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Could films present the next EIS solution?

Enterprise Investment Schemes (EIS) can offer investors access to film investing.

By Kirsty Bell | Published Nov 17, 2014 | 2 comments

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Demand for tax-efficient investments is growing, and increasing flows into Enterprise Investment Schemes (EISs) and Seed Enterprise Investment Schemes (SEISs) are testament to this trend.

According to the most recent HM Revenue & Customs (HMRC) data, more than £1bn was invested in EISs in the 2011-12 tax year, the highest for a decade. This figure was nearly double the amount raised in the previous year.

Unofficial data and anecdotal evidence suggests the upward trend is continuing and that EIS flows may have climbed to roughly £1.5bn in 2013-14.

At a sector level, the solar industry has been one of the main recipients of EIS money over the past few years – accounting for more than half the money invested in the past tax year, according to some reports. This is because the government subsidies paid to solar projects and other forms of renewable energy, under the Renewable Energy Certificate (Roc) system, coupled with the tax reliefs available from EIS, created a practically risk-free investment.

Perhaps for that very reason, the government this year withdrew EIS eligibility from projects that also qualified for subsidies under the Roc regime. As far as EIS goes, investing in solar is now dead.

So what were the main attractions for solar for investors and their advisers? One of the big draws was that most, if not all, solar EISs came with a planned exit after three years, giving investors certainty over when they would get their money back and potentially enabling them to rollover their investments into new EISs and gain further tax relief.

Exit dates could be planned because payments under the Roc regime were highly dependable and predictable, so long as a solar project generated power.

The other main benefit was the low investment risk – something with which EISs are not typically associated with – as a result of the secured Rocs and initial 30 per cent income tax relief.

This now leaves financial advisers and intermediaries with a challenge – where to find a suitable alternative to solar with a similar risk profile for their clients' EIS money that has been approved and passes muster with HMRC?

The film industry may offer a solution for investors, even though the sector is sometimes perceived as having a chequered history. In reality, film is an investment like any other and should be approached in this way. If you do it well, investing in film and television projects through an EIS can generate secure, low-risk, dependable returns.

What are the risks and how can they be mitigated?

Films can lose money for several reasons – they may do less well than expected on distribution, their sales may not cover costs, a distributor may be unable to make payments or the production itself could run into difficulties and the film not be completed.

The best way to avoid unprofitable or problematic projects or issues with distributors is through a rigorous, robust and disciplined investment strategy. This means focusing on films with commercial appeal, an identifiable audience, relatively low and controllable costs and a sound financial structure.

Such films have a strong chance of making solid profits and returns for investors. It is also important to work with trusted third parties, from film producers and directors to distributors.

The theory is simple but executing such a strategy is not something just any investment manager can do. Selecting the most suitable projects and the best people to work with requires expertise and an in-depth knowledge of the UK film industry. Pedigree, experience and prudence are necessary.

An experienced film investor knows that risks can be reduced and returns enhanced by tightly structuring the terms under which money is invested. Further security can be introduced through the use of insurance to cover a proportion of a film's pre-sales.

Like a planned-exit solar EIS, investors in a film EIS can have a high degree of confidence of being able to cash in after three years – the minimum period for investment to meet EIS eligibility – and collect a decent return. This is because it is typically in the first two or three years in which a large proportion of the sales are generated.

That being so, films and TV productions can generate revenues for many years after their release and investors in film EISs can also choose to remain in the schemes for many years to benefit from this long tail of income. They can also be eligible for inheritance tax business property relief too.

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Investing in films: Why Now?

Kirsty Bell, partner at Nyman Libson Paul, explains:

"Now is a very good time to invest in film. From blockbuster franchises such as James Bond and Star Wars to must-see TV series such as Downton Abbey and Sherlock, the UK has an international pedigree of producing film and television to the highest quality. Our independent film industry is booming, too.

"At the same time, the global marketplace for film and TV programmes is growing rapidly as a result of the increasing amount of platforms and media by and through which they can be shown. This phenomenon gives rise to a huge number of possible outlets, all of which are sources of revenue for UK film and TV productions. As a result of these factors, sales of UK film and TV are growing exponentially.

"By combining film industry and EIS financing expertise and experience with a rigorous and robust approach to finances and investment selection, it is possible to benefit from this opportunity with a level of risk that is managed, compared with most other forms of EIS investment. This presents an extremely attractive replacement for the now-defunct solar EIS sector."

EIS benefits at a glance

• Thirty per cent income tax relief on a maximum investment of up to £1m per tax year (ability to carry back relief to prior tax year);

• Provided shares are held for at least three years, profits on sales are capital gains tax (CGT)-free (versus 28 per cent);

• Investors can also take advantage of CGT deferral relief by reinvesting in EIS companies;

• Capital loss relief up to 45 per cent of net investment after income tax relief of 30 per cent, representing total tax reliefs of 61.5 per cent of the original investment;

• Inheritance tax business property relief of 100 per cent of the value of investment may be applicable on death or gifting;

• EIS investors provide a boost to the economy. In the first 20 years since the launch of EIS, £8.6bn was raised for the benefit of 18,500 UK companies.*

*Source: HMRC