



# Finance Act 2006

## 2006 CHAPTER 25

### PART 3

#### INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX

### CHAPTER 3

#### FILMS AND SOUND RECORDINGS

##### *Corporation tax treatment of sound recordings*

#### **48 Sound recordings: revenue nature of expenditure**

- (1) If a company carrying on a trade incurs expenditure on the production or acquisition of the original master version of a sound recording, the expenditure is treated for corporation tax purposes as expenditure of a revenue nature.
- (2) If expenditure is treated under this section as revenue in nature, sums received by the company from the disposal of the original master version of the sound recording—
  - (a) are treated for corporation tax purposes as receipts of a revenue nature, and
  - (b) are brought into account in calculating the profits of the relevant period in which they are received.
- (3) For this purpose sums received from the disposal of the original master version include—
  - (a) sums received from the disposal of any interest or right in or over the original master version (including an interest or right created by the disposal), and
  - (b) insurance, compensation or similar money derived from the original master version.

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*Status: This is the original version (as it was originally enacted).*

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#### **49 Sound recordings: allocation of expenditure**

- (1) This section applies in calculating for the purposes of corporation tax the profits or losses of a company from a trade where—
  - (a) the trade consists of or includes the exploitation of original master versions of sound recordings, and
  - (b) the original master versions do not constitute trading stock of the trade as defined by section 100(2) of ICTA.
- (2) Expenditure that is—
  - (a) incurred on the production or acquisition of the original master version of a sound recording, and
  - (b) expenditure of a revenue nature (whether as a result of section 48 or otherwise),must be allocated to relevant periods in accordance with this section.
- (3) The company must allocate to a relevant period so much of the expenditure as is just and reasonable having regard to—
  - (a) the amount of the expenditure that remains unallocated at the beginning of the period,
  - (b) the proportion that the estimated value of the original master version of the sound recording that is realised in that period (whether by way of income or otherwise) bears to the aggregate of the value so realised and the estimated remaining value of the original master version at the end of the period, and
  - (c) the need to bring the whole of the expenditure into account over the time during which the value of the original master version is expected to be realised.
- (4) The company may also allocate to a relevant period a further amount, so long as the total amount allocated does not exceed the value of the original master version of the sound recording realised in that period (whether by way of income or otherwise).

#### **50 Sound recordings: interpretation**

For the purposes of sections 48 and 49 (corporation tax treatment of sound recordings)

- (a) “sound recording” does not include a film soundtrack;
- (b) “original master version” means the master tape or master audio disc of the recording;
- (c) references to the original master version of a sound recording include any rights in the original master version that are held or acquired with it; and
- (d) “relevant period” means—
  - (i) a period for which accounts of the trade are made up, or
  - (ii) if no accounts of the trade are made up for a period, an accounting period of the company.