

October 2022

Treasury Committee – Tax Relief

UK Music is the collective voice of the UK’s world-leading music industry across each region and nation of the UK. UK Music represents all sectors of the music industry – bringing them together to collaborate, campaign and champion music (please see the annex for a full list of members). UK Music promotes the music industry as a key national asset to all levels of Government, Local Authority, devolved Parliaments and the UK Parliament and publishes research on the economic and social value of music.

UK Music strongly feels that the current tax system could be reformed to encourage growth in a sector that is a national asset for the UK economy, a global leader and export power, being one of only three net exporters of music internationally.¹ It also sits within a sector that is showing strong growth globally, worldwide recorded music trade revenues are projected to double by 2030, and UK recorded music export revenue grew 13.7% in 2021, reaching the highest total on record.²

Developing the UK share of that growth by encouraging investment in the sector could pay huge dividends in the long term to the UK economy. Furthermore, a more growth-friendly approach to taxation in the music sector would support a sector whose recovery from the COVID-19 pandemic is still fragile, as set out in UK Music’s recent *This Is Music 2022* report.³

However, the sector is a deeply connected ecosystem of heterogenous businesses that covers major and independent music labels, independent music venues, artists who tour continually, staff who work a single venue their entire lives - as well as managers, lawyers and accountants who never step foot on stage. Therefore, UK Music would suggest three areas for the Committee to closely examine for changes:

- 1. Aligning the fiscal incentives for music production with other UK creative industries such as film, TV and gaming.**
- 2. Extending the uplifted orchestra tax relief.**
- 3. Adopting the OECD Frascati definition for Research and Development funding.**

¹ <https://www.ukmusic.org/research-reports/music-by-numbers-2020/>

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

² <https://www.bpi.co.uk/news-analysis/british-music-exports-leap-137-to-new-high-as-a-record-number-of-uk-artists-each-hit-100-million-global-streams-in-2021/>

³ <https://www.ukmusic.org/research-reports/this-is-music-2022/>

UK Music
Work.Life Fitzrovia
33 Foley Street
London
W1W 7TL
info@ukmusic.org
www.ukmusic.org

The Value of Music

Our latest economic report *This Is Music 2022* showed that in 2021 music was still facing an economic “*long COVID*”. The Gross Value Added for the sector grew by 26% to £4.0 billion but was still down 31% on its value in 2019 (£5.8 billion), all music exports were a similar story growing by 10% to £2.5 billion but still down 15% on what they were in 2019. Employment is down over a quarter on 2019.

	2019	2020	2021	Percentage Change on 2021	Percentage Change on 2019
GVA	£5.8 billion	£3.1 billion	£4.0 billion	+26%	-31%
Exports	£2.9 billion	£2.3 billion	£2.5 billion	+10%	-15%
Employment	197,000	128,000	145,000	+14%	-26%

However, it is worth noting that a lot of last year’s live performances were still lost due to COVID-19.⁴ The UK music sector still employs more people than the steel and fisheries industries combined (145,000 vs 45,000).⁵ It also effectively moves money through the economy by triggering spend in other sectors for instance a series of Ed Sheeran gigs in Ipswich in 2019 was worth £9,233,541 to the local economy.⁶

The UK is a key music export market and has a strong place globally which is rapidly growing. A record number of UK artists reached 100 million-plus global streams last year, with UK music exports growing 13.7% that same year with even higher rises within key markets, for example China saw 61.2% increase year on year and a 19.2% increase in Mexico.⁷

Finally, music also provides soft power and international influence to the UK. It presents a positive vision of UK culture, its economy, and its values. 59% of the UK public believe music improves the UK’s reputation overseas.⁸

Fiscal Incentive

Since 2007, the UK Government has introduced fiscal incentives across a swathe of UK cultural production such as film, high-end TV, children’s TV and video game

⁴ <https://www.ukmusic.org/news/uk-music-urges-government-to-protect-music-industry-from-economic-storm-as-new-report-reveals-sectors-fragile-recovery/>

⁵ <https://www.ukmusic.org/news/uk-music-urges-government-to-protect-music-industry-from-economic-storm-as-new-report-reveals-sectors-fragile-recovery/>

<https://researchbriefings.files.parliament.uk/documents/SN02788/SN02788.pdf>
<https://researchbriefings.files.parliament.uk/documents/CBP-7317/CBP-7317.pdf>

⁶ <https://www.ipswichstar.co.uk/news/ed-sheeran-ipswich-concerts-economic-impact-2883010>

⁷ <https://www.bpi.co.uk/news-analysis/british-music-exports-leap-137-to-new-high-as-a-record-number-of-uk-artists-each-hit-100-million-global-streams-in-2021/>

⁸ <https://www.ukmusic.org/research-reports/this-is-music-2021/>

production, leaving music isolated in not having one.⁹ These are normally (but not exclusively) targeted at new productions based in the UK, e.g., the Film Tax Relief requires 10% of core expenditure be UK spend.¹⁰ This has been highly successful in generating growth and investment with UK film production GVA growing by over a quarter from 2017 – 2019.¹¹

UK music is also operating in an increasingly global and interconnected market in the digital era, this presents challenges and opportunities. There are greater chances for UK artists to sell their work, but it also means they face a broader range of competitors. The UK is the third biggest music market globally and the second biggest music exporter. It is both easier than ever to reach global audiences, but harder than ever to stand out from the crowd. While labels large and small invested nearly £500 million in A&R and marketing in 2021 to promote artists smaller labels are struggling to bridge the gap and fully take advantage of the opportunities presented. As previously stated the projected growth of recorded music export market is for it to double by 2030. However currently the UK music export growth is projected to be below that, ergo a fiscal incentive could help the sector to bridge that gap and unleash its full potential. Therefore, the opportunity is there for greater growth, if the UK strategically incentivizes the UK music sector.

The UK could also build on the successes of existing programmes of strategic investment and incentives, BPI-administered MEGS and the PRS for Music funded ISF.¹² MEGS is a partnership between industry and government which provides joint-funding grants ranging from £5,000 - £50,000 to UK registered SMEs and independent music companies. This money aims to support UK artists who have achieved domestic success to expand their international following. ISF specifically supports artists who are unsigned or at small companies play industry events and music showcases as well as attendance at song writing camps, both have shown a return on investment of above £10 per £1.¹³ Despite their successes both have to continual battle to maintain Government funding, which hampers strategic thinking and investment.

Furthermore, without action the UK risks losing its position as a one of the leading UK music markets and exporters. Competitor music industries are receiving significant support from their governments. The rise of K-pop has been fueled by strategic investment by the South Korean Government that has grown from 1 billion

⁹ <https://britishfilmcommission.org.uk/plan-your-production/tax-reliefs/#:~:text=For%20all%20British%20qualifying%20films,25%25%20on%20UK%20qualifying%20expenditure>.

<https://www.gov.uk/guidance/claiming-video-games-tax-relief-for-corporation-tax>
<https://www.myriadassociates.com/services/creative-tax-reliefs/children-s-television-tax-relief/#:~:text=Children's%20Television%20Tax%20Relief%20is,principal%20photography%20and%20post%20production>.

¹⁰ <https://britishfilmcommission.org.uk/plan-your-production/tax-reliefs/>

¹¹ <https://www.ukmusic.org/wp-content/uploads/2022/09/This-Is-Music-2022.pdf>

¹³ https://prsfoundation.com/wp-content/uploads/2019/09/PRSF-ISF-Report-2016-19-FINAL-DIGITAL_1.pdf
<https://www.bpi.co.uk/news-analysis/music-export-growth-scheme/>

Won in 2009 and now stands at 696 billion Won. Canada has a successful public-partnership FACTOR programme which can provide 100% cost coverage for music tours.¹⁴ France has also had significant success with its *le credit d'impot en faveur de la production phonographique* which has provided tax relief to domestic French music production since 2006 and was extended by a further four years in 2020. This has seen an increase in domestic albums in the French charts with 18 of 20 the bestselling albums in France in 2021 being French according to figures released by SNEP, the French music industry association.¹⁵

UK Music is still developing a quantitative case for this fiscal incentive as well as finalizing which point in the supply chain would be the most effective place for a UK Government intervention. However, in general a fiscal incentive could make UK music more attractive for foreign direct investment, reduce the risk profile of financing the production of music and financing artists as well as ensure that the UK music industry was competing on a level playing field with its international rivals. An increase in the amount of new music being created would benefit the entire sector but would particularly benefit music recording studios and session musicians who support production, stimulating activity at a time when studios face pressures in recovering from COVID-19 and dealing with the huge increase in energy prices.

Orchestra Tax Relief

Orchestra Tax Relief is intended to promote touring music groups by allowing instrumental groups to apply to HMRC for a proportion of their production costs for performances where 12 or more instrumentalists are the primary focus of the performance.¹⁶ Making Music has stated that the average pay out to their members has been 14% of production costs. This policy was announced in 2014, implemented in 2016 and received a temporary uplift during the COVID-19 crisis, 25% of core costs must have been spent in the UK.¹⁷

UK Music would welcome this uplift being maintained. Orchestras face a range of pressures, including from leaving the EU. The Scottish National Orchestra was charged an additional £20,000 for a tour when they had to hire an EU based haulage vehicle as regulations meant that they were not allowed to use their own vehicle.¹⁸ Other pressures include inflation, rising costs and energy prices ergo it is vital that the uplifted Orchestra Tax Relief is maintained for the foreseeable future to ensure

¹⁴ <https://www.forbes.com/sites/shainshapiro/2021/07/06/want-proof-investing-in-music-works-look-at-south-korea/?sh=16ad72ecb4b6>

<https://www.factor.ca/>

¹⁵ <https://www.hiresaudio.online/local-music-tops-the-album-charts-in-france/>

<https://www.culture.gouv.fr/Thematiques/Musique/Musique-enregistree/Le-credit-d-impot-en-faveur-de-la-production-phonographique#:~:text=%2B4->

[,Le%20cr%C3%A9dit%20d'imp%C3%B4t%20en%20faveur%20de%20la%20production%20phonographique,fragilis%C3%A9es%20par%20la%20transition%20num%C3%A9rique](https://www.culture.gouv.fr/Thematiques/Musique/Musique-enregistree/Le-credit-d-impot-en-faveur-de-la-production-phonographique#:~:text=%2B4-,Le%20cr%C3%A9dit%20d'imp%C3%B4t%20en%20faveur%20de%20la%20production%20phonographique,fragilis%C3%A9es%20par%20la%20transition%20num%C3%A9rique).

¹⁶ <https://www.makingmusic.org.uk/resource/orchestra-tax-relief-overview-what-it-who-can-benefit-and-how-we-can-help>

¹⁷ <https://www.gov.uk/guidance/claiming-orchestra-tax-relief-for-corporation-tax>

¹⁸ <https://www.ukmusic.org/wp-content/uploads/2022/07/O-7-Transcript-of-2nd-APPG-on-Music-Inquiry-Evidence-Session.pdf> p. 4

that orchestras can continue to play their role in the music ecosystem providing employment to a range of people and stimulating activity.

Adopting the OECD Frascati definition for Research and Development Funding

A further area that should be looked is opening Research and Development (R & D) Tax Credits up to the creative industry. The UK Treasury takes a very narrow view of the OECD Frascati definition of R&D restricting it to science and technology rather than the full definition which specifically includes “*knowledge of humankind, culture and society*”.¹⁹ This means creative research does not qualify as a tax deductible and is therefore not incentivised in the same way as other R&D. A simple change to unleash creative research and stimulate innovation in the sector would be for Treasury to adopt the full Frascati definition. If the UK is to improve its productivity it needs to move away from the idea that research and development happens only when scientists in long coats conduct experiments in labs, and towards the idea that research and innovation should be happening continually across the economy and particularly in the creative industries.

UK music has been at the forefront of developing music both in terms of creating new genres e.g. grime as well as a leader in attracting Creative Technology (CreaTech) investment. With the expansion of Virtual Reality (VR) and collaborative ‘Web 3.0’ technology the UK creative tech sector attracts the third highest amount of foreign venture capital investment behind the US and China.²⁰ However, in this highly competitive global marketplace there is also room to attract more investment and deliver both an increase in growth as well as more research by making that investment more tax efficient for companies. This would also dovetail with the Governments pre-existing commitment to raise UK R & D investment to 2.4% of GDP.²¹

Conclusion

The UK music sector is a national asset. It sits within a global sector that is rapidly expanding and presents huge opportunities for future growth. It also faces a range of challenges and is disadvantaged in comparison to other music industries and other creative industries when it comes to fiscal incentives. UK Music would urge the Treasury Select Committee to consider how growth and investment can be maximised in the music sector and the dividends that will pay to the UK economy further down the line.

The fiscal incentives set out in this paper could deliver higher growth, a stronger economy as well as soft power for the United Kingdom by providing a compelling reason for investors and businesses to put more money into the music ecosystem.

¹⁹ <https://www.oecd.org/sti/inno/frascati-manual.htm>

²⁰ <https://technation.io/the-createch-report-2021/#key-statistics>

²¹ <https://www.gov.uk/government/publications/research-and-development-tax-relief-changes/research-and-development-tax-relief-reform>

Annex

UK Music's membership comprises: -

- The Association of Independent Music – the trade body for the independent music sector and community which make up more than a quarter of the UK's recorded music market. Representing 1000+ independent record labels and associated businesses, AIM's members range from globally recognised brands to the next generation of British music entrepreneurs.
- BPI - The British Phonographic Industry - The representative voice of the UK's recorded music sector. Their membership consists of approximately 500 music companies, ranging from hundreds of SME independent labels to the major global record companies Universal, Sony and Warner. They also organise the BRIT Awards, the Mercury Prize and administer the Music Exports Growth Scheme (MEGS).
- FAC – The Featured Artists Coalition - 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 - 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 licenses recorded music in the UK when it is played in public or broadcast and ensures that revenue flows back to our members. These include independent and major record companies, together with performers ranging from emerging musicians to globally renowned artists. In 2021 we collected £252.8 million while also distributing money to 147,000 performers and recording rightsholders.
- 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.