

Museums and galleries tax relief

The 2016 budget announced that the museums and galleries tax relief (MGTR) would be introduced from 1 April 2017. Unfortunately, as a result of the snap general election, the legislation was not passed as part of the Finance Act 2017.

In July 2017, however, HM Treasury announced that they intend to introduce a Finance Bill following the summer recess, containing provisions previously withdrawn before the election. This will include the introduction of MGTR which will apply to expenditure incurred from 1 April 2017.

MGTR will provide a tax break for charities and any subsidiaries that are engaged in maintaining a museum or gallery. The relief is designed to recognise the unique cultural value that museums and galleries bring to the UK and encourage greater and more diverse exhibitions.

MGTR provides the entity with either a reduction in their corporation tax liability or a repayable credit.

Who can make a claim?

The tax relief will be available to museums and galleries with charitable or educational objectives. A museum or gallery includes a library or archive and a site where a collection of objects or works is held.

To qualify for the relief the entity will need to maintain a museum or gallery and be:

- a charitable company;
- a trading subsidiary of a charitable company; or
- a company wholly owned by a local authority.

Although the majority of income in charitable companies is exempt from tax they are still within the charge of corporation tax so can take advantage of MGTR.

What is a qualifying exhibition?

An exhibition is a curated public display of an organised collection of objects or works that is open to the general public.

The exhibition must be a collection of objects or works which are considered to be scientific, historic, artistic or of cultural interest.

At least 25% of the core expenditure on the production must be spent in the European Economic Area (EEA).

The exhibition must not be:

- Organised in connection with a competition;
- Promoting or selling displayed goods;
- Displaying live objects e.g. plants or animals;
- Used to promote goods or services.

What costs can be included in the claim?

An exhibition has four phases:

- Developing: the speculative time before an exhibition is given the go-ahead;
- Producing: planning and preparing;
- Running: where the exhibition is open to the public;
- De-installing and closing: taking down the exhibition.

Only costs incurred in the producing phase qualify for the enhanced relief. If the exhibition runs for less than 12 months, enhanced relief can also be claimed on the de-installing and closing costs. Core costs which should qualify for enhanced relief include:

- Curator and research costs;
- Exhibition installation;
- Exhibit loan costs;
- Digital spending;
- Insurance and transportation costs;
- Exhibition specific venue set up costs (set up and equipment hire).

Costs which do not qualify for enhanced relief but should be included in determining whether the exhibition makes a profit or loss include:

- General museum and running costs of the exhibition;
- Cost of financing;
- Fees, including legal and accounting fees;
- Acquisition costs;
- Storage costs;
- Marketing and advertising;
- Infrastructure costs not solely related to the new exhibition.



In calculating the MGTR, each exhibition must be treated as a separate trade. The first stage of the calculation is to work out the profit or loss on the production of the exhibition.

Income

For the purposes of calculating the profit or loss on the separate trade, income should include:

- Sale of tickets;
- Grants specific to the exhibition;
- Payments for rights to produce merchandise;
- Royalties or other payments for rights;
- Income from profit sharing agreements.

Touring exhibitions

An exhibition will qualify as a touring exhibition if:

- It will be held at two or more geographically distinct venues;
- At least 25% of the objects or works displayed at the first venue are also to be displayed at each subsequent venue;
- The time between de-installation at one venue and installation at the next venue will not exceed six months.

Maximum claim

The maximum repayable credit is restricted to:

- £100,000 for a touring exhibition;
- £80,000 for a non-touring exhibition.

Amount of relief

The additional relief available is the lower of 80% of the qualifying core expenditure and the expenditure which is incurred within the EEA. The amount that can then be surrendered to HMRC as a repayable credit is then the lower of 80% of the qualifying core expenditure and the adjusted loss. The rates of repayment are:

- 25% for touring productions; and
- 20% for all other qualifying productions.

Example one: loss making exhibition

A charitable company puts on a (non-touring) exhibition. Expected income from the exhibition is £100,000 (made up of ticket sales of £90,000, a grant of £4,000 and related merchandise income of £6,000).

The cost of the exhibition is £125,000 (of which £80,000 is core expenditure i.e. only qualifying costs during the producing and closing phase).

Stage one: calculate profit or loss of the separate trade

Income (proportion of estimated total income earned at the end of the period)	£100,000
Less: costs of exhibition to date	<u>(£125,000)</u>
	(£25,000)

Stage two: calculate enhancement

Enhancement is the lower of:

Qualifying expenditure which is EEA	£80,000	
80% of total qualifying expenditure to date (80% x £80,000)	£64,000	<u>(£64,000)</u>
		(£89,000)

Stage three: calculate repayable credit

Surrender the lower of:

Enhanced loss	(£89,000)	
Enhanced expenditure	(£64,000)	
Repayable tax credit	(£64,000) x 20%	(£12,800)

Repayment from HMRC should be £12,800 for this exhibition.

Example two: profitable exhibition

If all the information in example one remains the same, except the income is £170,000, the calculation would be as follows:

Stage one: calculate profit or loss of the separate trade

Income (proportion of estimated total income earned at the end of the period)	£170,000
Less: costs of exhibition to date	<u>(£125,000)</u>
	£45,000

Stage two: calculate enhancement

Enhancement is the lower of:

Qualifying expenditure which is EEA	£80,000	
80% of total qualifying expenditure to date (80% x £80,000)	£64,000	<u>(£64,000)</u>
		(£19,000)

Stage three: calculate repayable credit

Surrender the lower of:

Enhanced loss	(£19,000)	
Enhanced expenditure	(£64,000)	
Repayable tax credit	(£19,000) x 20%	(£3,800)

Repayment from HMRC should be £3,800 for this exhibition.

How do you make a claim?

The MGTR claim must be submitted to HMRC as part of the company tax return. As a result, charitable companies that have not previously had to file a tax return may find they need to complete a company tax return with charitable pages.

Contact details

If you would like to discuss the museums and galleries tax relief in more detail, or if you would like assistance completing your company tax return, please contact Kirsty Murray or Catriona MacLeod.



Kirsty Murray
Tax Director, Edinburgh
E kirsty.murray@azets.co.uk
T 0131 473 3500



Catriona MacLeod
Corporate Tax Senior, Edinburgh
E catriona.macleod@azets.co.uk
T 0131 473 3500