

Senate Standing Committee on Environment and Communications

Inquiry into the Treasury Laws Amendment (2021 Measures No. 5) Bill 2021

Ausfilm Submission on the increase to the threshold to access the Post and Digital Visual Effects Tax
Offset

10 August 2021



Issue

Ausfilm welcomes the changes presented in this legislation to increase the Producer Offset for television from 20% to 30% and congratulates the Government on this change.

Our submission relates to one element of the Treasury Laws Amendment (2021 Measures No. 5) Bill 2021. The increase in the threshold for the Post, Digital and Visual Effects (PDV) Offset from \$500,000 to \$1 million.

This proposed increase will limit opportunities for Australian owned SME PDV companies to attract international work and to grow their businesses.

Keeping the threshold at \$500,000:

1. Will enable future growth for Australia's successful VFX sector through supporting SME Australian owned companies to strengthen their export focus and develop in scope and scale; and
2. Will enable Australia's picture, sound and music post production companies to capitalise on new remote post production opportunities created as a result of COVID-19 and increase their market share of international post production activity.

Maintaining the current threshold will ensure the post and VFX sector is able to continue creating Australian jobs, investing in training Australians and supporting Australian content.

About Ausfilm

Ausfilm is a unique partnership between private industry and government. This partnership comprises Australia's federal and state governments, the major studio complexes, production service providers and leading post, visual effects, animation and sound/music studios. Ausfilm markets Australia's Screen Production Incentive Scheme. Ausfilm also promotes Australia's diverse locations; sound stages; post-production and visual effects companies; screen service companies and award-winning filmmaking talent, in front of and behind the camera.

Ausfilm's membership of 64 screen businesses and screen agencies currently includes 26 post production and visual effects companies which together create over 1700 jobs. The impact of the proposed change to the threshold of the PDV Offset will be felt most by Australian SME's which make up the majority of these 26 businesses.

What is Post Production and Digital Visual Effects

Post, digital and visual effects (PDV) refer to those activities that create audio and visual elements for film or television, other than by principal photography and includes animation.

It also refers to the manipulation of those elements and includes sound and visual editing, digital effects, music recording, creation of computer-generated images (CGI), mixing, colour grading and duplication services.

As such, it includes a variety of activities that not only take place after the shoot but also through all stages of a project's overall production.

In 2019/20 a total of \$337 million was spent on PDV work for Australian and international drama, of which \$166 million was foreign drama.

About the PDV Sector

The PDV sector is made up of an ecosystem of approximately 40 SME across Australia. Companies which work on television commercials; Australian television and feature films; and international

television and feature films. Some companies focus on the latter while many work across all three to ensure their sustainability.

PDV companies are one of the key sectors within the screen industry which provide secure full-time employment with ongoing inhouse training opportunities to advance careers. These companies can employ up to 500 full time staff.

PDV companies encompass picture and sound post-production, music and visual effects work. The past 10 years has seen diversification across many traditional post-production businesses, with many expanding to provide a VFX offering as post-production alone has become more difficult to sustain. Other companies that traditionally only provided sound post-production for instance, now also provide picture and vice versa.

The current PDV Offset supports and encourages the growth and innovation of export focused Australian SMEs. As a direct result of the success of the PDV Offset (and State based PDV Offsets), the sector has seen huge growth. This is illustrated by the Table below.

Table - Foreign PDV Spending in Australia

Year	Spend \$A
2010/11	42
2011/12	60
2012/13	67
2013/14	45
2014/15	96
2015/16	106
2016/17	157
2017/18	110
2018/19	112
2019/20	166

*5 year average annual spend of \$112 million on foreign PDV to the end of 2019/20

In the past 5 years there has been a significant increase in the number of SMEs looking to expand their businesses from either television commercial work or domestic film and television work to focus on export opportunities and international film and television productions.

As an example of the growth of the sector, Ausfilm’s membership has grown by 150% since 2010 from:

- 10 PDV businesses in 2011
- 26 PDV businesses in August 2021

There are currently only eight PDV companies within Ausfilm’s membership that would routinely be able to bid on projects over \$1m (five of which are foreign (or part foreign) owned). Two additional companies are getting more and more work over the \$1m threshold but still rely on projects at \$700k to grow their businesses. The PDV Offset has been instrumental in the growth of these companies.

In addition to the PDV Offset, work is secured as a result of trust and strong relationships between client and vendor. This is built up over many years and starts with small packages of work between \$500k-800k. If there is no longer the ability to build on this over time, Australian vendors will find it hard to compete with those in UK, Canada, NZ and US.

The PDV Offset

In 2007, partly as a result of advocacy by Ausfilm, the Government introduced the PDV Offset to better target and attract PDV only work to Australia. The initial rate was set at 15% of QAPE with an initial threshold of \$5 million. In July 2011 the PDV Offset was increased from 15% to 30%, and the threshold was reduced to \$500,000 effective from 1 July 2011. As a result of both of these changes the last decade has seen some steady growth in the value of foreign PDV (VFX) spending in Australia as is illustrated by the Table above.

On the basis of consultation with Ausfilm members there is the opportunity to further grow the VFX sector in Australia, with the increase in content production globally. However, the proposed change to the threshold will make Australia less competitive, create a barrier to entry and risk Australia missing out on the opportunity to capitalise on the changes caused by the pandemic. The changes will also make it near impossible for Australia to secure any international picture, sound and music post production work.

Ausfilm and its members are extremely appreciative of the support provided to the sector through the Australian Screen Production Incentive and recognise the significant investment the Government makes in the industry.

However, it is Ausfilm's submission that rather than assisting the growth of the PDV sector this change will help only those companies that are already of scale (and have grown on the back of the current PDV Offset) and make it harder for smaller Australian owned PDV companies to grow, attract new inward investment and capitalise on the opportunities we outline below.

New Export Opportunities

There is a new, unique opportunity for Australian SME picture, sound and music post-production companies to pitch on work previously considered unattainable. The issue is that this post production work is rarely budgeted over \$1 million, so without a tax offset to support it, Australian picture, sound and music companies will lose out on potential new foreign inward investment. This will directly impact their export growth strategies and their ability to create new Australia jobs, improve levels of skill and offer new training opportunities

COVID-19 has created an environment where remote post production work could be possible. Work that was traditionally completed in one location has in the past year been undertaken remotely across multiple locations due to physical distancing and travel restrictions. This new acceptance and way of working creates a huge opportunity for our post production businesses which have until now been considered to be too far away from a studio's base overseas. Not only is remote work now more acceptable, but the cost of cloud technology has also reduced in recent years meaning it is more accessible for Australia's SMEs.

The additional productions that could be secured to undertake their PDV work in Australia over the next 12-24 months are mid-size feature film and television projects. The average expenditure for these productions would be between \$600,000- \$800,000, the amount identified by the sector as being the 'sweet spot' for remote post production work.

Ausfilm has been advised by its members of approximately more than \$5 million in work that has already been lost due to the announced proposed increase to the threshold in the coming months:

In addition to the jobs created by these businesses, maintaining the threshold at \$500,000 will enable them to continue to invest in training. The pipeline created by international work also directly benefits the domestic sector. If post production companies are only able to rely on

Australian film and television work, there will be less opportunities for job creation and skills development putting the sustainability of the entire sector at risk.

COVID 19 has had a huge impact on Australian businesses, however right now, Australian PDV businesses have the chance to recover from the pandemic stronger than before with a consistent pipeline of international post-production work into the future.

Keeping the threshold at 500K is also essential to Australia being able to remain competitive globally in a sector that is already highly competitive.

There have been a number of changes to the PDV Offset since it was first introduced. In its current form, it has the potential to be the most successful to date at achieving its stated objectives across the full ecosystem of picture, sound, music post production and VFX.