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CONFIDENTIAL

PRIME MINISTER

FILM INDUSTRY

I am sorry to bother you with another piece of paper on film industry taxation, but I feel I have to comment on the covering minute Nigel Lawson sent you on 12 June with the joint paper which my officials, with my agreement ment, had agreed with Treasury officials.

2 I cannot comment on the reassurance that may have been felt by our supporters after the Finance Bill Committee debate, but reading the debate they certainly argued the film industry's case in the reasoned way I have tried to do. Tim Smith's comments in withdrawing the amendments seemed to indicate that he was simply content to wait to see the promised amendments at Report.

3 I can say however, that the industry was certainly not content. Indeed, they feel provoked by some of the arguments used. In particular they challenge the very high cost ascribed to the amendment. John Moore quoted

JH1AKP

figures as high as the £60 million cost mentioned in the Joint Report. Since total film production last year amounted to only about £210 million, of which £70 million was on UK films and £140 million on foreign (mainly US films), the industry believe the Treasury cost estimates are grossly exaggerated - if they are not they show a remarkably high incidence of tax on the industry. Similarly, John Moore suggested that there had been no increase in employment in the industry over the last few years. He conceded that the figures are remarkably difficult to identify from official statistics, but the ACTT tell us that of their 7,000 technician members only 1500 had jobs two or three years ago, while between 5,500 and 6,000 are employed today.

4 However the crux of the matter is whether we can make a concession without undermining the Budget strategy on capital allowances. I am afraid I am not impressed by the representations of the Equipment Leasing Association who appear to be under the mistaken impression that the industry is continuing to seek special capital allowance privileges. In fact as the joint note explains, the industry now accept the loss of capital allowances. They believe and I also continue to believe that by operating on Section 72 of the

JH1AKP

1981 Finance Act, we can avoid this problem. In debate, John Moore conceded as much when he said that under Section 72 we are not dealing with capital allowances but with the method of write off of current expenditure. He also conceded that this was generally "determined by accountancy and tax principles", and that Section 72 was unusual since "it provides a specific basis for writing off expenditure on films as a revenue expense". The nub of the case is that the Treasury claims that Section 72 as it stands is an appropriate basis to apply to the UK film industry, while the industry argue, and I support, that Section 72 is based on US accounting practices which are inappropriate to the UK industry.

5 I believe we could mmodify Section 72, either as the industry has suggested, or in some other way, without prejudice to the Budget strategy while at the same time allowing us to publish the White Paper on lines which colleagues accepted as sensible when we gave priority to the necessary legislation.

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6 I am copying this minute to Nigel Lawson, Geoffrey Howe, Leon Brittan and Grey Gowrie.

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18 June 1984

Department of Trade and Industry

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