

Dear Senate Committee,

5 Lives Studios is a small games development studio in Brisbane Australia. We have collated a variety of thoughts and suggestions regarding the government's involvement and impact on Australian video games development industry.

Taxation

5 Lives Studios released 'Satellite Reign' in August 2015, and has brought over AUD\$1.5 Million into Australia. AUD\$770,000 of this was through Australia's most successful video games Kickstarter Campaign.

https://www.kickstarter.com/projects/5livesstudios/satellite-reign?ref=nav_search

Unfortunately, the ATO does not operate in a way that works well with long-term game development and the crowdfunding model.

A game can take years to develop, and in the case of Kickstarter, funds arrive at the start of the project and need to last for the full period of development. Having to pay corporate tax of 30% on the majority of the investment funds is not beneficial to maximising use of those funds. A seemingly huge profit on year 1 followed by a huge loss on year 2 incurred for us a 110K tax burden that could not be offset against future losses. This could have paid for extra employees producing a higher quality product and helped bring more revenue into the country.

The situation would have been even worse had we run the Kickstarter campaign later in the tax year.

Further applying GST to Kickstarter contributions from Australian residents is also a problematic endeavor with the semi-anonymous nature of online crowdfunding, and of course, there's also the financial setback of losing 10% of your initial investment from proud Australian backers.

Low-interest loans would be a huge boon to an industry that struggles to find investment due to its high-risk/high-reward nature. Cutting the Screen Australia \$20 Million games fund was, in our opinion, short-sighted on the part of the current government, as they were actually heading towards profit rather than costing the taxpayer money. However, even this fund—while helpful—required a huge payback of profits based on the original loan's percentage of investment—with as much as 50% of profits being required to pay back to the Screen Australia fund. Had we taken significant funding from Screen Australia, we would now be closing the studio, as we would not have enough profits to fund our next title.

Other countries have had great success offering tax benefits to game developers. Imagine if a country as desirable to live in as Australia offered a compelling financial reason for billion-dollar game publishers to open up development studios. Matching the best tax breaks provided by foreign governments would also help even the playing field for home-grown companies.

Attracting foreign companies via tax concession would help with general growth and employment opportunities, however it should be balanced on a foundation of support for building a strong local developer base.

With the GFC, we saw that once the large multinationals left, there was very little local development to sustain the industry, causing it to largely collapse, so this balance is critical.

Infrastructure

Digital infrastructure is essential for the games industry. There is practically no upper-bound on how much internet bandwidth we could make use of. Satellite Reign, for example, contained over 100 GB of source data that needed to be downloaded during development by remote contractors, staff working from home, and other third parties—often delaying work by many days, as it literally took a week to send the data across Australia.

Partnerships/Collaboration Potential

There are many industries which could benefit in collaborative partnerships with our industry. Many of these industries have skillsets which align with—yet are often foreign to—developers' needs, such as business development, marketing, PR and investment.

There are also opportunities for games developers to value-add to many other industries, due to the unique and adaptable skillset necessary for video games creation—such skills are becoming more and more relevant in our increasingly digital world. These are skillsets which can be applied easily outside of the entertainment industry, especially in areas of education, manufacturing, medicine and science.

Training/Internships

We currently have a vast number of students who are being trained each year for our industry with little to no pathway to employment.

Due to the often complicated and costly process of hiring staff (junior/inexperienced staff especially), many are not able to get a foot in the door.

Subsidisation for on-the-job training of junior staff and interns would help bolster the skill-set of those newly entering the industry, whilst supporting developers in hiring further staff.

Travel Expenses

There are many areas for potential marketing and exposure for developers in the form of trade shows and events around the world.

However, due to the isolated position of Australia, travel and attendance costs becomes very prohibitive for many.

Even local events such as PAX Australia require a considerable financial outlay for small companies. Covering the cost of tickets/booths for approved local developers means the ability to gain product visibility to many outside of Australia.

Film Victoria provides travel assistance to many in the film/games industry so they can attend events. It would be nice to see this level of commitment rolled out Australia wide.

Software Expenses

The games development industry requires a variety of specialised software packages and tools in order to effectively compete. Despite many of these packages being costing thousands of dollars for a single license, pricing in Australia is often considerably higher again in comparison to the rest of the world. With upcoming addition of GST for digital goods, this will only increase.

This unfair price gouging is a very impeding factor in many start up studios.

Investment

Attracting investors within the games industry has—in our experience—been quite challenging.

We found a lack of understanding of our industry, its risk/rewards and general business structure/workflow, as well as a prevailing bias towards wanting to invest in the mobile market only.

This includes a limited understanding of the industry from those within the government.

Exposure

Australian gamers are responsible for around 3% of all game purchases globally, making the local industry very much reliant on the export of our products. Most sales are via digital distribution channels such as Steam, GoG, Humble, App Store and Google Play.

Sales on these distribution methods foster further exposure and therefore further sales, yet these channels are largely not advertisement driven so the marketing of products is often handled outside of this environment.

Any assistance with marketing/exposure via other means—be it helping with travel to trade shows, marketing budgets, access to training—would aid the likelihood of protracted sales on these platforms.

Business Mentoring

Another area which would benefit many startups is better access to business advice. Many developers are extremely skilled at their craft, yet have no experience in business acumen. Mentoring, training or advisement on the day-to-day set up and running of a business would greatly improve the success of many.

Government Education

All of the above is reliant on the government having some sort of understanding of the video game industry. In the past 10 years, we've witnessed the collapse of companies like Krome Studios, which at its height had 400 employees, along with Pandemic Studios, THQ Australia and Sega Studios Australia—each having 100+ employees at their peaks. The closure of these studios didn't register on the government or media's radar.

When an automotive factory employing several hundred workers is forced to shut down local operations, the government and media take note. Compare that to when a multitude of games studios close their doors in Australia, nobody is any the wiser. For the most part, the educated and skilled artists, designers and programmers don't move into other industries. A majority of them pack up their bags and leave the country in favour of the greener pastures of Canada, where tax breaks and incentives for game companies are generous. These are individuals and businesses who are no longer contributing their tax dollars to Australia, and many of them simply don't return.

What is needed is a government better educated on the inner workings and benefits of the Australian video games industry. For comparatively little incentives compared to those other industries, the Australian games industry could return to—and expand from—the industry-matching quality, size and standards it was in the mid to late 2000s.

Thank you for your time.

5 Lives Studios.