APVA

AUSTRALIAN POST & VFX **ALLIANCE**

Hon Senator David Fawcett
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Dear Mr. Fawcett

HEARING RESPONSE

I am writing to you in response to questions raised at the committee hearing; as promised, please find a summary and answers to these questions.

The Australian feature film & television industry has enjoyed blockbuster success over the past decade. Government support, and latterly COVID, have accelerated that success, enabling Australia to attract millions in filming and post-production work that would typically stay offshore.

These are the imminent impacts on our sector.

- Will miss out on the millions worth of post-production and visual effects projects every year with growing export revenues cut off overnight.
- Will lose over 400 full and part-time jobs in Australia.
- Will lose the opportunity to use this investment to cross-subsidise Australian productions and tell Australian stories.
- Won't be able to grow and expand this vital industry that showcases and develops Australian talent.

To avoid losing another Australian industry and more jobs, we urge you to reconsider this proposed tax change.

Sincerely,

Marcus Bolton
Chair, Australian Post & VFX Alliance

Global Tax regimes supporting Post Production & Visual Effects (VFX) Projects

There are relatively few jurisdictions that offer a separate PDV offset. However, most jurisdictions include it in their equivalent location offset. I have attached a summary briefing document from Ausfilm to the tail of this document.

All of the following jurisdictions offer a Post (PDV) Style Rebate, Incentive or Tax Offset.

- New Zealand (they copied the Australian PDV)
- South Africa
- United Kingdom (including England, Scotland & Ireland)
- British Columbia (while the location credit is only BC labour, the Post credit is all expenses)
- Quebec (Quebec labour)
- Ontario (Ontario Labour)

Worth noting the Canadian provincial incentives are stackable with the Federal incentive.

32 US States offer some sort of Tax Incentive

- Alabama, Arkansas, California, Connecticut, Georgia, Hawaii, Idaho, Illinois, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Minnesota, Mississippi, Montana, Nevada, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Utah, Virginia & Washington

Historical Data

The Department referred to "historical data" that they will put forward to justify the position that the PDV rebate has not been widely taken advantage of in its current form. Therefore, it aims to explain this is not have a significant impact on the industry.

We haven't seen this data and question that this is the case. How did they investigate and determined this?

The Office for the Arts would know the amounts spent, as they manage the Location and PDV Offsets. However, they don't make that information public because of the tax secrecy laws.

We assume that Screen Australia may have that data because they survey companies for the annual drama report. However, if they do, they don't publish it. You could try asking Patrick May at Screen Australia, who manages the survey. His email is [redacted]

That aside, being prepared that their "historical data" does help support their position, we want to express that "historical data" is not relevant to our case.

We are saying that COVID has presented exciting and extensive new opportunities with the increased willingness of clients to be open to remote workflows; this offers opportunities not previously available to us that we want to take advantage of.

COVID has removed a previously immovable barrier for us; there is an opportunity for growth and to secure a larger market share of the industry; why wouldn't you want this?
Secondly, there is a new generation of companies only recently in a position to leverage off the PDV rebate export opportunity. This new generation of companies has been building towards this moment with the belief that they (and their clients) would have access to the rebate at $500,000 and have developed business and export strategies based on this, with huge investment involved. Therefore, we need an accessible entry point into the export market to enable future growth opportunities.

These are some stats from the Ausfilm submission that I think are worth noting:

- Approx 40 SME across Australia are affected by these changes
- Ausfilm PDV members have grown by 150% since 2010
- 10 PDV businesses in 2011
- 26 PDV businesses in 2021
- Only about eight (8) members would routinely bid on projects over $1 million.

As Cutting Edge and KOJO have very recent opportunities that this change has squashed, we have evidence that this is about new opportunities already being lost.

Companies partnering up to meet the $1 million threshold

Caroline Fulton mentioned that they have been working with Ausfilm concerning PDV companies working together to attract projects of $1 million-plus. This is to counter our argument that many of us are simply not of a scale to bid and handle projects at the scale of $1 million.

This has been discussed between Ausfilm and its members, and the feedback has been that this is wonderfully idealistic but not so practical.

The idea of collaboration is fine in principle and already happens often, but it's not a strong marketing angle when presenting to potential clients. The DNA of Australian PDV member companies is built on the strength of a creative sales pitch; it is what gives each of us our point of difference. The culture of our companies is not based on straight-up vendor work; we sell creativity and a high level of skill.

We also need to keep in mind that projects of the scale of $1 million + will be high profile, and clients are way less likely to entrust several small companies to collaborate than one larger multinational. So it's also not sustainable to have all companies striving for this scale of work.

There are simply fewer projects available at this scale; whether we are partnering up or not, we're merely eliminating the vast majority of business opportunities because we know they sit between $500,0000 - $1 million.

Why would we want this for our industry?

Location Offset / Incentive

There was discussion around the Location Offset / Incentive and how PDV companies benefit because it's a requirement that productions engage with at least one local company.

The critical point that we must note here is that there is no requirement for this to be anything of scale or substance; in other words, a production can engage in the most minimal ways to tick this box. Therefore, it doesn't compensate for the threshold issue, and it is not an appropriate defence to the change (in our opinion).

It is not a secure long term strategy for us to invest in business growth. Also, note that the Location Incentive is a capped pool of funds currently. So once the money is spent, there is no guarantee the scheme will continue.

The location package comprises the Location Offset (rebate) and the Location Incentive (grant); combining this is how a production reaches its effective 30% advantage. The Location Incentive is grant-based, meaning that if a production is awarded the Incentive grant and the PDV component exceeds the estimated QAPE that the grant was awarded, they are actually disincentivised to keep doing more PDV work in Australia.

This is another complex issue around decoupling the PDV Offset and can be challenging to explain. Still, it's a significant nuance when the Location Incentive is used to defend the change to the threshold.

Yes, there is definitely some benefit some PDV companies see flowing on from International productions shooting here. Still, it's no solid guarantee of work for us, and we have to assume that when things level out with production activity post-COVID, fewer productions will come to shoot here; it's already evident.

The industry is very cyclical, and we need consistent work to keep staff on full-time and for confidence in the investment. In addition, we need to leverage off multiple sources of revenue via multiple incentive offerings; we can't just rely on the Location Offset/Incentive combination.

Screen Australia Funding

The additional funding to Screen Australia that has been presented as the need to save costs elsewhere should be noted is of little to no benefit to the PDV sector and in no way balances with the damage done in doubling the threshold.

So PDV companies are essentially being penalised for sending money elsewhere.

One of the Senators acknowledged this; we should make sure we don't lose sight of this in our argument.

Why do we matter?

PDV companies are one of the key sectors within the screen industry that provide secure fill-time employment with ongoing in-house training opportunities to advance careers.

If you want to create jobs and support highly skilled future jobs for young people, we are the industry to do it.

It's the SME companies that service the domestic market, with many investing in domestic productions. If you lose us, there will be no one to service local work, is that what you want?

We balance lower margin domestic work with larger international budgets. Without the international projects, we simply cannot afford to serve the domestic market at the budgets they offer.

We all know that a thriving screen industry is good for the Australian brand, its profile and glamour; the PDV sector is key to this.