Written evidence submitted by Pact

Introduction

1. Pact is the UK trade association which represents and promotes the commercial interests of independent feature film, television, digital, children's and animation media companies.

2. Pact works on behalf of its members to ensure the best legal, regulatory and economic environment for growth in the sector. Pact has around 550 member companies based across the UK and the majority of these are SMEs (small and medium sized enterprises) with a turnover of less than £50m a year.

3. The UK is a world leader in the sales of TV content globally and revenues continue to rise. Taken as a whole, the TV industry around the world is worth $400 billion.[1] UK independent television sector revenues have grown from £1.3 billion in 2005 to over £3 billion in 2018 largely driven by a growth in international sales.[2]

4. Independent producers are using the resulting revenues to become significant investors in the creation of UK content creation and are vital part of the UK's creative industries. 161 inward investment and co-productions accounted for £3.1 billion of the total £3.6 billion film and HETV spend (86%) for the latest 12 month rolling period. This is the highest ever total inward investment and co-production spend reported for April-March rolling periods.[3]

5. The creative industries are a source of strong UK job growth, with employment in the sector growing by 30.6% in 2011-2018, compared to a national average of 10.1%[4].

[1] Analysis for Pact by Oliver & Ohlbaum, published in 'A New Age for UK TV content and a New Role for the BBC', August 2014
[2] Pact Census Independent Production Sector Financial Census and Survey 2019, by Oliver & Ohlbaum Associates Limited
[3] https://www.bfi.org.uk/sites/bfi.org.uk/files/downloads/bfi-film-other-screen-sector-production-uk-q1-2020-v1.pdf
[4] DCMS Economics Estimates 2020, DCMS 2020

Overview

The creative industries are highly successful and a key contributor to the UK economy, in 2018 the creative industries contributed £111.7bn to the UK economy, an increase of 43.2% in real terms since 2010.[5] The introduction of the creative sector tax reliefs has been instrumental in attracting inward investment and helping the UK TV production sector grow to one of the most successful in the world.

Following a successful campaign by Pact, the Government introduced a tax relief for children's live-action TV in April 2015. Since the introduction of this, over 200 children's TV programmes have claimed the tax relief, supporting UK expenditure of £219 million.[6] There has been a steady decline in spend and hours in children's TV over the past ten years, and the Children's tax relief has helped increase opportunities for producers and stimulate production in the genre.

While the success of the creative sector tax reliefs shows they can promote economic growth and efficiency. The Government should be wary about introducing a host of new reliefs to help businesses recover from the COVID pandemic. The creative sector tax reliefs were introduced to address a market failure and provide a financial incentive for those in the TV and film production sector. The COVID pandemic and resulting recession is not a result of market failure; so, while some new temporary tax reliefs may help to aide recovery in the short-term, they may not help long term growth. The Government should look at the existing reliefs and see how these could be adapted to help businesses. For example, the Research and Development (R&D) tax relief could be extended so those in the creative industries are able to qualify. The Government could also look at making the creative sector tax reliefs more generous once EU state aid rules no longer apply. We have focused this response on the most relevant question for our sector.

What is the role of tax reliefs in rebuilding the economy and promoting economic growth and efficiency? Does the current regime of tax reliefs perform this role well?

The Creative Sector Tax Reliefs

The Creative Sector Tax Reliefs have been an incredible success story since its initial introduction via the Film Tax relief in 2007 followed by the High End TV Tax Relief, the Animation Programme Tax Relief (ATR) in 2013, and includes the Children's Television Tax Relief (CTR) in 2015 which Pact campaigned for. The Tax Reliefs were introduced to help UK businesses in highly skilled and innovative sectors thrive at home and abroad and to address market failures. For example, the Children's Tax Credit was set up to address an undiversified domestic market which resulted in the decline in spend and hours in children's programming over the last ten years. HMT were also well aware of the potential for this tax credit to match the success that HETV and film tax credit has seen in bringing inward investment to the UK and preventing productions from moving productions abroad thereby losing billions of production spend to other countries who have more generous tax support.

[5] DCMS Sectors Economic Estimates: GVA 2018
[6] Creative Industries Statistics, HMRC, August 2019

Together, production spend and its job creation led to the generation of major tax returns for HM Government, estimated for all tax relief screen sectors to be £2.04 billion in 2016 of which 50% was related to direct economic impact. Tax returns have also grown strongly over time. Total tax revenues for the three sectors which had tax reliefs between 2013 and 2016 grew by 67% from £1.11 billion to £1.86 billion during this four-year period.[7]

Research commissioned in 2018 by the BFI, Pinewood Shepperton, the British Film Commission, the Association for UK Interactive Entertainment, and Pact showed that the reliefs have been instrumental in attracting inward investment and helping grow the successful UK TV production industry, benefitting all parts of the UK. In 2016, taken together the tax relief supported screen sectors delivered a total of £7.91 billion in Gross Value Added (GVA) for the UK economy. Of this, £3.68 billion represents direct GVA; £2.63 billion comes from indirect and induced impacts (employment, labour compensation in the supply chain, and re-spending of employment income) and £1.59 billion comes from spillover impacts (inbound screen tourism, merchandise sales, UK brand promotion and esports).

Production/Development

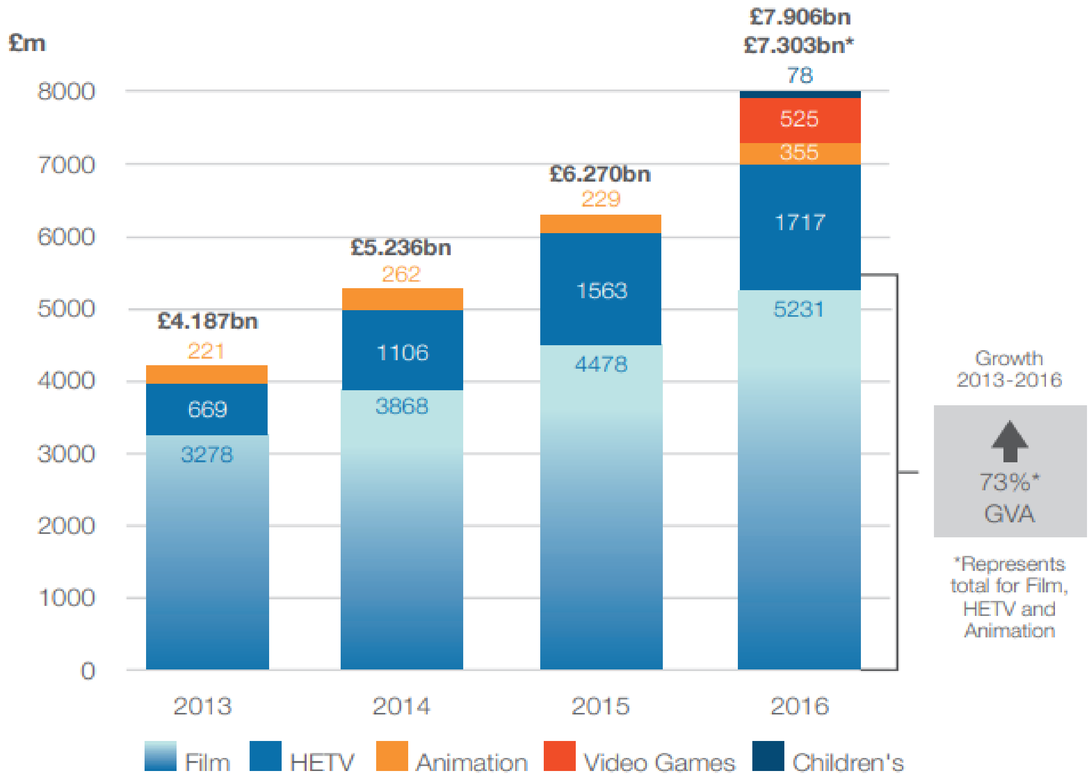

Figure 1 Growth in Gross Value Added – overall economic impact (direct, indirect, induced and spillover impacts) 2013-2016 based on BFI commissioned report from Olsberg SPI and Nordicity, 2018

The tax reliefs have proven to be a strong investment for the Exchequer with Production, reaching a record total of £3.16 billion in 2016. [8] This has continued as last year saw the

[7] Screen Business, How screen sector tax reliefs power economic growth across the UK, report commissioned by BFI from Olsberg. SPI with Nordicity, October 2018
[8] IBID

total film and HETV spend for the 12-month rolling period April 2019 to March 2020 was £3.6 billion, £200 million higher than the previous 12 month period, and the highest on record.[9]

The Creative Sector Tax Reliefs must remain the same if we want to continue to be competitive in attracting inward investment and preventing British productions from taking the spend abroad. The competition for attracting productions has increased over the years as countries such as Australia, New Zealand, Canada, and France have begun to ramp up their tax support offerings to attract production spend in their country. As the impacts of the pandemic continue to fall out over the coming months the reliefs will also be particularly vital for the TV/Film production finance modal. Tax reliefs help with other distribution advances and presales which in turn help to pay for the costs of a production particularly within genres that are never fully financed by one source of funding. Any change could make it even harder for producers to find the necessary financing. In times of limited reserves given the costs of the pandemic this could be a key part of financing that could prevent a company from going under.

As we leave the EU there may be a longer-term opportunity to look at our creative tax relief system to make it more competitive and prevent it from losing ground to overseas tax support. This could be through an uplift in the rate of tax relief for film, animation, HETV and children's TV and or a relaxation of the qualifying criteria to support our world class sector and prevent job losses. As already outlined the pandemic and resulting recession is not a result of market failure; so, while some new temporary tax reliefs may help to aide recovery in the short-term, they may not help long term growth. An adjustment of the existing system would be the most efficient way of ensuring the continued growth that we have seen across the TV/Film production sectors.

Extension of the R&D Tax Relief

Another tax relief which could be adjusted to help businesses in this period of uncertainty in the coming years is the R&D Tax credit: the creative industries and those within the TV and Film sector have limited capital reserves to draw on in times of crisis. This is because margins have been considerably low over the last ten years as broadcasters and buyers of content have continued to squeeze producers. Those larger companies within our membership have more resilience in terms of using development funding to help develop ideas but once the crisis is over it will be hard for the existing diverse supply market to recover quickly and provide ideas to those buyers looking for content. As a way to continue the diverse supply the Government should extent the R&D tax credit to apply to SMEs within the creative industries. By enhancing the scope of officially recognised Research and Development to include R&D undertaken as part of the creative process,[10] it could provide the development funding needed to keep companies afloat and ready to provide content during the crisis as well as dramatically increase incentives to invest in and commercialise creative R&D, in particular through enabling businesses to benefit from existing R&D tax incentives for these activities.

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[9] https://www.bfi.org.uk/sites/bfi.org.uk/files/downloads/bfi-film-other-screen-sector-production-uk-q1-2020-v1.pdf
[10] Defining R&D in the creative industries, Nesta/AHRC/UCL, April 2017