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Appendix D – Parliamentary Budget Office costings for variations in the screen production tax offsets (Part 1)

Parliament of Australia
Parliamentary Budget Office

Policy costing—outside the caretaker period

Name of proposal:	Tax offsets for film and television production
Summary of proposal:	This proposal has 10 options to change the *Australian screen production incentive* tax offsets for film and television production. Component 1 - Producer offset Option 1(a): Increase the producer offset from 20 per cent to 40 per cent for non-feature productions. Option 1(b)(i): Reduce the producer offset minimum Qualifying Australian Production Expenditure (QAPE) eligibility threshold from \$0.5 million to \$0.25 million for feature films and single episode dramas. Option 1(b)(ii): Increase the producer offset rate from 20 per cent to 40 per cent for non-feature productions and reduce the producer offset QAPE threshold to \$0.25 million for feature films and single episode dramas. Option 1(c)(i): Remove the producer offset eligibility cap that requires series dramas to have less than 65 hours of commercial screen time. Option 1(c)(ii): Increase the producer offset rate from 20 per cent to 40 per cent for non-feature productions and remove the producer offset eligibility cap that requires series dramas to have less than 65 hours of commercial screen time. Component 2 - Location offset and post-production, digital and visual effects (PDV) offset Option 2(a): Increase the location offset rate from 16.5 per cent to 30 per cent and remove the eligibility of film and television production to receive industry grants. Option 2(b)(i): Reduce the location offset minimum QAPE eligibility threshold from \$15 million to \$5 million. Option 2(b)(ii): Increase the location offset from 16.5 per cent to 30 per cent, remove eligibility of film and television production to receive industry grants, and reduce the location offset minimum QAPE eligibility threshold from \$15 million to \$5 million. Option 2(c): Reduce the PDV offset minimum QAPE threshold from \$0.5 million to \$0.1 million.

	Option 2(d): Allow subscription on-demand services to access the PDV offset. All options would have effect from 1 July 2018.
Person/party requesting the costing:	Mr Luke Howarth MP, Liberal Party of Australia
Did the applicant request the costing be confidential:	☒ Yes ☐ No
Date costing request received:	23 August 2017
Date costing completed:	8 September 2017
Expiry date of the costing:	Release of the next economic and fiscal outlook report.

Costing overview

This proposal has 10 options, each of which would be expected to decrease the fiscal and underlying cash balances over the 2017-18 Budget forward estimates period. Each option would be expected to have an ongoing impact that extends beyond the 2017-18 Budget forward estimates period. Detailed financial implications for each option over the period to 2027-28 are provided at Attachment A.

The costing does not include any departmental expense implications as the options would not be expected to significantly change the administrative complexity of the tax system.

The fiscal balance impact differs from the underlying cash balance impact because of a timing difference between when productions become eligible to receive the offset and when the offset is paid following lodgement of an income tax return to the Australian Taxation Office.

This costing is very sensitive to the projected amount of expenditure on film and television production in Australia. The base level and timing of production expenditure (and related offset claims) tend to be highly volatile over time which means that there is a high level of uncertainty in the costing estimates for this proposal. The largest cost options are those which increase the rate of payment of the producer offset or the location offset, with most of that cost arising from the higher rebates paid in relation to productions that are included in the projected base level of activity for the costing.

The costing is also sensitive to assumed behavioural responses by film and television producers as there is limited information available that indicates the degree to which companies may increase production in response to the proposals. The costing assumes the overall behavioural responses would be small due to the operation of demand and supply constraints and, in the case of the location offset, the removal of grants resulting in a limited change in the overall level of support.

Key assumptions

General assumptions

- The Parliamentary Budget Office (PBO) has estimated the baseline for this costing from 2017-18 based on the average historical offset claim amount over the previous five years.
  - It is assumed that there would be no growth in the QAPE of films and television productions from 2017-18 to 2027-28.
- Offset amounts are assumed to be claimed by companies in the year following certification of an offset.
- There is assumed to be an industry supply constraint on the total amount of production that can occur at any one time in Australia in the short and medium term across all production categories, partly due to the relatively small size of the Australian industry. This constraint limits the extent to which behavioural responses are expected to occur in response to this proposal.

Behavioural response assumptions

- It is assumed that there would not be an increase in spending on eligible television production as a result of the increased rate of the producer offset. This is because television producers tend to only provide sufficient content to meet the local content rules for particular production categories. Increasing the rate of the producer offset is assumed to result in a negligible increase in these productions.
- The proposed increase in the location offset rate and removal of the industry grants are assumed to result in a relatively small increase in QAPE due to the removal of uncertainty associated with current industry grant funding being replaced by a higher offset rate.
  - The costing assumes that if industry grants are no longer paid to productions receiving the location offset, the grant funding concerned will be directed elsewhere.
- Reducing the minimum QAPE eligibility threshold for the producer, location or PDV offsets is assumed to result in additional production activity for productions that would become eligible for the offset due to the reduced threshold.
- Removing the 65-hour cap for series dramas for the producer offset is assumed to result in a small number of additional series dramas.
- Allowing subscription on-demand services to access the PDV offset is not assumed to result in a significant change to the number of productions each year, but is assumed to increase the claim amount for existing activity.
- Options that involve changes to both the eligibility thresholds and offset rates are assumed to result in a greater behavioural response compared to individual rate or threshold options.

Methodology

Producer offset and location offset rate changes

QAPE amounts claimed under the producer and location offsets were estimated for each option based on historical amounts, with an increase for any assumed behavioural responses. The impact of a rate change was then calculated by taking the difference between the amount of the offset at the current rate and the proposed rate.

Producer offset, location offset and PDV offset threshold, and 65-hour cap changes

The amount of additional production activity that would be eligible for the offsets due to the lower eligibility threshold or cap changes was estimated based on historical amounts. This was increased to allow for any assumed behavioural responses and multiplied by the relevant rate.

PDV offset - eligibility for subscription on-demand services

The number of subscription on-demand productions that would become eligible for the offset was estimated based on known subscription productions expected to be released. The PDV expenditure component for these productions was estimated based on industry average PDV to total expenditure percentages.

Estimates have been rounded to the nearest $5 million.

Data sources

Department of Communications and the Arts, 2015. *Guidelines to the Australian Screen Production Incentive: Location and PDV Offsets*. Canberra: Department of Communications and the Arts.

Screen Australia, 2016. *Production Trends*. [Online] Available at https://www.screenaustralia.gov.au/fact-finders/production-trends [Accessed 31 August 2017].

Screen Australia, 2017. *Producer Offset Guidelines*. Sydney: Screen Australia.

Standing Committee on Communications and the Arts, 2017. Australian film and television industry. *Official Committee Hansard*. Sydney: Standing Committee on Communications and the Arts.

Standing Committee on Communications and the Arts, 2017. *Inquiry into the Australian Film and Television Industry: Submissions*. [Online] Available at http://www.aph.gov.au/Parliamentary_Business/Committees/House/Communications/AustralianfilmandTV/Submissions [Accessed 30 August 2017].

The Department of Communications and the Arts provided the 2017-18 Budget forward estimates of the offsets and other related information.

Attachment A – Tax offsets for film and television production—financial implications

Table A1: Tax offsets for film and television production: Producer offset options—Fiscal balance[(a)(b)]

($m)	2017–18	2018–19	2019–20	2020–21	**Total to 2020–21**	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	**Total to 2027–28**
Option 1(a): Increase producer offset rate to 40 per cent	-	-65.0	-65.0	-65.0	**-200.0**	-65.0	-65.0	-65.0	-65.0	-65.0	-65.0	-65.0	**-670.0**
Option 1(b)(i): Reduce producer offset QAPE threshold to $0.25 million	-	..	..	..	**..**	..	..	..	..	..	..	..	**-5.0**
Option 1(b)(ii): Increase producer offset rate to 40 per cent and reduce the producer offset QAPE eligibility threshold to $0.25 million	-	-70.0	-70.0	-70.0	**-205.0**	-70.0	-70.0	-70.0	-70.0	-70.0	-70.0	-70.0	**-680.0**
Option 1(c)(i): Remove producer offset 65-hour cap for series dramas	-	..	..	..	**-5.0**	..	..	..	..	..	..	..	**-25.0**
Option 1(c)(ii): Increase producer offset rate to 40 per cent and remove producer offset 65-hour cap for series dramas	-	-75.0	-75.0	-75.0	**-220.0**	-75.0	-75.0	-75.0	-75.0	-75.0	-75.0	-75.0	**-730.0**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.
(b) Figures may not sum to totals due to rounding.
.. Not zero but rounded to zero.
- Indicates nil.

Table A2: Tax offsets for film and television production: Producer offset options—Underlying cash balance[(a)(b)]

($m)	2017–18	2018–19	2019–20	2020–21	**Total to 2020–21**	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	**Total to 2027–28**
Option 1(a): Increase producer offset rate to 40 per cent	-	-	-65.0	-65.0	**-135.0**	-65.0	-65.0	-65.0	-65.0	-65.0	-65.0	-65.0	**-605.0**
Option 1(b)(i): Reduce producer offset QAPE threshold to $0.25 million	-	-	..	..	**..**	..	..	..	..	..	..	..	**-5.0**
Option 1(b)(ii): Increase producer offset rate to 40 per cent and reduce producer offset QAPE threshold to $0.25 million	-	-	-70.0	-70.0	**-135.0**	-70.0	-70.0	-70.0	-70.0	-70.0	-70.0	-70.0	**-610.0**
Option 1(c)(i): Remove producer offset 65-hour cap for series dramas	-	-	..	..	**-5.0**	..	..	..	..	..	..	..	**-20.0**
Option 1(c)(ii): Increase producer offset rate to 40 per cent and remove producer offset 65-hour cap for series dramas	-	-	-75.0	-75.0	**-145.0**	-75.0	-75.0	-75.0	-75.0	-75.0	-75.0	-75.0	**-655.0**

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in outlays or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in outlays or net capital investment in cash terms.
(b) Figures may not sum to totals due to rounding.
.. Not zero but rounded to zero.
- Indicates nil.

Table A3: Tax offsets for film and television production: Location offset and PDV offset options—Fiscal balance[(a)(b)]

($m)	2017–18	2018–19	2019–20	2020–21	**Total to 2020–21**	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	**Total to 2027–28**
Option 2(a): Increase location offset rate to 30 per cent	-	-30.0	-35.0	-35.0	**-95.0**	-35.0	-35.0	-35.0	-35.0	-35.0	-35.0	-35.0	**-335.0**
Option 2(b)(i): Reduce location offset QAPE threshold to $5 million	-	..	..	..	**-5.0**	..	..	..	..	..	..	..	**-10.0**
Option 2(b)(ii): Increase location offset rate to 30 per cent and reduce location offset QAPE threshold to $5 million	-	-35.0	-35.0	-35.0	**-105.0**	-35.0	-35.0	-35.0	-35.0	-35.0	-35.0	-35.0	**-360.0**
Option 2(c): Reduce PDV offset QAPE threshold to $0.1 million	-	..	..	..	**..**	..	..	..	..	..	..	..	**..**
Option 2(d): Allow subscription on-demand services to access the PDV offset	-	..	..	..	**..**	..	..	..	..	..	..	..	**-5.0**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.
(b) Figures may not sum to totals due to rounding.
.. Not zero but rounded to zero.
- Indicates nil.

Table A4: Tax offsets for film and television production: Location offset and PDV offset options—Underlying cash balance[(a)(b)]

($m)	2017–18	2018–19	2019–20	2020–21	**Total to 2020–21**	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	**Total to 2027–28**
Option 2(a): Increase location offset rate to 30 per cent	-	-	-30.0	-35.0	**-65.0**	-35.0	-35.0	-35.0	-35.0	-35.0	-35.0	-35.0	**-300.0**
Option 2(b)(i): Reduce location offset QAPE threshold to $5 million	-	-	..	..	**..**	..	..	..	..	..	..	..	**-10.0**
Option 2(b)(ii): Increase location offset rate to 30 per cent and reduce location offset QAPE threshold to $5 million	-	-	-35.0	-35.0	**-70.0**	-35.0	-35.0	-35.0	-35.0	-35.0	-35.0	-35.0	**-320.0**
Option 2(c): Reduce PDV offset QAPE threshold to $0.1 million	-	-	..	..	**..**	..	..	..	..	..	..	..	**..**
Option 2(d): Allow subscription on-demand services to access the PDV offset	-	-	..	..	**..**	..	..	..	..	..	..	..	**-5.0**

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in outlays or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in outlays or net capital investment in cash terms.
(b) Figures may not sum to totals due to rounding.
.. Not zero but rounded to zero.
- Indicates nil.