
Opening Statement

On behalf of the Department of Finance, I would like to thank the Committee for the invitation to come here today to discuss the Section 481 Film Tax Credit. My name is Deirdre Donaghy and I am accompanied by my colleague Ian Kavanagh. As the Committee will be aware, we have already appeared before it to discuss this topic on the 22nd of June last year.

Since our previous appearance, we have followed subsequent hearings on the subject matter closely and have noted the diverse range of issues raised by the various stakeholder representatives invited to appear before the committee.

During our last appearance, we discussed issues relating to industrial relations at some length, therefore, the focus of this opening statement will be on other matters that have been raised during the course of the hearings. In particular, the regional uplift and the recent cost benefit analysis conducted in relation to the relief.

Ireland has an international reputation for excellence in the arts. It is Government policy to support the arts sector and to support engagement in arts, culture and creativity by individuals and communities. Section 481 film relief is one policy tool which contributes to the achievement of this goal.

Section 481 provides relief in the form of a corporation tax credit related to the cost of production of certain films. The credit is granted at a rate of 32%, and is available on qualifying expenditure of up to €70 million.

In order to enhance the relief, Finance Act 2018 introduced a short-term, tapered regional uplift for productions being made in areas designated under the State aid

regional guidelines. The purpose of the regional uplift is to support the development of new, local pools of talent in areas outside the current main production hubs, to support the geographic spread of the audio-visual sector.

The uplift originally provided an increased level of credit for four years, with 5% available in years 1 and 2 (2019 and 2020), 3% available in year 3 (2021), and 2% available in year 4 (2022). However, in recognition of the detrimental impact the COVID-19 crisis had on the audio-visual sector, Finance Act 2020 amended the regional uplift to provide for an additional 5% year in 2021. In effect, this was to replace the incentive year lost as a result of the COVID-related public health measures. The tapered withdrawal of the uplift then continued in 2022 with the planned reduction to 3%, it has now reduced to 2% this year and will be unavailable thereafter. The core 32% film tax credit will remain available to qualifying productions in all areas of the country following the winding-down of the uplift.

I am aware that other attendees to the Committee have advocated for an extension of the uplift beyond the current end date. In this regard, it should be noted that the uplift is an approved State aid. The premise upon which it was notified to the European Commission is that it would be temporary in nature and would be withdrawn on a tapered basis. If the uplift were to be changed or retained for a further period, this would require a further notification process with the European Commission.

In addition to policy considerations of such a proposal, some technical matters would also need to be addressed. For example, the regional aid map upon which the uplift is currently based has expired. Commission approval has been received to continue to reference the current map until the Regional Uplift (as currently designed) ceases. A new regional aid map is now in place which, if required to

be used for any further extension of the relief, would cover less regions than the map that currently underpins the scheme.

Returning to the film tax credit as a whole, in advance of Budget 2023, the Department conducted a Cost Benefit Analysis (CBA) of Section 481. The CBA was prepared using data provided by the Revenue Commissioners and the Department of Tourism, Culture, Arts, Gaeltacht, Sport and Media. The CBA includes an overview of productions certified; the levels of employment in Section 481 productions based on applications for certification (including information on employment and skills development); and breakdowns of productions' expenditure and the cost of the relief.

The CBA is an examination the economic cost and benefits of the scheme, taking into account standard estimates of the shadow price of labour, the shadow price of public funds, and grant deadweight. It only incorporates quantifiable benefits directly attributable to the credit, such as taxes on direct wages and indirect wages, social welfare savings, value added tax and corporation tax. Other benefits to the State, such as accommodation expenditure by production cast and crew, trickle-down spending in the local economy or increased tourism following the production of an internationally successful project in Ireland, are not captured by this CBA.

It should also be noted that, while the relief has a cultural objective, a CBA cannot capture the social and cultural returns it provides. The projection of Ireland, Irish actors, directors, cast and crew internationally conveys the message that Ireland is a country with a rich history and a thriving cultural community. These cultural benefits, or 'cultural dividend', cannot be quantified and included in a strict economic analysis.

The CBA presented a net economic cost of €78.54 million for the relief in 2020.

I would once again like to thank the Committee for inviting us back to discuss the relief and we are happy to take any questions the Committee may have.