

lights, cameras, action-

how NI investors are getting a slice of some box office action

Belfast based Chartered Accountants, the Opus Group, have raised a staggering £25m in private investment for the UK Film Industry in the last 18 months. Business Eye caught up with Opus Senior Partner, Jon Dickinson, to learn how lucrative tax relief products are enabling NI investors to get a slice of some Box Office Action.



Jon Dickinson, Senior Partner, The Opus Group

At Business Eye, we like to think we know our movie trivia!! If like us, you are a self confessed movie buff and have a particular penchant for British movies, then you will know that the acclaimed British movie "Bend It Like Beckham" and BAFTA winner and Oscar nominated "Pride & Prejudice" have at least one thing in common - the stunning Keira Knightly! Did you know however that both these great British movies and many others including BAFTA winner and Oscar nominated, "The Constant Gardener" and "Phantom of the Opera", made it to the big screen with a little help from Northern Ireland private investors?

As tax advisers, the Opus Group advises clients how to save tax by recommending appropriate tax saving vehicles and schemes. On behalf of its Northern Ireland client portfolio, Opus has successfully brokered a series of tax leveraged partnerships with London based Scion Films, who, since 1998, have been responsible for helping finance circa £1 billion of British films.

As Jon Dickinson, Senior Partner, the Opus Group, explained: "It has long been fundamental to

tax case law that everyone is entitled to arrange their affairs to minimise their tax burden. High net worth individuals have the necessary funding to take advantage of some of the less well known tax mitigation schemes, such as Film Industry Investment and Venture Capital Trusts (VCT). High earning individuals generally aren't risk averse and are prepared to accept the slight risks associated with these products, in return for the opportunity of tax rebates and good investment returns. It gives us tremendous satisfaction to be able to claim large tax rebates on behalf of clients using film partnerships going back three years, money which these clients thought was gone for ever."

The Opus Group has enjoyed a strong working relationship with Scion for three years. Having extensively researched the Film Industry, Opus opted to work with Scion because its Principals were primarily Tax Specialists and accountants, as opposed to traditional film producers in the industry:

"Scion is prepared to sit alongside investors, taking a stake in the films they are promoting rather than

resorting to the soft option of high management fees. They have an unrivalled level of success with three of their most recent films, "The Phantom of the Opera", "The Constant Gardener" and "Pride & Prejudice", multi award winners and arguably the three most high profile British films of the last year. Scion has established a solid reputation in the film industry, and as a result, has first choice of the cream of British films. This has led directly to their tie-up with the UK's most successful production studio, Universal Working Title Films, and the launch of "Premier" their latest film tax scheme." explained Jon.

The following individuals or companies may benefit from Scion's Film Schemes:

Any Individuals who have earned more than £125k pa in the last 3 years.

Use of the Scion Schemes allow them to reclaim all 40% tax paid in 2002/2003, 2003/2004 2004/2005 and 2005/2006.

Any Owner Managed Companies who are facing large corporation tax bills.

Use of Film Partnerships provides a double tax benefit saving both corporation and income tax. This turns on its head the traditional best advice of Accountancy Practices to extract company funds through dividends.

Any individual currently paying 40% income tax but likely to be paying basic rate tax in the future e.g. upon retirement or planning to live abroad.

In this case the individual receives tax rebates at 40% while they pay royalty income at a lower rate.

Any non-domiciled individuals.

There is potential to enhance investment returns based on current legislation.

While previous film relief schemes have been extremely complex based on tax deferral and sale and leaseback arrangements, Scion's "Premier" scheme is based on tax mitigation, so there is no requirement to repay any tax rebates to the Inland Revenue (as is the case with a sale and leaseback scheme). It is a production partnership where an investor becomes a partner in a



"Pride & Prejudice" – starring Keira Knightley and "The Constant Gardener" – starring Ralph Fiennes and Rachel Weisz

partnership which, rather than acquiring a film, is the producer of the film and finances its production.

Outlining how "Premier" works, Jon said: "The idea of film scheme investment is to recover the income tax paid at 40% on a person's taxable earnings as this maximises the result for investors. This means that we would nearly always leave £40,000 to £50,000 "in charge" to soak up the personal income tax allowance, whilst also utilising the less onerous 10% and 22% tax bands. We can, on occasion, leave more income in charge if a client is making pension contributions. As another angle, a VCT can be used alongside a film scheme investment, in the current year, to recover the tax on the bottom £50,000 of earnings."

The "Premier" product gives investors the chance to invest into a slate of high quality, high profile Universal Working Title Films, featuring A list Hollywood stars such as Tim Robbins, Ben Affleck, Andy Garcia and Ray Liotta.

Three Films have been selected in the current tax year and all filming and post production completed. In the current tax year therefore, the production partnership has spent a sum of money (c£30m) to create an asset (call it work in progress) that it has to value at the end of the current tax year (5th April 2006). Using General Accepted

Accounting Principles-(The GAAP rules), this asset has to be valued at the lower of cost and net realisable value on a prudent basis. Using the conventions of the Industry, this involves a write down to 15% of its value creating an 85% loss which each Investor into the Partnership can offset against their other income in this tax year or any of the previous three.

The Partnership requires a cash contribution from investors (a minimum of £28,000) with a full recourse loan of £72,000. This type of partnership offers a large slice of recoupment (45%) and profit (22%).

Investors are entitled to 45% of the film income. Uniquely, all revenues flow through the partnership. For every £1 that comes into the partnership, 55p goes towards the loan and 45p to the investor. This means the client will have enough money to pay his tax liability. At around 131% of budget, the loan is fully repaid. At this level, this is a return on capital of 66%. The partnership is then entitled to a 22% profit position in perpetuity. Working Title have an amazing track record and although like all investments past performance is not a guide to future returns, their average return at Box Office of over



"Phantom of the Opera" - starring Gerard Butler and Emmy Rossum

300% gives investors in "Premier" high hopes of good royalty returns.

Jon Dickinson concluded: "These schemes do not raise an unlimited amount of finance and investors are admitted on a "first come first served" basis. The high quality film schemes such as Scion's "Premier" are in great demand. Investors wishing to reclaim tax before 5th April 2006 have to act sooner rather than later."

Here's how a client benefits:

Client has income of £100k taxed at 40%	£
Initial cash investment (100k x 28%)	(28,000)*
Tax Relief on 85 (loss arising in first accounting period) (85k x 40%)	34,000
Net cash benefit	6,000
Plus Investor holds a Recoupment and Profit position in three high quality studio and independent films.	
As well as right to first \$ revenues to pay off loans	

*The remaining 72% loan finance is put up by Universal Studios. UK Banks will provide personal loans for the investor's initial 28% cash investment too. (The latter are unsecured loans, subject to status, and qualifying loan for tax purposes).

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For further information, contact Jon Dickinson, The Opus Group, 89 Malone Avenue, Belfast BT9 6EQ Tel: 028 9066 4278 Email: jon@theopusgroup.co.uk W: www.theopusgroup.co.uk

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