Creative Sector Tax Reliefs

BUSINESS TAX GUIDE

October 2015

OVERVIEW

In a bid to make the UK 'the technology centre of Europe', the Government has introduced some highly attractive corporation tax reliefs for the animation, high-end television and video games industries.

The reliefs are intended to encourage creative sector investment and production in the UK, by allowing qualifying companies to gain either a significant additional tax deduction or a generous payable cash tax credit. The cash tax credit, which is achieved through the surrender of company losses, is made even more attractive with the falling rate of UK corporation tax.

The Company

The company qualifies for and can claim creative industry tax reliefs if it is:

- liable to corporation tax
- directly involved in the production and development of certain 'high-end' television programmes, animation programmes or video games

The main features of the reliefs are below, they are intended to broadly mirror the existing film tax credit regime so helpfully the details may already be familiar to taxpayers in the creative sector.

	High-end Television (HTR) (available 1 April 2013)	Animation (ATR) (available 1 April 2013)	Video Games (VGTR) (available 1 April 2014)
Definition	Drama, comedy and documentary programmes intended for broadcast with: • a commissioned slot time of > 30 minutes, and • an average core expenditure per hour of programme slot time of at least £1 million.	All forms of animation including computer generated and motion capture animation. Relief will be limited to animations that are 'intended for broadcast', including over the internet.	A video game that is 'intended for commercial release'.
Genres specifically excluded	• Advertisement/promotional programmes • News, current affairs and discussion programmes • Quiz, game, panel, variety, chat or similar programmes • Live broadcasts • Training programmes.		• Advertising/promotion • Gambling.

Qualifying expenditure	All direct production expenditure of the programme, including pre-production expenditure and expenditure on pilots is "core expenditure" (subject to the below). Incidental expenditure such as the costs of financing and advertising will not be eligible for relief, and grants and other public subsidies will also be netted off against these expenses. Where the costs of animation (for ATR) make up 51% or more of the total core expenditure and 25% or more of the total production costs relate to activities in the UK, the expenditure will be eligible for relief.	All expenditure on pre-development, principal photography and post-development is "core expenditure". Excludes expenditure incurred in designing the initial concept of the video games; or in debugging or carrying out maintenance in connection with a completed video game. Where 25% or more of the core expenditure is incurred on goods or services which are provided from within the EEA the expenditure will be eligible for relief.
Relief rates	• An additional tax deduction of 100% of 'enhanceable expenditure'. Enhanceable expenditure is the lower of UK core expenditure or 80% of total core expenditure for ATR and HTR. For VGTR, it is the lower of EEA core expenditure or 80% of total expenditure. • A cash tax credit of 25% of any losses, up to the amount of qualifying expenditure, surrendered to HMRC.	
Cultural test	A company must obtain confirmation from HMRC that the high-end television production, animation or video game meets the 'cultural test'. This is a points based test which assesses whether a product is 'culturally British' in the following categories: • Cultural content • Cultural contribution • Cultural hubs • Cultural practitioners.	
Separate trades	Each animation, high-end television production or video game will be treated as a separate trade, and therefore production companies carrying out multiple productions will not be permitted to pool expenditure. Any losses generated by the enhanced deductions are therefore restricted, and may only be used against profits of that individual trade. A mini-series or "seasons" of the same programme will be treated as the same trade.	
Co-productions	Only productions under an internationally agreed co-production treaty will be eligible.	
Making a claim	A claim will form part of a company's tax return.	

Theatre Tax Relief (TTR)

TTR is available from 1 September 2014. Detailed guidance has not yet been published by HMRC, however, draft legislation follows the principles applied to FTR, ATR, HTR, and VGTR. TTR gives an additional deduction of 100% of enhanceable expenditure, alternatively a cash tax credit of 25% for touring productions, and 20% for others of any losses surrendered.

If you are interested in further information in this regard, please contact the Rawlinson & Hunter partner who normally acts for you. Where you are not one of our regular clients, please contact Craig Davies or Andrew Shilling, who would be delighted to discuss this with you in more detail.

Craig Davies
Direct Dial: (+44) 20 7842 2136
Email: craig.davies@rawlinson-hunter.com

Andrew Shilling
Direct Dial: (+44) 20 7842 2135
Email: andrew.shilling@rawlinson-hunter.com

Rawlinson & Hunter

Eighth Floor
6 New Street Square
New Fetter Lane
London EC4A 3AQ

And at

Lower Mill
Kingston Road Ewell
Surrey KT17 2AE

T +44 (0)20 7842 2000
F +44 (0)20 7842 2080
firstname.lastname@rawlinson-hunter.com
www.rawlinson-hunter.com