above
110 As above
111 As above
112 As above
113 As above

Media and Sport Select Committee had recommended, in a report on live music, that "the government [extend] the creative industries tax relief to support other forms of music production."[114] In response to the report, the government said that although all tax reliefs were kept under review, there were no plans to extend the creative tax reliefs to the music industry:

> HM Treasury would need to assess any new tax relief for its effectiveness at meeting its objectives, cost to the Exchequer, wider economic impacts and ability to stand up to abuse. The current creative sector tax reliefs are targeted at incentivising and supporting the creation of a cultural product, rather than where the product is created or performed.[115]

Answering a PQ in March 2023, Julia Lopez (then Minister of State for Media, Tourism and Creative Industries) detailed other sources of support for the creative industries, highlighting a music-specific scheme:

> [...] the Music Export Growth Scheme [...] provides grant funding to support UK-based independent music SMEs to develop export campaigns to grow their international business and export revenue.[116]

Calls to increase the rates of relief

Several industry representatives called on the Government to increase the rates of relief on the creative industries, reflecting the additional challenges resulting from Covid.[117] The final Committee report does not discuss the creative tax reliefs. Nevertheless, in October 2021 the Government announced an increase to the rates of the cultural tax reliefs. This is discussed in more detail below.

Autumn Budget 2021: The increase to the rates of relief

At the 2021 Autumn Budget, the then Chancellor, Rishi Sunak, announced that the government would implement a temporary increase to the cultural tax reliefs (TTR, OTR, and MGETR), to support their recovery following the pandemic. In the Budget speech, the then Chancellor made a specific reference museums and gallery exhibitions, as at the time the relief was temporary and due to expire in March 2022:

> We are also going to review our museum freedoms and make our creative tax reliefs more generous. On current plans, the tax relief for museums and galleries is due to end in March next year, just as exhibitions are starting to tour again, so I have decided to extend it for two years to March 2024. To support theatres, orchestras, museums and galleries to recover from Covid,

114 Digital, Culture, Media, and Sport Committee, Live music (PDF), 19 March 2019, HC 733 2017-19, para 85

115 Digital, Culture, Media and Sport Committee, Live music: Government response to the Committee's Ninth Report of Session 2017-19 (PDF), 23 July 2019, HC 2555 2017-19, para 14

116 PQ 18766 [on Arts: Exports], 22 March 2024

117 For example, see UK Theatre and SOLT in Treasury Committee, Tax after coronavirus (PDF), 14 January 2021, HC 664 2019-21, Ev TAC0045

> the tax reliefs for all those sectors, from today until April 2023, will be doubled, and they will not return to the normal rate until April 2024.[118]

HMRC published a paper giving further details of these changes and outlined the schedule of tax credit rates from Budget day through to 2024/25.

Rates of cultural tax reliefs
From Autumn Budget 2021

Rate %	Previous rates	From 27 October 2021 to 31 March 2023	2023 to 2024	2024 to 2025 (and onwards)
TTR: non-touring/touring	20/25	45/50	30/35	20/25
OTR	25	50	35	25
MGETR: non-touring / touring	20/25	45/50	30/35	20/25

Source: HMRC, Cultural Relief Rate Rises for Theatre, Orchestra, and Museums and Galleries Exhibition Tax reliefs, GOV.UK, 27 October 2021

Provision for this was made in the Finance Act 2022 (sections 17, 19, and 21). The clauses were discussed in Public Bill Committee on 14 December 2021, where the spokespeople for Labour (James Murray) and for the SNP (Alison Thewliss) broadly expressed support for the changes. The clauses were approved to stand part of the Bill without a division.[119]

The then Chancellor's announcement was received positively by the industry. The Financial Times quoted the director of the Tate and chair of the National Museum Directors Council, Maria Balshaw, saying that the extension of the relief would continue making a difference for the sector.[120] The director of the Association of British Orchestras, Mark Pemberton, also welcomed this, but added that there was a question on whether the benefits of this will be felt in a context of rising inflation and costs.[121] In an article by the Press Association, the chief executive of the Society of London Theatre and UK Theatre also welcomed the increases, saying that investor confidence would increase as a result.[122]

Spring Budget 2023: Extension of the higher rates

Because of the continuing impact of the pandemic, united with increasing inflation and costs, then Chancellor Jeremy Hunt extended the higher rates of

118 HC Deb 27 October 2021, cc278-279; the legislation that enacted the relief, the Finance (No. 2) Act 2017, outlines in schedule 6, section 1218ZCG that the expenditure incurred after 31 March 2022 would not be eligible for the relief.

119 Finance Bill Deb 14 December 2021, cc24-30

120 National Museum Directors' Council, Newsletter (November 2021) (PDF), November 2021, p3

121 "Crisis-hit museums and galleries welcome expansion of tax relief", Financial Times [via Factiva], 27 October 2021

122 "Arts and culture sector welcomes extension of tax relief in the budget", Press Association National Newswire [via Factiva], 27 October 2021

relief for two additional years at Budget 2023.[123] HMRC presented the table below to explain the changes:

Rates of cultural tax reliefs
From Spring Budget 2023

Rate %	Previous rates	From 1 April 2023 to 1 April 2025	2025 to 2026	2026 to 2027 (and onwards)
TTR: non-touring/touring	45/50	45/50	30/35	20/25
OTR	50	50	35	25
MGETR: non-touring / touring	45/50	45/50	30/35	20/25

Source: HMRC, Two year extension of higher rates for theatre, orchestra, and museum and galleries exhibition tax reliefs, GOV.UK, 15 March 2023

Provision for this is made in the Finance (No. 2) Act 2023 (sections 13 and 14). These clauses were ordered to stand part of the Bill in the Committee of the Whole House of the Finance Bill on 18 April 2023. There was no debate about these clauses, which were agreed to without a division.[124]

As with previous announcements, the industries concerned were significantly welcoming of the relief, as shown by articles in the Press Association and the Financial Times, where several industry professionals expressed relief and gratefulness over the decision to extend the higher rates of relief.[125]

Spring Budget 2024: Setting permanently higher rates of relief

Given the continuing impact of increased costs on the performing arts sector (including the cost of energy bills), industry representatives and MPs began campaigning to make the higher rates of relief on these industries permanent.[126]

At the 2024 Budget, then Chancellor Jeremy Hunt announced that, in recognition to the importance of the reliefs for the creative sectors, the government would make the rates of relief at a level higher than before the pandemic, permanently:

123 HC Deb 15 March 2023, c840

124 HC Deb 18 April 2023, cc166-167

125 "Hunt extends tax reliefs for cultural organisations", Financial Times [via Factiva], 15 March 2023; and "Theatre and orchestra tax relief extension prompts mixed response", Press Association National Newswire [via Factiva], 15 March 2023

126 For example, SOLT, Theatre Tax Relief, accessed 15 April 2024. In the Commons, the matter has been raised in a number of PQs, for instance, PQ 18108 [on Theatre: Tax Allowances], 19 March 2024; and PQ 1082 [on Arts: Tax Allowances], 14 November 2023

> […] I can announce that I am making those tax reliefs permanent at 45% for touring and orchestral productions, and 40% for non-touring productions.[127]

Provision for this change is included in the Finance (No. 2) Act 2024, sections 16 to 18.

[127] HC Deb 6 March 2024, c844

The measure was welcomed across the cultural sector, with industry professionals like Andrew Lloyd Webber, Sir Cameron Mackintosh, and Sam Mendes expressing support for the announced changes.[128]

7.3 Developments of the audio-visual tax reliefs

Alongside the changes to the rates and conditions of the existing tax reliefs, in 2022 the government began consulting on a wider reform of the fiscal support to the audio-visual creative industries, with a view to ultimately replace the existing reliefs with a new system.

At the 2022 Autumn Statement, the government launched a consultation to reform the audio-visual tax reliefs:

> The government is seeking to build upon the success of the audio-visual subset of the creative industry tax reliefs, covering film, animation, high-end TV, children's TV, and video games. The government will consult in a series of proposals will go further to incentivise the production of culturally British

128 "Tax relief for UK theatres and film productions hailed as 'lifeline'", The Standard, 6 March 2024. See also, "'A transformational change': leaders hail 'vital' permanent tax relief", The Stage, 6 March 2024; "UK Music Ltd. – UK Music Welcomes Chancellor's Move To Make Orchestra Tax Relief Permanent", UK Political and Economic Organizations News via PUBT [via Factiva], 6 March 2024; "Spring Budget 2024: Cash goes into plan to boost UK creative industries", City AM, 6 March 2024

> content and support the growth of the audio-visual sectors, ensuring these highly skilled industries continue to thrive in the UK.[129]

The government's proposals encompassed relatively minor changes (such as defining 'documentary' in legislation) as well as wider changes, particularly the move from a tax relief to an expenditure credit system.[130]

An overview of the difference between a tax relief and an expenditure credit is explained in the box below.

4 What is the difference between a tax relief and an expenditure credit?

A tax relief involves the subtraction of certain expenditures from profits before calculating tax. It therefore reduces available profits or can increase a loss, and reduces tax liability directly.

On the other hand, an expenditure credit is treated as income of the company, rather than a deduction from profits. Its inclusion in a tax return, therefore, can either increase an existing profit or decrease a loss. This does not reduce the company's tax liability, but the credit is used to discharge the liability and reduce tax actually paid.[131]

The Research & Development Expenditure Credit (RDEC) model

The government consultation launched in November 2022 highlighted that the aim was to structure a new expenditure credit for the screen-related creative industries similar to the existing Research & Development Expenditure Credit (RDEC), with some changes to ensure easy applicability to the sectors concerned.[132] The RDEC model works in the following way:

- The relevant company calculates what expenditure qualifies for the expenditure credit
- The total qualifying expenditure is then multiplied by the expenditure credit rate
  - This results in the overall expenditure credit available.

129 HM Treasury, Autumn Statement 2022 (PDF), GOV.UK, November 2022, para 5.53, p55
130 Another minor change announced following consultation was the reduction of the minimum slot length for high-end TV eligibility for AVEC from 30 to 20 minutes, applicable on an episode-by-episode basis.
131 HM Treasury, Audio-visual tax reliefs: consultation, GOV.UK, 15 March 2023
132 As above (PDF), GOV.UK, November 2022, para 5.12, p14

- This is added to the existing profits of the company concerned, net of the relevant rate of corporation tax[133]

Obtaining an expenditure credit does not necessarily mean that the company will receive a cash payment. Companies have to use the credit to settle tax or other liabilities (such as corporation tax or VAT). Any amount of credit remaining after relevant liabilities are discharged is transferred to the company as a cash credit.[134]

Box 6 on page 49 of this briefing has a worked example of this model, applied to the audio-visual industry.

The reason behind the change from a tax relief to an expenditure credit model is connected to the development of an international tax agreement overseen by the Organisation for Economic Cooperation and Development (OECD). This is explained in the box below.

5 Why change? The OECD two-pillar framework

As mentioned throughout this briefing, the tax relief model applied to the creative industries has mostly been considered successful across several aspects (including ease of administration, generosity of the reliefs, and impact on productions). However, there was a distinct possibility that the relief model could have created difficulties for some companies due to a recently implemented international tax agreement on minimum corporate tax rate.

The OECD provisions

Over 130 countries in the OECD agreed a two-pillar framework in October 2021. One of these pillars ('Pillar 2') ensures that multinational companies pay a minimum corporate tax rate. Companies with revenue exceeding €750 million will have to pay a minimum effective corporation tax rate of 15% in each jurisdiction they operate in. When the effective rate falls below 15%, domestic jurisdictions will have to impose a 'top-up tax' to get them to reach this minimum level.[135]

More information about these reforms can be found in the OECD's explainer of the Pillar Two rules (PDF), and the Library research briefing on the Digital Services Tax.[136]

133 HMRC, Research and Development (R&D) expenditure credit, GOV.UK, updated 21 July 2023
134 As above
135 HM Treasury, Audio-visual tax reliefs: consultation (PDF), GOV.UK, November 2022, para 5.2, p13
136 OECD, The Pillar Two Rules in a Nutshell (PDF), updated July 2023; Commons Library Research Briefing CBP-8719, Digital Services Tax; and HMRC, Preparing for the Multinational Top-up Tax and the Domestic Top-up Tax, updated 6 August 2024

The calculation of the 'effective tax rate' includes an assessment of whether fiscal support (such as a tax relief or an expenditure credit) counts as income, or whether it is an instrument to directly reduce tax liability. If it is income, then it does not diminish the effective tax rate. If it is a tax relief, it does.[137]

The Treasury stated that for calculations of the effective tax rate, the OECD did not consider credits such as the Research and Development Expenditure Credit (RDEC) as reliefs, but rather considered them as income, therefore not lowering the company's effective tax rate.

There was concern among the creative industries that the existing tax reliefs may not be considered as income, and therefore be involved in lowering the company's effective tax rate. The Government, therefore, began exploring a move from a tax relief model to an expenditure credit one to ensure "the audio-visual tax reliefs [could] qualify as income beyond doubt".[138]

The Audio-Visual Expenditure Credit (AVEC) and the Video Game Expenditure Credit (VGEC)

The consultation on the audio-visual expenditure credits ran from November 2022 to February 2023.[139] The government then published the response to the consultation on 15 March 2023, the day of the Spring Budget.[140] In the response, the government said it would adapt the RDEC model so that it would work for the screen-related creative sector.[141] Two expenditure credits would be created: the Audio-Visual Expenditure Credit (AVEC) and the Video Games Expenditure Credit (VGEC).

The AVEC retains the existing eligibility requirements that are currently in operation for FTR, HETV tax relief, ATR and CTTR, and the 80% core expenditure requirement is also retained.

The rates

The expenditure credit rates are as follows:

- For AVEC, 34% for films and high-end TV; and 39% for animations and children's TV

137 HM Treasury, Audio-visual tax reliefs: consultation (PDF), November 2022, para 5.4 p13
138 HM Treasury, Audio-visual tax reliefs: consultation (PDF), November 2022, para 5.6, p13
139 HM Treasury, Audio-visual tax reliefs: consultation, GOV.UK, 15 March 2023
140 HM Treasury, Audio-visual tax reliefs: consultation – summary of responses (PDF), GOV.UK, March 2023
141 As above, para 1.6, p6

- For VGEC, 34%[142]

Worked example

The box below shows a simple example of how the AVEC or VGEC process works. It also includes the steps companies have to follow to use their expenditure credit, mirroring the model used for RDEC.

6 Example of AVEC

Lightyear Productions has spent £1 million in qualifying core expenditure on a film.[143] All of this expenditure is related to UK activities.

The qualifying expenditure, therefore, is 80% of the total core expenditure (similar to how FTR works). The qualifying expenditure for the credit, therefore, is 80:100 x £1 million = £800,000.

The AVEC rate for films is 34%. The total amount to be added on top of Lightyear's profits, therefore, is 34:100 x £800,000 = £272,000. This is taxed at the headline corporation tax rate of 25%. The net credit, therefore, is 25:100 x £272,000 = £68,000.

Lightyear Productions now has to follow these steps in order to use their expenditure credit. In the first instance, the company has to use the credit to pay off any corporation tax liability for that period. Any remaining credit can be used to "pay off other tax liabilities [...] or surrendered to other group companies."[144] After this, any remaining amount is sent to Lightyears via a payable credit.[145]

Overall, the expenditure credit means that the maximum amount a company could receive in cash is the credit rate (such as the 34% in the example above) multiplied by the eligible expenditure, net of corporation tax.

Legislation

Following the consultation response, the Government published a policy paper and draft legislation to create the expenditure credits in July 2023.[146]

Provision for these changes is included in the Finance Act 2024, section 3 and schedule 2.

142 HMRC, Claim Audio-Visual Expenditure Credits for Corporation Tax, GOV.UK, 19 January 2024; and HMRC, Claiming Video Games Expenditure Credits for Corporation Tax, GOV.UK, 19 January 2024. The Chancellor also made reference to this in his Budget Speech: see HC Deb 15 March 2024, c840

143 This example assumes that the company and its productions satisfy the qualifying criteria to be eligible for AVEC

144 HMRC, Claim Audio-Visual Expenditure Credits for Corporation Tax, GOV.UK, 19 January 2024

145 As above

146 HMRC and HM Treasury, Finance Bill 2023-24, GOV.UK, 18 July 2023

These provisions were debated when the Act (in Bill form) was discussed in Public Bill Committee on 16 January 2024.[147] During the sitting, the Opposition spokesperson (James Murray) expressed broad support for the measure and asked why the Government had chosen a higher rate of expenditure credit for animation and children's TV.[148] Responding, then Financial Secretary Nigel Huddleston explained that, following the pandemic, children's content had declined, as opposed to other audio-visual industries. Therefore, a higher of credit was needed to help them "recover and boom".[149]

The clause and schedule were ordered to stand part of the Bill without a division.[150]

When can companies start claiming AVEC and VGEC?

At the moment, therefore, the two systems are coexisting.[151] Companies can already apply to receive AVEC and VGEC instead of opting for the existing audio-visual tax reliefs. This is an arrangement implemented by the Government to ensure a smooth transition from the tax relief model to expenditure credits.[152]

Only qualifying expenditure incurred from 1 January 2024 can qualify for AVEC and VGEC. From 1 April 2025, new productions will only be able to claim under the new expenditure credit system. However, productions that 'straddle' this deadline – for instance, films that started production before April 2025 but had not concluded principal photography can continue claiming under the former relief system until 31 March 2027. As of 1 April 2027, all productions have to claim relief under the expenditure credit system, regardless of when production began.[153] From 1 April 2027, the audio-visual tax reliefs will be completely phased out.

Recent developments: The Independent Film Tax Credit (IFTC)

At Budget 2024, then Chancellor Jeremy Hunt announced an additional expenditure credit, only applicable to UK low-budget independent films. To apply, the films will have to be the following:

- The production budget has to be less than £15 million

147 Finance Bill Deb 16 January 2024, cc4-11
148 Finance Bill Deb 16 January 2024, c6
149 As above, c9
150 Finance Bill Deb 16 January 2024; c9
151 HMRC, Claim Audio-Visual Expenditure Credits for Corporation Tax, GOV.UK, 19 January 2024; and HMRC, Claiming Video Games Expenditure Credits for Corporation Tax, GOV.UK, 19 January 2024
152 HM Treasury, Audio-visual tax reliefs: consultation – summary of responses (PDF), GOV.UK, March 2023, para 1.12, pp6-7
153 As above

- It is expected that the film will have to meet at least one of these conditions:
  - Have a UK writer
  - Have a UK director
  - Be certified as an official UK co-production[154]

The IFTC is only applicable if the wider AVEC conditions are also met.

If these conditions are satisfied, eligible productions are eligible for a 53% expenditure credit rate.[155]

The relief will be claimable from 1 April 2025, with respect to productions where principal photography started after 1 April 2024, on expenditure incurred from 1 April 2024.[156]

Statutory provision for this is made in section 14 of the Finance (No. 2) Act 2024. The section outlines that regulations will have to be laid to establish the defining criteria of a low-budget movie.[157]

Recent developments: Visual effects

At Autumn Statement 2023, the Conservative Government launched an additional call for evidence specifically on relief rates targeting ‘visual effects’, defined by the British Film Institute 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 hose 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.[158]

The government wanted to make sure the rates of relief would attract the visual effects industry, since there had been reports of companies focussing

154 HMRC and HM Treasury, HMT-HMRC policy note – UK Independent Film Tax Credit, GOV.UK, updated 12 April 2024

155 HMRC and HM Treasury, HMT-HMRC policy note – UK Independent Film Tax Credit, GOV.UK, updated 12 April 2024

156 As above

157 Finance (No. 2) Act 2024, section 14

158 BFI definition quoted in HM Treasury, Consultation on additional tax relief for visual effects (PDF), GOV.UK, March 2024, p15

on overseas visual effects production.[159] The government wanted to incentivise this industry to stimulate investment in the UK.

Following the call for evidence, the Conservative Government announced at the 2024 Budget that the total credit rate under AVEC for visual effects for films and high-end TV would be increased by 5 percentage points to 39%.[160]

Additionally, the 80% expenditure cap (which is used across all creative reliefs and expenditure credits) will be lifted for the costs of visual effects.[161]

This will be implemented from 1 April 2025, with legislation published in summer 2024.[162] Following the 2024 Budget, the Conservative Government also launched a consultation seeking feedback on the detail of how the regime for visual effects will work in practice.[163]

The consultation closed on 22 May 2024.[164] The government has not yet published a response to the consultation.

159 HM Treasury, Consultation on additional tax relief for visual effects (PDF), GOV.UK, March 2024, para 1.3, p7

160 As above, para 1.9, p8; see also HM Treasury, Budget 2024 (PDF), GOV.UK, para 5.115, p81. The Chancellor also referenced this in his Budget speech: see HC Deb 6 March 2024, c844

161 HM Treasury, Budget 2024 (PDF), GOV.UK, para 5.115, p81

162 HM Treasury, Budget 2024 (PDF), GOV.UK, para 5.115, p81; and HM Treasury, Consultation on additional tax relief for visual effects (PDF), GOV.UK, March 2024, para 1.10, p8. Draft legislation is yet to be published

163 HM Treasury, Consultation on additional tax relief for visual effects costs, GOV.UK, 27 March 2024

164 As above