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Mr Chancellor of the Exchequer

Amendment 98

Page **171**, line **40** [*Schedule 5*], leave out ‘partly’ and insert ‘mainly’.

SUMMARY

1. The amendment corrects a minor discrepancy in an anti-avoidance rule in paragraph 13 of Schedule 5.
2. The amendment narrows the scope of the rule to apply only to arrangements that are wholly or mainly entered into to gain increased film tax relief, rather than to arrangements entered into wholly or partly for that purpose.

DETAILS

3. Paragraph 13 of Schedule 5 is an anti-avoidance rule that applies to the scheme of film tax relief set out in that Schedule. Its effect is to disregard transactions, so far as film tax relief is concerned, when they are abusive.
4. Paragraph 13(1), as it stands, provides that the rule applies where a transaction is entered into ‘wholly or partly’ for a disqualifying purpose.
5. Paragraph 13(2) is intended to define the phrase used in paragraph 13(1). However, it defines instead when a transaction is entered into ‘wholly or mainly’ for a disqualifying purpose.
6. The amendment aligns the two phrases by substituting ‘mainly’ for ‘partly’ in 13(1). This is consistent with similar anti-avoidance rules which apply to other tax credits—for example, paragraph 21 of Schedule 20 to the Finance Act 2000, the R&D tax credit—and it focuses the provision better on the most abusive transactions.

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BACKGROUND NOTE

7. Chapter 3 of Part 3 of the Finance (No.2) Bill 2006 reforms the tax treatment of film production and acquisition.
8. It also introduces a new tax relief for production expenditure on culturally British films. The details of this relief are contained in Schedule 5 of the Bill.
9. The new relief is an incentive designed to promote the production of such films. Schedules 4 and 5 contain a number of rules designed to prevent abuse of the incentive, one of which is the general anti-avoidance rule at paragraph 13 of Schedule 5.