Museums and Galleries Tax Relief

The Museums and Galleries tax relief is a new relief available to organisations from 1 April 2017. Despite being a corporation tax relief, it can provide benefit to a charity, despite no tax being paid when they are undertaking new qualifying exhibitions.

HMRC recently published detailed guidance on the operation of the scheme that can be found at:
https://www.gov.uk/hmrc-internal-manuals/museums-and-galleries-exhibition-tax-relief
This help sheet is intended as an introduction to the process of preparing a claim for the Museums and Galleries tax relief however you will need to refer to the detailed guidance in order to provide additional explanations.

Chapter 1 of the HMRC guidance sets out which entities can claim the relief and what qualifies as an exhibition for the purposes of the relief. A key point to note is that a company must be:

- A charitable company which maintains a museum or gallery, or
- A company wholly owned by a charity which maintains a museum or gallery, or
- A company wholly owned by a local authority that maintains a museum or gallery

Additionally, any exhibition must be available to the public but this can be either charged or free.

The scheme works by providing an additional deduction for the development, design, set up and close down costs of specific exhibitions, and is referred to as ‘core’ expenditure. In order to calculate the amount of relief that can be claimed, you will also have to consider the total costs of the exhibition as a whole, including development, running costs and close down costs, which may include a portion of overheads

The majority of the process of preparing a claim is allocating costs correctly. You will need to consider the following main costs and include them in your calculations as set out below.

Cost type	Core Expenditure	Total exhibition costs
Costs which directly relate to the producing, deinstalling and closing of an exhibition	Yes	Yes
Costs which relate to the exhibition as a whole, covering both the production and running costs phase	Include an apportionment for the amount relating to development of the exhibition.	Yes – included in full
Indirect costs	No	Yes – include a fair apportionment

Chapter 6 of the HMRC guidance sets out what can qualify as core expenditure as well as setting out what costs cannot be included such as speculative development and expenditure on purchasing exhibits. Exhibition closing costs are core expenditure only if the period between the opening and closing of the exhibition at the venue is 12 months or less.

Determining a fair method for apportioning shared costs and allocating direct costs is the key calculation required under the scheme. HMRC expect that any apportionment should be just and reasonable and applied consistently.

A basic summary of the process of preparing a claim is set out below. The process must be undertaken for each production separately.

1. For each exhibition, work out its relevant income. This is all income received in the widest sense relating to the exhibition, including any related rights and royalties, payments for merchandise and will also include restricted grants received to support a particular exhibition.
2. Calculate the total expenditure relating to the exhibition. This should include all direct costs for producing and running the exhibition as well as a fair apportionment of overhead costs.
3. Determine which expenditure can be classified as core expenditure by directly allocating and apportioning relevant costs.
4. Applying an additional 80% deduction (the actual tax relief) to the core costs.
5. Work out the total profit/loss of the exhibitions by taking the income, and deducting the full expenditure (including running costs) and the additional 80% deduction.
6. If this results in a loss then there is a tax credit payable. This credit is given on the lower loss of
   - The loss for that exhibition, after deducting the 80% additional credit
   - The value of the additional 80% deduction
7. The tax credit is then applied on the figure at 5 at the relevant rate. For touring exhibitions this is 25%, for non-touring 20%.

Example

The table below shows the calculation in practice for two simple exhibitions.

	Exhibition 1	Exhibition 2
	£'000	£'000
Income	50	80
Core expenditure	(30)	(30)
Running costs	(35)	(35)
Apportionment of indirect costs	(5)	(5)
Profit/loss before additional deduction	(20)	10
Additional deduction for core expenditure (80%)	(24)	(24)
Total loss after additional deduction	(44)	(14)
Surrenderable amount – lower loss of:		
• Loss after deduction		(14)
• Additional deduction for core expenditure	(24)	
Tax credit given at 20% (non-touring)	4.8	2.8

Both exhibitions result in a payable tax credit from HMRC of £4,800 and £2,800 respectively, which would be paid by HMRC following the submission of the claim, usually within around 4-6 weeks by BACS/cheque. The maximum tax credit that can be claimed per production is:

- £80,000 for a non-touring production
- £100,000 for a touring production

To make a claim you must submit a corporation tax return to HMRC with the relevant information. You cannot submit a corporation return until your accounts for that year have been signed and approved as the accounts must be submitted along with the return.