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The Rt Hon Norman Tebbit MP  
Secretary of State for  
Trade and Industry  
Department of Trade and Industry  
1-19 Victoria Street  
London SW1H 0ET

24 May 1984

*Dear Secretary of State,*

FILM INDUSTRY

Thank you for your letter of 23 May about the impact of the Budget changes on the film industry.

Of course I understand your difficulties with your review. But whatever tax treatment we apply to films must be consistent with the corporate tax policy we introduced in the Budget. Even-handed treatment across the board is fundamental to the success of that policy. I do not see how we could justify picking out the film industry alone, from the whole of British Industry, and bend the Budget strategy for it. You will be as aware as I am of the considerable adjustments that a number of important industries are having to face up to: shipping is the most obvious example. To go now and deliberately introduce a new distortion would be both perverse and asking for trouble. It would also be seen as a very odd sense of priority to select this industry, when, under the system we are dismantling, the profit from successful films - and hence the tax subsidy - has largely flowed across the Atlantic for the benefit of major American production and distribution companies.

I think it is fair to say that when you and I discussed the corporate tax changes before the Budget, we recognised that there would inevitably be some companies and industries which would be disadvantaged, at least in the short term. That was a consequence which was at the heart of our reforms. We also both recognised that the film industry would be in that position

and that it would be the source of some of the most vocal opposition to the changes; that was why I agreed with your proposal that we should remove the terminal date for allowances.

Nothing has changed since then. As you know, the reforms have been widely welcomed as setting us on a new and more productive course, even by many who are unlikely to be among the immediate beneficiaries. Largely because of this, we have been successful in resisting pressures which would damagingly nibble away at the edges of the strategy. The arguments put forward by the film industry contain nothing that we did not expect, nor anything that is in essence different from the claims of other industries similarly placed.

It follows that I believe it would be a great mistake to make any concession for films that would run counter to our main proposals. You suggest that the Inland Revenue might be able to accommodate something. This is not a matter that the Revenue can or should determine, but for us to settle as a matter of policy and of law.

This leads me to other ways of helping the industry, which would be consistent with the Budget strategy.

First, as we agreed, I have announced that British films - ie those your Department certifies under the Eady arrangements - will be entitled to capital allowances beyond 1987, which had been their termination date for films. But this will be allowances at the normal current rate for machinery and plant generally, and I recognise that once the first year allowances have been eliminated most people in the industry will prefer to be taxed according to the special formula set out in Section 72 of the 1982 Finance Act, because this will tend to be more favourable than the 25% annual writing down allowances. So, Second, I have already said that I am prepared to introduce a provision into the Finance Bill which will allow investors in films to choose Section 72 treatment instead of the allowances. The Section 72 formula is designed to produce a tax neutral system for writing off expenditure, and so it is entirely consistent with our strategy. This is a firm commitment, and we are discussing its details with the industry. I shall bring forward an amendment at Report to cover the point.

Third, I am considering a new measure for films. John Moore is urgently considering what changes would be needed to enable investment in film production companies to benefit from the Business Expansion Scheme (BES). Though our discussions with the industry are still at an exploratory stage, we are reasonably confident that an acceptable way of doing this can be found, and one which is consistent with the underlying aims of the Scheme. My intention is to introduce the necessary amendment to the BES legislation at Report Stage of this year's Finance Bill.

I regard this as an important concession (especially as we are resisting pressures to open up the Scheme in a number of other areas). It is one which should be particularly helpful to the smaller, high risk independent UK production companies, which

the industry representatives themselves say they are especially keen to encourage.

I am sorry not to be able to offer you help with a special concession for writing off film costs generally. But the BES change would be worthwhile and demonstrate our concern for the industry without undermining our overall strategy.

I am sending copies of this letter to the Prime Minister, Geoffrey Howe, Leon Brittan and Grey Gowrie.

Yours sincerely,

*Nigel Lawson*

NIGEL LAWSON

(approved by the Chancellor, & signed on his behalf)

24 MAY 1964



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10 DOWNING STREET

*From the Private Secretary*

29 May 1984

FILM INDUSTRY

The Prime Minister has seen copies of your Secretary of State's letter of 23 May to the Chancellor about the film industry, and of the Chancellor's reply dated 24 May.

BF1

The Prime Minister would be grateful if a note could be prepared jointly by your Department and the Treasury setting out more clearly the background to the current correspondence, the considerations which the Government has to take into account, and the issues for decision.

I am sending copies of this letter to David Peretz (H.M. Treasury), Peter Ricketts (Foreign and Commonwealth Office), Nigel Pantling (Home Office) and Mary Brown (Lord Gowrie's Office).

David Barclay

Callum McCarthy, Esq.,  
Department of Trade and Industry.

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Perhaps I can have a clearer note about what the really means.

Prime Minister (2)

PRIME MINISTER

I have had telephone calls from the industry over the weekend

To note this debate. The Chancellor has offered some concessions which do not undermine the principles of the CT reform

FILM INDUSTRY

We now know that DTI think the Chancellor's offer is inadequate in the face of the pressures from the film industry.

AT 24/5

My review of the film industry, which was virtually complete when we agreed to include legislation in the next session, has now met with what seems an insuperable obstacle. I have written to the Chancellor of the Exchequer as attached to see whether we can find some way through the problems.

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23 May 1984

Department of Trade and Industry

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Secretary of State for Trade and Industry

23 May 1984

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
H M Treasury  
Parliament Street  
LONDON SW1

*D. Nigel,*

FILM INDUSTRY

I am very sorry to say that our review of the film industry has run into difficulties, which threaten to bring it to nothing. It is no one's fault, but it had been constructed on the basis of an expectation that the 100% tax allowance would continue. Alongside this Kenneth Baker had raised private sector money which would have allowed us to dismantle the statutory regulatory regime under which the film industry now operates and allow the Government to escape from its involvement in film industry quangos interventions and the Eady Levy system. When I was a Parliamentary Under Secretary here I tried to extricate us from this regime but failed at the time, so you can understand my wish to accomplish the escape at last!

2 There were good reasons for restructuring corporate taxation and I understand why you are reluctant to make special arrangements for the film industry. However, in trying to safeguard the tax flow there is a real danger that we shall get no tax at all from the film industry which I am satisfied will be very seriously affected as matters now stand.

3 Consequently unless we can come up with some creative ideas we would be forced to consider reversing our policy and to go back to the quangos, not only continuing the Eady Levy but also widening it to video tapes and to TV. The only alternative is to see the virtual collapse of the film industry in Britain.

4 I need your help. It does not seem a satisfactory response to apply a tax regime which is appropriate to the US film industry (but without tax credits) to our quite different industry. We still think it should be possible for the Inland Revenue to accommodate something. It would have a cost but I believe if we take a realistic view of the alternative, the cost would be very

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little, though I understand that the Inland Revenue see great difficulty. If the Treasury's present approach is maintained we would have to go back to the Eady Levy and Quango system which I believe we would all find unpalatable.

5 I understand this may come up on the Finance Bill as early as Thursday of this week. There are amendments down in the name of William Clark and others, and I know that William is incensed by what he considers a breach of our undertaking to retain 100% allowance until 1987 for the film industry. I think it too much to ask that we settle this before the Debate but I hope John Moore will not take too negative a view nor shut the door on all options while we consider matters further.

6 I am copying this letter to Leon Brittan and Grey Gowrie, who have a direct interest, and to Geoffrey Howe since the industry is a valuable contributor to our international reputation. I am also informing the Prime Minister of my concern about the serious situation we face on our film industry review.

NORMAN TEBBIT

*In Review*  
*You might like to be alerted to this topic*

PETER YATES - INTERVIEW ON JOB LOSS EFFECT OF BUDGET ON FILM INDUSTRY

Transcript from: BBC Radio 4, *World* this Weekend, 8 April 1984

PRESENTER: It's Oscar time again. The great and the good of the film world are gathering in Hollywood for the handing out of the magic gilt doorstoppers, which over the last couple of years have been weighing down the baggage of British film makers like David Putnam and Sir Richard Attenborough, and others associated with Chariots of Fire and Ghandi. But this time, despite further hopes for British Oscars, dire warnings are being sounded about the future, or the possible lack of future, of the British film industry. There are already clouds of uncertainty over the future of the National Film Finance Corporation and of the ED levy, which gives a percentage of box office takings back to producers. And those clouds darkened dramatically when, in his Budget speech, the Chancellor, Nigel Lawson, announced that he was to scrap what have been a major incentive for people who invest in film making, the capital allowances which permit investors to write off film losses against tax. Kenneth Baker, the Minister for Information Technology, who is preparing a White Paper on the film industry, seems to have been as taken aback as the film makers themselves, and they could hardly believe it. The Superman people, who've spent £75 million in Britain over the past 7 years, are now reported to be on the verge of pulling out. Others could follow. This morning in Hollywood, Peter Yates, the producer director of one of Britain's most hopeful Oscar hopefuls, the Dresser, told Stephen Puttiman that he was deeply concerned for the future of British film making:

YATES: It's extremely disturbing because it's really the third blow that we've had in a very, very short period. The other two points that I'm referring to are obviously are the virtual eliminating of ED at the end of this year and the phasing out of the NFFC, and these are all methods of encouraging British films

and ~~therefore~~ ways of finding employment for British technicians. British technicians have been very lucky in the last few years really with the number of of American financed films coming in, all encouraged to come here by Government subsidies like the tax money. And also there's been a feeling, I think, out of England that the British film industry has suddenly begun to live again, with films like Chariots of Fire and Gandhi and - I humbly say - the Dresser this year. You know, they look to England for films of quality. And I think that the rule for people benefiting from the tax was that the films should be British, that it should employ 80% British technicians, British actors. It was a wonderful way of encouraging people to work in England, encouraging people to give English people work. So to start taking it away and cutting away at it is going to be very very ~~damaging~~ and is bound to effect the employment of everybody in the British film industry

INTERVIEWER : Could these films, these prominent films, such as your own film The Dresser or Gandhi, Chariots of Fire, would these films have still been made in Britain if these incentives had not been available?.

YATES: As far as the Dresser's concerned; the money was raised entirely from British sources, both from World Film Services and from Goldcrest. And John Haman of World Film Services has specialised in being able to guide people through and show them how they can take advantage of the tax benefits that were there before. And so I doubt whether he would have had the money in the first place to help finance. But definitely it wouldn't have been nearly so easy to interest Columbia when the film was finally sold to them if they knew they didn't have the benefit. One of the ways that I was able to encourage people to make a film like Crow, which, after all, was a film which spent almost \$27 million in England, was because they knew that they could benefit enormously from the tax position. England has really I think always underrated the prestige that is possible through the showing of films in other countries. They can be wonderful ambassadors. They can also encourage exports. I found that when we were selling The Dresser in America, for instance, we were getting an awful lot of help

from the Foreign Office, from our Embassies and from our Consulates in America, which was marvellous. For instance, we had a premiere of The Dresser in ~~which~~ Huston. Now they tied that in with an English week. And that English week was promoting and introducing British businessmen to American businessmen. It all helps, it all helps give a feeling of a country that has something to offer. They begin to build again that feeling that anything British is of good quality and worthwhile.