

SUBJECT



10 DOWNING STREET

From the Private Secretary

6 July, 1984

Taxation of the Film Industry

The Prime Minister held a meeting today to discuss the taxation of the film industry. Present were your Secretary of State, the Chancellor of the Exchequer, the Financial Secretary, and the Minister of State for Information Technology.

The Prime Minister said the logic of taxation policy and industrial policy both argued against providing special treatment for the film industry. Even the profile of writing off expenditure suggested by your Secretary of State was very expensive - around £130 million over 5 years. Nevertheless, the film industry had special characteristics which made it difficult to apply the standard treatment to it. She also appreciated the value of dispensing with the Eady levy and its associated quangos.

The Chancellor said he was very anxious to maintain the integrity of the tax system. He, with the help of your Secretary of State, had resisted numerous pleas for special help. He, too, recognised the desirability of abolishing the Eady levy and replacing it with voluntary contributions. The sums involved were not large, particularly in relation to the tax costs at issue, and he suggested that extra assistance to the film industry could be provided by payment of grants to the National Film Finance Corporation and the National Film and TV School. He had in mind around £2 million per year. This would maintain the integrity of the tax system and satisfy the demands of the film industry at much less cost.

Your Secretary of State suggested an alternative way of achieving the same objective. At present, ITV companies could offset films made for TV or shown first on TV against the ITV levy. In future, ITV companies could be allowed to

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offset, against the levy, up to a specified limit, money provided to finance films shown initially through cinemas.

Summing up the discussion, the Prime Minister said that the Treasury's proposals on tax should be put into effect, including extension of the BES to films. Mr. Moore and Mr. Baker, in consultation with Home Office Ministers, should examine the proposal to allow expenditure on films to be offset against the ITV levy. They should establish whether such a scheme required primary legislation and how it could be limited, both as to amount and to time. If the proposal proved feasible, a limit of around £2 million for 5 years could be offered. The proposal to pay grants directly to the NFFC and the NFTV School should also be examined should the levy proposal prove unworkable.

I am copying this letter to David Peretz (H.M. Treasury), Andrew Hudson (Financial Secretary's Office), Neil McMillan (Office of the Minister of State for Information Technology) and Hugh Taylor (Home Office).

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