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Changes to UK Creative Sector Tax Reliefs

The UK's creative sector tax reliefs are being replaced with a new Audio-Visual Expenditure Credit (AVEC) and Video Games Expenditure Credit (VGEC), which will be available from January 1, 2024. To help you transition to the new regime, we've teamed up with FLB Accountants (an Entertainment Partners company) to provide an overview of the key changes.

	Existing tax credit regime	New expenditure credit regime
Expenditure cap	80% of total core qualifying expenditure (even if you have 100% UK qualifying expenditure, tax relief is only payable on up to 80%).	**No change.**
Minimum qualifying spend	A minimum of 10% of the production's core expenditure must be UK expenditure.	**No change.**
Cultural Test	A set of requirements that determines whether a production can be considered "culturally British" and therefore qualifies for tax relief. Productions must score 18 points out of a possible 35 to qualify.	**No change.**
Film		
Mechanism of relief	Enhancement of qualifying expenditure within tax return, losses created then available to surrender on which a tax credit can be paid.	**Direct credit on qualifying expenditure incurred.** Credit is subject to a notional tax deduction at the main rate of corporation tax.
Rate of relief	25% rate of relief on enhanceable expenditure.	34% credit, subject to tax (currently 25%) – therefore, **net 25.5% credit** on enhanceable expenditure.
Connected party transactions	Not specifically covered by rules; often included at "market rate" between group companies.	Remain allowable but **must be on an arm's length basis**. ***Note:*** *these will also now be disclosed to HMRC.*
HETV		
Minimum length	Minimum 30-minute slot length.	Minimum **20-minute** slot length (**episode-by-episode basis**).
Genre/content limitation	Must be a drama, comedy or documentary. Specific exclusions exist, including game shows, live performances, shows that contain competitions and news/current affairs shows.	No changes, but a **documentary is now formally defined** as a programme "intended to inform the viewer about real events," where "those events have not, to any significant degree, been arranged for the purposes of the programme."
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Connected party transactions	Not specifically covered by rules; often included in budgets and claimed on at "market rate" between group companies.	Remain allowable but **must be on an arm's length basis**. ***Note:*** *these will also now be disclosed to HMRC.*
Video games		
Mechanism of relief	Enhancement of qualifying expenditure within tax return, losses created then available to surrender on which a tax credit can be paid.	**Direct credit on qualifying expenditure incurred**. Credit is subject to notional tax deduction at main rate of corporation tax.
Rate of relief	25% rate of relief on enhanceable expenditure.	34% credit, subject to tax (currently 25%) – therefore, **net 25.5% credit** on enhanceable expenditure.
Calculation of enhanceable expenditure	Lower of 80% total qualifying spend and total European Economic Area (EEA) qualifying spend. Implicit maximum credit at 20% (25% of 80%) of total qualifying worldwide costs.	Lower of 80% of total qualifying expenditure and **total UK qualifying spend**. Implicit maximum credit at 20% (25% of 80%) of total qualifying worldwide costs. ***Note:*** *this is now consistent with film and HETV.*
Qualifying spend	Spend incurred on designing, producing and testing the video game. Original concept design, debugging, post-release maintenance and other non-development costs do not qualify. Maximum of £1m spend on subcontractors.	**No limit on spend on subcontractors.** All other restrictions remain.
Connected party transactions	Not specifically covered by rules; often included in budgets and claimed on at "market rate" between group companies.	Remain allowable but **must be on an arm's length basis**. ***Note:*** *these will also now be disclosed to HMRC.*

Children's TV		
Mechanism of relief	Enhancement of qualifying expenditure within tax return, losses created then available to surrender on which a tax credit can be paid.	**Direct credit on qualifying expenditure incurred**. Credit is subject to notional tax at main rate of corporation tax.
Rate of relief	25% rate of relief on enhanceable expenditure.	39% credit, subject to tax (currently 25%) – therefore, **net 29.25% credit** on enhanceable expenditure.
Connected party transactions	Not specifically covered by rules; often included in budgets and claimed on at "market rate" between group companies.	Remain allowable but **must be on an arm's length basis**. ***Note:*** *these will also now be disclosed to HMRC.*
Animation production		
Genre/content limitation	Only animated TV shows qualify for the animation relief. Animated films only qualify under normal film rules.	Animated TV shows **and animated feature films** qualify for the animation tax credit.
Mechanism of relief	Enhancement of qualifying expenditure within tax return, losses created then available to surrender on which a tax credit can be paid.	**Direct credit on qualifying expenditure incurred**. Credit is subject to notional tax deduction at main rate of corporation tax.
Rate of relief	25% rate of relief on enhanceable expenditure.	39% credit, subject to tax (currently 25%) – therefore, **net 29.25% credit** on enhanceable expenditure.
Connected party transactions	Not specifically covered by rules, often included in budgets and claimed on at "market rate" between group companies.	Remain allowable but **must be on an arm's length basis**. ***Note:*** *these will also now be disclosed to HMRC.*

Relevant transition dates

Relevant date	Criteria
Accounting periods ending before January 1, 2024	May only use existing regime.
Accounting periods starting before and ending after January 1 ,2024	Must use existing regime up to December 31, 2023, but may elect to move to new regime from January 1, 2024 and apportion costs appropriately around that date. ***Note:*** *as the AVEC/VGEC is slightly higher, it may be beneficial to move to the new regime as long as costs can be easily identified and apportioned between periods.* *If moving to the new VGEC, consideration must be given to the impact of the loss of the EEA qualification versus the removal of the subcontractor limit.*
Accounting periods starting on or after January 1, 2024	May use either the existing regime or the new regime. ***Note:*** *the AVEC is the most likely choice versus the existing tax credit as the rate is higher (particularly for animation and children's TV). However, consideration must be given to the impact of the new connected party profit rules.* *If moving to the new VGEC, consideration must be given to the impact of the loss of the EEA qualification versus the removal of the subcontractor limit.*
Any production where principal photography or game design starts on or before March 31, 2025	May use either existing regime or new regime up to March 31, 2027. ***Note:*** *the same considerations as set out above apply.*
Any production where principal photography or game design starts on or after April 1, 2025	May only use new regime.
From April 1, 2027	Old regime sunset; only new regime available to all productions.

Looking for UK tax credit support?

If you're exploring the UK as a filming destination, reach out to the team at FLB Accountants (an Entertainment Partners company). FLB is a UK-based chartered accounting firm with expertise in media and entertainment accounting, finance, tax and tax incentives, who can assist with:

- Film and TV tax credit estimates
- Formal opinions to lenders
- Tax credit claim submissions
- Budget advice and finalisation
- Deal close support

And when you're ready to start shooting, Entertainment Partners has the digital solutions you need to manage your UK productions from prep to wrap, including digital onboarding, timesheets and payroll.

For support with your UK productions, please get in touch.

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New AVEC – Examples

Example 1

A fully UK production incurs costs of £1m. It is structured so that its sales are equal to the costs incurred net of any incentives received.

Under the existing tax credit rules, the production would get a tax credit of 25% of 80% of costs – being £200k, which is presented in the tax line.

Under the new AVEC rules, the expenditure credit is 34% of 80% of costs – being £272k. This is shown netting the costs line in the P&L. The £272k is subject to notional tax at 25% (the main tax rate), giving a notional tax charge of £68k and a net AVEC of £204k

	Existing tax credit	AVEC
Turnover	£800,000	£796,000
Costs	–£1,000,000	–£728,000
Pre-tax profit/(loss)	–£200,000	£68,000
Tax credit/(charge)	£200,000	–£68,000
Retained profit	–	–
Net tax credit/AVEC	£200,000	£204,000
Total effective rate	20%	20%
Effective rate (80% cap)	25%	25.5%

Example 2

An animated film incurs costs of £1m, of which £700k are UK used and consumed. It is structured so that its sales are equal to the costs incurred net of any incentives received.

Under the existing tax credit rules, the film would get a tax credit of 25% of UK costs (as under the 80% cap) – being £175k, which is presented in the tax line.

Under the new AVEC rules, the film now qualifies for the animation tax relief, not the film tax relief. Therefore, the expenditure credit is 39% of UK costs (again under the 80% cap), being £273k.

This is subject to notional tax at 25%, giving a notional tax charge of £68.25k and a net AVEC of £204.75k.

	Existing tax credit	AVEC
Turnover	£800,000	£795,250
Costs	–£1,000,000	–£727,000
Pre-tax profit/(loss)	–£200,000	£68,250
Tax credit/(charge)	£200,000	–£68,250
Retained profit	–	–
Net tax credit/AVEC	£175,000	£204,750
Total effective rate	18%	20%
Effective rate on UK spend	25%	29.25%

For support with your UK productions, please get in touch.