

# REVIEW OF THE REFUNDABLE TAX OFFSET

## **IMPACT TO SHOWFILM; Provider of Travel & Freight Services to the Film & TV Industry**

### Introduction to Showfilm

Showfilm are part of Show Group, a specialised travel & freight provider to the Entertainment industry. We manage all aspects of the logistics on a film or TV production, not limited to International Air Travel, Domestic Air Travel, Short & Long Term accommodation, Passenger & Commercial Car Hire, Limousine Transfers, International & Domestic Air, Road, Rail & Sea freight, Customs Clearance, Carnet Documentation.

As a company, Show Group's revenue exceeds \$100m per annum & employ 100 staff, Showfilm contribute \$20m to this total. However at its peak, Showfilm were delivering \$35m in revenue per annum.

This downturn is attributable to a number of factors, however the clear message that we receive (and as part of our business development, am in LA 4-5 times per year) for losing offshore film production is that we are too expensive.

### Why the Offshore production has reduced

When the Refundable Film tax offset of 12.5% was first introduced our main competitors were Canada. Since then film production hubs have opened up in New Zealand, South Africa, South America especially Argentina, Eastern block states of Hungary, Romania & Czech Republic. Though the worrying signs are the Domestic US states that are offering up to 25% tax incentives to encourage film production to shoot in the respective states.

Previously we have worked on Feature Films, Made for Television Movies, TV Series, Tele-series & TV Commercials. The large feature films are still finding it attractive to shoot in Australia, however it is borderline & the final decisions are made on the variety of our locations & professionalism/depth of the film crew within Australia. In view of that, it is clear that Films are not making as much money at the Box Office as they once were & studios/independent producers are placing much more emphasis on the bottom line!

Showfilm are proud that our recent credits & revenue include Superman Returns (\$5.5 Million), Charlottes Web (\$1.8 Million), House of Wax (\$1.3 Million) & 3 WWE Films of Marine, Eye Scream Man & Condemned (\$2 Million). Filmed in all 3 eastern seaboard states & generating multiplied benefits to the local economy. FYI Superman Returns filmed on location in Tamworth for 5 weeks. With over 450 crew needing accommodation we booked every hotel room throughout.

All these films had production budgets over \$20 Million and as such qualified for the Refundable Film tax offset. These large films are now fewer & the films that have budgets less than \$15 Million that were the whole industry's "bread & butter" are no longer finding it attractive. What Australia is now competing against is:

- higher tax incentives from competing above mentioned countries/states
- a stronger Australian dollar compared to competing above mentioned countries/states
- stricter union regulations compared to competing above mentioned countries/states
- film friendly government authorities assisting with more efficient production time/monies that Australian authorities

### Case Study

I will take the Showfilm Gold Coast office located on the Warner Roadshow Studio lot as our case study. From 2002-2004 their revenue exceeded \$17.4 Million. In the same period from 2004-2006 the revenue dropped to \$13 Million. Unfortunately in our business, the overheads remained the same & as a company our profit margin averages at 8%, the profitability of the Showfilm brand drastically reduces.

The biggest shift is the MOW's (Movie of the Week) productions that used to provide substantial work for the local film industry. On average they used to provide Showfilm with between \$200-400k per show & and it was not uncommon that 10 MOW's were produced in Australia in any given year.

Since the opening up of the new film production hubs in the countries & states mentioned above, the rise in the Australian dollar and a few other minor factors not one MOW has filmed in Australia in the last 18 months.

### Suggestions for increasing flexibility & effectiveness of the Offset

With the time, effort & expense to relocate a film production to Australia, Showfilm strongly feel the following needs to be reviewed to reinvigorate the whole industry & economic benefit to the many Australian business sectors the film industry multiply into.

- to increase the refundable tax offset to 15%.
- Include the 15% refundable tax offset for “Bundling – the next Generation”. We have knowledge of production companies & divisions of studios that have slates of films that can be put together to ensure a financial benefit to all parties.
- To amend the ruling that International Air Travel attracts the full refundable tax offset. Since its induction the ruling has stated it is only attributable to 50% of the offset as they are returning to their country of residence not benefiting the Australian economy. Seeing as we have difficulty with the perception from Hollywood that Australia is too far & expensive to film, this would be seen as an additional benefit that could be a influencing factor. FYI Superman Returns spent \$3.3 Million in International Air Travel over 14 months.
- To introduce International Freight costs into the attrition of the refundable film tax offset. On average, the costs are split 25%/75% on International Freight. Whereby 25% of the charges are domestic costs & the remainder is an international cost. The description of the freight that gets sent in for a film production is normally specific to be set in the US or local country. Ie US School buses, Left Hand drive cars, Tanks etc that cannot be sourced locally. Therefore I would like this to be strongly considered to be included in the refundable film tax offset.