



10 DOWNING STREET

Prime Minutes ②

Agreement has now been reached on the outstanding issues on films. The offset to be ITV levy was, after consultation with the Home Office, found not to be feasible so the grant route has been agreed instead - £2 million a year for five years comprising

- £½ million a year for the National Film Development Fund

- £1½ million to be successful to be NFFC.

No action required

MT

AT

12/7

Filer

MR TURNBULL

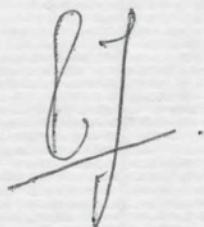
12 July 1984

FILM INDUSTRY WHITE PAPER

I have just spoken to Margaret O'Mara and Max Felstead, and to Steve Mummery in Kenneth Baker's office. There is now agreement between the two Departments on the White Paper. There will be just two minor changes from the draft you already have. I have marked these in pencil at paragraphs 3.6 and 5.12. Neither is a substantive point; the aim is quite simply to clarify the tax position of the industry.

DTI are happy to accept that the Treasury's comments would not actually reach them until 13 July rather than 12 July.

RIP?



ROBERT YOUNG





NBAM

12/7

Treasury Chambers, Parliament Street, SW1P 3AG  
 01-233 3000

13 July 1984

Andrew D Lansley Esq  
 Private Secretary to the  
 Secretary of State for Trade & Industry  
 Department of Trade & Industry  
 1-19 Victoria Street  
 LONDON SW1

*Dear Andrew,*

**FILM INDUSTRY WHITE PAPER**

*with PM*

You wrote to Andrew Turnbull on 11 July, enclosing a draft of the White Paper on the film industry for which your Secretary of State was seeking urgent clearance.

The Chancellor has only two comments on the text. First, he would be grateful if paragraphs 3.6 and 5.12 of the White Paper could be revised as in the enclosed drafts in order to clarify the tax position. He has also asked that Treasury officials should be shown your department's proposals for monitoring and evaluating the support to be provided through the Film Development Fund scheme, described in paragraph 7.6.

I am copying this letter to Andrew Turnbull (No 10), to the private secretaries to the other members of E(A), to Len Appleyard (FCO), to Hugh Taylor (Home Office), to Mary Brown (Office of Arts and Libraries) and to Richard Hatfield (Cabinet Office).

*Yours sincerely,*

*Margaret O'Mara*

MISS M O'MARA  
 Private Secretary



3.6 There have also been a number of changes in the taxation treatment of films. Until 1979 expenditure on the production of a film was treated as a revenue expense. However in the light of legal advice there was then a change of practice. A master film negative was regarded as plant, with the result that expenditure incurred in producing or purchasing a negative was eligible for capital allowances. At that time the capital allowances available for plant were 100% in the first year.

3.6A The 1982 Finance Act withdrew the entitlement to capital allowances and provided for the expenditure to be treated as a revenue expense, laying down a formula for matching expenditure against expected revenue. However films and television productions, which would normally qualify as British films under the Eady levy, were given a transitional period of two years before the new provisions would apply; and this period was extended to five years in the 1983 Finance Act.

3.6B The Finance Bill now before Parliament provides for first year allowances generally to be phased out by 1986: expenditure on plant will then qualify for writing down allowances at 25%. Makers of British films are being given an option between those allowances - their entitlement is being made permanent - and writing expenditure off against revenue. The 1982 formula is being re-cast to allow the expenditure to be written off £ for £ against income. Finally investment in film production companies is to qualify under the Business Expansion Scheme.



5.12 The decision to abolish the Eady levy has not been taken in isolation. It is part of a new outlook in which the Government intends to shift its approach to the film industry away from the statutory intervention of the last 30 years and towards the creation of the right business environment. The effect will be to encourage innovation and to reward success. This policy is part of, and wholly consistent with, the Government's approach to industry generally. The thrust of the changes in business taxation made by the Chancellor of the Exchequer in his 1984 Budget was to encourage efficiency and enterprise. By making the tax system more even-handed, investment decisions will be more surely founded and resources better allocated.

5.12A Against the background of these changes, the current success of the film industry gives it an excellent basis from which to develop and prosper. Already there have been strong indications that the normal investment mechanisms have been showing positive changes in favour of the industry; and there are excellent prospects for a completely new City-based fund to be in operation within the next 6 months, with a second comparable one not far behind. The package of measures now proposed is designed to consolidate this change that has taken place, and to encourage its development. It will remove the need to take money away from any part of the industry itself and thus avoid cumbersome and bureaucratic recycling mechanisms.



From: THE PRIVATE SECRETARY  
**CONFIDENTIAL**

NB 11/17  
AF 1317  
CC RY



HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

12 July 1984

FILM INDUSTRY WHITE PAPER

Thank you for sending us a copy of your letter of 11 July covering the text of the draft White Paper on Film Industry.

The Home Secretary is broadly content with the proposals of your Secretary of State. He would however be glad if two minor drafting amendments could be made to the text. First, at paragraph 2.5, it might be better not to speak of a "new film" channel on the DBS joint project, particularly as the White Paper makes clear elsewhere the shortage of new English language films to meet the demands of film channel providers. We suggest that the second sentence of paragraph 2.5(b) might read

"This service will provide three new television channels, one of which will be a film channel providing an important new market for film".

Second, the final two sentences of paragraph 5.9 perhaps over-compress the arguments against a levy on the screening of films on television and, given the Government's relationship with broadcasting interests, go slightly too far in the last sentence in enjoining the BBC and ITV to adopt a particular course. In addition, Channel 4 have now embarked on plans to spend more money on film finance than was known when the original draft was produced. We therefore suggest that the final two sentences of the paragraph might be replaced by the following:

"Nor do we believe that the Government should intervene by introducing a levy on television film purchases, which would increase the costs both of the BBC, with consequent implications for the TV licence fee, and the ITV companies, thus reducing the Exchequer levy. Moreover, the ITV companies pay for Channel 4, which is now planning to finance film making at a level of £8m a year. We believe that Channel 4 has shown the way for increasing the mutual support of television and film, and that this type of approach by television is to be encouraged".

I am copying this letter to the recipients of yours.

MRS C J HEALD

**CONFIDENTIAL**

Andrew Lansley, Esq



Geon Pol: Film Ind 6179



CONFIDENTIAL

cc BT  
TF  
BT



DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

Telephone (Direct dialling) 01-215

GTN 215

(Switchboard) 215 7877

5422

Covering letter only.

Secretary of State for Trade and Industry

11 July 1984

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

Dear Andrew,

FILM INDUSTRY WHITE PAPER

Having completed the review of film policy, with the exception of some matters of detail still under discussion with the Treasury, my Secretary of State seeks urgent clearance of the attached draft White Paper. Mr Kenneth Baker is proposing to make a statement to the Commons on 18 July and therefore hopes it will be possible to publish on the same day.

2 In view of the extensive consultations that have taken place with both Ministers and officials in those Departments most closely concerned, my Secretary of State does not envisage that his colleagues will see any particular difficulty in early publication, and therefore unless he hears to the contrary by the close tomorrow (12 July) he will assume that there are no objections to his proposals.

3 I am copying this letter to the private secretaries to members of EA, the Home Secretary, the Foreign and Commonwealth Secretary, the Minister for the Arts and Sir Robert Armstrong.

Yours etc.

Andrew Lansley

ANDREW D LANSLEY  
Private Secretary

JH1LANZ