LIVE PERFORMANCE AUSTRALIA

15 December 2017

The Hon Michael Sukkar MP
Assistant Minister to the Treasurer
C/- The Treasury
Langton Crescent
PARKES ACT 2600

Dear Assistant Minister,

2018-19 Pre-Budget Submission

As the peak body for Australia's $2.5 billion live performance industry, Live Performance Australia welcomes the opportunity to make a submission to the 2018-19 Budget.

The live performance industry employs over 34,000 people nationally; supports more than 500 performing arts companies around Australia plus hundreds of venues, producers and music promoters. It supports the development of world-class talent both on stage and in production and technical areas. The industry attracts more than 18 million people each year to shows in capital cities, regional centres and country towns.

We understand this Government is focused on supporting economic growth and opportunity, job creation and restraining government expenditure. Our submission (attached) offers proposals on how, with the right strategic investment from government, Australia's live performance industry can support these objectives.

Summary of LPA Budget Requests

1. Provide tax incentives on pre-production costs for live productions to assist Australian producers finance the staging of new productions and attract investment in an internationally competitive market;
2. Establish a major seed fund ($20 million over four years) for original Australian works of scale;
3. Provide an additional $5 million over four years for international touring of Australian productions;
4. Provide an additional $14 million over four years to Playing Australia and establish a digital distribution and access fund; and
5. Introduce a tax relief measure allowing charitable organisations to claim back the tax deduction on gift donations.

LPA is also currently considering ways that the Federal Government can further support independent and small-medium companies, by establishing initiatives to improve capacity building and market development in this sector. We will provide further details in due course.

A vibrant live performance industry is critical to Australia's economic, social and cultural wellbeing and we ask the Government to continue to support and promote investment in our industry.

Once again, we thank you for the opportunity to present this submission for consideration in the Budget process. Should you have any queries regarding the information provided, please do not hesitate to contact Kim Tran (ktran@liveperformance.com.au) via email or telephone.

Yours sincerely,

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LIVE PERFORMANCE AUSTRALIA

LPA SUBMISSION

Pre-budget Submission 2018-19

1. TAX INCENTIVES

Budget request 1:
Provide tax incentives on pre-production costs for live productions to assist Australian producers finance the staging of new productions and attract investment in an internationally competitive market.

It is becoming increasingly more challenging for Australian theatrical producers to finance the staging of new live productions due to the high costs of pre-production and difficulties in attracting the required level of investment. As a result, opportunities for developing new ambitious Australian content with Australian-owned intellectual property and job creation are lost.

Within Australia, theatrical producers compete against other industries, notably film and TV, where the Federal Government provides tax incentives that allow screen producers to offset pre-production costs on qualifying expenditure. The Producer Offset provides:

- a 40% producer tax offset for feature film production; and
- a 20% producer tax offset for TV and other projects.

Screen Australia's recent study (November, 2017) found that 91% of screen producers surveyed reported that the introduction of the Producer Offset has provided a range of benefits critical to their business. The benefits include:

- significantly increasing the equity stake retained by screen producers to sustain their business and consistently produce content;
- making it easier to raise finance and increasing business revenue;
- providing a measure of security and confidence to attract investors to otherwise high-risk investments.[1]

Australian theatrical producers also compete for investors with international jurisdictions that offer significant tax incentives (e.g. UK and USA). The UK Theatre Tax Relief (TTR) scheme, in effect since September 2014, entitles live performance production companies in the UK to claim 20% of its total qualifying pre-production costs for non-touring productions, and 25% for touring productions. Both commercial and publicly-funded (subsidised) productions are eligible and can benefit from the scheme. Theatrical producers in the UK reported that the TTR scheme has improved their ability to finance new productions, resulting in more investment, employment and innovative risk-taking.[2] Almost 2,000 live productions have benefited from the scheme since its introduction, saving a total of £60 million that can then be reinvested into developing more new work and supporting more jobs.[3]

[1] Screen Australia (November 2017), *Skin in the Game: The Producer Offset 10 Years On*, p.3-17
[2] Society of London Theatre, Media Release (11 May 2016), *Ticket Relief News*, accessed online: < https://uktheatre.org/theatre-industry/news/tax-relief-news/>; The Stage (21 July 2017), *Theatre tax relief brings savings to nearly 2,000 shows*, accessed online: < https://www.thestage.co.uk/news/2017/theatre-tax-relief-brings-savings-nearly-2000-shows/>.
[3] Ibid.

Australia's live performance industry needs a similar regime of tax incentives to attract the level of investment required to produce and stage world-class shows, support more Australian jobs and drive industry growth. Without internationally competitive tax incentives for our industry, Australian live performance risks being left behind in what is now a thriving global industry.

Economic analysis undertaken by Ernst & Young (EY)[4] found that investment incentives would encourage commercial producers and subsidised organisations to produce more work, and therefore increase economic activity. The level of economic activity generated increases as the level of investment incentives increases (see Table 1).

The EY modelling estimates that:

- a 10% tax incentive would support 22 new productions, generating an additional $229.5 million in industry turnover, an additional $100.1 million in industry value add and 863 additional jobs
- a 25% tax incentive would support 347 new productions, generating an additional $760.6 million in industry turnover, an additional $337.2 million in industry value add and 2,906 additional jobs
- a 40% tax incentive would support 555 new productions, generating an additional $1.2 billion in industry turnover, an additional $540.1 million in industry value add and 4,650 additional jobs.

Table 1: Change in economic activity (incremental to base case) resulting from tax incentives

Incremental to base case	10% tax incentive	25% tax incentive	40% tax incentive
New productions	22	347	555
Industry output (industry turnover)	$229.5m	$760.6m	$1,216.9m
Industry value add (wealth generation)	$100.1m	$337.2m	$540.1m
Employment (FTE)	863	2,906	4,650

While there is a cost to government in providing incentives to producers, these expenses will be recouped through taxes earned on increased economic activity. The EY economic analysis found that there is a net positive return on investment to government by providing investment incentives on pre-production costs for live productions when tax incentives are set at a level between 25 and 40 per cent (see Table 2).

Table 2: Government return on investment

	10% tax incentive	25% tax incentive	40% tax incentive
Investment incentive outlay by government (Incentives provided to producers)	$37.7m	$94.3m	$150.9m
Additional tax revenue received by government	$28.5m	$95.9m	$153.4m
Net (cost)/revenue to government	**($9.3m)**	**$1.6m**	**$2.5m**

Further details on this budget proposal can be found at Appendix A (p.7).

[4] Ernst and Young (2016), *Investment support for the live performance industry*, Report for Live Performance Australia

2. SEED FUNDING FOR AUSTRALIAN WORKS OF SCALE

Budget request 2:
Establish a major seed fund ($20 million over four years) for original Australian works of scale

Australia has the opportunity to create and exploit intellectual property derived from original work. However, creating original work is risky and requires significant upfront capital to bring an idea to life. Few original works of scale are produced in Australia due to high development costs associated with ‘proving the concept’ and ‘pre-production’. Creative teams will firstly develop an idea into a script and then conduct a series of workshops to prove the concept. If the idea passes the proof of concept stage, it continues to be developed in a pre-production phase. It is then typically tested with audiences and revised based on test audience feedback before the final product is presented. This entire process typically takes several years of high-cost development, which presents a disincentive for investors due to the significant delay in receiving a return on investments.

There are a variety of benefits resulting from the creation of original Australian work. For Australian creatives and professionals, it provides opportunities to work on new productions that significantly enhances their skills and career prospects. New original works result in Australian-owned creative intellectual property. This provides opportunities for new works to be licensed overseas, resulting in royalties flowing back to Australian copyright owners and investors, including the Federal Government if they were to retain an equity stake.

LPA is aware of several Australian theatrical producers that have chosen to produce new work in overseas territories, particularly the UK, due to the more competitive financing incentives those jurisdictions provide. As a result, intellectual property royalties and new jobs generated by the successful works by Australian creatives are being created overseas. To avoid more lost opportunities for Australian-owned work, the Federal Government should implement an initiative to support the creation of new work in Australia. A seed fund to support the creation of more original ‘works of scale’ by Australians could give priority to those works that:

- have potential for domestic and international IP or licensing exploitation;
- create employment for Australian creatives, performers and technicians;
- have potential to increase tourism; and
- demonstrate market demand.

Access to the seed fund would be open to not-for-profit and commercial companies. Criteria for seed investment in works of scale would include, for example: venue size (600-2000); cast, creative and technicians (minimum of 12 employees); and matched funding.

The Victorian Government has acknowledged the potential in supporting the creation of original works of scale. Creative Victoria is expected to launch *Landmark Works* in due course, a program to commission works that are “ambitious and ground-breaking, with the power to inspire others, generate widespread audience and community engagement and increase tourism”.[5] To date further details on this program have not been released as far as we are aware. As a state initiative the impact and benefits are limited to Victoria. A Federal Government seed funding initiative would provide greater national impact and value.

[5] Creative Victoria (2016), *Creative State: Victoria’s First Creative Industries Strategy*, p.17

3. INTERNATIONAL TOURING

Budget request 3:
Provide an additional $5 million over four years for international touring of Australian productions

Showcasing Australian productions on the world stage helps to build new audiences for Australian creative talent, strengthen Australia's brand as a creative nation and boost inbound tourism. It also plays a significant role in cultural diplomacy, allowing us to build stronger connections with other countries and cultures, and improve international relations. For Australian creatives, performers and technicians, international touring provides them with new and challenging professional experiences, which they can then feed back into the industry on return.

The costs to tour productions internationally are expensive. While the Australian Cultural Diplomacy Grants Program exists to support Australian arts and culture being showcased, the current level of funding (approximately $500,000 per annum) means that only a very limited number of projects can be supported and there are missed opportunities to showcase Australia's creative talent. The additional funding request of $5 million over four years would support international touring costs such as transport, freight, international airfares and travel allowances. Funding would be open to any Australian product, both in the subsidised and commercial sector that supports Australia's cultural diplomacy objectives.

4. REGIONAL TOURING

Budget request 4:
Provide an additional $14 million over four years to Playing Australia and establish a digital distribution and access fund

Australians living in regional areas deserve access to quality live productions. Unfortunately, Australia's geographical size and the costs associated with touring (e.g. accommodation, transport, freight, allowances) are barriers to bringing more live productions to regional areas. The Australia Council, through its Playing Australia grants program, supports performing arts companies help meet the high costs associated with touring to regional locations. However, this program is oversubscribed each year, resulting in many missed opportunities for regional Australians to experience live productions in their local community.

Historically, the total value of grants awarded through Playing Australia has been $6-7 million per annum. The additional funding request represents at least a 50 per cent increase in funds. The additional funding request equates to $3.5 million per annum. A proportion of the additional funding could be allocated to increasing the number of companies with National Touring Status (companies that receive multi-year funding to enable touring in regional and remote Australia), so that deeper relationships may be developed with regional audiences.

This proposal is supported by the findings of the House of Representatives Standing Committee on Communication and the Arts inquiry into broadcasting, online content and live production in regional and rural Australia. The final report (released in May 2016) acknowledged the importance of Playing Australia and recommended that there be adequate levels of funding for the program and that the National Touring Status arrangements be extended to include additional companies. Support should also be considered for commercial producers to tour productions throughout regional Australia.

The Federal Government should establish a new fund to support the digital distribution of live performance content by Australian performing arts companies. Broader community access to live productions can be improved by taking advantage of innovative ways to digitally deliver content, such as through live streaming or cinematic simulcasts of live shows in regional and remote towns.

A significantly higher number of regional audiences could experience a wider range of diverse live performances by improving and increasing access to live digital content. This proposal is also supported by the findings of the House of Representatives Standing Committee on Communication and the Arts inquiry into broadcasting, online content and live production in regional and rural Australia. The Committee recommended that the "Government consider funding and support for digital innovation in the delivery of the arts".[6]

5. PHILANTHROPIC INCENTIVES

Budget request 5:
Introduce a tax relief measure allowing charitable organisations to claim back the tax deduction on gift donations

In an environment of limited government support and ever-increasing costs, not-for-profit performing arts organisations are under increasing pressure to be more reliant on diverse income streams, including income generated from philanthropic donations. Organisations with Deductible Gift Recipient (DGR) status commit significant resources to fundraising and engaging potential donors. Despite this, recent data shows that income from donations and bequeaths to charitable organisations has declined in recent years, as has the proportion of Australians that are donating.[7] Not-for-profit organisations and donors alike can benefit from any initiative that can extend the value of donations made.

The UK income tax relief measure *Gift Aid* increases the value of donations by 25% by allowing not-for-profit organisations with charitable status to reclaim the UK basic rate of tax on gift donations. Donors can choose to complete a simple declaration confirming that they want to donate to a particular organisation with charitable status by permitting the tax deduction on donations to be claimed back by the charitable organisation. The introduction of a tax relief measure similar to *Gift Aid* in Australia would be a simple, voluntary and cost-neutral initiative for Government that can maximise the positive impact of philanthropic income streams for not-for-profits.

[6] House of Representatives Standing Committee on Communication and the Arts (May 2016), *Final Report: Inquiry into broadcasting, online content and live production to rural and regional Australia*, p.50-4
[7] Australian Charities and Not-for-profits Commission (2017), *Australian Charities Report 2016*, p.53-4; Australian Government Department of Social Services (2016), *Giving Australia 2016*

ABOUT LPA

LPA is the peak body for Australia's live performance industry. Established 100 years ago in 1917 and registered as an employers' organisation under the Fair Work (Registered Organisations) Act 2009, LPA has over 400 Members nationally. We represent commercial producers, music promoters, major performing arts companies, small to medium companies, independent producers, major performing arts centres, metropolitan and regional venues, commercial theatres, stadiums and arenas, arts festivals, music festivals, and service providers such as ticketing companies and technical suppliers. Our membership spans from small-medium and not-for-profit organisations to large commercial entities.

LPA has a clear mandate to advocate for and support policy decisions that benefit the sustainability and growth of the live performance industry in Australia.

INVESTMENT SUPPORT FOR THE LIVE PERFORMANCE INDUSTRY: Tax incentive proposal

Rationale

The live performance industry contributes over $2.5 billion annually to the Australian economy. It employs over 34,000 people nationally, supports more than 500 performing arts companies around Australia plus hundreds of venues, producers and music promoters. It also attracts more than 18 million people to shows in capital cities, regional centres and country towns. However, it is becoming increasingly more difficult for Australian producers to stage new productions due to the high costs of pre-production and difficulties in attracting the required level of investment.

Australian producers are now competing for investors in international jurisdictions that offer significant tax incentives (e.g. UK and USA). Within Australia, live performance producers compete against other industries, notably film and TV, where a 40% producer tax offset for film and 20% tax offset for tv production exists. These tax incentives allow producers to offset pre-production costs on qualifying expenditure. There is an urgent need for live performance producers to access tax incentives to attract the level of investment required to produce and stage world-class shows, support more jobs and drive industry growth.

Benefits of investment incentives

Stimulating investment in new live productions

= Stimulates direct and indirect economic activity

= Licensing and export opportunities

= Provides employment and skills development opportunities

= Improves producers' equity share and builds sustainable businesses

= Contributes to cultural vibrancy

= Improves social cohesion and wellbeing through community participation and attendance

Economic impact of investment incentives

Investment incentives will stimulate economic activity. The level of economic activity generated increases as the level of investment incentive increases.

↑ up to 73% Number of new productions

↑ up to 54% Additional industry output

↑ up to 53% Additional industry value add

↑ up to 59% Additional employment

Incremental to base case	10% tax incentive	25% tax incentive	40% tax incentive
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Employment (FTE)	863	2,906	4,650

Source: EY (2016), Investment support for the live performance industry, Report for Live Performance Australia, August 2016

Government return on investment – cost neutral

There is a small net positive return on investment to government by providing investment incentives on pre-production costs for live productions.

	10% tax incentive	25% tax incentive	40% tax incentive
Investment incentive outlay by government (Incentives provided to producers)	$37.7m	$94.3m	$150.9m
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Source: EY (2016), Investment support for the live performance industry, Report for Live Performance Australia, August 2016

LIVE PERFORMANCE AUSTRALIA

Live Performance Australia (LPA) is the peak body for Australia's live performance industry. LPA represents commercial and independent producers, music promoters, major performing arts companies, small to medium companies, venues (performing arts centres, commercial theatres, stadiums and arenas), festivals, and service providers such as ticketing companies and technical suppliers.
Economic analysis on the impact of investment incentives was undertaken by Ernst & Young (EY) for LPA.

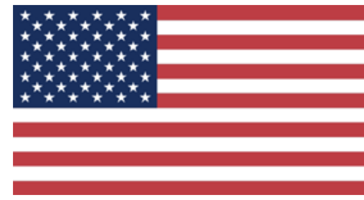
Tax incentive schemes

UK Theatre Tax Relief

20% Tax relief for non-touring productions

25% Tax relief for touring productions

- Following the economic and cultural success of creative sector tax relief in the UK, particularly in film, TV and video games, the Theatre Tax Relief (TTR) scheme was introduced as part of the Finance Act 2014 (“Act”) and came into effect on 1 September 2014.
- The TTR is intended to encourage and support investment in the production and touring of UK live dramatic works (including plays, operas, musicals, ballets and circus), with the objective of maintaining the sustainability of live performance in the UK.
- This model provides a clear policy precedent for the extension of tax-based incentives into the live performance industry.
- The TTR entitles production companies to claim 20% of its total qualifying pre-production costs for non-touring productions, and 25% for touring productions.
- Both commercial and publicly-funded (subsidised) productions are eligible and can benefit from the scheme, as trading subsidiary arrangements effectively enable not-for-profit organisations to access the scheme.
- Return on costs can be re-invested into new works, or passed on to investors.
- Almost 2,000 live productions have benefited from the TTR scheme since its introduction, saving a total of £60 million so far.



USA Tax Relief for live theatrical productions

100% Federal deduction for investment

20 – 35% State based tax relief

- The UK Government is not the only country to have recognised the need to remain globally competitive. The US has a legacy of state-based tax incentives for theatrical productions. These apply in Illinois, Louisiana, New York State (not including New York City), and Rhode Island.
- The provisions range from 20% - 35% tax credits for qualifying expenditure by production companies.
- The common purpose of these incentives is primarily to increase jobs and economic outputs by increasing the State’s competitive position for incentivising theatrical producers to bring productions to their state.
- In December 2015, the US government passed federal legislation that establishes equal tax treatment for live theatrical productions as is provided for film and TV.
- It allows a 100% deduction for investment in live performance by the investor from their income in the year of the investment.
- The legislation allows investors to immediately recoup their investments prior to taxes being assessed on profits earned. This is intended to deepen the pool of interested investors in commercial theatrical productions.

Film and TV Producer Offset

40% Tax relief for feature films

20% Tax relief for non-feature films (TV, mini-series, documentaries)

- In 2007 the Producer Offset was introduced as part of the Australian Screen Production Incentive (ASPI), a package of measures to boost support for the Australian film and television industry.
- It provides a refundable tax offset (rebate) for producers of Australian feature films, television and other projects.
- Feature films are eligible for a 40% rebate of qualifying expenditure, and other programs such as TV, mini-series and documentaries are eligible for a 20% rebate.
- Screen Australia conducted a review of the Producer Offset in 2017, ten years after it was introduced. The report found that the Producer Offset “unquestionably” provided critical financial support for addressing the challenges of raising revenue to meet production budgets.
- Additionally, the report found that the Producer Offset improved the equity share retained by producers in their film and television projects.
- Improved equity share has allowed producers enhanced leverage to attract private investment from new and existing sources. This directly supports producers building sustainable production businesses.

Source: Screen Australia (Nov 2017), *Skin in the Game: The Producer Offset Ten Years On*