

Australian Publishers Association

Submission to

**Review of
Australia's
Future Tax System**

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Review of Australia's Future Tax System
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Objective of the Review into Australia's Future Tax System

On 13 May 2008 the Australian Government announced the review of Australia's tax system. The review will look at the current tax system and make recommendations to position Australia to deal with the demographic, social, economic and environmental challenges of the 21st century.

About the APA

The Australian Publishers Association (APA) is the peak industry body for Australian book, journal and electronic publishers.

Established in 1948, the association is an advocate for all Australian publishers: large or small; commercial or non-profit; academic or popular; locally or overseas owned. The Association has over 170 members and represents 91% of the industry, based on turnover.

Submission to the review of the Future of the Australia Tax System

The APA addresses subparagraph 4.3 of the Terms of Reference:

4.3. investment and the promotion of efficient resource allocation to enhance productivity and international competitiveness.

The APA submits that:

- An incentive tax scheme be introduced for the trade sector of the Australian publishing industry for the fostering of Australian literature and culture;
- An incentive scheme to be introduced for the education sector of the Australian publishing industry for the encouragement of Australian authors to write Australian textbooks to replace imported adaptations of US and UK textbooks, to assist with the development of supplementary materials for teachers and students, and to develop an export market for Australian textbooks in the secondary and tertiary education sectors;
- Such an incentive scheme to use a tax offset mechanism of an amount in the range of 24 cents to 30 cents in the dollar for Australian publishers publishing Australian authored works.

The overall objective of an incentive tax offset scheme is to ensure that adequate authorial, editorial and publishing skills are retained, nurtured and developed within Australia as the basis for a local publishing industry — building on developments since the confirmation of Australian territorial copyright in 1991, and encouraging further exploration, investment and exploitation of opportunities for export of Australian books and overseas rights

sales. This will enhance productivity and international competitiveness within the Australian economy through supporting the production of expressions of national creativity and developing a stronger Australian educational system. Products from both the trade and educational sectors of the publishing industry have already shown they are export earners for Australia whether through the income from rights sales or the exporting of written publications.

General position of APA membership

The APA estimates that the Australian publishing industry has annual retail sales of between AUS\$1.7 and \$2 billion. The education sector within Australia is about AUS\$500 million and this does not take up the value of any export markets.

The Australian publishing industry is seen by many public sector decision makers as simply an arts and crafts industry, forming part of the creative arts sector of the Australian economy. This is not the case. It is an industry that operates with considerable investment in a range of businesses across the entire spectrum from sole proprietors to Australian offices of global enterprises.

Where once Australia was essentially an export outpost for US and UK publishers, it now has an independent industry maintaining its own printing sector and generating growing exports. It is an industry that now generates Australian right sales because of the stronger operation of territorial copyright within a world-wide copyright regime. It is a creative industry that fosters the development and maintenance of a national culture and identity, as well as national learning and research. It includes essential skill sets for the operation of new technologies and, through the creation of new intellectual property; it helps connect the Australian economy to the burgeoning knowledge economy of the future.

The structure of the industry reveals all of this. What follows is a short description of that structure.

Structure of the Australian publishing industry

At a high level analysis there are three general bands of publishing houses operating within Australia: there is a band comprising multi-national corporations which have an overseas parent in the USA, EU or UK; there is a second band that includes the larger Australian-owned publishing concerns (these may have agency agreements with overseas publishers); and then, there is a large number of small to very small businesses. By far the largest proportion of the Australian book publishing business (by volume of revenue) is found in the first two of these bands.

Within these bands, there are different types of publishing undertaken including: trade/consumer publishing; and education publishing which is itself separated into school, tertiary, professional, and scholarly journal publishing.

Sales across both the trade and education sectors were flat across the period 2003-2005. The trade sector being the stand-out sector in overall performance during this time, where profitability increased due to improved efficiencies (Mackerell 2005). The top six publishing houses provide about two thirds of the books within the trade/consumer portion of the sector.

Across the education sector, about **six** multi-national publishing houses provide between 60-70% of the market. The business model is quite different to that of the trade sector. Australian education publishing operates on a ratio of approximately **70:30** of locally authored textbooks to overseas publications (originating mostly in the USA and UK). Australian education publishers also provide an extensive after-sale service of teaching and learning supplements for both teachers and student.

Trade Sector

The Australian publishing industry is closely linked to the Australian printing industry. Both these industries operate in a segmented market with the bestseller list providing a backbone for their continued operation.

Intertwined through this structure is the publication of Australian authors. Although 60% of books in Australian bookshops are Australian-originated titles, with the globalisation of the book market and the immense number of titles published per annum (14,000 new titles appear Australia alone, every year), it is clear that Australian literature needs an on-shore Australian-sourced publishing industry, and not vice versa.

It is important in understanding Australian publishing to understand the crucial role that a timely and responsive approach to reprinting plays in some segments of the market. The trade/consumer market is perhaps the most time sensitive sector for the reasons set out below. And connected to these issues are those of printing, book format and the bestseller list.

Book printing and format

The Australian book printing market tends to divide into two parts: colour printing and mono (or black and white) printing. Colour is very competitive offshore and does not impinge on that part of the Australian trade/consumer publishing analysed below.

Black and white printing is a short-form description for published works, which are:

- Non-illustrated,
- In either 'A', 'B', 'B+' or 'C' format in paperback, or

- Hardback.

'C' Format is the largest sized paperback (sometimes referred to as the 'trade paperback'), while 'B' format is the traditional paperback size. The 'C' format paperback is currently priced in the vicinity of \$30-35, while 'B' format is about \$20–25. 'C' and 'B' format books constitute the majority of the bestseller list within Australia. The cost of these books when printed in Australia is comparable to the cost of the same books produced in the UK or the US.

Either McPherson's or Griffin/PMP prints about 75% of the books produced in 'C' and 'B' formats for the top 20 Australian publishers by revenue. Griffin/PMP is the market leader in 'C' format printing, while McPherson's leads in 'B' and hardback formats.

'C' and 'B' are the more common formats in bookshops in Australia. 'A' format is the mono format associated with the smaller sized books purchased in airport bookshops. 'B+' format is slightly wider and taller than the 'B' format.

Timing issues and commercial viability in the trade sector

To take this mono format work offshore would add timing and transport costs, although unit costs for printing would be lower. To print these books offshore would be about 20-25% cheaper than onshore (this estimate may have altered from the time of writing, depending on the fluctuation of the AUS\$).

Despite being more expensive, however, onshore printing does offer a clear commercial advantage to the local publishing industry. Timeliness is an essential feature of the trade sector. It is a highly competitive business environment which revolves around the bestseller list (and its equivalents), operates under the provisions of the 30/90day rule, and has a tight supply relationship between booksellers and publishers.

It takes a minimum of three weeks from the moment a file is provided to an offshore printer to the date that finished books can arrive on Australian wharves. It takes at least another week for these goods to clear Customs. These figures relate to air-freight. For sea-freighted books, the delay is usually doubled. And the publisher still needs to get the books to retailers.

By contrast, a reprint run onshore will take about 5-7 days from placement of order to distribution to retailers.

The Bestseller List

When a book hits the bestseller list (or when sales figures take off), pressure is on a publisher to satisfy the market demand almost instantaneously — otherwise the opportunity is lost and another title will fill the void. One of the features of publishing is the difficulty of knowing whether a book will become a bestseller. It is unpredictable — often the result of an educated assessment, and when assessments are wrong this sometimes results in pulped works. Pulping imported, overseas-printed books that did not become bestsellers

(sometimes because they did not arrive onshore at the right time) is not a continuing sound financial proposition. Therefore, an initial print-run that delivers high sales will need to be reprinted with a fast turnaround time to keep up with demand and sustain its position on a bestseller list. Those reprints are likely to be done in small but frequent runs onshore, as the demand for the book builds.

The Current topic list

There is a significant place in the Australian trade sector for what is termed a 'current topic' list within the annual schedule (it is estimated that this list comprises about a third of sales). An event such as a well-publicised court case, a scandal, or a tragic event/accident will generate enough publicity to create a market for a book. The manuscript can be written with the final chapter left open to accommodate further developments. Timing is fundamental to meeting the market in such circumstances. In such a finely tuned market, cost is also an important feature. This market would struggle without quick turnaround printing — this means onshore printing.

The 30/90 day rule

One of the other unique features of the Australia market is the territorial copyright provision variously referred to as the 30/90-day rule, or the 'use it or lose it rule.' Section 112A of the Copyright Act 1968 (Cth) allows an Australian publisher to retain territorial copyright over a title as long as the first Australian publication occurs within 30 days of that title's overseas publication.

The practical outcome of the 30/90-day rule has been to provide a fillip to the Australian print industry as Australian publishers have been required to print Australian editions of works within a timely period of their release overseas. Section 122A has also meant a wider selection of books in the Australian market.

Sale or Return

The 'sale or return' arrangement between publishers and booksellers means that unsold books are able to be returned to the publisher at no cost or penalty to the bookseller 3 months (and sometimes up to 12 months) after publication. As booksellers attempt to minimise the stock they hold, book distributors also hold less stock, and all unsold stock is pulped.

The 'sale or return' policy and smaller inventories have changed printing orders within the trade sector. It has led to a reduction in the number of copies in a print-run. Currently, this has been partly offset by more print-runs — as more titles are published and more reprints are ordered to meet market demand. This observation is supported by the fact that printing volume has remained flat over the last couple of years, despite both Griffin/PMP and

McPherson's experiencing a decline in print orders along with a decrease in the number in any given print-run over the past seven years.

Carbon Footprint

Supporting an onshore printing and publishing industry is now also an environmental issue. Shorter print-runs mean less energy and less paper being utilised. This means a saving in printing costs and a lower cost to the consumer. Compare this to offshore printing which favours larger print-runs (admittedly at lower unit costs) but with a higher probability of being pulped through low sales. Add to this the transport kilometres involved in shipping whether by sea or (in those cases where timing is of the essence) by air. As much of the offshore printing is now carried out in China, there is a further issue of carbon emissions at the power source. These issues are still being quantified and debated but they are now a real cost that should be factored in when calculating the savings from retaining viable onshore printing and publishing industries.

Education Sector

The estimated value of the Australian education publishing sector is about AUS\$500M. This is a small market by world standards and enrolments generally are not growing at a great rate.

Like the trade sector, the selling of textbooks to educational institutions is also governed by timing issues, but of a different kind. Obviously, sales are synchronised around course timetables offered by educational institutions. These time cycles can be either semester or term. With such increased lead times, printing can generally be done offshore and in full colour, taking advantage of cheaper unit costs.

A key issue for the tertiary educational sector is the ratio of Australian-authored textbooks to those from overseas-authored books. How to alter this ratio through supply side dynamics — that is, by encouraging the production of more Australian-authored titles — is a major challenge. The majority of Australian textbook authors work in educational institutions. Given that current government funding for tertiary institutions favours research over the writing of textbooks, the challenge is how to encourage textbook writing *along with* research. It is submitted that this must be a key component of any 'education revolution' within Australia and any policy seeking to encourage Australian innovation. (Textbooks are an important form of reputational capital, not just for universities where they are written but for the entire country as a source of knowledge as well as primary research dissemination.)

Using Australian-written textbooks can directly facilitate student learning by presenting concepts in a relevant and familiar context, as well as encouraging the practical application of that learned knowledge locally.

Tertiary Sector

In the tertiary sector, publishing houses currently invest a huge amount of effort into stimulating demand for sales through academics' setting recommended lists for textbooks. The part of the sector has an estimated worth of \$200M, but the distorting emphasis on research rather than textbook writing mentioned above means that the use of overseas-authored texts in this sector is very high, with as much as \$100M worth of titles being originated from the USA and UK. The value of encouraging the writing of more Australian textbooks can be seen from this figure alone.

As an aside, it is interesting to note that many teachers in the USA 'teach by textbook,' while in the UK they predominantly 'teach the course.' In Australia the approach is somewhere between these two extremes. Providing pedagogic aids for teachers and students is an important (although largely unacknowledged) component of what Australian educational publishers do. As an example, if a publisher spends \$1M on researching, developing and producing a biology textbook over 10 years, then 15 to 25% of this investment would be spent on supplementary teaching and learning materials for both teachers and students. This latter expenditure often goes unidentified, yet it is usually state-of-the-art technology, often involving web-based aids. The efficacy of the textbooks and other supporting materials produced for instructors and students plays a pivotal role in the successful running of most courses, but especially those at first year level.

Secondary Sector

The secondary sector (valued at about \$150M) operates on much the same business model as the tertiary sector, except that it is fragmented along State curriculum lines. It is anticipated that the development of a national curriculum will lessen this fragmentation. A difference with the tertiary sector is that 90% of books sold in Australian Schools are written by Australian authors.

Primary Sector

The primary sector is similar to the secondary one although there is a supplemental as well as a core program market. Its value in the Australian economy is estimated to be \$120M, with an additional market of around \$50M in the exporting of Australian material in the area of literacy and numeracy. This sector has been bolstered by the establishment of national core programs.

Challenge

The main challenge facing the tertiary sector is how to add to the supply side of the equation and increase the number of Australian-authored textbooks.

The challenge for the Primary and Secondary sectors is that funding needs to be adequate for acquisition of textbook and other content for schools.

Opportunities

The implementation of a national curriculum offers an opportunity for educational publishers. Publishers play a vital role in the successful introduction of new curricula through the introduction of textbook and other supplementary resources. Increasing the number of Australian-authored textbooks not only acts as import substitution for texts from the USA or UK, there is also potential for growth of an export market, following on from the success of the primary sector.

Given Australian publishers' proven expertise in the field, there is also the opportunity to develop the production of multimedia materials for teachers and students as a more visible part of the education sector.

Questions to be addressed within a submission

The website for the Review makes the following request:

To assist people in making their initial submissions the following framing questions may be useful.

- What major challenges facing Australia need to be addressed through the tax-transfer system?
- What features should the system have in order to respond to these challenges?
- What are the problems with the current system?
- What reforms do we need to address these problems?

These questions will form the framework of the submission.

APA's Submission

What major challenges facing Australia need to be addressed through the tax-transfer system?

As already stated, the major challenge facing the Australian printing and publishing industry is to ensure that local authorial, editorial and publishing skills are retained, nurtured and developed.

Looking for overseas models, it is striking to see how similar the publishing and book retail sectors of Canada and Australia are. Canada's book publishing is a CAN\$1.5B industry (very similar in size to Australia's), and locally produced books comprise about 59% of the books on Canadian retail

shelves (again, almost identical to Australia). Canada also has an operational territorial copyright scheme.

The Canadian Government and two provincial governments — Ontario and Quebec — invest much more into programs to encourage and develop the local publishing industry than does the Australian and State governments¹. But what is of further interest is that the two provincial governments have tax credits schemes.

Australia does not have such a scheme for publishers but does for its film industry. Such industry-specific legislation can take the form of either incentive schemes to grow the sector, or schemes that deal with a particular interface between the industry and the tax regime. This paper does not address the latter issue, but an example is the income averaging measures that operate for authors and artists.

Current incentive legislation for the film industry

Australia's income tax legislation provides for special treatment for incentive schemes. Generally generous deductions are made available to encourage investment in targeted sectors. These include amongst other things measures for the film industry and for industry research and development (R&D). Following recent legislative amendments, the film industry is now moving to a tax offset regime instead of a deduction one.

The film incentive scheme introduced in 1981 provided a 150% deduction for the cost of the copyright obtained in a film script. Its objective was to develop a viable Australian film industry for 'qualifying films' (a term defined within the relevant legislation).

In the 2007-2008 Budget, the Federal Government announced a package of measures to reform and strengthen the Australian film/screen-media industry. The Explanatory Memorandum (EM) to the Tax Laws Amendment (2007 Measures No 5) Bill 2007 in paragraph 10.2 stated:

The package is designed to support the industry at a time when it is striving to meet the challenge of a changing global environment. The package seeks to encourage greater private sector investment in the industry and improve the market responsiveness of the industry.

The EM goes on to state:

10.5 The introduction of the producer offset represents a major new support mechanism for film producers and it will assist the industry to be more competitive and responsive to audiences. It provides a real opportunity for producers to retain their substantial equity in their productions and build stable and sustainable production companies, and aims to increase private investor interest in the industry.

¹ Material extracted from the websites of the Canadian, Ontario and Quebec Governments are provided at Schedule A to this paper.

10.6 Division 376 of the ITAA 1997 provides a tax offset for certain Australian production expenditure incurred by a production company in making a film where a minimum level of expenditure has been incurred. The offset can be claimed in the income tax return for the income year in which the film is completed.

The Financial impact of the tax measure is disclosed in the EM to be:

2007-08	2008-09	2009-10	2010-11
-\$67M	-\$71M	-\$69M	-\$69M

Current tax incentive legislation for the publishing industry

The confirmation in 1991 of territorial copyright allowed the Australian industry to grow the local content of material published within Australia. Locally originated titles now comprise 60% of the Australian market from a low base of about 10% in the 1960s. It has to be noted that most other Western democracies use this provision to protect their onshore industries.

The current copyright regime has the added bonus of allowing Australian authors and their publishers the opportunity to gain additional export dollars through the worldwide operation of territorial copyright.

It is noted that the Canadian provincial models have territorial copyright working in conjunction with a tax credit regime that is aimed at growing published works by local authors. The tax credits are awarded in a narrow band that is very specifically targeted. This is a model that Australia could adopt to offer an incentive scheme to grow local content.

Challenge for publishing industry in respect to investment

Profitability is in part compensation for bearing risk. Publishing books is a competitive business requiring specific skills and capital. A tax on the return on investment is a cost imposed on the return of investment. It is obvious that in ventures where margins are very tight the taxing of any annual assessable income from the venture reduces that return on capital.

An incentive scheme within a taxing regime focused narrowly on the publishing of local authors is one means of encouraging capital into the industry.

Role of incentive schemes within an income tax regime

Recommendations of The Review of Business Taxation July 1999 (The Ralph Inquiry) when it came to the issue of rewarding risk and innovation within the

tax regime could have been summed up as government's encouragement to individuals for investment in business ventures (Chapters 18 and 19, Report July 1999). The same can be said of the Australia film industry taxation incentive provisions. The foundation issue is of influencing investment decisions of capital.

There is also the argument that recognises the importance of retaining a national book publishing industry as a marker of a sophisticated First World nation, confident in its cultural distinction and eager to support the creation of intellectual property in a world increasingly driven by media and the knowledge economy. This is an argument that goes to the heart of subparagraph 4.3 of the Terms of Reference.

Other incentive schemes currently operating

There is the entrepreneurs' tax offset, a policy aimed at assisting smaller businesses that used the Simplified Tax System. And there is the land transport offset which is aimed at the private sector provision of public infrastructure.

Other public policy issues that have been granted a tax offset included first child tax offset, housekeeper rebate, low income earners rebate, medical expenses rebate, private health insurance tax offset, mature age worker tax offset and child care tax offset.

Ensuring equity

The challenge in establishing such a tax offset scheme has been to make it equitable to all partakers in the scheme. The APA supports a tax credit or a tax offset approach to a tax incentive scheme.

The method of allowing a deduction from any ordinary income and statutory income within the meaning of the Income Tax Assessment Act 1997 (ITAA 97) is the way that the film incentive scheme commenced in 1981. (The application of a deduction is established by sections 4-15, 6-5 and 6-10 ITAA 97.)

Section 4-15 ITAA 97

Taxable income = Assessable income – Deductions

Sections 6-5 and 6-10 ITAA 97

Assessable income = ordinary income and statutory income

In 2007 the scheme was altered to a tax offset and using the method established by section 4-10 ITAA 97.

Section 4-10(3) ITAA 97

Income Tax = (Taxable income x Rate) – Tax offsets

The APA notes the following comments:

A tax offset must be distinguished from a 'deduction'. While a deduction is subtracted from assessable income to calculate taxable income (s 4-15 ITAA 97), a tax offset is subtracted from the tax payable on taxable income (s 4-10 ITAA 97). This makes a tax offset more valuable than a deduction. It also makes a tax concession in the form of a rebate or offset more equitable than a tax concession in the form of a deduction².

According to the latest available ABS statistics, the Australian publishing industry had annual turnover of over AUS\$1.56B in 2003-2004. It includes some large enterprises within its ranks, including overseas firms and Australian-owned firms, with lists that include many Australian authors. There are also many small operators generating mostly works produced by Australian authors. Larger firms tend to generate greater deductions than smaller enterprises. Therefore, a bias is introduced into an incentive scheme using deductions whereas the tax offset is taken up after taxable income is determined and at the point that the amount of income tax is ascertained:

What are the problems with the current system?

The current system supports the creation of Australian content through grants and prizes, including those of the Australia Council's Literature Board and the literary prizes awarded each year by the Federal and State Governments. This has acted as a kind of priming of the supply pump of Australian literary talent over the past 30 years (since the establishment of the Australia Council in 1974). It has supported and nurtured many authors with international acclaim and success (Peter Carey, Geraldine Brooks, Tom Keneally, Colleen McCullough, Les Murray, Sonya Hartnett, Peter Porter, Garth Nix, Frank Moorhouse, Tim Winton, to name a few).

However, Australian writers, according to Australia Council research (David Throsby, Virginia Hollister, *Don't Give Up Your Day Job: An Economic Study of Professional Artists in Australia*, Australia Council, Sydney, 2003), only received a median income of \$4,800 per annum from their primary creative output (writing) in 2000-1.

Throsby and Hollister commented (p 79-80):

The contribution of the artistic community to Australian life, when measured in cultural and social terms, is immense. Yet much of the value of this contribution is not reflected in the market [place] ... As a result the economic return to artists remains stubbornly low, and is not a true measure of their contribution to Australian society ... The situation can ... be improved through cultural policies pursued by federal, state and local governments ... but there is always scope for more targeted support for innovative approaches through a variety of fiscal and regulatory mechanisms.

² Australian Taxation Law, Woellner, Barkoczy Murphy Evans, 18th Edition , para 2-500

It is also worth noting that there are many writers who are not even eligible for any Australia Council grants. For example, education writers are explicitly excluded by Literature Board guidelines.

The federal government of Canada provides approximately CAN\$30 million in direct support to the Canadian publishing industry, as compared to the Literature Board of the Australia Council's AUS\$4 million per annum — a majority of which goes to individuals, with only a few hundred thousand dollars going to assist Australian publishers.

When it comes to writing, current direct support from the Australian Government is ghettoized as purely 'cultural' in purpose, and is piecemeal in its impact.

At the moment, the major piece of structural support for the publishing industry is the '30/90-day' provisions of the Copyright Act that prohibit parallel importation of overseas editions of books under certain circumstances. Ironically, this structural support is being threatened by a Productivity Commission inquiry. (It is interesting to note that the multi-award winning Tim Winton, in recently accepting the independent booksellers' Indie Award for 2008, characterized the Productivity Commission's putative inquiry as 'yet another blundering assault on the book industry.')

What reforms do we need to address these problems?

Targeted tax credit support for Australian-authored, locally produced books across all genres including educational books (and support materials) would act as a major incentive for investment in the creative talent Australia needs if it is to compete in the knowledge economy of the future.

A possible reform might be structured along the following points:

1. Introduce a targeted tax credit scheme for books published within Australia by Australian authors.
2. Tax credit to be 30% of the eligible expenditure as defined.
3. The tax credit to be restricted to Australian taxpayer companies incorporated in Australia, who have been publishing in Australia for three calendar years and who publish at least two books a year.
4. The work attracting the tax credit has to be written by an eligible Australian writer who is a resident or permanent resident of Australia.
5. The qualifying author must have written at least 90% of the work.
6. It is possible to restrict the genres of qualifying works. It is recommended that all literary and educational works be accepted.
7. Qualifying expenditures include 100% of pre-press costs and promotional costs; 50% of production costs paid by the book publishing company.

Consultation and subsequent supplementary submission

The final lodgement date for this submission coincides with the Frankfurt Book Fair; the world's biggest and most important international book fair and at which many Australian publishers have stands to generate export sales. Unfortunately, this has meant that the capacity to obtain information for the preparation of this submission has been limited.

A key feature of a tax offset proposal is the cost to revenue of such a proposal and the economic growth such an incentive scheme might bring about. Again the absence of key personnel overseas has hindered the estimate of these two data sets.

As well a recent survey which would be of assistance with these estimates has yet to be released. The Australia Council has conducted an economic survey of literary publishing (trade sector) in Australia. This data is important for developing an understanding of any proposed incentive scheme for the sector. It is understood the survey is completed with the final report soon to be released.

In October 2008 an on-line survey on publishing activity and expectations in Australia was commenced. This survey is part of the University of Melbourne Book Industry Study, a three-year project based in that university's Publishing and Communications program. The Australian Publishers Association is now the industry partner. The survey is in two parts. The first part, deals with industry expectations, and the second part, involves financial details. The initial survey has been requested to be completed by 31 October 2008. It is planned to make preliminary results available to participants by the end of November.

The APA submits that through the consultative process of the Review of Australia's Future Tax System it be able to supplement this submission with further material to support the general proposal contained in it; namely:

- An incentive tax scheme to be introduced for the trade sector of the Australian publishing industry for the fostering of Australian literature and culture,
- An incentive scheme to be introduced for the education sector of the Australian publishing industry for the encouragement of Australian authors to write Australian textbooks to replace imported adaptations of USA and UK textbooks, to assist with the development of supplementary materials for teachers and students, and to develop an export market for Australian textbooks in the secondary and tertiary education sectors.

16 October 2008.

Schedule A

Canadian Government

Cultural Affairs

Books

Canadian Heritage develops, implements, and maintains publishing policies and programs in support of books to help create a stronger publishing industry in Canada.

For more than a century, the Government of Canada has had programs and policies to support the production, distribution and promotion of Canadian books, magazines and newspapers that reflect Canada's unique and dynamic culture. This support is premised on the belief that Canadians must have access to Canadian voices and Canadian stories. Looking to the future, the cultural sector must continue to adapt so as to benefit fully from a changing global economy. For the Government of Canada, this means searching for innovative ways to support publishers so they can take advantage of opportunities available both at home and abroad.

The book publishing industry is supported by various direct assistance programs and regulatory measures. The Government of Canada established, in the 1970`s, direct assistance programs such as the Block Grant Program at the Canada Council and the [Book Publishing Industry Development Program](#) at the Department of Canadian Heritage. This assistance continues to help Canadian-owned and -controlled firms to grow, and enables them to undertake the principal activity of producing and distributing Canadian-authored books.

Another federal measure designed to support the book industry includes the parallel importation regulations which, through the *Copyright Act*, protect agreements for the distribution of books in the Canadian market.

Finally, the foreign investment policy for the book trade supports the Canadian-owned and -controlled book publishing industry. The Investment Canada Act requires that foreign investments in the book publishing and distribution sector be compatible with national cultural policies and be of net benefit to Canada and to the Canadian-controlled sector. Policy guidelines are as follows:

- foreign investment in new business enterprises is limited to Canadian-controlled joint ventures;

- acquisition of an existing Canadian-controlled business by a non-Canadian is not permitted. Under extraordinary circumstances, the government may consider an exception to this guideline;
- if a non-Canadian wishes to sell an existing Canadian business independent of any other transaction, the vendor is expected to ensure that potential Canadian investors have full and fair opportunity to purchase; and
- indirect acquisitions are reviewed to determine whether they are likely to be of net benefit to Canada and to the Canadian-controlled sector and are assessed on their merits by reference to the regulations set out in Section 20 of the Act.

These guidelines are strictly enforced and any undertakings negotiated under the net benefit test are monitored closely. The Investment Canada Act provides remedies for non-compliance and the Government applies them when and as necessary.

http://www.pch.gc.ca/progs/ac-ca/pol/livre-book/index_e.cfm

Book Publishing Industry Development Program

The principal objective of the Book Publishing Industry Development Program (BPIDP) is to ensure choice of and access to Canadian-authored books that reflect Canada's cultural diversity and linguistic duality in Canada and abroad.

The program seeks to achieve this objective by fostering a strong and viable Canadian book industry that publishes and promotes Canadian-authored books.

The program has four components:

- [Aid to Publishers](#)
- [Supply Chain Initiative](#)
- [Collective Initiatives](#) (previously Aid to Industry and Associations)
- [International Marketing Assistance](#)

Aid to Publishers

The objective of Aid to Publishers is to support the ongoing production and promotion of Canadian-authored books. Applicants must be 75% Canadian-owned and -controlled publishers who have been in business for at least 36 months and whose principal activity is book publishing.

Supply Chain Initiative

The objective of the Supply Chain Initiative is to support the Canadian book industry's adoption of innovative technologies to ensure an efficient and effective infrastructure that builds competitiveness and improves readers' access to Canadian-authored books.

This initiative will help the industry become more efficient, viable, and resilient to changing technological standards and practices. By improving the Canadian book industry's capacity to take advantage of the opportunities offered by innovative technologies, it will continue to be able to invest in the production, marketing and distribution of Canadian books.

Support for Publishers

There are two categories of projects under the *Support for Publishers* sub-component of the Supply Chain Initiative: Business Planning and Technology Internships.

- Business Planning
Application and Final Report Data Form 2008-09
[[PDF](#)]
- Technology Internships
Application and Final Report Data Form 2008-09
[[PDF](#)]

Support for Associations and Organizations

There are two categories of projects under the *Support for Associations and Organizations* sub-component of the Supply Chain Initiative: Professional Development and Collective Technology Projects.

- Professional Development
Application and Final Report Data Form 2008-09
[[PDF](#)]
- Collective Technology Projects
Application Form 2008-09
[[PDF](#)]

Collective Initiatives

The Collective Initiatives (formerly Aid to Industry and Associations) component of BPIDP supports the Canadian book industry to build the skills

and tools necessary to ensure its ongoing strength, viability and capacity to invest in the development and promotion of Canadian books.

There are five categories of projects in this component: marketing and promotion, professional development, industry research, business planning, and publishing internships.

International Marketing Assistance

Publishers receiving funding from Aid to Publishers in the previous year may be eligible for additional support for their export sales, including funding, promotional and logistical assistance, and market intelligence.

http://www.pch.gc.ca/progs/ac-ca/progs/padie-bpidp/index_e.cfm

Ontario Book Publishing Tax Credit

What Is It?

The Ontario Book Publishing Tax Credit (OBPTC) is a refundable tax credit, based upon eligible Ontario pre-press, printing and marketing expenditures incurred by a qualifying corporation with respect to eligible book publishing activities. The OBPTC was announced in the May 1997 Budget. The implementing legislation was enacted in December 1997 and the implementing regulation was passed in June 1998. Amendments which expand the eligible expenditures incurred after May 2, 2000, were passed in December 2000. Technical amendments regarding corporate reorganizations were passed in December 2004. Amendments expanding the eligible categories of writing and clarifying the definitions of eligible Canadian authors were passed December 15, 2005.

How Much Is the Tax Credit?

The OBPTC is calculated as 30% of the eligible Ontario expenditures, net of assistance related to these expenditures, incurred by a qualifying corporation with respect to eligible book publishing activities, up to a maximum tax credit of \$30,000 per book title. (For qualifying expenditures incurred before May 3, 2000, the maximum credit is \$10,000 per book title.)

Who Is Eligible?

A qualifying corporation is a Canadian-controlled corporation, as determined under sections 26 to 28 of the *Investment Canada Act* (Canada), must carry on a book publishing business primarily through a permanent establishment in Ontario and files an Ontario corporate tax return. A qualifying corporation must allocate more than 50% of its taxable income to Ontario in the taxation year the credit is being claimed and must have published at least two books in the previous year. An exception is made regarding the requirement to have published two books in the previous year where an Ontario book publishing company has transferred its business, amalgamated or wound up its company.

What Types of Literary Works Are Eligible?

A literary work is an eligible literary work if it was published after May 6, 1997 and:

- it is written by an eligible Canadian author, or if it is written by more than one author, at least 90% of the material is written by eligible Canadian authors;
- 90% or more of the literary work is new material that has not been previously published;
- it belongs to an eligible category of writing;
- where it contains pictures, the ratio of the amount of text to pictures is at least 65 % (except in the case of children's books);
- it is at least 48 printed pages in length (except in the case of children's books) and is bound as a paperback, or a hardback; and it is not a prescribed ineligible publication.

Who Is an Eligible Author?

An eligible Canadian author of an eligible literary work is an individual who:

- is either a Canadian citizen or a permanent resident, and is ordinarily resident in Canada (at the time the contract is entered into to publish the literary work); and
- has not authored more than two literary works in an eligible category. (In the case of qualifying expenditures prior to May 3, 2000, an eligible author must not have authored a previously published literary work in an eligible category.)

What Categories of Writing Are Eligible?

- **Fiction** is a book-length work of the imagination in prose including novels and book-length collections of short stories or novellas.
- **Nonfiction** is a work of prose based on factual information including history, travel, social issues and current events; or is an exposition of ideas including works of philosophy, social and art criticism, and political enquiry. Nonfiction educational texts, for use in educational institutions, are eligible as long as they meet the other eligibility requirements. A book-length play or a radio or television drama published in book form will be considered under nonfiction.
- **Poetry** is a book-length work of imagination written in rhyme, blank verse, or another recognized poetic form, either as a book-length poem or a book-length collection of poems.
- **Biography** is a book-length work in prose based on fact, telling the story of one (or more) person's life (or lives) including an autobiography (the

author's own story told as a factual account), or a memoir (a selective but factual retelling of events).

- **Children's books** are books designed for readers under 16 years of age. Children's books may be less than 48 pages and may be illustrated titles. Young adult titles, specifically designed for readers aged 9 to 18 will be considered children's books.

Note that for books published after May 11, 2005 the category of "children's books" has been replaced by 4 new categories: children's fiction, children's non-fiction, children's poetry and children's biography.

What Kind of Expenditures Are Eligible?

Qualifying expenditures include 100% of pre-press costs and promotional costs and 50% of production costs paid by the book publishing company in respect of the publishing of an eligible literary work. These qualified expenditures are reduced by any government assistance received or expected to be received in respect of the literary work.

<http://www.omdc.on.ca/Page3397.aspx>

Revenue Quebec

Tax credit for book publishing

This refundable tax credit is designed to help Québec publishers develop foreign markets for Québec works, undertake major publishing projects and increase their presence in the translation market.

The credit is granted to a qualified corporation for an eligible work or a work that is part of an eligible group of works. It is equal to the total of:

- 35% of the qualified labour expenditures attributable to **preparation costs**
- 26.25% of the qualified labour expenditures attributable to **printing costs**

The credit may not exceed \$437,500 per eligible work (or work that is part of an eligible group of works). Where the work is published jointly, the credit must be apportioned among the publishers that are qualified corporations. In this case, the certificate issued by the [Société de développement des entreprises culturelles](#) (SODEC) indicates each publisher's share in the publishing costs, the labour expenditures and the maximum amount.

Corporations that may apply for the credit

A qualified corporation is a corporation (other than an excluded corporation) that, in the year, has an establishment in Québec and carries on a book publishing business that is a qualified business and that is a publishing house recognized by SODEC.

An excluded corporation is a corporation that is in one of the following situations:

- It is directly or indirectly controlled, at some time in the year or in the 24 months preceding the year, by one or more persons not resident in Québec.
- It is exempt from income tax for the year.
- It is a Crown corporation or a subsidiary wholly-owned corporation of a Crown corporation.

After March 11, 2003, shares held by persons not resident in Québec must be hypothetically attributed to a hypothetical person. If such attribution means that control of the corporation is given to the hypothetical person, the corporation is considered to be controlled by a person not resident in Québec.

Residency requirement

The salaries and wages claimed for the credit must have been incurred with regard to individuals who were resident in Québec at some time during the taxation year in which the services were rendered.

The remuneration included in calculating the corporation's labour expenditures for a taxation year must have been paid to:

- an individual who was resident in Québec at some time during the taxation year in which the services were rendered
- a corporation or partnership (as applicable) with an establishment in Québec

Where an employee of a subcontractor provides services, the employee must be resident in Québec at some time during the taxation year in which the services are rendered.

Expenses giving entitlement to the credit

Preparation costs

These costs must be paid by the time the credit is claimed. Eligible preparation work is the work done to carry out the stages involved in publishing the work, from the initial stage to the stage preceding the production in print form, including the following:

- editing
- design
- research
- art work
- mock-up production
- layout
- typesetting
- pre-press work

Labour expenditures attributable to **preparation costs** must be incurred and paid by the time the credit is claimed. These expenditures are as follows:

- the salaries or wages paid to the employees of the corporation
- the non-refundable advances paid to a Québec author or a holder of the rights of a Québec author
- the remuneration (other than salaries, wages and non-refundable advances) attributable to the provision of services by an individual, corporation or partnership carrying on a business in Québec, having an establishment in Québec, and not dealing at arm's length with the corporation that receives the services. If the service provider (individual,

corporation or partnership) is dealing at arm's length with the corporation that receives the service, **half** of the remuneration constitutes a labour expenditure.

Printing costs

Printing costs must be paid by the time the credit is claimed. Eligible printing work is the work done to carry out the printing stages in respect of the work, including the first printing, first assembly and first binding.

The labour expenditures attributable to **printing costs** are the same as those attributable to preparation costs, except with regard to non-refundable advances paid to Québec authors and the remuneration paid to a person or partnership dealing at arm's length with the qualified corporation. In this case, a **third** of the remuneration constitutes printing costs.

The amount of the labour expenditures must be reduced by any government or non-government assistance and any benefit or advantage. However, **do not subtract** the following amounts from the labour expenditures:

- amounts deemed paid to Revenu Québec for a taxation year with respect to the tax credit for book publishing
- amounts paid under the federal Book Publishing Industry Development Plan (BPIDP)
- amounts paid under the SODEC program known as the "Programme d'aide aux entreprises du livre et de l'édition spécialisée"
- amounts paid by the Canada Council for the Arts as a publisher's grant, an international translation grant or a grant for co-operative projects in writing and publishing

http://www.revenu.gouv.qc.ca/eng/entreprise/impot/societes/credits/culture/edition_livres.asp