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Creative Sector Tax Reliefs: Theatre Tax Relief

Theatre Tax Relief (TTR) is a relief for production companies that are responsible for qualifying theatrical productions. It can be worth up to 40% in cash of certain types of expenditure. Not every production is qualifying, but this guide should help you identify whether TTR is relevant for your production.

Who can claim?

The entity must be a 'going concern' within the charge to Corporation Tax, though this should not be confused with having a Corporation Tax liability, which is not necessary. We will refer to such an entity as a 'company' but please note, this does not mean you have to be registered with Companies House. We have helped many entities with more unusual constitutions to make a claim, so please contact us if you are unsure.

A company can claim TTR if it puts on one of the following qualifying theatrical productions:

- A play, opera, musical or other dramatic piece that tells a story (or number of stories, whether or not these are related), where the performances are live and the performers give their performances through the playing of roles.
- A ballet (a story telling element is not required).

The main purpose of the audience members must be to simply observe the performance and the audience should total at least five individuals.

To qualify, all, or a high proportion, of the performances must be for paying members of the general public or provided for educational purposes.

At least 25% of the 'core expenditure' must relate to goods or services provided from within the UK or European Economic Area (EEA). From 1 April 2024, at least 10% of the 'core expenditure' must relate to activities in the UK.

'Core costs' are those incurred producing and closing the theatrical production but do not generally include costs incurred whilst the production is running, or any speculative expenditure. Further information on these costs can be found under 'What can you claim?'.

A company must also:

- Be actively engaged in planning and decision-making.
- Make an effective creative, technical and artistic contribution to the production.
- Directly negotiate, contract and pay for rights, goods and services.
- Be responsible for putting on the production from start to finish, including either employing or engaging the performers.

However, there is a little flexibility here, as HMRC guidance states that the company does not need to have direct responsibility for every aspect of all these activities and third parties can undertake some of these activities as subcontractors. If multiple group companies are involved, we can help establish which one best meets the criteria to make the claim and/or how to structure the activities to make the most of the relief and minimise risks.

Who cannot claim?

In order to make a claim, you must first identify all of the income and expenditure of each production. The expenditure then needs to be split into core costs and non-core costs. The starting point for this is to identify which phase of the production the costs are incurred in.

There are four phases of a production:

Development (non-core phase)

- This phase is the first phase before the 'green light' is given, when ideas are being developed but most of the expenditure is speculative.
- Only costs related to concepts carried forward and incorporated into the final production can be claimed as core costs.
- Examples of qualifying core costs may be commissioning the initial work or hire of the director or conductor before the works have been confirmed.

Production (core phase)

- This is the phase after the green light has been given, but before the performances take place.
- Most of the creative work takes place in this phase, with rehearsals, set design/build and costume making.
- Most costs incurred in this phase are core costs, though there are some exceptions, such as finance costs, advertising costs and entertainment costs which are normally disallowed for Corporation Tax purposes.

Running (non-core phase)

- This is the period from the first paid performance to the final performance.
- Running costs are deemed to be non-core costs, unless they are deemed to be 'exceptional running' costs.
- Examples of exceptional running costs include rehearsal costs related to a major revision of the production, such as a change of the main character actors, or for the addition of a new scene within the production.

Closing (core phase)

- This is the period after the final curtain.
- Some closing costs are core, such as labour costs of dismantling the set and transport of the set to storage.

Some costs are never core costs by their nature, even if they are incurred in a core phase. For example, advertising/marketing, storage costs and legal costs.

Apportioning costs between phases

Sometimes there are costs that are incurred in both the production and the running phases. Such costs can be apportioned between the two phases in a fair and reasonable manner. We have a lot of experience in this area and have helped our clients identify further core costs, whilst reducing the risk associated with HMRC enquiry from such calculations.

Apportioning overheads

Another area where we can help is by identifying a way to apportion administrative costs, such as rent, business rates , IT costs and staff costs. We have a wealth of experience in creating a robust methodology for these calculations, as well as reviewing and updating calculations for clients who already have an apportionment method in place. Our assistance will help ensure the calculations are relevant, appropriate for the company, reflect the latest legislation and can withstand an HMRC enquiry.

The additional deduction

Once the income, and core/non-core expenditure has been identified, the TTR calculation provides an additional deduction (based on the core costs) to reduce the "profits" or to increase the loss. This calculation will either reduce the amount of Corporation Tax the company pays to HMRC (if it normally pays tax) or will contribute towards repayable tax credits (cash).

The additional deduction is the lower of:

- 80% of total core expenditure; or
- The amount of core expenditure on goods or services that are provided from the UK (changed from activities in the UK or EEA from 1 April 2024).

If the production calculation results in a loss after the additional deduction, some, or all, of this loss can be surrendered for a repayable tax credit. This can be the case even if the company is a charity that does not normally pay Corporation Tax.

Current TTR credit rates

The current rate for surrendering losses is 45%, but you can surrender losses these at a higher rate of 50% if yourwhere the production is touring, subject to certain conditions being met. Since the additional deduction is 80% of the core expenditure, this means that the tax credit available can be up to:

- 36% of core costs for non-touring productions; or
- 40% of core costs for the touring productions.

Current TTR credit rates	Touring productions	Non-touring productions
Losses surrendered	50%	45%
Core costs	40%	36%

TTR credit rates from 1 April 2025

However, the above current rates are temporarily uplifted, with slightly reduced rates of 40% for non-touring, and 45% for touring productions being introduced for expenditure incurred from 1 April 2025.

As above, this gives rise to a credit of up to:

- 32% of core expenditure for non-touring productions; or
- 36% of core expenditure for touring productions.

TTR credit rates from 1 April 2025	Touring productions	Non-touring productions
Losses surrendered	45%	40%
Core costs	36%	32%

Example

During 2023, a production company, Dramatic Ltd, produced a new touring production. The production generated box office income of £100,000 and total expenditure of £275,000, of which £200,000 related to UK core expenditure. Additionally, Dramatic Ltd produced a new non-touring production with box office income of £60,000 and expenditure of £55,000, of which £50,000 related to UK core costs.

	Touring productions (£)		Non-touring productions (£)	
Total income		100,000		60,000
Total expenditure		(275,000)		55,000
Pre-TTR profits/losses		(175,000)		5,000
Core expenditure (all UK)	(200,000)		(50,000)	
Additional deduction (80% x core)		(160,000)		(40,000)
Post-TTR losses		(335,000)		(35,000)
Losses surrendered for tax credits	160,000		35,000	
Total tax credit (50%/45%)		**80,000**		**15,750**

Touring production

Dramatic Ltd can surrender the full £160,000 additional deduction, in relation to the touring production, for a tax credit. This is because the production was already loss making before the additional deduction was included. Therefore, the related tax credit is £160,000 x 50% = £80,000, which is 40% of the initial £200,000 core costs.

Non-touring production

Dramatic Ltd can surrender £35,000 of the additional deduction, in relation to the non-touring production, as it has been capped by the actual tax losses available. Therefore, its tax credit is £15,750. This is 31.5% of the core expenditure, less than the 36% shown in the table due to the £5,000 initial profit.

However, please note that it has also reduced the taxable profits from the non-touring trade of £5,000 that initially arose in this trade, so there could also be a further tax saving of up to 25% x £5,000 = £1,250 (depending on Dramatic Ltd's other taxable activities). This could therefore bring the total tax saving up to £17,000 in this case.

How to make a claim

Our tax team are experienced at assisting companies with submitting TTR claims via the submission of the company's tax return, alongside a full written report and the new additional information form (AIF) which must accompany all claims submitted to HMRC after 1 April 2024.

If you think that your production could qualify for TTR, or you would like more information about tax reliefs within the creative sectors, please get in touch with your usual haysmacintyre contact, or Jane Askew, Partner, Richard Weaver, Partner, or Alice Palmer, Not for Profit Senior Tax Manager.

haysmacintyre

haysmacintyre
10 Queen Street Place
London EC4R 1AG

T 020 7969 5500
F 020 7969 5600
E marketing@haysmacintyre.com

www.haysmacintyre.com
@haysmacintyre

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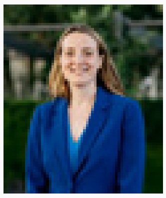

Jane Askew
Partner
T +44 (0)20 7969 5683
E jaskew@haysmacintyre.com

Richard Weaver
Partner
T +44 (0)20 7969 5567
E rweaver@haysmacintyre.com

Alice Palmer
Senior Manager
T +44 (0)20 7396 4375
E apalmer@haysmacintyre.com

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