Finance Bill Committee Debate Briefing
Implications for Theatre Tax Relief

January 2024

SUMMARY

1. **REASSURANCES PROVIDED BY HMT**

a) SOLT & UK Theatre welcome assurances that the Government has provided, on not requiring companies to be a 'going concern' to qualify for TTR.

b) We also welcome the removal of barriers to the continuation of common practices relating to 'special purpose vehicles' and 'connected parties'.

c) Regarding 'Connected Party Transactions' we support this attempt to ensure that tax reliefs are used as intended and look forward to working with HMRC to ensure clarity for our members regarding arm's length pricing.

d) We will work to support our members to submit effective TTR claims, and ask for HMRC's support with this work, where appropriate

2. **AREAS WHERE FURTHER CLARIFICATION & REASSURANCE IS SOUGHT**

a) We seek an assurance that international touring will not be hampered due to the Bill's definition of UK expenditure.

b) We seek confirmation that participatory and immersive theatre is not excluded from the Bill's definition of a theatrical production.

c) We welcome the review of public investment in R&D spending for the creative industries and stand ready to support and inform the review to ensure that theatres are eligible for R&D relief.

d) We seek a commitment to review the planned taper of TTR from the higher rate down to the lower rate next year.

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 a time when the Government is seeking to grow the creative industries by £50bn and support a million more jobs by 2030, it is essential that TTR 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.

Furthermore, TTR incentivises private investment and increases the UK's global attractiveness for Foreign Direct Investment. This, in turn, creates new, high-skilled jobs and generates wider economic returns from tourism and hospitality spending. It also provides additional support for not-for-profit theatres who are better able to amplify the value of public funding.

1. REASSURANCES PROVIDED BY HMT

We welcome the reassurances already provided by the Financial Secretary to the Treasury, Nigel Huddleston MP regarding the following:

a) We were concerned with plans to only allow companies operating as a 'going concern' (Schedule 1, Part 1, p.51) to claim TTR. However, the revised Bill now only limits claims from companies in liquidation or administration, which we welcome.

b) We have been assured by 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 enable the straight forward calculation of TTR.

c) Regarding 'Connected Party Transactions' (Schedule 3, Part 1,7c, p.120), the Bill will require companies 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 principles of transfer pricing. We support this attempt to ensure that tax reliefs are used as intended. However, we seek assurances that efforts will be made to ensure that the benefits of TTR are maintained and look forward to working with HMRC to ensure clarity for our members regarding arm's length pricing.

d) SOLT & UK Theatre look forward to working with HMRC to determine common arm's length prices, to ensure that there is appropriate consistency in TTR claims. We will work to support our members to submit effective TTR claims, and ask for HMRC's support with this work, where appropriate.

2. AREAS WHERE FURTHER CLARIFICATION & REASSURANCE IS SOUGHT

a) UK EXPENDITURE

Under *Definitions and miscellaneous provision*, Chapter 1 of the Bill,1179AB (p.66) states:

> *(1) "In this Part, "UK expenditure" means expenditure on goods or services that are used or consumed in the United Kingdom".*
>
> *(2) Any apportionment of expenditure for the purposes of this Part between expenditure that is and is not UK expenditure is to be made on a just and reasonable basis.*

We are concerned that this wording might jeopardize the way in which TTR currently operates in relation to theatre production tours which originate in the UK and tour globally. Currently TTR is a fundamental element of the financing of UK productions that tour internationally. SOLT & UK Theatre recommends rewording this clause to ensure that it does not inadvertently prevent legitimate TTR claims that help to facilitate international touring.

An example of this is Tarento Productions' recent Titanic tour to China. The UK tour of this production recouped only 45% of its investment, due to adverse market conditions including the impact of COVID-19 and the cost-of-living crisis. However, thanks to the royalty fee worked into the Chinese deal, the production company will raise the return to investors from 45% to 70% - an extra 25% resulting directly from this international tour.

We support the government's aim to ensure that tax reliefs are used in the way they are intended, however in doing so it is important to ensure that the guidance to this legislation clearly articulates scenarios involving UK production companies successfully exporting content created by and consisting of UK actors / UK built scenery/ UK creative teams etc., regardless of where in the world the production may eventually tour.

As highlighted in the recent *Ending Stagnation* report from the Resolution Foundation and the Centre for Economic Performance *"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".*

Questions for Government

- SOLT & UK Theatre do not believe that it is the Government's intention to hamper international touring with changes in the Finance Bill. Could the Government confirm this is the case? Could relevant wording in the Bill (see above) be addressed to ensure this is clarified?

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

b) THEATRICAL PRODUCTION DEFINITION

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),".*

The Bill's current wording takes a narrow view of the role of an audience. In fact, theatre is much more than a purely visual phenomenon. Rather, it is a multi-sensory experience drawing on an array of technical, creative and craft disciplines including but not limited to lighting, sound, automation and scenic arts.

Pantomime is a well-established example of a theatrical art form which is dependent upon a high degree of lively audience participation. However, there are other forms of theatre such as productions aimed at children and experimental productions which are often referred to as interactive or immersive, which are increasingly popular, with audiences taking a more active role, such as Guys & Dolls, which our Prime Minister recently experienced for himself.

SOLT & UK Theatre:

- Welcomes further detail on the intention behind the Bill's definition of a theatrical production.

- Seeks assurances that members making TTR claims for pantomime and other more participatory productions will not be deemed ineligible for TTR because of the Bill's definition of a theatre production.

c) RESEARCH & DEVELOPMENT (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.

SOLT & UK Theatre:

- Welcome the review of public investment in R&D spending for the creative industries, announced by the Chancellor at the recent Autumn Statement.

- Stand ready to support and inform the review to ensure that theatres are eligible for R&D relief.

d) MAINTAIN THE HIGHER RATE OF TTR PERMANENTLY

SOLT & UK Theatre calls for the higher rate of TTR (45% for non-touring productions and 50% for touring productions) to be made permanent.[1] These higher rates were introduced to support theatres through the COVID-19 pandemic and has now become an essential part of the financing of the UK's world-leading theatre sector, which delivers both national and local economic growth as well as social good and individual wellbeing.

SOLT & UK Theatre is on the steering group of the Arts Council England's Cultural Tax Reliefs Review, which will provide valuable data on the impact of TTR along with the other

[1] As things stand the current rates of TTR will taper down to 30 per cent/35 per cent on 1 April 2025 and return to 20 per cent/25 per cent on 1 April 2026.

cultural tax reliefs. We look forward to discussing and sharing the findings with colleagues in Government, once available in early summer 2024.

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%.
- TTR incentivises private investment and increases the UK's global attractiveness for Foreign Direct Investment. This, in turn, creates new, high-skilled jobs and generates wider economic returns from tourism and hospitality spending. It also provides additional support for not-for-profit theatres who are better able to amplify the value of public funding.

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