

Example of a British film claiming Tax Relief

For films that cost over £20 million, the FPC can claim an enhanced deduction of 80% with a payable cash element of 20% of UK qualifying film production expenditure.

Payable cash element

In this example, the core expenditure of a film is £100m. All are qualifying UK costs.

Tax relief is available on qualifying UK production expenditure up to a maximum of 80% of total qualifying costs.

Therefore, tax relief is based on $80\% \times £100\text{m}$ (qualifying UK costs) = £80m. In order to maximize the payable element, the producer would surrender all of the qualifying expenditure to HM Revenue & Customs.

The payable cash element is worth of $20\% \times 80\text{m} = £16\text{m}$.

Enhanced deduction

The enhanced deduction is worth 80% of qualifying costs:

$80\% \times £80\text{m} = £64\text{m}$. This is a shield to paying corporation tax and not a payable cash amount.

So, with the £64m, plus £16m payable cash element tax free, plus £20m losses still on books, the FPC has £100m (the cost of making the film) before it has to pay corporation tax.

Without the enhanced deduction the FPC would pay 28% corporation tax when it has an income of £36m (£16m payable cash element, plus £20m losses).

Therefore the enhanced deduction protects the FPC from corporation tax of 28% on the amount between 36 and 100 = 64 (and $30\% \times 64 = 19.2\%$, which is what the relief is worth if the producer chooses not to take the payable cash element).