

[NO] VAT on Cinema Tickets Strengthens Producer Cash Flow

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Against the votes of the minority centre-right government coalition parties, the Norwegian Parliament's Committee on Family, Cultural and Administrative Affairs on 5 June voted to repeal the 35-year-old Value-Added Tax (VAT) exemption on cinema tickets. The decision comes as part of the Committee's response to the government's Green Paper on film support schemes (see IRIS 2004-4: 14). It is seen less as a fiscal measure than as a step to strengthen the funding of national film production. Following concrete proposals for its implementation in the state budget for 2005, the new VAT regime is due to come into effect on 1 January 2005.

VAT on cinema tickets will be set at a reduced rate of 6 per cent. It will nevertheless allow film production companies to claim refunds on their up-stream expenses at the full 24 per cent rate. The concept of such reduced "cultural" VAT has been bandied about for some time in Norway. Since VAT was introduced in 1969, a number of cultural products, from books and newspapers to tickets for museums, opera, theatre and cinema, have been exempt from VAT (see also IRIS 2004-1: 6). While helping to keep prices down (and thus to stimulate consumption) on these products, the exemption has prevented cultural institutions from claiming refunds on VAT paid on upstream costs. The issue became topical when the public service broadcaster NRK in 2003 was allowed to charge 6 per cent VAT on its licence fee, thus improving its cash flow.

The government had indicated its willingness to examine the effects of introducing reduced-rate VAT on all cultural products, but the Parliamentary majority did not want to wait and carried a motion calling for VAT on cinema tickets to be enforced from the next fiscal year. Film production lobbying groups have been pressing for a change in the VAT regime for several years, estimating that the reform would release NOK 1 to 2 million per feature film production. Estimates show that the VAT reform may present Norwegian fiscal authorities with a loss of some NOK 40 million from the film production side per year, but that this will be off-set by a similar amount generated from cinema exhibition.

Cinema exhibitors, too, are generally welcoming the new VAT regime, as it will allow them to claim refunds on a number of goods and services. In particular, hopes have been rising that next year's reform may spark investment in the

construction of new cinema complexes, in a country which is generally considered to be under-screened. Cinema ticket prices, currently (2003 average price) at NOK 62,48 (approx. EUR 7,60), will increase in correspondence with the tax.

Some doubts over the new tax regime still linger, however. Potential investments in cinema construction have not been estimated, and the impact of new cinemas on Norway's predominantly municipal cinema system is uncertain. It is also feared that cinema owners may use the introduction of the tax to hike ticket prices beyond the 6 per cent justified by the introduction of VAT. And no assurances have been given that the Ministry of Finances will not seek compensation from any shortfall in over-all VAT volume by reducing appropriations for film production support correspondingly.

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