Written evidence submitted by UK Theatre and Society of London Theatre's submission

1. **About us**

1.1 SOLT and UK Theatre are the trade associations and members' organisations representing the interests of those engaged in the production and presentation of medium to large-scale dramatic and lyric theatre in the UK. Their memberships are drawn from both subsidised and commercial theatre.
1.2 The combined box office income of SOLT and UK Theatre's membership was more than £1.28 billion across London and the rest of the UK, with 34 million tickets sold in 2018.
1.3 SOLT represents approximately 230 London-based producers, theatre owners and managers, including all the major subsidised theatrical organisations in London.
1.4 UK Theatre represents approximately 240 theatres, concert halls, dance companies, producers and arts centres throughout the UK. UK Theatre also operates as a professional association, supporting over 1,400 individuals working professionally in theatre and the performing arts in the UK.

2. **Why we are submitting evidence**

2.1. The information provided in this submission is compiled from a combination of UK Theatre and SOLT members responding directly to the questions posed by the committee, and from information and conversations previously submitted / had with our members throughout COVID-19. It is also based on two of our surveys on the impact of TPTR. **Section five onwards** of this submission is made up of direct quotes and suggestions from members.

2.2. We submit this evidence as a reminder to government and parliament of the contribution Theatre Production Tax Relief (TPTR) to the theatre industry, and in turn, what this allows theatres to contribute to the social, economic and soft power of the UK.

2.3. At a time when public funding is so under pressure, we must be clear that the TPTR has allowed us to maintain a resilient and thriving theatre and performing arts sector. This is even more important as the sector recovers from COVID-19. But it could be improved further to help stimulate the sector quicker, in terms of audiences (ancillary spend, ticket spend, city / town centre footfall etc) and workforce.

2.4. Early on in COVID-19 we submitted evidence to the Treasury Committee and DCMS on ways in which government could help catalyse the recovery. We proposed this be done via a **Temporary increase to Theatre Production Tax Relief.** We believe a series of changes to existing tax rules, **including a modification to the Theatre Production Tax Relief for three years**, could aid recovery as the sector re-establishes. The details of this are:

2.4.1. We believe that TPTR has the ability to help incentivise recovery – especially as it is paid for "new" activity.

2.4.2. We propose that the rate of TPTR is increased to 50% (of 80% of qualifying expenditure) for a period of three years to include any productions which have commenced their production phase and that have been affected by Covid-19, and that HMRC should issue guidance that expenditure associated with resuming performances can be qualifying expenditure.

2.4.3. This would mitigate losses already sustained by the sector such that productions that were affected by Covid-19 are more likely to resume once theatres re-open. It would also provide producers and investors with greater confidence to ensure that new and larger-scale productions are greenlit whilst the sector rebuilds its audience, ensuring greater employment.

2.4.4. Importantly, the relief should also be paid on productions that are put on solely for digital distribution – this is currently prohibited – this would enable some organisations to contemplate shows for online audiences while auditoria are closed. Alternatively, the TV and film reliefs could be extended to include theatre productions that are produced solely for digital distribution that might not otherwise qualify for relief.

2.4.5. The relief should also be structured to allow productions to claim such relief prior to the financial year end, and to make relief claimable against operating costs which also are currently excluded.

2.5. We are therefore submitting this as it allows for further conversation and suggestions around reform to other mechanisms, such as VAT and Business Rates, alongside the current TPTR.

2.6. UK Theatre and SOLT lobbied for the introduction of the scheme following similar relief for film and other creative industries, and then led the negotiations with HMT and HMRC, including training the industry over the last two years. Year-on-year there has been a big increase in the number of productions making claims and SOLT and UK Theatre said it will continue to raise awareness and lobby to help improve how the scheme is administered. This submission is part of that.

3. Summary

3.1. The introduction of Theatre Tax Relief demonstrated the importance to our national economy of our billion-pound theatre industry but most importantly has since encouraged a huge amount of investment which has increased jobs and emboldened producers of work in all genres to take bigger, more creative risks.

3.2. Post-COVID-19 it has an even more important role to play in the sector, and therefore UK's economy - whether in terms of stimulating new product, helping to build reserves prior to the pandemic to employing more people across the country.

3.3. We believe a **Temporary increase to Theatre Production Tax Relief can** help catalyse the recovery. We proposed this be done via a series of changes to existing tax rules, **including a modification to the Theatre Production Tax Relief for three years**, could aid recovery as the sector re-establishes.

3.4. This submission also provides further suggestions from members on what could be done to increase the effectiveness and impact of TPTR post COVID-19 including: 'an "advance" on TPTR to be introduced'; to extending 'the areas of production costs that are eligible for TPTR (including marketing) and for a limited period raise relief to 50%.'

3.5. Members also highlight the role of TPTR as part of a COVID-19 recovery package for the sector – for instance, alongside changes to Business Rates and VAT.

3.6. In 2019-20, £71 million of Theatre tax relief was paid out relating to 1,115 claims. Each claim can be for more than one production, so these claims represent 3,580 productions, of which 1,065 were touring and 2,515 non-touring.

3.7. Since TPTR was introduced in 2014, £280 million has been paid out relating to 3,645 claims, which represents 12,065 productions.[1]

4. The Impact of Theatre Production Tax Relief

4.1. The TPTR is a unique public intervention as it supports both the commercial and non-commercial segments of the UK's theatre sector and has a positive impact on the wider sector ecosystem.

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/907624/August_2020_Commentary_Creative_Industries_Statistics.pdf

4.2. Whilst HMRC does not publish statistics on the value of supported production expenditures, the tax relief rates and published statistics suggest that TPTR has supported an estimated £603m in theatrical production expenditures since September 2014.

4.3. A survey in 2016 of our membership found that the relief had had allowed producers to become more adventurous and compensated for reductions in funding from other sources.

4.4. In June 2019 UK Theatre and SOLT conducted a further survey to understand the impact of the Theatre Production Tax Relief on the sector. 129 respondents - headline findings include:

4.4.1. 70% of respondents stated that the TPTR had enabled them to increase the number of productions and tours (i.e. more theatre is happening across the country thanks to TPTR).
4.4.2. 80% of respondents stated the TPTR has enabled them to take more creative risks (i.e. more ambitious/exciting/innovative theatre is being enabled by the relief).
4.4.3. Good effect on the theatre workforce – 65% said they were able to hire more staff and 51% able to invest in training and development due to TPTR.
4.4.4. Good on overall resilience – 68% able to build better level of reserves and 77% able to diversify income sources
4.4.5. Respondents clear that TPTR has bridged the gap caused by reductions from other funding sources – showing how essential TPTR is to theatre's funding and income generation landscape.
4.4.6. 48% stated the TPTR has offset reductions in public funding.

5. What is the role of Theatre Production Tax Relief in rebuilding the economy and promoting economic growth and efficiency? Please give examples if you can.

5.1. Case Study: Everybody's Talking About Jamie - The supply chain, companies and roles in wider ecology involved

The below case study highlights the scale of impact a production that has successfully claimed TPTR can have on the jobs both within the sector and outside it: The financial return on investment, the impact on employment and suppliers, and its global influence.

- The London production of this show paid 73 different companies
- The Tour has so far interacted with 58 different companies.
- It is now being made into a film with globally significant companies being involved in its development.
- Cinema screening – all these companies involved too
- The soundtrack distribution – companies including: 20th Century Fox, Walt Disney Company, Spotify, Apple music, Amazon, YouTube, google play, iTunes, tidal, sound cloud, deezer, PlayPlnew, Vkontakte, Pandora, Boom, Vodaford, Tmobile, TelenorDK.

Hire companies	Marketing and Press	Production
• Lighting • Sound • Video • Automation • Music tech • Costume hire • Wig hire	• Graphic Design • Press officers • Marketing • Ad buying • Promotions • Online marketing • Social media marketing companies • Leaflet distributors • Printers	• Costume makers • Prop makers • Set builders • Specialist Electrical contractors • Wig makers • Dry Cleaners • Painters • Furniture makers

	• Newspapers for advertising • Outdoor advertising companies	
Production freelancers • LX Staff • Sound staff • Video staff • Carpenters • Costume staff • Props staff • Creatives	**Admin / Management** • Insurance companies • Banks • Accountants • Payroll processing • Osteopaths • Masseuses • Medical support • Trucking companies • Delivery companies • Rehearsal Rooms • Bars and restaurants for entertaining • Hotels	**Merchandise** • T shirt producers • Mug makers • Pen suppliers • Sweatshirt companies • Badge suppliers • Book printers • Cd Manufacturers • LP producers • Music distributors

The below are direct responses to our survey based on the Committee's question:

5.2. To assist rebuilding productions forced to close by the pandemic which have limited access to other capital.

5.3. Help stimulate new productions which much needed for regional theatres to re-open.

5.4. Theatre productions often run very tight profit margins and TPTR can be crucial in determining if a show goes ahead, especially for smaller theatres where capacity is limited. Forcing production to spend less impacts the quality and nature of productions, as people are less willing to be experimental or stretch boundaries.

5.5. It gives investors more chance of recouping their investment and therefore reduces their risk. This is vital at moment because investors are very nervous and if they do not invest, which is the easy option for them, shows will not happen.

5.6. The tax will increase the risk appetite and lead to more product being available for theatres nationwide.

5.7. TPTR is central to the financial planning of any production, with many projects being infeasible without that certain income, so it is intrinsic in facilitating and incentivising new productions which foster employment and new skills.

5.8. This relief is vital to the supply of new product to both the West End and regional touring. At a time of significant uncertainty an increase in the relief offered will support and encourage the supply of shows to all areas. The Tax Relief has been vital in supporting our recent shows, xxx, xxx and xxx. It is doubtful if the first and last listed would have been able to be presented without it.

5.9. Essential - it is an important source of "income" in our business model.

5.10. An increase in the TPTR supports new productions and revivals, supports employers, supports venues and attracts audiences - it is a very effective way of spreading a benefit cross a whole sector and in doing so generating a return - it is more a tax investment than a tax relief.

5.11. Since starting to claim Theatre Production Tax Relief, we have been able to build reserves. These reserves have been essential towards having a sustainable business model during and post-Covid-19.

5.12. An essential aid to theatre production budgets.

5.13. Encouraging the making of shows, supporting producers to make shows, which, in turn, earn income and also secondary spend – Front of House, sales, restaurants, hotels, public transport etc.

5.14. It will be essential to supporting producers getting shows back into production and in theatres again.

5.15. It has mitigated some risk, encouraged investment in UK productions and made producing in the UK more attractive.

5.16. To enable producers to stretch funds to begin working again.

5.17. TPTR is an important incentive to produce new shows, reducing the cost of originating productions. This will be vital post Covid.

5.18. To assist productions achieve recoupment and therefore benefit both audience and the Treasury by providing tax revenue from what becomes a profitable production.

6. Does the current regime of tax reliefs perform this role (rebuilding the economy and promoting economic growth and efficiency) well?

6.1. Our recent survey showed that the majority believe that TTR largely performs well, but there is an overwhelming belief that with a temporary change in rate, it could stimulate productions quickly and aid recovery around the country.

7. Thinking about the theatre sector, the wider creative industries and creative economy, which areas of the tax system are most in need of reform, and which are best left alone? Please do tell us why.

The below are direct responses to our survey based on the Committee's question:

7.1. Theatre Production Tax Relief: needs extending both in terms of scope and % reclaim. VAT: Being partially exempt, the ability to include related income streams in the calculation of the SMO would be hugely beneficial. Recognising the economic link between the production costs and catering income streams (which is very real) would give a substantial benefit.

7.2. Whilst Theatre Production Tax Relief is an extremely good and well-targeted relief, it is unfortunately not timely enough in the current economic conditions. It can only be paid after providing fully audited pre-production accounts which means receipt of the relief can be anything from 12-15 months after expenditure. We would ask for an "advance" on TPTR to be introduced, along with a higher rate as outlined in response to question 7 above. Employers National Insurance contributions, act as a tax on jobs. A waiver on these for the next 12 months would be helpful to employers in retaining staff.

7.3. Extend the areas of production costs that are eligible for TPTR (including marketing) and for a limited period raise relief to 50%.

7.4. Do not touch cultural exemption it means our charity can continue to be sustainable and allows for growth. Theatre tax relief has been brilliant for our sector, maybe consider a short-term stimulus to enhance the scheme.

7.5. Most of the Charities tax regimes work well and are supportive of the helping Arts deliver their creative agenda. VAT on benefits in kind could be reviewed - this does not seem to be well understood by Companies and impacts our relationships with the Corporate Sponsors we rely on for support.

7.6. To support productions in the early stages as the sector rebuilds audiences, the theatre tax credit should be increased for the next two years to 50%. VAT should be cut for a further 6 months after theatres open with no social distancing front of house or backstage. To encourage the essential private commercial support for productions, investors should be allowed to include their profits and losses on their annual tax return. Small investors should not be penalised by corporation tax on the special purpose vehicle which produces the show, they should just pay usual income tax on profits and losses.

7.7. Please do not extend the temporary reduction in VAT on admission to protect culturally exemption venues.

7.8. Tax reliefs should be larger to remain competitive internationally and in the face of reduced demand.

7.9. I'm a bit of a believer in keeping things simple. The VAT cut on tickets and on some catering has been useful but has also got really complex around food and drink which is taking time to work through.

7.10. Business rates on Theatre buildings need to be reassessed; it is unjust that 10% of a theatre's annual overhead should be spent on this tax. If the majority of maintenance costs were classed as capital, then an enhanced rate which allows for 100% relief on the year that the cost was spent would be beneficial. To encourage investment in capital projects on listed buildings the Annual Investment Allowance that has been reduced back to £200k in 2021 should be increased to £1,000,000 allowing 100% relief against taxable profits in this and future years. The lower VAT rate on the price of the tickets should continue at 5% for at least 3 year to allow the sector to stabilise.

7.11. VAT needs reform and simplification. We have to spend £000s navigating a highly complex system, often fearing we have tripped up and exposed the organisation to a liability.

7.12. As a charity that has VAT Cultural Exemption we are not burdened by tax, though neither do we benefit from many of allowances.

7.13. Continuation of Theatre Tax Credit is essential to rebuilding the sector - if possible, the scope should be expanded, to increase the percentages or eligible costs.

7.14. Temporary allowance to generate more income from TPTR in present circumstances. VAT is fine but temporarily reduced rate is welcome. JRS extended for industries which can't fully re-open.

7.15. It would be advantageous if non-UK corporate investors could get a certificate for tax deducted from profits distributions and to be able to use that against losses in other theatre investments.

7.16. Personal income tax needs to be reduced for those in the arts to recognise their lack of income.

7.17. The business rates system is in need of reform.

7.18. The existing theatre tax relief does not support running or marketing costs which are the biggest numbers involved in getting shows back up and running. The normal rate of VAT is a big cost for theatre producers and the inconsistency of culturally exempt organisations not being subject to VAT on tickets is problematic in its inequity especially when sectors try to work together but are governed by different rules. Theatre tickets are not subject to sales tax in our main competitor market on the global stage (the USA) and I think the UK needs to review on this basis.

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