



JF6834

A

CONFIDENTIAL

PRIME MINISTER

THE FILM INDUSTRY : TAXATION

I am sorry that the Chancellor and I have not been able to reach agreement on the Tax treatment of the film industry. This is simply because the Chancellor is rightly concerned for the integrity of his Budget, whilst I am concerned to contrive our escape from the cobwebs of quangos and levy system which enmesh Government in the film industry. I believe what I need to accomplish that, need not damage the Budget. The Chancellor is not willing to take the risk. You will have received the jointly agreed official paper setting out the background and issues, and you will have seen a copy of the Chancellor's letter of 2 July to me *attached,* recording his own position. May I briefly set out my own views?

2 My purpose is to sweep away the whole legislative and regulatory framework within which the film industry operates, together with the complicated financial mechanisms of the Eady Levy and related quangos. As you know, it is our intention to replace these mechanisms with voluntary contributions from the industry itself. The price of these radical changes is the institution of a sympathetic tax





CONFIDENTIAL

regime. Even so even the proposals that have been made by the industry itself would leave it worse off than before the Budget. Both the industry and I accept that their original proposals would have run counter to the Budget philosophy and this is why they have changed them; I believe their latest proposals are not inconsistent with the Budget.

3 In fact, I am not clear why the Chancellor refers to the special formula in Section 72 of the 1982 Finance Act as a concession: it already applies to non-Eady films (i.e. films not meeting the current criteria to be treated as "British") and was to be imposed generally on the film industry in 1987 anyway; the Finance Bill simply advances the date. As you know the film industry have asked for this provision to be modified so as to allow earlier write-off of expenditure (50 per cent on delivery of the completed film, a further 25 per cent on first release, and the final 25 per cent twelve months later). The attraction of this for the industry is foremost that it gives some certainty about the position which will enable them to attract investment in a risky industry and, of course, that it gives some help "up front", i.e. an allowance that can be used against tax prior to the inflow of income from the film.

4 I am not of course wedded to the precise suggestion made by the industry, but I need something to satisfy the industry





CONFIDENTIAL

sufficiently to safeguard the promised voluntary contributions.

5 I have suggested, as an alternative, a pattern of write-off of 25-50-25 per cent. I have not been able to consult the industry but I do not believe that this will offer substantial up front allowances when compared with the cost recovery basis now suggested by the Chancellor. Nevertheless it will represent certainty and this is important to the industry.

6 I welcome the Chancellor's proposed extension of the Business Expansion Scheme to British films but, as the Chancellor recognizes, this will benefit the very small independent producers not the medium to large budget films where the bulk of the industry is employed. I am also grateful for the Chancellor's offer of "cost recovery", which would mean that film companies would not pay corporation tax until they had recovered the full cost of the film. By suggesting a modified formula I am trying to meet the Chancellor on this.

7 I fully support the Budget strategy. That is why I have not asked for concessions for any other industry. But the exceptional circumstances of the film industry with its attendant levy system, statutory regulation and quangos,





CONFIDENTIAL

justifies a special effort to facilitate its transition to commercial independence. I cannot believe that even the industry's proposed formula of 50, 25, 25 would provide the large up front tax losses which would lead to the consequences the Chancellor describes. These were the consequences of 100 per cent first year allowances and a faulty legislation which made them available to all films - even those that were not made in this country! Certainly my compromise formula of 25, 50, 25 would not lead to these abuses. We surely do not want to have to look seriously at the unpalatable alternative of retaining the Eady Levy and its quangos, and even extending the levy principle to video tapes and use of film on television.

8 I am copying this minute to Nigel Lawson, Geoffrey Howe, Leon Brittan and Grey Gowie.

*A. M. Lansley*

pp N T

(Approved by the Secretary of State and signed in his absence)

3 July 1984