

FT MONEY INVESTING

TAX BREAKS

Final credits about to roll on investing in film partnerships

So you want to be in the movies? Then get a move on as the government is about to close financing schemes, writes **Ellen Kelleher**

High earners are taking advantage of film partnerships for one last time before these tax advantaged schemes are closed down next year.

From April 2006, the UK government scratched out Section 48 and Section 42, the two lines about tax write-offs in the Finance Act, which opened the door for film producers, big and small, to recruit retail and institutional investors for film financing.

Since these film partnership schemes arrived on the market in 1997, investors have put about £6bn into UK films. The most popular and least risky form which is now on the cusp of extinction is the Sale and Leaseback scheme. This allows people to invest in films that have already been completed and is really a tax deferral as it does not depend on the success of the film. A number of producers including Ingenious Media, ScottsAtlantic and Scion still offer them. But the window of opportunity for some of these schemes may only last another six months or so, analyst argue, because scheme promoters may hit their fundraising targets ahead of schedule.

Potential investors need to tread with care as the arrangements are complicated. Experts tend to view them more as tax-efficient loans from the Treasury rather than investments and some advisers discourage their clients from participating in them because they are so confusing. "I hesitate to use the word 'investor' in relation to 'sale and leaseback schemes' as in my view they are no such people. They are 'tax deferrers'," says Martin Churchill, editor of the Tax Efficient Review.

Effectively, what people do when they enter these schemes is trade a giant tax liability for 15 years of smaller ones, according to Church-

ill. To qualify, you should be a higher-rate taxpayer and earn at least £140,000, most analysts say. You usually get a 40 per cent tax rebate by investing in a film scheme.

The minimum investment for most film partnerships is around £100,000. Investors put up about 20 per cent of the sum and borrow the rest. These deals are like loans because 40 per cent tax relief is received on the full amount invested, including the loan. Over the 15 years, you pay back all the tax you deferred to the Inland Revenue. "You are effectively borrowing money from the Inland Revenue at about 5 per cent. It becomes a source of funds you can use to earn a return," Churchill says.

The government permits you to put the funds into a pension, in which case additional tax breaks then apply. If someone who earns at least £170,000 a year were to receive, following an investment into a scheme, a total tax rebate of £100,000, they could put this money into a pension which, after basic rate tax relief, would gross up to £128,200, according to Dean McCarthy at Cobalt Capital, an advisory firm. This investor would then also be eligible to receive another £23,000 of higher rate tax relief.

"It gives higher earners an amazing opportunity to put large sums into their pensions," says Nick Fletcher, a financial adviser at Saunderson House. (Pension contributions are capped at £215,000 per year.) Some financial advisers are still wary. "We've had clients who said they wished they hadn't got involved in them because it consumed so much of their time.... The tax tail is wagging the investment dog. As a result, we've avoided selling them," Fletcher says.