

Reeling in the Euros

Conor Crowley and David Robb, directors of Acumen & Trust, outline the key features of the Section 481 Film Finance Relief tax scheme.

Changes in tax legislation, including the reduced earnings cap for pensions and restrictions in tax reliefs for high earners, have closed off many opportunities for tax efficient financial management for medical consultants. One attractive tax relief option that remains is Section 481 Film Finance Relief.

What is Section 481 Film Relief?

Film Finance Relief is a simple arrangement that results in a tax saving of up to €3,900 in a tax year (gross income equivalent of €7,800, assuming tax and levies of 50 per cent). There is no requirement for an up-front investment as 100 per cent finance is available. Under the scheme, you can obtain a tax break on a film investment of up to €50,000. Where a spouse has similar taxable income, both can avail of the tax relief.

What is the tax benefit?

For an investment of €16,600 you can receive a saving of up to €20,500 off your tax liability (41 per cent x €50,000) giving rise to the €3,900 benefit. The tax saving is obtained within approximately 12 weeks, meaning that any personal loan facility, if availed of, can be repaid quickly with a relatively low interest cost. To avail of the maximum relief, a taxpayer needs to have €50,000 income taxable at the top rate, i.e. a single person income of over €86,400, or a married person will need income of €95,400 (separate to his/her spouse) to ensure the maximum relief is available.

Why does it exist?

Section 481 Film Finance Relief was introduced to enhance Ireland's attractiveness as a film location. As well as the benefits to the Irish film industry and the local economy in the film locations, there are also benefits to the tourism industry as visits to film locations draw people to the beaches of Wexford (Saving Private Ryan), the streets of Dublin (Once) and elsewhere.

The Indecon Report outlined the overall benefits to the economy and, as a result, changes to film relief were introduced in the Finance Act 2008, which made it more attractive to individual investors, including raising the investment cap to €50,000 per person.



Who is it for?

Film Finance Relief may be claimed by either self-employed or PAYE taxpayers. For PAYE taxpayers, relief can be claimed via payroll by adjustment of tax credits following the issue of the Film 3 Cert, which confirms the investment. The Film 3 Form is sent to the Inspector of Taxes with a request to adjust the Statement of Tax Credits. A pre-drafted standard letter is generally available for this purpose. Once the tax credits are adjusted, a significant element of the tax saving will come through the next month's salary with the balance spread evenly over the remaining 2010 salary through payroll.

Self-employed taxpayers will obtain the tax saving by way of a reduced 2010 preliminary tax payment in October. In simple terms, this means for someone who is making the maximum investment of €50,000 they will write a cheque to the Revenue Commissioners for €20,500 less than would have been the case if the investment was not made.

How does it work?

To avail of Film Finance Relief, there are a number of different ways for an investment of up to €50,000 in an approved film project to be financed. These range from 100 per cent finance to 100 per cent equity with no borrowings availed of.

Where 100 per cent finance is required the investment is financed by an additional personal loan (Loan 1, see example) and the balance of the €50,000 is financed by a pre-approved loan (Loan 2, see example), which is taken out in the investor's

name at the outset and repaid by the film production company from funds set aside for this purpose.

EXAMPLE:	Film Investment	€50,000
	<i>financed by:</i>	
	Loan 1	€16,600
	Loan 2	€33,400
	Total	€50,000

Loan 1 is a personal loan and is repayable by you out of your tax refund.

Tax Refund €50,000 @ 41%	€20,500
Loan 1 Repayment	€16,600
Benefit	€3,900

You have €3,900 left after repaying Loan 1 (less interest of circa €500 for four to five months). You can elect not to opt for Loan 1, but instead put up capital of €16,600. The benefit here is that you do not pay any interest on the personal loan, so you get the full €3,900 tax saving. This equates to a return of 24 per cent on your outlay over a period of four to five months.

Loan 2 (and any associated interest) will be fully repaid by the film production company on the completion of the film production. The film production company at the outset lodges sufficient funds with the bank providing this loan facility, to ensure full repayment of this loan and interest.

Subscription options

There are four subscription options available. They are:

Subscription Amount	Personal Contribution/ Loan	Investment Return
€50,000	€16,600	€3,900
€37,500	€12,450	€2,925
€25,000	€8,300	€1,950
€12,500	€4,150	€975

What is the risk level?

Film Finance Relief schemes are classified as low-risk investments. Most Film Finance Relief schemes are structured to minimise any risks associated with non-completion of the final film or television series. It is important to select a scheme that puts in place a series of measures to mitigate any unforeseen circumstances and includes a final takeover rights clause.

Past schemes and track record

Since the introduction of Film Finance Relief, there have been a couple of niche players who have specialised in the provision of film finance and who have built a successful track record with established film production companies.

Key considerations

Film Finance Relief is a simple and straightforward opportunity

to reduce your tax liability. Like any financial arrangement, however, care must be taken in the selection of the film relief project and the application for tax relief.

When selecting a Film Finance Relief project, ensure that the film project qualifies for tax relief; that the cost over-run guarantees, contingency provisions and production insurance are in place; and a competent financial management team is appointed to manage the production spend. Acumen & Trust only recommend Film Finance Relief schemes that comply with these criteria.

Restricted tax relief

For some high income earners who are claiming other significant reliefs (for instance BES and/or capital allowances on property), tax relief may be restricted. This is relevant if your income exceeds €125,000 and total reliefs being claimed amount to more than €80,000. In this case, any potential restriction can be quantified on an individual basis before deciding to proceed.

The future for Film Finance Relief

Film Finance Relief is likely to remain in place until at least 2012. The relief available from Film Finance schemes is significant and deserves consideration. In the current climate, and with further tax legislation changes on the horizon, proactive management of financial affairs is critical, as individual investment, pension and tax saving opportunities can contribute significantly to your bottom line financial health.

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