



## Policy costing

Invest in our video game development industry	
Party:	Australian Greens
<p>Summary of proposal:</p> <p>The proposal has three components that would provide support for the Australian video game industry with investment and tax incentives.</p> <ul style="list-style-type: none"><li>• Component 1 – Establish a Games Investment and Enterprise Fund, with investment of \$100 million evenly split over 2019-20, 2020-21 and 2021-22.</li><li>• Component 2 – Extend the producer tax offset and the post, digital or visual effects tax offset to video game developers.</li><li>• Component 3 – Allocate \$5 million in 2019-20 to assist in the development of creative co-working spaces.</li></ul> <p>For Components 1 and 3, departmental expenses are to be included within the capped funding amount.</p> <p>The proposal would have effect from 1 July 2019.</p>	

## Costing overview

The proposal would be expected to decrease the fiscal balance by \$278 million and decrease the underlying cash balance by \$235 million over the 2019-20 Budget forward estimates period. This impact wholly reflects an increase in expenses.<sup>1</sup>

A breakdown of the financial implications of this proposal over the 2019-20 Budget forward estimates period is included at [Attachment A](#). The proposal would be expected to have an ongoing impact beyond the 2019-20 Budget forward estimates period.

The underlying cash balance impact of this proposal differs from the fiscal balance impact because of a timing difference between when video game productions become eligible to receive the producer tax offset and the post, digital or visual effects tax offset, and when the offsets are paid through lodgement of an income tax return to the Australian Taxation Office (ATO).

Departmental expenses have been included for the Department of Communications and the Arts and Screen Australia to administer Component 1 and Component 2 of the proposal. Departmental expenses for Component 3 would not be expected to be significant and have not been included.

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<sup>1</sup> The Producer tax offset and the Post, Digital and Visual Effects Offset are treated as budget expenses. This is because they are refundable tax offsets and payment of the offset does not depend upon whether the recipient is liable to pay tax.

The estimates for Component 1 and Component 3 of this costing are certain as the amounts of funding are as specified in the proposal. No analysis has been undertaken by the Parliamentary Budget Office (PBO) to determine the adequacy of the prescribed funding amounts to achieve the objective of the proposal.

The estimates for Component 2 of this costing are sensitive to the assumed behavioural response and the split between qualifying expenditure for each offset.

**Table 1: Financial implications (\$m)<sup>(a)(b)</sup>**

	2019–20	2020–21	2021–22	2022–23	<b>Total to 2022–23</b>
Fiscal balance	-80	-76	-77	-45	<b>-278</b>
Underlying cash balance	-40	-75	-76	-44	<b>-235</b>

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

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

## Key assumptions

The PBO has made the following assumptions.

### Component 1 – Establishing the Games Investment and Enterprise Fund

- The Games Investment and Enterprise Fund would be administered by the Department of Communications and the Arts.

### Component 2 – Extending the producer tax offset and the post, digital or visual effects tax offset to video game developers

- All expenditure made in Australia by video game developers, including on post-production, digital and visual effects, would be eligible for the offsets.
- The value of qualifying expenditure on video game development would grow at the same rate as the consumer price index.
- Offset amounts would be claimed by companies in the year following the completion of production.
- There would be a behavioural response to the proposal, increasing qualifying expenditure associated with the development of video games by 20 per cent.
- Data on the split of expenditure between production and post-production and digital effects services is not available, however data on income earned by video game developers from these sources is. The PBO has therefore assumed that the proportion of total expenditure eligible for the post, digital and visual effects offset is equal to the share of total digital game development income that is attributable to post-production and digital effects services.
- The producer tax offset and the post, digital or visual effects tax offset for video games would be administered in a similar way to the current producer tax offset for feature films.

## Methodology

### **Component 1 – Establishing the Games Investment and Enterprise Fund**

The departmental cost for the Department of Communications and the Arts to administer the proposed Games Investment and Enterprise Fund was based on other budget measures with similar administrative requirements.

The administered expense for Component 1 was calculated by subtracting the departmental cost estimate from the total specified expenditure of \$100 million. The balance for administered funding was evenly distributed over 2019-20, 2020-21 and 2021-22.

### **Component 2 – Extending the producer tax offset and the post, digital or visual effects tax offset to video game developers**

The financial impact of extending the producer tax offset and the post, digital or visual effects tax offset was estimated by applying the 40 per cent rate of the producer tax offset and the 30 per cent rate of the post, digital or visual effects tax offset to estimated eligible expenditure.

The estimated expenditure on video game development was based on Australian Bureau of Statistics (ABS) data on expenditure by digital game developers. The total expenditure eligible for the post, digital or visual effects tax offset was estimated by applying the estimated proportion of total production income that is attributable to post-production and digital effects services. The balance of expenditure was assumed to be eligible for the producer tax offset. The expenditure estimates were adjusted to take into account the expected behavioural response before the relevant offset rate was applied.

The departmental funding required for Screen Australia to administer the extension of the producer tax offset and for the Department of Communications and the Arts to administer the extension of the post, digital or visual effects tax offset was estimated to be \$1 million per annum for each organisation.

### **Component 3 – \$5 million in 2019-20 for creative co-working spaces**

The administered expense for Component 3 is as specified in the proposal.

All estimates have been rounded to the nearest \$1 million.

## Data sources

ABS, *Film, Television and Digital Games, Australia*, 2015-16, ABS Cat. No. 8679.0.

Commonwealth of Australia, 2019. *Budget 2019-20*, Canberra: Commonwealth of Australia.

## Attachment A – Invest in our video game development industry – financial implications

**Table A1: Invest in our video game development industry – Fiscal balance (\$m)<sup>(a)(b)</sup>**

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23
<b>Expenses</b>					
<i>Administered</i>					
<i>Games Investment and Enterprise Fund (Component 1)</i>	-32	-32	-32	-	-97
<i>Extended producer tax offset and post, digital or visual effects tax offset (Component 2)</i>	-40	-41	-42	-43	-166
<i>Co-working space (Component 3)</i>	-5	-	-	-	-5
<b>Total – administered</b>	<b>-77</b>	<b>-73</b>	<b>-74</b>	<b>-43</b>	<b>-268</b>
<i>Departmental</i>					
<i>Screen Australia</i>	-1	-1	-1	-1	-4
<i>Department of Communication and the Arts</i>	-2	-2	-2	-1	-6
<b>Total – departmental</b>	<b>-3</b>	<b>-3</b>	<b>-3</b>	<b>-2</b>	<b>-10</b>
<b>Total – expenses</b>	<b>-80</b>	<b>-76</b>	<b>-77</b>	<b>-45</b>	<b>-278</b>

(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.

- Indicates nil.

**Table A2: Invest in our video game development industry – Underlying cash balance (\$m)<sup>(a)(b)</sup>**

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23
<b>Payments</b>					
<i>Administered</i>					
<i>Games Investment and Enterprise Fund (Component 1)</i>	-32	-32	-32	-	-97
<i>Extended producer tax offset and post, digital or visual effects tax offset (Component 2)</i>	-	-40	-41	-42	-123
<i>Co-working space (Component 3)</i>	-5	-	-	-	-5
<b>Total – administered</b>	<b>-37</b>	<b>-72</b>	<b>-73</b>	<b>-42</b>	<b>-225</b>
<i>Departmental</i>					
<i>Screen Australia</i>	-1	-1	-1	-1	-4
<i>Department of Communication and the Arts</i>	-2	-2	-2	-1	-6
<b>Total – departmental</b>	<b>-3</b>	<b>-3</b>	<b>-3</b>	<b>-2</b>	<b>-10</b>
<b>Total – payments</b>	<b>-40</b>	<b>-75</b>	<b>-76</b>	<b>-44</b>	<b>-235</b>

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

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

- Indicates nil.