

U.K. tax change hits producers

Brown clamps down on shelter

By [ADAM DAWTREY](#)

London - Just two weeks after its last tax clampdown, the U.K. government has delivered another blow to British film producers by announcing tough new limits on the amount of money they can raise under Enterprise Investment Schemes.

In his annual budget speech, Chancellor of the Exchequer Gordon Brown said that companies will only be allowed to raise £2 million (\$3.92 million) a year under the EIS tax shelter, down from the previous limit of \$15.7 million a year.

After the crackdown on various other tax schemes, British producers were increasingly exploring EIS structures as a way of raising money for slates of projects, in order to leverage the value of the U.K.'s new production tax credit.

But by placing an upper limit of \$3.9 million, the government will make it much harder to raise EIS financing for more than one project at a time.

This could affect a slew of companies shopping EIS funds to potential investors, including the high-profile Visible Films partnership between Samuelson Prods., Ecosse Films and the Recorded Picture Co., which were trying to raise \$15.7 million apiece by the end of June.

Other companies in the midst of raising EIS funds for film include Azure Media, Baker Street Media, Future Films, Prescience and Scorpio Films. Many other producers were also studying the possibility of using EIS in the near future.

However, the new limit doesn't come into effect until April 6, the beginning of the next tax year. This means that any EIS scheme scheduled to complete its fund-raising before then, such as the \$9.5 million Prescience fund, should not be affected.

EIS experts also suggest that new rules could yet allow producers to raise larger funds under different structures, although these are likely to give less flexibility about how the money is invested.

The clampdown on EIS was not targeted specifically at film. It was reportedly forced upon the U.K. government by the European Commission, which raised concerns that the EIS tax break was a breach of EC state aid rules, which limit the power of national governments to subsidize their own local industries.

John Woodward, CEO of the U.K. Film Council, said: "Today's move by the EC on restricting EIS schemes will affect a number of industries including film. It is certainly

not what the government, the industry or the U.K. Film Council would have wanted and neither was it expected.

"However, the fact is that the U.K. government has to work within the confines of EU state aid regulation.

"Of course this is a setback but we need to let the dust settle on the technicalities, take stock and start to figure out a new way forward for investors."

Even before the latest government bombshell, it was unclear how much enthusiasm investors would have to sign up for EIS film schemes.

Martin Churchill, editor of Tax Efficient Review, said, "I question the investor appetite for film EIS. Film has a terrible name among investors, and EIS is a small product, not widely used."

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