

HM Treasury Consultation on R&D Tax Reliefs

- 1.1** UK Music is the collective voice of the UK’s world-leading music industry. UK Music represent all sectors of the music industry – bringing them together to collaborate, campaign, and champion music. UK Music promotes the music industry as a key national asset to all levels of government and publishes research on the economic and social value of music.
- 1.2** Using the greater regulatory freedom to support UK success stories under the Subsidy Control Bill will be a key tool as the UK looks to recover from the pandemic and build a globally important, outward facing economy.¹ Music is a pre-existing success story in the UK that could benefit from a change in approach and an R&D (Research and Development) tax credit scheme. Music in the UK is a world-leading industry. The UK is one of only three net exporters of music globally, the industry is a national asset and employs 197,168 people; more than four and a half times the combined employment of the fishery and steel industries.²
- 1.3** As a pre-existing domestic and export success story that is also facing unique challenges, UK music is a prime candidate for tax relief. Music is one of the few UK creative industries that does not currently have a creative tax credit and such a credit could incentivise innovation, new artists and risk taking.³ Therefore, there is a strong argument for a tax credit for music to complement existing tax credits and ensure UK music remains in the front rank of an immensely profitable global industry.
- 2.1** Since the creation of the Film Tax Credit in 2007 the UK Government has established a portfolio of creative tax credits, including for high-end, and children’s television, productions, animation and video game creation as well as live orchestra performances.⁴

¹ <https://www.gov.uk/government/speeches/queens-speech-2021>

² <https://publications.parliament.uk/pa/ld5801/ldselect/ldcom/248/248.pdf> p. 6

UK Music, Music By Numbers 2020, <https://www.ukmusic.org/research/music-by-numbers-2020>

House of Commons Library, UK Steel Industry: Statistics and Policy,

<https://commonslibrary.parliament.uk/research-briefings/cbp-7317/>

Marine Management Organisation, Fishing Industry in 2019 Statistics Published

[https://www.gov.uk/government/news/fishing-industry-in-2019-statistics-](https://www.gov.uk/government/news/fishing-industry-in-2019-statistics-published#:~:text=In%202019%2C%20there%20were%205%2C911,metres%20and%20under%20in%20length)

[published#:~:text=In%202019%2C%20there%20were%205%2C911,metres%20and%20under%20in%20length](https://www.gov.uk/government/news/fishing-industry-in-2019-statistics-published#:~:text=In%202019%2C%20there%20were%205%2C911,metres%20and%20under%20in%20length)

³ <https://www.bfi.org.uk/industry-data-insights/reports/uk-screen-sector-economy> pp 123 – 125

⁴ <http://britishfilmcommission.org.uk/plan-your-production/tax-reliefs/>

<https://www.gov.uk/guidance/claiming-video-games-tax-relief-for-corporation-tax>

<https://www.bfi.org.uk/apply-british-certification-tax-relief/about-uk-creative-industry-tax-reliefs>

- 2.2** The Film Tax Credit (FTC) is normative in offering a payable tax grant of 25% on UK expenditure of a Film Production Company that is based in the UK and uses UK companies for a certain proportion of the work. This encourages riskier projects and innovation by reducing exposure and the amount of profit a project needs to break even, encouraging riskier work that might not otherwise happen.
- 2.3** The British qualifier encourages the use of UK based workers, businesses and culture. This is true across the creative tax credits, but to take one example in the Video Game Tax Relief, qualifying points are awarded for the use of the UK's video game development facilities, UK personnel, and British cultural impact.⁵
- 2.4** In a competitive global landscape, the credits also encourage work to be based in the UK, benefitting the UK economy and providing opportunities for UK workers. For instance, the FTC in the UK has been cited as a key factor in the doubling of the amount of film production in the UK in the decade since its introduction, and the broader creative tax credits have supported “137,340 FTEs, £7.91 billion in GVA and £2.04 billion in tax revenue” according to the British Film Institute.⁶ The credits also encourage foreign investment. After the introduction of the Video Games Tax Relief the UK games sector attracted £1.75 billion in direct foreign investment (2015 -2017).⁷
- 2.5** Returning to the FTC, it has been found to stimulate value throughout the entire film ecosystem, even beyond the growth in roles from the growing number of productions. For instance, it has stimulated employment in other forms of presenting films, helping to create 2,000 roles in TV and video platforms, along with more general trickle down and spill over effects (that totalled 32,000 roles in 2016).⁸
- 2.6** However, there is scope for a more R&D focused approach to creative tax credits. A recent UK Government survey of the creative industries found the current set of reliefs did not encourage creative R&D in all creative sectors. Zero respondents from music, performing and visual arts had used HMRC R&D tax credits.⁹ The survey also found that the key barriers to R&D spend were “the costs of development being too high and availability of finance”.¹⁰ A change to the current tax credits to allow a R&D tax credit for new music would help address these issues in the music sector.
- 2.7** Part of the Government's new vision for the UK as it leaves the EU is to reevaluate how the UK conducts business support and assess how it can be done more effectively. Previously the EU Commission had a veto on certain tax credits to

<https://www.gov.uk/guidance/claiming-orchestra-tax-relief-for-corporation-tax>

⁵ <https://www.saffery.com/news-and-events/publications/video-games-tax-relief>

⁶ <https://www.bfi.org.uk/industry-data-insights/reports/uk-screen-sector-economy> pp 123 – 125

⁷ <https://www.bfi.org.uk/industry-data-insights/reports/uk-screen-sector-economy> p. 85

⁸ <https://www.bfi.org.uk/industry-data-insights/reports/uk-screen-sector-economy> p. 50

⁹ [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/919052/4565 - DCMS RD in Creative Industries Survey - Report - D8 PDF.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/919052/4565_-_DCMS_RD_in_Creative_Industries_Survey_-_Report_-_D8_PDF.pdf) p. 3

<https://www.gov.uk/government/publications/rd-in-the-creative-industries-survey> pgs. 1 and 30

¹⁰ <https://www.gov.uk/government/publications/rd-in-the-creative-industries-survey> p. 2

ensure a level field across the EU, this has meant credits have taken a long time to implement.¹¹ Under the new relationship with the EU, the UK can look to move quickly to stimulate R&D investment in music through a tax credit.¹²

- 3.1** UK Music is currently discussing with Government and sector bodies the form that a UK music tax credit could take with a number of possibilities being considered. If the UK is to properly take advantage of the national asset that is the music sector, it needs to consider how it can be supported and innovation incentivised. One way of doing this would be a Music Tax Credit (MTC).
- 3.2** Creative production has not traditionally been considered to be R&D by Government in and of itself, but looking at the Frascati definition of R&D for the OECD it is “*creative and systematic work undertaken in order to increase the stock of knowledge – including knowledge of humankind, culture and society – and to devise new applications of available knowledge.*” It has a clear application to music production and creation, as it is only through creating music that new trends and styles are explored, and our understanding of music as a part of human society broadened.¹³
- 3.3** The creation of a new piece of music that qualifies for copyright is by definition not the iterative reproduction of a previous work. This is then monetised through a variety of methods including, physical sale, streaming, syncs and live performance. Therefore, the creation of music is in and of itself R&D.
- 3.4** UK Music holds that an MTC to stimulate music creation would sit well alongside other creative tax credits in the creative sector and achieve similar aims in stimulating creativity, boosting the amount of content produced, de-risking projects and encouraging the use of UK-based businesses and creatives through a qualification system similar to other creative tax credits.
- 3.5** In evidence, it is worth considering the French music tax credit, *d’impôt phonographique* (CIPP).¹⁴ This initially covered only music production, but now also covers music videos and live performance and is focused on new talent. This has significantly boosted French music production, the proportion of French singles in the French Top 20 has jumped from 70% to 90% between its introduction in 2006 and 2017, with the number of companies applying increasing from 60 to 197, for a modest total value of € 9,322,48 pa.¹⁵
- 3.6** In a survey of the results of the credit 65% of the companies in receipt stated it had encouraged them to invest in new artists even beyond those eligible for the credit. A growing and successful music industry in turn supports jobs, taxes and broader growth. The CIPP has a direct return rate of 2.7 Euro for every 1 Euro

¹¹ https://ec.europa.eu/competition/state_aid/cases/248371/248371_1419815_2_2.pdf

¹² <https://www.gov.uk/government/speeches/queens-speech-2021>

¹³ <https://www.oecd.org/sti/inno/Frascati-Manual-2015-Flyer-EN.pdf> p. 1

¹⁴ J. Begriche, T. Hamelin, B. Giordano, *Bilan du Crédit d’Impôt à la Production Phonographique*, Xerfi, November 2017 p. 1

¹⁵ J. Begriche, T. Hamelin, B. Giordano, *Bilan du Crédit d’Impôt à la Production Phonographique*, Xerfi, November 2017 pgs. 2, 4 and 5

spent by the French Government.¹⁶ Thereby highlighting how a tax credit encourages innovation and development in music to the benefit of the sector, and the broader economy.

- 3.7** Given this evidence, and the example of the other creative tax credits it can reasonably be inferred that a UK MTC would incentivise investment in the next generation of world-class music talent in the UK, encourage inward investment into capacity building, professionalisation, investment and growth that would be especially useful to our large number of SMEs, microbusinesses and sole traders. An MTC would correct existing market failures within the UK sector, boost the attractiveness of investing in UK-based content against our international competitors, support new UK talent and incentivise activity in all parts of the UK commercial music sector.
- 3.8** It could also help address the sector's current challenges and help re-capitalise COVID-19-stricken businesses and self-employed individuals looking to bounce back. As a result of the pandemic 70% of musicians have worked less than 25% of their normal workloads in 2020.¹⁷ Furthermore, while leaving the EU presents opportunities to work and support businesses differently, the lack of provisions in the Trade and Co-operation Agreement for data exchange, music workers and musicians does make music export to this key market more challenging in the short term. This makes an MTC an urgent issue, as any opportunities it supported would be that much more important to the sector in the current landscape.¹⁸
- 4.1** The UK Government already has a highly effective suite of creative tax reliefs for production of cultural items other than music. The UK Government has also stated that leaving the EU is a chance to look at how the UK can do things differently in supporting businesses. Therefore, the Government should look beyond traditional recipients of R&D funding and bring forward an MTC.
- 4.2** By bringing forward an MTC the UK Government can incentivise development and risk taking in a field with a strong UK presence, stimulating new talent, creative breakthroughs and economic ecosystems across the UK as well as promoting a global UK to the world as a destination for music creativity, and encourage new investment. The French example highlights how an MTC can effectively stimulate domestic innovation and development in the music sector. There is growing evidence of other similar reliefs in many US and Canadian states, Australia and Ireland too. It is now up to the UK Government to do the same.

¹⁶ J. Begriche, T. Hamelin, B. Giordano, *Bilan du Cr dit d'Imp t   la Production Phonographique*, Xerfi, November 2017 p. 5

¹⁷ <https://musiciansunion.org.uk/campaigns/invest-in-musicians>

¹⁸ <https://publications.parliament.uk/pa/ld5801/ldselect/ldeucom/248/248.pdf>

Annex

UK Music's membership comprises: -

- AIM – The Association of Independent Music – AIM – The Association of Independent Music – the trade body for the independent music community, representing 1000+ independent record labels and associated businesses, from globally recognised brands to the next generation of British music entrepreneurs.
- BPI - the trade body of the recorded music industry representing 3 major record labels and over 400 independent record labels.
- FAC – The Featured Artists Coalition is the UK trade body representing the specific rights and interests of music artists. A not-for-profit organisation, they represent a diverse, global membership of creators at all stages of their careers and provide a strong, collective voice for artists.
- The Ivors Academy - The Ivors Academy is an independent association representing professional songwriters and composers. As champions of music creators for over 70 years, the organisation works to support, protect and celebrate music creators including its internationally respected Ivors Awards.
- MMF – Music Managers Forum - representing over 1000 UK managers of artists, songwriters and producers across the music industry with global businesses.
- MPG - Music Producers Guild - representing and promoting the interests of all those involved in the production of recorded music – including music studios, producers, engineers, mixers, remixers, programmers and mastering engineers.
- MPA - Music Publishers Association - with 260 major and independent music publishers in membership, representing close to 4,000 catalogues across all genres of music.
- Musicians' Union - Representing over 32,000 musicians from all genres, both featured and non-featured.
- PPL is the music licensing company which works on behalf of over 110,000 record companies and performers to license recorded music played in public (at pubs, nightclubs, restaurants, shops, offices and many other business types) and broadcast (TV and radio) in the UK. PPL also collects royalties for members when their recorded music is played around the world through a network of international agreements with other collective management organisations (CMOs).
- PRS for Music is responsible for the collective licensing of rights in the musical works of 150,000 composers, songwriters and publishers and an international repertoire of 28 million songs.
- UK Music also has an informal association with LIVE (Live music Industry Venues & Entertainment), the voice of the UK's live music and entertainment business. LIVE members are a federation of 13 live music industry associations representing 3,150 businesses, over 4,000 artists and 2,000 backstage workers.