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(Bristol South - Lab)

**Amendment 26**

Clause 35, Page 30, line 36, leave out from beginning of line 37 and insert:

‘goods or services that are used or consumed in the United Kingdom’

**SUMMARY**

1. This amendment clarifies the meaning of UK expenditure for the purposes of Chapter 3 of Part 3 of the Finance (No. 2) Bill 2006.

**DETAILS**

2. Clause 35(1) in the published draft of the Finance (No. 2) Bill 2006 defines UK expenditure as expenditure on a) services performed in the United Kingdom, or b) goods supplied in the United Kingdom.
3. The amendment replaces this definition with one which defines UK expenditure on goods and services that are used and consumed in the United Kingdom.

**BACKGROUND NOTE**

4. The tax treatment of films and the special tax reliefs are provided by sections 40A to 43 Finance (No.2) Act 1992, section 48 Finance (No.2) Act 1997 and sections 130 to 144 of the Income Tax (Trading and Other Income) Act 2005 (ITTOIA 2005). These provisions treat expenditure on the production or acquisition of the master version of a film as revenue in nature, even where it would otherwise be on capital account, and provide that it may be matched against income from the film or, for British films, written

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off over three years (or in the case of low budget British films, written off immediately).

5. At Budget 2005, the Chancellor announced the Government's intention to replace the current film tax reliefs with effect from 2006 with a new regime aimed directly at film production companies. Formal consultation with the film industry following this announcement began on 29 July 2005 and concluded on 21 October 2005. The outcome of consultation was announced at the Pre Budget Report on 5 December 2005.
6. The Pre Budget Report provided further details on how the new relief would operate. It announced that low budget British films will receive an additional tax deduction of 100 per cent of qualifying expenditure with a payable cash element of 25 per cent, amounting to a benefit worth at least 20 per cent of qualifying production costs. Large budget British films will receive an additional deduction of 80 per cent of qualifying expenditure with a payable cash element of 20 per cent, amounting to a benefit typically worth 16 per cent of qualifying costs. It also announced that the underlying tax treatment of films would be updated to provide the foundation for the new relief.
7. Chapter 3 of the Finance Bill:
  - updates the tax treatment of films;
  - sets out the new film tax relief; and
  - legislates an existing Extra Statutory Concession applying to sound recordings.
8. The introductory clauses (31 – 36) set out the basic concepts behind the new regime, centred on the existence of a film production company (clause 32) which is responsible for the main film-making activities and for delivery of the finished film. They define a number of key terms, including 'film', 'film-making activities', 'production expenditure' and 'UK expenditure'.
9. Following publication of the Finance Bill, representatives of the film industry have pointed out that, as currently drafted, Clause 35, which defines UK expenditure, would be difficult to operate in

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practice. This amendment clarifies this definition to address these concerns.