



Response to HMT Consultation on Audio-visual Tax Reliefs

February 2023

About TAC

1. TAC (Teledwyr Annibynnol Cymru) represents the independent television production sector in Wales. Our sector is a substantial component of the creative industries, in Wales and in the UK overall, with Cardiff alone having the third largest film and TV cluster in the UK¹. This provides economic, social and cultural benefits through supplying creative content. There are around 50 companies in the sector in Wales, ranging from sole traders to some of the leading players in the UK production industry. They produce content for the BBC, ITV, Channel 4, Channel 5 and Sky as well as other commercial broadcasters and platforms. Our member companies produce almost all the original television and online media content for Welsh-language broadcaster S4C, and a variety of radio productions for the BBC.

About our response to this consultation

2. Based on the feedback we have had from our members, we have chosen to answer just some of the questions posed in this paper.

Further consultation

3. We welcome that the consultation highlights the success of the audio-visual tax reliefs and cites the compelling evidence to demonstrate this. We are glad that overall HM Treasury supports the continuation of the schemes. However we also note that this consultation is proposing some significant changes to the current audio-visual tax reliefs, and as we indicate below it will be important for the detail to be correct in the final new regime. We therefore hope that HM Treasury will be consulting further with industry once it has drawn up the detailed workings of the new regime, in order that any unintended detrimental consequences can be identified prior to the new regime being finalised.

¹ <https://www.cardiff.ac.uk/news/view/2510538-cardiff-has-third-largest-film-and-tv-cluster-in-uk,-study-shows>

Answers to Questions

Question 1: What factors should the government consider when drafting legislation to merge the film and TV reliefs into as single scheme?

A lower threshold for indigenous language productions

4. It would be beneficial to look at the threshold for HETV when applied to UK minority indigenous language productions.
5. Children's TV and Animation tax reliefs do not have a minimum tariff in terms of cost per hour. However, the High End TV tax relief has a minimum qualification threshold of a minimum £1m per broadcast hour of qualifying production costs.
6. Given that average high-end S4C production costs are £250k-£300k per hour, HETV tax relief is not accessible for almost all S4C productions.
7. S4C is a great enabler for the Welsh TV production sector, often giving companies their first commissions, and TAC works in partnership with S4C on a training programme to develop skills in the sector and ensure productions are meeting all required standards. However competing for viewers is challenging in the era of ever-greater choice, and for S4C to compete it needs to be able to access the same type of tax relief support which is available to the other UK PSBs via the HETV tax relief.
8. £1m+ per-hour budgets for high-end English language television, in particular drama, is usually financed not just from broadcasters but from a number of different sources including distribution advances and presales. While S4C and the independent sector are working to produce a greater number of co-productions with international appeal, aided by the growing trend among SVOD audiences to watch subtitled content, it is nevertheless not viable to be able to finance minority indigenous language productions at or near the level of £1m an hour.
9. We would therefore welcome the introduction of a lower threshold, for example at £200k per hour, for the HETR for minority indigenous language productions.
10. To do so would not only enhance the production of high-quality programming in languages such as Welsh, but also further the aims of levelling up the economy for the benefit of the whole of the UK, as it would help the sustainable growth of production companies and broadcasters in the UK nations.

Comparison with competing nations

11. In general a review of the tax credits regime should include an assessment of how competitive the UK's tax credits are compared to other territories. Other countries (e.g. Section 481 in Ireland) have more beneficial schemes meaning that an increasing amount of UK drama is being filmed abroad. We note that the animation industry is voicing

concern at the UK tax relief rate now being less competitive than it has been in the past, leading to the possibility that the UK may see less animation here, with both economic and cultural consequences².

Productions which run across new and old tax relief regimes

12. In order not to destabilise individual production costs, consideration needs to be given to how productions are administered if they begin under the present tax relief regime and then continue after any new regime is introduced.

Children's Tax Relief Rate

13. The discontinuation of the Young Audiences Content Fund will lead to a significant reduction in investment into children's content, reducing economic outputs in this area of production. The BFI's evaluation of the YACF recently stated that minimum Gross Value Added from awarded projects is estimated at £319.6m between 2019 and 2027 from a YACF investment of just over £40m³.
14. To compensate we would recommend a rise in the rate of the Children's Tax Relief, which is currently set at 25% of 80% or effectively 20%. The YACF have been funding up to 50% of production funding meaning that effectively with the CTF up to 70% of the budget has been funded. While we would not expect to see the CTR increase to this amount, an increased rate would be of benefit and make the CTR more competitive. It is our understanding that the S481 relief in Ireland provides up to 32% tax relief – or even 5% more for certain production filming in the Irish Regions.

Allowing children's programmes to offer higher prizes

15. Section 3.10 to 3.12 of the HMT consultation refers to the confusion created by the legislation defining 'programmes' as the full series and not as individual episodes. Clarification in relation to this definition would be beneficial for the Children's Tax Credits and not just HETV. We have a number of children's formats that give away prizes, and currently, the strict interpretation of 'programmes' means that a £1k prize limit applies to a whole series (regardless of the number of episodes). We believe that it was intended to apply per episode, and not to the whole series. If a Children's series therefore has a prize pot that exceeds £1k in total, it is ineligible for CTR, therefore currently productions have to limit the value of prizes in their series - which can be particularly problematic when devising e.g. quiz or entertainment formats.

² See: <https://www.theguardian.com/culture/2023/feb/06/aardman-uk-animators-may-have-to-move-abroad>

³ See <https://www.bfi.org.uk/get-funding-support/create-films-tv-or-new-formats-storytelling/young-audiences-content-fund>. Accessed 19.1.23

Question 20: Is there anything within the design of the current schemes that might be lost if they were reformed?

Preserving the £1m an hour HETV threshold

16. Our members have expressed significant concern at the proposal to raise the minimum £1m cost-per-hour threshold. While it is true that more and more productions are costing more than this, £1m+ cost-per-hour levels are still the preserve of high-end TV productions. Therefore raising the threshold would cause issues in being able to finance productions, including some co-productions made between some of the UK public service broadcasters and produced by our members.
17. While the cost-per-hour for some high-end TV productions has reached new heights as some of the international platforms have increased their content offer, we are starting to see a plateauing of this effect as present-day economic realities start to impact on platforms' level of investment and some producers are now reporting a downward pressure on production costs. Raising the threshold could therefore be introduced at a time when cost-per-hour is coming back down and therefore exclude many legitimate productions, making the UK less competitive compared with other nations with more favourable regimes.
18. We believe that this could disadvantage Out-of-London companies in particular, as London overheads can be higher and therefore more likely to qualify under a higher threshold. Therefore the growing creative economy outside London and the South East, including Wales, could be detrimentally affected in terms of attracting inward investment. HETV productions in Wales will be at an even bigger disadvantage if this level increases as the consultation suggests. Despite their being relatively high-profile and made by S4C in association with other PSBs, productions such as *Un Bore Mercher/Keeping Faith* and *Craith/Hidden* do not hit the £1m per hour threshold. So the concern is that if the threshold rises it will act as a disincentive for broadcasters to invest in further such content.

Preserving elements of the Children's Tax Relief

19. We have no overall objection to the HETV, Children's TV, Film and Animation being combined, providing the particularly individual beneficial elements of the current reliefs for are retained. For example, at the moment most children's programme genres qualify for Children's Tax Relief, and it is therefore critical that a merging of the reliefs does not result in a restriction in the types of children's programmes that are eligible (HETV is limited to drama / documentary whereas the scope is broader for children's).