

Supporting Australian Stories: WMG Submission

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Background:

After 25 years working in the financial markets specialising in trading, risk and fund raising for Westpac, UBS New York, Citigroup and my hedge fund, Excalibur Funds Management, I joined the film and television industry in 2015. Given my background and relative newcomer status I have been able to evaluate the industry with fresh eyes identifying some key issues but offering simple, cost-effective solutions.

My production company, Wallace Media Group, is a public unlisted company with 60+ finance industry investors. It aims to develop, finance and produce 40 films over the next 20 years. Whilst the first 3 of these, *Brokers*, *Molly the Magnificent* and *Sock Puppet*, have been written by our internal team, we intend to add to our slate from external domestic sources going forward.

The focus for this submission is on the **incentives for feature films produced for theatrical release** taking into account COVID-19 and the global recession that confronts us.

Observations and Issues:

1. Lack of support from the private sector.
2. Antiquated and ineffective distribution structure.
3. Restrictive pathway to audience hurdles in the Producer Offset application process.
4. Poor performance of Government direct investment into feature films.
5. Domination of our cinema by large budget US films at the expense of Australian stories and culture.
6. Australian theatrical releases suffer from inadequate P&A.



The cornerstone for my proposal for Australian Feature Films is the necessity **activate the private sector with a substantial tax incentive**. I will note that an earlier version of this proposal this proposal has been endorsed by the Business Council of Australia and presented to both the Treasurer's Office and the Minister of the Arts independently of this submission. There is also an active petition which is gathering significant support from the industry. <http://chng.it/c2bz25b1>

Proposal:

1. 150% tax deduction for investors with instant asset write-off.
2. Increase in the Producer Offset Tax Rebate for feature films with theatrical release from 40% to 60%.
3. Removal of distribution advance and P&A requirements for the Producer Offset and allowance of a consultancy fee-based arrangement with distributors to eliminate risk.

Let's unpack these one by one.

Firstly, **increased private sector investment** is imperative to the industry given the upcoming global recession and balance sheet pressure on the Government. By increasing the tax incentive to private investors, we can activate a large pool of dormant funds that are keen to support the Australian industry. They are cautious and need to be incentivised but are ready to be mobilised.

Last year just 4% of Australian film funding came from the private sector (Source: Screen Australia). This is unsustainable and puts undue pressure on Screen Australia to determine which projects to fund.

Independent film producers need an even playing field where investors determine the worthiness of their projects. The current requirements for Screen Australia investment have created significant barriers to entry and prompted articles questioning their independence and performance - See AFR article <https://www.afr.com/life-and-luxury/arts-and-culture/australian-cinema-is-the-car-industry-with-nice-sets-20191029-p535b1>

As discussed later, easier access to the private sector funds has other benefits when combined with changes to the distribution model (see below).

Whilst the proposal appears similar to the incentive introduced in the 10BA in 1981, it would not have the revenue concession. This proposal is about creating a win for the private sector, Government and the industry. A 150% tax deduction gives enough incentive to the investors up front, so no revenue tax concession is required. Obviously, measures need to be put in place to ensure system is not able to be abused, but I do not see that as an obstacle. This change would help finance many feature films and increase employment at a crucial time in our history whilst being revenue neutral for the Government.



Secondly, referring to page 42 and 43 of the **Options Paper** presented to the Government by Screen Australia and the Australian Communications and Media Authority (<https://www.communications.gov.au/have-your-say/supporting-australian-stories-our-screens-options-paper>), I believe that the correct option for Australian feature films is a **60% Producer Offset** combined with the 150% tax deduction mentioned above and the distribution reform below.

Finally, a **consultancy fee based distribution model** designed to reduce the risk to distributors and **removal of the distribution advance and P&A requirements**. The current system which requires distribution advances and P&A commitments for Producer Offset eligibility is antiquated and counterproductive. It has created significant barriers to entry for producers and unhealthy empowerment of distributors. P&A and distribution advances are a shadow of their former levels and often lack integrity, yet producers are forced to sign away exorbitant fees which are detrimental to private sector investors from a return perspective and a disheartening road-block for producers as they attempt to satisfy the Producer Offset conditions.

Increased private sector investment will allow P&A to be raised by the producers during the core film fundraising and render distribution advances unnecessary. The result is lower risk for distributors, a simpler pathway to audience component of the Producer Offset application and more competition.

Conclusion:

The combination of the 3 changes above would allow for the reduction of red tape and unproductive barriers to entry, it would reduce the risk premiums required at present by distributors and allow producers to bring quality Australian stories to the cinema more efficiently.

The adoption of the above proposal for feature film with for the cinema would be a win for all areas of the film industry, the private sector investors and the Government and possibly provide a fungible framework for other areas of the industry.

Your sincerely,



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