

# Investment initiative to cultivate the Australian contemporary music industry

APRA AMCOS

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# Executive summary

## Introduction

Australia has a rich history of making contemporary music, with many home-grown songwriters, composers, performing and recording artists having made significant social and economic contributions to society both locally and internationally. The contemporary music industry has been and is an integral part of Australian culture, as well as a significant contributor to economic activity. Benefits include job creation, revenue generation, export revenue, as well as wider cultural, social and regional benefits.

The contemporary music industry is varied and complex, with a diverse range of stakeholders, ranging from a small number of large multinational music companies, to many thousands of small independent businesses. Accordingly, there is enormous diversity of income across the industry.

Furthermore, the contemporary music industry is dynamic and has been incredibly responsive to change, leading the content industries transition to a digital economy. While the Australian contemporary music industry competes impressively on the global stage, with music creators, performers and artists increasingly present and sought after in international markets, it faces significant challenges.

The venue-based live music sector is critical to the development of both artist and audience. Regulatory barriers and limited venue expertise have impeded the viability and health of the live music sector. While there is a willingness to present live music, venue operators struggle with the associated start-up and operational costs of presenting live music.

The record industry continues to evolve through enormous change. While producing commercial sound recordings might be easier for independent artists and labels, 'breakthrough' is arguably more difficult given the globalisation and diversification of music dissemination. Further, the ability of digital music aggregators and delivery services to provide a real

'return on investment' to creators and artists is yet to be realised in the rapidly changing market.

Historically, government investment in the contemporary music industry has been limited. While grants, philanthropy, crowd-funding and loans are all important sources of individual artist and project funding, this report focuses on the impact of tax incentives as a funding option.

Ernst & Young has been engaged by APRA AMCOS (Australasian Performing Right Association Limited and Australasian Mechanical Copyright Owners Society), in conjunction with the Australia Council, PPCA (Phonographic Performance Company of Australia Limited), the Australian Hotels Association and the Restaurant & Catering Industry Association to:

- Investigate the need for further investment in the contemporary music industry in Australia
- Assess the impact of such investment in the form of tax offsets.

This study builds on the APRA AMCOS commissioned report by Ernst & Young in 2012, *The economic contribution of the venue-based live music industry*.

## Challenges impacting the sustainability of the industry

In considering the sustainability of the contemporary music industry we have focused on three primary components; venues, sound recording owners and artists.

The contemporary music industry currently faces many challenges:

- *Venues*: venues provide an important platform for emerging artists to expose their music to audiences and develop their music career. Live music performance is seen as an incubator for talent where artists can

gain exposure and trial new material. However, venues face significant financial and regulatory barriers.

- *Sound recording owners*<sup>1</sup>: sound recording owners face lower revenues due to the shifts in music dissemination and consumption and online piracy.
- *Artists*: musicians have amongst the lowest salaries of the Australian creative sector, with average incomes lower than the average income of other Australian workers. Given this, artists must seek other employment opportunities, reducing their time spent on developing music.

### Tax offsets – development and testing of options

In order to determine the potential impact of tax offsets for each industry segment, a number of scenarios were developed in consultation with stakeholders. Each of these scenarios was then tested with each segment of the industry to determine the likely impact:

- *Venues*: the majority of venues agreed that a tax offset would be an incentive to further invest in live music. Venues currently staging live music indicated that a tax offset would encourage them to host a greater number of live music performances. Venues not currently staging live music indicated that a tax offset would encourage them to begin to stage live music, with an increasing tax offset level encouraging them to host an increasing number of live music performances
- *Sound recording owners*: there were a range of responses in relation to how a tax offset would be used including hiring additional staff to signing new artists and increasing their investment in new and current artists

<sup>1</sup> In this report, sound recording owners are defined as self-releasing/home-recording artist, independent labels and major record companies. Music publishers are not included. This report also refers to sound recording owners as “producers”.

- *Artists*: the impact to artists was assumed to be driven by the outcomes of the sound recording owner and venue segments (i.e. through royalties and live performance payments).

The tax offset scenarios tested are outlined in the following table. Combined venue scenarios were also tested, which considered the combined overall impact of some venues receiving a cash offset, while others received a percentage of expenses offset (i.e. \$10k / 5%, \$20k / 10% and \$40k / 20%).

Venues and sound recording owners provide important foundations of the industry for artists to develop their music career. These scenarios were assumed to flow through to artists through royalties and live performance payments, also benefitting artists. Artist scenarios, in isolation, were also considered to provide a basis for comparison.

Table 1: Options for tax offsets

Scenario	Assumed level of tax offset	
	Dollar amount	% of expenses
<b>Venue scenarios: venues not currently staging live music (i.e. new venues)</b>		
1. Venue Scenario (new)	\$10,000	-
2. Venue Scenario (new)	\$20,000	-
3. Venue Scenario (new)	\$40,000	-
<b>Venue scenarios: venues currently staging live music (i.e. existing venues)</b>		
1. Venue Scenario (existing)	-	5%
2. Venue Scenario (existing)	-	10%
3. Venue Scenario (existing)	-	20%
<b>Artist scenarios</b>		
1. Artist Scenario	-	5%
2. Artist Scenario	-	10%
3. Artist Scenario	-	20%
<b>Sound recording owner (SRO) scenarios</b>		
1. SRO Scenario	-	5%
2. SRO Scenario	-	10%
3. SRO Scenario	-	20%

## Economic analysis of tax offset scenarios

The key metrics used to determine the impact of the tax offset included total output; value add; full time equivalents and tax flow impact. Definitions of each of these metrics are contained in Section 4.1

### Outcomes

In sum, the study found that under all options considered, tax offsets delivered an increase in total output (direct and indirect), employment and value add relative to the Base Case (i.e. no tax offset), as illustrated by the following figures.

The greatest increases in total output, employment and value add was evident for the venue scenarios. The assumed \$40k tax offset to venues not currently staging live music combined with an assumed 20% of expenses as a tax offset for venues currently staging live music had the highest total output, employment and value add.

Figure 1: Total output (\$m), incremental to Base Case – summary

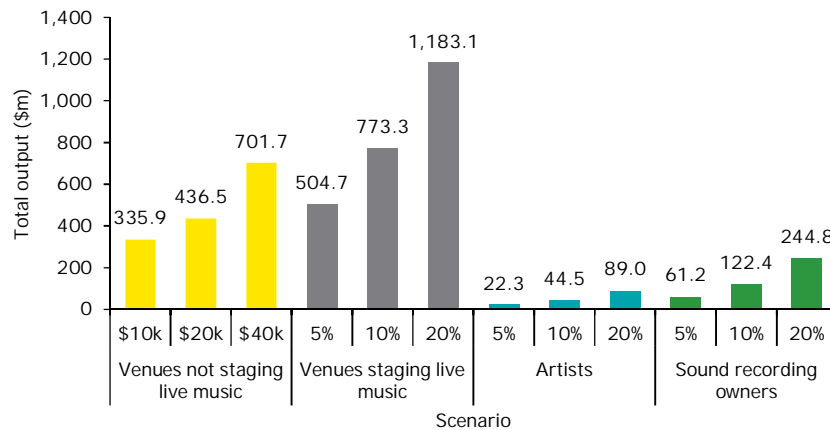


Figure 2: Employment, incremental to Base Case – summary

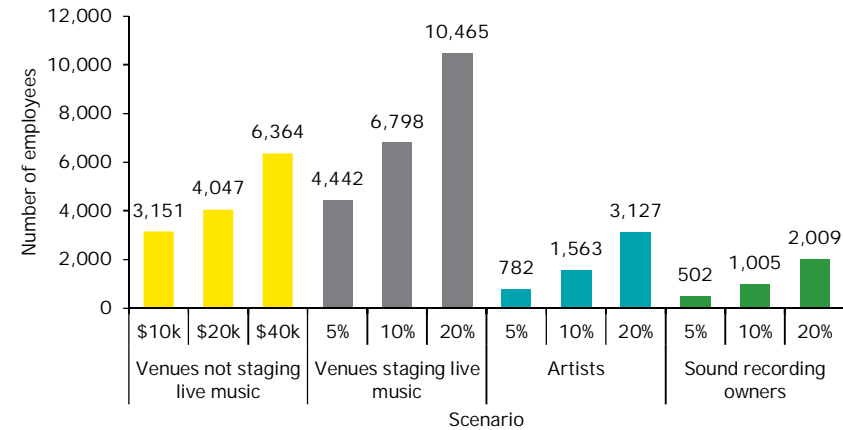
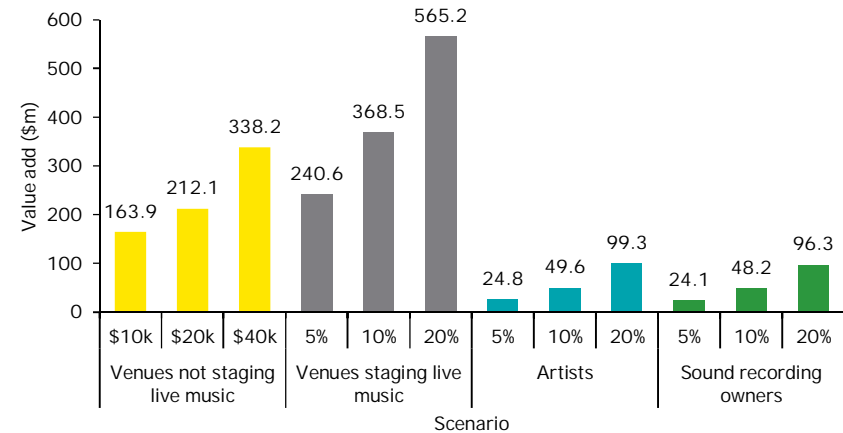


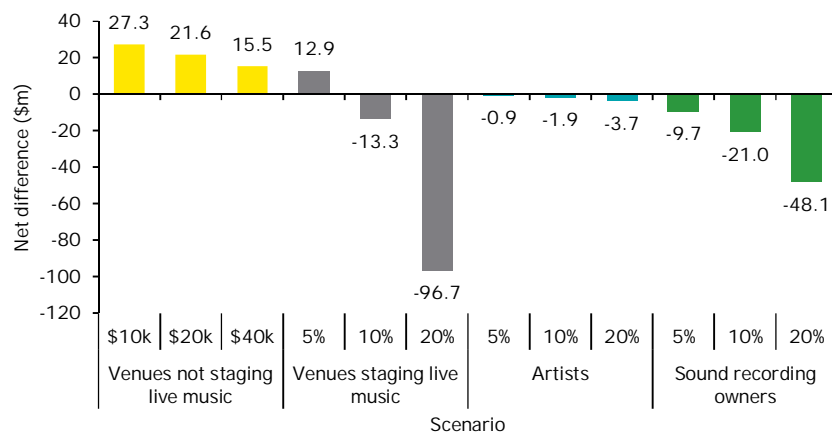
Figure 3: Value add (\$m), incremental to Base Case – summary



The net difference between the assumed total tax offset paid by government and the additional tax revenue received by government from the increase in spending by the industry as a result of the tax offset varied across the scenarios (

Figure 4). The largest positive net difference was evident for the \$10k / 5% combined venue scenario

Figure 4: Net difference – summary



### Highlights and key findings

- Increase in total output, employment and value add: while all scenarios led to an increase in total output, employment and value add, the greatest increases were evident for the combined venue scenarios. The highest output, employment and value add was evident for the \$40k / 20% combined venue scenario
- Increase in venues staging live music: based on the venue survey data, 45% of restaurants / cafes / other, 21% of hotels/bars and 5% of clubs and nightclubs that are not currently staging live music would stage live music if a range of tax offsets were provided. This was estimated to amount to up to 2,017 new venues staging live music across Australia
- Increase in live music performances: up to 284,193 additional live music performances per year are expected under the combined venue scenarios. This is an increase of approximately 87% in comparison to current levels

- Increase in live music attendances: up to 31.1 million additional attendances under the combined venue scenarios
- Impact on tax flow and net difference: tax offsets will generate additional spending in the economy, which results in additional tax revenue for government. While the net difference between the total tax offset paid by government and the additional tax revenue received varied across the scenarios, it was highest under the combined venue scenario (\$10k / 5%).

### Limitations

The limitations of this study set out in Section 3.5 should also be considered when interpreting these highlights and key findings.

### Conclusion

Based on the outcomes of our options development and testing, and our economic analysis, the combined venue tax offset provides the greatest overall benefit. Of the combined venue scenarios, the \$10k / 5% scenario has the highest net difference, providing a net return to government of \$40.2m, and the greatest return on investment for government. This captures current market insight and intelligence, which shows that providing an increasing level of tax incentives will not necessarily drive an increasing number of performances and return on investment for government.

Implementation could leverage the framework and legislation already in place, such as the Federal Government’s R&D tax concession or film industry tax offset.

The scope of this project does not extend to a detailed analysis of the costs of implementation. The level of offset and design is yet to be determined and will need further analysis and testing with stakeholders.

# 1. Introduction

## Chapter summary

Australia has a rich history of making contemporary music, with many home-grown artists having made significant social and economic contributions to society both locally and internationally. The contemporary music industry is an integral part of Australian culture, and a significant contributor to economic activity.

The contemporary music industry is varied and complex, with a diverse range of stakeholders. While there are a small number of large multinational music companies, the industry is characterised by the many small businesses and grass roots artists that represent the full range of activity. As a result, there are wide income gaps across the industry.

The Australian contemporary music industry is currently a net importer of music. Music industry stakeholders believe a greater focus on investment is required in realising the potential of the wider contemporary music sector. Specifically, a holistic approach to investment that considers the creation and life cycle of a new Australian musical work - its recording, performance, communication and consumption, locally and internationally - and the derived socio, cultural and economic benefits to the wider public. Grants, philanthropy and loans are important sources of industry funding, but are often unsustainable and subject to changes in policy.

The purpose of this report is to investigate the opportunity of investment in the contemporary music industry in Australia and assess the impact of such investment in the form of tax offsets.



## 1.1 Background

### 1.1.1 The contemporary music industry

Today, the industry's many players and entities contribute in the order of \$2 billion annually to the Australian economy while supporting thousands of jobs<sup>2</sup>. Contemporary music is therefore an integral part of Australian culture as well as a significant contributor to economic activity.

Contemporary music has been defined and generally agreed as “*music that is currently being written, recorded or performed by Australians*”. This definition is quite broad and covers genres including pop, rock, electronic/dance, hip-hop, jazz, blues, country, world and contemporary classical.

The industry that produces contemporary music is also diverse<sup>3</sup>:

*The contemporary music value chain is complex and includes individual songwriters and composers, artists and performers, record companies, recording studios, publishing companies, manufacturers, distributors, retailers, and collection societies. While there are a small number of large multinational music companies, the industry is characterised by the many small and micro businesses that represent the full range of activity.*

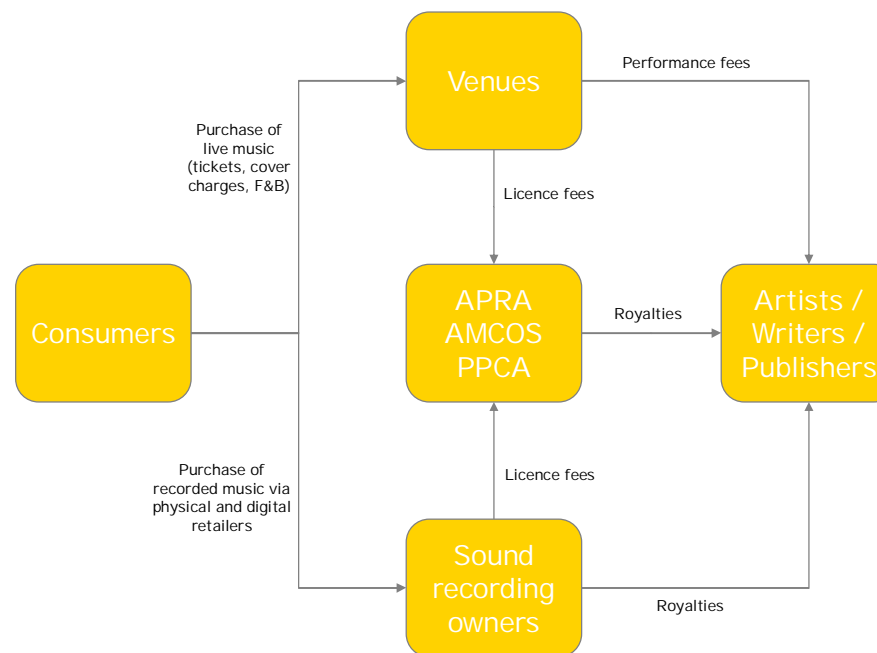
Box 1 describes some key components and characteristics of the industry value chain.

A non-exhaustive schematic diagram of the key value chain of this industry is depicted in Figure 5. This diagram shows the economic and product flows from the Australian music consumer.

<sup>2</sup>, *Strategic Contemporary Music Industry Plan*, 2010, p. 3.

<sup>3</sup>Ibid.

Figure 5: High level schematic diagram of the contemporary music value chain



*Note: This is a simplified illustration of the workings of the contemporary music industry. There are many other economic relationships between different sectors of the industry as well as relationships with other industries (for instance with promoters, television and radio stations, internet sites, and the retail industry). The nature of the financial relationships between different segments of the industry can also vary, ranging from fixed fees to a percentage of sales.*



### Box 1: Key segments and characteristics of the contemporary music industry

#### Consumers

- Most Australians consume music in some form or another, either directly or indirectly.
- There are a number of ways in which music is consumed directly, including attending live performances at music venues, broadcast services and purchases of recorded music in physical (CDs) or digital form (downloads, streaming).

#### Venues (and promoters)

- There are around 4,250 venues currently licensed by APRA AMCOS to present live music
- There are many types of venues ranging from large ticketed venues through to smaller pubs and clubs.
- Venues generate revenue from hosting live performances in a number of ways, ranging from tickets/cover charges through to increased food and beverage sales by attracting patrons to the venue.
- Performances at major venues may involve a promoter who organises performances and pays the venues and artists through ticketed revenues.

#### Sound recording owners

- Some artists produce and own their sound recordings independently.
- Record labels enter into contracts with artists ("record deals"), to produce, market and sell their music and pay royalties to the artist
- While this segment is dominated by the 'Big Three' (Universal, Sony and Warner – who collectively make up around 75% of market share worldwide) there are also many independent record labels as well as "garage studios" where artists produce their own music independently (i.e. self-releasing artists).

#### Artists

- Artists write and/or perform and/or record music
- The type of artists is diverse, and can range from hobbyists, to local acts, and big-name artists.
- The number of artists varies depending on its definition. The Australia Council for the Arts (2010) estimate there to be around 12,500 musician artists in Australia in 2009 (ranging between 10,000 and 15,000).
- Artists can generate income by receiving royalties from sales and/or fees and royalties for performances, synchronisation deals, phonographic performance royalties, as well as sales of merchandise.

#### APRA AMCOS

- In Australia APRA AMCOS (Australasian Performing Right Association and Australasian Mechanical Copyright Owners' Society) provides licences to play, perform, copy and record or make available members music.
- There are over 87,000 members based in Australia and overseas
- They negotiate licence agreements with parties who use copyrighted music publicly (e.g. venues, radio and television broadcasters, shopping centres) and collect and allocate royalties to members.

#### Phonographic Performance Company of Australia (PPCA)

- PPCA grant licences for the broadcast, communication or public playing of recorded music (e.g. CDs, records and digital downloads) or music videos
- PPCA then distributes the licence fees it collects to record labels and Australian recording artists.

#### Publishers

- A music publisher is primarily responsible for developing the career of a songwriter or composer and ensuring they receive payment for the commercial use and exploitation of their works.

#### Government support

- The contemporary music industry has traditionally received funding to support programs and projects.
- However, other forms of support – such as tax incentives – may provide longer term benefits to the broader industry.

### 1.1.2 Importance of the contemporary music industry

Due to the diversity of the contemporary music industry, there is no 'typical' artist. What is clear is that there is a wide gap in incomes between grass roots artists and major and established professional acts.

While the progression of artists' music careers vary greatly, it is generally recognised that most musicians start their careers by performing at live venues. A 2010 Arts Victoria survey of Victorian grass roots musicians indicated that 73% of respondents had live performance as their primary source of income, compared to 23% who relied on physical music sales<sup>4</sup>.

However, following a grassroots artist's 'big-break' such as a record deal, their reliance on live performance declines. In turn, income from recordings and composition begin to make up a larger share of total creative income. From the artists' perspective, a big-break such as getting a record deal is seen as a major career step. According to the International Federation of the Phonographic Industry<sup>5</sup>, more than 70% of

<sup>4</sup> Arts Victoria (2010), *Snapshot of Victorian Grassroots Musicians for 2010*.

<sup>5</sup> International Federation of the Phonographic Industry [IFPI] (2012a), *Investing in Music*.

unsigned acts want a record deal, while 75% believe that a record deal is important to an artist's career.

## 1.2 Purpose of this report

There are a number of challenges facing the contemporary music industry in Australia in developing both the local and international market (as discussed in Section 2).

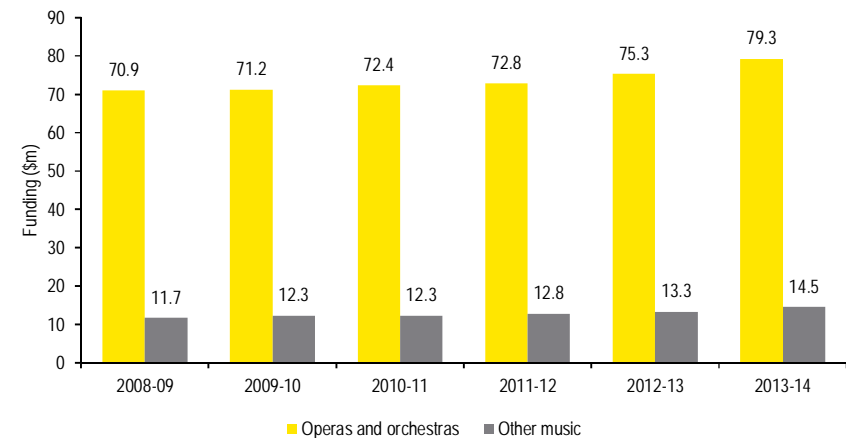
Australia is a net importer of music. There is considerable opportunity to address Australia's position as a net importer of contemporary music, which would produce considerable socio, cultural and economic benefits to the wider public.

Grants, philanthropy and loans are important sources of industry funding. However, the level of government funding for contemporary music continues to lag significantly behind the rest of the music sector (i.e. opera, orchestras etc.), as illustrated in Figure 6. The figure highlights the direct financial support provided by the Australia Council to opera and orchestras. 'Other music' includes everything other than opera and orchestras, and includes contemporary music. It should be noted that there are some contemporary music programs that receive funding directly from the Minister's office.

While opera and orchestras receive cash funding to support infrastructure and organisations, the contemporary music sector has traditionally received funding to support programs. Arguably, other forms of support - such as tax incentives - may be more appropriate to the contemporary music sector which has more in common with the film industry than the traditional arts sector.

Ernst & Young has been engaged by APRA AMCOS (Australasian Performing Right Association Limited and Australasian Mechanical Copyright Owners Society), in conjunction with the Australia Council, PCCA (Phonographic Performance Company of Australia Limited), the Australian Hotels Association and the Restaurant & Catering Industry Association to investigate the need for further investment in the contemporary music industry in Australia and to assess the impact of such investment in the form of tax offsets.

Figure 6: Contemporary music vs arts funding



Source: Australia Council for the Arts 2013

## 1.3 Scope of this report

This report explores the application of tax offsets for the contemporary music industry. Specifically it assesses the potential impact of such tax offsets to the following three key segments of the industry:

- 1) **Venues:** Includes venues that provide performance opportunities for both emerging and established artists (pubs, clubs and restaurants), but does not include large scale ticketed venues (such as stadiums and arenas)
- 2) **Sound recording owners:** Considers all forms of contemporary sound recording owners being the self-releasing/home-recording artist, independent labels and major record companies. Music publishers are not included.
- 3) **Artists:** Focuses on artists that earn income from contemporary music rather than hobbyists

The potential impact of tax offsets to these three segments of the industry is measured in terms of the following key metrics (as defined in Section 4.1):

- Total industry output
- Value add
- Employment
- Flow on taxation impacts.

## 1.4 Structure of the report

The remainder of this report is structured as follows:

- Section 2: Challenges impacting the sustainability of the industry
- Section 3: Tax offsets – development and testing of options
- Section 4: Economic analysis of tax offset scenarios
- Section 5: Implementation.

## 2. Challenges impacting the sustainability of the industry

### Chapter summary

The contemporary music industry currently faces many challenges:

- *Artists:* musicians have amongst the lowest salaries of the Australian creative sector, with average incomes lower than the average income of other Australian workers. Given this, artists must seek other employment opportunities, reducing their time spent on developing music. This is resulting in a decline in the number of Australian artists
- *Venues:* venues provide an important platform for emerging artists to expose their music to audiences and develop their music career. Live music is seen as an incubator for talent where artists can gain exposure and trial new material. Additionally, live music venues are critical in providing regular performance opportunities and income to 'working bands' and 'resident artists'. However, venues face significant financial and regulatory barriers
- *Sound recording owners:* sound recording owners face lower revenues due to the shifting trends in music consumption and online piracy.

creative industry professionals<sup>6</sup>. In 2010, the average arts related income to musicians was \$30,100 a year, with around 6% of artists earning \$2,000 or more per week<sup>7</sup>.

On average, musicians earn lower incomes than other occupational groups. Arts related income earned by musicians was on average 39.5% less than the average incomes of other workers in Australia<sup>8</sup>. The incomes of other workers in Australia also experienced real growth of 23% between 2000/01 and 2007/08, whereas the arts-related income of musicians experienced real declines of 8% over this period.

Very few artists also "make it big" in this industry, with less than 200 songwriters and composers earning more than \$100,000 per annum from their creative practice, or less than 0.5% of the total artist population<sup>9</sup>.

Artists also incur a range of expenditures, including materials, equipment and travel. The Australia Council for the Arts found the average yearly level of expenses for music artists to be \$6,200 (2007 dollars), or around one-fifth of their total arts income<sup>10</sup>. As most artists are self employed, these costs accrue directly to them, lowering their overall net income from music activities.

### 2.1 Challenges for music artists

#### 2.1.1 Musicians have amongst the lowest salaries of the Australian creative sector

A career in music is becoming less lucrative in Australia. Australian music and performing artists have the lowest average weekly salaries of all

<sup>6</sup>Creative Industries Innovation Centre (2013), *Valuing Australia's Creative Industries*, accessed 11 April 2014 from <<http://www.creativeinnovation.net.au/business/ciic-resources/creative-economy/#/who/music-and-performing-arts>>.

<sup>7</sup>Ibid; Australia Council for the Arts (2010), *Do you really expect to get paid? An economic study of professional artists in Australia*, for the Australian Council for the Arts.

<sup>8</sup>Ibid.

<sup>9</sup>Ibid.

<sup>10</sup> Australia Council for the Arts (2010), *Do you really expect to get paid? An economic study of professional artists in Australia*, for the Australian Council for the Arts.

Table 2: Mean income levels for Australia musicians compared to average employees (in real \$2007)

	Musicians		All employees in Australia	
	2000/01	2007/08	2000/01	2007/08
Arts income	33,800	30,100	-	-
Other non-arts income	13,400	13,500	-	-
Total income	47,200	43,500	40,400 <sup>a</sup>	49,800

Source: Australia Council (2010)

Note: Arts income comprises both principal artist activities (creative income) and other arts related income (teaching etc)

<sup>a</sup>Based on May 2000, weekly income of 652.8\*52, inflated 7 years

## 2.1.2 Artists seek work in the non-creative sector to improve average salary levels

Given the low salaries generated by their creative work, artists must seek other employment opportunities, reducing their time spent on developing music.

As with all art forms, the ability to work creatively is considered the key to career progression. However, due to the need to supplement their low incomes, most artists engage in other forms of non-arts employment (or rely on their partner's income). Musicians generated on average \$13,500 in income from other sources to supplement their arts income in 2007/08 (Table 2).

Rather than engaging in other forms of employment, evidence suggests that most music artists would prefer to spend more time on their music (i.e. developing, creating and performing). For example, the Australia Council for the Arts found that 58% of musicians surveyed would like to spend more time on arts work<sup>11</sup>. Also, musicians currently spend 36% of their time on arts related work, yet they desired to spend 61% of their

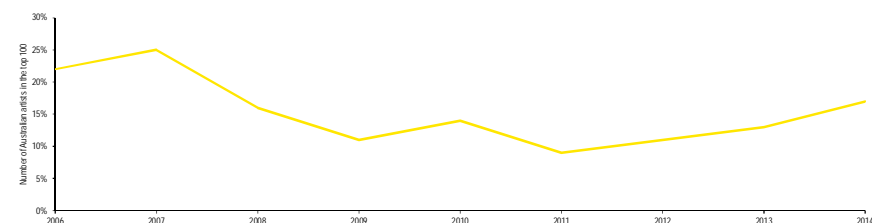
<sup>11</sup> Ibid.

time in this area but were unable to do so (due to the need to engage in other work and the lack of opportunities)<sup>12</sup>.

## 2.1.3 A contracting Australian music industry

Australia is a net importer of music. In 2012, 11% of the top 100-selling singles were from Australian artists<sup>13</sup>. As illustrated in Figure 7, this has declined after reaching a peak of 25% in 2007. Further, according to an International Federation of the Phonographic Industry study<sup>14</sup>, just 25% of physical music sold in Australia is locally produced, placing the country in 34<sup>th</sup> position out of the 48 included nations.

Figure 7: Number of Australian artists in the top 100



Source: ARIA (2015)

Supporting this, trend data collected by the Australia Council suggests the numbers of artists in the industry has been declining or has remained flat. In 1987, the total number of practising musicians in the industry was estimated at 13,700, which has reduced to 12,500 in 2009<sup>15</sup>. This equates to a decline in the number of musicians in Australia by -9% in comparison to the population growth rate of 34% for the same period. This is illustrated in Figure 8.

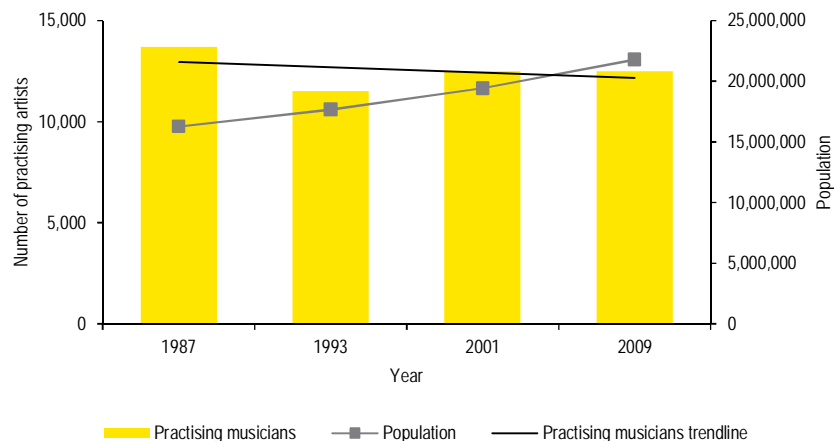
<sup>12</sup> Ibid.

<sup>13</sup> Australian Recording Industry Association (2012), Australian Wholesale Sales for the Year Ended 31 December.

<sup>14</sup> International Federation of the Phonographic Industry [IFPI] (2012b), *Recording Industry in Numbers*.

<sup>15</sup> Australia Council for the Arts (2010), *Do you really expect to get paid? An economic study of professional artists in Australia*, for the Australian Council for the Arts.

Figure 8: Number of practising professional musicians over time



Source: ABS (2014); Australia Council for the Arts (2010)

## 2.2 Challenges facing venues

### 2.2.1 Financial and regulatory barriers to venues to stage live music

Live music performance is an important platform for emerging artists to expose their music to audiences and to develop their music career. Live performance is seen as an incubator for talent where they can gain exposure and trial new material (Ernst & Young, 2011). The importance of live music to industry development was recognised in the Strategic Contemporary Music Industry Plan (2010):

*While new technologies are providing different ways for artists to reach audiences, live performance remains important for artists' technical and creative development, income generation and networking with fans and industry. It is the first step in furthering an international career.*

However, venues are facing the following challenges:

- *Regulatory barriers* – Ernst & Young's (2011) survey<sup>16</sup> of the venue-based live music industry found the most commonly cited barrier (69.1% of respondents) to owning or operating a live music venue to be regulatory barriers. These include complying with regulations relating to noise, security, liquor licensing, OH&S and town planning. Increased regulations have contributed to a reduction in live music events, outlining examples where onerous legal and soundproofing costs have led some venues to shut or relocate<sup>17</sup>. The Victorian Government also introduced a 'risk-based' licence fee for pubs and bars in 2009. Those offering live music were deemed to pose the highest risk to community safety, leading to a more than doubling of existing fees<sup>18</sup>
- *Competing uses for venue space* – from consultations with venues, venues reported that live music operations in venues (pubs and clubs) have been displaced by more profitable gaming operations with the liberalisation of gaming in that state
- *Changing leisure habits* – from consultations with venues, venues noted the changing leisure habits of patrons influenced by the emergence of new music technologies and genres (e.g. dance genres), and changing alcohol consumption attitudes. These changes in attitudes influence the interest and viability of hosting live music in venues
- *Cost of hosting live music* – hosting live music also imposes costs on venue operators. These costs include the cost of infrastructure (staging and lighting), promotional costs and the cost of hiring

<sup>16</sup>Ernst & Young (2011), *Economic contribution of the venue-based live music industry in Australia*, prepared for the Australian Performing Right Association.

<sup>17</sup>Thistleton, R (2013), 'Residents clash with live venues', *The Australian Financial Review*, 28 February.

<sup>18</sup> Department of Justice (2011), 'Licence conditions for live music venues', VCGLR, Melbourne.

artists. Ernst & Young's 2011 survey of the venue-based live music industry found that many venues cited the cost of talent (61.7%) and the cost of infrastructure (26%) as barriers to owning and operating live music venues.

The reduction in live music venues could mean a continuing shift away from traditional entry into the industry through live performance and towards other avenues. These include internet, social media, networking sites and television.

However, consultations with venues suggest that these changes may not be desirable for the industry as live performances provide:

- Ongoing connections with audiences and peers
- An essential marketing device for artists seeking record opportunities
- A primary means of income for an industry where only a limited number of artists earn a living through royalties
- Skills development for artists, including both music and business skills
- A precursor to export – a strong local live scene has been regarded as an important incubator for artists seeking international success.

In recognition of the challenges facing the live music industry in 2014, the Victorian Government announced a package of regulatory reforms to provide increased protection to live music venues. This is further detailed in Box 2.

#### Box 2: Live Music Action Agenda – Victoria

##### Live Music Action Agenda – Victoria

In August 2014, the Victorian Government announced a package of regulatory reforms to provide increased protection to live music venues, designed to support the Victorian live music industry.

These regulatory reforms will address key challenges faced by the industry such as noise management, building standards, over-regulation and compliance which threaten the viability and growth of live music venues and the industry as a whole.

The Live Music Action Agenda comprises:

1. *Licensing*: new laws and streamlined licensing controls
2. *Planning*: new Particular Provision and Practice Note
3. *Building*: reducing the regulatory burden for smaller venues
4. *Assistance package*: \$500,000 Live Music Noise Attenuation Assistance Scheme
5. *Environment and Noise*: review of noise regulations.

## 2.3 Challenges faced by sound recording owners

### 2.3.1 Lower revenues in music production

With the growing use of the internet, Australian consumers have shifted their consumption of music from physical to digital music. The value of physical and digital sales in Australia is illustrated in Figure 9. Since 2004, physical sales have declined by 75%, while digital sales have begun to plateau after significant growth from 2005 to 2011.

These trends can be attributed to:

- *Online streaming models* – streaming music services accounted for 3% of total music industry revenues in 2007, which has grown to 21% in 2014<sup>19</sup>. Streaming services such as Pandora and Spotify experienced revenues of \$US 1.4 billion in 2013, up 39% from the

<sup>19</sup> Business Insider Australia (2014), *It Looks Like Pandora Has Actually Stolen Business From iTunes*, accessed 11 April 2014 from <<http://www.businessinsider.com.au/pandora-v-itunes-revenues-2014-3>>.

previous year, as per the Recording Industry Association of America<sup>20</sup>

- *Ability to purchase individual tracks rather than albums (the 'a la carte' model)* – the internet has made it easier to purchase individual digital tracks over albums. This is less profitable for both the artist and sound recording owner. Between 2006 and 2011, sales of digital singles experienced a compound average annual growth rate of 47.1%, compared to 12.0% for physical albums (Figure 9)
- *Access to free online music* – services such as YouTube offer free on-demand ad-funded music, as do many major streaming services that also offer paid services, including Spotify. The advertising revenue growth of such sites has not accounted for the drop in sales, leading to a reduced overall music market. In addition, revenue from these free offerings are significantly lower than that from paid streaming offerings, with paid streaming generating nearly three dollars for every dollar generated by ad-funded offerings in the US during 2014<sup>21</sup>. The nature of these free offerings is currently under debate in the industry, with major labels including Universal and Sony reportedly looking at ways to limit free service offerings in an effort to better drive users towards paid services
- *Online piracy* – online piracy in Australia continues to be a threat to sound recording owners. In a 2012 survey, Australia ranked sixth in the world by volume of illegal music downloads, but first on a per-capita basis<sup>22</sup>.

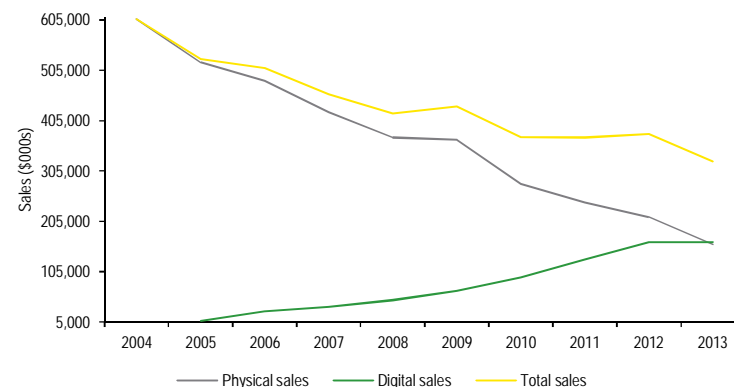
<sup>20</sup>ibid.

<sup>21</sup> Garrahan, M, Ahmed, M & Cookson, R (2015). Universal takes on Spotify freemium model, *Financial Times*, 20 March 2015; D'Orazio, D (2015), 'Music labels are reportedly pressuring Spotify to limit free streaming', accessed 13 July 2015 from <<http://www.theverge.com/2015/3/21/8270703/music-labels-look-to-limit-free-spotify-service>>.

<sup>22</sup>Musicmetric (2012), as cited in Zuel, B (September 2012). Australians world's worst for illegal music downloads, *Sydney Morning Herald*, accessed 3 December 2012 from

APRA AMCOS expects that revenues from physical and digital download sales will continue to decline to the extent that only continued substantial increases in licence fees from music streaming services will offset the overall decline in royalties from sales.

Figure 9: Physical and digital sales\*



\*Digital sales include digital tracks and albums.

Source: ARIA (2014)

### 2.3.2 Lower revenues mean less investment in artists

New talent is the lifeblood of the music industry, however it can cost up to US\$1.4million to invest in a new artist<sup>23</sup>. Even then, the subsequent success of the new artist in a competitive market is not guaranteed. The success rate is estimated to be approximately one in five in the US<sup>24</sup>. From EY's consultations with sound recording owners, this was estimated to be one in ten in the Australian market.

<<http://www.smh.com.au/entertainment/music/aust-ralians-worlds-worst-for-illegal-music-downloads-20120918-2643a.html>>.

<sup>23</sup> International Federation of the Phonographic Industry [IFPI] (2012b), *Recording Industry in Numbers*.

<sup>24</sup>ibid



Music production now involves greater risk, with returns realised over a longer time frame. Based on consultations with industry stakeholders, the consequence of this is that record companies are becoming increasingly cautious given the risk associated with signing new local talent.

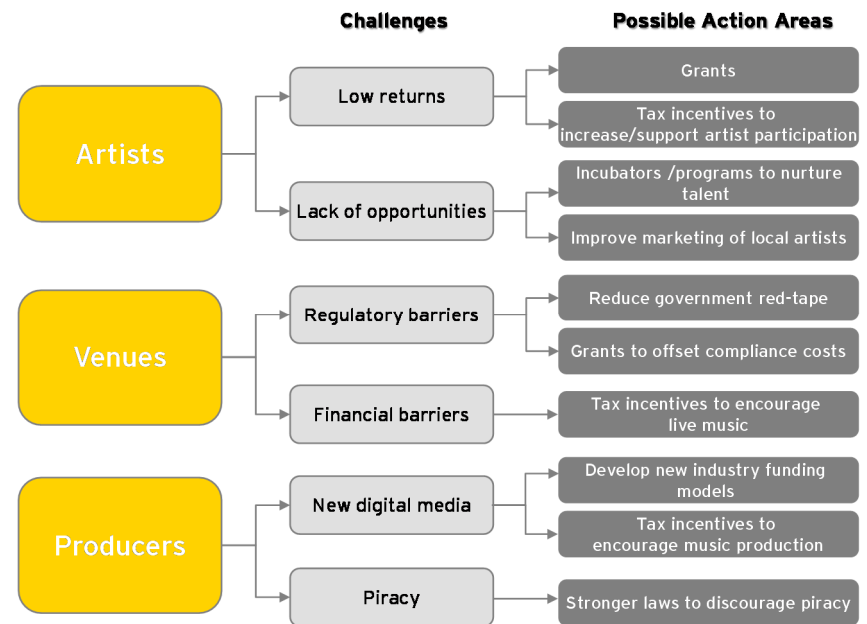
## 2.4 Possible action areas

To meet these challenges, there are a range of actions that could be pursued. Based on EY's stakeholder consultation and industry research, these include:

- Tax incentives
- Grants
- Incubators to foster record/music production
- Improving the marketing of artists
- Reforms to the venue licensing regulations
- Regulations and measures to reduce piracy
- Changes to funding models.

Some actions would require government intervention while others require industry to act. The specific scope of this report (as outlined in Section 1.3) is to assess the potential impact of providing tax incentives to cultivate the industry. It is beyond the scope to explore all options in this report, and each action may have merit on a case-by-case basis if targeted towards the right areas. As such, tax incentives through the use of tax offsets will be the focus of the remainder of this report.

Figure 10: Potential actions to respond to industry challenges



## 2.5 Case studies

Provided in the following boxes are a number of case studies on how other jurisdictions have invested in the development of music and related industries. These range from tax offsets to grant funding.

### Box 3: Case study – New York

New York proposes tax credits for music projects

A New York state lawmaker has proposed extending the state's entertainment tax credits to cover the music industry. According to the Associated Press, Assemblyman Joe Lentol, a Brooklyn Democrat, has proposed legislation to create a 20% tax credit for music producers, similar to the tax incentives already provided for film and television production.

Lentol says that the credit should be applicable to a spectrum of music concerns, including production facilities, singers, songwriters and music venues. It could also be applied to cover things like royalties, musician sessions fees, direct marketing and consultant fees paid for recorded music.

The state's legislature is set to reconvene in January 2015.

### Box 4: Case study – film industry tax offset

Producer Offset – film industry

The Producer Offset is a refundable tax offset for producers of Australian feature films, television and other projects.

The value of the Producer Offset is calculated based on a project's qualifying Australian production expenditure (QAPE) and is worth:

- 40% of QAPE incurred on a feature film
- 20% of QAPE incurred on a program other than feature films (TV series, mini-series or telemovies, short form animations, non-feature documentary or direct-to-DVD or web-distributed programming).

The producer offset is administered by Screen Australia and paid through the Australian company tax system after a project is completed and Screen Australia has issued the production company with a Final Certificate.

### Box 5: Case study – Research and Development (R&D) tax incentives

R&D tax incentives – Commonwealth Government

The government introduced the R&D tax concession in 2011 allowing companies to claim a tax deduction in their income tax return of up to 125% (and 175%) of eligible expenditure incurred on R&D activities. Small innovative creative industries would similarly benefit from an opportunity to increase their cash flow when they most need it - during their initial growth phase and when reporting a tax loss.

Eligibility considers:

- Core R&D activities are the part of the work where the company tries to do or make something that has not been done before and cannot be done without experimenting
- To prove it, the company must aim to create new knowledge by following a path from concept to conclusion with measurable experimental outcomes to support the reasons for the conclusion.
- Core R&D activities could be, for example, the testing of a new or improved product, device, process or service.
- A business must have at least one core R&D activity in order to claim.

Research has found that:

- A dollar in tax credit for R&D stimulates a dollar of additional R&D<sup>25</sup>
- Recipients of tax credits perform significantly better on a series of innovation and performance indicators (such as the number of new products, sales with new products and originality of innovation) compared to when there is an absence of R&D tax credits. The authors concluded that R&D tax credits lead to additional innovation output<sup>26</sup>.

<sup>25</sup> Hall, B & Van Reenen, J 2000, 'How effective are fiscal incentives for R&D? A review of the evidence', *Research Policy*, vol. 29, no. 4-5, pp. 449-469.

<sup>26</sup> Czarnitzki, D et al 2011, 'Evaluating the impact of R&D tax credits on innovation: A microeconomic study on Canadian firms', *Research Policy*, vol. 40, no. 2, pp. 217-229.

### 3. Tax offsets – development and testing of options

#### Chapter summary

In order to determine the potential impact of tax offsets for each industry segment, a number of scenarios were developed in consultation with key stakeholders. Each of these scenarios was then tested with each segment of the industry to determine the likely impact:

- *Venues*: the majority of venues agreed that a tax offset would be an incentive to further invest in live music. Venues currently staging live music indicated that a tax offset would encourage them to host a greater number of live music performances. Venues not currently staging live music indicated that a tax offset would encourage them to begin to stage live music, with an increasing tax offset level encouraging them to host an increasing number of live music performances
- *Sound recording owners*: there was a range of responses in relation to how a tax offset would be used including hiring additional staff to signing new artists and increasing their investment in new and current artists
- *Artists*: the approach in assessing the application and impact of tax offsets to artists was different to that used for venues and sound recording owners given the limited access to the artist population and given its size and breadth. As a result, the impact to artists was assumed to be driven by the outcomes of the sound recording owner and venue segments (i.e. through royalties and live performance payments).

#### 3.1 Options for tax offsets

A tax offset is defined as<sup>27</sup>:

*“An entitlement which reduces the amount of income tax to be paid”.*

Generally, tax offsets can be categorised into two forms:

- Refundable tax offsets - reduces the amount of tax you are liable to pay to zero. Then, if all of your refundable tax offsets have not been used, the amounts left over will be a refundable amount
- Non-refundable tax offsets - once the amount of tax you are liable to pay is reduced to zero, no further tax offset can be claimed.

Based on industry consultation and consistent with the tax offset approach for the Australian film industry, our assessment assumes tax offsets to the contemporary music industry would be in the form of refundable tax offsets (i.e. a deduction on tax payable).

In order to determine the potential impact of tax offsets for each industry segment, a number of scenarios were developed in consultation with key stakeholders (summarised in Table 3):

- Scenarios for venues not currently staging live music considered the impact of these venues receiving a cash offset (fixed dollar amount)

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<sup>27</sup> ATO (2014), 'Definitions', accessed 13 October 2014 from <<https://www.ato.gov.au/definitions/#P1221-100268>>.

- Scenarios for artists, sound recording owners and venues currently staging live music considered the impact of a tax offset as a percentage of expenses
- Combined venue scenarios considered the combined overall impact of some venues receiving a cash offset, while others received a percentage of expenses offset (i.e. \$10k / 5%, \$20k / 10% and \$40k / 20%).

Each of these scenarios was then tested with each segment of the industry to determine the likely impact. The method used to test these scenarios and the outcomes are summarised in the following sub-sections.

Table 3: Options for tax offsets

Scenario	Assumed level of tax offset	
	Dollar amount	% of expenses
<b>Venue scenarios: venues not currently staging live music (i.e. new venues)</b>		
1. Venue Scenario (new)	\$10,000	-
2. Venue Scenario (new)	\$20,000	-
3. Venue Scenario (new)	\$40,000	-
<b>Venue scenarios: venues currently staging live music (i.e. existing venues)</b>		
1. Venue Scenario (existing)	-	5%
2. Venue Scenario (existing)	-	10%
3. Venue Scenario (existing)	-	20%
<b>Artist scenarios</b>		
1. Artist Scenario	-	5%
2. Artist Scenario	-	10%
3. Artist Scenario	-	20%
<b>Sound recording owner scenarios (SRO)</b>		
1. SRO Scenario	-	5%
2. SRO Scenario	-	10%
3. SRO Scenario	-	20%

\*In contrast to the other tax offset scenarios, a dollar amount was used in the scenarios for venues not currently staging live music. This was in response to feedback from stakeholders that these venues would be unsure about what their expenditure would be, making a dollar amount more meaningful.

There could be many different variations of these tax offset scenarios (e.g. size, location and turnover of venues), but the purpose of this report is to demonstrate the potential impacts only.

## 3.2 Venues

### 3.2.1 Overview

An online survey was conducted to determine the views of the venue-based live music industry - both those currently staging live music and those not currently staging live music. The surveys were distributed by APRA AMCOS to their venue database, which contained 23,295 venues. Key attributes of the sample include the following:

- A total of 455 respondents, with representation from all states<sup>28</sup>
- 67% of respondents staged live music in 2012, while 33% did not
- There were a range of venue types that responded including hotels and bars (34%), registered clubs (22%), restaurants/cafes (32%), nightclubs (3%) and other (9%)
- Capacity of the venues ranged from 40 to 4,000
- For those staging live music, the number of live music performances staged for the year ranged from 1 to 450.

The majority of respondents (57%) believed that live music has/would have a positive impact on the bottom line of their business; however, many barriers were identified. The top three factors for venues both currently and not currently staging live music include:

- The overall cost to stage live music

<sup>28</sup> This is considered a statistically robust sample according to the guidelines set out by Partnerships Victoria, Public Sector Comparative: Appendix E: that is a sample size that falls within "a confidence interval of 90 or 95 per cent is considered statistically robust."

- The current regulatory environment
- The cost of artists.

### 3.2.2 Key outcomes from tax offset scenarios tested

The majority of venues (73% of venues currently staging live music and 59% of venues not currently staging live music) agreed that a tax offset would be an incentive to further invest in live music.

Respondents from venues not currently staging live music were asked to indicate whether they would stage live music at a given tax offset amount, and if so, how many live performances they would host per year. These results are presented in Table 4, which show that:

- 45% of restaurants/cafes/other and up to 21% of hotels/bars that are not currently staging live music would in fact stage live music if a range of tax offsets were provided
- Only 5% of clubs and nightclubs would stage live music if a range of tax offsets were provided
- On average, venues indicated that they would stage between 14 to 49 live performances per year if the maximum assumed tax offset was provided.

Table 4: Venues not currently staging live music

Venues not currently staging live music	Level of assumed offset*			
	\$0	\$10,000	\$20,000	\$40,000
<b>% that would stage live music</b>				
Hotels/bars	-	20%	20%	21%
Clubs	-	5%	5%	5%
Nightclubs	-	5%	5%	5%
Restaurants/cafes/other	-	45%	45%	45%
<b>Average number of live performances</b>				
Hotels/bars	-	25	32	49
Clubs	-	8	11	20
Nightclubs	-	5	7	14
Restaurants/cafes/other	-	19	23	29

\*In contrast to the other tax offset scenarios, a dollar amount was used in the scenarios for venues not currently staging live music. This was in response to feedback from stakeholders that these venues would be unsure about what their expenditure would be, making a dollar amount more meaningful.

Respondents from venues currently staging live music were asked to indicate how many more live music performances they would host at a given tax offset. These results are presented in Table 5. For example, for hotels/bars currently staging live music, at a tax offset of 5%, these venues would increase their number of live performances by 15% compared with no tax offset.

Table 5: Venues currently staging live music

Venues currently staging live music	Level of assumed offset			
	0%	5%	10%	20%
<b>Percentage increase in the number of live performances</b>				
Hotels/bars	0%	15%	23%	36%
Clubs	0%	10%	14%	20%
Nightclubs	0%	15%	28%	39%
Restaurants/cafes/other	0%	10%	16%	30%

The results from the venue survey were key inputs into the economic analysis that is presented in Section 4.

The complete survey results are provided in Appendix C.

## 3.3 Sound recording owners

### 3.3.1 Overview

Consultations were undertaken with a range of sound recording owners including major record labels, independent record labels and self-releasing artists to determine their revenue and expense profiles, and how they would respond to a range of tax offset scenarios.

### 3.3.2 Key outcomes from scenarios tested

- The sound recording owners that were interviewed<sup>29</sup> stated that they operate at a loss or achieve low profits and as such often have tax losses carried forward. Depending on the type of tax offset provided, this form of tax incentive may not be of value to sound recording owners. For example a refundable tax offset which is claimable regardless of a company's tax position (i.e. the film industry producer offset as previously outlined) vs a non-refundable tax offset which can only be used to reduce a company's tax liability (i.e. once a company's tax liability is zero no further tax offset can be claimed). Overall, producing commercial sound recordings is an expensive business and given the uncertainty of a return on investment, entails considerable risk.
- There was a range of responses in relation to how a tax offset would be used including:
  - It would reduce overhead costs and allow for increased investment in new and current artists
  - It would allow additional staff to be hired to increase the label's efficiency in signing new artists
  - It would be re-invested into the marketing and production of their music
  - It may not have an impact on investment in new artists – grants or initiatives similar to NZ on Air would be better received to reduce the financial risk in signing new artists.
- Given the range of qualitative responses, our economic analysis of the tax offset scenarios for sound recording owners assumes that the value of the tax offsets received is re-invested into the sound recording owner business to generate additional sales of locally produced music (refer Section 4).

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<sup>29</sup> This includes two major labels, four independent labels and one self-releasing artist.

- Self-releasing artists are very reliant on non-arts related income which drew them away from their creative work. Expenses incurred in producing music is mostly funded from non-arts related income, so self-releasing artists were supportive of a tax offset which they felt should apply to both arts and non-arts related income. A tax offset would therefore enable them to spend more time on their creative work.

## 3.4 Artists

Our approach to assessing the potential impact of tax offsets on artists was different to that used for venues and sound recording owners for the following reasons:

- Limited access to the artist population given its size and breadth
- The impacts to artists being driven by the outcomes of sound recording owners and venue segments (i.e. through royalty and live performance payments). Further detail of this approach is provided in Section 4.

## 3.5 Limitations

### 3.5.1 Potential bias

There may be a potential element of optimisation bias, which relates to the demonstrated and systematic tendency for project appraisers to be overly optimistic when considering the project impacts compared with their actual behaviour in practise. Therefore, we acknowledge that the outcomes of the scenarios may be high end estimates.

### 3.5.2 Supply side

Supply side factors, relating to the availability of quality artists, have not been addressed as part of this study.

### 3.5.3 Demand side

Demand side factors, relating to consumer demand for additional performances under scenarios and price elasticity, have not been addressed as part of this study.

### 3.5.4 Dead weight loss

While tax credits / offsets have some deadweight loss, calculating this was beyond the scope of this study. Therefore, we acknowledge that the outcomes of the scenarios may be high end estimates.

## 4. Economic analysis of tax offset scenarios

### Chapter summary

The key metrics used to determine the impact of the tax offset includes total output; value add; full time equivalents and tax flow.

Under all options, there is an increase in output (direct and indirect), employment and value add relative to the Base Case as a result of the provision tax offsets to the contemporary music industry. The increase in output is largely driven by the increase in the number of performances (in the venue and artist scenarios) and the increase in music sales (in the sound recording owner and artist scenarios).

The venue scenarios (particularly scenarios for venues currently staging live music) generate the greatest output, employment and value add relative to the Base Case, due to their impact on both the venue and artist industry segments.

Output under the sound recording owner scenarios was higher than the artist scenarios given its impact on both the sound recording owner and artist industry segments. However, employment and value add under the artist scenarios were higher given the low profits assumed under the sound recording owner scenarios and the lower average wage of artists.

The total tax offset paid by government under the venue scenarios was significantly higher than the other scenarios. As a result, the net difference between the total tax offset paid and the additional tax revenue that government receives from the increase in spending (i.e. through other taxes such as GST, payroll and company taxes) was lowest for the venue scenarios.

### 4.1 Overview

The key metrics used to determine the impact of the tax offset include:

- *Total output* – the market value of goods and services produced by venues, sound recording owners and artists, measured by turnover/total revenue. Total output is a measure of production. For the purposes of this report, total output includes both direct and indirect impacts. That is, direct output impacts the demand for intermediate goods and services. This includes multiple flow-on effects, as servicing sectors increase their own output and demand for local goods and services in response to the direct change in the economy.
- *Value add* – the market value of goods and services produced by venues, sound recording owners and artists, after deducting the cost of goods and services used. Value add is a measure of wealth generation
- *Full Time Equivalents (FTEs)* – the number of workers employed (expressed in terms of FTEs). Employment is a measure of the distribution of income
- *Tax flow effects* – estimates the change in the government's tax revenue position as a result of the tax offsets being provided. That is tax revenue refunded/forgone through the tax offsets less the tax revenue generated through taxes such as GST, PAYE, payroll tax, etc. from an increase in economic activity. This is estimated using a tax multiplier of 0.28, which is the ratio of total taxation revenue to gross value add for Australia in 2013.

The following analysis is based on the scenarios outlined in Table 3.



The approach and results are outlined in the following sections. This includes a summary of the results comparing all the scenarios, followed by a more detailed presentation of the results by scenario.

## 4.2 Approach

### 4.2.1 Base case

Consistent with government frameworks for evaluating projects of this nature, a base case or 'do nothing' scenario has been developed. This essentially estimates the economic contribution of the contemporary music industry (using the key metrics discussed in section 4.1) in its 'current state'. That is, without the proposed intervention of tax offsets.

Figure 11 summarises our approach to the economic modelling for the base case. The economic contribution of the three major segments of the contemporary music industry was estimated based on the following:

- Venues - information on the number of live music performances and the revenue/expense profiles of live music venues was sourced from data collated as part of Ernst & Young's 2011 report on the economic contribution of the venue-based live music industry. Data on the number and type of live music venues was sourced from APRA AMCOS.
- Sound recording owners - revenue and expense profiles of sound recording owners were developed based on consultation with representatives from major and independent record labels as well as self-producing artists. Contemporary music sales data was also provided by ARIA.
- Artists - Artists' revenue and expense profiles were sourced from Australia Council for the Arts (2010).

The return (income divided by expenses) for each stream was then calculated to determine the base case.

Modelling inputs are further outlined in Appendix A.

### 4.2.2 Tax offset scenarios

Scenarios explored the effect of a tax offset for each of the three segments of the industry which are further explained in the following sub-sections.

#### 4.2.2.1 Venue tax offset scenario

The venue tax offset scenario is illustrated in Figure 12. Two different types of venue scenarios were considered: venues currently staging live music and venues not currently staging live music.

In the venue scenario, differences from the base case include expected increases in the average number of performances and number of venues hosting live music, leading to an increase in venue income, expenses and revenue return, and an increase in artist income and expenses (i.e. artist return).

#### 4.2.2.2 Sound recording owner tax offset scenario

The sound recording owner tax offset is illustrated in Figure 13. As discussed in Section 3.3, sound recording owners reported a range of qualitative responses on how they would respond to a given level of tax offset. Therefore, our scenario analysis assumes that the value the tax offsets received is re-invested into the sound recording owner business to generate additional sales.

In this scenario, differences from the base case include expected increases in music sales. In turn, this is expected to lead to an increase in sound recording owner revenues and expenses, and an increase artist income and expenses/return.

#### 4.2.2.3 Artist tax offset scenario

The artist tax offset scenario is illustrated in Figure 14. The tax offset leads to an increase in artist income through the reduction in net expenses paid, as a portion will be returned as a tax offset. This scenario

is expected to result in an increase in artist return in comparison to the base case.

assumed an increase in the income of artists because the scope of our work has not considered the supply side of artists.

Our approach (in Figure 14) assumes that an increase in artist income results in an increase in artist expenses, driving the key metrics around economic contribution (including output). Alternatively, artist income could remain the same, but the number of artists increases. Both would result in the same key metrics around economic contribution. We have

Figure 11: Base Case

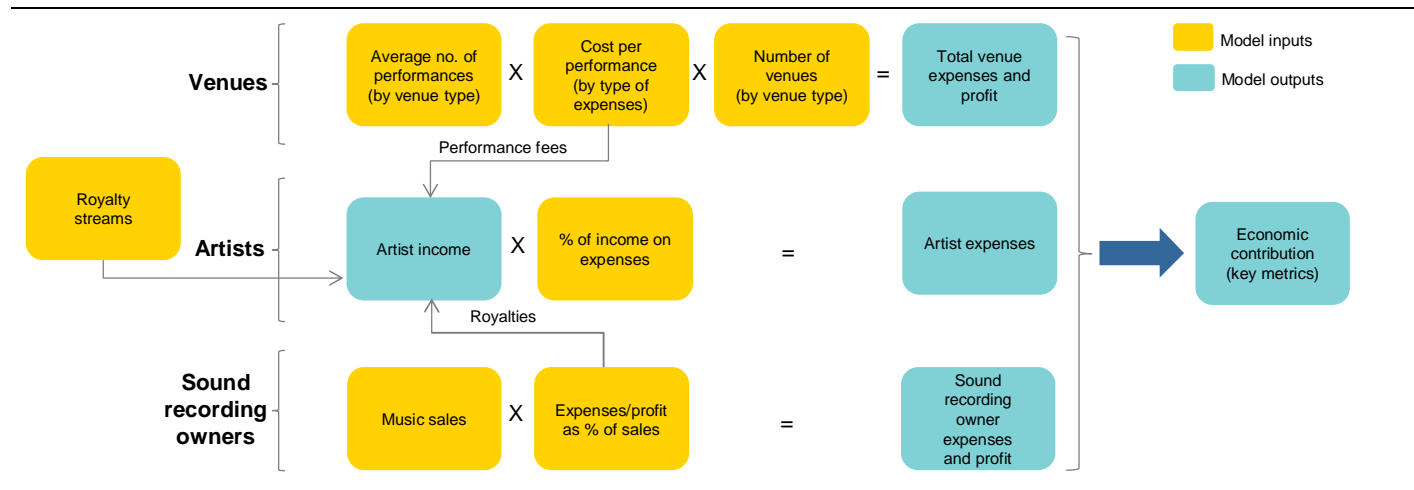


Figure 12: Venue tax offset scenario

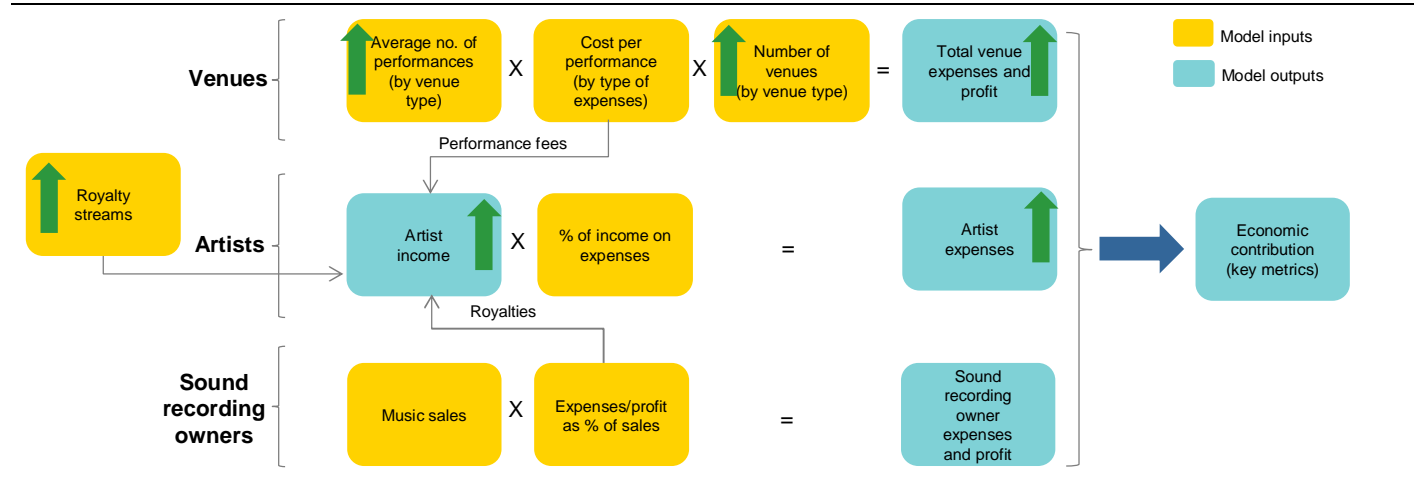


Figure 13: Sound recording owner tax offset scenario

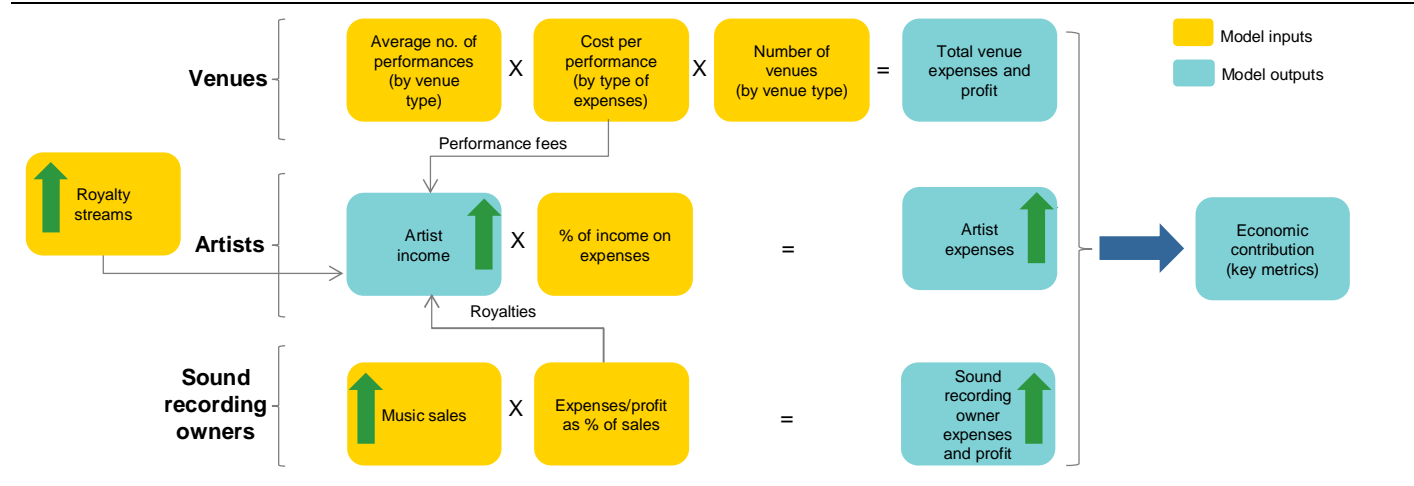
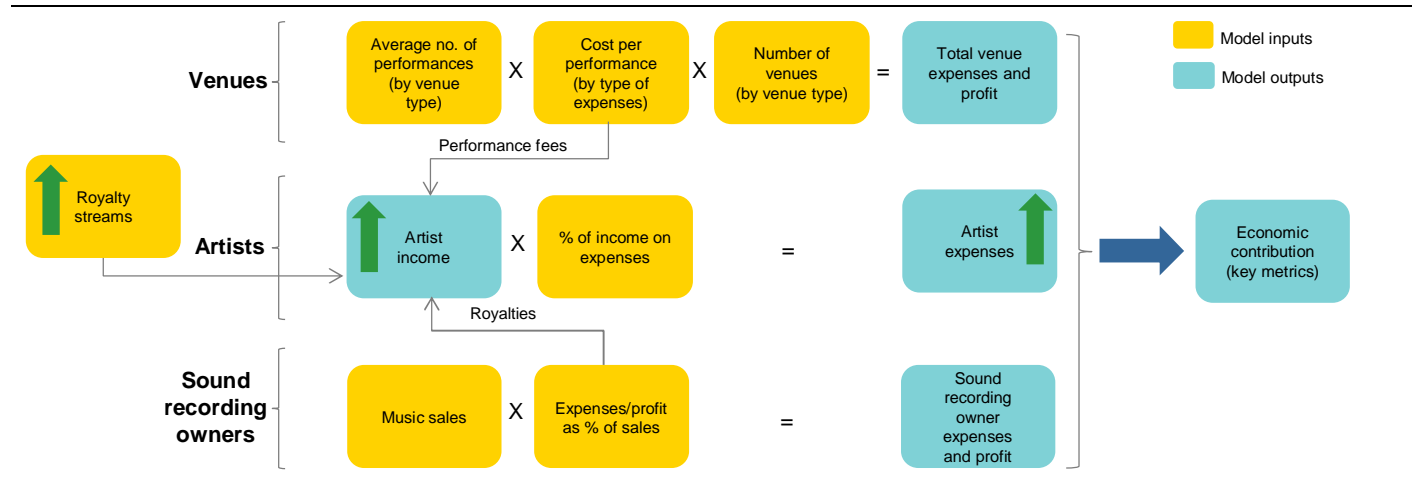


Figure 14: Artist tax offset scenario



### 4.3 Summary of results

The following sub-sections provide a comparison of the options analysed relative to the Base Case. Under all options, there is an increase in output (direct and indirect), employment and value add relative to the Base Case as a result of the provision of tax offsets to the contemporary music industry. The increase in output is largely driven by the increase in the number of performances (in the venue and artist scenarios) and the increase in music sales (in the sound recording owner and artist scenarios).

The venue scenarios (particularly scenarios for venues currently staging live music) generate the greatest output, employment and value add relative to the Base Case, due to their impact on both the venue and artist industry segments.

Output under the sound recording owner scenarios was higher than the artist scenarios. However, employment and value add under the artist scenarios was higher given the low profits assumed under the sound recording owner scenarios<sup>30</sup> and the lower average wage of artists.

The total tax offset paid by government under the venue scenarios was significantly higher than the other scenarios. As a result, the net difference between the total tax offset paid and the additional tax revenue that government receives from the increase in spending (i.e. through other taxes such as GST, payroll and company taxes) was lowest for the venue scenarios.

Overall, the venue scenarios are expected to generate the greatest impact across the key metrics measured.

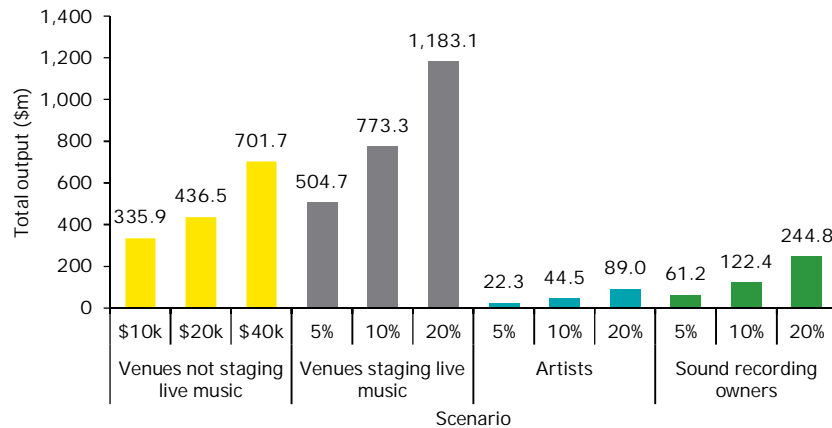
<sup>30</sup> This assumption was adopted on the basis of consultations with sound recording owners and record labels.

We have also performed an analysis of all venues (i.e. venues currently staging and not staging live music) to demonstrate the quantum of each metric, given that it is likely that any tax offset arrangement would apply to both types of venues. Refer to Section 4.4.4 for the combined analysis.

### 4.3.1 Total output

Total output includes both the direct and indirect effects as defined in section 4.1. The figure below shows that the venue scenarios have the greatest impact relative to the base case and in particular the scenarios for venues currently staging live music.

Figure 15: Total output (\$m), incremental to Base Case - summary



### 4.3.2 Value add and employment

The increases in direct and indirect output correspond to the creation of jobs in the economy, which is expected to result in an increase in wages and salaries paid to employees. A proportion of these wages and salaries are typically spent on consumption and a proportion of this expenditure is captured in the local economy.

Total employment and value add (including all direct and indirect effects) relative to the Base Case are illustrated in Figure 16 and Figure 17 respectively. Again, the venue scenarios have the greatest impact.

Figure 16: Value add (\$m), incremental to Base Case - summary

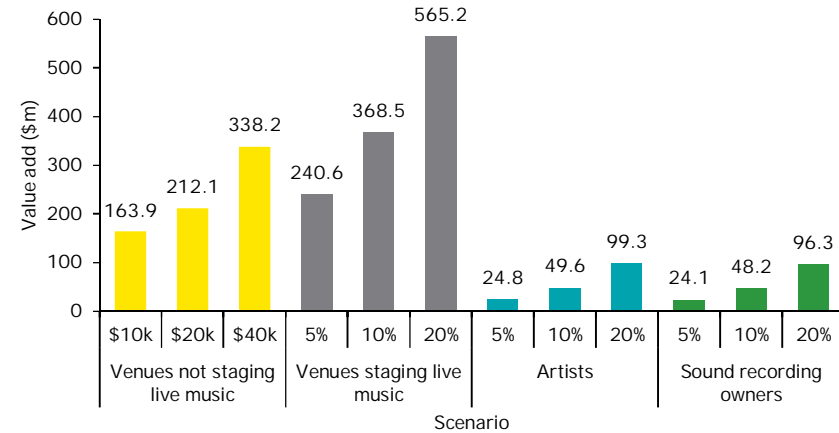
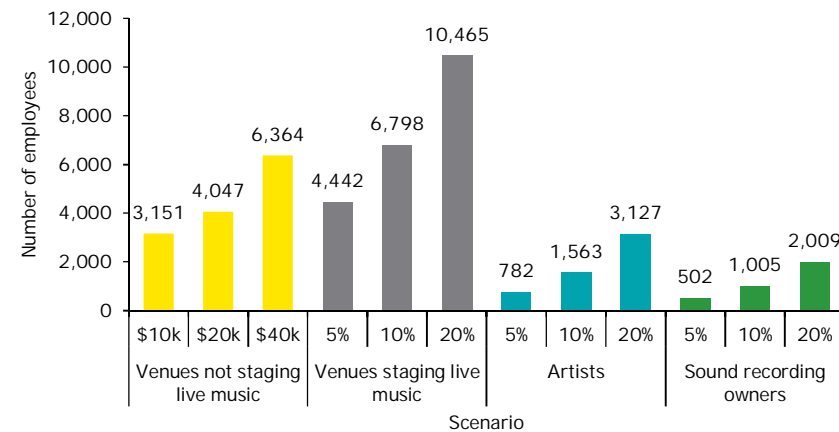


Figure 17: Employment, incremental to Base Case - summary



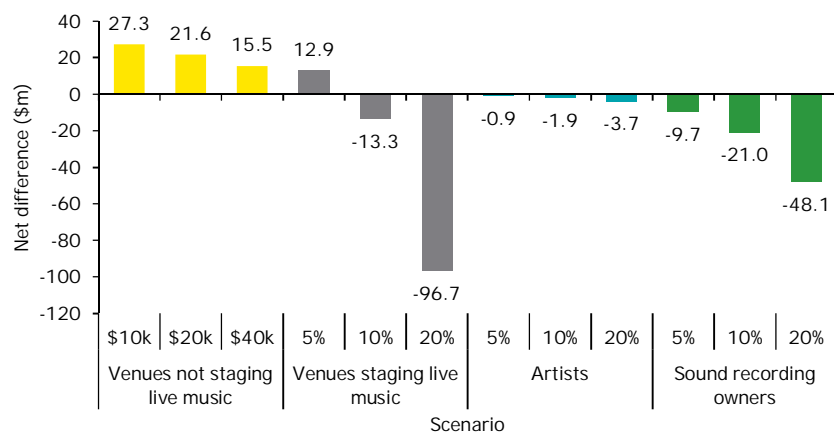
### 4.3.3 Impact of tax flow

As described in Section 4.1, tax offsets received by the contemporary music industry will generate additional spending in the economy. This additional spending, as modelled in our analysis, results in additional tax revenue for government through taxes such as GST, PAYE, payroll tax, etc. This is estimated using a tax multiplier of 0.28, which is the ratio of total taxation revenue to gross value add for Australia in 2013.

Figure 18 outlines the net difference under each of the scenarios between the total tax offset paid by the government and the additional revenue that the government receives in other taxes as a result of the additional spending in the economy. The venue scenarios generated the greatest range of net differences out of all the scenarios analysed. The venue scenarios were associated with the greatest level of tax offset payments incurred by the government compared to the other scenarios.

While the tax offset would be funded by the Commonwealth Government, tax revenues generated additional spending in the economy would be realised by both State and Commonwealth Governments. The segregation of State and Commonwealth tax flows is outside the scope of this project.

Figure 18: Impact of tax flow (\$m) – summary



## 4.4 Detailed results by scenario

### 4.4.1 Base Case

#### 4.4.1.1 Total output

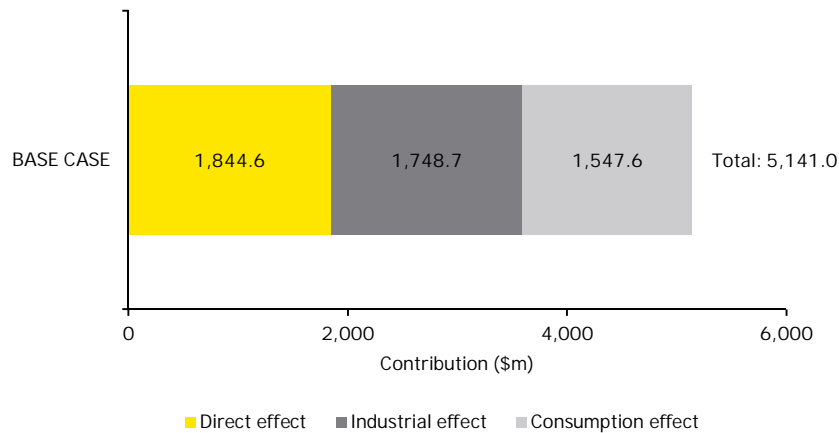
Output under the Base Case (i.e. 'do nothing' or no industry tax offset scenario) is illustrated in Figure 19. From the direct effect of \$1,844.6 million, it is estimated that the demand for intermediate goods and services will rise by an additional \$1,748.7 million, representing a Type 1 output multiplier of 1.948<sup>31</sup>. These industrial effects include multiple rounds of flow-on effects, as servicing sectors increase their own output and demand for local goods and services in response to the direct change to the economy.

The direct and indirect output typically corresponds to the creation of jobs in the economy. Corresponding to this would be the wages and salaries paid to employees. A proportion of these wages and salaries are typically spent on consumption and a proportion of this expenditure is captured in the local economy. The consumption effects under this scenario are estimated at \$1,547.6 million.

Total output, including all direct, industrial and consumption effects is estimated to be \$5,141.0 million. This represents a Type 2 output multiplier of 2.787<sup>32</sup>.

<sup>31</sup> Type 1 and 2 multipliers were based on data for arts and recreation services sourced from the Australian Bureau of Statistics (2011) and economic modelling software Remplan.  
<sup>32</sup>See footnote 31.

Figure 19: Output (\$m) – Base Case



#### 4.4.1.2 Value add

Value add under the Base Case is illustrated in Figure 20.

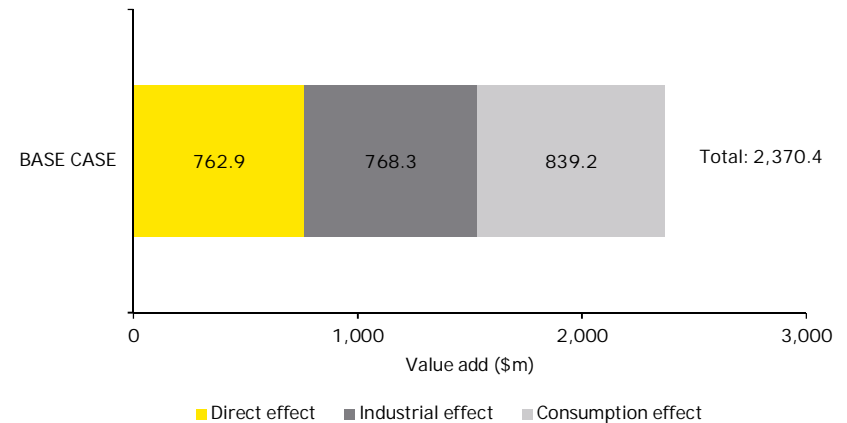
From an output of \$1,844.6 million, the corresponding direct value-added is estimated at \$762.9 million. From this direct effect, flow-on industrial effects in terms of local purchases of goods and services are estimated to result in value-added of \$768.3 million, representing a Type 1 Value-add multiplier of 2.007<sup>33</sup>.

The direct and indirect output and the corresponding jobs in the economy are expected to result in wages and salaries paid to employees. A proportion of these wages and salaries are typically spent on consumption and a proportion of this expenditure is captured in the local economy. The consumption effects under this scenario are expected to further boost value-add by \$839.2 million.

<sup>33</sup>See footnote 31.

Total value-add, including all direct, industrial and consumption effects is estimated to increase by up to \$2,370.4 million, representing a Type 2 Value-add multiplier of 3.107<sup>34</sup>.

Figure 20: Value add (\$m) – Base Case



#### 4.4.1.3 Employment

Employment under the Base Case is illustrated in Figure 21.

From an output of \$1,845 million, the corresponding direct jobs are estimated at 21,992 employees. From this direct effect, flow-on industrial effects in terms of local purchases of goods and services are estimated to result in 12,755 employees, representing a Type 1 employment multiplier of 1.580<sup>35</sup>.

The direct and indirect output and the corresponding jobs in the economy are expected to result in wages and salaries paid to employees. A proportion of these wages and salaries are typically spent on

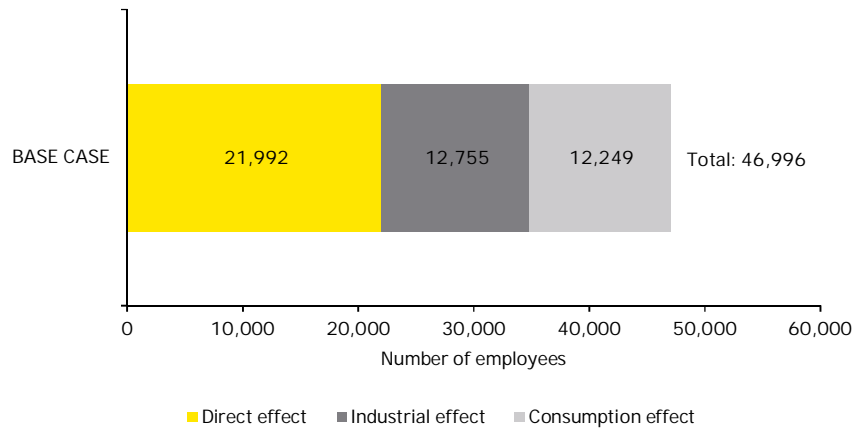
<sup>34</sup>See footnote 31.

<sup>35</sup>See footnote 31.

consumption and a proportion of this expenditure is captured in the local economy. The consumption effects under this scenario are estimated to further boost employment by 12,249 FTEs.

Total employment, including all direct, industrial and consumption effects is estimated to be 46,996 jobs, representing a Type 2 employment multiplier of 2.137<sup>36</sup>.

Figure 21: Employment – Base Case



#### 4.4.2 Venue scenarios: venues not currently staging live music

This section outlines the impact of a tax offset on venues not currently staging live music, but would with a tax offset. The following tax offset scenarios for these venues were considered:

1. Venue Scenario (new venues): tax offset of \$10,000

2. Venue Scenario (new venues): tax offset of \$20,000
3. Venue Scenario (new venues): tax offset of \$40,000.

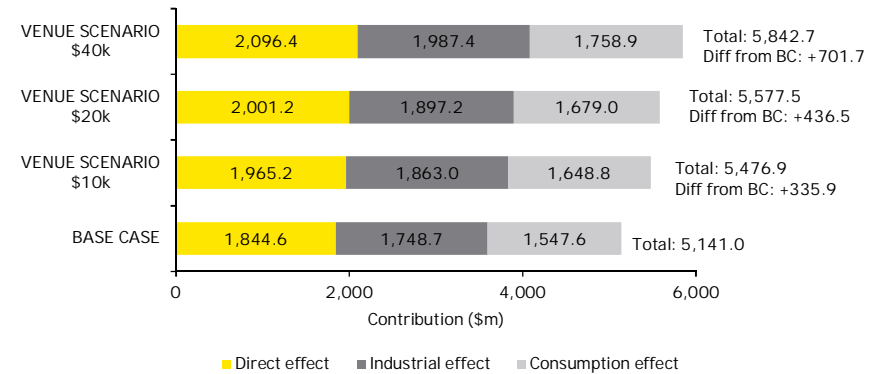
##### 4.4.2.1 Key metrics

Relative to the Base Case, a tax offset equivalent to \$40k for venues not currently staging live music generates the greatest incremental effect on the economy with the following outcomes for each key metric measured:

- Total output increases by \$701.7 million
- Value add increases by \$338.2 million
- Employment increases by 6,364 employees.

These are illustrated in the following figures.

Figure 22: Output (\$m) – venues not currently staging live music



<sup>36</sup>See footnote 31.



Figure 23: Value add (\$m) – venues not currently staging live music

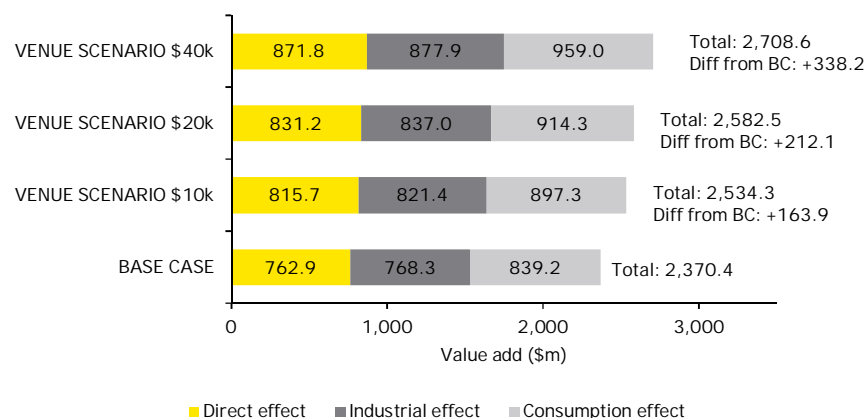
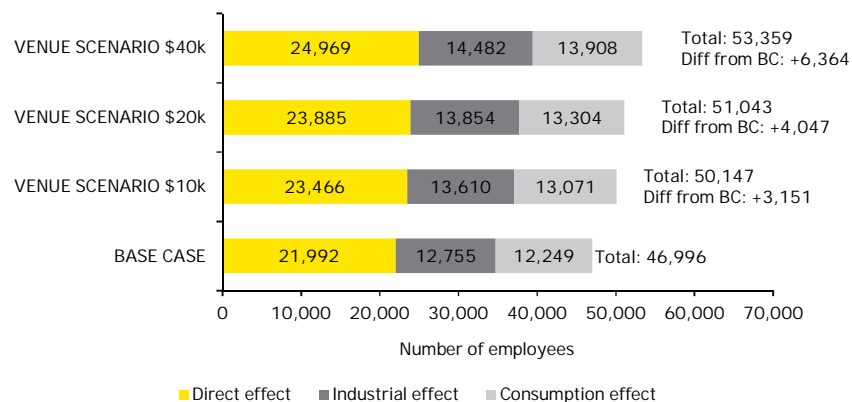


Figure 24: Employment (FTEs) – venues not currently staging live music



#### 4.4.2.2 Impact on tax flow

The total tax offset paid for venues not currently staging live music ranges from \$19.4 million (\$10k tax offset) to \$80.7 million (\$40k tax offset).

As described in Section 4.1, tax offsets received by the contemporary music industry will generate additional spending in the economy. This additional spending, as modelled in our analysis, results in additional tax revenue for government through taxes such as GST, PAYE, payroll tax, etc. This is estimated using a tax multiplier of 0.28, which is the ratio of total taxation revenue to gross value add for Australia in 2013. Table 6 outlines the net difference under each of the venue scenarios between the total tax offset paid and additional tax revenue received by government. The net difference ranges from \$15.5 million (\$40k tax offset) to \$27.3 million (\$10k tax offset).

Table 6: Impact on tax flow (\$m) – venues not currently staging live music

	Venue Scenario (tax offset value)		
	(\$10,000)	(\$20,000)	(\$40,000)
Total tax offset paid	19.4	38.7	80.7
Additional tax revenue received*	46.6	60.3	96.2
Net difference	27.3	21.6	15.5

\*Represents the increase in output in response to a decrease in taxes. A tax multiple of 0.28 was used, which was calculated as the ratio of total taxation revenue to gross value add in Australia in 2013.

#### 4.4.3 Venue scenarios: venues currently staging live music

This section outlines the impact of a tax offset on venues currently staging live music. The following tax offset scenarios for these venues were considered:

1. Venue Scenario (existing venues): equivalent to 5% of costs
2. Venue Scenario (existing venues): equivalent to 10% of costs
3. Venue Scenario (existing venues): equivalent to 20% of costs

##### 4.4.3.1 Key metrics

Relative to the Base Case, a tax offset equivalent to 20% of venues costs generates the greatest incremental effect on the economy with the following outcomes for each key metric measured:

- Total output increases by \$1,183.1 million
- Value add increases by \$565.2 million
- Employment increases by 10,465 employees.

These are illustrated in the following figures.

Figure 25: Output (\$m) – venues currently staging live music

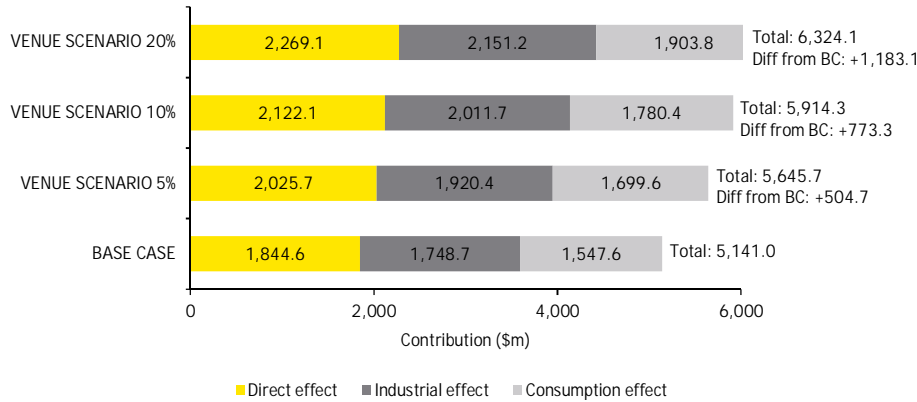


Figure 26: Value add (\$m) – venue not currently staging live music

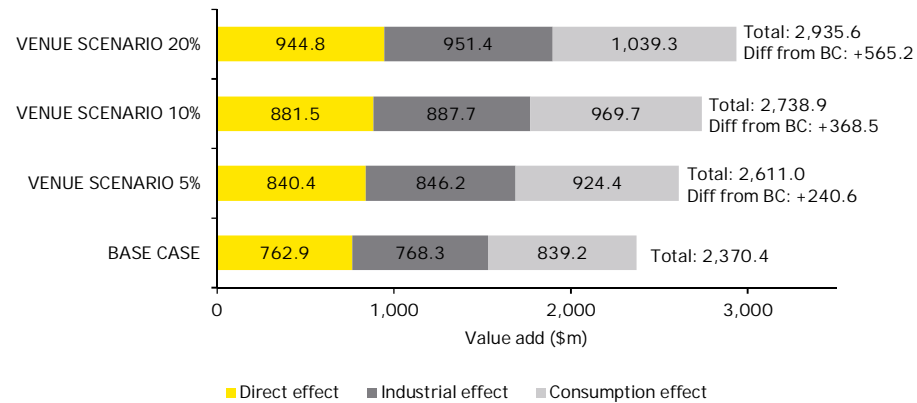
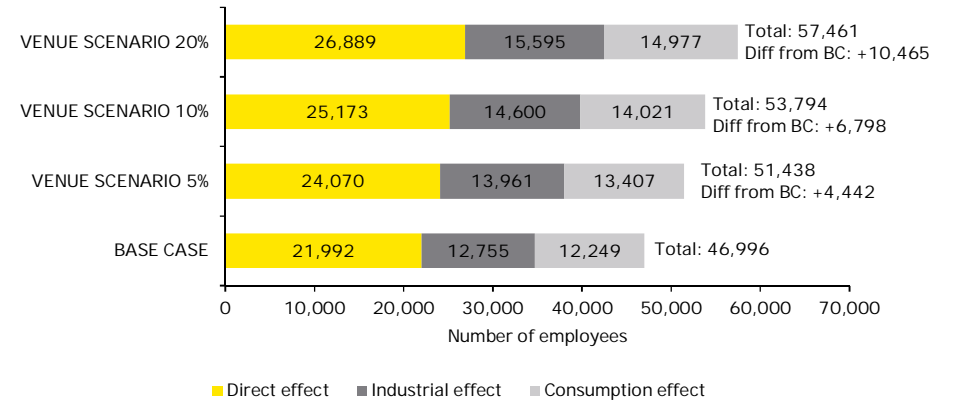


Figure 27: Employment – venue currently staging live music



#### 4.4.3.2 Impact on tax flow

The total tax offset paid for venues currently staging live music ranges from \$55.5 million (tax offset of 5%) to \$257.4 million (tax offset of 20%). As previously discussed, additional tax revenue is expected to be generated from the additional spending in the economy. The net difference in tax offsets paid and additional tax revenue received by government ranges from \$12.9 million (tax offset of 5%) to -\$96.7 million (tax offset of 20%). These venue scenarios generate the lowest net difference out of all the scenarios analysed.

Table 7: Impact on tax flow (\$m) – venues currently staging live music

	Venue Scenario (tax offset range)		
	(5%)	(10%)	(20%)
Total tax offset paid	55.5	118.1	257.4
Additional revenue received*	68.4	104.8	160.7
Net difference	12.9	-13.3	-96.7

\*Represents the increase in output in response to a decrease in taxes. A tax multiple of 0.28 was used, which was calculated as the ratio of total taxation revenue to gross value add in Australia in 2013.

#### 4.4.4 Combined venue scenarios

This section outlines the impact of a combined tax offset for venues. The following tax offset scenarios for this industry segment were considered:

1. Venue Scenario:
  - New venues: tax offset of \$10,000
  - Existing venues: equivalent to 5% of costs
2. Venue Scenario
  - New venues: tax offset of \$20,000
  - Existing venues: equivalent to 10% of costs
3. Venue Scenario
  - New venues: tax offset of \$40,000
  - Existing venues: equivalent to 20% of costs.

##### 4.4.4.1 Key metrics

Relative to the Base Case, a tax offset of \$40,000 (new venues) and equivalent to 20% of venue costs (existing venues) generates the greatest incremental effect on the economy with the following outcomes for each key metric measured:

- Total output increases by \$1,887.1 million
- Value add increases by \$905.1 million
- Employment increases by 16,883 employees.

These are illustrated in the following figures.

Figure 28: Output (\$m) – venue scenarios

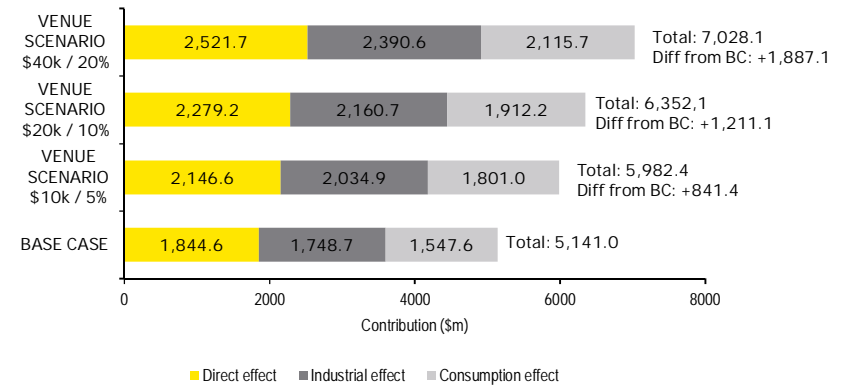


Figure 29: Value add (\$m) – venue scenarios

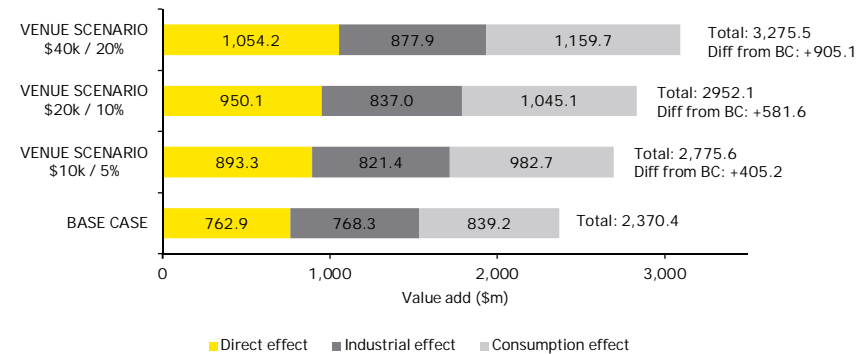
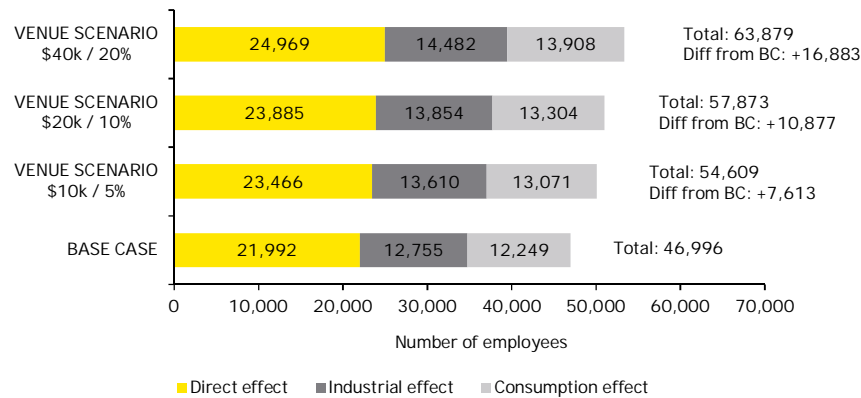


Figure 30: Employment – venue scenarios



#### 4.4.4.2 Impact on tax flow

The total tax offset paid under the combined venue scenarios ranges from \$74.9 million (Venue Scenario \$10k / 5%) to \$338.1 million (Venue Scenario \$40k / 20%).

As previously discussed, additional tax revenue is expected to be generated from the additional spending in the economy. The net difference in tax offsets paid and additional tax revenue received by government ranges from -\$81.2 (tax offset of \$40k / 20%) to \$40.1 million (tax offset of \$10k / 5%).

Table 8: Impact on tax flow (\$m) – venue scenarios

	Venue Scenario (tax offset range)		
	\$10k / 5%	\$20k / 10%	\$40k / 20%
Total tax offset paid	74.9	156.8	338.1
Additional revenue received*	115.0	165.1	256.9
Net difference	40.1	8.3	-81.2

\*Represents the increase in output in response to a decrease in taxes. A tax multiple of 0.28 was used, which was calculated as the ratio of total taxation revenue to gross value add in Australia in 2013.

#### 4.4.4.3 Other key industry metrics

Other key industry metrics are outlined in Table 9.

The combined venue scenarios is expected to result in an increase of up to 2,017 new venues staging live music across Australia. This is expected to lead to an additional 284,193 live music performances and 31.1 million attendances in comparison to the Base Case.

Spend per attendee and spend per performance is expected to reduce slightly due to the large increase in the proportion of performances held at restaurants / café / other venues, where the spend per attendee is lower compared to other venue categories.

Table 9: Other key industry metrics

	Venue Scenario (tax offset range)			
	Base Case	\$10k / 5%	\$20k / 10%	\$40k / 20%
No. venues staging live music				
Not currently staging live music	-	1,936	1,936	2,017
Currently staging live music	4,233	4,233	4,233	4,233
Total	4,233	6,169	6,169	6,250
No. of performances <sup>(1)</sup>	327,736	499,532	538,067	611,929
No. of attendances <sup>(1)</sup>	42.0m	59.5m	64.2m	73.0m
Spend per attendee	\$24.56	\$21.13	\$21.16	\$21.14
Spend per performance	\$3,145	\$2,518	\$2,526	\$2,523

(1): It is important to note that the scope of our analysis does not extend to considering the demand side of live music performances or the associated price elasticity of demand. That is, the assumed increase in the number of live performances and number of attendances only considers the supply side.

#### 4.4.5 Artist scenarios

This section outlines the impact of a tax offset on artists. The following tax offset scenarios for this industry segment were considered:

1. Artist Scenario: equivalent to 5% of costs
2. Artist Scenario: equivalent to 10% of costs

3. Artist Scenario: equivalent to 20% of costs.

#### 4.4.5.1 Key metrics

Relative to the Base Case, a tax offset equivalent to 20% of an artist's costs generates the greatest incremental effect on the economy with the following outcomes for each key metric measured:

- Total output increases by \$89.0 million
- Value add increases by \$99.3 million
- Employment increases by 3,127 employees.

These are illustrated in the following figures.

Figure 31: Output (\$m) – artist scenarios

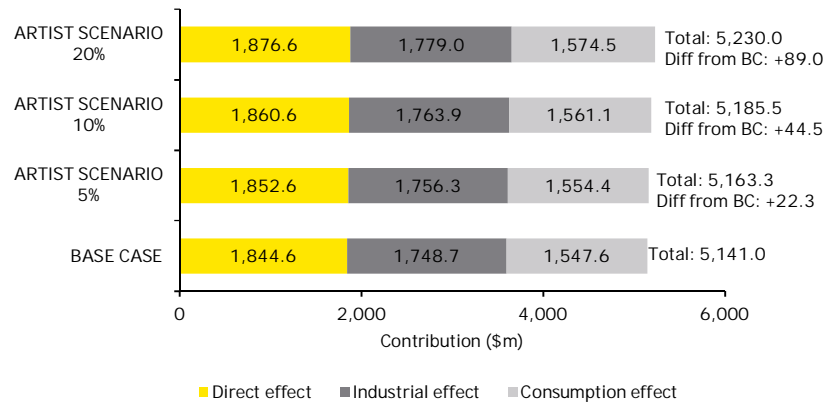


Figure 32: Value add (\$m) – artist scenarios

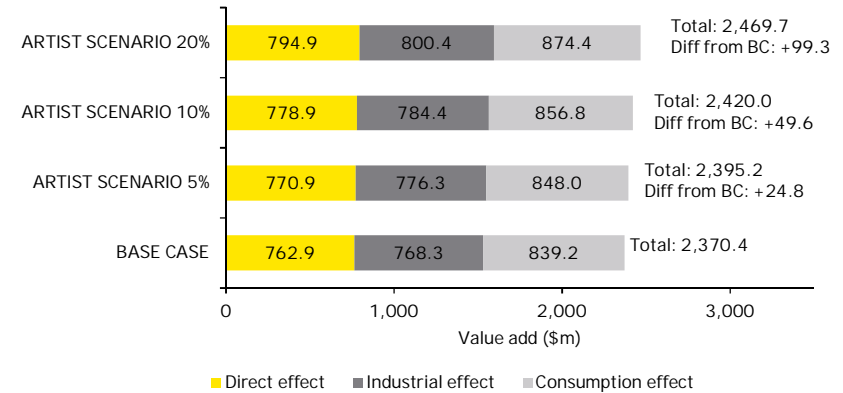
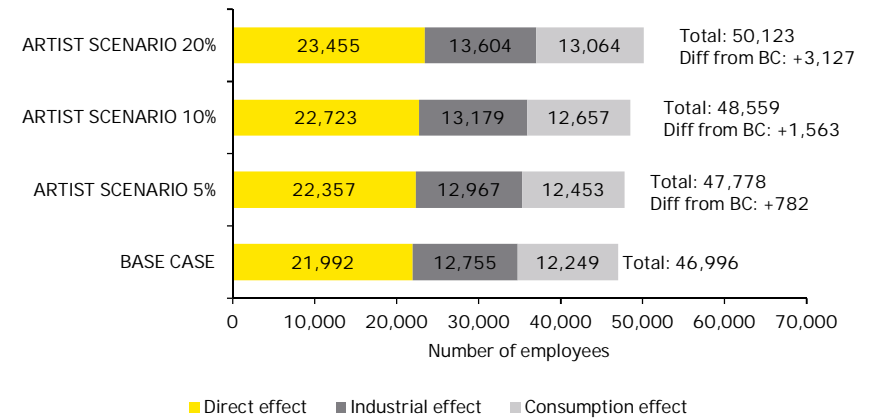


Figure 33: Employment – artist scenarios



#### 4.4.5.2 Impact on tax flow

The total tax offset paid under the artist scenarios ranges from \$8.0 million (Artist Scenario I) to \$32.0 million (Artist Scenario III).

As previously discussed, additional tax revenue is expected to be generated from the additional spending in the economy. The net difference in tax offsets paid and additional tax revenue received by government ranges from -\$0.9million (tax offset of 5%) to -\$3.7 million (tax offset of 20%).

Table 10: Impact on tax flow (\$m) – artist scenarios

	Artist Scenario (tax offset range)		
	(5%)	(10%)	(20%)
Total tax offset paid	8.0	16.0	32.0
Additional revenue received*	7.1	14.1	28.2
Net difference	-0.9	-1.9	-3.7

\*Represents the increase in output in response to a decrease in taxes. A tax multiple of 0.28 was used, which was calculated as the ratio of total taxation revenue to gross value add in Australia in 2013.

#### 4.4.6 Sound recording owner scenarios

This section outlines the impact of a tax offset on sound recording owners. The following tax offset scenarios for this industry segment were considered:

1. Sound Recording Owner Scenario (SRO): equivalent to 5% of costs
2. Sound Recording Owner Scenario (SRO): equivalent to 10% of costs
3. Sound Recording Owner Scenario (SRO): equivalent to 20% of costs.

##### 4.4.6.1 Key metrics

Relative to the Base Case, a tax offset equivalent to 20% of sound recording owner costs generates the greatest incremental effect on the economy with the following outcomes for each key metric measured:

- Total output increases by \$244.8 million
- Value add increases by \$96.3 million

- Employment increases by 2,009 employees.

These are illustrated in the following figures:

Figure 34: Output (\$m) – sound recording owner scenarios

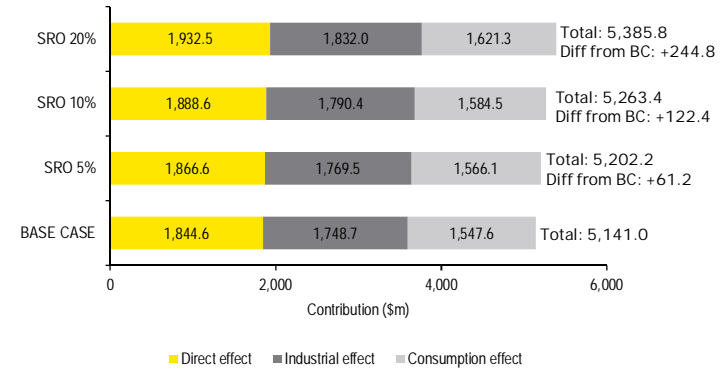


Figure 35: Value add (\$m) – sound recording owner scenarios

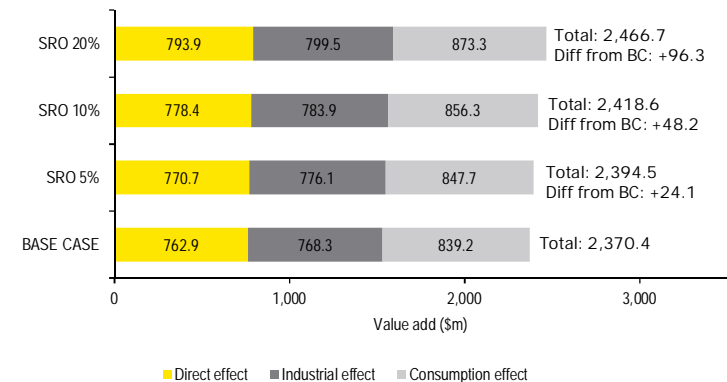
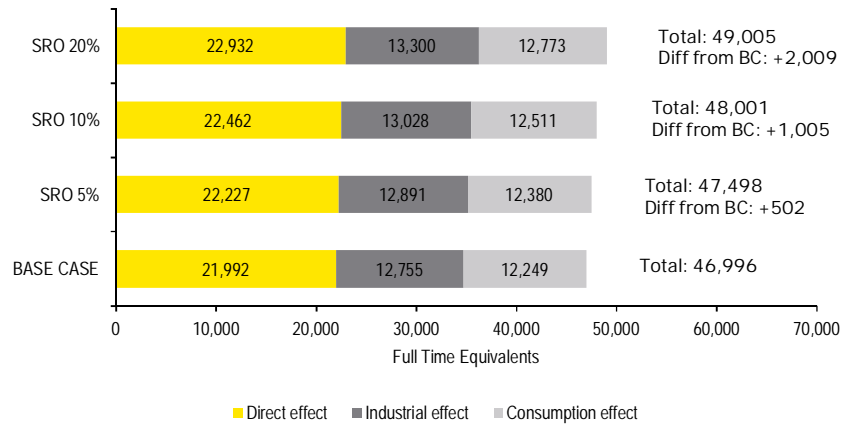


Figure 36: Employment (FTEs) – sound recording owner scenarios



#### 4.4.6.2 Impact on tax flow

The total tax offset paid under the sound recording owner scenarios ranges from \$16.6 million (5% tax offset) to \$75.4 million (20% tax offset).

As previously discussed, additional tax revenue is expected to be generated by government from the additional spending in the economy.

The net difference in tax offsets paid and additional tax revenue received by government ranges from -\$9.7 million (5% tax offset) to -\$48.1 million (20% tax offset).

Table 11: Impact on tax flow (\$m) – sound recording owner scenarios

	SRO Scenario (tax offset range)		
	(5%)	(10%)	(20%)
Total tax offset paid	16.6	34.6	75.4
Additional revenue received*	6.8	13.7	27.4
Net difference	-9.7	-21.0	-48.1

\*Represents the increase in output in response to a decrease in taxes. A tax multiple of 0.28 was used, which was calculated as the ratio of total taxation revenue to gross value add in Australia in 2013.

## 4.5 Conclusion

Based on the outcomes of our options development and testing, and our economic analysis, the combined venue tax offset provides the greatest overall benefit. Of the combined venue scenarios, the \$10k / 5% scenario had the highest net difference, providing the greatest return on investment for government. This captures current market insight and intelligence, which shows that providing an increasing level of tax incentives will not necessarily drive an increasing number of performances and return on investment for government.

## 5. Implementation

### Chapter summary

Based on the outcomes of our options development and testing, and our economic analysis, the recommended scenario is a venue tax offset.

Implementation could leverage the framework and legislation already in place for the R&D tax incentives. The scope of this project does not extend to a detailed analysis of the costs of implementation.

### 5.1 Recommended scenario

Based on the outcomes of our options development and testing (section 3) and our economic analysis (section 4), a venue tax offset was deemed to be the scenario delivering the greatest impact on total output, value add and employment:

- A tax offset for venues currently staging live music generates the greatest level of economic contribution through an increase in the number of live performances. Relative to the Base Case, tax offsets to venues could increase industry output by up to \$2,084.3 million per annum, value add by up to \$1,035.7 million and employment by up to 20,445 employees
- A venue tax offset is likely to encourage venues not currently staging live music to begin staging live music, therefore increasing the number of live music performances. This will result in an increase in economic activity generally.
- Artists and to a lesser extent sound recording owners will also benefit from a venue based tax offset through an increase in live performance and royalty payments and cross-collateralisation benefits of live performance supporting the consumption of recorded product and vice versa.

### 5.2 Implementation

Implementing new legislation can be costly, in terms of initial set up, annual administration and ongoing monitoring and evaluation. For example, new public health legislation in New Zealand was estimated to cost an average of \$2.6 million per legislation<sup>37</sup> (Wilson et al, 2012). In addition, the film industry tax offset cost \$4.1 million over a four year period to administer (Department of Communications, Information Technology and the Arts, 2006).

There are opportunities to leverage the framework and legislation already in place, such as for R&D and the film industry (discussed in Section 2). The scope of this project does not extend to a detailed analysis of the costs of implementation. The level of offset and design is yet to be determined and will need further analysis and testing with stakeholders.

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<sup>37</sup> Includes parliamentary and government agency input into law-making, and legislative outputs.



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## Appendix A Key assumptions

### Global assumptions

Input	Value	Source
CPI	2.5%	RBA target

### Venue assumptions

Input	Hotel / bars	Clubs	Nightclubs	Restaurants / cafes / other
Base number of licensed venues	2,121	1,344	82	686
Other venues with APRA licence (other than live performance licence)	5,353	2,901	292	1,620
Base average number of performances per venue per year	94	74	140	143
Average profit and loss (per performance)				
Revenue				
Total revenue	4,174	4,260	8,769	564
Expenses				
Wages	955	915	2,028	65
Security	318	305	676	0
Cost of sales	1,114	1,067	2,366	74
Other costs (rent, overheads)	637	610	1,352	37
Payments to artists: share of ticket sales	507	785	1,483	65
Payments to artists: fixed payments	325	274	188	305
Total expenses	4,015	4,108	8,431	555
Profit / margin	159	152	338	9

Source: APRA 2013, APRA/EY 2011

## Sound recording owner assumptions

### Sales

Input	Value
<b>Wholesale sales</b>	
Physical	\$222,384,240
Digital	\$221,163,600
Total	\$443,547,840
<b>Sales by origin</b>	
Australian artists	38%
International artists	62%

Source: ARIA 2013

### Artist assumptions

Input	Value
<b>Revenue</b>	
Mean creative income 2007/2008	
Creative income	19,300
Arts-related income	10,800
Total arts income	30,100
Non arts-related income	13,400
Total income	43,500
<b>Expenses</b>	
Mean expenses related to creative practice	6,200

N.B. These assumptions have been escalated to 2013 dollars in the model

Source: Australian Council for the Arts 2010

## Appendix B Detailed modelling results

### Base Case

BASE CASE				
	Direct effect (EY data)	Industrial effect	Consumption effect	Total effect
<b>Contribution (total revenue)</b>				
Venues	\$1,030,574,894	\$976,984,999	\$864,652,336	\$2,872,212,222
Artists	\$497,287,115	\$471,428,185	\$417,223,889	\$1,385,939,189
Producers	\$316,773,988	\$300,301,740	\$265,773,376	\$882,849,104
Total contribution	\$1,844,635,996	\$1,748,714,924	\$1,547,649,601	\$5,141,000,521
<b>Value add (wages + profit)</b>				
Venues	\$361,608,966	\$364,140,228	\$397,769,862	\$1,123,519,056
Artists	\$337,536,850	\$339,899,608	\$371,290,535	\$1,048,726,993
Producers	\$63,777,163	\$64,223,603	\$70,154,879	\$198,155,645
Total value add	\$762,922,978	\$768,263,439	\$839,215,276	\$2,370,401,693
<b>FTEs (headcount)</b>				
Venues	5,638	3,270	3,140	12,048
Artists	15,458	8,965	8,610	33,033
Producers	896	520	499	1,915
Total FTEs	21,992	12,755	12,249	46,996
<b>Cost to Government</b>				
Venues	-			
Artists	-			
Producers	-			
Total	-			
<b>Tax multiplier</b>	0.07			
Venues	77,351,120			
Artists	72,201,897			
Producers	13,642,458			
Total	163,195,475			

## Venue Scenarios (venues not currently staging live music)

### VENUES NOT STAGING LIVE MUSIC: VENUE SCENARIOS \$10k, \$20k and \$40k

#### VENUE SCENARIO \$10k

	Direct effect (EY data)	Industrial effect	Consumption effect	Total effect
<b>Contribution (total revenue)</b>				
Venues	\$1,119,300,957	\$1,061,097,308	\$939,093,503	\$3,119,491,768
Artists	\$529,079,775	\$501,567,626	\$443,897,931	\$1,474,545,332
Producers	\$316,773,988	\$300,301,740	\$265,773,376	\$882,849,104
Total contribution	\$1,965,154,720	\$1,862,966,674	\$1,648,764,810	\$5,476,886,204
<b>Value add (wages + profit)</b>				
Venues	\$392,792,254	\$395,541,800	\$432,071,479	\$1,220,405,532
Artists	\$359,116,324	\$361,630,138	\$395,027,956	\$1,115,774,418
Producers	\$63,777,163	\$64,223,603	\$70,154,879	\$198,155,645
Total value add	\$815,685,740	\$821,395,540	\$897,254,314	\$2,534,335,595
<b>FTEs (headcount)</b>				
Venues	6,124	3,552	3,411	13,087
Artists	16,446	9,539	9,160	35,145
Producers	896	520	499	1,915
Total FTEs	23,466	13,610	13,071	50,147
<b>Cost to Government</b>				
Venues	19,358,788			
Artists	-			
Producers	-			
Total	19,358,788			
<b>Tax multiplier</b>	0.28			
Venues	346,980,225			
Artists	317,231,976			
Producers	56,338,724			
Total	720,550,925			

#### VENUE SCENARIO \$20k

	Direct effect (EY data)	Industrial effect	Consumption effect	Total effect
<b>Contribution (total revenue)</b>				
Venues	\$1,146,731,998	\$1,087,101,935	\$962,108,147	\$3,195,942,080
Artists	\$537,743,718	\$509,781,044	\$451,166,979	\$1,498,691,741
Producers	\$316,773,988	\$300,301,740	\$265,773,376	\$882,849,104
Total contribution	\$2,001,249,704	\$1,897,184,719	\$1,679,048,501	\$5,577,482,924
<b>Value add (wages + profit)</b>				
Venues	\$402,419,548	\$405,236,485	\$442,661,503	\$1,250,317,536
Artists	\$364,997,031	\$367,552,010	\$401,496,734	\$1,134,045,776
Producers	\$63,777,163	\$64,223,603	\$70,154,879	\$198,155,645
Total value add	\$831,193,742	\$837,012,098	\$914,313,116	\$2,582,518,956
<b>FTEs (headcount)</b>				
Venues	6,274	3,639	3,495	13,408
Artists	16,715	9,695	9,310	35,720
Producers	896	520	499	1,915
Total FTEs	23,885	13,854	13,304	51,043
<b>Cost to Government</b>				
Venues	38,717,576			
Artists	-			
Producers	-			
Total	38,717,576			
<b>Tax multiplier</b>	0.28			
Venues	355,484,672			
Artists	322,426,807			
Producers	56,338,724			
Total	734,250,202			

#### VENUE SCENARIO \$40k

	Direct effect (EY data)	Industrial effect	Consumption effect	Total effect
<b>Contribution (total revenue)</b>				
Venues	\$1,219,879,872	\$1,156,446,118	\$1,023,479,212	\$3,399,805,203
Artists	\$559,751,012	\$530,643,959	\$469,631,099	\$1,560,026,069
Producers	\$316,773,988	\$300,301,740	\$265,773,376	\$882,849,104
Total contribution	\$2,096,404,871	\$1,987,391,818	\$1,758,883,687	\$5,842,680,376
<b>Value add (wages + profit)</b>				
Venues	\$428,062,227	\$431,058,663	\$470,868,450	\$1,329,989,341
Artists	\$379,934,624	\$382,594,167	\$417,928,087	\$1,180,456,878
Producers	\$63,777,163	\$64,223,603	\$70,154,879	\$198,155,645
Total value add	\$871,774,015	\$877,876,433	\$958,951,416	\$2,708,601,864
<b>FTEs (headcount)</b>				
Venues	6,674	3,871	3,717	14,262
Artists	17,399	10,092	9,691	37,182
Producers	896	520	499	1,915
Total FTEs	24,969	14,482	13,908	53,359
<b>Cost to Government</b>				
Venues	80,679,394			
Artists	-			
Producers	-			
Total	80,679,394			
<b>Tax multiplier</b>	0.28			
Venues	378,136,602			
Artists	335,622,203			
Producers	56,338,724			
Total	770,097,529			

## Venue Scenarios (venues currently staging live music)

### VENUES STAGING LIVE MUSIC: VENUE SCENARIOS equivalent to 5%, 10% and 20% of operating costs

#### VENUE SCENARIO 5%

	Direct effect (EY data)	Industrial effect	Consumption effect	Total effect
<b>Contribution (total revenue)</b>				
Venues	\$1,169,169,128	\$1,108,372,333	\$980,932,898	\$3,258,474,359
Artists	\$539,783,351	\$511,714,617	\$452,878,231	\$1,504,376,199
Producers	\$316,773,988	\$300,301,740	\$265,773,376	\$882,849,104
Total contribution	\$2,025,726,466	\$1,920,388,690	\$1,699,584,505	\$5,645,699,662

#### Value add (wages + profit)

Venues	\$410,207,723	\$413,079,177	\$451,228,495	\$1,274,515,395
Artists	\$366,381,445	\$368,946,115	\$403,019,590	\$1,138,347,151
Producers	\$63,777,163	\$64,223,603	\$70,154,879	\$198,155,645
Total value add	\$840,366,331	\$846,248,895	\$924,402,964	\$2,611,018,191

#### FTEs (headcount)

Venues	6,395	3,709	3,562	13,667
Artists	16,779	9,732	9,346	35,856
Producers	896	520	499	1,915
Total FTEs	24,070	13,961	13,407	51,438

#### Cost to Government

Venues	55,535,534
Artists	-
Producers	-
Total	55,535,534

#### Tax multiplier

	0.28
Venues	362,364,498
Artists	323,649,754
Producers	56,338,724
Total	742,352,977

#### VENUE SCENARIO 10%

	Direct effect (EY data)	Industrial effect	Consumption effect	Total effect
<b>Contribution (total revenue)</b>				
Venues	\$1,243,068,832	\$1,178,429,253	\$1,042,934,750	\$3,464,432,835
Artists	\$662,249,744	\$533,012,757	\$471,727,535	\$1,566,990,036
Producers	\$316,773,988	\$300,301,740	\$265,773,376	\$882,849,104
Total contribution	\$2,122,092,564	\$2,011,743,750	\$1,780,435,661	\$5,914,271,975

#### Value add (wages + profit)

Venues	\$436,127,085	\$439,179,974	\$479,739,793	\$1,355,046,852
Artists	\$381,630,655	\$384,302,070	\$419,793,721	\$1,185,726,445
Producers	\$63,777,163	\$64,223,603	\$70,154,879	\$198,155,645
Total value add	\$881,534,903	\$887,705,647	\$969,688,393	\$2,738,928,942

#### FTEs (headcount)

Venues	6,800	3,944	3,787	14,531
Artists	17,477	10,137	9,735	37,348
Producers	896	520	499	1,915
Total FTEs	25,173	14,600	14,021	53,794

#### Cost to Government

Venues	118,091,539
Artists	-
Producers	-
Total	118,091,539

#### Tax multiplier

	0.28
Venues	385,260,841
Artists	337,120,423
Producers	56,338,724
Total	778,719,988

#### VENUE SCENARIO 20%

	Direct effect (EY data)	Industrial effect	Consumption effect	Total effect
<b>Contribution (total revenue)</b>				
Venues	\$1,354,553,488	\$1,284,116,707	\$1,136,470,377	\$3,775,140,572
Artists	\$597,819,571	\$566,732,954	\$501,570,620	\$1,666,123,146
Producers	\$316,773,988	\$300,301,740	\$265,773,376	\$882,849,104
Total contribution	\$2,269,147,048	\$2,151,151,401	\$1,903,814,373	\$6,324,112,822

#### Value add (wages + profit)

Venues	\$475,273,800	\$478,600,716	\$522,801,180	\$1,476,675,696
Artists	\$405,773,906	\$408,614,323	\$446,351,297	\$1,260,739,526
Producers	\$63,777,163	\$64,223,603	\$70,154,879	\$198,155,645
Total value add	\$944,824,869	\$951,438,643	\$1,039,307,355	\$2,935,570,867

#### FTEs (headcount)

Venues	7,410	4,298	4,127	15,835
Artists	18,583	10,778	10,351	39,711
Producers	896	520	499	1,915
Total FTEs	26,889	15,595	14,977	57,461

#### Cost to Government

Venues	257,365,163
Artists	-
Producers	-
Total	257,365,163

#### Tax multiplier

	0.28
Venues	419,841,808
Artists	358,447,805
Producers	56,338,724
Total	834,628,337

# Artist Scenarios

## ARTIST SCENARIOS: equivalent to 5%, 10% and 20% of costs

### ARTIST SCENARIO 5%

	Direct effect (EY data)	Industrial effect	Consumption effect	Total effect
<b>Contribution (total revenue)</b>				
Venues	\$1,030,574,894	\$976,984,999	\$864,652,336	\$2,872,212,228
Artists	\$505,274,628	\$479,000,347	\$423,925,413	\$1,408,200,388
Producers	\$316,773,988	\$300,301,740	\$265,773,376	\$882,849,104
Total contribution	\$1,852,623,509	\$1,756,287,087	\$1,554,351,124	\$5,163,261,721
<b>Value add (wages + profit)</b>				
Venues	\$361,608,966	\$364,140,228	\$397,769,862	\$1,123,519,056
Artists	\$345,524,363	\$347,943,034	\$380,076,799	\$1,073,544,196
Producers	\$63,777,163	\$64,223,603	\$70,154,879	\$198,155,645
Total value add	\$770,910,492	\$776,306,865	\$848,001,541	\$2,395,218,898
<b>FTEs (headcount)</b>				
Venues	5,638	3,270	3,140	12,048
Artists	15,823	9,178	8,814	33,815
Producers	896	520	499	1,915
Total FTEs	22,357	12,967	12,453	47,778
<b>Cost to Government</b>				
Venues	-			
Artists	7,987,513			
Producers				
Total	7,987,513			
<b>Tax multiplier</b>	0.28			
Venues	319,433,897			
Artists	305,225,269			
Producers	56,338,724			
Total	680,997,890			

### ARTIST SCENARIO 10%

	Direct effect (EY data)	Industrial effect	Consumption effect	Total effect
<b>Contribution (total revenue)</b>				
Venues	\$1,030,574,894	\$976,984,999	\$864,652,336	\$2,872,212,228
Artists	\$513,262,141	\$486,572,510	\$430,626,937	\$1,430,461,588
Producers	\$316,773,988	\$300,301,740	\$265,773,376	\$882,849,104
Total contribution	\$1,860,611,023	\$1,763,859,250	\$1,561,052,648	\$5,185,522,920
<b>Value add (wages + profit)</b>				
Venues	\$361,608,966	\$364,140,228	\$397,769,862	\$1,123,519,056
Artists	\$353,511,876	\$355,986,460	\$388,863,064	\$1,098,361,400
Producers	\$63,777,163	\$64,223,603	\$70,154,879	\$198,155,645
Total value add	\$778,898,005	\$784,350,291	\$856,787,805	\$2,420,036,101
<b>FTEs (headcount)</b>				
Venues	5,638	3,270	3,140	12,048
Artists	16,189	9,390	9,017	34,596
Producers	896	520	499	1,915
Total FTEs	22,723	13,179	12,657	48,559
<b>Cost to Government</b>				
Venues	-			
Artists	15,975,026			
Producers				
Total	15,975,026			
<b>Tax multiplier</b>	0.28			
Venues	319,433,897			
Artists	312,281,185			
Producers	56,338,724			
Total	688,053,806			

### ARTIST SCENARIO 20%

	Direct effect (EY data)	Industrial effect	Consumption effect	Total effect
<b>Contribution (total revenue)</b>				
Venues	\$1,030,574,894	\$976,984,999	\$864,652,336	\$2,872,212,228
Artists	\$529,237,168	\$501,716,835	\$444,029,984	\$1,474,983,987
Producers	\$316,773,988	\$300,301,740	\$265,773,376	\$882,849,104
Total contribution	\$1,876,586,049	\$1,779,003,575	\$1,574,455,695	\$5,230,045,319
<b>Value add (wages + profit)</b>				
Venues	\$361,608,966	\$364,140,228	\$397,769,862	\$1,123,519,056
Artists	\$369,486,903	\$372,073,311	\$406,435,593	\$1,147,995,807
Producers	\$63,777,163	\$64,223,603	\$70,154,879	\$198,155,645
Total value add	\$794,873,031	\$800,437,143	\$874,360,335	\$2,469,670,509
<b>FTEs (headcount)</b>				
Venues	5,638	3,270	3,140	12,048
Artists	16,921	9,814	9,425	36,160
Producers	896	520	499	1,915
Total FTEs	23,455	13,604	13,064	50,123
<b>Cost to Government</b>				
Venues	-			
Artists	31,950,053			
Producers				
Total	31,950,053			
<b>Tax multiplier</b>	0.28			
Venues	319,433,897			
Artists	326,393,017			
Producers	56,338,724			
Total	702,165,638			



# Sound Recording Owner Scenarios

## PRODUCER SCENARIOS: equivalent to 5%, 10% and 20% of operating costs

### PRODUCER SCENARIO 5%

	Direct effect (EY data)	Industrial effect	Consumption effect	Total effect
<b>Contribution (total revenue)</b>				
Venues	\$1,030,574,894	\$976,984,999	\$864,652,336	\$2,872,212,228
Artists	\$503,408,434	\$477,231,196	\$422,359,676	\$1,402,999,306
Producers	\$332,612,687	\$315,316,827	\$279,062,045	\$926,991,559
Total contribution	\$1,866,596,015	\$1,769,533,022	\$1,566,074,057	\$5,202,203,094
<b>Value add (wages + profit)</b>				
Venues	\$361,608,966	\$364,140,228	\$397,769,862	\$1,123,519,056
Artists	\$341,691,735	\$344,083,577	\$375,860,909	\$1,061,636,221
Producers	\$67,373,223	\$67,844,836	\$74,110,546	\$209,328,605
Total value add	\$770,673,924	\$776,068,642	\$847,741,317	\$2,394,483,883
<b>FTEs (headcount)</b>				
Venues	5,638	3,270	3,140	12,048
Artists	15,648	9,076	8,716	33,440
Producers	941	546	524	2,011
Total FTEs	22,227	12,891	12,380	47,498
<b>Cost to Government</b>				
Venues	-			
Artists	-			
Producers	16,554,839			
Total	16,554,839			
<b>Tax multiplier</b>	0.28			
Venues	319,433,897			
Artists	301,839,647			
Producers	59,515,370			
Total	680,788,914			

### PRODUCER SCENARIO 10%

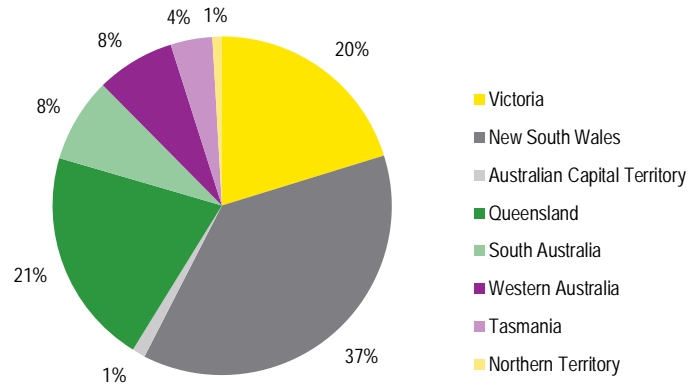
	Direct effect (EY data)	Industrial effect	Consumption effect	Total effect
<b>Contribution (total revenue)</b>				
Venues	\$1,030,574,894	\$976,984,999	\$864,652,336	\$2,872,212,228
Artists	\$509,529,754	\$483,034,206	\$427,495,463	\$1,420,059,423
Producers	\$348,451,387	\$330,331,915	\$292,350,713	\$971,134,015
Total contribution	\$1,888,556,034	\$1,790,351,120	\$1,584,498,512	\$5,263,405,666
<b>Value add (wages + profit)</b>				
Venues	\$361,608,966	\$364,140,228	\$397,769,862	\$1,123,519,056
Artists	\$345,846,620	\$348,267,547	\$380,431,282	\$1,074,545,449
Producers	\$70,969,284	\$71,466,069	\$78,066,212	\$220,501,566
Total value add	\$778,424,870	\$783,873,844	\$856,267,357	\$2,418,566,071
<b>FTEs (headcount)</b>				
Venues	5,638	3,270	3,140	12,048
Artists	15,838	9,186	8,822	33,846
Producers	986	572	549	2,106
Total FTEs	22,462	13,028	12,511	48,001
<b>Cost to Government</b>				
Venues	-			
Artists	-			
Producers	34,647,548			
Total	34,647,548			
<b>Tax multiplier</b>	0.28			
Venues	319,433,897			
Artists	305,509,941			
Producers	62,692,016			
Total	687,635,853			

### PRODUCER SCENARIO 20%

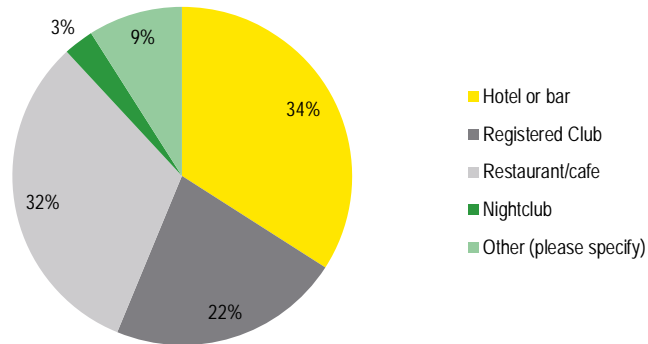
	Direct effect (EY data)	Industrial effect	Consumption effect	Total effect
<b>Contribution (total revenue)</b>				
Venues	\$1,030,574,894	\$976,984,999	\$864,652,336	\$2,872,212,228
Artists	\$521,772,392	\$494,640,228	\$437,767,037	\$1,454,179,658
Producers	\$380,128,785	\$360,362,089	\$318,928,051	\$1,059,418,925
Total contribution	\$1,932,476,071	\$1,831,987,316	\$1,621,347,424	\$5,385,810,811
<b>Value add (wages + profit)</b>				
Venues	\$361,608,966	\$364,140,228	\$397,769,862	\$1,123,519,056
Artists	\$354,156,391	\$356,635,485	\$389,572,030	\$1,100,363,906
Producers	\$78,161,405	\$78,708,535	\$85,977,546	\$242,847,486
Total value add	\$793,926,762	\$799,484,249	\$873,319,438	\$2,466,730,448
<b>FTEs (headcount)</b>				
Venues	5,638	3,270	3,140	12,048
Artists	16,219	9,407	9,034	34,660
Producers	1075	624	599	2,298
Total FTEs	22,932	13,300	12,773	49,005
<b>Cost to Government</b>				
Venues	-			
Artists	-			
Producers	75,446,576			
Total	75,446,576			
<b>Tax multiplier</b>	0.28			
Venues	319,433,897			
Artists	312,850,528			
Producers	69,045,308			
Total	701,329,733			

## Appendix C Venue survey

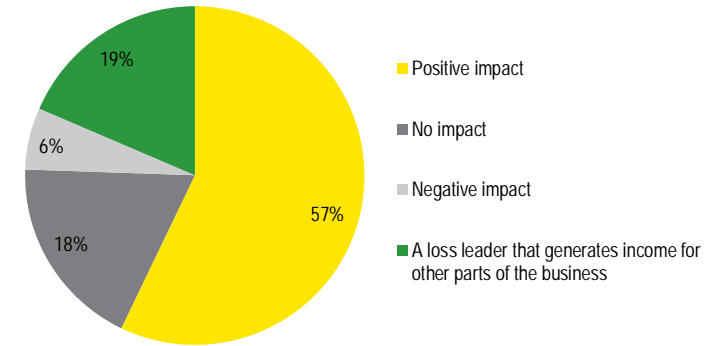
1. In which state or territory is your venue located?



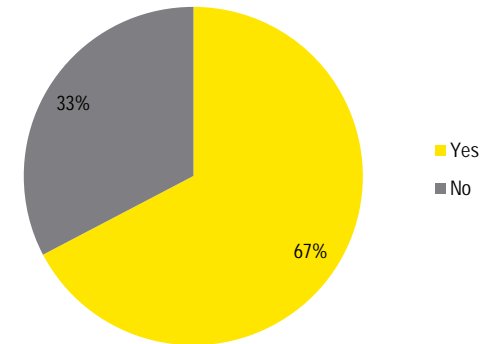
2. Which type of venue best describes your venue?



3. What impact do you believe live music has/would have on the bottom line of your business?

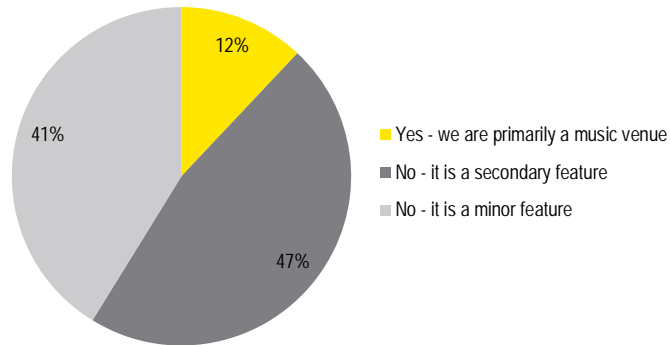


4. Did you stage live music at your venue in 2012?

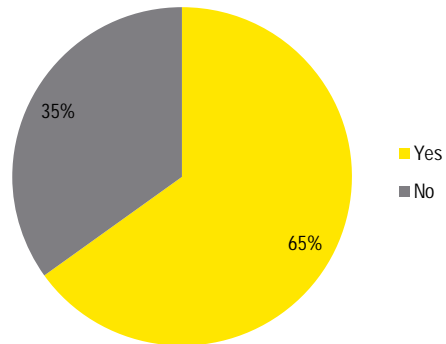


Venues currently staging live music

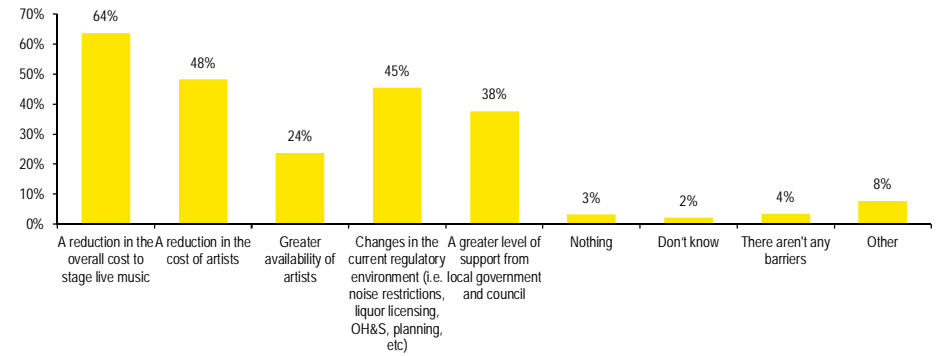
1. Is the provision of live music a core part of your business?



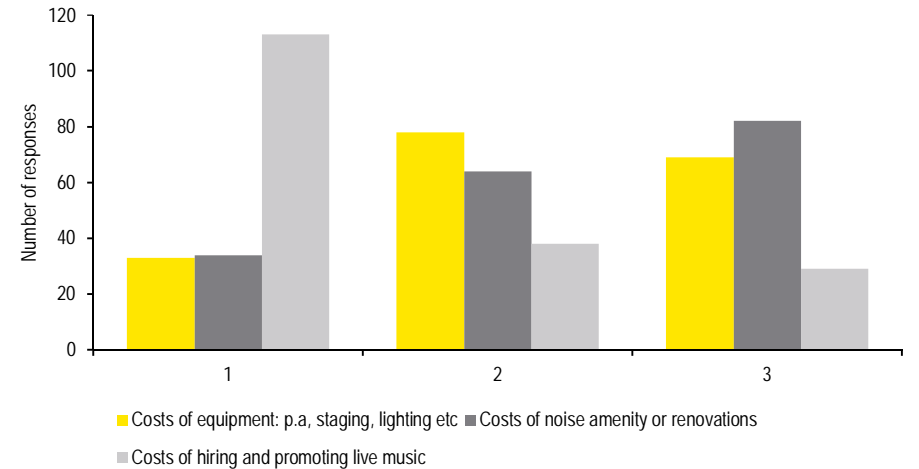
2. Does your venue have a designated performance area?



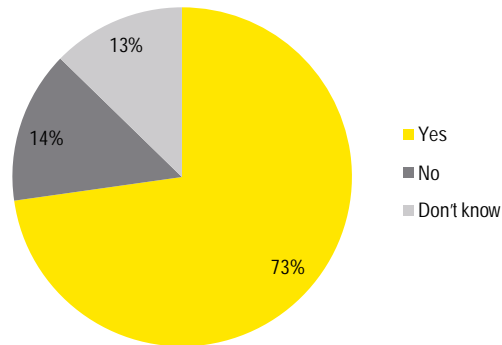
3. What would encourage you to stage more live music performances at your venue?



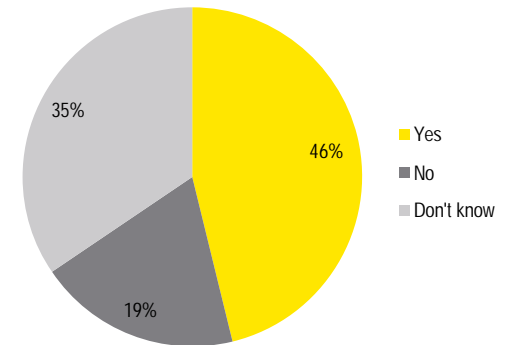
4. Please rank from how important a reduction in the following costs would be for you to stage more live music at your venue, where 1 is the most important and 3 the least important



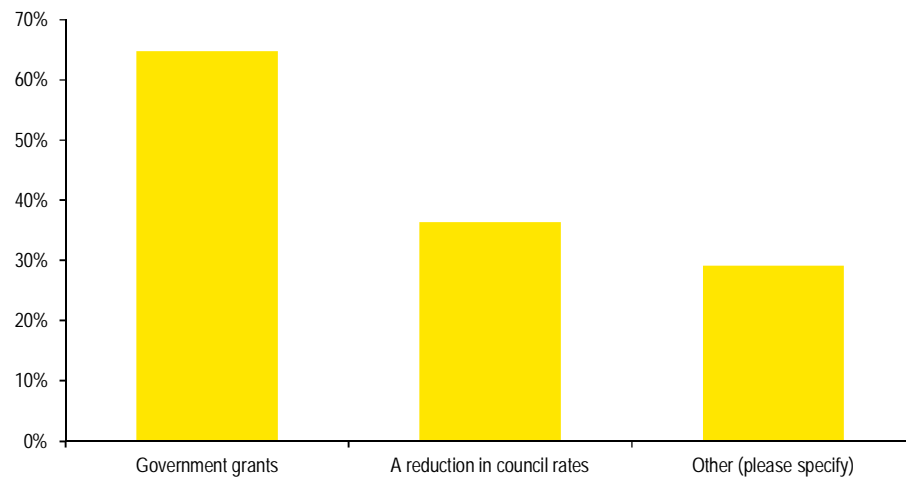
5. Do you think a tax offset relating to the presentation of live music would be an incentive for venues to invest in live music?



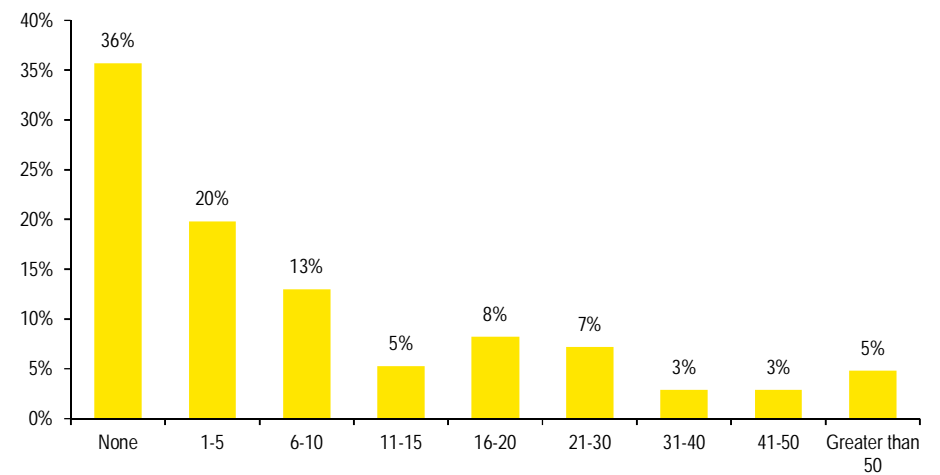
7. Would a tax offset for the cost of staging live music be applicable to your venue?



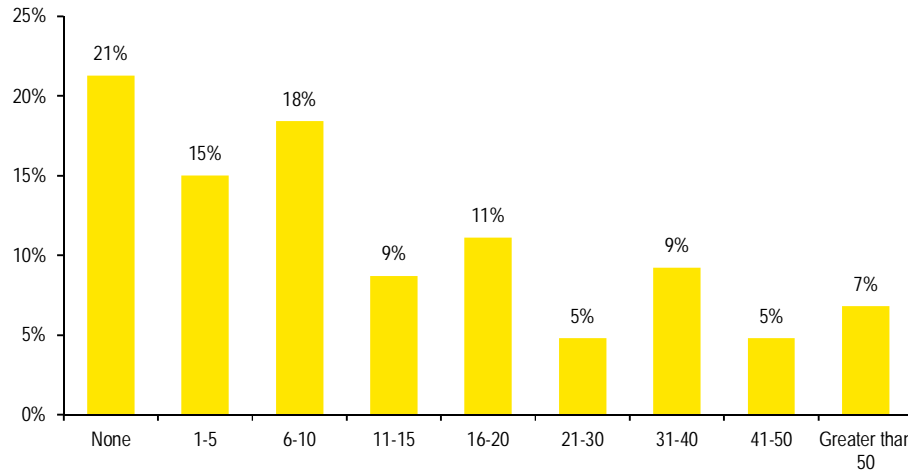
6. What other incentives do you think would help stimulate investment in the contemporary music industry?



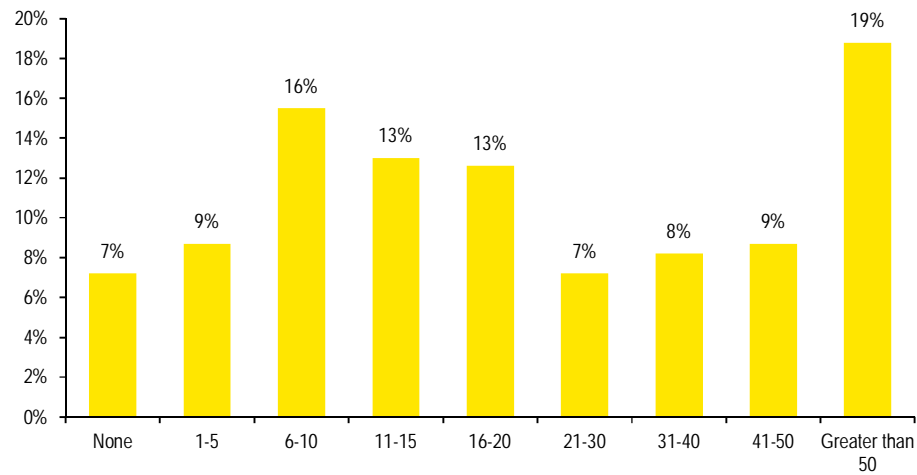
8. If you received a tax offset on the expenses incurred in staging live music equivalent to say 5% of your live music operating costs per year, how many more live performances would you host per year?



9. If you received a tax offset on the expenses incurred in staging live music equivalent to say 10% of your live music operating costs per year, how many more live performances would you host per year?

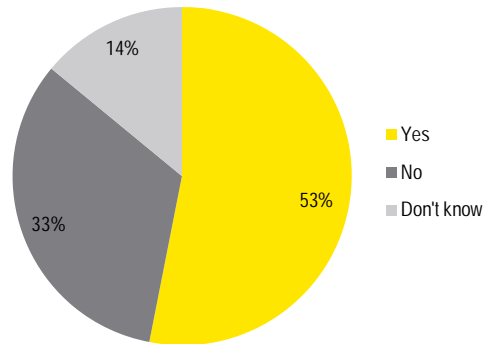


10. If you received a tax offset on the expenses incurred in staging live music equivalent to say 20% of your live music operating costs per year, how many more live performances would you host per year?

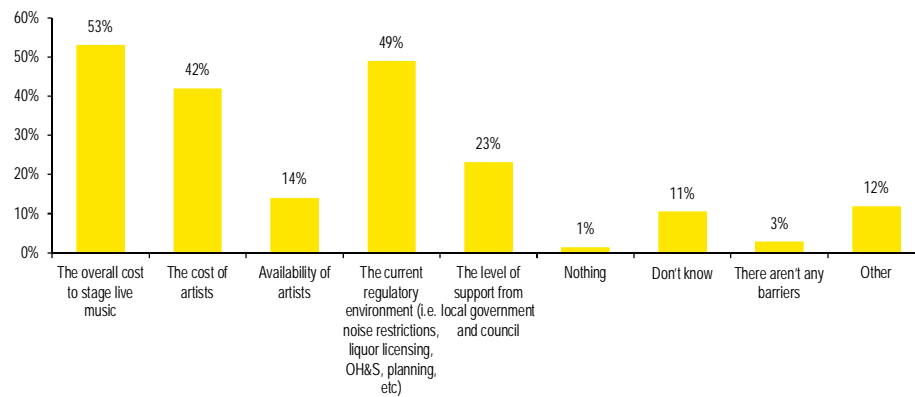


Venues not currently staging live music

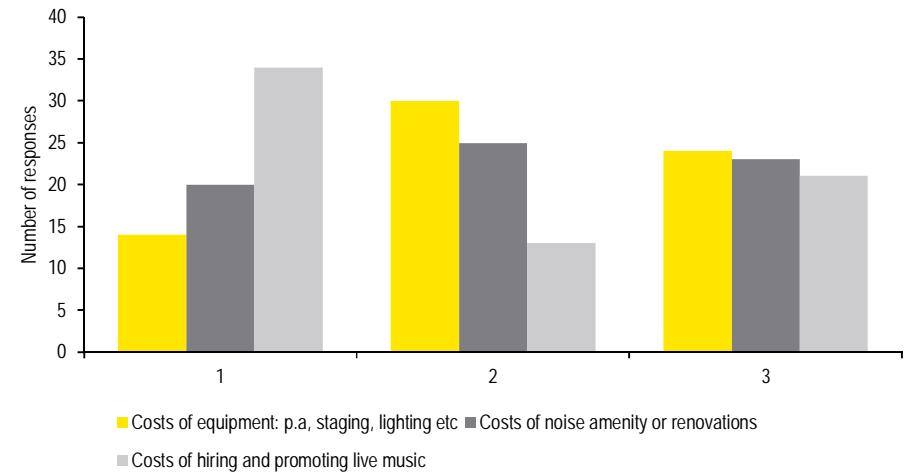
1. Would you consider hosting live music at your venue?



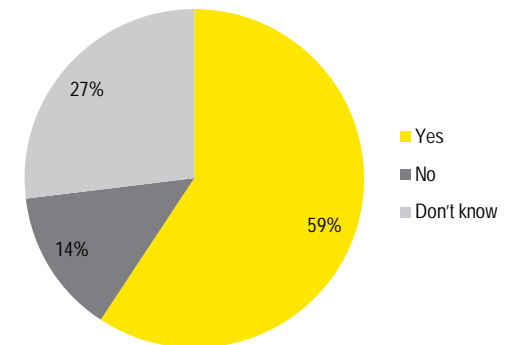
2. What do you see as the barriers for entering into the industry/for operating a live music venue?



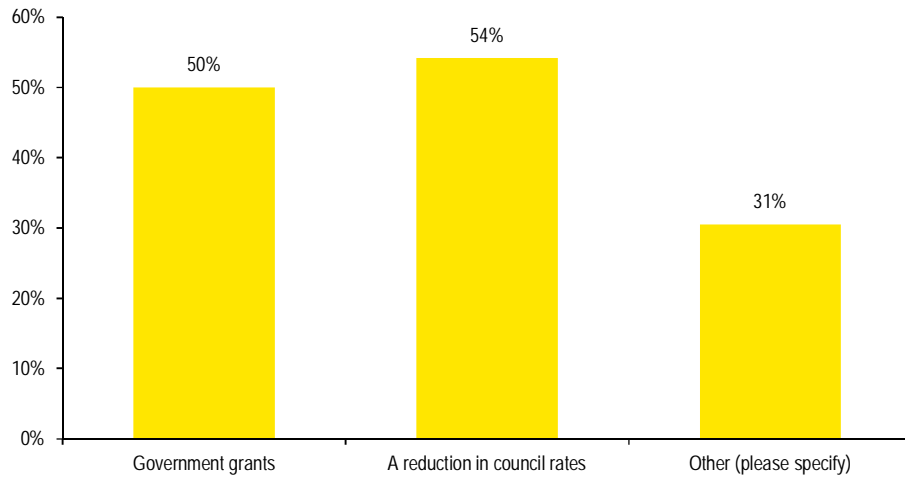
3. Please rank how important a reduction in the following costs would be for you to stage live music at your venue, where 1 is most important and 3 the least important



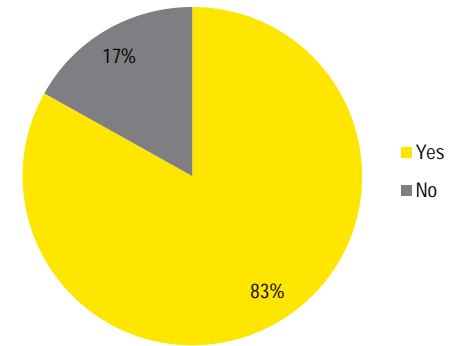
4. Do you think a tax offset relating to the presentation of live music would be an incentive for venues to invest in live music?



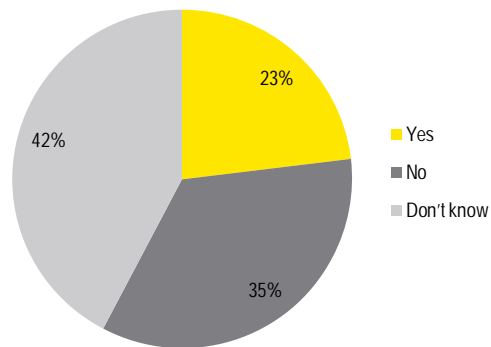
5. What other incentives do you think would help stimulate investment in the contemporary music industry?



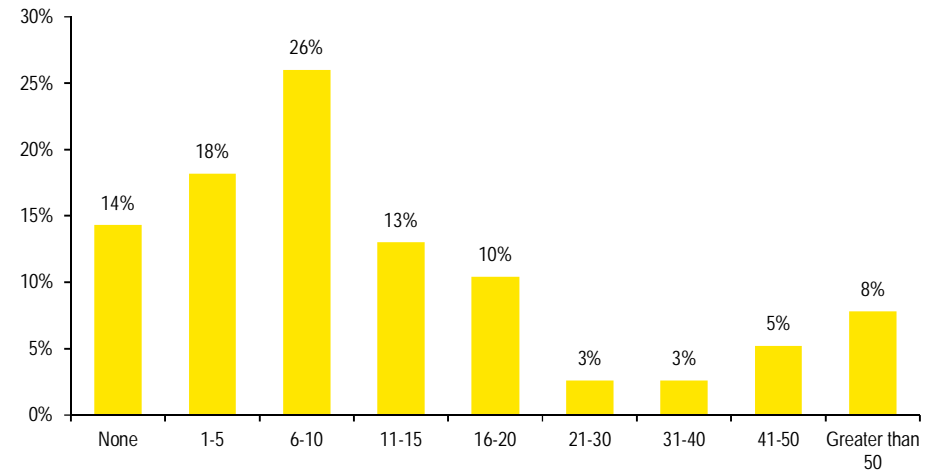
7. Would a tax offset on the expenses incurred in staging live music equivalent to \$10,000 per year encourage you to host live music at your venue?



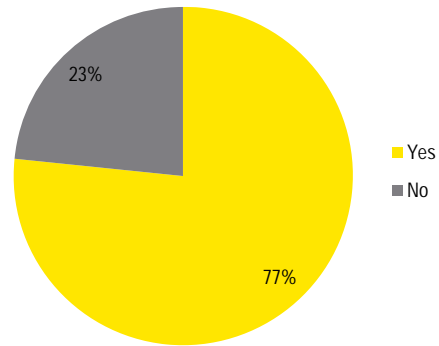
6. Would a tax offset for the cost of staging live music be applicable to your venue?



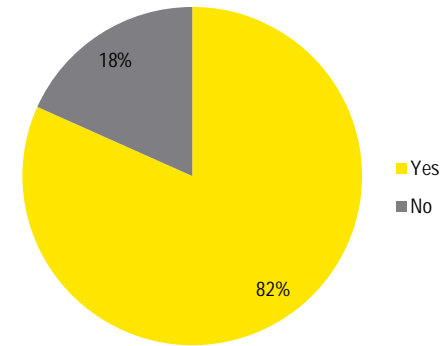
8. How many live performances would you host per year under this scenario?



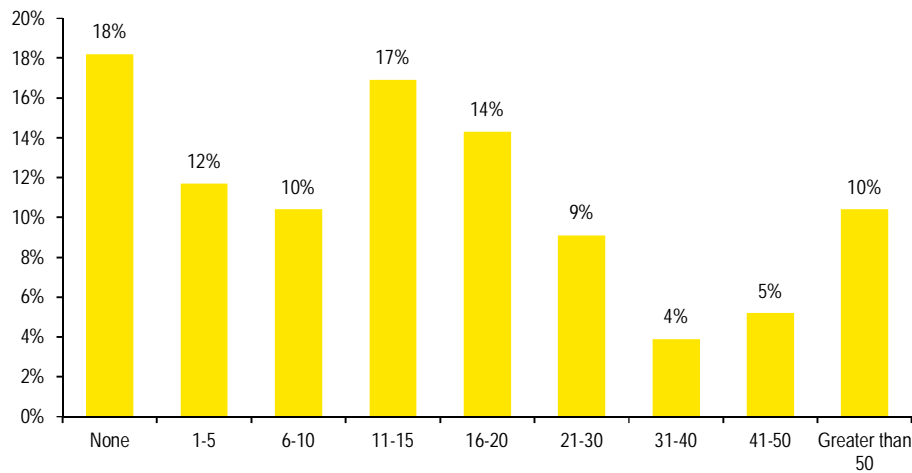
9. Would a tax offset on the expenses incurred in staging live music equivalent to \$20,000 per year encourage you to host live music at your venue?



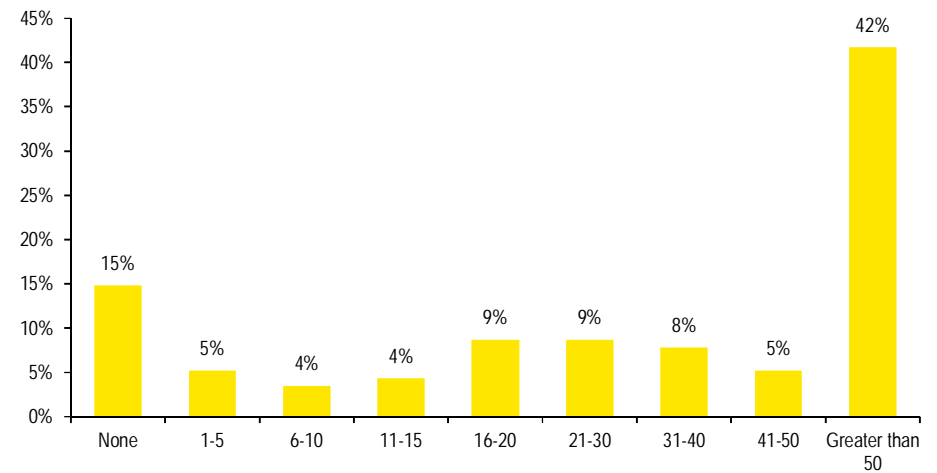
11. Would a tax offset on the expenses incurred in staging live music equivalent to \$40,000 per year encourage you to host live music at your venue?



10. How many live performances would you host per year under this scenario?



12. How many live performances would you host per year under this scenario?





## Appendix D Disclaimer

For public release

Ernst & Young ("the Consultant") was engaged on the instructions of Australasian Performing Right Association ("Client"), in accordance with the engagement agreement.

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