

**From:** Dean Hood TPH [mailto:dhood@tph.com.au]  
**Sent:** Thursday, 6 July 2006 5:28 PM  
**To:** Offset Review  
**Subject:** Federal Govt - Offset Review

Dear Honorable Rod Kemp,

I am one of three company Directors at Threadgold Plummer Hood Pty Ltd. Our company offers payroll services and accounting software to the Film & TV industry. All three company Directors also work as Financial Controllers on Films. Recent credits include Superman Returns, Charlotte's Web and Star Wars Episodes 1, 2 & 3.

May I first say the implementation of the Federal Government's 12.5% tax offset for the Film industry was a great initiative from our Government. Over time however the advantage this gave our local industry has been eroded by our currency increasing in value against the USD and also other competing countries introducing incentives of their own.

Since completing work on "Charlotte's Web" for Paramount Pictures I have been involved with a number of US Studios budgeting films potentially slated to shoot in Australia. I can tell you that I have completed nine budgets worth a combined value of US\$1,013,729,071 over the past eight months. Yes, over one billion US dollars of film production has been potentially slated for Australia in eight months alone. From this one Billion US dollars of budgets none have been awarded to Australia. We have lost films to Canada, UK, New Zealand and the USA, 25% have not got past the budgeting phase due to cost, cast or script issues.

Around the time the offset was first introduced Australia was the cheapest English speaking country in the world to make a film and had the bonus of great facilities and very experienced Feature Film crews.

We face problems on many fronts from our competitors. Canada borders the States so Cast, Producers and Directors can fly home on weekends if need be. On large budget films the ATL cast & crew attached to the film can and will push to be close to home. We are cheaper than Canada but the variance is minimal so it is easy for Studios to give in and absorb slightly higher budgets to keep ATL staff happy or the Provinces in Canada can dig into their pockets to make up the difference. If the gap was larger this would be a different story.

The UK, long considered an expensive place to make a film is now on par cost wise with Australia. The UK offer a 20% Federal rebate, crew fringes in the UK are either zero for a department head (Schedule D employee) or 12%. Overtime in the UK is also one flat rate no matter what position you work in. This means the British Govt give 7.5% more than the Aust Govt in rebates and studios pay at least 14% less fringes on payroll giving a variation of 7.5% on materials and 21.5% on wages compared to Australia excluding the benefit of reduced overtime rates. The most worrying thing about the UK is that Warner's are slating more films for over there. Warner's has been the Aussie film industries bread and butter for years. If they start diverting more productions to the UK we are in big trouble.

New Zealand has it over us only in currency exchange and fringes. Having Peter Jackson in New Zealand is not the only reason productions go to NZ, the fact it is cheaper is the main reason. NZ does have issues with the amount of productions it can handle and crew rates over there are climbing but on paper it is a cheaper option. The US studios do not factor in weather issues that will no doubt occur in NZ for a film with many exteriors but word is getting out that weather is a problem. US Studios realize they will have to import Aussie crew and equipment to NZ but as more and more films are made in NZ this will decrease. Australia has much better studio facilities to offer than NZ, if we could reduce the gap between Australia and NZ the studios would make the move back to Australia. Most US producer's I have been in contact with do not want to travel half way around the world to shoot in a warehouse which is pretty much all that is on offer in NZ. Having facilities like Fox, Central City, and Movieworld are major draw cards.

The Federal Rebate I feel needs to be increased to somewhere between 15% and 20% for us to become more viable.

Another option to enhance the attractiveness of Australia could be to simplify the reimbursement of the Offset. If the Tax Offset was converted to a simple rebate this could help. The sooner US Studios can get their rebates back the happier they will be. This could even open the door for margin lenders to get involved with the offset. A studio could then get an upfront reimbursement for the majority of the offset via a margin lender. Of course they will not get as much as they would by waiting to receive the funds directly from the Government as the margin lender will need to make money out of the transaction but they get their money in advance so it is less money they have to fund upfront for a picture. This may not be a route the Government wants the Offset to take but we need to re-approach our way of doing business. Maybe a studio that is willing to commit a certain amount of productions per year could be awarded money upfront to attract them here.

The proposed piggybacking plan of productions may work to get lower budget films here but when will the studios see their money. Already they have to wait until the product is ready for release, will they then need to wait until the 2<sup>nd</sup> picture is ready for release to get the total funds or will this be a two stage process? If the product is cheaper to make elsewhere then there is no advantage to piggybacking as they will just make their film elsewhere. Maybe we should look at reducing the spend limit required prior to qualifying for the offset (Au\$15M) and reducing the percentage of spend required in Australia from 70% to between 40% and 50%. Sure the spend in Australia is not as high but the actual rebate will reflect this also.

Another major if not the biggest hurdle we have in getting big time US Producers, Directors and cast over here is every one of them does not want to deal with filing tax returns in two countries, this is sometimes unavoidable, the biggest problem they have is having to pay 48% Australian Tax. Most producers and directors will be in Australia over the 183 day cut-off on a big film due to pre-production so they are liable to pay local taxes. This also adds to the speed in which they leave Australia and do not do much post production here. Cast are liable from the first dollar they earn in Australia on most occasions. If we could introduce a flat rate of tax for our visitors which is comparable or slightly less than what they would pay in the States then it is not costing them personally to work in Australia. They have to pay tax somewhere but let's not make it more than they would pay at home. Studios can't get some Producer's to even consider Australia because of this reason.

State Governments also have a job to do. They can start reducing payroll tax or eliminating it as does South Australia and Queensland for film production. The no payroll tax policy of Queensland is what got the Gold Coast studio established. Payroll tax has always been an issue, you are penalizing companies for employing people when we should be grateful they have come. We are even obliged to pay payroll tax on Foreign crew and cast whilst they are working in Australia even if they are employed by a US entity. On one hand we are giving US Studios incentives on a Federal level and with the other hand we are pulling it back off them at a State level.

Crew potentially has a sacrifice to make also. We can not rely on Government alone to subsidize our way out of trouble. Negotiations need to take place with the Union (MEAA). If we can't match the UK offset percentage then we have to find other ways to become more attractive. Crew fringes are up around 26%, they vary slightly from State to State. Roughly they are broken down as follows. Super 9%, holiday pay 8.33%, payroll tax 6%, W/comp 1.2% you are also obliged to pay payroll tax and w/comp on Holiday pay and Super which gets the percentage up around 26%. If we were to drop holiday pay all together this will decrease fringes by 8.33%. This amount will be coming directly out of crew pockets and it will be a hard pill to swallow but if it is the difference between being unemployed 40 weeks of the year compared to working most of the year then people need to start thinking of this. On a weekly wage of \$1,500 this would reduce the accrual by \$125 per week. Cutting Holiday pay accruals in half may be all we need if we can get State Payroll Tax exemptions. The latest tax breaks introduced this financial year will soften the blow if this was implemented. Once we have a healthy amount of films & TV productions flowing through Australia again rates will slowly rise anyway to compensate for holiday pay not being payable anymore.

Our industry is in trouble. Attracting big budget productions is great but at the moment any production will do. More and more people are forced to leave the industry due to no work being available. Please consider my points and feel free to contact me anytime to discuss things if you wish.

Kind regards.

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