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BF with Treasury response

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MR TURNBULL

cc Mr Redwood

TAXING THE FILM INDUSTRY

1. The pre-1979 system of allocating film-making expense against revenue worked. The move that year to a system of capital allowances - for an industry which clearly does not build up capital assets - was silly. The Government was right in 1982 to revert to pre-1979 principles, but unwise to allow a long drawn-out transition through to 1987. The film industry is now crying foul at the loss of a perk it should never have enjoyed.

2. It is now lobbying instead for a fixed and generous regime of write-offs which have nearly the same effect. We see no need to establish any kind of fixed regime. Patterns of expense and income differ from film to film and from company to company. It should be left to individual tax inspectors and companies to agree what the allocation of expense against revenue should be - as it was before 1979, and as is provided by Section 72 of the 1982 Finance Act. (I attach the relevant page).

3. We reject two wider DTI arguments for special treatment for the film industry:

(i) "Strategic importance", viz that cable and DBS will not succeed in Britain without a British film industry. We argue the other way round - that the demands of cable and DBS will offer a boost to the film industry.

/ (ii) Tying

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(ii) Tying abolition of the Eady Levy and attendant paraphernalia to retention of 100 per cent First Year Capital Allowances. Mr Tebbit would like to to see voluntary private funding replace Eady. We support that. But are funding decisions likely to be conditional on the recipient's tax position? Surely it will depend more on that of the subscriber.

4. In summary:

- We support the application of Section 72 of the 1982 Finance Act to the UK film industry.

- We reject modification of Section 72 to provide a fixed regime of write-offs.

- We support, reluctantly, the retention of Capital Allowances through to 1987, on the understanding that these should be at the rates announced in the 1984 Budget.

- We support, abolition of the Eady Levy.

- We reject making abolition conditional upon the retention of 100 per cent allowances or upon further taxes on TV and video.

R.Y.

ROBERT YOUNG

21 June 1984

(b) any reference to a tape is a reference to an original master film tape or original master audio tape; and

(c) any reference to a disc is a reference to an original master film disc or original master audio disc;

and any reference to the acquisition of a film, tape or disc includes a reference to the acquisition of any description of rights in a film, tape or disc.

(3) Subject to the following provisions of this section, in computing the profits or gains accruing to any person from a trade or business which consists of or includes the exploitation of a film, tape or disc, expenditure which—

(a) is incurred on or after 10th March 1982 on the production or acquisition of a film, tape or disc, and

(b) is expenditure of a revenue nature (whether by virtue of subsection (1) above or otherwise),

shall be allocated to relevant periods in accordance with subsection (4) below; and in this subsection and subsection (4) below "relevant period" means a period for which the accounts of the trade or business concerned are made up or, if those accounts are not made up for any period, a period the profits or gains of which are taken into account in assessing the income of the trade or business for any chargeable period.

(4) The amount of expenditure falling within subsection (3) above which falls to be allocated to any relevant period shall be such as is just and reasonable, having regard to—

(a) the amount of that expenditure which remains unallocated at the beginning of that period;

(b) the proportion which the estimated value of the film, tape or disc which is realised in that period (whether by way of income or otherwise) bears to the aggregate of the value so realised and the estimated remaining value of the film, tape or disc at the end of that period; and

(c) the need to bring the whole of the expenditure falling within subsection (3) above into account over the time during which the value of the film, tape or disc is expected to be realised.

10 DOWNING STREET

A.T.

I checked Mr. Tebbit's reference to Section 72 of the 1981 Finance Act.

That deals with medical insurance. A Freudian connection with film industry taxation?

R.J.