



Australian Government

Australian Government response to the
Environment and Communications References Committee
report:

Game on: more than playing around

January 2018

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Overview

The Australian Government notes the report by the Environment and Communications References Committee (the Committee) *Game on: more than playing around*.

The Government has also responded to the Senate Economics References Committee's report on the Inquiry into Australia's Innovation System. In its response, the Government has outlined a range of measures that are being developed or enhanced to support a more innovative and entrepreneurial Australia through the National Science and Innovation Agenda (NISA).

The Australian Government's vision for the future is a strong, dynamic and digitally sophisticated economy. The games development industry is inherently innovative and entrepreneurial, and can be a strong contributor to Australia's knowledge economy.

The report of the Committee into the future of Australia's video game development industry was released in April 2016.

Australian Government response

The Australian Government's response to *Game on: more than playing around* is set out in detail below.

Recommendation 1

5.14 The committee recommends that the Australian Government introduce a funding scheme based on the former Australian Interactive Games Fund.

The Government **notes** this recommendation.

The games and interactive entertainment sector is constantly innovating as its audience wants highly technically advanced products. The technical capabilities that are developed as a result can be exploited in a broader field than entertainment, driving the knowledge economy. This aligns closely with the Government's innovation agenda. NISA includes measures that are available for certain kinds of business models within the games industry. The Government will continue to explore mechanisms that will assist games businesses and demonstrate to the private sector the potential of this sector to drive innovation. Measures that are available under NISA that relate to tax incentives, incubators and crowd funding are outlined in response to recommendations 2, 3 and 5.

State and territory governments also offer a range of funding and other incentives that support interactive games businesses in their jurisdictions.

Recommendation 2

5.20 The committee recommends the introduction of a refundable tax offset for Australian expenditure in the development of game titles. A review of the operation of the offset should be undertaken at least two years after the offset commences.

The Government **does not support** this recommendation, however notes existing measures in place.

The growing cultural and economic value of the video games industry both in Australia and globally is noted. Government may be best placed to support industry through broader initiatives designed to improve the general regulatory and cultural environment for innovation and therefore promote jobs and growth in the sector, rather than through an industry specific tax offset.

The Government has invested \$1.1 billion over four years in the NISA which includes 24 initiatives, many of which are relevant to the video game development industry. For example, the Early Stage Investor Tax Incentive offers a 20 per cent non-refundable carry forward tax offset on investment, capped at \$200,000 per investor per year, as well as a 10 year capital gains tax exemption.

Additionally, the Incubator Support element of the Entrepreneurs' Programme was introduced to provide funding to incubators, to improve the prospects of high potential Australian start-ups in international markets. Supported incubators may be suitable for supporting start-ups in the video games sector. In 2016, the Government announced \$15 million for this programme, in addition to the initial \$8 million previously announced in December 2015. This initiative offers competitive matched funding to support development of new incubators in regional or sectoral areas with high innovation potential. It will also boost the effectiveness of high performing incubators, including support to expand their services, and will provide access to top quality research and technical talent through 3-12 month secondments of national or international expert advisers. The Government launched the programme on 20 September 2016. Applications are open on an ongoing basis for matched funding grants between \$10,000 and \$500,000.

The R&D Tax Incentive is a broad-based, market driven program accessible to all industry sectors, providing a targeted tax offset to encourage more companies to engage in research and development (R&D). The R&D Tax Incentive offers a 43.5 per cent refundable tax offset for eligible entities with a turnover of less than \$20 million and 38.5 per cent non-refundable tax offset for other eligible entities for the first \$100 million of eligible expenditure. It seeks to encourage research and development activities that might not otherwise occur because of an uncertain return, in cases where the knowledge gained is likely to benefit the wider Australian economy. Video game development studios undertaking eligible R&D activity are supported under this initiative.

The Australian games industry has undergone significant change over the last decade, with large studios shifting their operations offshore and the emergence of many smaller, independent developers and start-ups with a strong export focus. In many ways, they share the features and challenges of the start-up market more broadly and may benefit from these initiatives.

Recommendation 3

- 5.26 The committee recommends that the Australian Government encourage, and contribute financial assistance for, the creation of shared working spaces modelled on The Arcade in other locations. This support should be contingent on co-funding provided by a state government and further evidence that the state government supports the growth of a video game development industry in its state.
- 5.27 The committee further recommends that the Australian Government consider the viability of establishing an innovation hub for video game development and other technology start-ups in a regional centre.

The Government **notes** this recommendation.

Incubators help innovative start-ups to rapidly transform their ideas into globally competitive businesses. They boost start-ups to realise their potential faster by providing mentorship, funding, resources, knowledge and facilitating access to business networks.

One of the elements of the Entrepreneurs' Programme is the Incubator Support initiative, as noted above.

Support under this measure is available on a competitive basis for eligible innovation hubs, incubators, accelerators and co-working spaces, including those focusing on the video games sectors, improving the overall ecosystem and industry.

The Government also considers development of location-specific hubs is an initiative that can be driven by state governments very effectively. Operating in a complex environment, access to interconnected resources and capabilities can increase the strength of the creative industries' often small and independent businesses. State governments are best placed to propel such initiatives due to the nature of the partnerships required to develop shared working spaces, or hubs, such as industry, businesses, community and educational institutions.

For example, Creative Victoria is that state's government agency developed to champion and support creative industries including games development. The remit of the agency is to support innovative, collaborative and cross-promotional opportunities, and to strengthen Victoria's reputation as a centre for creative excellence.

Recommendation 4

5.29 To encourage the further uptake of 'serious games' in health care, education and other sectors, and production of these games by the Australian video game development industry, the committee recommends that the Australian Government facilitate dialogue between video game industry associations and groups that use, or could potentially use, serious games.

The Government **supports** this recommendation **in principle**, but considers that such developments are an initiative for industry to pursue.

The Interactive Games and Entertainment Association (IGEA) is an independent industry association that represents the business and public policy interests of Australian and New Zealand games companies. The Game Developers Association of Australia (GDAA) advocates to promote, grow and attract investment in the Australian games development industry on behalf of its membership: interactive entertainment development companies; associated industry companies; and interactive entertainment training providers to industry stakeholders, including government.

The Government encourages IGEA, GDAA and other peak organisations to pursue connections with relevant sectors of government and business that represent potential markets for serious games.

Recommendation 5

5.33 The committee recommends that the Australian Government consider the tax implication of crowd-sourced funding for start-ups, including whether temporary tax relief should be available for income that new businesses gain from crowd-sourced funding.

The Government **does not support** this recommendation, however **notes** existing measures in place.

For start-ups, the period between the initial funding and when they start generating revenue is a difficult stage. Promising, innovative businesses can struggle to find additional financing and fail. To pass this stage, start-ups need access to cash flow by attracting investors.

The Government has amended the tax system to incentivise investors to direct their funds towards high-potential start-ups. The measures include concessional tax treatments for investors who support eligible start-ups, including:

- A 20 per cent tax offset capped at \$200,000 per year (or capped at \$10,000 for ‘non-sophisticated’ investors); and
- A 10 year capital gains tax exemption for investments held for 12 months or more.

The measures target companies that:

- meet an innovation test;
- have incorporated during the last three income years;
- are not listed on any stock exchange; and
- have expenditure less than \$1 million and income less than \$200,000 in the previous income year.

Legislation has been enacted to give effect to the new tax incentive for early-stage investors. This incentive will encourage more investment in start-ups through a 20 per cent income tax offset on investments, capped at \$200,000 per investor per year; and a ten year exemption on capital gains tax provided investments are held for at least 12 months.

This measure can help video game developers source funding, particularly from experienced entrepreneurs and high net worth investors. Rewards-based crowdfunding, conducted through online platforms such as Kickstarter, is generally treated as income and company tax is payable upfront, before related deductions are incurred. This is consistent with how the income tax system applies to pre-payment for products in all industries.

Another alternative is crowd-sourced equity funding (CSEF), an online fundraising platform that allows entrepreneurs to raise funds from a large number of individuals in return for equity in their company. The Parliament passed the CSEF framework for public companies on 22 March 2017, so the regime commenced late September 2017. Public companies with turnover and gross assets of less than \$25 million will be able to raise CSEF funds of up to \$5 million in any 12 month period.

The Government announced in the 2017-18 Budget that it will extend this framework to proprietary companies, who will face additional governance and reporting requirements to maintain investor confidence in the regime. Enabling the CSEF framework in Australia will ensure start-ups and innovative small businesses have access to a more diverse range of funding options.

Recommendation 6

5.39 The committee recommends that the Australian Government develop a discussion paper and consult on the utility of the Export Market Development Grants scheme for businesses that operate in the digital economy.

The Government **notes** this recommendation.

The Government also notes comments made in the Senate Committee's report and in submissions to the Inquiry suggesting ways the Export Market Development Grants (EMDG) scheme could be changed.

EMDG is administered under the *Export Market Development Grants Act 1997* (the EMDG Act). The object of this Act is to bring benefits to Australia by encouraging the creation, development and expansion of foreign markets for Australian goods, services, intellectual property and know-how. It does so by providing for an assistance scheme under which small to medium Australian exporters committed to and capable of seeking out and developing export businesses are repaid part of their expenses incurred in promoting those products.

Over the 41 year history of the scheme, more than 45,000 businesses have received EMDG support. Services, manufacturing and primary producers have all been beneficiaries of the scheme, and these businesses are located across regional and metropolitan Australia. Applications made to the scheme continue to grow at 6 per cent.

EMDG's broad-based approach allows SMEs to engage in marketing and promotional activity that best suits their business needs, and to direct this activity at the markets most relevant to them. EMDG is designed to not favour one industry or export market over another. The objective of the EMDG scheme is to reimburse *any* eligible Australian small to medium-sized business a proportion of the expenses it incurs in seeking out export markets for their eligible goods, services and intellectual property.

All EMDG expenditure categories are potentially relevant to video game developers (and any business operating in the digital economy) seeking support to access export markets. Further information is available at www.austrade.gov.au/exportgrants.

For the 2014-15 grant year (reimbursed in the 2015-16 financial year) there were 161 recipients of grants totalling \$8 million who identified as being in the 'software development' industry, which includes game developers. There were 80 recipients of grants totalling \$4.4 million who identified as being in the film industry.

The EMDG scheme also allows businesses to access the scheme collectively through approved bodies promoting on behalf of their industry (at a national, state or local level) and to joint ventures approved under the EMDG Act. These approved bodies can include body corporates established under Australian law for a public purpose, cooperatives or body corporates that represent the interests of substantial part of an industry, or one or more industries at the national, state or regional level. A group of people may also apply for approval as a joint venture. The EMDG Act does not limit the number of annual grants that can be applied for by approved bodies and joint ventures.

In the 2015-16 financial year Austrade paid grants valued at \$3.4 million to 62 approved bodies, and \$200,000 to five approved joint ventures.

While the scheme is flexible in who can apply and what they can apply for, there are three key features of the scheme that contribute to the objective of the EMDG Act.

- Firstly EMDG is a *reimbursement* scheme, which means that the Act does not support traditional grant payments to help clients with initial cash flow;
- Secondly, EMDG repays part of expenses incurred in *promoting* products which means that the Act does not support expenditure on product development; and
- Thirdly, EMDG is available to *any* eligible business, which means that the scheme cannot discriminate in favour of, or against any particular businesses when they seek reimbursement for promoting product in overseas markets.

Accommodating some of the changes suggested in submissions to the Inquiry, such as the reimbursement of product or business development costs or up-front payments, would alter the objective of the Act and change the nature of the scheme as a whole.

Importantly EMDG is an eligibility based scheme with a capped appropriation, which means that the Act needs to strike a balance on the distribution of that appropriation that is fair to all eligible applicants.

While the parameters for that distribution are covered by the EMDG Act, including the general rules for eligibility, the number of applications a grantee can make under the scheme and claimable expenses, these have been changed from time to time as the scheme develops. The most recent amendments to the EMDG Act (which came into effect from 1 July 2017) include an increase in the daily overseas visit allowance, removing the eligibility of ground transport costs, a cap on the free sample expenditure category, and deleting the communications expenditure category.

Recommendation 7

5.44 When considering and reviewing measures to support the industry, the committee recommends that the Australian Government take into account whether the industry is improving the diversity of its workforce and is providing fair employment conditions.

The Government **notes** this recommendation.

All Australian employers must comply with the relevant workplace legislation and regulations. The *Fair Work Act 2009* and the *Fair Work Regulations 2009* proscribe the employee/employer relationship in Australia. The legislation and regulations outline minimum entitlements, enables flexible working arrangements and fairness at work and prevent discrimination against employees.

Recommendation 8

5.48 The committee recommends that the Australian Government commit to rolling out 21st century broadband infrastructure.

The Government **notes** this recommendation.

The Government's commitment to Australians was to speed up the rollout of the National Broadband Network and deliver broadband upgrades as soon as possible, and that is being delivered.

From a base of just 51,000 connections in September 2013, the nbn now has more than 3.3 million connected users and a service footprint that covers more than half the nation. Over 30,000 new customers are connecting to the network every week.

The network is scheduled to be completed by 2020.

When the network is complete, all Australian homes and businesses will have access to a minimum wholesale download speed of 25 megabits per second (Mbps), with nine out of ten users in the fixed line footprint able to access to download speeds of 50Mbps or more.