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PRIME MINISTER

Taxation of the Film Industry

A decision is needed tonight in order for clauses to be tabled for the report stage of the Finance Bill. The new note attached clarifies the cost of Mr. Tebbit's final proposal which was set out at Flag A. It also confirms that the Treasury do not want to go beyond cost recovery, i.e., allowing expenditure to be set against revenue as rapidly as income is received. They are also prepared to extend the BES to films and to allow film makers the option of normal capital allowances as well as the Section 72 treatment of cost recovery.

The choice is left to you. It is between a tax proposal costing £130 million over 5 years plus a damaging precedent, against the collapse of the film industry and the need to retain the Eady Levy and its quangos.

Do you:

(i) Support the Treasury position, or

(ii) Wish to implement Mr. Tebbit's compromise formula?

My vote, and that of the Policy Unit (Flag E) is to support the Treasury position. I understand that the amount of money which the Eady Levy provides to the National Film Finance Corporation is about £1-2 million a year. The cost in terms of tax concessions seems to be disproportionate in order to secure voluntary contributions to replace this flow of income into the film industry.

AT

5 July, 1984.

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Secretary of State for Trade and Industry

5 July 1984

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Andrew,

TAXATION OF THE FILM INDUSTRY

I am replying to your letter of 4 July which asked two further questions.

2 On the first, the Prime Minister has asked about the cost of adopting the Secretary of State's suggestion that Section 72 might be modified so as to allow a pattern of write-off of 25-50-25 per cent. The Inland Revenue, who provided the previous detailed estimates, take the view that the practical effect of the proposal will be much the same as that of the industry's own proposed write-off pattern of 50-25-25 per cent. This is because the gap between the first two trigger points (namely delivery of the completed film and first release) is often short and will usually fall within the same accounting period.

3 On that basis, the cost could be as in paragraph 8 of the agreed note ie:

Flag F

1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
neg	20	50	40	10	10

These figures assume that the industry remains at broadly its present size, about which the industry has expressed considerable doubts.

4 The second question was whether the Treasury could agree to some fixed write-off profile or whether they believed any move beyond cost recovery would be excessively damaging.

5 The Treasury believes that the problem with any fixed write-off formula that would be attractive to the film industry is that it would provide the opportunity for creating substantial "up-front"

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tax losses which could be set off against other profits. Such losses subsidise the investment and are therefore inconsistent with the business tax reforms in this year's Budget. Cost recovery is the limit to which write-off of expenditure can be accelerated, without offering tax subsidies. The Treasury take the view that to go beyond this would damage the credibility of the Budget strategy and make it difficult to resist pressure for similar treatment for other industries.

6 I am copying this to the recipients of yours.

Yours ever,

Andrew Lansley

ANDREW D LANSLEY
Private Secretary

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BM

bc Bob Young

10 DOWNING STREET

From the Private Secretary

4 July 1984

Dear Andrew.

Taxation of the Film Industry

The Prime Minister has seen the Chancellor's letter of 2 July to your Secretary of State and his minute to her of 3 July. She finds it difficult to give a view on the issues raised until she knows first, the cost of the 25-50-25% proposal and secondly, whether the Treasury are prepared to agree to some fixed write-off profile or whether they believe that any move from the principle of cost recovery would be excessively damaging.

The Prime Minister would like this information, preferably in the form of a single note prepared jointly by the Treasury and yourselves, to reach her by close today so that she can come to a conclusion overnight.

I am copying this letter to Margaret O'Mara (HM Treasury), Peter Ricketts (Foreign and Commonwealth Office), Hugh Taylor (Home Office) and Mary Brown (Lord Gowrie's Office).

Yours sincerely

Andrew Turnbull

(Andrew Turnbull)

Andrew Lansley, Esq.,
Department of Trade and Industry

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