



A TAXWATCH PRODUCTION 007<sup>£</sup>

# NO TIME TO 007<sup>£</sup> PAY TAX!

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## ABOUT TAXWATCH

TaxWatch is a UK charity dedicated to compliance and sound administration of the law in the field of taxation. We are an investigative think tank which conducts forensic research and analysis on tax avoidance, tax policy, and tax law, publishing our research to improve public understanding of tax issues.

Through our work we seek to encourage high standards of tax conduct and civic responsibility.

We are independent of any political party.

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**How EON Productions, the studio behind the James Bond films, has minimised UK tax for decades whilst receiving tens of millions of pounds in subsidy from the UK tax payer**

## **BOND BY THE NUMBERS**

- **25 FILMS**
- **\$16.3BN GROSS (ADJUSTED FOR INFLATION)**
- **£77M IN UK TAX CREDITS TO SUBSIDISE SPECTRE AND NO TIME TO DIE**

## **INTRODUCTION**

The British production company behind the hugely successful James Bond series is part of a structure which minimises UK corporation tax, despite generating substantial profits for its US owners and receiving over £100m in subsidy from the UK government. After two delays due to the ongoing pandemic, Bond, a fictional series about a British civil servant, is set to return to the big screen next Spring in the 25th installment of what is the fourth highest grossing franchise of all time.<sup>1</sup>

However, despite the franchise bringing in billions at the cinema and raking in hundreds of millions of dollars in profit, under a tax structure set up more than 50 years ago, the Bond franchise has managed to minimise corporation tax in the UK for decades.

This report looks in detail at the financial accounts of EON Productions Ltd and associated companies (together referred to as EON) over the past decade, a period which saw the production of Skyfall (2012), SPECTRE (2015), and No Time To Die (2021).

We make no allegation that the company is behaving illegally, now or in the past. However, our research raises questions about whether

government subsidy to the film industry is well targeted, and at a time of constrained public finances, the use of tax minimisation strategies by such high profile British franchises must be a matter of public concern.

We found that despite Skyfall and SPECTRE grossing just shy of \$2bn at the box office, EON generated small profits and smaller tax bills in most years whilst profits in the hundreds of millions are declared overseas.

In fact, in recent years, EON has operated at a pre-tax loss, while simultaneously receiving over £100m in tax credits via the UK's creative industry tax relief scheme. Publicly available accounts reveal that SPECTRE received £30m in tax credits, with a further £47m for No Time To Die, taking the total subsidy for the last two films to a hefty £77m. The total amount of UK tax credits received since their introduction in 2007 is likely closer to the £120m mark, with leaked emails showing that Skyfall received £24m in tax credits,<sup>2</sup> and our calculations putting the amount Quantum of Solace received at around £21m.<sup>3</sup>

## **DR NO TAX – A HISTORY OF TAX AVOIDANCE AT EON PRODUCTIONS**

The James Bond films are one of the longest running film series in history with the franchise grossing over \$16bn to date.<sup>4</sup> From the outset the Bond franchise was produced using a structure designed to minimise tax. The finance and distribution of the films is dealt with by an American company (be it United Artists, MGM, Sony, or now Universal) while the production is done by a British company. The rights to exploit the film are however owned by a non UK company.

In 1961 Harry Saltzman and Albert R. 'Cubby' Broccoli acquired the rights to Ian Fleming's Bond novels and established EON Productions in the UK to make the films. At first, United Artists (UA), was contracted to provide 100 per cent of the finance and distribute the films.



Saltzman and Broccoli's wives, Dana and Jacqueline then created a company in 1962 called Danjaq S.A. (a contraction of their names), incorporated in Lausanne, a picturesque town on the banks of Lake Geneva, Switzerland, the type of place that many of Commander Bond's adversaries may have used to stash their ill gotten gains over the years.<sup>5</sup> In an interview, Harry's son Steven stated that Danjaq "was set up with shares that were actually bought privately by Dana and Jacqueline separately with cash they could demonstrate was not linked to their husbands."<sup>6</sup>

Under the structure set up by Saltzman and Broccoli, EON would make the films in the UK and then sell the film to Danjaq, ensuring that the producer's profit would end up in Switzerland taxed at a very favourable rate.<sup>7</sup> It appears that Danjaq had no real function other than to hold the copyright and trademarks of 007. At the time, Danjaq's sole director was the Swiss attorney Mr Schlaeppli. As was set out in a 1991 court case between Danjaq and then distributor MGM, Mr Schlaeppli admitted to knowing little about the film industry and working only in an administrative function. He performed this function for fifteen other corporations. As described in graphic terms by the judge in that case, "If put in anatomical terms, Switzerland is Danjaq's stomach reflexively churning the enterprise's profits, but it is hardly a nerve center". In fact, in that case Danjaq argued that its principal place of business, if not Switzerland, must be Great Britain, due to the "substantial and long-standing presence" of EON in the UK. The argument rested on the proposition that Danjaq and EON are in effect the same entity.<sup>8</sup>

The Broccolis were eventually able to assume complete control over Danjaq, and with it the rights to Bond, when in 1986 they purchased Saltzman's original stake from UA. Cubby was free to operate as the sole owner and producer, and was later succeeded by step-son Michael Wilson (then a tax lawyer) and his daughter Barbara Broccoli, who together run the franchise to this day.

Danjaq became incorporated in the United States in the 1990s in Delaware. However, although Danjaq has changed jurisdiction, and the financier and distributor has also changed over the decades, the

key arrangement that allows for EON to minimise UK tax remains intact today.

EON still makes the films (but makes little profit from them), Danjaq still owns the rights, and distribution and finance are still dealt with by an outside third party.

In fact, EON state in their 2015 accounts that once the production of a film has been completed, “the film is sold for a price equal to the total cost of production less the amount received in respect of UK Film Tax Credits.”<sup>9</sup> This ensures that minimal taxable profits arise in the UK as valuable rights to exploit the film are sold for no more than the cost of production.

Structures like this are not unusual in the film industry, but they do raise questions about whether they result in a fair distribution of profit between countries.

EON have stated on the record that the profits are all properly declared in the UK or the US, and that no profits are sheltered in tax havens. This suggests that the vast majority of profits made by the Danjaq and EON, and any taxes due on them are declared in the US.

## HOW MUCH PROFIT IS BOND REALLY MAKING?

As Danjaq is a Delaware company we cannot see how much profit it makes from each film. It is also not possible to simply deduct the costs of producing a film from cinema receipts in order to look at the profitability of a film.

The production cost only comprises part of the total cost of a film. In addition, studios and distributors will spend substantial amounts on marketing and the physical printing of copies. For your average blockbuster with a budget of \$100m plus, a film’s production budget only makes up 37% of the total cost.<sup>10</sup> On top of this cinemas also take a chunky percentage of total ticket sales.

On the revenue side, cinema sales make up less than half of a blockbuster's revenues, with successful films making money for years though TV deals, DVD sales and airline broadcast fees.

All of this makes it very difficult to see a film's total profitability from the outside.

However, by taking a detailed look at the evidence available for the last three Bond films we are able to get a good idea of how much real money is being made.

## SKYFALL

Detailed financial figures for Skyfall are available with thanks to the North Korean secret service.

In November 2014, a hacker group leaked over 170,000 emails from Sony Pictures Entertainment, thought to be in response to Sony re-releasing the film 'The Interview' which poked fun at Supreme Leader of North Korea Kim Jong-un. These emails give an insight into the otherwise obscure of film finance.

According to the leaked emails, Skyfall, which grossed \$1.1bn world-wide, made \$232m in profit for the distributors MGM and Sony, of which Sony kept 25 per cent despite putting up 50 per cent of the movie's costs. A leaked document from Sony revealed that Danjaq earned \$109m on Skyfall.<sup>11</sup> With these profits sitting outside the UK, EON was able to post pre-tax profits of less than £2m in the UK for the 2012 and 2013 years in which Skyfall was at the cinema. Danjaq's profits were almost guaranteed. With the distributors putting up all the money to produce the films, Danjaq is understood to earn money from each ticket sale, in what is known as a "first-dollar gross" deal.<sup>12</sup>

## SPECTRE

According to the accounts of B24 limited (the specific EON production company responsible for SPECTRE) the production cost

of the film was £182m. Within the Sony leaks emails we can also see discussion among studio executives about box office projections for SPECTRE of \$500m international and \$209m in the US.<sup>13</sup> The executives deem this to be enough in order to green-light the film to begin production, and is therefore almost certainly enough to break even, but would likely allow for some profit. Considering SPECTRE grossed \$880m worldwide,<sup>14</sup> not to mention the revenues generated from DVD/VOD sales, it is safe to assume that the total profit for this film was over \$100m, with Danjaq receiving a substantial amount.

However, despite the billions in revenues and hundreds of millions in profit generated by SPECTRE and Skyfall, practically no profits are realized by the UK based production company responsible for creating the films.

EON's accounts show a small pre-tax profit for 2008–2014 on a group level, which then turns into substantial pre-tax losses following the release of SPECTRE. While Skyfall and SPECTRE are grossing almost \$2bn between them, and hundreds of millions of dollars in profit are going to MGM, Sony, and Danjaq, EON in the UK made a net pre-tax loss of £33m for the decade to 2018.

FILM	BUDGET	BOX OFFICE	TAX RELIEF
QUANTUM OF SOLACE 7 <sup>5</sup>	£106,891,959	\$589,580,482	£21,378,391
SKYFALL	£138,197,058	\$1,108,561,013	£24,000,000
SPECTRE	£182,431,933	\$880,674,609	£30,005,367
NO TIME TO DIE	£199,472,744	RELEASED APR 2021	£46,791,492

## YOU ONLY PAY TWICE - UK FILM TAX RELIEF

Even though the producers of James Bond have arranged their affairs to make sure that very little profit stays in the UK, that has not

stopped them from seeking substantial hand-outs from the government.

The way in which the tax relief works is that it allows for film production companies to claim a tax credit of up to 25% of the money they spend making the film in the UK (up to a maximum of 80% of the film's core expenditure). This credit is deducted from any corporation tax bill if the film company makes a profit. If the company makes a loss, the company can claim cash back from HMRC. Since 2015, EON's accounts show that it has been receiving the cash credit from HMRC arising from the production of the Bond films. The British taxpayer is effectively subsidising a highly profitable franchise that has been operating since the early 1960's.

Film Tax Relief (FTR) is part of the UK Creative Sector Reliefs. All creative sector tax reliefs are designed to promote British culture, with productions having to pass a "cultural test" administered by the British Film Institute before accessing subsidy.

That James Bond is a product of British culture is beyond any doubt, and as a result it is perfectly entitled to claim UK tax credits on UK production spend. The story was written by a former WW2 British intelligence officer, about a British operative working for the UK's Secret Intelligence Service MI6. Despite the world travels of 007, London will forever be the home of Bond. Barbara Broccoli, who alongside Michael Wilson was awarded an OBE in 2008 for services to the film industry,<sup>15</sup> has gone on record about how British Bond films are, saying in 2009 "The Bond films were made in Great Britain, they were started by my father Albert Broccoli, he moved to the United Kingdom in 1952 and felt England was home."<sup>16</sup>

While a lot of filming is done internationally, the productions are centered around Pinewood Studios, situated just outside of London, which has its own 007 stage. Editing and post-production work on SPECTRE was split between Pinewood and a further office in Soho.<sup>17</sup>

Brits are proud of the James Bond franchise. Daniel Craig in his



capacity as Bond was paraded before the world at the London 2012 Olympics, acting as a bodyguard to the Queen as she made her way to the opening ceremony. This stunt delighted executives at Sony Pictures, who noted how it raised the profile of Bond in the year that *Skyfall* was released. Wishing to replicate this level of exposure, the studio executives contemplated having Bond present at multiple events in 2015, from the Super Bowl to the UEFA Champions League Final.<sup>18</sup>

Politicians are keen to show off the cultural export, with George Osborne, the then Chancellor of the Exchequer, tweeting in 2015:<sup>19</sup>



All of this means that Bond films are eligible for large amounts of subsidy from the UK government.

British Film Tax Relief is far from the only way in which the Bond films can claw back production costs. *SPECTRE* received at least \$14m (and potentially up to \$20m) in tax incentives from the Mexican government for the opening sequence to be shot in Mexico City and to show the country in a positive light. The president of MGM Jonathan Glickman said in an email “By all accounts we can still get the extra \$6M by continuing to showcase the modern aspects of the city...Let’s continue to pursue whatever avenues we have available to maximize this incentive”.<sup>20</sup> The production also received millions from product placement. Last year *The Mirror* reported that *No Time To Die* had netted a franchise record of £75m in endorsement deals for the likes of Heineken and Aston Martin.<sup>21</sup>

Film Tax Relief was introduced in 2007. One of the pre-requisites for

receiving Film Tax Relief is being certified as ‘culturally British’ by the BFI. Quantum of Solace was awarded this certification in 2008, as was Skyfall in 2012, followed by SPECTRE in 2015.

Although we only see tax relief in the accounts for SPECTRE and No Time To Die, given the cultural British accreditation, it is almost certain that both Quantum of Solace and Skyfall also received UK Film Tax Relief, and that we are unable to see it due to changes in accounting practice.

With a budget of £107m, we estimate that Quantum of Solace will have received around £21m in tax relief. A leaked Sony email from 14 October 2014 makes reference to \$38m (£24m in 2012) in tax credits for Skyfall,<sup>22</sup> the vast majority of which will be UK Film Tax Relief. Accounts for B24, the company behind SPECTRE, show the company receiving £30m in tax film credits. Accounts up to 31 December 2019 for No Time To Die show it has become the most expensive Bond film to date, with a cost of £200m, and with £47m so far claimed in credits – listed as “tax credit recognised in work in progress” in the accounts. Corresponding 2019 accounts are not yet available for EON.

This takes the tax credit received for SPECTRE and No Time To Die to £77m, and the estimated total tax credit for the four films since the introduction of the scheme to £122m.

Again, we stress there is nothing contrary to law about the Bond franchise claiming tax credits. As a UK production of a culturally British product, the producers of Bond are perfectly entitled to claim tax credits.

However, we do believe that this example raises legitimate questions about how the tax credits system works in practice.

## ON HER MAJESTY’S SERVICE

International tax rules state that profits should be allocated based on where value is created, with tech companies often using this argument to explain why they only pay taxes in the US. If this is the



case, why isn't a significant amount of tax paid on the profits of Bond films in the UK?

Bond films are produced in the UK, by a British company, and receive production subsidies from the UK government on that basis. It would therefore be reasonable to expect that most of the profit generated by the films is declared in the UK. This is certainly the expectation from some MPs. Mark Spencer, the Conservative MP for Sherwood, stated in Parliament during a debate on tax avoidance and multinational companies on 03 February 2016:

“We are blessed with a global taxation system agreement whereby companies pay tax not on the profit they make in the country but where they add the value and create the IP.... I was fortunate enough to go to the cinema to see “Spectre”, the latest James Bond movie, which was created in Pinewood Studios in the UK. Tax on the profits from those movies should be paid in this country, not all over the world.”<sup>23</sup>

However, as our research has demonstrated, despite Bond's decades long association with Britain which has seen the franchise become a landmark of British identity, when it comes to profits, Bond is not really British at all.

From the very beginning, the Bond franchise was structured to minimise UK corporation tax. The films used Swiss banks and shell companies in Switzerland and then Delaware in order to channel profits out of the UK.

No Time To Die, the latest film in the Bond series, has seen Universal Pictures step in to replace Sony, with Universal now set to distribute the film internationally. Though an important function, distribution and finance could arguably be provided by companies anywhere in the world. What can't be substituted in James Bond is the British story, cast, production, and 007 stage at Pinewood Studios. If HMRC is unable to tax the profits on the Bond franchise, how does the government intend to fund MI6?

TaxWatch first contacted EON Productions Limited for a comment on our research in February 2020, and again in October 2020. EON ignored several requests to engage with us on this report and did not respond to four separate deadlines to provide a comment.

Eventually, a comment was provided via the law firm Schillings on behalf of EON, at 2.30pm on a Saturday, the day before publication. It reads as follows:

*“Since the 1960s Danjaq has chosen to make the James Bond films in the UK through Eon Productions, resulting in the investment of more than half a billion dollars in the UK film industry, the employment of tens of thousands of people, and showcasing the talents of British film to the world.*

*All the income from the James Bond films received by Eon and Danjaq is subject to tax in either the UK or USA. None of the income is sheltered in a tax haven. Eon has utilized the UK tax credits to help fund the making of Bond films in the manner intended by the government. This has enabled the Bond films to continue to be made in the UK to the benefit of the UK film industry and UK economy.”*

It is certainly the case that the production of Bond films does lead to a substantial amount of money being spent in the UK film industry, and this provides a substantial benefit for people working in the industry. However, it is not clear why this means that profits made by the film should be declared outside the UK.

*Background research for this report was aided greatly by the book “Some Kind of Hero: The remarkable story of the James Bond films” by Matthew Field and Ajay Chowdhury (The History Press, 2015).*

*Design by Glen Ratcliffe.*