

MPAA and China Settle Tax Dispute

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Hollywood has [settled](#) its months-long dispute with the state-owned film distributor in China over box office payments owed to the six major film studios. According to the MPAA, the studios—who are owed about \$200 million from the distributor—will be paid in full.

Despite improved film trade relations negotiated last year, the standoff showcases the uncertainties that continue to challenge the growing bond between Hollywood and China.

At the center of the most recent dispute was a 2 percent [value added tax](#) that the Chinese government wanted to impose on box office receipts, a cost that the state-owned distributor China Film wanted to deduct from the foreign producer's share of revenue. *The Wall Street Journal* first broke the [story](#) in April 2013. At the time Twentieth Century Fox refused to accept *any* of the revenue earned from *Life of Pi*'s [record-breaking](#) ticket sales in China until the tax issue was resolved. The studio did not want to establish a precedent that threatened to undermine long-term profits in the market by an estimated 8 percent. As

[negotiations](#) between organizations in the US and China worked toward an agreement, China Film ultimately withheld about \$200 million in payments for blockbusters that included *Skyfall* and *Oz the Great and Powerful*.

Ironically, the revenue freeze followed only a few months after US Vice-President Joe Biden and Chinese Vice-President (now President) Xi Jinping reached a new [film trade agreement](#) that, among other improvements, increased the percentage foreign studios can claim from box office earnings in China. Insiders claim the new [calculations](#) strained the state distributor's profitability, and hindered its [efforts](#) to get listed on the Chinese stock exchange, thus resulting in the disagreement over who must pay the proposed tax (which wasn't part of the original trade agreement).

While details about yesterday's resolution remain [scarce](#), the flare up is the latest episode in the rather erratic relationship between Hollywood and China, one that seems unlikely to deter stateside interest in the world's [second](#) largest film market.