



## Finance Bill Second Reading

### Briefing on amendments relating to Theatre Tax Relief

December 2023

The Society of London Theatre (SOLT) & UK Theatre responded to the draft version of the Finance Bill during the summer and welcome HM Treasury and HMRC amendments in relation to earlier proposals that could have significantly hampered the effectiveness and value of Theatre Tax Relief (TTR).

At time when the Government is seeking to grow the UK's Creative Industries by £50 billion and one million jobs by 2030, it is essential that Theatre Tax Relief is protected. Theatre is a major driver of the UK economy, generating £2.39 billion in GVA and supporting 205,000 workers. For every £1 spent on a theatre ticket, an additional spend of £1.40 is generated in local economies.

TTR has a similarly positive economic impact: Between 2014 and 2019, TTR was funded at £280 million nationally. In the same period, HM Treasury saw £910 million in VAT returns from SOLT & UK Theatre members alone, representing at least a 225% return on investment.

We hope that the second reading of the Finance Bill will provide an opportunity for supportive parliamentarians to highlight the critical importance of TTR to the UK's creative industries. **Whilst the current bill is a great improvement on the draft version, SOLT & UK Theatre seeks assurances and clarification in relation to the following points:**

We were concerned with plans to only allow companies operating as a **'going concern'** to claim TTR. However, the revised Bill now only limits claims from companies in liquidation or administration – one of the mitigations we proposed in our consultation response. We have been assured by officials at HM Treasury that there is no intention to prevent the use of **Special Purpose Vehicles (SPVs)**, which are in common usage across the creative industries, and allow for clearer accounting and facilitating easier calculation of TTR. The use of SPVs is an approved (and indeed encouraged) practice by HMRC for the purposes of calculating and claiming TTR. SOLT & UK Theatre would appreciate this assurance being given at the dispatch box and in guidance.

**'Connected Party Transactions'** (Schedule 3, Part 1,7c, p.120): We were concerned that proposals regarding 'Connected Party Transactions' would create a significant administrative burden for claimants and reduce the levels of support available through TTR. SOLT & UK Theatre understand that companies will now be required to disclose connected party transactions when claiming tax relief and must charge connected parties for goods and services at an arm's length price, in line with the well-established principles of transfer pricing.

SOLT & UK Theatre stand ready to work with HMRC to determine common arm's length prices, to ensure that there is appropriate consistency in TTR claims, and to support our members to submit effective TTR claims. We welcome clear guidance on this element of the bill.

## UK Expenditure

Chapter 1 of the Bill (1179AB UK expenditure (1) states:

*“In this Part, “UK expenditure” means expenditure on goods or services that are used or consumed in the United Kingdom” (p.19).*

We are concerned that this wording will damage the way in which TTR currently operates in relation to theatre production tours which originate in the UK and tour globally. It is important that we protect legitimate TTR claims in which UK production companies successfully export content consisting of UK cast, crew, scenery build etc. This aspect of UK theatre’s work is surely to be encouraged. We believe that the government wants to encourage and support UK producers to export their productions in this way and seek assurances that this bill will not inadvertently curb this activity.

### **Titanic Tour to China Thanks to TTR**

Tarento Productions Ltd’s tour of Titanic the Musical, which originated in the UK toured across China in October and November 2023, creating employment for over 60 UK workers including actors, musicians, creative, technical and operational staff.

*“This deal with China would simply not have happened without TTR...*

*...Successful touring means adapting to compete in international markets. Our ability to claim TTR enabled us to adapt the production to suit the Chinese market, resulting in jobs for UK workers and, of course, the generation of export revenue...*

*...The UK tour, because of adverse market conditions including the impact of COVID-19 and the cost-of-living crisis, recouped only 45% of its investment. Because of the royalty fee worked into the Chinese deal, we will raise the return to investors from 45% to 70% - an extra 25% resulting directly from this international tour”.*

*...As a direct result of our successful tour of China, we are now in discussions about a further international tour in 2025 and 2026, creating more jobs and income for UK workers and companies.”*

**Danielle Tarento**

**Producer and Casting Director**

As highlighted in the recent *Ending Stagnation* [report](#) from the Resolution Foundation and the Centre for Economic Performance *“the creative industries accounted for 6 per cent of the UK economy in 2022, and have grown faster than the UK economy overall since 2011. The creative industries are estimated to represent service exports worth £41.4 billion in 2020 (14.2 per cent of UK service exports), alongside £8.9 billion of goods exports”.*

### **Refining the definition of a theatrical production**

Schedule 3, (THEATRICAL PRODUCTIONS) Part 1 (p.118) of the current Finance Bill states *“it is reasonable to expect that the main purpose of the audience members will be to observe the performance (rather than, for example, to undertake tasks facilitated or accompanied by the performance),”.*

SOLT & UK Theatre would welcome further information on the purpose of this redefinition of a theatrical production. The Bill’s current wording takes a rather narrow view of the role of an audience. Firstly, it is important to state that theatre is not a purely visual phenomenon. It is

often a multi-sensory experience drawing on a vast array of technical and craft disciplines including but not limited to lighting, sound, automation and scenic arts.

Pantomime is an obvious example of a theatrical art form which is dependent upon a high degree of audience participation, but there are other forms of theatre such as productions aimed at children and experimental productions which are sometimes described as interactive or immersive, which are increasingly popular audiences might have a less passive role. We seek assurances that members making TTR claims for pantomime and other more interactive productions will not be deemed ineligible for TTR as a result of this amendment.

### **Research and Investment (R&D)**

We note that the bill excludes expenditure eligible for R&D relief from theatre tax relief and would like to take this opportunity to highlight the fact that the creative industries are currently ineligible for R&D tax relief. We therefore welcome the review of public investment in R&D spending for the creative industries, announced by the Chancellor at the recent Autumn Statement.

#### **Summary of clarifications sought by SOLT & UK Theatre:**

- We understand that companies will now be required to disclose connected party transactions when claiming tax relief and must charge connected parties for goods and services at an arm's length price, in line with the well-established principles of transfer pricing. Is that correct?
- We seek assurances that the government will encourage and support UK producers to export their productions internationally and specifically seek assurances that this bill's definition of UK expenditure will be reviewed to ensure that it does not threaten international touring.
- We request further information on the purpose of this redefinition of a theatrical production.
- Connected party transactions/ Arm's-length payments: SOLT & UK Theatre stand ready to work with HMRC to determine common arm's length prices, to ensure that there is appropriate consistency in TTR claims, and to support our members to submit effective TTR claims. We welcome clear guidance on this element of the bill.

#### **What is TTR?**

Theatre Tax Relief (TTR) is a creative industry tax relief. It offers theatre production companies a corporation tax rebate against the money spent on qualifying costs of productions, currently 45% or 50% for touring productions against 80% of the total qualifying costs.

#### **Why is it important?**

TTR plays a crucial role in sustaining and enriching the landscape of UK theatre nationwide. The higher rate of TTR, first introduced in October 2021, has been pivotal in enabling the development of new theatre productions in the UK.

We estimate that at least £163 million was invested into theatrical productions in 2021-22 as a result of £38 million of Theatre Tax Relief.

Had TTR been at the current higher rate for its lifetime (since its introduction in 2014), HM Treasury would have still seen a ROI of 63%.

**Case Study**

An American producer and investor based in the U.S. and producer or co-producer of over 60 productions on Broadway has increased investment in the UK by 250% since the introduction of the higher rate of Theatre Tax Relief.

**Further information**

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