

**September 2020**

## **House of Commons Treasury Select Committee – Tax after Coronavirus inquiry**

### **Introduction**

1. UK Music is the umbrella body representing the collective interests of the UK's commercial music industry, from songwriters and composers to artists and musicians, studio producers, music studios, music managers, music publishers, major and independent record labels, music licensing companies and the live music sector. UK Music exists to represent the UK's commercial music sector, to drive economic growth and promote the benefits of music to British society (see annex for full list of members).
2. The UK music sector has historically been strong, in 2018 it was worth £5.7 billion per annum to the UK economy, produced £2.7 billion in exports and employed 190,935 people.<sup>1</sup> However, it faces numerous challenges from international rivals (often fiscally backed by their own governments), and the current COVID crisis. The UK Government could build on the necessary steps it has taken to support the sector by adopting a new fiscal incentive to encourage the recovery of commercial music in the UK.

### **UK Music Position**

3. In a global music export industry dominated by the United States, the UK commercial music sector has punched above its weight. In 2019, the UK was found to have the strongest music export position of any non-US country in the European market and other vital territories like China and South Africa.<sup>2</sup> In the same year, 5 of the top 20 touring acts in the world were British, as were at least 4 of the top 10 global albums in each year between 2014 and 2018.<sup>3</sup> The UK is also home to the world's busiest indoor venue in the O2 Arena as well as the iconic Glastonbury music festival.<sup>4</sup>
4. However, this position is increasingly under threat. In 2019 only two British albums made the top 10, (one of which predominantly featured older content, Queen's *Bohemian Rhapsody*), and only one of the top 20 tours in 2019 was from a UK artist who had released their debut single in the last 10 years (Ed Sheeran, 2011). This suggests an increasing challenge with the development of new talent.<sup>5</sup>

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<sup>1</sup> <https://www.ukmusic.org/research/music-by-numbers/>

<sup>2</sup> European Commission, Music Moves Europe – A European Music Export Strategy – Final Report, (2019) pp. 28, 67, 69 and 71

<sup>3</sup> <https://www.pollstar.com/article/the-year-end-top-tours-pop-tops-record-breaking-year-143014>

<sup>4</sup> <https://www.iq-mag.net/2019/01/the-o2-world-busiest-venue-2018/>

<sup>5</sup> This is dealt with in greater detail in our 2019 report *Securing our Talent Pipeline*

<https://www.ukmusic.org/research/talent-p/>

5. This can be explained by the challenges facing the UK music sector. The music industry is in a transition phase with streaming overtaking physical sales. This is crucial as streaming provides much less upfront revenue that can be invested in building the portfolio, performances or fanbase of an artist or act.<sup>6</sup> Furthermore, the high-risk low return model of the creative sector is unattractive to traditional lenders, and the Seed Enterprise Investment Scheme and Enterprise Investment Scheme are unsuitable for those looking to “scale up” an artist. This leaves a capital gap which some acts (that might have developed with investment) never bridge.<sup>7</sup> This is compounded by the COVID-19 crisis that is causing widespread damage across the music ecology, forcing companies to declare bankruptcy and dip into their reserves, thereby heightening the value of government support.

### **Examples**

6. While these are global challenges, many foreign governments have already recognised that they can intervene to correct this market failure and give their artists an advantage in a hyper-competitive global space. It is no accident that one of the UK’s main challengers is K-Pop from South Korea. Though its rise owes much to artistic creativity in the South Korean music industry, it has been given the best chance of success through government support. As Prof Hyunjoon Shin of Sungkonghoe University noted, “*it is a product of ... government driven policy*”.<sup>8</sup> Specific tax incentive schemes for music production or composition are common in other countries with strong music sectors notably France, many US and Canadian states, Australia and Ireland. The UK currently has no such incentive. This makes it more attractive for those looking to invest in music to look to our international rivals. The value of government support only increases in a world where many commercial operations have been hard hit by the COVID crisis.
7. Furthermore, within the UK creative industries existing incentives encourage investment away from commercial music directly. There are already UK tax credits for film, animation, high-end and children’s TV, video games, theatre, and orchestras, which have had success in boosting inward investment. A fiscal incentive for music could be complimentary, tackling the same kind of market failures and creating a level playing field for fiscal incentives in the creative sector.

### **Solution**

8. We propose a tax credit that would incentivise investment in the next generation of world class music talent in the UK, and encourage inward investment into the UK industry that would be especially useful to our large number of SMEs, microbusinesses and small traders. This would;
  - i) Correct the existing market failure.
  - ii) Help re-capitalise COVID stricken businesses looking to bounce back.
  - iii) Boost the attractiveness of investing in UK based content against our international competitors.
  - iv) Support new UK talent.

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<sup>6</sup> <https://www.digitalmusicnews.com/2018/12/25/streaming-music-services-pay-2019/>

<sup>7</sup> <https://www.thecreativeindustries.co.uk/media/471225/cic-access-to-finance-research-report-june-2018>

<sup>8</sup> Hyunjoon Shin & Seung-Ah Lee, *Made in Korea: Studies in Popular Music*, 2017

- v) Incentivise activity in all parts of the UK commercial music sector.
9. This could empower the entire network involved in creating new music content; the studios, writers, composers, musicians, artists, producers, technical staff and others. We would welcome working with the Government both through the Department for Digital, Culture, Media and Sport and the Treasury to finalise the details of our proposals which we are currently developing.
  10. As we look to build back from the COVID crisis it is vital that money is spent well, supporting an ecology like music is an efficient way to invest in the economy. Analysis of the French support scheme found a x2.7 return on government investment.<sup>9</sup> Case studies of UK based schemes supporting music exports (Music Export Growth Scheme and International Showcase Fund) showed returns of £12 and £15.20 per £1 invested.<sup>10</sup>
  11. This is a chance to build on the understanding underpinning the welcome COVID-19 support for music, that it is an ecology that can be helped or hindered by Government action. A fiscal incentive would boost UK talent, attract inward investment, and ensure UK music is competing on a level playing field as it gets back to what it does best.

## **Annex**

UK Music's membership comprises: -

- AIM – The Association of Independent Music – the trade body for the independent music community, representing over 850 small and medium sized independent record labels and associated music businesses.
- BPI - the trade body of the recorded music industry representing 3 major record labels and over 300 independent record labels.
- FAC – The Featured Artists Coalition represents and promotes the interests of featured recording artists in the music industry.
- The Ivors Academy - The Ivors Academy is an independent association representing professional songwriters and composers. As champions of music creators for over 70 years, the organisation works to support, protect and celebrate music creators including its internationally respected Ivors Awards.
- MMF – Music Managers Forum - representing over 900 UK managers of artists, songwriters and producers across the music industry with global businesses.
- MPG - Music Producers Guild - representing and promoting the interests of all those involved in the production of recorded music – including music studios, producers, engineers, mixers, remixers, programmers and mastering engineers.
- MPA - Music Publishers Association - with 260 major and independent music publishers in membership, representing close to 4,000 catalogues across all genres of music.

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<sup>9</sup> Xerfi, Bilan du crédit d'impôt à la production phonographique, November 2017

<sup>10</sup> <https://www.bpi.co.uk/news-analysis/music-export-growth-scheme/>  
[https://prsfoundation.com/wp-content/uploads/2019/09/PRSF-ISF-Report-2016-19-FINAL-DIGITAL\\_1.pdf](https://prsfoundation.com/wp-content/uploads/2019/09/PRSF-ISF-Report-2016-19-FINAL-DIGITAL_1.pdf)

- Musicians' Union - Representing over 32,000 musicians from all genres, both featured and non-featured.
- PPL is the music licensing company which works on behalf of over 100,000 record companies and performers to license recorded music played in public (at pubs, nightclubs, restaurants, shops, offices and many other business types) and broadcast (TV and radio) in the UK. PPL also collects royalties for members when their recorded music is played around the world through a network of international agreements with other collective management organisations (CMOs).
- PRS for Music is responsible for the collective licensing of rights in the musical works of 114,000 composers, songwriters and publishers and an international repertoire of 10 million songs.
- UK Live Music Group, representing of the live music sector with a membership consisting of: Agents' Association (AA), Association for Electronic Music (AFEM), Association of Festival Organisers (AFO), Association of Independent Festivals (AIF), Concert Promoters Association (CPA), International Live Music Conference (ILMC), National Arenas Association (NAA), Production Services Association (PSA), Music Venue Trust (MVT), with contributions from PRS Foundation, MU, MMF, FAC and BPI.