



Enhanced VFX Audio-Visual Expenditure Credit

Briefing Note

October 2024

Following the introduction of the Audio-Visual Expenditure Credit (AVEC) in January 2024, the Government has confirmed that UK visual effects (VFX) costs in film and high-end TV can receive an enhanced headline rate of relief of 39% (which equates to an effective rate of 29.25% post corporation tax), a 5% increase on the standard headline AVEC rate, in respect of qualifying UK VFX costs incurred on or after 1 January 2025.

Whilst further details of the relief will be contained in the Finance Bill 2024-2025, the Government's consultation response document and information provided by the Treasury outlines certain key features of the VFX AVEC which we have set out below.

Key Conditions for VFX AVEC Claim:

For qualifying expenditure incurred on or after 1 January 2025, the VFX AVEC will be an optional enhanced tax credit for productions that already meet the conditions of AVEC (which largely mirror the conditions of the existing film tax credit regime) and the definition of VFX.

First, only productions claiming AVEC will be eligible for the additional credit. The AVEC conditions include (but are not limited to):

- Productions must be certified as culturally British by the BFI.
- Productions must be made by a UK production company.
- At least 10% of a production's core expenditure must be used or consumed in the UK. Provided this threshold is met, AVEC can then be claimed on qualifying UK core expenditure.

Second, the expenses must relate to "visual effects". The Government has listened to industry feedback and confirmed that the definition of "visual effects" will comprise "work consisting of the use of computer technology to create or alter images for the inclusion in the film or programme", meaning that costs associated with generative AI will be within the definition of "qualifying expenditure", and not excluded as had been previously proposed. Visual effects costs incurred in virtual production will also be eligible for the additional tax relief, but not costs related to special effects (which are created physically rather than using computer technology).

Third, the VFX costs must be incurred in the UK. The VFX work must be carried out by UK-based staff. The Government has confirmed that HMRC will verify that a claimant's visual effects costs are genuine and are incurred in the UK. When making a claim for the VFX AVEC, claimants will need to provide HMRC with evidence of the VFX costs they wish to claim relief on and details of the company that carried out the VFX work, which will allow HMRC to make such verification. We understand that HMRC will publish detailed guidance on this process in due course.

Quantum of VFX AVEC Claim:

- (i) **No budget requirements:** The Government has not introduced any budget requirements to the eligibility criteria for additional relief. Therefore, all qualifying UK VFX costs for film and high-end TV will be eligible.



- (ii) **Removal of the 80% cap on core expenditure:** Under the AVEC regime, UK core expenditure in excess of 80% of total core expenditure is not eligible for any credit. However, under the VFX AVEC, the 80% cap will be removed for qualifying UK VFX costs. The Government acknowledges that the 80% cap on qualifying costs incentivises production companies to place visual effects work on UK-based productions overseas and has accordingly removed the cap for qualifying VFX costs.

Calculation of the VFX AVEC:

AVEC is treated as a receipt of the trade and is therefore subject to UK corporation tax. The net amount can then be applied to certain other UK tax liabilities of the company (if any) and can then be paid as cash to the company.

The enhanced rate of AVEC applicable to qualifying visual effects costs in film and high-end TV is 39% which equates to an effective net rate of 29.25% after corporation tax.

Administration of VFX AVEC:

VFX AVEC will only be available to companies when the production has received a final certificate from the BFI (except where the project is abandoned). This means claims can only be made for the completion period, i.e. the accounting period when the production is completed, or a subsequent period.

For interim periods, companies will still be able to claim the standard 34% rate of AVEC (which equates to an effective rate of 25.5% post corporation tax) on qualifying expenditure, including VFX costs, with an interim certificate from the BFI. These interim claims will be subject to the 80% cap on core expenditure.

Production companies will be able to submit claims from 1 April 2025 for UK VFX costs incurred on or after 1 January 2025 that are eligible for the enhanced relief.

Interaction with IFTC and other enhanced AVECs

Confirmation of the VFX AVEC comes hot on the heels of the introduction of the Independent Film Tax Credit (**IFTC**), which provides an enhanced relief of 53% on qualifying expenditure up to £15 million for indie films with a budget of £23.5m or less and which commence principal photography on or after 1 April 2024.

Productions that claim either the IFTC or the enhanced rate of AVEC for animated productions and children's TV productions are not eligible for the additional VFX relief on the grounds that they will already be receiving sufficient support for their visual effects costs.

As these enhanced reliefs cannot be claimed in tandem with AVEC or the VFX AVEC, those with material VFX expenditure would be well advised to conduct a thorough cost-benefit analysis prior to opting into any credit regime, to determine the maximum amount of relief that could be claimed under the IFTC (or enhanced animation or children's relief) or the combined AVEC and additional VFX AVEC.

Next steps

Whilst the VFX AVEC framework has now been confirmed, we await publication of the draft legislation for the detailed provisions and further clarity around the precise definition of visual effects (perhaps more notably the exclusions) and whether there are any unintended consequences which could affect stakeholders.

Should you wish to discuss any of the matters covered in this note, please get in touch with your usual Wiggin contact.

