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IGEA additional information and questions taken on notice

Joint Standing Committee on Trade and Investment Growth Inquiry into supporting Australia's Exports and Attracting Investment

IGEA was grateful for the invitation to appear before the Committee on 29 November 2019 to speak about the video games industry and to expand upon our submission. This document provides the additional information request by the Committee and other additional information on issues that were of interest to members. Should the Committee require any further information we would be pleased to assist further.

Aggregated data on video games and the games industry

Senator VAN: I was lucky enough the other day, Wednesday, to be at the services export roundtable, and I was astonished to hear Mr Curry put up that number of \$200 billion worldwide, and Australia's only getting \$100- odd million worth of that. Having an interest in trade, and supporting Australia's efforts in that, that piqued my interest. You mentioned some numbers around modelling that you've done. Did you guys do that modelling, or was that done for you? Where did those numbers come from?

Mr Curry: There is a series of data points. Which particular data point are you talking about?

Senator VAN: In your opening address you rattled off quite a few of them, specifically around the size of the market, numbers of people employed et cetera.

Mr Curry: The size of the local Australian market?

Senator VAN: Yes.

Mr Curry: We do that research through Tim Thorpe. He is a consultant who works out of New Zealand. He does New Zealand and Australia. He has been doing that for about 10 years in New Zealand and about five years for us. He collects that data from Australian game developers. They supply that data to him, he aggregates it, and we released that this week—yesterday.

Senator VAN: Would you provide that to the committee, please?

Mr Curry: Absolutely.

Mr Fong: And most of the global data that we quoted was through global companies like Newzoo, who collect both mobile and obviously console data as well.

Senator VAN: Is that aggregated in a document or documents somewhere?

Mr Curry: Yes.

Senator VAN: If you could provide that to us, thank you.

The size of the global video games industry in perspective

- Video games are played by over 2.5 billion people around the world.¹
- Around 1.2 billion of these game players live in the Asia Pacific region.²

¹ Techjury, *Video game demographics – Who plays games in 2019*, 2 May 2019, <<https://techjury.net/stats-about/video-game-demographics>>

² Statista, *Number of video gamers worldwide 2018, by region*, 29 November 2019, <<https://www.statista.com/statistics/293304/number-video-gamers>>

- The global video games market was worth approximately \$200 billion in 2018, and the market is forecast to grow to almost \$450 billion by 2025.³ This makes our industry both the largest creative and entertainment industry in the world.

Australia's video games industry

- Australians spent over \$4 billion on video games and games hardware in 2018, a 25 per cent increase from 2017.⁴ Australians spend over twice as much on video games as they spend on going to the cinema and on music combined.
- Two out of three Australians played video games in 2018, almost three quarters of Australian game players were adults and games were roughly equally played by men and women alike.⁵
- There are 1,275 video game developers in Australia.⁶ By comparison, there may be 200,000-300,000 video game developers globally (estimates vary).
- Australia's video game development industry made \$143.5 million in revenue in 2018-9.⁷ Given the global market is worth around \$200 billion, our industry captures only around 0.07 per cent of the global market.
- Australia's video game developers are highly export focussed. 87 per cent of the income of Australian game developers was generated from overseas markets. Our studios focussed in particular on the North American (73 per cent), European (60 per cent) and Asian (57 per cent) markets.⁸
- While the Australian industry is far from reaching its potential, great Australian export success stories of recent years that demonstrate this potential include:
 - *Fruit Ninja* by Brisbane's Halfbrick Studios: By 2015 it had achieved a billion downloads and was the second most popular app in history.⁹
 - *Crossy Road* by Melbourne's Hipster Whale: Achieved \$10 million in revenue and over 100 million downloads in its first two months alone.¹⁰
 - *Untitled Goose Game* by Melbourne's House House: Only released in September 2019, it achieved over 100,000 downloads and topped the sales charts for the Nintendo Switch in the US, UK and Australia upon release.¹¹ It is currently launching on other platforms.

³ Global Data, *Video Games - Thematic Research*, April 2019,

<<https://www.globaldata.com/store/report/gdtmt-tr-s212--video-games-thematic-research>>

⁴ IGEA, *Industry Snapshot 2018-19*, May 2019, <<https://igea.net/2019/11/australian-video-game-development-industry-contributes-to-exports-and-job-opportunities>>

⁵ IGEA & Bond University, *Digital Australia 2020*, <<https://igea.net/wp-content/uploads/2019/08/DA20-Report-FINAL-Aug19.pdf>>

⁶ IGEA, *Industry Snapshot 2018-19*, May 2019, <<https://igea.net/2019/11/australian-video-game-development-industry-contributes-to-exports-and-job-opportunities>>

⁷ IGEA, *Industry Snapshot 2018-19*, May 2019, <<https://igea.net/2019/11/australian-video-game-development-industry-contributes-to-exports-and-job-opportunities>>

⁸ IGEA, *Industry Snapshot 2018-19*, May 2019, <<https://igea.net/2019/11/australian-video-game-development-industry-contributes-to-exports-and-job-opportunities>>

⁹ <<https://www.smh.com.au/technology/fruit-ninja-seo-here-20150831-gjbiuc.html>>

¹⁰ <<https://www.smh.com.au/technology/fruit-ninja-seo-here-20150831-gjbiuc.html>>

¹¹ <<https://www.abc.net.au/news/2019-10-02/untitled-goose-game-goes-from-gag-to-cultural-fad/11567216>>

International comparisons

Compared to Australia's 1,275 fulltime worker and revenues of \$143.5 million...

- Canada's game development industry directly employed 27,700 people fulltime (while supporting 48,000 workers in total) and contributed AUD \$5 billion to the Canadian economy last year.¹²
- The UK game development industry employed 20,430 fulltime workers directly and contributed AUD \$3 billion to the UK economy last year.¹³
- Finland's game development industry employed 3,200 people fulltime and achieved revenues of AUD \$3.2 billion last year.¹⁴
- Sweden's game development industry employed 7,921 people fulltime and achieved revenues of AUD \$3 billion last year.¹⁵
- New Zealand's game development industry employed 550 workers fulltime and earned AUD \$137 million in revenue last year (for a country a fifth of our size).¹⁶

¹² Entertainment Software Association of Canada (Canada's Games Industry Association), *Video game development industry contributes \$4.5b to Canada's economy*, 18 November 2019, <<http://theesa.ca/2019/11/15/video-games-contribute-to-canadas-economy>>

¹³ UKIE (UK Games Industry Association), *The games industry in numbers*, <https://ukie.org.uk/research#fact_sheet>

¹⁴ Neogames (Finnish Games Industry Association), *The game industry of Finland – Report 2018*, 2019, <<http://www.neogames.fi/wp-content/uploads/2019/04/FGIR-2018-Report.pdf>>

¹⁵ Dataspelesbranschen (Swedish Games Industry Association), *Swedish Game Development Index 2019*, 24 September 2019, <https://dataspelesbranschen.se/s/GDI19_web.pdf>

¹⁶ New Zealand Game Developers Association, *NZ game studios revenues grow 43% to a record \$143M, but new startups are missing out*, 1 August 2018, <<https://nzdga.com/news/survey2018/>>

Additional information on overseas video game tax offsets

Mr RAMSEY: Okay, I clearly understand what it means. I look at your table here that compares those rebates with those of other countries. For instance, in Germany they get a 25 to 50 per cent rebate, but they have a company tax rate of 15 per cent. In France, at the other end of the scale, they get a 30 per cent rebate, but France has a 33.3 per cent company tax rate. There are other variations in between. Are those figures that you're quoting there in exactly the same context as the 30 per cent rebate you're asking for in Australia? In Germany, 25 to 50 per cent or whatever the variation is—let's stick to France; it's got one figure. Is it a 30 per cent rebate on the 33.3 per cent tax liability that they have on their profits? Is that what we're talking about?

Mr Curry: I would have to take that on notice. I would need to go back country by country and have a look at that specifically.

Mr RAMSEY: I can go through and look up those company tax rates, but I think it's sort of important that we have a little bit more clarification about what that actually means, because I don't know how good a run they're getting and how good a run you're asking for in that context or how competitive their tax rates are. In fact, I think it's probably quite an important comment about the competitive or non-competitive nature of our company tax rates anyhow, but that's part of another discussion at other times in the parliament. But, if you're got any more information in that area that you could let the committee, I would be—

Mr Curry: Sure. Are there any particular countries you'd like us to go back and drill down on?

Mr RAMSEY: Just grab a few. Give us three examples. Let's say we'll look at France. Even Germany's got the 25 and 30. Have a look at Canada as well.

Mr Curry: Sure. With the Canadian experience, because it's on a provincial level, each province will be different.

Mr RAMSEY: Pick one. I don't mind.

Mr Curry: We can pick one of the bigger ones.

Mr RAMSEY: I don't want to overburden you with the research.

Mr Curry: No problem at all.

Mr RAMSEY: We could ask the Parliamentary Library to do something similar. I think, because you're asking for the rebate, your view on what that rebate actually means to their underlying tax liability would be helpful.

Mr Curry: Sure

We have provided examples of three specific video game tax incentives that are currently in use to best help explain how the policy has been effectively operating overseas. We can provide more examples or more details if needed.

France – Tax Credits for Video Games (TCVG)

The TCVG provides a 30 per cent tax credit of eligible spend on game development projects in France, up to €6 million per project. Eligible spend includes salaries (eg. the wages for game designers and developers), functional expenses and outsourcing to European organisations. For example, if a company spends €1 million on developing a game in France, the company receives tax relief worth €300,000, which can be deducted from the company's corporate tax liabilities. Cultural and originality criteria and a minimum spend requirement of €100,000 applies. If the tax credit is higher than the tax liability due, the difference is refunded to the company (eg. if a game studio receives a tax credit of €120,000 and has a tax liability of €100,000 for that year, the studio receives a €20,000 refund from the French tax office).

For more information see: [https://jointhegame.fr/pdf/Tax-credit-for-video-games-\(TCVG\).pdf](https://jointhegame.fr/pdf/Tax-credit-for-video-games-(TCVG).pdf)

UK - Video Games Tax Relief (VGTR)

The VGTR provides video game developers located in UK with a tax deduction of 20 per cent of the qualifying spend of a video game developed in the country or the European Economic Area. The qualifying spend includes the cost of designing, producing and testing a game. For example, if a company spends £1 million on making a game in the UK, the company receives tax relief worth £200,000 which can be deducted from the company's corporate tax liabilities. The company must be directly involved in the production of the game, including holding responsibility for design and production and being actively involved in decision-making. The project must also pass a limited cultural test. There is no minimum spend to qualify. If the tax relief is higher than the tax liability due, the difference is refunded to the company.

For more information see: <https://www.gov.uk/hmrc-internal-manuals/video-games-development-company-manual/vgdc50005>

Ontario – Ontario Interactive Digital Media Tax Credit (OIDMTC)

The OIDMTC is a refundable tax credit available for expenditure related to the creation of eligible interactive digital media products including video games and e-learning products. The tax credit is 40 per cent for qualifying businesses creating their own product (eg. original games), or 35 per cent for qualifying businesses undertaking work for others (eg. fee-for-service arrangements, which may involve assisting another studio in a supporting capacity). The tax credit is calculated against labour, marketing and distribution expenses. Labour tests apply to ensure a minimum threshold of expenses go to local employee wages, with a separate threshold for 'large digital game corporations' to encourage large publishers to invest in the province. If the tax credit is higher than the tax liability due, the difference is refunded to the company.

For more information see:

http://www.ontariocreates.ca/interactive/tax_credits/oidmtc.htm

Additional information on Australia's PDV offset

Mr Fong: The structure that is probably the most relevant for us is similar to the production offset that the film industry gets. For every dollar that we invest in that, we actually get a tax offset on that investment dollar, is how I would look at it.

Mr RAMSEY: I will have to check to see how that one works in the film industry, because I'm not so sure there either. Senator Rennick could probably put me straight. We can do that privately.

The Australian Government provides the Australian Screen Production Incentive, a suite of tax offsets and grant and loan funding to support Australia's screen industry. However, the video game development industry is excluded from all of these incentives.

For the purposes of comparison, the current screen tax offset most analogous to the video game development tax offset that we are advocating for is the tax offset for the post-production, digital and visual effects (PDV) sector. PDV includes editing, 'special effects' and animation work for film and TV productions. The PDV and video games development industries are very similar in terms of their output and workforce but despite this, video game businesses are inexplicably unable to access this incentive.

The PDV offset is a 30 per cent rebate on the qualifying Australian expenditure that goes to PDV, including PDV work for otherwise foreign productions. For example, should a Hollywood production shot entirely outside of Australia engage an Australian business to add in the special effects to the final product, that Hollywood production (and by effect, the Australian business) will benefit from the PDV offset. There is no need for any Australian content or cultural test, although a minimum spend requirement of \$500,000 applies.

The Australian Taxation Office will provide a refund of a tax offset where the amount exceeds the amount of any tax liabilities owed by the business applying for the offset.

According to the Department of Communications and the Arts, which administers the PDV Offset, the offset "*provides a financial incentive for post, digital and visual effects production in Australia. It is aimed at enabling the Australian visual effects, post-production and animation sector to continue to develop its reputation as one of the best and most cost-effective in the world.*" We would share a similar objective for a future video game development tax offset.

For more information see: <https://www.arts.gov.au/documents/post-digital-and-visual-effects-pdv-offset-guidelines>

Advice about local production content quotas

Senator VAN: A point that hasn't been made but I'll make it: our film and TV industry, especially our TV industry, also benefit from local production content quotas, which I assume don't apply to your industry. Going back to a point you made earlier, Mr Fong, about it being a chicken and egg: to be completely cheeky, if the 30 per cent tax offset were to come in, would Ubisoft commit to opening a studio here in Australia?

Local production content quotas only apply to broadcast television and one of the key reasons it exists is as a 'quid pro quo' for the commercial advantage that broadcasters receive through their exclusive licenses. There are no local production content quotas for film production (which benefits from the 40 per cent producer offset) or PDV activity (which benefits from the 30 per cent PDV offset). Local production content quotas like the ones that apply to broadcast television would not be a practicable or effective policy in the context of video game. However, a tax credit for video game development would mean more Australian-made games are made, including games with Australian stories, settings and voices like *Florence*, last year's international Mobile Game of the Year and a multi-cultural interactive love story set in Melbourne.

Advice about cooperative 'quid pro quo' arrangements

CHAIR: Some people might say that, if we're going to provide a tax concession for the games industry, there would have to be some quid pro quo around the people that you employ. How could you ensure that, if there were the same subsidy provided as is provided to the film industry, as you suggested—and that seems eminently sensible, by the way; it's the same type of business—that is going to be linked to employment outcomes, or that we're not just going to have businesses come here with the top executive and then suddenly outsource all their staff to India or the Philippines or wherever they could get much cheaper technical skills from?

A video game tax offset would be calculated against Australian expenses, such as wages and salaries for employees living in Australia, and other expenses to Australian businesses. The wages for any staff that a video game company outsources to India or the Philippines, for instance, would not be an eligible expense that would go towards the calculation of the tax offset. Major video game publishers that are considering investing in Australia are doing so mainly to take advantage of the wonderful talent of Australians.

Furthermore, the Australian video games industry would also be more than happy to agree to formal training and employment related 'quid pro quos'. This could include minimum requirements for providing internships and graduate opportunities on projects and long term partnerships with universities and colleges. This would be in contrast to the film and TV businesses that benefit from the Australian Screen Production Incentive, which have no requirement to provide any quid pro quo in return for the benefits they receive.