



Australian Interactive Games Fund

Options paper for comment



Australian Government



This paper draws from a number of sources. Screen Australia has undertaken all reasonable measures to ensure its accuracy and therefore cannot accept responsibility for inaccuracies and omissions.

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Australian Interactive Games Fund:

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1. Objectives

On 15 November 2012, Federal Arts Minister Simon Crean delivered the keynote address at the Screen Producers Association of Australia's annual conference (see [media release](#)). In this address the Minister announced an additional allocation of \$20 million over three years to Screen Australia to support the interactive entertainment industry.

Screen Australia is the Federal Government's direct funding body for the Australian screen production sector. Its functions are to support and promote a highly creative, innovative and commercially sustainable industry. It achieves this through a range of support measures, including funding for screen businesses and investment in the development and production of single projects as well as marketing initiatives and the administration of the Producer Offset tax incentive.

The Interactive Games Fund will commence in 2012/13 delivering \$5 million per annum in the first and second years, jumping to \$10 million in 2014/15. The money has been earmarked to help build a sustainable base for companies to grow in a global market. It recognises the international potential and originality of our local interactive entertainment by assisting Australian companies during a period of increased pressure following major shifts in the market.

The objectives of the Australian Interactive Games Fund are to:

- promote industry growth and sustainability
- support the development of new intellectual property
- encourage skills retention and renewal
- maximise the creative opportunities of fast broadband.

The issues facing the interactive entertainment industry are intrinsically linked to those of the broader screen production sector. With this in mind, the film, television and interactive industries must work together to ensure that the right supporting frameworks are in place to address the threats and opportunities that come from greater convergence.

To ensure that this new fund makes a meaningful contribution to the industry, Screen Australia will develop the funding guidelines in consultation with the sector. This paper marks the first step in this process by outlining context and background for the support as well as several support options on which submissions are being sought.

2. Context for support

2.1 Shifting demographics and growing consumer spend

The screen sector is in transition as distribution mechanisms converge and access points increasingly fragment. This change is bringing with it a wealth of opportunities, be it new approaches to the distribution of content or the ability of interactive elements to transform the way we engage with information and entertainment. These technological changes are forcing many in the screen sector to rethink their business models.

Like going to the cinema and watching television, interactive entertainment is a mainstream activity in Australia. Due to cultural and technological shifts in the industry over the last few years, there is now a wider variety of games that are more accessible to more people.

A recent study commissioned by the Interactive Games and Entertainment Association,¹ found that 92 per cent of Australian households have a device for playing computer games, up from 88 per cent in late 2008.

The report shows that the demographic profile of people playing interactive games is moving closer to that of the general population, with 75 per cent aged 18 years and over. In fact, the average age has risen from 30 to 32 years old since 2008. Furthermore, women now make up 47 per cent of the total gaming population, up from 46 per cent over the same period. It goes on to state that the average adult who plays games has now been playing them for 12 years, with 26 per cent having played for more than 20 years.

Beyond levels of engagement there is also potential for real economic growth. The global interactive entertainment industry is forecast to be the fastest growing entertainment and media sector, expanding from \$56.8 billion in revenue in 2011 to \$80.3 billion in 2016.²

In Australia, the market is expected to grow at a compound annual growth rate of 7.4 per cent to reach \$2.2 billion in 2016. This is in large part due to the exponential growth of online distribution of games.³ The physical retail console and PC market is expected to recover slightly over the next five years after a recent decline, expanding globally at a growth rate of 1.7 per cent. The growth will be driven by the release of the next generation of console hardware.

However, while this growth in consumer demand is impressive, it does not necessarily translate into benefits for local games developers.

Australia currently has a small but diverse interactive entertainment development industry, with independent and publisher-owned studios producing various types of games for a variety of platforms. With the local industry at the crossroads, it is vital to take stock of its achievements and develop a strategy to best realise the industry's potential.

Data from the Australian Bureau of Statistics shows that as at June 2007 there were 45 digital game development businesses in the interactive entertainment industry, employing 1,431 workers. Total income in 2006/07 was \$136.9 million, with \$116.9

¹ Interactive Games and Entertainment Association, 2011, *Digital Australia 2012*

² PricewaterhouseCoopers, 2011, *Australian Entertainment and Media Outlook 2012–2016*.

³ The online segment includes revenue from downloadable console and PC games.

million coming from the provision of services to other businesses. Of this service income, 93 per cent came from overseas sources and 71 per cent related to console games.⁴

By comparison, the film and television industry tends to rely less on fee-for-service work, with 38 per cent out of a total income of \$2.03 billion coming from the provision of services to others in 2006/07, and the remainder from 'completed works' (feature films, TV drama, TV commercials, etc). In total, 13,844 people were employed in the film and television industry at the end of June 2007, 10,873 in production businesses and 2,971 in post-production businesses.⁵

Compared to the interactive entertainment industry, the greater diversity of income sources for these businesses has been made possible in part through sustained government support.

The ecology of the interactive entertainment industry has changed significantly since 2006/07, with the closure of several development studios focused on console games and the emergence of many independent developers specialising in online games and those for mobile and tablet devices.

Digital distribution has also meant that self-publishing has emerged as a viable business model, allowing developers to bypass the traditional publishers in making their product available. A number of local studios have had great success with digitally distributed and self-published games and as a consequence the independent game development sector has grown substantially.

2.2 Industry pressure points

There are a number of threats confronting the Australian industry. They can be broadly grouped into two interrelated areas: falling foreign investment and talent being driven offshore.

Despite exponential growth in the online market, there has been a fall in publisher investment in local console development over the past three years, a direct impact of the contracting retail market for physical console games.

Publishers have been commissioning fewer console titles and focusing their resources on blockbuster titles of their established intellectual property, trimming medium-budget games and licensed titles from their portfolios. This has had an impact on local developers as work on licensed console titles has historically been one of the Australian industry's strengths.

Exacerbating this trend is the fact that the current generation of consoles are now late in cycle. The console market is cyclical with development and retail activity stimulated by the release of new 'generations' of hardware. This has resulted in a contraction in sales in the last few years, in part due to a large second hand market. The current generation of consoles, which commenced with the launch of Xbox 360 in 2005, is predicted to be replaced over the next couple of years. The latest Nintendo home console was released in Australia on 30 November 2012.

Furthermore, the impact of the global financial crisis on consumer spending in the US and Europe has meant that consumers are not buying as many physical console and PC titles, preferring to purchase a smaller number of high-quality titles.

The contraction of the retail market for physical console games, combined with rising development costs, has forced console development to low-cost territories in

⁴ Australian Bureau of Statistics, *Digital Game Development Services Australia 2006/07* (cat. no. 8515.0)

⁵ Australian Bureau of Statistics, *Television, Film and Video Production and Post-production Services 2006/07* (cat. no. 8679.0)

order to improve profit margins. In order to reduce development costs, publishers are relocating studios to territories that offer tax incentives or territories with low labour costs such as China, India and Russia.

As a fee-for-service location, Australia is no longer considered cost competitive due to the strong Australian dollar, which has risen steadily against the US dollar from the late 1990s to 2011, with severe impacts on the local industry. Between 1999 and 2002 the average value of the AUD was 57 US cents, this has risen to an average value of 97 US cents between 2010 and October 2011.⁶ Nor are there games industry specific tax incentives in place to offset this rise.

Like other forms of screen content, games produced primarily for the Australian market tend to be riskier investments for publishers given the population size, a notable exception being console games based on local football codes. Because of this, most local developers are primarily export focused and with the contraction in foreign investment there are now even less opportunities to raise funds for original projects.

The influx of foreign investment into the local industry in the 2000s resulted in the industry acquiring a talent pool of highly skilled and experienced workers. Console development requires a combination of high-level creative, technical and management skills, which are transferable to other types of interactive digital media.

However, the local talent pool has been severely diminished as a consequence of recent studio closures, which resulted in the loss of hundreds of jobs. As the local industry is too small to absorb the employees from defunct studios, many of them have moved overseas.

The local industry was well positioned to take advantage of digital distribution platforms due to the skills development and training facilitated by local console development activity in the 2000s. But without a critical mass of talent and experience, the industry will not be able to rebuild in the future, even with the return of favourable trading conditions such as a more competitive Australian dollar and the forecast upturn in physical retail sales over the next five years.⁷

For information about current support available in Australia, see the appendix, page 18.

2.3 Creating a meaningful impact

For several years there have been consistent calls for greater financial assistance for games developers from a variety of interactive entertainment stakeholders. In particular, the Games Developers' Association of Australia⁸ and Screen Australia have both highlighted the opportunity for tax incentives to maximise the industry's economic and cultural impact.

Most recently, Screen Australia proposed an Interactive Entertainment (Games) Offset as well as an Online Production Fund in its submissions to the National Cultural Policy and Convergence Review.⁹ These initiatives were informed by

⁶ Reserve Bank of Australia, Exchange Rate Data, Daily Data 1999–2002, Daily Data 2010–2011, (<http://www.rba.gov.au/statistics/hist-exchange-rates/index.html>)

⁷ PricewaterhouseCoopers, 2011, Australian Media and Entertainment Outlook 2011–2015

⁸ For example: GDAA, 2003, submission *Inquiry into the Future Opportunities for Australia's Film, Animation, Special Effects and Electronic Games Industries*

(http://www.aph.gov.au/Parliamentary_Business/Committees/House_of_Representatives_Committees?url=cit_a/film/subs/sub099.pdf); GDAA, 2006, *Submission to Commonwealth Government Review of Australian Government Film Funding Support* (<http://arts.gov.au/sites/default/files/pdfs/20-game-developers-association-australia.pdf>); and, GDAA, 2011, *National Cultural Policy: Submission by the Game Developers' Association of Australia* (<http://culture.arts.gov.au/sites/default/files/submissions/gdaa.pdf>)

⁹ Screen Australia submissions are available here: <http://www.screenaustralia.gov.au/research/viewpoint.aspx>

extensive industry consultation and financial modelling undertaken in partnership with PwC.¹⁰ The Convergence Review's subsequent recommendation of a games offset scheme further affirmed the economic and cultural value of greater support to the industry.¹¹

Although a tax incentive has not yet been adopted, the allocation of \$20 million to Screen Australia over three years is an important measure to encourage growth in Australia's games development industry. This does not come without its challenges, however, and careful consideration needs to be given to where and how the available funding can be targeted to best effect.

This options paper is intended to stimulate discussion and includes a number of key questions on which Screen Australia would like feedback. It outlines Screen Australia's aims in providing funds to the industry and the principles underpinning how it might do this to make a meaningful impact. It also proposes several program options currently being considered as ways of targeting the support.

¹⁰ Screen Australia, 2011, *Playing For Keeps: Enhancing Sustainability in Australia's Interactive Entertainment Industry* (http://www.screenaustralia.gov.au/documents/SA_publications/GamesReport_PlayingforKeeps.pdf)

¹¹ http://www.dbcde.gov.au/__data/assets/pdf_file/0007/147733/Convergence_Review_Final_Report.pdf

3. Funding aims

Screen Australia is a particular type of investor. With an industry development brief and therefore a role that goes beyond seeking financial returns for the agency itself, the terms of our funding can help developers take creative risks, provide leverage for attracting other investors and retain more of an ongoing stake in their own projects.

Screen Australia can provide funds as:

- a grant, which means the funding does not have to be repaid
- a loan, to be repaid, but sometimes only under certain conditions (a 'limited recourse' loan)
- recoupable equity investment, where Screen Australia will share in any gross receipts from the project, usually at a level commensurate with its investment.

3.1 Funding for businesses

Funding can be targeted at supporting businesses that have identified opportunities to develop and expand in terms of their turnover, scale and the range of business activities to enhance their sustainability. This is referred to by Screen Australia as Enterprise funding.

The aim of such a program would be to offer companies a hybrid model of support, one in which they can request funding directly associated with some operating costs and early stage development for future projects as well as building in project-specific support across their current slate to help get some games to the point where they are ready for the market.

The potential advantages of this kind of support include:

- Funding strengthens the foundations of the business by providing additional and certain cashflow assistance on an annual basis.
- Recipients can decide how best to apportion funding across the full development cycle as well as for other activities such as marketing, training, building expertise and attendance at markets.
- Contracting and reporting processes are simplified for applicants, as only one agreement is required covering a range of activities.
- Significant funds will be available to a limited number of companies to ensure they provide meaningful impact for the successful applicants.

The potential disadvantages of this kind of support include:

- Companies with significant sources of capital are likely to be excluded unless they can clearly demonstrate a business case for support.
- Applicants will need to provide confidential business information including business plans and financial statements to assist in assessment and reporting.
- The eligibility threshold would be higher than that set for project funding.
- To ensure that meaningful funding is provided for each successful applicant, funding will not be able to be spread wide.

3.2 Funding for projects

Funding can also be offered game by game, broken into stages across the development cycle, for example:

- to help build aspects of the project's core mechanics or features in order to attract market commitment and investment
- to contribute to the total cost of getting a game completed and released.

These stages are referred to in this paper as **Pre-production funding** and **Production funding** respectively.

By targeting games from strong creative teams that demonstrate an outstanding vision, the aim of these two funding programs would be to escalate development activity for a wide range of companies across a wide variety of genres to ensure a consistent flow of high-quality, diverse and audience engaging games in the marketplace.

It is envisaged that companies would not be eligible to apply for separate project funding while they were receiving Enterprise funding.

The potential advantages of project-by-project support include:

- Each project is considered on its own merits.
- The funding can be highly targeted to ensure that a wide range of projects across genre types and budget ranges are made.
- The funding provides certainty for specific projects and may trigger additional investors.
- Funds are spread wide.

The potential disadvantages of this kind of support include:

- Funding will likely need to be based on a round-by-round basis with deadlines.
- Periods for assessment, decision making and then contracting may mean several months from application to funding.
- A greater administrative burden may increase administrative costs for companies and Screen Australia.
- To target the funding appropriately, and keep administrative processes manageable, an eligibility threshold based on the applicant's track record would probably be necessary.
- Project funding potentially involves higher risk as it succeeds or fails on that project, rather than risk being shared across a slate of projects.
- Funds are spread thin.

What do you think?

What should the balance be between the two stages of project funding? How can we avoid simply generating a large number of prototypes whose only potential for third party finance is to re-submit to Screen Australia?

How will the funding intersect with other support measures, such as the Research and Development Tax Incentive?

3.3 Guiding principles

When considering how to make the most of the available funds in providing support to Australian game development, Screen Australia is guided by the following principles:

- target strong creative teams with a diversity of experience
- prioritise projects with a clear target market and creative vision
- support a diversity of game types, styles and scale
- offer greater financial leverage for teams creating and retaining new intellectual property
- encourage business models that expand audience reach and revenue, including developing a strong presence in the international marketplace
- encourage new business partnerships and alliances
- utilise leading expertise to ensure the best applicants are selected
- return funds repaid or recouped from Screen Australia's games investments into the pool for future games investments
- maintain confidentiality and avoid conflict of interest.

It is anticipated that the first iteration of support will focus on funding for businesses and projects. However, Screen Australia will explore additional opportunities in the medium to long term by actively seeking partnerships with other agencies to develop complementary programs.

What do you think?

To what extent should the total allocation of funds be apportioned across Enterprise funding, Pre-production funding and/or Production funding?

What benchmarks would be appropriate for measuring the overall success of the programs?

4. Enterprise funding

4.1 Scope

Games Enterprise funding should have the flexibility to assist larger developers who are poised for further growth as well as fostering alliances and partnerships among a growing number of individuals and small creative teams working in the digital market. It should also be diverse in the types of games it supports to maximise the full range of opportunities across the interactive entertainment industry.

The program could support companies in expanding staff, professional development and enhancing business, marketing and legal skills. It is envisaged that costs associated with infrastructure would only be eligible if they directly contribute to revenue-generating activities that are integral to the applicant's proposal. The funding could be used to accelerate completion rates, help establish or expand an international presence, offer mentoring opportunities and/or facilitate more frequent marketing activities.

What do you think?

Should the investment be capped at different levels for companies of different sizes (infrastructure, revenue, etc) and/or product mix (mobile, console, etc)?

What types of activities and expenditure should the program support?

Should the funds be exclusive to those companies that have a track record in developing games, or should other businesses, such as those involved in middleware, marketing, publishing, aggregation, etc, also be eligible?

Should the funds be paid over one, two or three years?

What should the terms of support be: for example a loan, a grant, partially recoupable equity, etc?

4.2 Eligibility

The Games Enterprise Program would support Australian companies that are incorporated and carrying on business in Australia, and have their central management and control in Australia.

It is envisaged that at least one company director would need to have a minimum of five years' participation in the industry, and the company's key principals between them would need to have at least five credits in a senior role on commercially produced and released games.

Smaller companies that do not meet this eligibility threshold could look at merging or joint-venturing with others in order to meet the benchmarks and to make themselves more competitive in terms of their past and future project slates.

What do you think?

Is the proposed credit eligibility threshold set too high or low?

Should the marketplace performance of past games be taken into account in setting the eligibility threshold? If so, what would be appropriate measures?

What proportion of a company's activities should be focused on creating and/or promoting original intellectual property?

4.3 Assessment

The criteria for determining whether or not to fund a company through the Games Enterprise Program could include:

- strength of the proposal and overall project slate
- the business plan, including forecasts relating to fee-for-service work versus the retention of original intellectual property
- the overall track record of the company and key creative team
- the current slate and future projects
- product and practitioner diversity
- training opportunities and job creation.

What do you think?

Should the criteria be differentially weighted?

Are there other criteria that should be considered?

5. Pre-production funding

5.1 Scope

Funding through the Games Pre-production Program would support game developers to create a compelling prototype, vertical slice, or beta version to demonstrate the core game mechanics and features, as well as associated materials such as a key art, game design document (GDD), technical design document (TDD) and pitch trailer.

The funding would provide developers with:

- the ability to take the time to research and develop original IP without impacting their bottom line through having to use self-financed resources
- the opportunity to work through an idea to its full potential
- the resources to create compelling pitch materials to get attention and attract finance from the market
- a stronger position to retain IP in negotiation with the marketplace, ie publishers.

What do you think?

What types of activities should this program support?

Should there be any limits on the types of games supported?

How valuable are prototypes in the marketplace?

What materials should be submitted for consideration at application stage?

How much should each game be able to apply for, and should different amounts be on offer depending on the type of game?

What should the terms of support be: for example a loan, a grant, partially recoupable equity, etc?

5.2 Eligibility

The Games Pre-production Program would support Australian games where the intention is for the Australian company to retain some intellectual property. The game could be intended for release on a dedicated gaming console, computer and/or mobile device via physical or digital distribution.

The program could assist projects from creative teams of varying levels of experience. However, it is envisaged that as a minimum, applicants would need to be credited in a senior role on at least two commercially produced and released games.

What do you think?

Is the credit eligibility threshold set too low?

Should the marketplace performance of past games be taken into account in setting the eligibility threshold? If so, what would be appropriate measures?

5.3 Assessment

The criteria for determining whether or not to provide funds to a project through the Games Pre-production Program could include:

- strength of the proposal including creative vision, entertainment value and innovation
- appropriateness of the proposed R&D goals
- experience of the key creative team
- usefulness of producing a prototype for the project
- potential of the game to raise finance for a full commercial release.

What do you think?

Should the criteria be differentially weighted?

Are there other criteria that should be considered?

6. Production funding

6.1 Scope

Production funding would contribute finance to games which are at the stage where a vertical slice has been produced to effectively demonstrate the core mechanics, features and key art, and some commitment from investors may be in place.

The amount and share of the budget accounted for by Screen Australia investment could vary significantly, depending on the nature and scale of the game. In the case of smaller games Screen Australia may contribute a higher proportion of total finance, reducing the reliance on other investors.

The program could support activity across all aspects of game development, including programming, animation, audio, to quality assurance, publishing and marketing. Any marketing expenditure must not replace, but rather add value to a publisher's commitment where one is attached.

This would provide developers with:

- the opportunity to create original IP without impacting their bottom line through having to use self-financed resources
- a stronger position to retain IP in negotiation with the marketplace, ie publishers
- an opportunity for business growth via game success for developers who don't access Enterprise Funds
- a new source of finance that can trigger the development of innovative games that wouldn't otherwise get enough finance to be realised
- an opportunity to increase the ambition and quality of games.

What do you think?

Should there be limits on the types of activities this program would support? If so, what?

Should there be limits on the types of games supported?

What materials should be submitted for consideration at application stage?

What requirements should Screen Australia expect at the time of application as evidence that the game can and will be released, eg agreements with publishers or online stores? a costed marketing and release plan?

How much should each game be able to apply for, and should different amounts be on offer depending on the type of game?

Should a full budget and finance plan to completion (and release) be required? Or should it be possible for funding to be applied for and provided progressively?

Should in kind support or 'sweat equity' be accepted as part of the finance plan?

What should the terms of support be: for example a loan, a grant, partially recoupable equity, etc?

6.2 Eligibility

The Games Production Program would support Australian games where the intention is for the Australian company to retain some intellectual property. The game could be intended for release on a dedicated gaming console, computer and/or mobile device via physical or digital distribution.

The program could assist projects from creative teams of varying levels of experience. However, as a minimum, it is envisaged that applicants would need to be credited in a senior role on at least two commercially produced and released games.

What do you think?

Is the credit eligibility threshold set too low?

Should the marketplace performance of past games be taken into account in setting the eligibility threshold? If so, what would be appropriate measures?

Should a minimum level of third-party investment be required?

6.2 Assessment

The criteria for determining whether or not to provide funds to a project through the Games Production Program could include:

- strength of the proposal including creative vision, entertainment value and innovation
- commercial potential
- level of intellectual property retained by the developer in the project
- experience of the key creative team
- proportion of overall budget provided through marketplace support
- release strategy
- training opportunities and job creation.

What do you think?

Should the criteria be differentially weighted?

Are there other criteria that should be considered?

7. Timeline

7.1 Important dates

Important dates to note are:

- Tuesday 11 to Tuesday 18 December 2012: public forums
- Friday 25 January 2013: deadline for feedback on consultation paper.

Following the completion of the consultation process, it is anticipated that program guidelines will be released in April 2013, with a closing date for applications to the first round of funding in May 2013.

7.2 Ways of engaging

The consultation process offers a range of ways for people to engage, from written submissions to public forums and social media opportunities.

Comments and submissions on this options paper can be made:

- Online: www.screenaustralia.gov.au/gamesoptions
- Via email: gamesfund@screenaustralia.gov.au
Any submissions received separately will also be made available online (unless you tell us otherwise), and in the interests of facilitating discussion, may be quoted in the online forum by Screen Australia where relevant.

Public forums are being held in four cities as well as via a webinar:

- Melbourne, Tuesday 11 December: 4–6pm
Venue: Studio 1 ACMI, Federation Square, Melbourne
- Adelaide, Wednesday 12 December: 3–5pm
Venue: Adelaide Studios, 226 Fullarton Road, Glenside
- Brisbane, Monday 17 December: 3–5pm
Venue: Auditorium, Depart. Housing & Public Works, 111 George Street, Brisbane
- Sydney, Tuesday 18 December: 4–6pm
Venue: Screen Australia Theatre, Ground Floor, 150 William Street, Woolloomooloo
- Webinar, Tuesday 18 December: 12.30–2pm

RSVPs are essential. See: www.screenaustralia.gov.au/gamesconsult

Screen Australia also encourages people to stay in touch with the discussion via social media:

- Facebook: www.facebook.com/interactivegamesfund
- Twitter: [#gamesfund](https://twitter.com/gamesfund)

Appendix:

Existing support

Domestic comparisons

A range of specialised support services are currently utilised by the Australian interactive entertainment industry. These services range from federal initiatives like Austrade, AusIndustry and Commercialisation Australia to state initiatives like Multimedia Victoria and the activities of screen agencies like Screen Australia.

Support measures include direct subsidy, tax incentives and export market development grants. There are several notable examples worth highlighting: Research and Development Tax Incentive, Screen NSW and Film Victoria.

Research and Development Tax Incentive

The leading incentive which can be accessed by the games industry is the Research and Development Tax Incentive, jointly administered by AusIndustry and the Australian Taxation Office. Research and development is a fundamental aspect of game development, especially for companies that develop engine level technology.

The Research and Development Tax Incentive applies to expenditure incurred and the use of depreciating assets in an income year commencing on or after 1 July 2011. The Federal Government has announced that it will introduce quarterly credits for small and medium businesses from 1 January 2014.¹²

The incentive consists of two tiers. For companies with a turnover of less than \$20 million the program offers a 45 per cent refundable tax offset. This is equivalent to a 15 cents in the dollar benefit, with a refund of up to 45 cents in the dollar if the company has a tax loss. For companies with a turnover of more than \$20 million the program offers a 40 per cent non-refundable tax offset. This is equivalent to a 10 cents in the dollar benefit.

The proportion of a game development budget spent on research and development might range from 10 per cent to over 50 per cent.¹³

Screen NSW

Screen NSW provides direct support to the games industry via its Interactive Media Fund (formerly administered by NSW Trade and Investment). In November 2011 the NSW Government committed \$3 million over 2 years to the fund to support creative digital content, including electronic games and transmedia projects.¹⁴

The fund is designed for commercially oriented projects that are destined for distribution on internet, wireless, mobile or other emerging platforms or devices. Applications to the fund are assessed on a quarterly basis and there are five types of funding: early-stage development, advanced development/production finance, enterprise development, travel grants and industry events and initiatives.

Recipients of early-stage development can access funds of up to \$50,000 to assist in scoping technical requirements, potential commercial partners, creative and market

¹² AusIndustry (<http://www.ato.gov.au/taxprofessionals/content.aspx?doc=/content/00193778.htm>)

¹³ Screen Australia interviews with international publishers and developers.

¹⁴ Screen NSW, 2011, *NSW Government announces \$3 million Interactive Media Fund and Digital Economy Industry Action Plan* (http://www.screen.nsw.gov.au/index.php?page_id=44&news_id=1030)

potential and pitch materials. Advanced development/production finance of up to \$200,000 for prototyping of larger scale projects to attract further investment, complete a functioning prototype or take a project into production or production finance for a market ready project.

Enterprise development of up to \$200,000 is also available. This is targeted to companies wishing to accelerate their growth to the next stage and enhance their capital base with a strong business strategy for long-term growth through a slate of interactive digital projects.

Smaller funds are available through travel grants and strategic industry events and initiatives. The travel grants are for digital media producers and content creators to attend approved international markets, conferences and trade fairs to seek finance/partners or to market existing projects.

Film Victoria

Film Victoria has provided substantial support over many years to the Victorian interactive entertainment industry. Film Victoria previously provided direct project support of up to \$500,000; however, Film Victoria's allocation for interactive entertainment support has been scaled back significantly in recent years.

Film Victoria has offered two funding programs for games over the period 2010 to 2013 to support development and marketing.¹⁵ The two programs have a combined allocation of \$500,000, with \$350,000 earmarked for development support.

For projects that receive development funding, Film Victoria holds a 1 per cent copyright interest in the project until its investment plus a 10 per cent premium has been repaid. For projects intending to sell direct to consumers, the default recoupment rate is pro rata pari passu alongside other investors. For the development of prototypes Film Victoria expects to be repaid at the point of commercialisation (where a publisher, distributor or third party investor comes on board). Marketing support is offered as a grant.

Development funds assist Victorian games developers to create a diverse range of games for any distribution platform, with an emphasis on the creation of intellectual property and long-term benefits for their business.

The companies will be eligible for development investment of between \$30,000 and \$90,000 to build a prototype or full game, depending on level of experience, and the funds are available to invest in commercially appealing projects that can attract overseas interest, create jobs and succeed in the global market.

Marketing funds assist Victorian companies with limited or no experience in releasing games to deliver a well-planned and marketed release of their project.

The companies will be able to apply for marketing grants of up to \$25,000 to attach marketing, business and legal consultants to their project. This support aims to make both current and future releases more successful, and allow the companies to develop skills and networks critical to releasing games successfully.

International comparisons

As with the domestic comparisons, there are many international examples that illustrate different approaches to supporting the interactive entertainment industry. Programs in the Nordic Region, Singapore and Canada provide good points of reference as well as a model under consideration in the United Kingdom.

¹⁵ Film Victoria (<http://www.film.vic.gov.au/funding/games>)

Nordic Region

The Nordic Game Program is an initiative of the Nordic Ministers for Culture, representing Denmark, Finland, Iceland, Norway and Sweden.¹⁶ It was launched in 2006 and was intended to run until 2011, with all funds to come from the Nordic Council of Ministers. Nordic Game Program 2, a four-year extension of the program, commenced in 2012. The original focus was to ensure access to quality Nordic games for children and young people; however, the program has since expanded its scope.

The program provides development support as well as running the annual Nordic Game Conference and representing the Nordic games industry at international events such as conferences and trade shows. The program has a total budget of \$4.3 million for 2012–2015.

The program supports activities involved in bringing a concept to the prototype, demo, public beta or the equivalent level needed to secure the necessary production financing. It does not provide production support, and the development support is intended to minimise the perceived risk of those that would consider financing production.

The criteria for development support are, in order of importance: the project's appropriateness for its target audience, the development of the company and team's experience, the importance of the development support for the project's eventual completion, the project's innovation, the number of Nordic languages the finished game will be released in, and the project's creative vision.

A number of projects supported at development stage have gone on to be completed and released, with some standout successes. Notable games supported by the program include *Limbo* and *Amnesia*, which of both have sold over one million copies and attracted considerable critical acclaim, and popular children's title *Max and the Magic Marker*.

Singapore

Singapore's Media Development Authority provides four support programs for games: talent, development, marketing and production.¹⁷

The development program supports activities leading to deliverables which include: playable prototype, game design document, script storyboarding and/or concept art. Successful applicants are required to leverage the Games Solution Centre, a resource centre supported by the Media Development Authority that provides a rapid prototyping development environment for Singapore-based small-medium games enterprises to develop their games. This includes the use of common tools and resources provided by the Centre.

The Media Development Authority gives preference in their development funds to projects that meet one or more of the following conditions: exploiting intellectual property from the other media sectors, eg books, television, film; developing a game to complement transmedia production or promote existing audio-visual content; and, fostering collaboration between local developers (either jointly or work-for-hire basis).

The production assistance provides up to 40 per cent of Singapore spend. The program is capped and funded projects undergo an assessment process. The criteria includes: track record of applicant and team; use of local talent; ability to secure

¹⁶ Nordic Game Program (<http://www.nordicgameprogram.org/>)

¹⁷ Media Development Authority (<http://www.mda.gov.sg/Pages/Home.aspx>)

publishers; and, demonstrate ability to extend international or regional reach of content.

The Media Development Authority funding amount is capped at 20 times the company's paid-up capital. To encourage producers to generate a pipeline of projects, a further grant of up to 10 per cent of Singapore spend on the existing project, can be used for the same applicant's subsequent project. To be eligible for that, the subsequent project must be ready to be produced, be approved by the Media Development Authority and commence within 12 months after completion of the current project.

A condition of funding is that the company engages at least two trainees under the talent assistance scheme, which funds up to 70 per cent of their salary or \$1,400 per month, whichever is lower. The company is to have in place systems of supervision and review to ensure that the trainees gain maximum benefits from the attachment and training opportunities provided by the company.

Canada

A number of regional governments in Canada offer tax incentives and other support for the interactive entertainment industry, with Ontario and Quebec offering the most generous tax breaks.

Ontario game development companies are eligible for a refundable tax credit of 40 per cent of qualifying labour costs and expenditures on marketing and distribution.¹⁸ There is no limit on the amount of eligible Ontario labour expenditure that may qualify and there is no per-project or annual corporate limit on the amount of the Ontario Interactive Digital Media Tax Credit that may be claimed. Eligible marketing and distribution expenses are capped at \$100,000 per eligible product.

Games companies developing content under a fee-for-service arrangement may be eligible for a refundable tax credit of 35 per cent of qualifying labour and expenditures. Qualifying labour expenditure must equal a minimum of \$1 million incurred over any 36-month period for the game.

Invest Quebec offers a refundable tax credit of up to 30 per cent of qualifying labour expenditures incurred by a developer in the creation of an interactive entertainment title.¹⁹ Eligible production work is broadly defined, including work from the design phase of new project to testing a complete game and extending for up to two years into the marketing of the final game.

Projects produced under a fee-for-service arrangement can receive a maximum tax credit of 26.25 per cent on eligible expenditures. However, interactive titles that include French language versioning and are not produced pursuant to a commission are eligible for an additional 7.5 per cent tax credit, increasing the maximum available tax credit for such projects to 37.5 per cent of eligible Quebec labour expenditures.

United Kingdom

In the March 2012 budget, the Chancellor of the Exchequer announced that the UK Government will introduce tax incentives for the interactive entertainment industry from April 2013, subject to State Aid approval from the European Commission.²⁰

The tax incentive will offer a payable credit of similar generosity to the film tax relief. For example, for films with a total core expenditure of £20 million or less the

¹⁸ Ontario Media Development Corporation (www.omdc.on.ca/Page3400.aspx)

¹⁹ Invest Quebec (<http://www.investquebec.com/en/>)

²⁰ TIGA (<http://www.tiga.org/news/tiga-and-grant-thornton-budget-summary>)

production company can claim a payable cash rebate of up to 25 per cent of UK qualifying production expenditure. While for films with a core expenditure of more than £20 million, the production company can claim a payable cash rebate of up to 20 per cent of UK qualifying production expenditure.

The games industry association TIGA has recommended that the new incentives be underpinned by the principles of helping small-budget games as well as large projects, a flat rate of relief of 30 per cent on eligible projects, relief for post-release costs and eligibility for educational games.

This assistance is complicated by a cultural merit test. The European Commission prohibits state aid, with the exception of state aid to promote culture. In order to comply with these rules, eligibility for tax relief will be dependent on passing a test to identify culturally British games. France also applies a cultural test to its 20 per cent tax credit for game development, in order to comply with same regulation.

The UK Government's proposed cultural test awards points for elements that contribute to the overall cultural value of a game. Points would be awarded based on cultural content, cultural contribution, cultural hubs and cultural practitioners.