



Parliament of Australia
Parliamentary Budget Office

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Parliamentary Budget Officer

Senator Richard Di Natale
Leader of the Australian Greens
Parliament House
CANBERRA ACT 2600

Dear Senator Di Natale

Please find attached a response to your costing request, *Australia's Film Industry* (letter of 30 June 2016).

The response to this request will be released on the PBO website (www.pbo.gov.au).

If you have any queries about this costing, please contact Colin Brown on (02) 6277 9530.

Yours sincerely

Phil Bowen

30 June 2016



Policy costing—during the caretaker period for the 2016 general election

Name of proposal:	Australia's Film Industry
Summary of proposal:	<p>The proposal has two components.</p> <p><u>Component 1: Increase the Location Tax Offset</u></p> <ul style="list-style-type: none">This component would increase the Location Tax Offset for the screen industry to 30 per cent of eligible qualifying Australian production expenditure (QAPE). <p><u>Component 2: Increase the Producer Tax Offset</u></p> <ul style="list-style-type: none">This component would increase the Producer Tax Offset available to television production to 40 per cent of eligible QAPE. <p>This proposal would have effect from 1 September 2016.</p>
Person/party requesting costing:	Senator Di Natale, Australian Greens
Date of public release of policy:	30 June 2016 www.adambandt.com/160630
Date costing request received:	30 June 2016
Date costing completed:	30 June 2016
Expiry date for the costing:	Release of the next economic and fiscal outlook report

Costing overview

This proposal would be expected to decrease the fiscal balance by \$280 million and decrease the underlying cash balance by \$200 million over the 2016-17 Budget forward estimates period. This impact entirely reflects an increase in expenses.

Detailed financial implications of this proposal are provided at [Attachment A](#).

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

This proposal would have an ongoing impact that extends beyond the 2016-17 Budget forward estimates period.

The Location Tax Offset is a refundable tax offset that supports the production of large-budget film and television projects shot in Australia that are not eligible to receive the Producer Tax Offset because they do not meet the significant Australian content test. Qualifying films are generally eligible for an offset equivalent to 16.5 per cent of QAPE.

The Producer Tax Offset is a refundable tax offset that supports television and film productions with significant Australian content. Feature films are generally eligible for an offset equivalent to 40 per cent of QAPE; and other formats, including television and direct to DVD, are generally eligible for an offset equivalent to 20 per cent of QAPE.

Departmental expenses arising from this proposal are not expected to be significant and therefore have not been included in this costing.

The Location Tax Offset component of this costing is considered to be of low reliability because claims for the Location Tax Offset are highly volatile, and therefore the projected amount of expenditure on foreign films in Australia is highly uncertain.

The Producer Tax Offset component of this costing is considered to be of medium reliability because television production expenditure in Australia has been reasonably stable in recent years.

Table 1: Financial implications (outturn prices)^(a)

Impact on (\$m)	2016–17	2017–18	2018–19	2019–20	Total
Fiscal balance	-50.0	-75.0	-75.0	-80.0	-280.0
Underlying cash balance	-	-50.0	-75.0	-75.0	-200.0

(a) A positive number indicates an increase in the relevant budget balance, a negative number a decrease.

(b) Figures may not sum to totals due to rounding.

Key assumptions

The Parliamentary Budget Office has made the following assumptions regarding this proposal:

- Offset amounts are expected to be claimed by companies in the year following the completion of production.
- The value of QAPE is assumed to grow at the same rate as the Consumer Price Index.
- There is assumed to be no change in the number of television productions that receive the Producer Tax Offset under the proposal.
- The proposed increase in the Location Tax Offset is assumed to result in an increase in QAPE as the increase in the offset would make producing films in Australia relatively more attractive.

- There is not expected to be an increase in spending on eligible television production as a result of the increased rate of the Producer Tax Offset. This is because television production with substantive Australian content is assumed to occur to meet local content rules, independent of the rate of the Producer Tax Offset.

Methodology

Location Tax Offset

The projected amount of QAPE on foreign films shot in Australia was calculated based on average historical amounts. QAPE was increased permanently by the rates for the expected behavioural response. The impact of the proposal was then calculated by taking the difference between the amount of the Location Tax Offset at the current rate and the proposed rate.

Producer Tax Offset

The historical average of QAPE on eligible television production was used as the basis for this costing. The impact of the proposal was then calculated by taking the difference between the amount of the Producer Tax Offset at the current rate and the proposed rate.

Estimates have been rounded to the nearest \$5 million.

Data sources

The amount of expenditure on foreign films and eligible television production in Australia was obtained from publicly available information published by Screen Australia.

Attachment A: Australia's film industry— financial implications

The following tables provide a breakdown of the estimated financial impacts of the proposed changes over the 2016-17 Budget forward estimates period on a fiscal and underlying cash balance basis.

Table A1: Australia's film industry—Fiscal balance^{(a)(b)}

Impact arising from (\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
<i>Expenses</i>					
Administered	-50.0	-75.0	-75.0	-80.0	-280.0
<i>Increase the Location Tax Offset</i>	<i>-15.0</i>	<i>-20.0</i>	<i>-20.0</i>	<i>-25.0</i>	<i>-80.0</i>
<i>Increase the Producer Tax Offset</i>	<i>-35.0</i>	<i>-55.0</i>	<i>-55.0</i>	<i>-55.0</i>	<i>-200.0</i>
Total	-50.0	-75.0	-75.0	-80.0	-280.0

(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.

Table A2: Australia's film industry—Underlying cash balance^{(a)(b)}

Impact arising from(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
<i>Outlays</i>					
Administered	-	-50.0	-75.0	-75.0	-200.0
<i>Increase the Location Tax Offset</i>	<i>-</i>	<i>-15.0</i>	<i>-20.0</i>	<i>-20.0</i>	<i>-55.0</i>
<i>Increase the Producer Tax Offset</i>	<i>-</i>	<i>-35.0</i>	<i>-55.0</i>	<i>-55.0</i>	<i>-145.0</i>
Total	-	-50.0	-75.0	-75.0	-200.0

(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.