# Department of Finance

# – Review of Section 481 Film Relief

# Final Survey Report

Amarach Research / BDO

October 2012

# Contents

# 1 Context for Review of Film Tax Relief

In May 2012, the Minister for Finance, Michael Noonan T.D., initiated a public consultation as part of an economic impact assessment of the operation, status and future development of the Section 481 tax relief otherwise known as "film relief". The consultation paper was published on the Department of Finance website[1], with the consultation due to run from 28 May to 31 July 2012.

The purpose of the impact assessment and the consultation was to enable the Department to better understand the benefits that may accrue to the exchequer in terms of additional tax yield as well as consequences for investors, the audiovisual industry, and the wider economy arising from potential changes to the relief.

The terms of reference for impact assessment, which will involve the evaluation of the tax expenditure scheme in broad socio-economic and fiscal terms, and the determination of the extent to which the scheme justifies its continuation, are as follows:

**Table 1: Terms of Reference for Economic Impact Assessment of Sec 481**

- Examination of the costs and benefits of the existing scheme, taking into account displacement/deadweight impacts, and the interplay between this and other tax reliefs
- The identification of value for money of the scheme to the economy overall
- Examination of the international competitiveness context within which the sector operates
- Recommendations, where and if necessary, for changes that could be made to enhance / maximise the value for money to the tax payer and sustainable job creation and taking digital production and technological advances into account

[1] See www.finance.gov.ie and www.taxpolicy.gov.ie

## 2 Terms of Reference:

As part of the Department's wider data gathering exercise and as a means to better understand the operation of the Sec 481 scheme, the Department tendered for an outside organisation to conduct a survey examining how audio-visual producers are and have been utilising the Section 481 film tax relief scheme.

On foot of a competitive tender, the Department appointed Amárach Research in conjunction with BDO to conduct this survey which is a crucial part of the primary data collation exercise to be used to inform the overall economic impact assessment

The following are the **Terms of Reference** for the survey

- to build on an existing Department of Finance draft survey document and develop a comprehensive survey questionnaire on the utilisation of Sec 481 funding by producers
- to collect survey data from a list of audio-visual producers provided by the Department of Finance who have availed of Sec 481 funding
- to include in this survey both producers who are still actively using Sec 481 and those who have used it in the past and are no longer doing so
- to contact survey respondents individually to ensure complete responses to this standard questionnaire and to clarify any responses which were unclear
- in support of the standard survey questionnaire, to conduct a series of structured interview with audio-visual producers of different types to examine in a more qualitative fashion, producer perspectives on the operation of the Sec 481
- to prepare a report to the Department setting out the key findings from the survey of producers

# 3 Research Methodology

A dual approach was utilised during this research project, as detailed below.

## 3.1 Quantitative Research

The Department of Finance provided a list of companies who had received financial support through Section 481 in the preceding years. A research questionnaire was developed by the Department of Finance in conjunction with BDO and Amárach Research. In total 63 leads were provided by the Department of Finance of which 51 were viable. This was due to a number of companies who had previously availed of the relief no longer actively trading.

The questionnaire was scripted by Amárach Research, and embedded in a survey link. Each potential respondent was given a personalised link which was emailed to them, along with a paper questionnaire, thus giving them two response avenues from the start.

In order to encourage participation potential respondents were contacted up to four times either via email and/ or telephone asking them to complete or in some cases finish the survey.

Potential respondents were then given the option of completing the survey by telephone, as well as online or via post. Due to the nature of the firms who were being targeted, the scale of information required and tight production schedules, field work time was left open for almost five weeks, three weeks longer than originally intended.

## 3.2 Qualitative Research

BDO carried out qualitative interviews among ten producers to gain a deeper understanding of the issues of the industry. These included in-depth discussions with eight Irish producers involved in TV, Film & Animation and two large International producers.

In a number of sections of the report we have included quotes or statements made by survey and interview participants. These have been anonymised where required and have been included to give a better insight into the range of responses and positions and opinions of industry participants.


## 3.3 Sample Profile

In total 51 production companies were contacted directly by Amárach Research. A breakout of the leads structure is detailed below, with producers grouped by number of certificates.

Table 2: Sample Profile

| No. of Certificates | % of Total Sample | % of Respondents |
|---|---|---|
| 1 Certificated | 47% of sample | 31% of respondent base |
| 2 - 8 Certificates | 41% of sample | 44% of respondent base |
| 10+ Certificates | 12% of sample | 25% of respondent base |

Although production companies with at least 10 certificates account for only 12% of the total universe profile, they represent a quarter of the respondent base. As answers are analysed at a total level, the average of some of the responses in relation to total spend and employment will be pushed up by the spend of these larger producers and the productions.

## 3.4 Response Rate

Overall a 48% response rate in relation to number of productions was achieved, with this increasing to 66% when including the firms who took part in qualitative interviews. This is positive response rate given the size of companies involved and the level of detail required. Five of the top six producers (with 10 productions or more) took part in this research, with four of them completing the quantitative survey and three completing a qualitative interview. Two of the firms participated in both elements of the research programme.

# 4 Research Findings

## 4.1 Company Background

### *Company Productions*

***Q. Please describe the primary audio-visual activity of your company.***

Television production is the primary audio-visual activity of half of the companies surveyed who have previously utilised Section 481 Film Relief, with animation, post-production and film accounting for the other activities.

***Q. Is your company an independent enterprise or part of a wider group?***

The vast majority (94%) of the production companies are independent standalone enterprises; only one producer belongs to a wider group of film producers either nationally or internally.

### *Average 15 Years Active*

***Q. How many years has your company been active?***

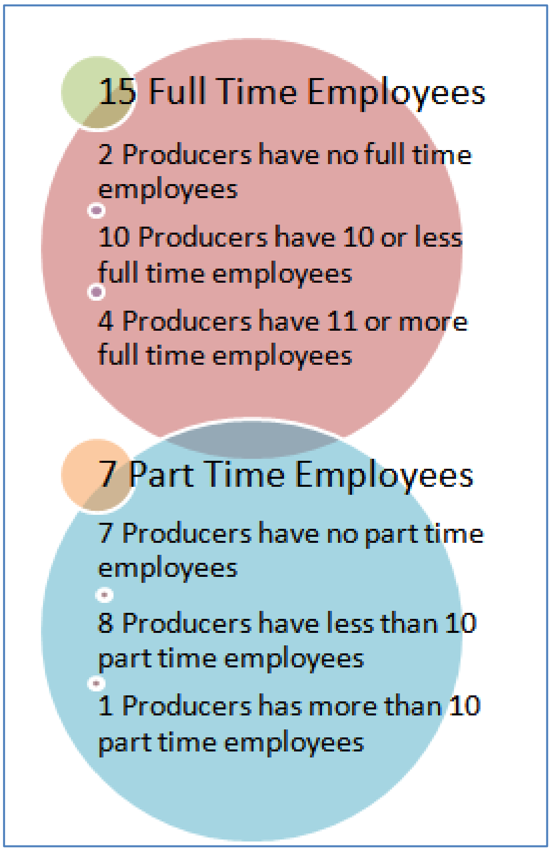
The average length of activity among this group is 15 years, showing the longevity of those operating within sector and the ability to weather the economic downturn to date.

Table 3: Number of years active

| | |
|---|---|
| 0-5 Years | • 2 Production companies have been in operation for up to five years as of the date of survey completion. |
| 6-10 Years | • 4 Production companies have been in operation for 6 – 10 years as of the date of survey completion. |
| 11-15 Years | • 4 Production companies have been in operation for 11-15 years as of the date of survey completion. |
| 16-20 Years | • 1 Production company has been in operation for 16 – 20 years as of the date of survey completion. |
| 21+ Years | • 5 Production companies have been in operation for more than 21 years as of the date of survey completion |

***Q. How many full time/ part time employees are permanently employed in your company?***

Table 4: Breakdown of employees




Responses suggest a combination of both full and part time employment within this industry.

On average production firms employ approximately 22 permanent staff

- 15 of whom work within the firm on a full-time basis
- the other 7 in are in part-time permanent positions.

## 4.2 General Production History

### *Average Production Wins and Losses*

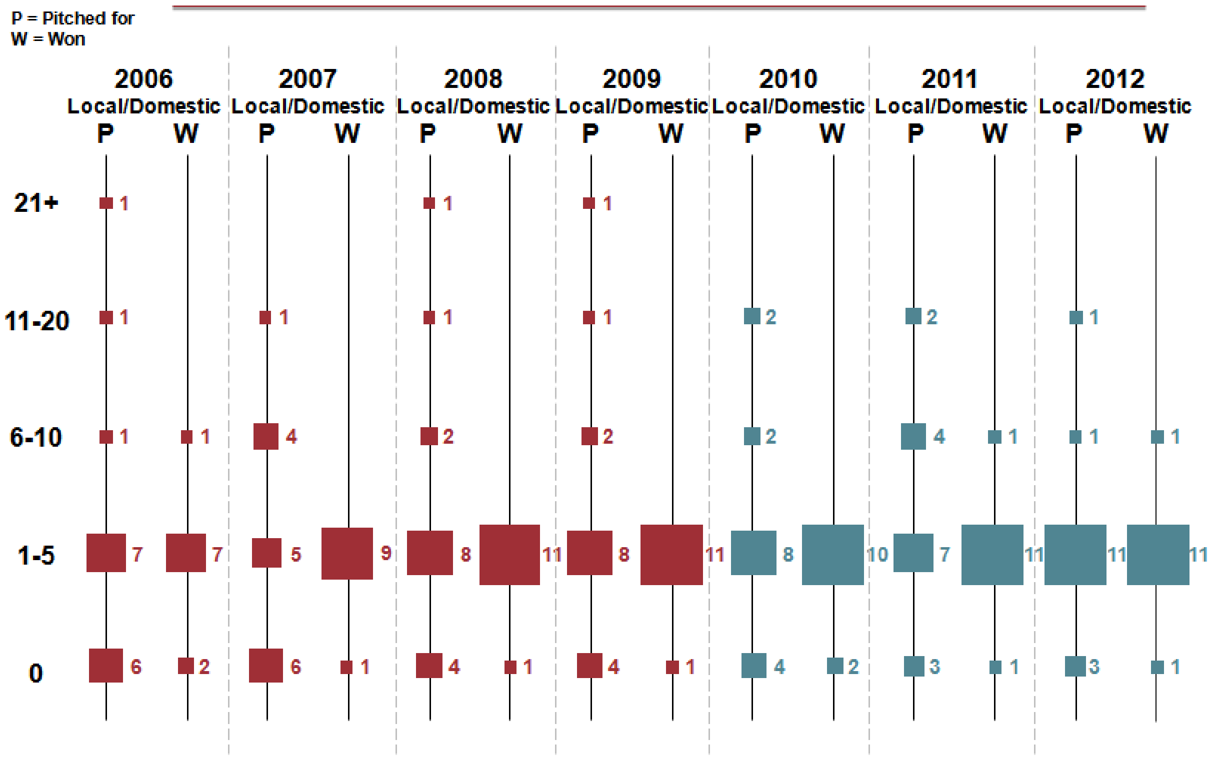
***Q. How many productions did your company pitch for to a commissioning person/ body during the period 2006-2012 and how many of these were successful?***

We sought information on general production history, with a summary of project pitching and commissioning detailed below. The table shows a higher number of ventures being sought within Ireland, although relative parity is achieved between commissioning of local/ domestic and international projects.

**Table 5: Average Production Wins**

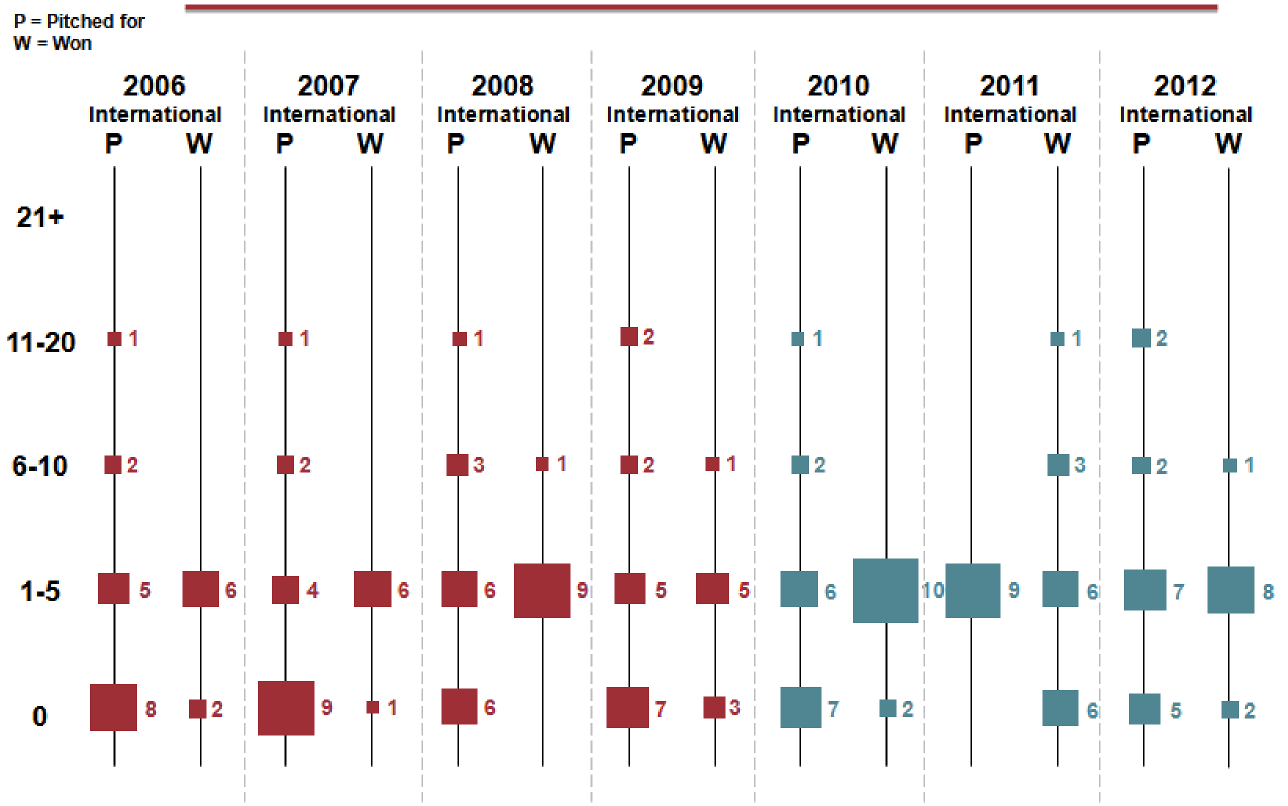
| | Average Local Projects | | | Average International Projects | | |
|---|---|---|---|---|---|---|
| | Pitched For | Won | Lost | Pitched For | Won | Lost |
| 2006 | 4 | 2 | 2 | 3 | 2 | 1 |
| 2007 | 4 | 2 | 2 | 3 | 2 | 1 |
| 2008 | 5 | 2 | 3 | 4 | 2 | 2 |
| 2009 | 5 | 2 | 3 | 4 | 2 | 2 |
| 2010 | 4 | 2 | 2 | 3 | 2 | 1 |
| 2011 | 5 | 2 | 3 | 4 | 2 | 2 |
| 2012 | 5 | 2 | 3 | 4 | 2 | 2 |
| **Average:** | **5** | **2** | **3** | **4** | **2** | **2** |

**Table 6: Domestic Pitches**




*Raw data shown*

Table 7: International Pitches



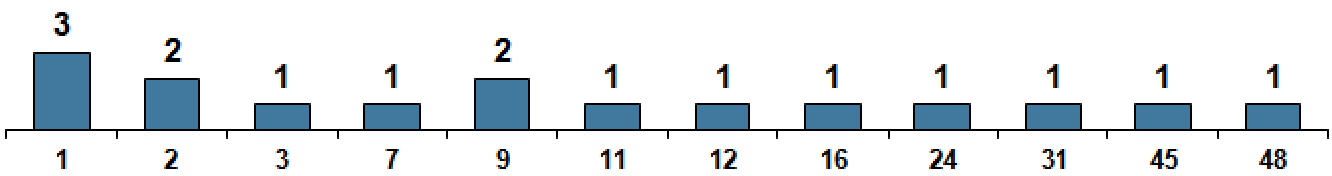

*Raw data shown

## Productions Completed in Past Six Years….

***Q. How many productions has your company completed in the period 2006-2012***

On average, the production companies surveyed completed 14 productions within the previous six years, with a minority of companies accounting for a larger portion of productions.

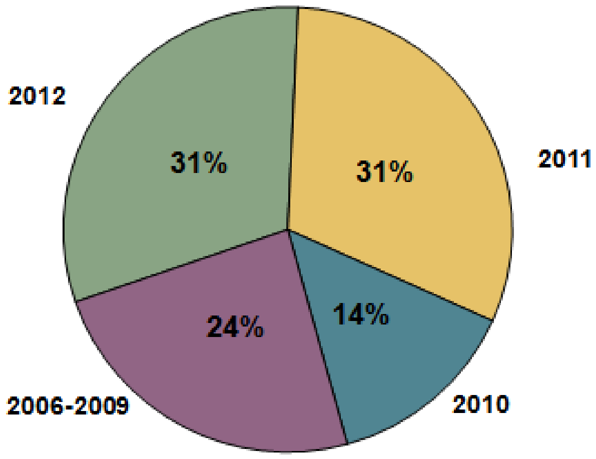
Table 8: Number of Productions



## 4.3 Thinking now of the last ten productions

***Q. What was the year of production?***

Table 9: Year of Production




Three in ten of these productions were completed in 2012 (31%), with a further three in ten (31%) produced in 2011.

Pre 2010 (2006-2009) productions accounted for a quarter (24%) of production companies last ten endeavours. This highlights the level of company production in the past two years in Ireland, with a number of companies completing more than one production in 2012.

### *Production type…thinking of the last ten productions*

***Q. What was the type of production?***

The top three types of productions carried out by the surveyed companies since 2006 are:

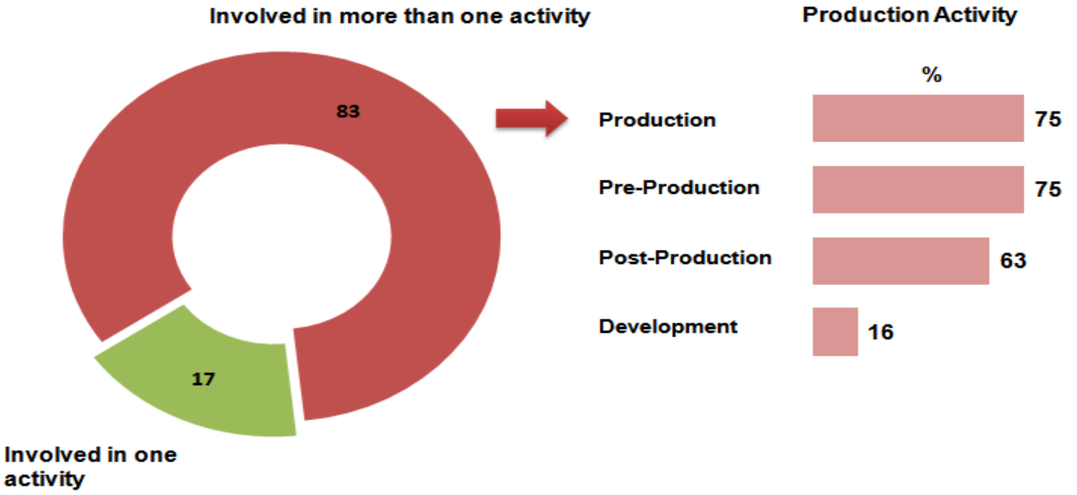
- Drama (39%)
- Feature Film (22%)
- Animation (20%)

Documentaries lag behind the top three types, accounting for 12% of productions. The remaining production types are live action (4%), short films (1%) and web series (1%), accounting for a small minority of production activity.

## *Production activity…thinking now of the last ten production*

***Q. What was the type of activity?***

Table 10: Type of Activity




Less than one in five (17%) of companies were involved in only one production 'activity' during their last ten productions, with 10% of activities being 'post-production only', 4% account for 'production' only and a further 3% working in 'pre-production'.

For the remainder of productions, producers were involved in more than one activity. For those projects whereby the participant was involved in more than one activity, production and pre-production accounted for the two most popular activities.

- Production (75%)
- Pre-Production (75%)
- Post-Production (63%)
- Development (16%)

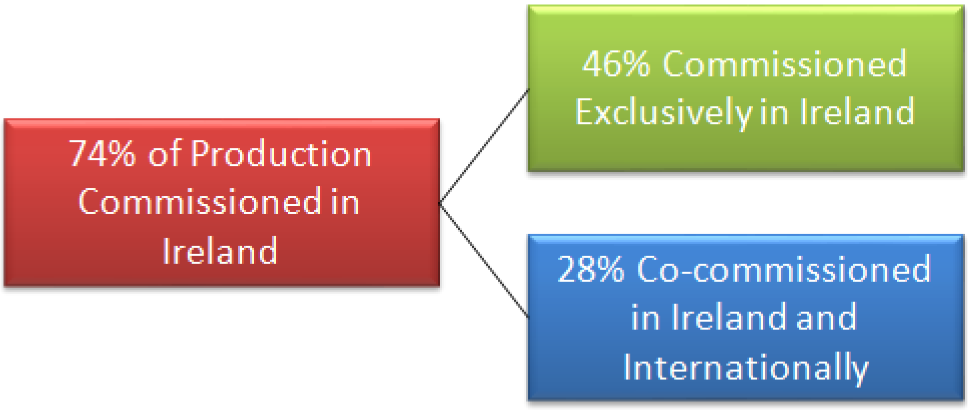
**The above four categories are in respect of productions where the producer was involved in more than one activity.*

### *Location of Commissioning Body…thinking now of the last ten productions*

***Q. What was the location of the commissioning body?***

Almost half of productions are commissioned exclusively from an Irish base (46%). A number of projects were co-commissioned from more than one country, with 74% of projects commissioned from Ireland alone or from Ireland in conjunction with another region. A quarter of projects (24%) were either exclusively commissioned or co-commissioned in the United Kingdom.

**Table 11: Location of Commissioning Body**




The location, or multiple locations of the commissioning bodies was evidenced in the responses from survey participants.

- *"From the UK (BBC and BCI), Ireland (IFB, Named Co A and RTE)"*
- *"Ireland (IFB and S481), Germany, Norway and France"*
- *"Ireland (IFB, BAI, TG4, S481) and the UK (NIFTC and UK Tax credit)"*
- *"Germany, Austria France & Ireland"*
- *"Ireland, the UK and Singapore"*

The remainder of project commissioning's originated from outside Ireland, from countries such as the USA, Italy, Germany and Australia.

### *Thinking now of the last ten productions*

**Q. If produced in Ireland, which NUTS III region was used?**

Half of projects were produced in the Dublin Nuts III region, with a further quarter (25%) being produced in the West. The Mid-East and Mid-West regions accounted for a further 9% apiece, while the remaining 5% or less of productions were produced in the remaining NUTS III regions.

## *Why Here…Location of your last ten productions*

***Q. What was the primary reason for locating in Ireland?***

The responses to this question evidence that there is no single common primary driver for locating a production in Ireland but rather a series of key drivers.

The ***'story'*** that the production was telling was the primary factor behind the production being set in Ireland (39%).

- *"Drama-documentary film based on untold story………Irish history ….. a massacre in Dublin. Therefore production is based in Ireland."*
- *"The story is set on an Irish island."*
- *"set during turbulent period in Irish history….thus production based in Ireland"*

For a further one in three (36%) the ***source of production funding*** was the primary reason for locating in Ireland.

*"Section 481 funding as part of the finance plan."*

- *"Primary reason was the S481 tax incentive and the production attraction funding from the Irish Film Board…..funding from the broadcaster…couldn't fully fund the production - it wouldn't have happened if they hadn't been able to come here."*
- *"Co-production finance - we were able to avail of the Irish Film Board co-production fund, investment from Named Co B and S481"*
- *"Availability of co-production finance - in this case Irish Film Board co-production finance"*

The third primary driver for setting the production in Ireland was that Ireland is the ***base of the production company*** themselves or the commissioning body is based in Ireland (11%).

- *"Filming in Ireland was principally driven by practical considerations…..it made sense to maximise employment for cast and crew who are based in this country."*

***Q. What was the secondary reason for locating in Ireland?***

The secondary drivers of basing production in Ireland that were nominated were broadly on par with the primary reasons, with location (both in terms of setting and commissioning body/ producer location) and funding driving decision making.

- *"It is an Irish story."*
- *"To maximise the net benefit from Section 481 film financing."*

### *Co-productions…Thinking now of the last ten productions….*

***Q. If coproduced, where was co-production held?***

Just under half of productions (47%) were co-produced outside of Ireland, with the UK being the most popular co-production location. Other co-productions regions include Germany, the US, Holland, Hungry, Canada, Norway and Sweden.

One in ten productions was co-produced in more than one country.

- *"Sweden was the main producer and the film was shot there. Some post took place in Norway."*
- *"It was co-produced in Hungry, Canada and the United Kingdom."*
- *"Main producer was Germany (Named Co C) along with Austria, France and Ireland."*

## 4.4 Details of Last Five Productions

***Q. How many productions have you been involved in between 2006-2012?***

Those respondents who completed this section, noted an involvement in an average of 13. Understandably these results and heavily weighted by the involvement of a small number of larger companies in a large volume of productions.

Table 12: Production Companies

| Number of Productions | Number of Companies |
|---|---|
| 0 Productions | 1 Company |
| 1 Production | 5 Companies |
| 2 Productions | 2 Companies |
| 7 Productions | 1 Companies |
| 11 - 20 Productions | 3 Companies |
| 21+ Productions | 4 Companies |

***Q. What was the size of the budget for your last five productions?***

The average budget size for these productions was €3.5 million with a wide breadth of budget sizes being recorded (with between €119,000 - €21 million being spent on a single production).

### *Use of Sec 481 Funding*

***Q. For the last five productions which you were involved in, was Section 481 Funding Used?***

Section 481 Funding was used for the majority of recent productions (84%).

***Q. For the last five productions which you were involved in, if Section 481 Funding was not used, why not?***

Where Section 481 Funding was not used, the limited size of the production budget was the primary driver of not targeting Sec 481 funding.

*Q. For the last five productions which you were involved in, what portion of the project was provided by Section 481 Funding?*

On those projects where Section 481 Funding was used, it accounted for an average of 35% of the financing, with almost all of producers using it in conjunction with other funding (95% used Section 481 in conjunction with another funding source).

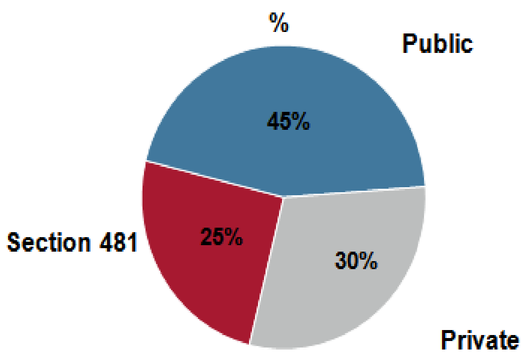
We understand from our interviews that from a producer perspective, they would include in their assessment of 'Sec 481 financing', not just the net benefit received (typically 28%) but also the costs associated with such financing (typically 7%)

## Project Funding

*Q. For the last five productions which you were involved in, please note the % of funding used from each of the following sources of finance: Section 481 Funding; Other Public; Other Private*

When all productions are taken into account (including those that did not use Section 481 Funding), public funding accounting for almost half of production funding with private funding accounting for a further 30%.

Table 13: Sources of Funding




The 25% in the figure to the left is an average across the last five productions for producers – as such it will include productions which did not use Sec 481 and this may explain why producers have put Sec 481 funding at 25% rather than the more normal 28%.

## *Public Funding*

***Q. For the last five productions which you were involved in, what 'other public' funding was from what source?***

The main public bodies noted as providing financial support to producers were RTÉ, The Broad Cast Authority of Ireland and The Irish Film Board. Others included TG4, the British Film Institute and other European Funding Bodies.

- *"RTÉ provided 85% of our funding."*
- *"BAI 36% and TG4 36%."*
- *"RTÉ provided 16% and the BAI a further 45%."*
- *"Irish Film Board 3% and BBC (UK) 67%."*
- *"Belgian Tax Shelter 4%."*
- *"The Irish Film Board provided 26%, the BAI 17%, Eurimages13%."*
- *"14% came from the Irish Film Board, 13% from the British Film Institute and 3% from Northern Screen."*
- *"Canada Public Funds 7%, BAI 3% and European Public Funds 11%."*

## *Private Funding:*

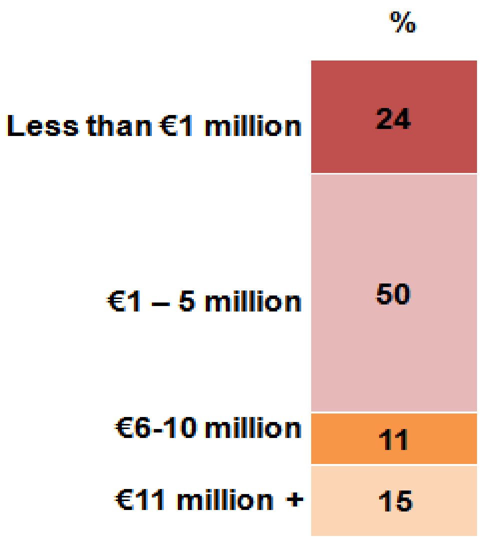
***Q. For the last five productions which you were involved in, what 'other private' funding was from what source?***

Private funding came from a wide variety of sources with little consistency between projects, with a number of European sources being mentioned. What should be noted from the responses is the very wide range of sources, many of the international, which were identified as sources of funding.

## *Irish Employment*

***Q. For the last five productions which you were involved in, what was the total budget?***

Table 14: Average Production Budget




The average total production expenditure was €4.5 million, with a small number of projects having a budget of more than €10 million.

***Q. For the last five productions which you were involved in, what was the percentage of the budget spent on Irish labour?***

Almost two fifths (37%) of the budget was spent on Irish labour, equalling €1.675 million going into the Irish labour force.

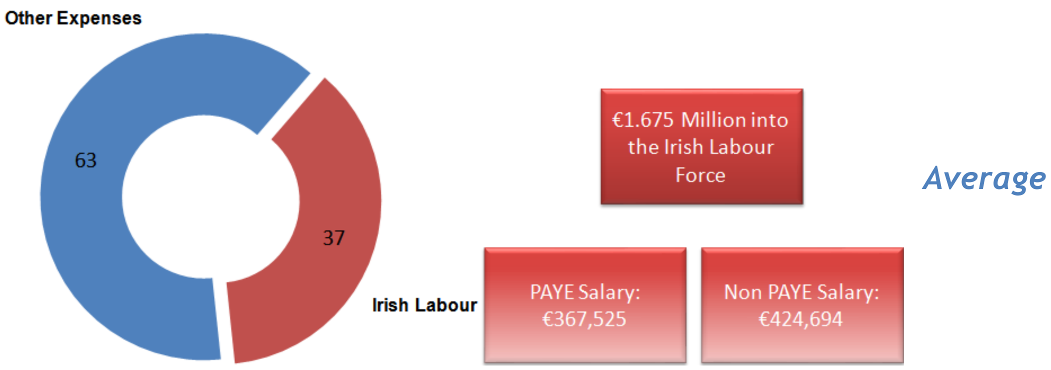
***Q. For the last five productions which you were involved in, how much was the Irish employment cost was on PAYE Salaries?***

Average costs associated with expenditure on Irish PAYE salaries was €367,525

***Q. How much of the Irish employment cost was on Non-PAYE Salaries?***

Average costs associated with expenditure on Irish Non-PAYE salaries was €424,694.

Table 15: Budget Spend



## *Expenditure on Irish Goods*

***Q. For the last five productions which you were involved in, what was your expenditure on Irish Goods and Services?***

Table 16: Expenditure on Goods and Services

| Expenditure on Irish Goods and Services | Average Actual Spend |
|---|---|
| Other Goods and Services | €507,255 |
| Transport Costs | €56,909 |
| Accommodation Spend | €49,911 |
| Catering Spend | €35,876 |
| Total Spend | €649,951 |

Total average spend on Irish Goods and Services during film production came to approximately €649,900 with some productions spending above the average while others did not have any expenditure in certain categories.

## *Production Employment*

***Q. For the last five productions which you were involved in, what were***

- ***the total production employment numbers?***
- ***the total production Irish employment numbers?***
- ***the number of Irish employment hours were worked?***

Table 17: Production Employment

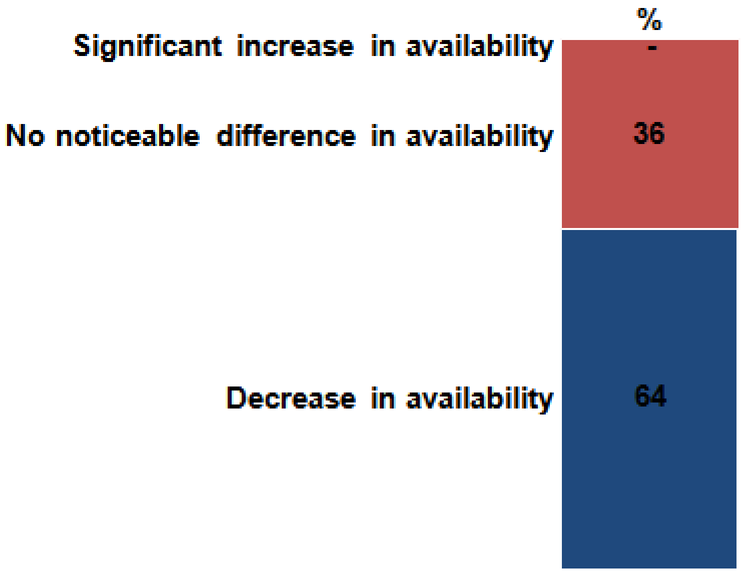
| Average Total Production Employment | 196 Employees |
|---|---|
| Average Total Irish Production Employment | 163 Employees |
| Average Irish Employment - Hours Worked | 2,556 Days (61,338 Hours) |

Average production employment totalled 196 employees per project, with approximately 163 of those jobs being carried out in Ireland. This translated into 2,556 24-hours days of work, of 61,338 hours of Irish employment.

### 4.5 Experience of using Section 481 Relief

*Q. What is your sense of the current availability of lending support from the banks for investors in Section 481 financing scheme?*

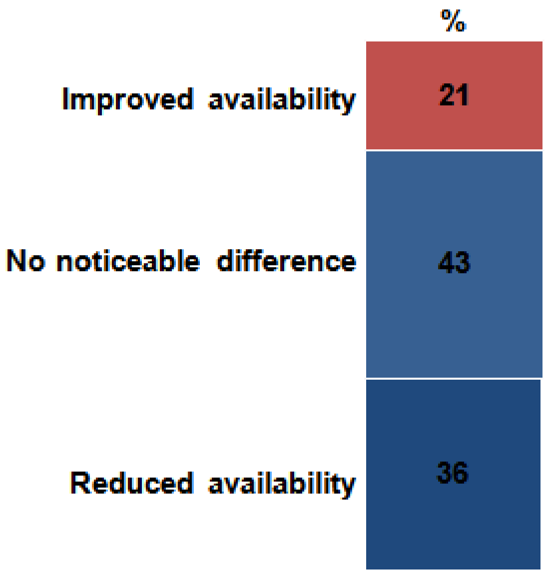
Table 18: Funding Availability




2 in 3 believe that there has been a decrease in the availability of support from banks.

*Q. What is your impression about the likely futures trends in the availability of lending support from the banks for investors in Sec 481 financing schemes?*

Table 19: Future Lending availability




2 in 5 don't expect to see there being any noticeable difference in the availability of lending support.

***Q. Have any funding sources which you previously utilised, become unavailable to you over the period since 2008?***

Of those for whom funding sources have become unavailable, the primary reason was that Irish banks are no longer seen as being actively involved in this market - specific reference was made to Permanent TSB, with references also to Bank of Ireland and Anglo Irish Bank to a lesser extent.

***Q. The Finance Act 2008 increased expenditure and investor caps whist also allowing investors to take a tax deduction for 100% of their investment. Has this changed availability of Sec 481 funding.***

There was broad consensus that the provisions of the Finance Act 2008 as regards Sec 481 Film Relief had increased the availability of Section 481 funding.

## *Professional Intermediaries Used to Access Funding….*

***Q. How did you access Section 481 Funding for your productions?***

All Section 481 Film Relief funding is accessed through professional intermediaries such as accountants – highlighting the importance of this route in obtaining relief. There is no evidence of firms from the survey using direct marketing or advertising to fund access Section 481 funding for productions, although the avenue may be utilised by some.

## *Local & International Productions - likely impact of no Sec 481 funding*

***Q. In relation <u>local productions</u> (commissioned by an Irish based organisation), and <u>international productions</u>*** **(commissioned by a non-Irish based organisation)** ***what would the consequence have been if Section 481 finance had not been available***

**Table 20: Local / International Production Impact**


Local Production:
- 86% Cancellation
- 21% Location Impact

International Production:
- 57% Cancellation
- 29% Location Impact

Respondents noted that project cancellation would be the primary consequence for both local and international productions if the Section 481 finance had not been available, especially for local productions (86% saying cancellation) whereas it would have less of a dramatic impact on international productions (57% saying cancellation).

The location of the production would also be negatively impacted if the Section 481 Finance was unavailable, particularly for international productions (29%) and to a lesser extent for local productions (21%).

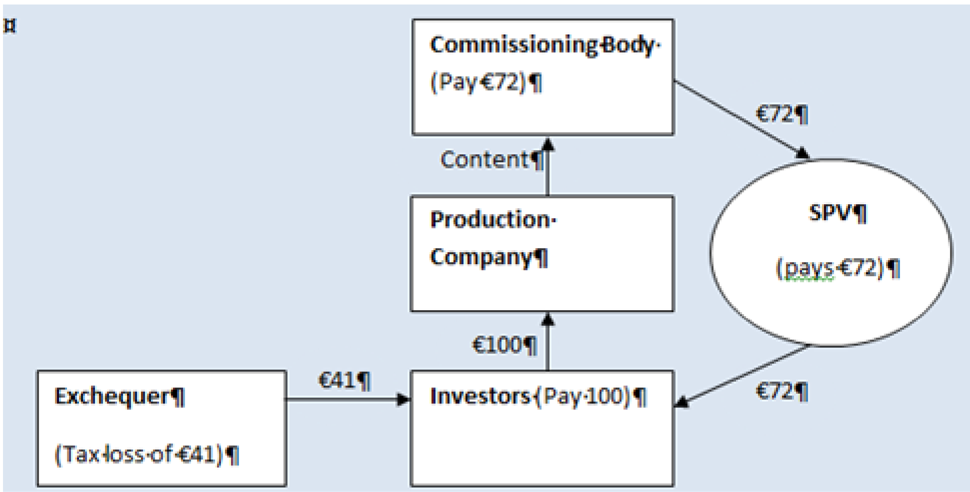
## *Departmental Understanding of Section 481 Relief….*

***Q. The schematic below is taken from the Department of Finance's Consultation paper on the industry. It describes the Department's understanding of how productions are funded.***

**Figure 1: Department of Finance description of operation of Sec 481 Film Relief**

*From discussions with the Revenue Commissioners it appears that on average investors receive back 72% of their investment from the producers.*

- *This is a lower amount than that identified by Indecon in its 2007 review. All of the investor's investment can now be used as a tax relief at the investor's marginal rate compared with 80% at the time of the Indecon review. The balance of the investor's remuneration is accounted for through the tax relief.*
- *[In a stylised example whereby a production company requires €100 in financing] investors provide €100 in financing to the production company. Once approval has been received from the Revenue Commissioners the commissioning body, for example a TV network, deposits €72 in an account for remuneration of the investors. The balance of the €100 is accounted for in administration and other expenses. The €72 is ultimately returned to the investors who also receive a tax incentive of €41 from the Exchequer. This results in a total income to investors of €113 or a return of 13% on the €100 investment.*



Survey participants were shown a schematic taken from the Department of Finance's Consultation paper on the industry as shown above and asked to respond to the following questions

***Q. Do you agree that this is an accurate representation of what happens in practice?***

Just over half (57%) of producers surveyed agree with the above schematic which was taken from the Department's Consultation paper.

***Q. If you disagree that this is accurate representation of what happens in practice, please below your comments on how the relief works in practice?***

Of the 43% who disagreed with the illustration, the primary reasons for disagreement are detailed below:

- *"Showing this Exchequer loss does not account for taxes raised from general production expenditure."*
- *"The relief operates as set out in the original stylised example. The reference to 'balance of the €100' is in fact the commissioning company's return of 28%. The 72% returned to the investors is before costs, so that the actual net return is approximately 69%."*
- *"A net of €28 is of benefit to the production after admin and other expenses."*
- *"We last raised section 481 finance in 2007….not in a position to give an opinion on the accuracy of the scheme as presented in the diagram for 2012.*

### *Tax Credit as an Alternative System….*

***Q. In the stylised example above it appears that the State contributes €41 to fill a €28 financing gap (i.e. the difference between the €100 of required financing and €72 provided by the commissioning body). Do you believe this is a gap that could be financed through a direct tax credit of €28 to the production company?***

Over three quarters of producers do not believe that the gap could be financed through a direct tax credit of €28. They cited a number of reasons why a Tax Credit based system would not be suitable in an Irish context and this message was repeated and reaffirmed in the producer interviews which took place alongside the survey.

The range of responses as to why a Tax Credit based system would not be suitable included

- *"A direct tax credit would not provide the initial funding to the production in the manner of the existing structure, which is one of its greatest strengths. A tax credit would generally operate as a rebate on eligible expenditure reclaimable at the end of the production and would generate cash flow issues for Irish producers."*
- *"No the production company doesn't necessarily have the cash flow to wait on a tax credit to come through."*
- *"No, the reasons are comprehensively articulated in many of the responses submitted to the Department of Finance as part of the consultative process."*
- *"No. The tax credit would have to be discounted by a bank. This would be expensive and very difficult for location Irish Producers to accesses in the current banking climate."*
- *"No, one of the benefits of Section 481 is the net benefit, is cash up front."*

While the survey note some support for a 'direct tax credit system' in theory, there is little belief however that it would work in practice.

- *"In principle YES. But not sure how a tax credit system would practice and would need professional guidance. Any new incentive scheme should be both tax efficient and production friendly in time and process."*
- *"It is possible for the gap to be financed through a direct tax credit, however the issue is finding a bank that will enable this to be cash flowed…not practical."*
- *"… a grant (or up-front tax credit scheme) could be introduced to run in parallel with the existing Section 481 Scheme……..would need to offer a higher net return (say 34%) than Sec 481*

Interviews with domestic producers indicated that it was felt that a tax credit would not be effective in Ireland, as it would lead to an initial requirement for debt and equity financing to fund production, which would be prohibitively restrictive in the current economic environment.

It was suggested that a tax credit system may also be more difficult and costly to administer and could potentially lead to a reduction in actual film spend by the Government over the coming budgets.

It was also noted that corporate tax in Ireland is relatively low so and so the benefit of any tax credit would be comparably low.

As regards the interviews with large International producers, these interviews suggested that larger US production companies identified would be open to some other format possibly

- some form of transferable tax rebate system (as seen in many US States)
- which allows relief for all production expenditure (including that not foreseen and included in the initial budget) and possibly for interim claims
- which includes a wider range of eligible costs (above the lines costs) in a manner similar to that in the UK with a withholding tax element.

***Q: Where not already mentioned, please note below features or characteristics of Sec 481 Film Relief which are of particular value to producers in Ireland*.**

Where not previously mentioned, a number of survey respondents chose this response to emphasise the fundamental importance of ***upfront cash flow*** element of Section 481 Film Relief which allows for production and work to begin on projects immediately.

- *"Upfront payment which helps cash flow."*
- *"It front loads production cash flow and with a banking sector not interested in cash-flowing production finance this is a very strong positive for 481."*
- *"S481 finance being available on First Day of Principal Photography is of great benefit in comparison to tax credits in other countries."*
- *"The S481 Film Relief structure mirrors how the industry operates in practice, i.e. investment, production and co-production agreements etc. and exposes Irish producers to international practices. Funds are available to the production company at the start of the production, which is of particular value to the producer.*
- *"Day one request , funding available to production to start of Principal Photography - Commerciality - Tried and tested - scheme is longest running tax incentive in film business - Promotes the role of the Irish Producer"*

The importance of the upfront nature of payments also came across strongly in the interviews and was the most positioned as the most important aspect of the Section 481 scheme, as it reduces the requirement for initial financing from other sources such as equity and debt.

As regards International producers, interviews suggested that the upfront aspect of the Section 481 payment is not considered essential. Many of these companies have the capability to self-fund and a tax-credit could maximise the expenditure eligible for relief

The net benefit to producers from Section 481 Film Relief was seen as important to survey respondents, who believe that many projects have ever been made without the support.

- *"Without Section 481 Relief there are many films and documentaries which would not be completed."*
- *"Section 481 is a vital source of production funding, enabling small production companies like ourselves to make high end documentaries and drama-documentaries …without Section 481 ….we would not have been able … to secure foreign finance into our productions."*

In the interview with Irish producers, Section 481 was considered to be an essential part of the Irish film industry and was described by one interviewee as "the lifeblood of the Irish Film Industry".

All domestic production companies interviewed believe that the Irish film industry would suffer a major decline without Section 481, and that it is essential for it to continue until at least 2020 to allow for secure foreign investment – particularly in the area of television productions which may last for several years

***Q: Do you have any comments/observations as to how changes to Sec 481 Film Relief could enhance the benefits and value for money of the relief***

A wealth of additional opinion regarding Section 481 Film Relief was offered by producers when asked how the process could be enhanced, with maintenance of the current benefits of the system being highlighted as the essential starting point.

Other issues highlighted include the availability and provisions of banking, possible changes to the 25% rule as regards production spend and the need to make a visible commitment to extending the support beyond 2015 in recognition of the long lead-times on certain production types.

- *"Section 481 Relief is well established and understood by Irish and International film and TV producers……Irish revenue do an excellent job of reviewing and processing application for compliance and monitoring compliance."*
- *"The current structure may seem to require high levels of transaction costs - this is offset by the ease of application for the individual investors."*

- *“Not confining eligibility to EU Citizens would bring more US cast and producers to Ireland and put us in a better position against competing countries.”*
- *“other banks should be encouraged to re-enter the market of providing investor loans … banks should have a panel of advisers, who could tender competitively for business directly with the production companies.*
- *where production has started on a project and a decision is taken to increase the Irish work elements or the budget…should be possible to add additional S.481 funding ….not possible currently because of the operation of the 25% rule.*
- *Eliminate the 25% rule. - Implement Creative Capital report”*
- *“lead times on many large TV projects can be anything up to three years, Irish producers need visible longevity of the scheme in order to stay competitive with other countries*
- *“Extending S481 to 2020 would bring certainty and confidence to incoming producers with returning series. A longer term horizon will bring further gains*
- *“Extend relief to provide long term 'lead in' time for developing and financing productions.”*

Many off the themes coming across from the survey of producers were also repeated in the interviews with producers.

In all domestic production company interviews it was suggested that Section 481 could be improved by allowing greater flexibility as regards ‘eligible expenditure’ with extension of this expenditure to include non EU personnel, goods and services.

All domestic production companies made representations regarding the elimination of the current expenditure cut off rule – less than 25% of production being incurred to be considered eligible for the relief. In many cases this rule has led to unforeseen additional production and post-production being carried out abroad, as they were considered to be ineligible expenditure.

It was proposed by a numbers of interviewees that a reduction in professional fees and increase in competition in the Section 481 funding arena might provide a more streamlined and effective relief.

All domestic production companies made reference to the UK and the threat that changes in film tax relief will be make on the Irish film industry. There is real anxiety throughout the industry in relation to international film and television production being lost to the UK.

Many suggested that to increase the competitiveness of the Irish system, the government should consider the introduction of a ‘used and consumed rule’ similar to the UK, as it would increase competiveness of Irish film production.

In respect of the international interviews, there was a clear preference for a refundable tax credit system, which would allow more certainty over tax relief over the entire production.

Due to similarities in landscape terrain and architecture, many of international production companies consider Ireland and UK to be similar for film and television production. In many cases the interviewees noted that international production companies will conduct a comparison of the costs and relevant tax reliefs available on a side by side basis before making a decision.

# 5 Overview of Key Findings & Themes

The survey was based on a smaller sample size backed up by a limited number of interviews – as such the findings should be seen as much as qualitative as quantitative in nature. Even so, it is clear that a number of key themes have arisen from the survey and interview responses

### *Section 481 has worked for the industry…*

Section 481 Tax Relief is seen as working well, particularly for local productions. As currently constituted Section 481 Relief works for a variety of interlocking reasons:

- *Industry and financiers seem to understand the system. The process makes sense to the producers and to those involved.*
- *The cash benefits are provided up front – the cash flow implication of alternative methods of film financing are seemingly not as straightforward.*
- *Section 481 is perceived to be complementary to other funding sources.*

### *Not much appetite in the industry to change the scheme…*

The modifications suggested are tweaks rather than fundamental changes. Any support alternative that doesn't deal with the cash flow challenge may struggle in utility and impact.

A scheme based around tax credits is understood in theory and the overall financing into films may at the end of the project be the same, but the cash flow implications are likely to have an impact on project planning and implementation.

### *Limited participation by Financial Institutions…*

The fact that only one bank is perceived to participate in Sec 481 based funding is seen as a limiting factor. This challenge is recognised as being part of the wider issues affecting the Irish economy in relation to the provision of credit to Irish businesses, but it remains an issue to be addressed.

# 6 Appendix 1 Research Questionnaire

**amárach research S12-227**

**Survey of the Film Production Sector**

**August 2012**

**Note: Note the actual survey completed by producers was laid out online in a slightly different format than the paper version below**

Amárach and BDO have been asked by the Department of Finance to review the benefits of Section 481 and other supports to the film production sector. A key part of the review is to gain feedback and perspectives of those who work directly in the Sector. We have put together a questionnaire survey which we need your support to complete. The review will complement the industry Consultation process currently underway.

All individual responses will be treated confidentially by Amárach / BDO and findings will only be discussed in an aggregated format with the Department.

- The Survey is divided into four distinct areas:
- Company Background
- General Production History
- Details of Last Five Productions (or up to five where applicable)
- Your Experience of using Section 481 Relief

## *Company Background*

**Q.1 Please describe the primary audio-visual activity of your company? (Circle one)**

| | |
|---|---|
| *TV* | *1* |
| *Documentary* | *2* |
| *Film* | *3* |
| *Animation Production* | *4* |
| *Post production* | *5* |
| *Other (please describe_______)* | *6* |

**Q.2 Is your Company an independent enterprise or part of a wider group?**

| | |
|---|---|
| *Independent Enterprise* | *1* |
| *Part of a wider group* | *2* |

**Q.3 How many years has your company been active for?**

**Q.4 How many full time employees are permanently employed within your company? ___________**

**How many part time employees are permanently employed within your company?____________**

## *General Production History*

**Q.5a How many productions did your company pitch for to a commissioning person/body during the period 2006-2012? (for the purposes of the survey, a commissioning person/body refers to any public body such as RTÉ, the Irish Film Board/Commission, any overseas public body or any Irish or overseas private person/body) and of these how many were successful?**

| | Pitched for | Won |
|---|---|---|

| | Local | International | Local | International |
|---|---|---|---|---|
| **2006** | | | | |
| **2007** | | | | |
| **2008** | | | | |
| **2009** | | | | |
| **2010** | | | | |
| **2011** | | | | |
| **2012** | | | | |

**Q.6 How many productions has your company completed in the period 2006 – 2012?**

For the **last ten** productions that your organisation **completed** in the period 2006-2012, can you provide the following details. If you have completed less than ten, please answer for that number only.

| | Most Recent | 2nd Most Recent | 3rd Most Recent | 4th Most Recent | 5th Most Recent |
|---|---|---|---|---|---|
| Name of Production | | | | | |
| Year of Production | | | | | |
| Type of Production (Animation, TV Drama Documentary, Feature) | | | | | |
| Type of Activity (Pre-production, Production, Post-Production) – tick only those that apply | | | | | |
| Location of Commissioning Body/Organisation | | | | | |
| If in Ireland which NUTS III region was used | | | | | |
| What was the primary reason for locating in Ireland | | | | | |
| What was the secondary reason for locating in Ireland (see end of survey for regions) | | | | | |
| If co-produced where was co-production location | | | | | |

| | 6th Most Recent | 7th Most Recent | 8th Most Recent | 9th Most Recent | 10h Most Recent |
|---|---|---|---|---|---|
| Name of Production | | | | | |
| Year of Production | | | | | |
| Type of Production<br>(Animation, TV Drama Documentary, Feature) | | | | | |
| Type of Activity<br>(Pre-production, Production, Post-Production) – tick only those that apply | | | | | |
| Location of Commissioning Body/Organisation | | | | | |
| If produced in Ireland which NUTS III region was used | | | | | |
| What was the primary reason for locating in Ireland | | | | | |
| What was the secondary reason for locating in Ireland (see end of survey for regions) | | | | | |
| If co-produced where was co-production location | | | | | |

## *Details of Last Five Productions (where applicable)*

**Q.7 How many productions have you been involved in between 2006-2012?**

For the ***last five productions*** that you were involved with please provide the following details. If you have been involved in less than five, only answer regarding those which you have been involved in.

### Financing of Production

| | Most Recent | 2nd Most Recent | 3rd Most Recent | 4th Most Recent | 5th Most Recent |
|---|---|---|---|---|---|
| What size was the budget € | | | | | |
| Was Section 481 Funding Used? (Yes / No) | | | | | |
| If Section 481 Finance was not used, why not? | | | | | |
| What proportion of project finance was provided by Section 481 % | | | | | |
| Was Sec. 481 Finance used *solely* for post-production work? (Yes / No) | | | | | |
| Please note the % funding from each of the following sources of finance Section 481, Other Public, Other private used on this project | | | | | |
| What % 'other public ' funding was from what source | Source: % | Source: % | Source: % | Source: % | Source: % |
| What % 'other private' funding was from what source | Source: % | Source: % | Source: % | Source: % | Source: % |

## Production Expenditure

| | Most Recent | 2nd Most Recent | 3rd Most Recent | 4th Most Recent | 5th Most Recent |
|---|---|---|---|---|---|
| **Total Budget €** | | | | | |
| **% of Budget Irish Labour** | | | | | |
| **Irish Employment Cost - PAYE Salaries €** | | | | | |
| **Irish Employment Cost – Non-PAYE (Sched D etc) €** | | | | | |
| Expenditure on Irish Goods & Services | | | | | |
| **% of Goods & Services** | | | | | |
| **Accommodation spend €** | | | | | |
| **- Catering Spend €** | | | | | |
| **- Transport spend €** | | | | | |
| **- Other goods & Services spend €** | | | | | |

## Production Employment

| | Most Recent | 2nd Most Recent | 3rd Most Recent | 4th Most Recent | 5th Most Recent |
|---|---|---|---|---|---|
| **Total Production Employment (No's)** | | | | | |
| **Total Irish Production Employment (No's)** | | | | | |
| **Irish Employment – Hours Worked** | | | | | |

# *Experience of Using Section 481 Relief*

***Q.8 What is your sense of the current availability of lending support from the banks for investors in Sec 481 financing schemes?***

| | |
|---|---|
| ***There has been an increase in the*** availability of lending support to Section 481 investors? | 1 |
| ***There has been no noticeable difference in*** the availability of lending support to Section 481 investors? | 2 |
| ***There has been a decrease in*** the availability of lending support to Section 481 investors? | 3 |

***Q.9 What is your impression about the likely future trends in the availability of lending support from the banks for investors in Sec 481 financing schemes***

| | |
|---|---|
| I would expect there to be ***improved*** availability of lending support to Section 481 investors? | 1 |
| I would expect there to be ***no noticeable difference in*** the availability of lending support to Section 481 investors? | 2 |
| I would expect there to be ***reduced*** availability of lending support to Section 481 investors | 3 |

***Q10 Have any funding sources which you previously utilised, become unavailable to you over the period since 2008? Please provide some support of your answer.***

***Q.11 The Finance Act 2008 increased expenditure and investor caps whilst also allowing investors to take a tax deduction for 100% of their investment. Has this change (tick one)…***

| | |
|---|---|
| ***Significantly*** increased the availability of Section 481 funding? | 1 |
| ***Marginally*** increased the availability of Section 481 funding? | 2 |
| ***Had no impact*** on the availability of Section 481 funding? | 3 |

**Q.12 How did you access Section 481 funding for your productions ? (tick all that apply)**

| | |
|---|---|
| Direct advertising and marketing? | 1 |
| Through a professional intermediary (e.g. accountants)? | 2 |

***Q.13 In relation to each of the Local productions which were commissioned by an Irish based organisation, what would have been the consequence if Section 481 finance had not been available? (please tick all that apply)***

| | |
|---|---|
| ***No impact*** – production would have gone ahead as planned | 1 |
| ***Limited impact*** – production would have taken place but at a smaller scale | 2 |
| ***Location impact*** – production would have taken place in a different country | 3 |
| ***Timing impact*** – production would have been delayed | 4 |
| ***Cancellation*** – production would not have gone ahead | 5 |

***Q 14 In relation to each of the International productions which were commissioned by an Irish based organisation, what would have been the consequence if Section 481 had not been in place? (please tick all that apply)***

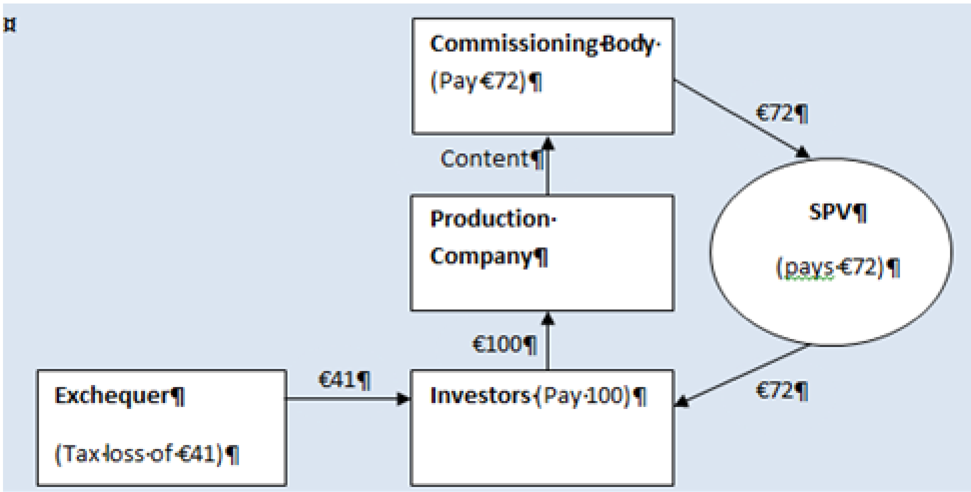
| | |
|---|---|
| No impact – production would have gone ahead as planned | 1 |
| Limited impact – production would have taken place but at a smaller scale | 2 |
| Location impact – production would have taken place in a different jurisdiction | 3 |
| Timing impact – production would have been delayed | 4 |
| Cancellation – production would not have gone ahead | 5 |

***Q.15 The schematic below is taken from the Department of Finance's Consultation paper on the industry. It describes the Department's understanding of how productions are funded.***

*From discussions with the Revenue Commissioners it appears that on average investors receive back 72% of their investment from the producers.*

- *This is a lower amount than that identified by Indecon in its 2007 review. All of the investor's investment can now be used as a tax relief at the investor's marginal rate compared with 80% at the time of the Indecon review. The balance of the investor's remuneration is accounted for through the tax relief.*

- *[In a stylised example whereby a production company requires €100 in financing] investors provide €100 in financing to the production company. Once approval has been received from the Revenue Commissioners the commissioning body, for example a TV network, deposits €72 in an account for remuneration of the investors. The balance of the €100 is accounted for in administration and other expenses. The €72 is ultimately returned to the investors who also receive a tax incentive of €41 from the Exchequer. This results in a total income to investors of €113 or a return of 13% on the €100 investment.*




Do you agree or disagree that this is an accurate representation of what happens in practice?

| | |
|---|---|
| Agree? | 1 |
| Disagree? | 2 |

***Q.16 If you disagree that this is an accurate representation of what happens in practice, please detail below your comments on how the relief works in practice?***

*Q.17 In the stylised example above it appears that the State contributes €41 to fill a €28 financing gap (i.e. the difference between the €100 of required financing and €72 provided by the commissioning body). Do you believe this is a gap that could be financed through a direct tax credit of €28 to the production company?*

*Q.18 Where not already mentioned please note below any of the features or characteristics of the Sec 481 Relief which are of particular value to producers in Ireland.*

*Q19 Do you have any additional comments/observations as to how changes to the Sec 481 Film Relief could enhance the benefits and value for money of the relief*