



2021-22 Pre-Budget Submission to The Treasury

IGEA

interactive games & entertainment association

January 2021

Providing tax incentives and funding for video game development:

Building a new high-tech, export-driven digital manufacturing sector

- Video game development is an advanced and creative digital manufacturing industry that will generate high-value exports and high-tech jobs. The global video games market is worth \$250 billion annually and growing fast, having expanded 20% since COVID alone.
- Due to the absence of Australian Government support for game development over the past decade, we estimate that billions have been lost from Australia's economy. But if this is fixed, Australia can attract billions back in investment and growth over the coming decade to create an industry that by 2030 can employ 10,000 full-time workers and earn \$1 billion a year.
- To stem COVID's profound and lasting impact on Australia's economy, the Morrison Government must recognise the immediate and explosive opportunity for growth and investment in our sector by introducing a 30% tax offset for game development and restoring the previous federal \$20 million Australian Interactive Games Fund.
- Funding video game development is not unusual. In fact, not funding games is unusual. We are one of the very few advanced economies in the world without federal games funding. There is broad consensus for fixing this. For example, last year alone, two Commonwealth agencies (including a Treasury portfolio agency) called for games funding: Austrade and the Australian Small Business & Family Enterprise Ombudsman.
- Aside from growing our industry up to twentyfold, we believe this funding would be fiscally-responsible and tax-neutral at minimum. Analysis of the UK and France's video games tax offsets show that each \$1 of government investment results in around \$2 in tax revenue back.

Video gaming is the world's largest creative industry, and its growth is accelerating

Globally, video games generate greater revenue than any other creative activity, estimated at USD \$174.9 billion (AUD \$250 billion) in 2020.¹ This represents 20% growth from 2019 as COVID has led to an increase in gameplay and sales around the world. Australians alone spent \$3.6 billion on games in 2019,² more than on any other creative or cultural activity. By comparison, the combined global film, home entertainment and streaming industries generated revenues of USD \$101 billion (AUD \$139 billion) in 2019,³ and almost certainly less in 2020.

An advanced, export-driven and disruption-proof digital manufacturing industry

Video games are complex digital goods created by highly-trained programmers, engineers, designers and developers. Games have great value, with over four of every five dollars earned by Australian game developers being export revenue from selling their games or skills overseas. Our sector is not just the pixels on screens: it is also the engines, hardware, middleware and networks that support games. These are cutting-edge technologies that require billions in R&D investment. As video games are direct digital exports with a global customer base, our sector is resistant to external disruptions, whether it be COVID-related or volatile trade relationships.

With federal support, the Australian game development sector can grow twentyfold

Australia's game developers earned \$184.6 million and employed 1,245 fulltime employees last year.⁴ Compared with the \$250 billion global industry, this means just 7 cents of every \$100 generated by game development comes to Australia. We estimate that billions in investment and economic activity have been lost from the departure of Australian studios and the diversion of foreign investment to other countries. Sadly, the Australian Government's neglect of our sector has contributed to this. But it's not too late to fix, and with support, our industry can grow to become ten or even twenty times what it is today. We know this because even after adjusting for differences in population, that is how far ahead the UK and Canada's game development industries, which have benefited from tax offsets, are compared to us. Sadly, despite having just a fifth of our population, even New Zealand's game development industry earns far more than us.⁵

Australian Government support is urgently needed to achieve this growth potential

Game development is a borderless industry, and Australia has a talented English-speaking workforce located in a favourable time zone. So why aren't we doing better? Unfortunately, Australia is roughly 30% more expensive to make games in than elsewhere in the world due to our higher business costs and lack of support. Game studios have told us that it is 30% cheaper to run studios in advanced but lower-cost countries like Poland and the Czech Republic than in Australia. Further, in countries like Canada, the US, the UK and France, there are strong tax incentives available for game development that make it 30% cheaper to run studios over there than in Australia. This is not only causing large studios to be established anywhere else but here, but it also makes it much more costly for small and ambitious developers to make games or secure financing. If the Australian Government is serious about investment and economic growth, it can achieve this by boosting our industry's global competitiveness through levelling the playing field for game developers.

¹ <https://www.gamesindustry.biz/articles/2020-11-04-newzoo-raises-its-annual-games-industry-forecast-for-2020-once-again>

² <https://igea.net/2020/06/australian-video-game-industry-positioned-for-a-rebound-in-2020-following-marginal-drop/>

³ <https://www.forbes.com/sites/rosaescondon/2020/03/12/the-film-industry-made-a-record-breaking-100-billion-last-year>

⁴ <https://igea.net/2021/01/australian-game-development-industry-counts-185-million-in-revenue/>

⁵ <https://nzgda.com/news/survey2020>

Who is IGEA?

IGEA is the industry association representing and advocating for the video games industry in Australia, including the developers, publishers and distributors of video games. We also manage The Arcade in South Melbourne, Australia's first, not-for-profit, collaborative workspace created for game developers and creative companies that use game design and technologies. IGEA is also known for organising the Game Connect Asia Pacific (GCAP) conference for Australian game developers, and the Australian Game Developer Awards (AGDAs) celebrating the best Australian games of the year.

Australia would (not could) attract billions in new investment and spending

If a tax offset and direct funding were introduced, we believe Australia's game development sector would grow at a 22% CAGR over the next decade to employ 10,000 fulltime workers and generate \$1 billion a year by 2030. While this CAGR rate appears high, it is based on looking at the long-term experience of almost every region in the world that has set up video game tax offsets. Where would our growth come from? As the Government knows, there are currently concrete proposals from 'AAA' studios to cumulatively commit potentially billions of dollars to establish studios in our cities. Other companies, especially Asia-based games companies, have also scouted Australia for investment targets, and as they have done in New Zealand, are willing to invest hundreds of millions of dollars. Finally, existing studios have told us that if federal support were available, it would enable them to increase spending on their own revenue-generating activities.

Bricks-and-mortar studios that will employ thousands of young Australians

The 'AAA' games companies right now scouting our shores as a destination for new studios are doing so for the opportunity to employ Australians. Game development is so successful overseas that countries like the US, Canada and the UK are approaching a saturation level of employers, resulting in a global talent shortage. So, studios are now eyeing the ready pipeline of 3,500 graduates that come out of the dozens of Australian universities and colleges that teach video game-related courses each year. These will be full-time jobs in bricks-and-mortar studios in our cities and towns. There are also hundreds of seasoned Australian expatriates in the global games industry waiting to return home (ironically, 'AAA' studios probably employ more Australians abroad than locally due to the few opportunities here). If studios are created, these expatriates will fill vital leadership and management roles to train the next generation.

Fiscally-sound investments that will pay for themselves - and likely much more

A restored \$20 million Australian Interactive Games Fund would involve funding of \$5 million a year for four years, while the cost of a well-designed tax offset would start at \$100 million over the same period. While not insignificant, this level of funding would only represent a small proportion of the total federal funding given annually to the rest of the screen sector. Each dollar of support invested in game development would also be more effective in attracting investment, creating local skilled full-time jobs, and generating export-generating projects than it would be if spent on more film and TV production. We are also confident that each dollar of funding and tax offset would at least be paid back in full via increased tax receipts, and almost certainly much more. For example, we advocate for a restored Australian Interactive Games Fund that includes a component of funding that the Government can recoup when a game finds commercial success. More importantly, game developers have told us how they ended up paying back more than ten times the value of the support they received from the former fund through increased income taxes that they were able to generate via successful games (which only came about because of the funding available). Finally, analysis of the UK's tax offset for game development found that each \$1 spent led to \$4 in expenditure and \$2 in new tax revenue,⁶ while analysis of France's games offset found that each \$1 of support triggered \$8 in investment and \$1.80 in new taxes.⁷

Appendices to this submission:

Appendix A: Common myths about Australian game development

Appendix B: Comparing Australia with Canada, the UK and New Zealand

Appendix C: Which creative industries does the Government support?

Appendix D: Australian Government supporters of funding game development

⁶ <https://www2.bfi.org.uk/sites/bfi.org.uk/files/downloads/screen-business-full-report-2018-10-08.pdf>

⁷ CNC [National Centre for Cinema and the Moving Image], Aides à la création de jeux vidéo – Bilan 2015, 2015

Appendix A

COMMON MYTHS ABOUT AUSTRALIAN GAME DEVELOPMENT



Myth 1:

'The video games industry can't be as high potential as you say it is'

It is. The size of the global video games industry is conservatively measured at more than twice that of the combined global film and music industries, or more ambitiously measured as the same size as every other creative industry combined. How is this so? To start, close to a third of the world plays video games. And unlike most creative exports, Australian-made games can find tremendous success overseas. Video games are arguably the most widely-exported Australian-made product in the world, and Australia's most successful cultural exports of the past decade are probably not films or musical groups, but video games like Fruit Ninja, Crossy Road or Hollow Knight. Just as importantly, video games are incredibly valuable intellectual properties that use innovative business models and attract long-term revenue streams. Unlike a film or a tonne of iron ore that can only be sold once, some Australian game developers are still finding success with titles they released half a decade ago, such as the League of Geeks title Armello. Finally, not only is the video game consumer export market continuing to expand, so too is the business market, with video game technologies being rapidly adopted in other sectors, from TV shows like The Mandalorian to the simulation software used for training and industrial design.



Myth 2:

'The TV and film industries need help, while the video games industry does not'

Game developers, in particular new and emerging studios, have the same challenges as budding film and TV producers, such as difficulties obtaining financing through traditional capital markets (like banks), creating products and reaching audiences. Direct funding like the Australian Interactive Games Fund will help fix this. Further, the Australian Government's screen incentives also exist to attract foreign investment and support screen jobs, especially the PDV offset for visual effects and animation studios, and the Location Offset and Location Incentive for foreign productions. But because the global games industry is so much more valuable and growing so much faster than the rest of the screen industry, the scale of investment and job creation accessible through a game development offset is almost incomparably higher. Finally, supporting games also supports film and TV businesses, because game development these days needs writers, actors, directors, composers, musicians, animators, and so many other traditional screen workers.

**Myth 3:*****'Game developers can access R&D incentives and other business tax breaks'***

This is not true, as most game studios cannot access the R&D incentive. While investment in game innovation frequently occurs, much of the spending in Australia is on creative and production activities that may be ineligible for the R&D incentive. Other kinds of general support, such as the accelerated depreciation and instant asset write-off schemes, are also of limited relevance to game developers as most game development costs are labour. The reality is that the Government provides screen sector-specific funding and offsets for film and TV production because it accepts screen production needs specific policy levers. Games are also screen productions, just interactive ones, and also need to access these screen policy levers.

**Myth 4:*****'Video games don't tell Australian stories, so there's no cultural argument for support'***

This misconception comes from an outdated view of video games from the 80s and 90s as being simple programs mainly for children. Today, video games are beautiful, highly complex and narrative-driven, with a strong emphasis on writing, sound, music, art and design. An intercultural love-story in the city, a wombat's ambling through the bush, a young boy and his pelican, a colonial Australian murder mystery, and a magical Melbourne coffeehouse are all uniquely Australian settings that have been portrayed in recent video games, as are all the Australian sporting games that can only be made here. Other locally-made games are stories told by Australians or under the creative control of Australians and are irresistibly filled with Australian voices, tones, colours and humour. Every cultural argument for supporting Australian artistic and creative activity also applies to supporting Australian video game development, with the added benefit of also creating a high-value export sector and skilling up a generation of innovative and versatile high-tech workers.

**Myth 5:*****'Screen tax offsets don't work'***

The Australian Government has continued to back its framework of screen production tax offsets, even after conducting a once-in-a-generation review of its screen policies in 2020. It has even doubled down on offsets by creating the \$400 million Location Incentive to boost the Location Offset for attracting foreign film production. A new tax offset for game development would be even more effective. First, a game development tax offset would attract far greater investment, not only because the global games sector is so much larger, but because the local film and TV sectors are restricted by infrastructure constraints such as finite sound stages. A game development tax offset would also have a much higher ROI because unlike the PDV and Location Offsets, it would not only help to attract overseas investment and spending to Australia, but would also help local studios to develop more - and more ambitious - export-generating games of their own. Also, unlike film and TV projects that tend to last weeks to months at most, and almost always provide short-term jobs only, a game development tax offset will create permanent bricks-and-mortar studios across Australia that will overwhelmingly employ full-time Australians.

Appendix B

COMPARING AUSTRALIA WITH CANADA, THE UK & NEW ZEALAND

Game development industry	Total revenue (AUD) <i>(comparison with Australia after adjusting for population size)</i>	Number of FTE game developers <i>(comparison with Australia after adjusting for population size)</i>
Canada	\$4.72 billion <i>(17.2x larger than Australia)</i>	27,700 <i>(14.8x more than Australia)</i>
United Kingdom	\$4 billion <i>(8.2x larger than Australia)</i>	18,279 <i>(5.5x more than Australia)</i>
New Zealand	\$305 million <i>(8.5x larger than Australia)</i>	747 <i>(3.1x more than Australia)</i>
Australia	\$184.6 million	1,245

Note: Comparison figures have been adjusted to take into account population differences between countries. The UK and Canadian figures assess the contribution to GDP rather than revenue and have been used as a proxy for revenue to provide an approximate measure of scale.


Appendix C

WHICH CREATIVE INDUSTRIES DOES THE GOVERNMENT SUPPORT?

Creative sector	Does the Australian Government provide support?
-----------------	---




Video game development

 **NO**

The federal government has excluded 'interactive' screen content like video games from accessing any federal screen funding or tax incentives. No other arts or cultural funding is available to support video games. The COVID-19 Creative Economy Support Package had no funding for games.




Local TV and film production

 **YES**

Hundreds of millions of dollars of direct funding and support are provided annually via Screen Australia, the ABC and SBS, the Australian Children's Television Foundation and other institutions. Hundreds of millions more are provided through the Producer Offset and the PDV Offset. COVID-related support is provided through the \$50 million Temporary Interruption Fund.




Foreign TV and film production

 **YES**

Hundreds of millions of dollars of incentives are provided to attract Hollywood and other foreign TV and film productions to Australia through the Location Offset and the \$400 million Location Incentive to 'top up' the Offset. Hundreds of millions of dollars more are provided to overseas screen productions that use Australian post-production, digital and visual effects companies through the PDV Offset. The Government has an entire agency, Ausfilm, dedicated to promoting these incentives.



Live and recorded music

 **YES**

Funding is provided through the Contemporary Music Touring Program, the Australian Music Industry Package, the Women in Music Mentor program, the Indigenous Contemporary Music program, funding for Sound Australia, and COVID-19 funding through the Restart Investment to Sustain and Expand (RISE) Fund, the Show Starter Fund and Arts Sustainability Fund.

Creative sector

Does the Australian Government provide support?



Visual arts



Funding is provided through Artbank, the Visions of Australia regional touring program, the Resale Royalty Scheme, the Indigenous Visual Arts Industry Support program and the Visual Arts and Craft Strategy, as well as COVID-19 support provided through the RISE Fund, Show Starter Fund and the Arts Sustainability Fund.



Performing arts



Funding is provided to 28 major performing arts companies through the Australia Council for the Arts. COVID-19 support is also provided through the RISE Fund, Show Starter Fund and the Arts Sustainability Fund.



Literature and writing



The Lending Rights schemes, the Prime Minister’s Literary Awards, and support for the ‘Australia Reads’ and ‘Australia Reads at Home’ campaigns provide investment into Australian writing.

Appendix D

AUSTRALIAN GOVERNMENT SUPPORTERS OF FUNDING GAME DEVELOPMENT

Austrade (The Australian Government's trade and investment agency)

Submission to options paper for supporting Australian stories on our screens (3 July 2020)

"Austrade recommends updating the exclusion list for the Post, Digital and Visual Effects (PDV) Offset to remove 'computer games' from this list. As well as supporting platform neutral funding and a consistent offset to assist Australian content, this would encourage Foreign Direct Investment (FDI) from global technology companies and grow Australia's current digital games sector into a competitive and vibrant sector."

Full submission at:

https://www.communications.gov.au/sites/default/files/submissions/sass-austrade_0.pdf

Australian Small Business and Family Enterprise Ombudsman (The Treasury portfolio agency that advocates for small businesses)

Media release: '30% tax offset would be a game-changer for industry - Ombudsman' (19 November 2020)

"While the federal government invests \$750 million annually in arts and culture, the video game sector continues to fall through the cracks. IGEA estimates Australia could create a \$1 billion industry in game development, providing export revenue and employing an additional 10,000 full time workers with the right support. A tax offset for game development, similar to the incentives given to the screen production industry would be an excellent start."

Full media release at:

<https://www.asbfeo.gov.au/news/news-articles/30-tax-offset-would-be-game-changer-industry-ombudsman>

Joint Standing Committee on Trade and Investment Growth (Coalition-Chaired Australian Parliamentary Committee on trade and investment)

Final report: 'Trade transformation: Supporting Australia's export and investment opportunities' (May 2020)

"The Committee recommends that the Australian Government introduce a refundable tax offset for video game development in Australia, similar to offsets provided to the film and television production industries."

Full report at:

https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Joint_Standing_Committee_on_Trade_and_Investment_Growth/Supporting_exports_and_attracting_investment/Report

Senator the Hon James McGrath (Liberal Party Senator for Queensland, Deputy Government Whip in the Senate)

First speech on video games to the Senate (2 September 2020)

“Something Australia should do, and I strongly support, is introduce a 30 per cent tax offset for video games to grow a new information based export industry, attract millions in foreign investment and create thousands of jobs. In many other countries, there are tax incentives for game development. These exist in Canada, where there is a 35 to 40 per cent offset, in Singapore, where there is a 40 per cent offset, in France, where it’s 30 per cent, and in the UK, where it’s 20 per cent. Australia already has tax offsets for the film, TV, post-production, digital and visual effects sectors but lacks this same support for domestic game development. Without stronger incentives to invest, our games industry risks getting owned by other countries.”

See full Senate speech:

https://www.aph.gov.au/Parliamentary_Business/Hansard/Hansard_Display?bid=chamber/hansards/f66ddb49-e0bd-4a17-a197-4a5d525d0d0c/&sid=0119

Second speech on video games to the Senate (9 December 2020)

“As a government there is so much we can do to support this very important industry. For example, video games are explicitly excluded from the tax offsets that are accessible to the film industry. That’s wrong. I’ve previously called for the video game industry to be able to access these tax offsets. A 30 per cent tax offset for the video game development industry would build a new information based export industry and create thousands of jobs.”

See full Senate speech:

https://www.aph.gov.au/Parliamentary_Business/Hansard/Hansard_Display?bid=chamber/hansards/fd2295d6-3f93-487a-95ba-ab6d5334b30f/&sid=0041

IGEA

As our sector's members' association, IGEA is the voice of the Australian video games industry, including the developers, distributors and publishers of video games as well as the owners and distributors of consoles, platforms, devices and related hardware. IGEA also operates The Arcade in South Melbourne, Australia's first not-for-profit cooperative working space for game developers and related digital innovators.

See who IGEA's members are here:

<https://igea.net/about/members>

For more information on any issues raised in this submission, please contact IGEA's Director of Policy & Government Affairs, Ben Au, at ben@igea.net

Visit igea.net to see our media releases, research, advocacy and submissions.

You can also follow us on Twitter below:

IGEA:  @igea

The Arcade:  @TheArcadeMelb

Game Connect Asia Pacific:  @GCAPConf

The Australian Game Developer Awards:  @The_AGDA