



## **Fact Sheet:**

### **Australian Screen Production Incentive: Location and PDV Offsets**

NB: The information contained in this fact sheet is drawn from Division 376 of the *Income Tax Assessment Act 1997*. If there is a variance in this fact sheet from the legislation, the legislation has priority. Applicants should always seek professional legal and/or accounting advice prior to relying on this information.

Australia is one of the most popular destinations for filmmaking in the world. The diversity of our locations, the skills and flexibility of our actors, crews and creative teams, the internationally recognised standards of our technical facilities and post-production services and the cost of production all combine to make Australia a world-class location for filmmaking.

The Australian Screen Production Incentive is the Australian Government's incentive for film, television and other screen production in Australia. The incentive is available in three streams:

- the Producer Offset, a 40 per cent rebate on the qualifying spend of qualifying Australian films and a 20 per cent rebate for other qualifying media;
- the Location Offset, formerly known as the Refundable Film Tax Offset (RFTO), a 15 per cent rebate on Australian spend of large-budget productions that do not satisfy the significant Australian content test for the Producer Offset; and
- the PDV Offset, a 15 per cent rebate on the Australian spend on post, digital and visual effects production (PDV) work on large budget productions, including those not necessarily shot in Australia.

This fact sheet refers to the Location Offset and the PDV Offset. Please contact the Film Finance Corporation Australia (FFC) for information or to apply for the Producer Offset at [www.screenaustralia.gov.au/producer\\_offset](http://www.screenaustralia.gov.au/producer_offset).

The Location Offset is designed to ensure Australia remains competitive in attracting shoots for large-budget film and television productions, and is aimed at providing increased opportunities for Australian casts, crew, post-production companies and other screen production service providers to participate in these productions.

The PDV Offset is aimed at enabling the Australian visual effects, post production and animation sector to continue to develop its reputation as the best and most cost-effective in the world.

## **1. Eligibility**

### **Commencement**

Film and television projects commencing principal photography on or after 8 May 2007 (or for animations, commencing production of the visual image on or after 8 May 2007) may be eligible for the Location Offset. If the project commenced before 8 May, visit [www.arts.gov.au/locationoffset](http://www.arts.gov.au/locationoffset) and contact the Department of the Environment, Water, Heritage and the Arts to discuss the project's eligibility to access the 12.5% Refundable Film Tax Offset.

A film whose PDV work commences on or after 1 July 2007 may be eligible for the PDV Offset.

### **Levels of expenditure**

The key criterion to access the Location Offset is a minimum level of qualifying Australian production expenditure (QAPE) of A\$15 million on the production of the film.

Once this criterion is satisfied there are a further two categories of eligibility:

- where the film's QAPE is at least A\$15 million and less than A\$50 million, the producers must spend a minimum of 70 per cent of the film's total production expenditure on film production activity in Australia to qualify for the offset (i.e. QAPE must be at least 70 per cent of total production expenditure); and
- eligible film productions that spend A\$50 million or more in Australia will qualify for the offset regardless of the percentage ratio of QAPE to the film's total production expenditure.

In addition, an eligible television series must spend an average of at least \$1 million of QAPE per hour of the series in order to qualify. This is an aggregate calculation made across the series, irrespective of the number or length of episodes.

For the PDV Offset, the only expenditure criterion is a minimum Qualifying PDV Expenditure of A\$5 million.

### **Eligible genres/formats**

The formats eligible for either offset are feature films (including direct-to-DVD), telemovies, miniseries and television series.

An eligible television series may be drama or comedy, a documentary or a reality series.

These formats may include animated or live-action productions or a combination of the two.

### **Exclusion of access to other incentives**

Where a producer has chosen to access an offset in relation to an eligible film, no other Australian Government tax incentive will be available for the project.

This means that a project may be certified for only one stream of the Australian Screen Production Incentive (i.e. the Location, PDV or Producer Offset) and may not be certified for deductions under Divisions 10B or 10BA of the *Income Tax Assessment Act 1936*.

### **Timeframe for production**

For an eligible television series applying for the Location Offset, principal photography for a live action series must be completed within 12 months. For a series that is predominantly an animation, production of the visual image must be completed within 36 months. Both of these timeframes exclude the production of any pilot.

There is no timeframe restriction for productions other than television series or for the PDV Offset.

### **Eligible companies**

A company is eligible to apply for the Location or PDV Offset if it is an Australian resident company or a foreign company with an Australian Business Number (ABN) that is operating with a permanent establishment in Australia.

An eligible company is further defined in accordance with the category of eligibility:

- for a Location Offset project with QAPE of at least A\$15 million and less than A\$50 million, the applicant must be the company responsible for all the activities undertaken to make the film worldwide;
- for a Location Offset project with QAPE of at least A\$50 million, the applicant must be the company that is responsible for all the activities involved in making the film in Australia; or
- for a PDV Offset project, the applicant must be responsible for all the activities that were necessary for PDV production in Australia.

Eligibility for either offset extends to a company that completes an eligible film having taken over the making of it from another company or companies. In these cases, the new company is also taken to have incurred the production expenditure of the outgoing companies for the purposes of the offsets.

## **2. Expenditure issues**

### **How is (total) production expenditure defined for the Location Offset?**

A film's production expenditure is defined as the expenditure incurred or reasonably attributable to actually making the film from pre-production up to the point that it is ready to be distributed, broadcast or exhibited to the general public.

Some costs have been excluded in order to focus the benefit of the offset explicitly on expenditure that occurs in the activity of making a film in Australia. The following costs are excluded from total production expenditure:

- financing and development;
- copyright acquisition;
- general business overheads that are not incurred in relation to making the film;
- distribution, publicity and promotion;
- deferrals, profit participation, residuals\* and advances; and
- depreciating asset acquisition.

To encourage producers to undertake these activities in Australia, some of these exclusions—such as copyright acquisition, business overheads, development and certain publicity costs—can be factored back in where they are also QAPE (definition follows).

### **What is qualifying Australian production expenditure (QAPE) for the Location Offset?**

QAPE defines those costs that are eligible for the 15 per cent offset and also forms one of the bases for a project's eligibility.

QAPE is the production expenditure for the film incurred or reasonably attributable to:

- goods and services provided in Australia;
- the use of land located in Australia; or
- the use of goods located in Australia at the time they are used in making the film.

There are a number of specific inclusions to this definition, which include expenditure on the following:

- Australian development;
- copyright, where copyright is held by an Australian resident;

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\* Except where the residual is paid out before the film is completed

- appropriate share of general business overheads, which are Australian business overheads;
- freighting an item to Australia where the item will be used in production;
- additional footage for use in subsequent releases of the film, such as DVD special features, where the expenditure takes place in Australia;
- publicity or promotional material, where the copyright in the material is held by an Australian resident; and
- a person's travel to Australia to undertake activities in relation to making a film if their remuneration is QAPE.

There are a number of exclusions to this definition where costs are not eligible as QAPE, including the following:

- expenditure incurred when the production company is neither an Australian resident company nor a foreign company with an ABN operating with a permanent establishment in Australia; and
- the expenditure on personnel other than cast who work in Australia on the production of the film for less than two consecutive calendar weeks during their stay (each trip is treated separately).

### **What is Qualifying PDV Expenditure for the PDV Offset?**

Qualifying PDV Expenditure is QAPE (see above) to the extent that it relates to PDV work on the film. PDV work is:

- (a) the creation of audio or visual elements (other than principal photography, pick ups or the creation of physical elements such as sets, props or costumes) for the production; and
- (b) the manipulation of audio or visual elements (other than pick ups or physical elements such as sets, props or costumes) for the production; and
- (c) activities that are reasonably related to the activities mentioned in paragraphs (a) and (b).

Examples of tasks that may be considered PDV work are attached to this fact sheet.

### **3. Accessing the offsets—the administrative process**

The process for both the Location and PDV Offsets is the same. Film producers will need to apply to the Department of the Environment, Water, Heritage and the Arts for a certificate of eligibility issued by the Minister for the Environment, Heritage and the Arts.

For the Location Offset, the application may be when:

- QAPE has ceased being incurred (for productions with QAPE of A\$50 million or more); or
- production expenditure has ceased being incurred (for productions with QAPE of at least \$15 million and less than A\$50 million).

For the PDV Offset, the application may be made when Qualifying PDV Expenditure has ceased being incurred.

When issuing a certificate, the Minister will also formally determine the actual amount of QAPE of the production.

- Final certification guarantees the film producer's eligibility for the offset. A producer should apply for final certification following the completion of the film.
- Producers also have the option of applying for a provisional certificate during the film's production. While a provisional certificate will not provide a guarantee of getting a final certificate, it may assist in identifying those costs which can be counted towards QAPE/Qualifying PDV Expenditure.

Details of the application process for provisional and final certification together with guidelines for the offset are available on the Department's website at [www.arts.gov.au/locationoffset](http://www.arts.gov.au/locationoffset)

Applications received are considered by the Film Certification Advisory Board, which is an advisory board of industry representatives and an Australian Government official. The Board advises the Minister as to the eligibility of the applicant's production for the offset. The Board may seek the assistance of an independent film production consultant, who examines the production's expenditure statements, ensuring that all claimed expenditure is appropriate and correctly categorised. Both the Board and the consultant are subject to strict confidentiality agreements.

Once a final certificate is issued in respect of a particular production, the applicant company can claim the offset in its income tax return for the relevant income year. The relevant year for the Location Offset is:

- the year in which QAPE ceased being incurred (for productions with QAPE of A\$50 million or more); or
- the year in which production expenditure ceased being incurred (for productions with QAPE of at least \$15 million and less than A\$50 million).

For the PDV Offset, the relevant year is the year in which Qualifying PDV Expenditure ceased being incurred.

The Australian Taxation Office will provide a refund of a tax offset where the amount exceeds the amount of any existing tax liabilities owed by the applicant company.

The Minister may revoke a certificate where he is satisfied that the certificate was obtained by fraud or serious misrepresentation. In such a case, the Minister will write to the production company stating the reasons for the revocation.

A certified applicant must subsequently provide a copy of the film to the Department of the Environment, Water, Heritage and the Arts within 30 days of the film's completion.

#### **4. Further information**

Guidelines that explain the operation of the Location and PDV Offsets in detail are available, along with the Application Forms for final and provisional certificates, from the website of the Department of the Environment, Water, Heritage and the Arts at [www.arts.gov.au/locationoffset](http://www.arts.gov.au/locationoffset).

Alternatively, please contact:

Film Incentives and International Section  
Department of the Environment, Water, Heritage and the Arts  
GPO Box 787  
CANBERRA ACT 2601  
Australia

Direct: Tel: + 61 2 6275 9645                      Fax: + 61 2 6275 9320

Switch: +61 2 6274 1111

Email: [film.enquiries@environment.gov.au](mailto:film.enquiries@environment.gov.au)

Web: [www.arts.gov.au/locationoffset](http://www.arts.gov.au/locationoffset)

## ATTACHMENT

### *PDV tasks that may be eligible*

<ul style="list-style-type: none"><li>• 2D and 3D animation</li><li>• 2D compositing, including matte compositing</li><li>• 3D digital compositing, including composites involving live-action and blue/green screen, rig removal and rotoscoping</li><li>• 3D scanning, including LIDAR</li><li>• Acquisition or recording of elements</li><li>• Animatronics</li><li>• Archiving, by which is meant digital archiving of PDV elements, rather than the archiving of the final film</li><li>• Atmosphericics</li><li>• Audio special effects</li><li>• Audio/sound mixing</li><li>• Automated dialogue recording (ADR)</li><li>• Background, including, but not limited to plate acquisition</li><li>• Computer generated imagery (CGI), including character animation and 3D CG modelling</li><li>• Colour correction and grading, including digital colour grading and digital intermediates (DI)</li><li>• Clearances (library and sound), where copyright is held by an Australian.</li><li>• Digital and visual effects, including CG effects creation and animation, the acquisition of visual effects elements and digital lighting</li><li>• Digital make-up fixes</li><li>• Digital rig and wire removal and digital wire effects</li><li>• Duplication (until delivery, but excluding distribution copies), including deliverables</li><li>• Editing, including on-line and off-line</li></ul>	<ul style="list-style-type: none"><li>• Encoding</li><li>• Film laboratory services (production and post-production)</li><li>• Film scanning, treatment and restoration, including digital film scanning and recording</li><li>• Foley effects</li><li>• Graphics</li><li>• Green/blue screen photography</li><li>• Idents</li><li>• Match moving</li><li>• Matte painting and photography, including digital matte creation and 2D matte painting</li><li>• Models, miniatures and miniature photography</li><li>• Motion capture</li><li>• Motion control</li><li>• Music and effects</li><li>• Music composition and recording</li><li>• Opticals</li><li>• Pre-visualisation</li><li>• Rendering</li><li>• Restoration</li><li>• Soundtrack</li><li>• Spot effects</li><li>• Stills manipulation, including photogrammetry</li><li>• Streaming and file transfer of elements and approval copies and footage</li><li>• Telecine</li><li>• Tests that are typically included in the process of visual effects and post production</li><li>• Titles and credits</li><li>• Virtual studio/sets</li><li>• Visual effects design, planning, supervision, management and integration into production</li><li>• Voice post synching</li></ul>
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