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Indywood
The Indian Film Industry
September 2016

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### Foreword

Welcome to the Indian Film Industry Report for the Indywood Film Carnival taking place during September 24 – 27, 2016 in Ramoji Film City, Hyderabad. The film industry has been earmarked as a key sector in the Make in India campaign. As part of this, the Government of India is taking several initiatives to effect growth in the sector as well as promote foreign film shootings locally. Deloitte India's objective with this publication is to provide an overview of the film sector in India and analyse the key trends impacting the sector today.

Our endeavour is to provide a considered point of view on key initiatives required going forward in the film industry to propel growth and promote film tourism. In order to do so, the report delves into the current state of the industry to identify key focus areas and requirements to increase box office realizations, improve occupancy and address the infrastructure constraints.

As the Indian film industry moves into the next phase of growth, it is imperative to keep pace with the global technological advances and innovation. Historically, the Indian film sector has lagged behind in its counterparts in the deployment of emerging technologies such as virtual reality, augmented reality, drone shootings, etc. The development and deployment of key technologies in Indian films will be

critical to remain at the forefront of global trends. The report analyses the methods to achieve this including technology transfers, collaboration with international studios and development of technical skills in-country. Another endeavour of the Make in India campaign has been to develop technical skills for film production, post production and VFX. Given the low labour cost, this could be a key factor in attracting foreign filmmakers to the country. The report elucidates the current initiatives being taken by the Government of India under the Make in India campaign to improve availability of skill and talent in filmmaking. The report also analyses other actions that can have an impact on increasing availability of skills locally.

In this report, the international best practices in thriving film sectors globally have been studied including initiatives taken by various regions to attract foreign film shooting. The report also includes case studies on the UK and New Zealand, countries that have successfully been able to position themselves as key filming destinations as was witnessed by the Harry Potter Series and Lord of the Rings Trilogy.

Deloitte hopes that you and your colleagues find this report a useful stimulant in your strategic thinking.



**Hemant Joshi** 



Ashesh Jani

## Executive Summary

The Indian film industry is the largest in the world in terms of number of films produced with between 1,500 to 2,000 films produced every year in more than 20 languages. In terms of revenue, the industry has gross box office realizations of \$2.1 billion which is expected to grow at 11% CAGR reaching \$3.7 billion by 2020. The key growth drivers for the industry are:

- Increasing per capita income and growing middle class
- Demand from Tier 2 and Tier 3 cities
- Diversifying into international markets
- Releasing the potential of digitization
- Upside from ancillary revenue streams
- Upcoming use of Visual Effects (VFX) in movies

Despite the large number of films produced in India, the industry gross realization has been substantially lower than its global counterparts. For example, the box office realization in the US and Canada stand at \$11 billion whereas these countries produce significantly lower number of films (approximately 700 films). This is mainly due to the challenges plaguing the film industry such as:

- Low infrastructure penetration
- Slow growth in average ticket price (ATP)
- Complicated tax regime
- Rising costs and lack of access to funding
- Piracy
- Multiple layers of bureaucracy
- Prevailing strict censorship norms

The domestic box office contributes majority of the revenue, representing 74%

of the total industry. Cable and satellite rights and online/digital aggregation revenues are the fastest growing segments, and expected to grow at a CAGR of about 15% over the period FY15 - FY20. Further, the Indian film industry is dominated by Bollywood, the Hindi film industry, contributing 43% of the revenue while regional and international films contribute the remaining 50% and 7% respectively. International films is currently a small, but growing segment, driven by rising numbers of English and other foreign languagespeakers, as well as rising numbers of international movies witnessing dubbed releases across the country. Other key recent trends in the industry include:

- Entry of international studios through acquisitions and collaborations
- Rise of regional cinema
- Digital adoption across the value chain
- Organic and inorganic growth in multiplexes
- Emergence of alternative streams of revenue

Going forward, the industry needs to focus on the following factors to ensure growth and profitability:

- Film tourism
- Skill enhancement
- Shortening window of release through better planning
- Updating current technology
- Countering piracy
- Growth of multiplexes

## Make in India Initiative and the Film Industry

#### Overview of the Make in India Campaign

The Make in India campaign, launched by Prime Minister Narendra Modi in September 2014, is aimed at enhancing local manufacturing, fostering innovation, and facilitating investments in the Indian industries. The initiative is being led by the Department of Industrial Policy and Promotion (DIPP) and the Department of Commerce and Industry and covers 25 key sectors, including media and entertainment.

The Make in India programme endeavours to create additional employment opportunities through improving business opportunities and positioning India as a destination for manufacturing and services. The programme also aims to facilitate businesses and entry of new players in India by instating clear and transparent processes, enabling Ease of Doing Business, and simplifying laws and regulations. Since the inception of the Make in India program, there has been a significant increase in Foreign Direct Investment (FDI) owing to the growing positive perception of India in the global scenario.

#### Objectives and Initiatives in the Film Sector

Media and entertainment has been identified as one of the key sectors for the

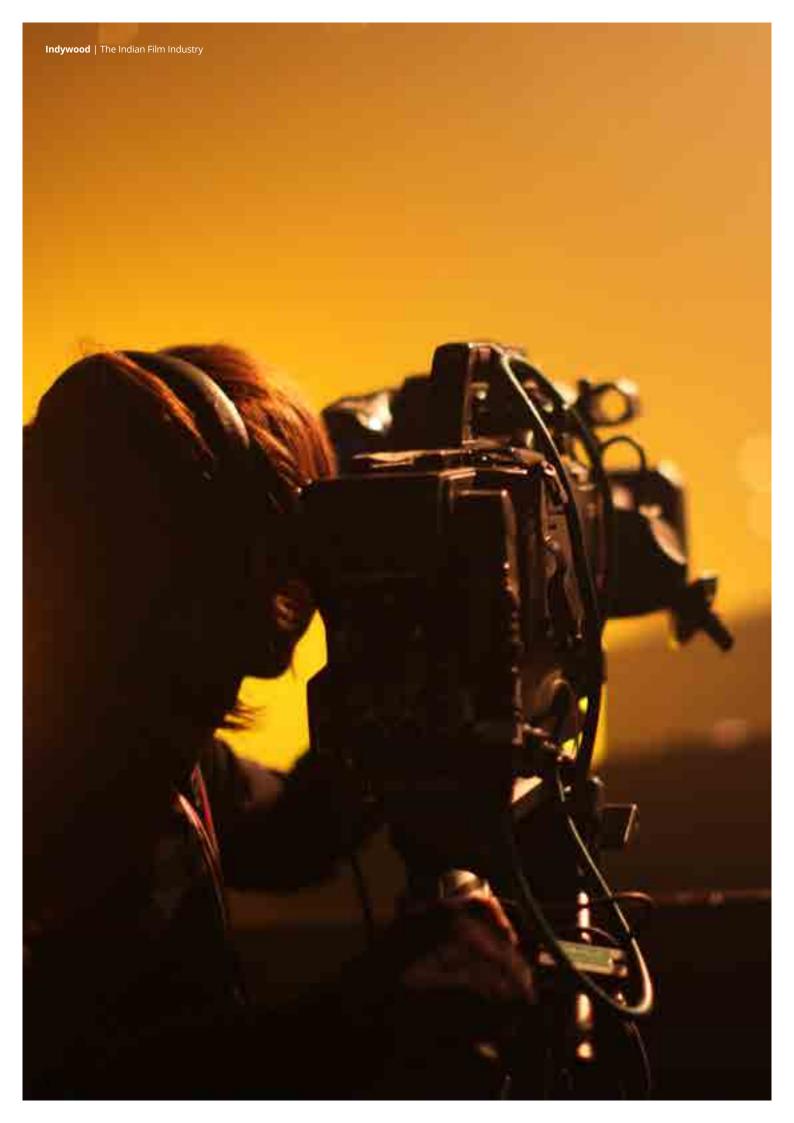
Make in India initiative. Till now, several steps have been taken in the sector to improve investments and increase business opportunities. The following steps, specific to the film segment, have been initiated under the campaign:

- A Film Facilitation Office has been established under the operatorship of the National Film Development Corporation (NFDC) for facilitation of film shooting in India and promotion of India as a destination for foreign production houses.
- Media and Entertainment Skills Council (MESC) is being promoted by Federation of Indian Chambers of Commerce and Industry (FICCI) with financial support by National Skill Development Corporation (NSDC) to create 1.2 million skilled workforce by 2022 in the media and entertainment sector across 74 job profiles.
- Additional film treaties are being explored by the Government of India, having recently entered into film treaties with China and South Korea, to not only avail film production benefits but also widen the reach of Indian cinema.

The Make in India campaign for the film sector aims at driving growth and creating employment opportunities in the sector as well as making India one of the leading film tourism destinations globally.







# India's Film Industry

#### **Industry Overview**

The Indian film industry is the largest in the world in terms of number of films produced with around 1,500 to 2,000 films produced every year in more than 20 languages. The industry also had the second highest footfalls in the world in 2015 (over 2.1 billion) following China (almost 2.2 billion). Despite the large number of films and theatre admissions, the industry continues to remain small with respect to other global industries in terms of revenue. In India, the film industries gross realization stands at \$2.1 billion versus gross realization of \$11 billion in the US and Canada which produces significantly lower number of films (approximately 700 films).1 This is mainly due to low ticket realizations and occupancy levels, lack of quality content, and rampant piracy.

Historically, the film industry in India has grown at a CAGR of over 10%. Currently, the film industry grosses total revenue of INR 138 billion (\$2.1 billion). Going forward, the industry is expected to grow at 11.5% year-on-year reaching total gross realization of INR 238 billion (\$3.7 billion) by 2020. The key growth drivers are expansion of multiplexes in smaller cities, investments by foreign studios in domestic and regional productions, growing popularity of niche movies, and the emergence of digital and ancillary revenue streams.

The domestic box office contributes to the majority of the revenue, representing 74% of the total industry. Cable and satellite rights and online/digital aggregation revenues are the fastest growing segments, and are expected to grow at a CAGR of about

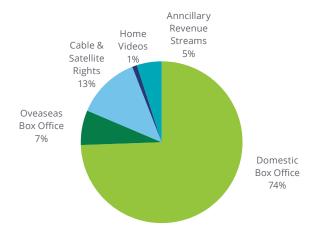
15% over the period FY15 – FY20, driven by rising demand for movies on TV and increasing smartphone penetration across the country respectively. On the other hand, home videos have been shrinking due to increasing piracy and growing popularity of digital platforms. Home video has lost share to Video on Demand (VOD) through Direct-to-home (DTH) operators and Over-the-top (OTT) platforms.

The Indian film industry is dominated by Bollywood, the Hindi film industry, contributing 43% of the revenue while regional and international films contribute the remaining 50% and 7% respectively. Within the regional film industry, Tamil and Telugu are the largest segments comprising approximately 36% of net box office revenues followed by Bengali,

Figure 1: Film Industry Revenues (INR billion)



Figure 2: Category-wise Break-up of Revenue



Source: Deloitte Report - Economic Contribution of the Indian Motion Picture and Television Industry

Kannada, and Malayalam films. Currently, international films is a small, but growing segment, driven by rising numbers of English and other foreign language speakers, as well as rising numbers of international movies witnessing dubbed releases across the country.

#### **Key Trends in the Indian Film Industry**

#### 1. Film Production Segmen

#### International/foreign films gaining share in the Indian industry:

International films is a growing segment in the Indian film industry, having increased its box office share from almost 5% a few years ago to approximately 7% today. This is mainly due to:

- Dubbing of international films in regional languages: The number of foreign films dubbed into Indian languages has doubled over the past 5 years. These films are being dubbed into Hindi, Tamil, and Telugu which has helped them reach audiences beyond Tier 1 cities.
- Rise of multiplexes: Multiplexes have witnessed significant growth across major Indian cities and continued penetration in smaller towns. Investments in multiplexes is mainly driven by improved per-ticket

realization, rising urbanization, and growing disposable incomes.

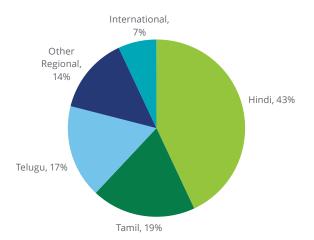
Entry of international studios through acquisitions and collaborations: Several international film studios such as Warner Bros., Disney, Fox, and Dreamworks have not only set up distribution houses in India, but have also entered into partnerships with local film production houses through acquisitions and co-production agreements. For example:

- Walt Disney acquired a 50% stake in UTV and now has a controlling stake in UTV Software Communications.
- Viacom18, a JV between Viacom and Network 18, was the first studio model based production house. Viacom18 engages in production, syndication, marketing, and worldwide film distribution.

Additionally, a key example of collaboration has been Fox Star joining hands with Dharma Productions in a deal worth INR 5,000 million. Fox has produced almost 30 Bollywood films, as well as a few Tamil and Malayalam language films.

Local film production can leverage the experience of these international studios to expand their international reach and incorporate enhanced project planning and cost controls.

Figure 3: Box Office Revenue Split by Language



 $Source: Deloitte\ Report\ -\ Economic\ Contribution\ of\ the\ Indian\ Motion\ Picture\ and\ Television\ Industry$ 





Rise of regional cinema: While mainstream Bollywood dominates the Indian film industry, regional cinema has been witnessing a surge in investments from major film studios to tap the potential of underpenetrated markets. Large national producers such as Reliance Entertainment, Eros, Disney, Viacom 18 Motion Pictures, Fox Star Studios as well as independent producers like Emmay Entertainment (Nikhil Advani), Akshay Kumar, and Grazing Goat Productions plan to spend 20% of their annual budgets on regional cinema. This is not only due to the relatively untapped nature of the market but also because of cheaper cost of production of regional movies. The average cost of producing a commercial Hindi film is INR 150 million versus a cost of INR 40 million for a Marathi or Punjabi film.

- South Indian film industry is very vibrant with revenue expected to grow at a CAGR of 12% reaching over INR 42 billion over by 2017. This segment is dominated by Tamil and Telugu films (90%) with 365 films released in 2015. However, the profitability of these films has been low with only 30% recovering production costs.<sup>2</sup> While big budget films continue to account for a large share of revenue (approximately 40%), smaller budget films with strong content have been gaining popularity. Further, Tamil and Telegu films have started to gain nation-wide and international popularity
- Malayalam film industry has witnessed high growth and profitability driven by strong content and large audience in 2015. Over 140 films were released during the year in Malayalam. High profitability was demonstrated by films with good content making over INR 500 million at the box office over movie budgets of INR 120–150 million.
- Bengali film industry has seen a slump in the recent years as poor content, shift of audience to English and Hindi cinema, and lack of infrastructure became growing challenges in the sector. Single screen theatres have been successively

<sup>2</sup>Deloitte FICCI Report: The Digital March Media and Entertainment in South India

shutting down in the state with over 100 screens closed in the last one and a half years.

- Marathi film industry has re-emerged over the last few years owing to strong content, lower budgets, and government support. The segment has shown 40–45% growth in 2015 reaching INR 1.5 billion in revenue. The state government has bolstered sector growth through mandating screening of at least one show of a Marathi film in a multiplex.
- Gujarati film industry is showing indications of coming out of a long slump due to production of urban centric films and higher investments in the sector. There has been a considerable jump in box office collections reaching INR 550 million last year from INR 70 million in 2014.
- Punjabi film industry experienced a strong growth of 15–20% over the previous year.

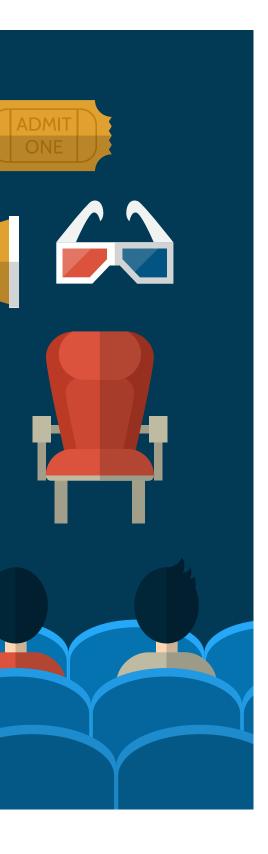
#### 2. Marketing, Distribution and Exhibition

# **Digital adoption across the value chain:** Real Image and UFO Moviez have facilitated the digitization of movies enabling wider distribution of films across

various regions and curbing piracy. Key benefits of digitization can be witnessed across the value chain:

• Film makers: Digital printing costs 80% less than conventional printing which allows producers to scale up to 5 times the number of screens than originally in the same budget. Due to this, digitization has enabled the penetration of content to smaller cities and towns. In the current scenario, over 60% of box office collections are realized in the first week of a movie's release. Increased penetration, simultaneous release across theatres, and front-ending of revenue has resulted in a drastic increase in number of films





generating over INR 1 billion in box office revenues.

- Distributors and exhibitors: Digitization of content has resulted in the reduction of costs of physical transportation and print manufacturing. Digital content is delivered by way of satellite or hard drive adding convenience and cost effectiveness to the process. Nearly all theatres have adopted digital technology resulting in shift from large-sized projection systems to smaller and more efficient digital projection systems. Although digital projection systems have a heavy initial investment, the running costs as opposed to analog are minimal.
- Consumers: Digital projection in the cinemas has superior quality of images which are not subject to deterioration with the passage of time. It has also given viewers access to technologies such as VFX, animation, and 3D films.

Digital cinema has also helped in addressing piracy as well. With the advent of digital technologies, piracy of films and songs has decreased tremendously. With digital distribution, movies are released on the same day in all places and checks can be kept on where movies are showing and how many times they are screened, resulting in reduction in the scope for piracy.

Organic and inorganic growth in multiplexes: Multiplexes have shown a growth rate of 15% in Indian cities, increasing from 925 in 2009 to 2,100 in 2015. Over 2,000 single screen cinemas have been shut down or converted to multiplexes in the last year mainly due to greater cost of operations (higher entertainment taxes, increase in distributors' share, and lower ticket prices), non-viability of running on a standalone basis and low occupancy rate. Multiplexes

Figure 4: Number of Movies Grossing over INR 1 billion



Source: Analyst Report - India Film Exhibition - Blockbuster year

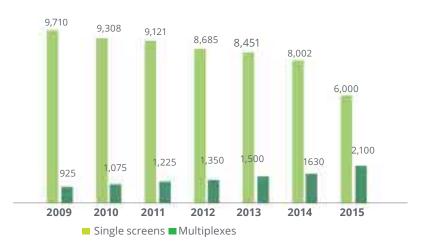
currently account for approximately 26% market share of the screens; however, they contribute more than 40% of box office collections. Wider content and programming flexibility result in higher occupancy and hence profitability of multiplexes. With comparison to growing economies, India has a low penetration of multiplexes with a potential to have almost 7,500–10,000 multiplex screens across the nation. Going forward, the key multiplex operators such as PVR, Inox, Cinepolis, and Carnival Cinemas have aggressive expansion plans in the coming three years.<sup>3</sup>

Industry leaders in the film exhibition segment have grown not only through organic screen additions, but also through acquisition of smaller regional multiplex chains and single screen players. Consolidation of the multiplex segment has resulted in the top four cinema operators (PVR, Inox, Carnival, and Cinepolis) controlling almost 70% of the market.

**Emergence of alternative streams of revenue:** Other sources of revenue have started to make an increasing contribution to the film industry realizations. In the last few years, the window available to monetize a film's revenues at the box office has shortened considerably. This is driving film studios to exploit ancillary streams of revenue such as the following:

• In-cinema advertising: In 2015, the in-cinema advertising revenues reached

Figure 5: Number of Screens in India



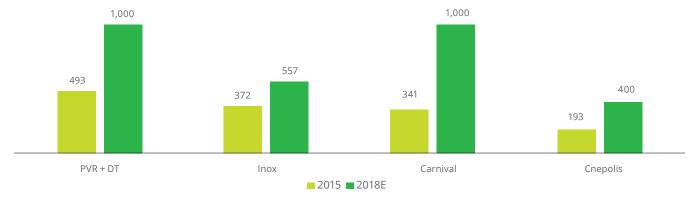
Source: INOX Investor Presentation February 2016

**Table 1: Consolidation in the Multiplex Segment** 

Acquirer	Target	Year	Number of Screens Acquired
PVR	DT	2015	39
Carnival	Glitz	2015	30
Carnival	Broadway	2014	10
Inox	Satyam (Delhi)	2014	38
Cinepolis	Fun Cinemas	2014	83
Carnival	Big Cinemas	2014	250
PVR	Cinemax	2012	135
Inox	Fame Cinemas	2011	95

Source: Business Standard<sup>4</sup>

Figure 6: Expansion plans of the top-four multiplex operators



Source: Analyst Report: India Film Exhibition – Blockbuster year

<sup>&</sup>lt;sup>3</sup>Source: Inox Investor Presentation, Feb 2016

 $<sup>{\</sup>it http://www.business-standard.com/article/companies/coming-soon-multiplex-boom-across-india-115021101507\_1.html}$ 



approximately INR 6.3 billion exhibiting a 28% growth over the previous year. This is mainly due to increased digitization of ads, shift from public sector advertising to corporate advertising, and higher ad durations in multiplexes. Going forward, ad revenues are expected to grow at 18-20% over FY16-20 and play an important role in growth of revenues.

 Video on Demand (VOD): While ondemand services for video and audio form a small segment of the industry (less than 5%), it is at the inflection point in India. With the growing mobile and internet segment, an ecosystem around these services has developed with content providers, aggregators, distribution channels, technology platforms, advertising platforms, payment channels and marketing channels.  Mobile and online platforms: Revenue from new media, including mobile and online rights, is expected to increase with the high penetration and accessibility of 3G services by mobile operators. Further, film production houses can reduce their dependence on theatrical performance by monetizing content through gaming on mobile and online platforms.

#### **Growth Drivers and Opportunities**

Increasing per capita income and growing middle class: India's per capita income has shown a steady increase in the last few years and is expected to reach INR 100,000 (equivalent of \$1,500) by FY17 on the back of a growing middle class which has grown by 150% since 2000 (versus 70% increase in Asia Pacific).<sup>5</sup> By 2020, the Indian average household income is expected to reach \$18,500 from \$8,000

currently exhibiting a 2x increase with a corresponding middle class of over 90 million people.<sup>6</sup> This level of median household income will drive discretionary spending on leisure and entertainment. As a consequence, the film sector has huge potential in India with rapidly growing demand and increasing footfalls.

Further, India has around 500 million unique mobile users which is likely to become 1.3 billion by 2020. Currently, around 200 million have access to internet and this number is set to increase with the introduction of 4G services. The proliferation of internet and smart phone usage has opened up a new platform for film distribution and viewing.

#### Demand from Tier 1 and Tier 2 cities: In

the recent years, there has been a change in the outlook of investors regarding future prospects, with the focus shifting from the national to regional markets. As the Tier 1 cities near saturation, growth of the film sector is expected to be driven by the Tier 2 and Tier 3 cities:

- Production of regional films: The demand for films in non-metro cities with distinct cultures, languages and content preferences is a rapidly growing segment. This represents huge markets within markets and provide a variety of opportunities to deliver localized and regional content. While many global film studios have already entered regional markets and are producing regional language content, this is expected to be a key growth driver going forward.
- Addition of screens: Currently, screen distribution is largely skewed to Mumbai and Delhi/Uttar Pradesh which account for 60% of the box office collection of films. However, the next wave of expansion of screens is expected to be driven by the Tier 2 and Tier 3 cities as

mall development in Tier 1 cities has reached saturation point. At present, only 25% of malls are located in smaller cities and retail attractiveness of Tier 1 cities has been stagnant. Smaller cities and towns offer large and inexpensive spaces for infrastructure development with rising disposable income making them attractive for investments. Further, there are many small cities and towns that have an appetite for cinema consumption, but are still virgin pockets for multiplexes. Over 50% of screen additions in FY15 by Inox and PVR has been in Tier 2 and 3 cities.<sup>7</sup>

#### **Diversifying into international**

markets: While domestic markets provide the Indian film sector with steady growth, diversifying to international markets can provide a large upside in demand as well as revenue. For example, Hollywood currently derives almost two-thirds of its revenue from overseas market versus 15% overseas revenue collected by the Indian film industry. Since only few international markets have an established film sector, Indian production houses are well positioned to tap the domestic demand in these regions. This can be realised through forming collaborations with local studios and talent for distribution of dubbed movies, co-production of local and international films. For example, Eros tied-up with three Chinese film and entertainment companies in May 2015 to co-produce, distribute and promote Sino-Indian films in both countries.8

#### Releasing the potential of digitization:

Going forward, digitization is expected to increase with digital becoming an independent revenue stream, rather than part of a bundle, and the entry of more international players in the film industry. Digital revenues are expected to grow significantly owing to the rapid

development of the digital channel. This shift towards digital is expected in turn to give a thrust to the small budgeted good content films which can then be monetised through personal devices. Further, digitisation can result in creation of new release windows by enabling studios to explore release of films through various platforms with differentiated prices to consumers. Films are now available for home theatrical screening the day of release and pay-per-view, with DTH, digital cable and Internet Protocol television (IPTV) distributors at prices as low as INR 50 per screening.

#### Upside from ancillary revenue

streams: : Apart from the box office revenues, ancillary revenue streams can provide an increasing share of the film revenues driven by digitisation, onset of next generation networks and availability of sophisticated devices to access media. Releasing the potential of these revenue streams can provide a large upside to the theatre related income. For example, Star Wars grossed total revenues of \$42 billion while only \$7.3 billion (approximately 17%) came from box office revenues. Home sales entertainment, toys and merchandise and video games where the largest contributors with \$5.7 billion, \$17 billion and \$4.3 billion respectively.

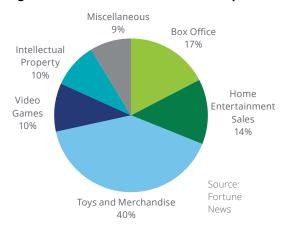
Some ancillary sources of revenue that can be explored in the Indian film industry are as follows:

 Merchandising: While merchandising currently contributes miniscule amount of revenue, it has immense potential with the development of Indian movie franchise and strong content. In order to drive this stream of revenue, films require strong story lines, relatable characters, and innovative ways of engaging with the audience. For example, Ra.One was

<sup>&</sup>lt;sup>6</sup>Top 5 Emerging Markets with the Best Middle Class Potential, Media and Entertainment (M&E) Industry: The Sunrise Sector Of India <sup>7</sup>Analyst Report – India Film Exhibition

<sup>&</sup>lt;sup>8</sup>Eros International Announces Deal with Major Chinese Film and Entertainment Companies

Figure 7: Star Wars Franchise- Revenue Split



one of the first Indian film to be launched with an overall campaign. It had over 25 brands associated with the film covering merchandising, licensing, publishing, video games, board games and figurines.

- Licensing content for games and mobile apps: Consumption of media and entertainment related mobile content, such as songs, games and mobile themes, accounts for almost 30% of overall VAS revenues in India. Developing bandwidth-light games and apps that engage consumers can significantly increase recall and add value to the movie brand while bringing in additional revenues.
- Web-based home entertainment: The home movies market had been steadily declining over the last few years owing to relatively high pricing and piracy. This has led to large repositories of movies being underutilised after release. With the proliferation of 4G and broadband services, the home entertainment can be revived through online delivery of movies over PCs, mobile phones and tablets. To fully capture this segment, there is a need to develop effective distribution channels and invest in digitising and meta-tagging content for digital delivery.

#### Upcoming use of Visual Effects (VFX)

**in movies:** VFX involves the creation of live action imagery by using computergenerated effects. It is being increasingly

used by the visual media in India in three categories, i.e., movies, TV shows and advertisements. In India, the VFX segment is currently in its nascent stages with low domestic consumption; most of the work comes from outsourced projects from the USA and the UK. However, with viewers becoming increasingly sophisticated, the domestic market is seeing bigger budget movies and ad campaigns leading to a rise in VFX spend. Currently, India has nearly 300 animation and 40 VFX studios, employing more than 10,000 professionals.

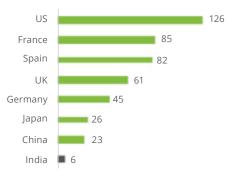
The film sector has been increasing its usage of VFX and visual effects is expected to play a bigger part in Indian cinema going forward. This can also be seen in the regional films where VFX is a growing trend; for example, the Marathi film Mitwa used a total of 325 VFX shots. In 2015, the Indian film industry saw a number of VFX heavy films such as Baahubali, Bajirao Mastani, I, Dilwale, Bombay Velvet, Bajrangi Bhaijaan, Baby, amongst others. The industry (including post-production) is expected to grow rapidly in the coming 5 years. However, the VFX industry is still inhibited by cost constraints and skill gaps in the country leading to slow adoption.

To tap into the growing VFX space, production houses in India are setting up their in-house VFX divisions. For example, Yash Raj Films (YRF) has commenced an independent VFX division, titled yFX, which released its first film in July 2016.<sup>9</sup>

#### **Key Challenges in the Industry**

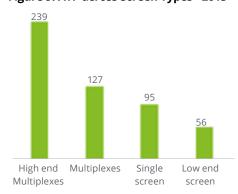
Low infrastructure penetration: While the Tier 1 cities and metros are reaching saturation, the Tier 2 and Tier 3 areas lack the required infrastructure such as malls, access to low-cost power, etc. This lack of availability of exhibition infrastructure is a key impediment for the growth of the sector. The addition of screens has not kept up with demand with increments of only 150-200 new screens per year. Further, India is severely behind the globe in screen penetration with 6 per million, versus 23 per million in China and 126 per million in the US.<sup>10</sup>

Figure 8: Screen Penetration (per million population)



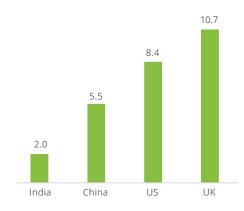
Source: PVR Investor Presentation, February 2016

Figure 9: ATP across Screen Types - 2015



Source: MOSL INOX Initiating Coverage

Figure 10: Global ATP Comparison - 2015



Source: Business Standard<sup>11</sup>

Single screen theatres have historically had low occupancy, low ticket realisations, and, hence, low profitability. This has led to shut down of single screen cinemas especially in small and rural towns which have experienced a decline from approximately 10,000 screens in 2009 to 6,000 currently. While multiplexes are being added in the Tier 2 and Tier 3 towns, the pace of additions is one-third of the pace at which the single screen theatres are shutting down. Without faster addition of screens, especially in small towns and rural areas, the growth of the film industry will be stunted. India needs to have at least 20,000 screens to fully realise the potential of films produced in the country.

#### Slow growth in average ticket price

(ATP): In India, the growth in ATP has been slow rising from INR 150-160 in 2011 to INR 175-200 in 2015, marking a CAGR of approximately 4%. This growth has been mainly driven by increase in multiplex screens, priced at more than 100% to single screens and rising number of 3D movies which continue to be priced at a premium of 15-20% over regular movies. ATP also varies regionally; for example, Tier 1 cities command an ATP of approximately INR 200 versus INR 160 and INR 100 in Tier 2 and Tier 3 cities. Meanwhile, the ATP in the US and China are \$8.4 (approximately INR 570) and \$5.5 (approximately INR 385) respectively. In order to improve performance of Indian cinemas, keeping in mind the average occupancy rate of 35%, ATP will have to drive towards global rates.

Complicated tax regime: Several levies, central as well as state, are charged in the media and entertainment industry with central levies being Central Excise duty, Customs duty and Service Tax and State levies being state-VAT and Entertainment tax. The Service Tax and state-VAT or one

of these taxes are applicable on program production, in-film placements, grant of various rights such as distribution rights, theatrical rights, cable and satellite rights, sale of airtime for advertisement purposes, recording/editing of program, sale/lease of program content, etc. These taxes are increasingly being disputed with authorities. Complications in taxation in the film industry have arisen due to interplay of multiple indirect taxes and frequent changes in taxation law and judicial rulings. Further, entertainment tax varies across states in India and is one of the rates levied globally. Recently, some states have granted exemption from entertainment tax for regional films to promote the sector.

#### **Rising costs and lack of access to funding:** The film sector in India suffers

from lack of access to funding across the value chain due to high tax rates and complex taxation.

• Film production is facing severe shortage of funds while costs are rising with only studios as a source of capital for most films. The biggest cost inflation factor is employment of talent, which can charge up to 40% of a film's budget, the highest globally, wherein the cost of talent does not exceed 15-20% of the film budget. Further, marketing costs of films have risen to 30-50% of a film's budget depending on the size of the film, from 15-25% in 2010.12 Costs have to be controlled through lowering of talent costs (hiring of younger stars and providing share of profits rather than upfront fee) and efficient marketing strategies (move towards social and digital platforms of marketing).

While the bank support has been extended to films after the industry status was accorded to the film sector in 2000,

<sup>&</sup>lt;sup>10</sup>PVR Investor Presentation, Feb 2016

<sup>11</sup>http://www.business-standard.com/article/companies/india-s-box-office-growth-runs-into-a-screen-problem-116011801209\_1.html

<sup>&</sup>lt;sup>12</sup>Film industry battles high costs and low revenues

**Table 2: Entertainment Tax across States** 

State	Entertainment Tax
Andhra Pradesh	20% (15% for Telugu Films)
Himachal Pradesh, Punjab	Nil
Bihar	50%
Delhi	40%
Gujarat	20%
Haryana	20%
Karnataka	30% (Nil for Kannada Films)
Kerala	30%
Maharashtra	45% (Nil for Marathi Films)
Tamil Nadu	15% (Nil for Tamil Films)
West Bengal	30% (2% for Bengali Films)

Source: Deloitte Analysis

the stringent norms for lending have resulted in difficulty in accessing capital. Especially affected are the small players and independent filmmakers which typically do not get access to bank finance. Further, while several film funds have been founded such as Third Eye, Cinema Capital Venture Fund, Vistaar Religare Film Fund, and Dar Capital, their success has been intermittent. This is mainly as investments are made in smaller productions which carry higher risk. 13 With the growing focus on content, improvement in scale, and corporatization of the industry, film funds to investing in Indian content may gain prominence going forward. For example, Bend It Media fund, with a corpus of INR 1.8 billion, has been launched to invest in Hollywood, Indian films and TV. Cinema Capital has been instated to invest INR 1.7 billion in Bollywood films and Indus Media Cinema fund has been recently created

to invest INR 3 billion in South Indian films and  ${\rm TV}^{14}$ 

• Exhibition: Several single screens in India are severely dilapidated and in need of maintenance. However, owing to low revenues and occupancy, investments on renovation are not feasible. This has been witnessed in the Bengali film industry which is suffering from lack of profitable and sustainable exhibition infrastructure resulting in shut down of several theatres.

The conversion of single screen cinemas to multiplexes is essential not only to increase the number of screens in India but also to improve the profitability of the sector. However, retrofitting or turning single screens into two or three screen multiplexes costs INR 4-7.5 million at the low-end to INR 10 million (non-metro) – 25 million (metro) per screen for three or more screen multiplexes. This process

of conversion has been stalled by lack of cash flow and access to funds by the single screen operators. Financing support can be provided through tax holidays for operators retrofitting their properties, allowing single screen owners to have extra floor space index that can then finance the retrofit, introducing a public private partnership model for conversion of single screens and access to government capital at lower interest rates.<sup>15</sup>

**Piracy:** Despite the ongoing digitization of the film industry, piracy continues to be a key issue resulting in industry losses of INR 190 billion a year. Over 150 sites thrive on piracy where content is stolen from Indian movies, quick copies are made and distributed globally. Nearly half of the 150 are from the US, followed by 11 from Canada, 9 from Panama and 6 from Pakistan. The top 100 sites make INR 35 billion (\$510 million) highlighting the extent of the issue.

The problem is exacerbated for regional films. For example, Baahubali, which had one of the highest budgets in the film industry, was pirated on the day of its release. About 1.6 million people downloaded the movie and another 1 million people watched it illegally through 1,500 links. Additionally, the Telugu film industry lost about INR 3.6 billion in 2015 due to online piracy through 18 million downloads or web streaming.<sup>16</sup>

<sup>&</sup>lt;sup>13</sup>India film funding: Bollywood bets

<sup>14</sup>This is for reel

<sup>&</sup>lt;sup>15</sup>India's box office growth runs into a screen problem

<sup>&</sup>lt;sup>16</sup>How online piracy 'industry' is a box-office wrecker

Multiple layers of bureaucracy: There is no single window to provide all clearances needed to shoot in India. Producers need to approach several institutions to understand the required permissions. At times filmmakers need to obtain over 70 permissions and licenses for a shoot in the country without any pre-defined turnaround time.<sup>17</sup> For example:

- Central clearances: Shooting of foreign feature films in India requires the prior approval of the Ministry of Information and Broadcasting (MIB) whereas in the case of a documentary, approval of the Ministry of External Affairs (MEA) is required. The script of the film has to be approved by the MIB which is a time consuming process; the Ministry may also depute a liaison officer to facilitate the shooting.
- Location specific permissions:
   Film makers require approvals from authorities in specific locations prior to shooting.
- Other approvals: Filmmakers also need to adhere to certain local laws of the region where shooting is to take place in India. The regulators may be various Municipalities and Municipal Corporations, associations of cinematographer, make-up, hair-dresser, etc., and state legislations.

Often, foreign producers are faced with unclear rules and regulations in terms of obtaining permissions making the process inefficient and expensive. However, the Indian film sector, along with the Government of India and various state governments, is revamping its approvals process as well as looking to incentivise local film making through the establishment of an India Film Commissions and the Film Facilitation Office. Both these initiatives have been recently announced as part of the Make in India campaign in the film sector.

#### Prevailing strict censorship norms:

The censoring of films by the Central Board of Film Certification (CBFC) prior to public screening in India is mandatory for filmmakers as per the provisions of the Cinematograph Act, 1952. In this process, films are viewed before public screening by CBFC which in turn takes a decision of whether or not it should be screened publicly as is, with restricted access, or with certain cuts and alterations. This has been a major impediment for the Indian film industry not only due to the extended time to monetization but also due to risk of reduction of good content.

As larger sections of the audience have become more receptive to films which tackle serious issues, filmmakers have become more experimental as they seek to make better content and progressive films. However, constant battles for certification without edits with CBFC are a dampener to the industry. For example, the CBFC demanded 89 edits in the recent movie, Udta Punjab, a film on the growing problem of drug addiction in Punjab. The ensuing legal battle has become a precedent for the industry and CBFC, as the Bombay High Court ruled in favour of Udta Punjab which

was released within 48 hours of the Court's decision.<sup>18</sup>

Further, several Hollywood films releasing in India are subject to edits prior to public screening. This leads to delays in public viewing and often discourages viewers in watching the movies in a cinema resulting in challenges to release Hollywood films in India. As a key growth segment in the Indian film sector, Hollywood films should be subject to minimal censorship and delays to capture the growing audience and potential of this segment.

**Table 3: Approvals Required for Film Shooting** 

Location	Relevant Authority
Sensitive areas of Jammu and Kashmir, North-east India or border belts	Ministry of Home Affairs
City/town/village	District Magistrate and Police authorities
Forest	State Forest Department
Historical Site	Archaeological Survey of India
Defence Area	Ministry of Defence
Airport	Airport Director
Railway station/Train	Railway Board and State Railway Zone

<sup>&</sup>lt;sup>17</sup>Deloitte Report: Single window clearance: Making India easier for filmmakers Way forward for Indian Film Commission

<sup>&</sup>lt;sup>18</sup>Udta Punjab, and Bollywood's battle with the censors

# Key Focus Areas for the Film Industry

**Film tourism:** A key untapped area in the Indian film sectors is promoting film tourism and encouraging global players to shoot and produce films locally (i.e., in India). India can offer various benefits to film makers such as scenic and diverse locations, cost-efficiency benefits, skilled yet inexpensive manpower, and local talent. Further, film tourism can result in a number of benefits to the country as well including:

- Promotion of tourism industry
- Boost to local film production
- Creation of employment
- Transfer of technology
- Inflow of foreign currency

For example, in 2014, the production of The Amazing Spider-Man 2 in New York

cost Sony Entertainment \$150 million. This further percolated into generation of \$44 million in wages to New York residents, \$4.5 million in taxes to the state, \$1.9 million for catering, \$4 million for site fees and \$5.7 million for hotels. Similarly, the recent production of Teenage Mutant Ninja Turtles by Paramount Pictures and Nickelodeon Movies was completed over 70 days in New York State resulting in a spend of over \$55 million in local economies, including \$30 million in wages and \$3.2 million in taxes paid to the state.<sup>19</sup>

**Skill enhancement:** Approximately 160,800 people are required by the film industry to produce 1,600 films in a year corresponding to a crew of 100-150 people per film. On the basis of an increase in the number of films expected to be released in the next few years, the resource requirement in the industry is expected to grow at 12% year on year reaching almost 250,000 by 2017. Majority of the resource requirement is for set crafts, acting and voiceover professionals and support staff.<sup>20</sup>

Although close to 200,000 people are employed by the film industry in India, close to 90% of the workforce has been

Figure 11: Employment in the Film Industry, 2013-17

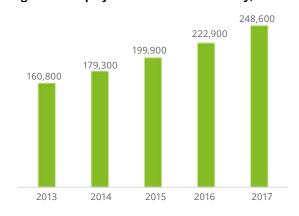
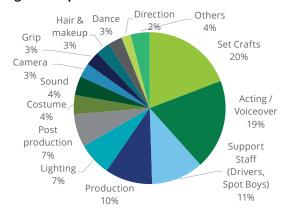


Figure 12: Split of Demand for Skill



Source: MESC Report: Skills Gap Study for the Media and Entertainment Sector

<sup>&</sup>lt;sup>19</sup>Benefits Of Film Tourism In Media By LA India Film Council Launched
<sup>20</sup>MESC Report: Skills Gap Study for the Media and Entertainment Sector

trained on the job rather than through formal trainings resulting in nonstandardised skill sets.<sup>21</sup> Even candidates recruited from media schools lack technical and practical training on how to apply theoretical concepts to live situations. With the increasingly technical nature of the industry, technicians will require to be formally trained in new and evolving technologies for Indian films to move to the next level. While film schools such as Satyajit Ray Film and Television Institute, Kolkata and Film and Television Institute of India, Pune exist, a concerted effort by the government and industry is required to develop skill in India.

Further development of formal training schools and high skill course will be imperative for the Indian film sector to come on par with the global industry. Collaboration with foreign film schools to set up specific courses in various aspects of film making can be explored.

Shortening window of release through better planning: Due to increasing digitization and expanding reach of movies, the window available to a film to monetize revenues at the box office has sharply reduced. During the opening weekend, distributors flood the market with prints in order to ramp up high revenues. In the current scenario, over 60% of box office collections are realized in the first week of a movie's release. As a result, focus needs to shift towards shortening of release windows and quick reach to audience across the nation to monetise film investments.

Further, Indian films face a long lead time in planning and execution of films. Better planning and management of film projects can help in bringing cost efficiencies and savings to the project as well as improving the bankability of the film. Planning at an early stage can also facilitate non-

traditional means of finance in the form of film incentives, brand finance, pre-sale based bridge finance and revenues through alternative sources pre-release amongst others.<sup>22</sup>

**Updating current technology:** The Indian film industry is behind the global industry in terms of adoption of new technologies and trends. Going forward, greater focus should be updating existing technology and embracing emerging technologies which are being deployed globally.

In the production segment, keeping up with new and emerging technologies can help the industry in unlocking new revenues, catering to the wider international markets, and adopting methods to prevent piracy. For example, uptake in production of 3D movies in Hollywood has generated higher returns for studios by allowing theatres to charge a premium to audiences and helped curb piracy by maintaining exclusive distribution to technology enabled theatres. 3D films usually generate about 66% higher revenues than 2D films resulting in more investments. The Indian film sector is considerably behind in production of 3D films with few successful films made in 3D. The first 3D film was made in India in 1984 called Chota Chetan. Following this, over 40 other 3D films have been developed which is significantly behind the global trend.

Further, adoption of emerging technologies and platforms for distribution can unlock new revenue channels. For example, the pay-per-view (PPV) market is an emerging source of revenue for the Indian film industry. Growth in PPV market is directly linked to the growth in the direct-to-home (DTH) segment. Through DTH service providers PPV films are available for a price of \$0.5 – 1. With all four metros and many others cities moving towards digitisation and DTH services, the demand for PPV films is expected to increase. This will lead

to increased competition for acquiring movie rights and a new revenue stream for film producers along with a channel to monetise older and archived films.<sup>23</sup>

**Countering piracy:** Piracy is a key issue plaguing the Indian film industry with large revenues being lost annually. Despite various efforts to arrest piracy, this remains a key issue requiring proactive measures being implemented by state governments through initiatives such as spreading awareness against piracy and the formation of anti-piracy cells as have been created by Tamil Nadu and Maharashtra. Further, since almost 67% of website services offering pirated version of Indian films are located abroad, the film industry is unable to take action. In order to counter this, state governments need to consider tie ups and bilateral agreement with the US. Such an agreement is being negotiated by the antipiracy wing of the Telugu Film Chamber of Commerce (TFCC) and the CID of Telangana police to coordinate with the authorities in the US and Europe.24

Adopting emerging encryption technologies to safeguard the film content in all stages of release and distribution is becoming imperative. Digital Compliant Digital Cinema Initiatives, LLC (DCI) was created in March, 2002, and is a joint venture of Disney, Fox, Paramount, Sony Pictures Entertainment, Universal and Warner Bros. Studios to establish and document voluntary specifications for an open architecture for digital cinema. A secured DCI Compliant distribution model can be established to ensure that the film content is safeguarded at every stage of its release process including certification, supplies to global distributors and Indian digital operators.<sup>25</sup>

Along with stricter legislation and repercussions for users of pirated content, there is also a need to create

<sup>&</sup>lt;sup>21</sup>Cinema is to be learnt

<sup>&</sup>lt;sup>22</sup>Film financing in India

<sup>&</sup>lt;sup>23</sup>IBEF Report: Corporatization of the Indian Film Industry

<sup>&</sup>lt;sup>24</sup>Telangana govt mulls deal with USA to curb film piracy

<sup>&</sup>lt;sup>25</sup>Guild Initiative To Curb Piracy Of Upcoming Film Dishoom

public awareness on the damage done by piracy and bust the common perception that piracy is a victimless crime. State governments and movie guilds should undertake initiatives to launch large scale campaigns and create awareness is all segments of society.

The following initiatives have been proposed by the MIB to counter piracy:<sup>26</sup>

- Dissemination of multi-media campaigns on piracy
- Training programmes and workshops to sensitize police, judicial, administrative officials, multiplex and cinema hall owners about the Copyright Act
- Research on the effects of piracy and formulation and implementation of public-private strategies to combat piracy
- Formation of a dedicated web portal
- Engaging with the Human Resource
   Department (HRD) to include anti-piracy
   awareness material in the curriculum of
   the schools and colleges

Growth of Multiplexes: India has a multiplex density of 6 multiplex screens per million people which is significantly lower than that of developed countries. Further, multiplexes account for only 15% of the total market share while the remaining is still controlled by single screen cinemas. In comparison, 90% of the screens in the US are multiplexes. In India, multiplexes are expected to gain significant market share going forward with expanding presence in Tier 2 and Tier 3 regions as well as the steady decline in single screen cinemas due to unfavourable economics. Further, India has a potential for 7,500 to 10,000 multiplex screens compared to the 2,100 currently established.<sup>27</sup> Given this, the share of multiplexes in total screens is expected to increase to 25% by 2018.28

A typical single screen theatre houses 700-1,000 seats compared with 100-250 seats per screen for a multiplex, hence, requiring

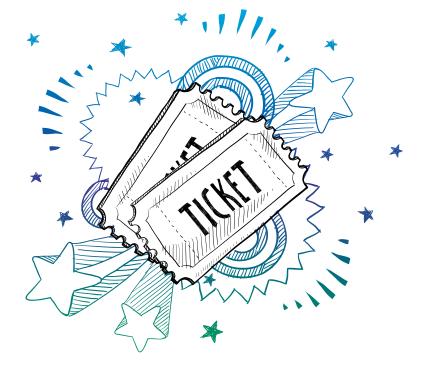
Table 4: Comparison of Multiplexes to Single Screen Cinemas<sup>28</sup>

Multiplex	Single Screen
2,100	6,000
250	750
5.5	5.0
27%	19.5%
271	1888
183	75
40%	60%
20%	2%
	2,100 250 5.5 27% 271 183 40%

higher occupancy rate to break even. Along with higher revenue share to distributors, low ticket prices, advertising revenue potential and limited food and beverage income make economics of single screen challenging. Multiplexes, on the other hand, have improved economics due to higher ticket prices, advertising revenue potential and food and beverage sales.

Retrofitting of existing single screen cinemas into two or three screen multiplexes can lead to a significant

addition of multiplexes in the country in a cost effective manner. Such retrofits cost about INR 400,000–750,000 at the lower end and can be encouraged through tax holidays/subsidies or allowing single screen owners to have extra floor space index to assist in financing. Conversion of 75% of the existing 6,000 single screens into two screen multiplexes can unlock revenues of INR 40 – 50 billion for the film industry through higher ATPs, occupancy rate and advertising and food and beverage revenues.<sup>29</sup>

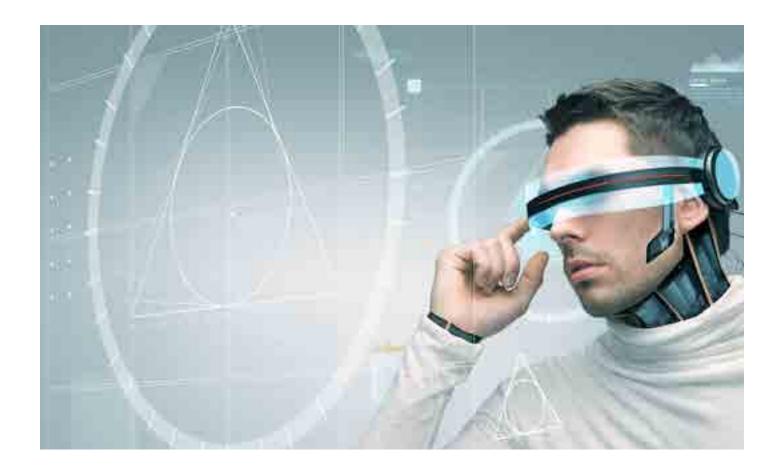


<sup>&</sup>lt;sup>26</sup>India at Cannes

<sup>&</sup>lt;sup>27</sup>Coming soon: Multiplex boom across India

<sup>&</sup>lt;sup>28</sup>PVR Ltd. – Analyst Reports

<sup>&</sup>lt;sup>29</sup>India's box office growth runs into a screen problem



# Technological Advancements in the Film Industry

#### **Global Scenario and Emerging Technologies**

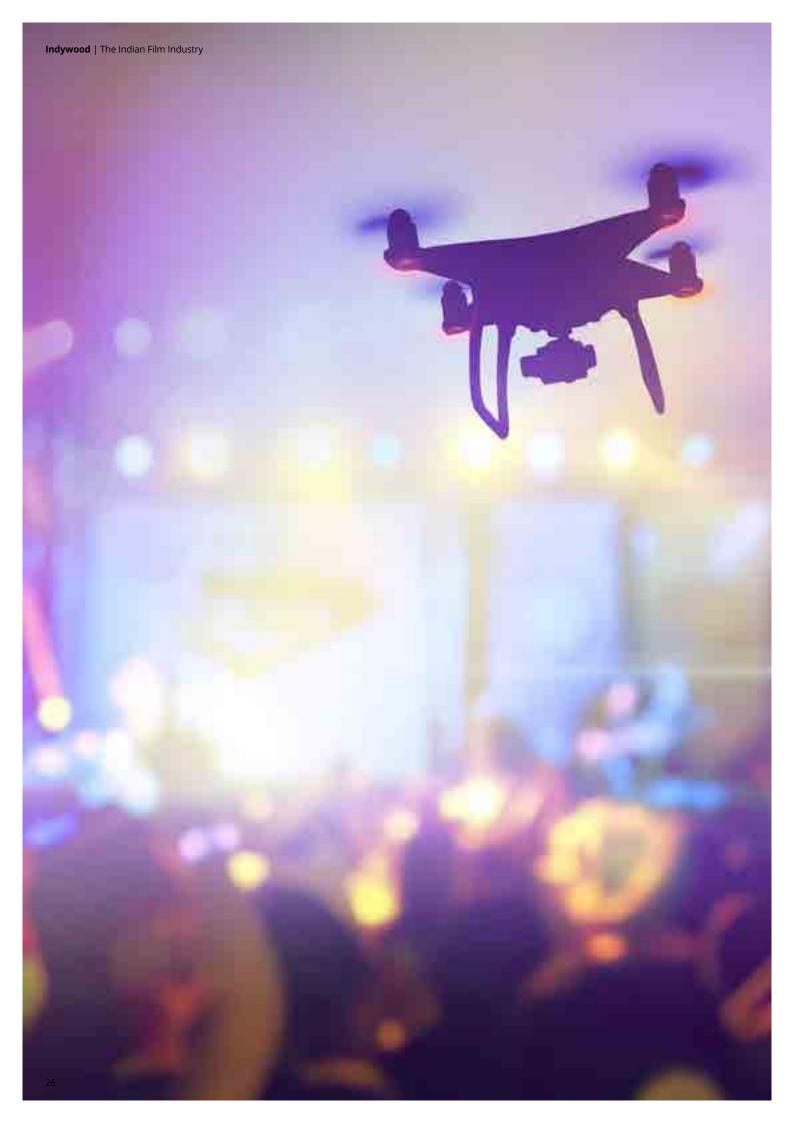
In the 120 years since its origin, the global movie industry has continuously developed and grown through technological advances. Both mechanical and digital innovationw s have influenced everything from equipment to exhibition, changing how films are made, edited, distributed, and consumed. The film sector has seen a flurry of technological advancements that have revolutionised the industry time and again such as 3D, green screens, IMAX, Computer Generated Images (CGI), digital filming and distribution,

etc. The world of cinema has remained ceaselessly dedicated to technological advances throughout time. With the recent proliferation of digital platforms and computer-based innovations, the film industry is continuously pushing the technological boundary even further. For example, 24 frames per second has been an industry standard, however, due to major advances in filming technologies, The Hobbit was the first movie made with 48 frames per second resulting in making of a more immersive and visually stunning film than ever before.

Figure 13: Evolution of the Film Industry

1907 Invention of The Dolly, i.e., placing camera on wheels to move along tracks for getting sweeping shots  1908 First movie to have a score specifically written for it (The Assassination of the Duke of Guise)	1925 Development of non-fiction films in Soviet Russia such as Battleship Potemkin and The Man with the Movie Camera  1926-27 Move from silent to sound films and black and white to colour Standardization of the Hollywood studio system The Jazz Singer first film with recorded dialogue and first musical	1946 First Film Festival in Cannes	1969 Start of recording onto memory cards and internal storage 1970 Tiger Child, first IMAX film demonstrated in Osaka, Japan	1982 Compact Disc commercially released 1986 First permanent IMAX 3D theatre built in Vancouver, Canada Steve Jobs acquires Graphics Group division of Lucasfilm - became Pixar Animation Studios for \$10 mn	2002 Blue-ray discs announced Russian Ark, the first single take film, 96-min long shot, using the steadicam 2006 Disney buys Pixar for \$7.4 bn 2007 RED One Camera enabling high quality digital films shoots
1900-20	1920-40	1940-60	1960-80	1980-2000	2000-15
1900-20	1920-40	1940-60	1900-80	1980-2000	2000-15
	1929 On with the Show first feature film in colour and sound 1932 First film festival in Venice 1939 Wizard of Oz first film the using Technicolour 1940 The Thief of Bagdad, first film to use Blue-Screen effect Fantasia first film with surround sound	1960 French New Wave films using lightweight / portable shooting equipment	1973 Computer- Generated Imagery (CGI)used in film Westworld 1975 Steven Sasson invents the digital camera	1995 DVD technology released Toy Story revolutionizes animated films with box office earnings of \$192 mn  1997 The introduction of HDCAM recorders and 1920x1080 pixel digital video cameras based on CCD technology	Nicon D90, first DSLR to film at 24 frames per second in HD video  Avatar, first full length movie with photo-realistic 3D characters and featuring a fully CG 3D photo-realistic world  2011 HMZ-T1 Sony personal HD & 3D viewer invented  The Hobbit released with 48 frames per second

Source: Public Report - The Evolution & Future of the Film Industry



Some of the upcoming technological advancements which can once again transform the industry are as follows:

Virtual Reality (VR): Virtual Reality is the next major innovation being explored and developed across Hollywood. VR is seen as a rich narrative platform for viewing of media and as a practical, time-saving pre-production tool. With the amount of concept art and design that is now created in digital 3D files, VR offers production designers a way of planning and designing a full set environment complete with props, before it's built. While the technology is still nascent, a number of developers, such as Oculus Story Studio, are working to build compelling VR cinema formats.

IMAX has announced its plans to team up with Google to build a virtual reality camera and to develop a "premium location-based virtual reality offering." Across cinemas, multiplexes and malls, IMAX will provide studio-quality VR experiences created by Hollywood filmmakers. Further, several filmmakers are exploring VR as a key opportunity due to its potential to change, engage and immerse the audience even further. For example, the Transformers director Michael Bay is in talks with IMAX about potential VR projects and Heather Wright, an executive producer at Aardman Animations, is currently working on an asyet unnamed VR project with the BBC.30

Further, the 2016 Cannes Film Festival featured the screenings of VR short films and presentations in a pavilion dedicated exclusively to VR. Amongst these was a 6 minutes VR film named "Invasion!" presented by Eric Darnell, the co-director of Madagascar and a short animated film "Allumette" produced by Penrose Studios. 31

**Drone shooting:** As drone technology has evolved, filmmakers have increasingly begun utilizing drones to capture difficult shots. Compared to the traditional usage of helicopters for aerial shots, drones

are safer, easier, and faster to set up and use, making them a popular tool among directors and cinematographers. Drones are also more economical, costing about one-fifth of the total helicopter expenses with a camera drone and crew costing almost \$5,000 a day, compared with at least \$25,000 a day for a helicopter shoot.<sup>32</sup> Drone technology is being increasingly used and has been embraced by bigbudget movies such as *Skyfall*, *The Wolf Of Wall Street, Mission Impossible 5*, etc.

In an effort to encourage the adoption of drones as innovative tools for filmmaking, several film festivals dedicated to films made with drones are coming up as platforms for aerial filmmakers to showcase their work. The largest ones are New York City Drone Film Festival, London Drone Film Festival, Flying Robot International Film Festival, and Rise of the Drones Film Festival amongst others.<sup>33</sup>

**3D printing:** In 1990s, CGI led to the emergence of virtual cinematography through the application of computer graphics to contribute to images in art, printed media, videos, and simulators. Similarly, 3D printing is set to transform film industry by enabling movie studios and special effects artists to use 3D printing to make concept models, and full-size props, set-pieces, and costumes. This technology can achieve sophisticated

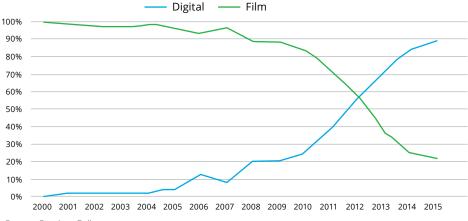
levels of detail, print size and finish leading to props departments on big productions embracing the flexibility and efficiency of 3D printing. The computer-generated designs are brought to life through 3D printing, bringing fantasy just that much closer to reality.

For example, Propshop, a production company at Pinewood Studios produced set pieces for many films from 3D printing such as the night vision goggles in Zero Dark Thirty, full-scale tank exterior for an action set-piece in Fast and Furious 6, and the canopy of Peter Quill's spaceship in Guardians of the Galaxy.<sup>34</sup>

#### Digital platform for filming versus film:

Historically, film has been the preferred technology for filmmaking. However, this trend has been moving towards more digital adoption for shooting. Shooting in digital can be more economical and easier as it enables shooting multiple takes, minimal retakes, and capturing multiple angles. Further, with the rest of the movie making process being almost entirely digital including editing, distribution and exhibition, digital footage is a lot easier and quicker to work with. Currently, movies shot on film are scanned into a digital intermediate for editing and distribution. This stage can be skipped entirely if the film is shot in digital thus saving costs on conversion and improving quality through editing.

Figure 14: Shooting Format for top 100 US Grossing Films



Source: Stephen Follows

<sup>&</sup>lt;sup>30</sup>Is Virtual Reality The Future Of Film?

<sup>&</sup>lt;sup>31</sup>VR at Cannes: How Will Virtual Reality Change Film?

<sup>&</sup>lt;sup>32</sup>Drones are providing film and TV viewers a new perspective on the action

<sup>&</sup>lt;sup>33</sup>Comprehensive list of film festivals

<sup>34</sup>Five ways film-making is evolving thanks to new technology

#### India - Current Status of Film Technology

The origins of Indian cinema can be traced back to 1986, with the French Lumière Brothers hosting a screening of their work in the Mumbai Watson Hotel. This led to a series of potential Indian filmmakers experimenting with techniques and technologies leading to the making of the first Indian short film in 1898. However, the first Indian movie (Shree Pundalik) was screened in 1912 with the help of British cinematographers, equipment and processing. A year later the first film fully directed and developed in India, Dadasaheb Phalke's Raja Harishchandra, was screened giving birth to Indian cinema.35

Since then, the Indian film sector has adopted a host of technological advancements being used by the global industry. The evolution of the Indian film industry through the adoption of technology can be seen in visual effects based films such as Krrish, Enthiran, Eega and Ra. One amongst others. The endeavour has been to improve storytelling, scriptwriting, and special effects skills to new frontiers that can be recognised and appreciated by an audience within and extending beyond Indian borders. Historically, adoption of established technologies across the film value chain has resulted in a boosting of box office sales, wider distribution, and cost efficiencies. However, the Indian sector is still far behind the global scenario in terms of innovation and adoption of forefront technologies.

Of late, technology transfers in India have happened through polycentric innovation wherein Indian films utilized globally available innovation, technology and creativity to co-develop radically new products, processes, and business models. For example, Enthiran (2010), was produced by Chennai based Sun Pictures with an international crew and globally distributed by HBO. The movie

featured King Fu Style fight scenes choreographed by Hong Kong legend Yuen Woo-ping, animation and special effects by Stan Winston Studio, costume designs by Mary E. Vogt (The Matrix; Men in Black). The movie pioneered in blending eastern talent with western technology and experience. This has been further improved on by Ra.One which involved a movie crew of 5,000 members drawn from India, Italy, and the US put together by more than 1,000 people working in around 15 prime studio rooms across the world. The movie was converted into 3D by Prime Focus which had earlier worked on 3D format movies like The Chronicles of Narnia and Transformers. International special effects specialist, Jeffrey Kleiser, led a team of 750 technicians to supervise special effects of Ra.One resulting in a truly global production. Such efforts have been instrumental in transfer of key technologies to the Indian industry and also in upgrading the skillset of local technicians. Acquisition of the innovation and skills can be deployed readily in the Indian and global film industry.36

With the advent and adoption of digital technology in India, key technologies are being developed locally to keep up with the global film industry.

Visual Effects (VFX): Over the years, the Indian VFX industry has been growing and transforming rapidly. Studios have been upgrading their technology and reinventing techniques, through their experience on outsourced work from Hollywood which is now being deployed within the Indian film sector as filmmakers are aligning VFX as an integral part of storytelling. For example, VFX was used in over 90% of the scenes in the movie Baahubali-The Beginning, released in 2015. Out of the total production cost of INR 3 billion spent on Baahubali, INR 850 million were spent on VFX. VFX was also used as an important tool in several major films such as Bajirao Mastani, Hawaizaade, Detective Byomkesh Bakshi, Bombay Velvet, and Bajrangi Bhaijaan. Further, with regional

and mainstream Hindi cinema taking up more VFX centric films, the industry is at the inflection point of growth. The budget allocation to Indian films to VFX is expected to increase from 10–15% currently to 30–35% in the coming years.<sup>37</sup>

In line with the increasing demand for VFX, the technology has also been evolving in India. Currently, there are more than 40 major domestic VFX companies in India catering to domestic and international clients. Several studios, such as Reliance MediaWorks, Prime Focus, Tata Elxsi and Pixion, have been successful in establishing a strong footprint in international VFX markets. This growing presence on Indian studios in the global market has enabled transfer of technologies and skills into the domestic industry. This has resulted in the Indian industry moving up the value chain in terms of quality of work conducted locally and adoption of technologies. Further, in an endeavour to move closer to the global innovation in the sector, Indian studios are looking to acquire or merge with Hollywood VFX studios similar to the recent merger of Prime Focus with Double Negative (DNeg) to create the world's largest independent VFX, stereo conversion and animation company serving the Hollywood film industry.38

Indian films in 3D format: Technology for converting 2D to 3D films is being developed by studios which have increasingly taken to outsourcing these conversions. Prime Focus has become a market leader in end to end 2D to 3D conversion having worked on the recent largest Hollywood movies such as The Legend of Tarzan, Captain America: Civil War, X-Men Apocalypse, and Teenage Mutant Ninja Turtles: Out of the Shadows amongst others.

While this technology exists within India, it is limitedly used in Indian films. Historically, this has been mainly due to local filmmakers claiming that theatres in India did not have the technology in place to screen 3D movies while theatre owners

<sup>&</sup>lt;sup>35</sup>A Cinema Like No Other: 100 Years of Bollywood

<sup>&</sup>lt;sup>36</sup>ISID Report: Bollywood on the Wings of Technology and its Contribution to Economy

<sup>&</sup>lt;sup>37</sup>Is Indian VFX on par with Hollywood?

<sup>38</sup> Prime Focus World and Double Negative Announce Merger



have been wary of limited 3D enabled content to warrant the investment required to make screens 3D enabled. However, the advent of Hollywood 3D movies in India has led to the proliferation of 3D screens and higher revenues from screenings resulting in an extensive exhibition platform for Indian 3D content. Further, film production costs increases by 35–40% if it is made in 3D without compromising on technical elements.<sup>39</sup>

Usage of drones for shooting: While usage of drones for shooting of aerial and action shots is becoming increasing common internationally, in India deployment of drones for film shootings is at a nascent stage. This has been stunted due to difficulty in obtaining experienced and well trained pilots to work with the cinematographers and special permissions required by the police department for flying drones above 400 meters. However, drones have been deployed in the movie Kick (2014) for shooting high action scenes where the director wanted a high impact that could not be captured by a zoom lens.40 Further, for the first time in regional cinema, drones were deployed for shooting of scenes in the Kannada film Aatagara. The action sequence in the film was shot from multiple angles using four cameras on the ground and three drones by a cinematographer and a team of technicians.41

#### Adoption of digital and VOD platforms:

The four big broadcasters in India, Star India, Sony Pictures Networks, Zee Entertainment Enterprises, and Viacom18, are now setting their sights on digital platforms for distribution of content. This has been heralded by the increasing smartphone penetration (expected to grow to 520 million by 2020) and the rise in broadband, 3G and 4G users across the

country. Still, India is under penetrated and largely dominated by single screen households leading to vast potential for VOD services. Establishing sustainable monetization model, subscription or advertising-led, which is suitable for the Indian audience is key for all VOD firms going forward.<sup>42</sup>

**Table 5: List of VOD Platforms in India** 

Company	Brand	Launch in India	<b>Business Model</b>
Yupp Communications	YuppTV	2006	Pay
Google	YouTube	2008	Ad based
PCCE-Vuclip	Viu	2008	Ad + pay
Media Matrix	nexGTV	2010	Pay
Zee Group	Ditto TV	2012	Pay
Multi-Screen Media	Sony Liv	2013	Ad based
Times Group	Box TV	2013	Ad + pay
Eros International	Eros Now	2014	Ad + pay
Spuul	Spuul	2014	Ad + pay
Star India	Hotstar	2015	Ad based
Sing Tel (with Warner and Sony)	Hooq	2015	pay
Netflix	Netflix	2016	pay
PressPlay TV	PressPlay	2016	Ad based
Network18	Voot	2016	Ad based
Balaji Telefilms	ATL Balaji	TBL 2016	pay

Source: Video on demand: India gets set or a big rush

Currently, the VOD platforms include Hotstar, Sony LIV, Ditto TV, Ozee, and Voot. Netflix, the world's leading internet media network with more than 70 million members in 190 countries, also entered India in 2016.

<sup>39</sup>Cinema's born-again avatar

<sup>&</sup>lt;sup>40</sup>Game of Drones

<sup>&</sup>lt;sup>41</sup>Drones used to shoot Kannada movie scene

<sup>&</sup>lt;sup>42</sup>Video-on-demand services set to explode in 2016

#### Initiatives to Encourage Technology Adoption in India

While the Indian film industry has been receptive to adoption of new technologies historically, wider deployment of emerging and cutting edge innovations has lagged behind the global industry. This has been due to various challenges faced by the industry which has hampered the entry of global players and development of technology locally. Key initiatives are required to assist the industry in deploying upcoming technologies, encouraging technology transfers, and developing new technologies in the country.

Strengthening of Intellectual property

(IP) in films: Over the years, the Indian film industry has realized the importance of IP in the work produced including prequels, sequels, remakes, copyright or trademarks. However, additional strengthening of IP in the film industry is required as the industry is still lagging far behind in defining and implementing a process whereby IP is developed and nurtured in a systematic manner and results in creation of an IP bank. Implementing a strict process of IP registration and protection right from pre-production to filming will encourage international studios to enter India, enter into JVs with local players, and co-produce films with domestic studios. This could enable transfer of emerging technologies used by global players and also lead to development of local skills.

Incentivise co-production of films with international studios: Several international studios such as Vaicom18, Walt Disney, and Sony Pictures have entered the Indian film industry to coproduce movies for the large domestic market. While some players that have formed alliances with local studies have

done well, others have had intermittent success. For example, Warner Bros. lost almost INR 300 million in its first venture, Chandni Chowk to China. This discouraged international studios, with cutting edge technology with low risk capital, from entering India. However, with the rapidly growing Indian film sector entry of several large players looking to enter this large market is expected.

In order to bring emerging technologies to the country, it is important to incentivise co-production of films with global studios, especially ones engaging in leading technology disruption such as VR/ augmented reality. Such incentives can range from tax breaks for co-produced films, cash rebates or provision of funding at lower rates. The government is looking at formulating methods to facilitate co-production and support the entry of foreign filmmakers.

**Development of technical skill:** India has emerged as a preferred destination for outsourcing of VFX and 3D conversion work. This is mainly due to the availability of low cost labour; however, there is a dearth of technicians with training in high technologies. Development of skill in emerging and cutting edge technologies would not only enable early adoption and deployment of new technologies but also position the country as a film service centre for the global industry.

There is a scarcity of formal training institutes for film and creative technologies in India. Currently, most of the personnel are trained on the job or self-trained. Establishing more institutes to impart film education is key to developing a standardised skill for films in India. Further, the institutes should explore instating specialised courses on key

emerging technologies such as VR, drone cinematography, 3D conversion amongst others through tie-ups with global schools developing of the likes American Film Institute (AFI), CalArts School of Film and Video, NYU Film School etc.

#### Financial incentives for studios and films deploying emerging technology:

Studios in India are usually faced with funding challenges which holds them back from developing, deploying or adopting expensive frontier technologies. In order to incentivise studios to explore emerging technologies, financial incentives such as tax holidays or recovery of development costs can be instated. This will not only provide studios with the required cash flow to develop technologies in-country but also encourage global production houses to set up shop here.

#### Funding support for conversion of 2D screens to 3D compliant screens:

In order to encourage wider adoption of 3D content in Indian filmmaking, it is important to ensure proliferation of 3D screens to monetize content. Currently, the cost of conversion from existing 2D screen to 3D compliant screens cost INR 1 million whereas the cost of building a new 3D screen is approximately INR 3-3.5 million. Government incentives to support funding of conversion of 2D to 3D screens should be explored including tax benefits and access to funding at low interest rates. Once the conversion is completed through funding support, theatre owners expect to quickly recover their investment given that 3D films are generating two to three times the revenue per theatre than the conventional format. This can enable the growth of 30–40% in 3D screens annually in India.

# Skill Development in the Film Industry

#### Film Education in India

With a population of over 1.5 billion people, India has one of the largest educational systems in the world and is the highest contributor to the global workforce with the working age population surpassing 950 million. Over the last two decades, the higher education system in India has transformed dramatically having created an additional capacity for 40 million students. The number of institutions imparting higher education has grown at a CAGR of 11% and student enrolment at a CAGR of 6% over the last 10 years, leading to a student population of over 70 million. However, despite the rapid growth, India's higher education has not emerged as a global leader with less than 25 Indian universities in the top 200. Further, focus on vocational training has been low with limited number of specialised institutions for imparting high skills in specific domains.43

The film sector also faces a dearth of specialised institutes that impart training and formal education in film technologies, higher skills and creative thinking. Majority of the workforce in the sector has been trained on the job or self-trained, leading to a lack of standardisation in process and techniques across the sector. Further, this has hampered the entry of new film technologies into India and also stunted the growth of the special effects segment

in moving up the value chain to higher end work. Thus, with technology entering every aspect of the film value chain, it is imperative that technicians need to be well trained in new technologies especially at the high end of the spectrum for Indian films to move to the next level.

Currently a number of initiatives to increase vocational training in the film sector have been undertaken:

- The Media and Entertainment Skills Council (MESC) is being promoted by the Federation of Indian Chambers of Commerce and Industry (FICCI) with financial support by National Skill Development Corporation (NSDC).
- The MESC has a mandate to create 1.2 million skilled workforce by 2022 in the media and entertainment sector across 74 job profiles.<sup>44</sup>
- Veteran actors and film makers are expected to collaborate with government institutions offering film courses by giving training lectures and holding workshops.
   MIB has received support offers from 120 actors, film makers, and technicians for this initiative, and is chalking out a plan to hold lectures every fortnight and workshops every semester. MIB also plans to use their consultation to improve the quality of government support offered to the Indian film industry.<sup>45</sup>



<sup>&</sup>lt;sup>43</sup>IBEF Education Sector in India

<sup>&</sup>lt;sup>44</sup>MESC Website

<sup>&</sup>lt;sup>45</sup>Film industry promises to be part of PM's Skill India; Javed Akhtar, Aamir Khan to pitch in



• Regional governments have initiated animation and VFX courses for enhanced technical skill development.

Further initiatives that can be explored to strengthen the training in the film segment include:

- Associations with global film schools to impart specialised courses in India. For example, the New York Film Academy has established a campus in Mumbai and aims to provide film education across various facets of the industry such as filmmaking, producing, digital editing, cinematography, screen writing, acting, etc.<sup>46</sup>
- Implementing mandatory internships as part of film courses to impart important on the job skills to students which can help build on theoretical know-how.
- Developing higher skill programs for shorter durations intended for seasoned professionals to enhance and refresh their skills as well as learn about emerging technologies.

#### Skill Development in VFX and Animation

With continuous in-flow of technologies and products, VFX is an ever evolving segment. Technicians and artists are often unable to keep up with the global trends and lack technical know-how on the latest developments in the VFX industry. In order to bring the Indian industry on par with global standards, it is imperative to train students and employees on new technologies and equip them with the required expertise.

In India, majority of the VFX work caters to outsourced projects from Hollywood and other international studios. Currently, India contributes about 10% to the global VFX and animation outsourcing industry. However, the VFX post-production work outsourced to India has historically been on the lower end such as wire removals and clean ups., The availability of local talent trained in higher skills becomes key as the industry moves to higher end

projects. Currently, artists with advanced VFX skills are in short supply in the industry.

In order to bridge the skill gaps, several government initiatives have been embarked to develop training facilities for animation and VFX:

- The Karnataka Government has come up with initiatives in the Karnataka AVGC (Animation Visual Effects and Gaming and Comics) Policy including setting up a Centre of Excellence for promoting AVGC education in the state.
- The Maharashtra Government has come up with a number of provisions in its Information Technology Enable Services Policy (ITES) to promote the AVGC sector and will be establishing a Centre of Excellence with state-of-the-art facilities.
- The Telangana Government has announced the opening of an incubation centre called IMAGE (Innovation in Multimedia, Animation, Gaming and Entertainment) in Hyderabad.

Further, private companies have also been trying to address the skill gap by opening training centres across the country. For example, Reliance Animation has established 21 training centres across all major cities in India<sup>47</sup>. More such specialized institutes are required to improve the skill sets of artists and drive the growth of the domestic industry.

Prime Focus is also looking to improve skill through end-to-end training of their employees. The company provides fresh graduates with opportunities to work along wide seasoned employees on large projects in order to pass on key skills and techniques. 48 Maya Digital Studios also started the Maya In Studio Training (MIST) in 2012 to provide advanced training programmes in animation, visual effects and 3D stereoscopy to students giving them opportunities to work on live projects and gain hands-on experience. 49

<sup>&</sup>lt;sup>46</sup>New York Film Academy website

<sup>&</sup>lt;sup>47</sup>Reliance Education website

<sup>&</sup>lt;sup>48</sup>Education trends in India's animation, visual effects and gaming verticals

<sup>&</sup>lt;sup>49</sup>Maya Digital Studios' first of its kinds 'In Studio Training' initiative

# Film Tourism in India

#### **Background and Global Perspective**

Across the world, films have been recognized as a powerful tool to promote and generate tourism in various locations. According to the Tourism Competitive Intelligence, more than 40 million international tourists per year choose their destination primarily because they saw a film shot in that country. Further, almost 5% tourism is inspired by movies leading to several countries vying for local production of films. Fuelled by the growth and reach of the media and entertainment sector and increase in international travel, film tourism is expected to be a growing phenomenon worldwide.

There are several examples demonstrating the impact that a film had on visitor numbers, either of a specific shoot site or more generally to the country in which the film was shot. The Sound of Music, a Hollywood classic shot in Salzburg, Austria still attracts over 300,000 visitors to Salzburg every year with 40,000 taking the official Sound of Music Tour even 50 years after the film's release. Similarly, New Zealand provided The Lord of the

Rings Trilogy with a \$150 million incentive program<sup>51</sup> which helped position the country as a prominent holiday destination for international tourists by showcasing the country's picturesque scenery and landscapes. Post release of the films, New Zealand experienced an increase of 40% in the average annual visitors and 17% increase in visitor spend.<sup>52</sup>

In order to promote film tourism, several countries across the world are providing film incentives to encourage shooting of foreign films in those countries. Typically, most countries offer tax sops in the form of VAT refund or tax exemptions for films that spend a certain percentage of the budget filming in a particular country and using local talent. Shooting of films locally not only result in driving tourism by showcasing travel destinations but also has a range of other benefits. It is estimated that a studio-based production can spend upwards of \$250,000 per day while a large international television commercial can generate local spending of up to \$1 million in less than two weeks.53

#### **Table 6: Benefits of Local Film Production**

#### **Creation of Employment Technology Transfers Promote the Local Film Revenues to Local Economy Industry** • Inflow of foreign exchange • Local technicians hired on film • Opportunity to showcase • Local industry gets exposure capabilities of the local film to new technologies and · Expenditure in the host industry which could result techniques country on hotels, logistics, • Employment of locals for in further collaboration and assistance on film production facilities, and leisure • Training of local talent on co-production latest technologies in the film • Revenues to local companies • Hiring local transport and sector for building sets, equipment logistic companies rentals, and other film related • Increase in hotel occupancy assistance

<sup>&</sup>lt;sup>50</sup>40 million tourists choose their destination primarily by movies or TV programs they've seen

<sup>&</sup>lt;sup>51</sup>Hollywood: World's most dramatic travel agent?

<sup>52</sup>Oxford Economics: The Economic Impact of the UK Film Industry

<sup>53</sup>India Needs Film Commissions to Attract More Foreign Shoots, Study Findsv

Figure 15: Film Tourism - Key Global Successes



Source: Deloitte Analysis

Recognizing various direct and indirect benefits of encouraging local film productions, several countries have started investing in film production incentive programs. These programs include both monetary and non-monetary benefits

and often result in increased employment opportunities, growth in direct and indirect taxes, increased tourism and development of film industry infrastructure. A comparison of incentives provided in select countries is as follows:

Australia <sup>54</sup>	Canada (British Columbia <sup>55</sup>	Ireland <sup>56</sup>	Italy <sup>57</sup>	Malaysia <sup>58</sup>
<ul> <li>Producer Offset provides a cash rebate of 40% on Qualifying Australian Production Expenditure (QAPE)</li> <li>Post, Digital and Visual Effects Production (PDV) offset provides 30% rebate on PDV QAPE</li> <li>Location offset provide 16.5% rebate on QAPE</li> </ul>	<ul> <li>Tax credit of 28% on qualifying British Columbia (BC) labour expenditure</li> <li>Digital Animation or Visual Effects (DAVE) Credit of 16% on DAVE labour</li> <li>Regional Tax Credit of 6% of qualifying labour when min 50% of principal shooting is in Vancouver</li> </ul>	Tax relief of 32% of eligible expenditure with a lower cap:  • Eligible expenditure  • 80% of total production cost  • EUR 50 mn (\$66 mn)	Tax credit up to 25% of qualifying production costs of foreign films with a cap of EUR 5 min per project (\$6.6 mn) or EUR 10 mn (\$11 mn) per company	Film in Malaysia Incentive Scheme (FIMI) gives 30% cash rebate on Qualifying Malaysian Production Expenditure (QMPE)
<ul> <li>Australian resident company</li> <li>Foreign company with permanent establishment in Australia</li> <li>Official Treaty Co- productions</li> </ul>	Canadian taxable production company with a permanent establishment in BC Company should have primary business in film or video production or provision of production services, broadcasting/cable Subsidiaries are eligible for credit	Producer company must be:  Be Irish resident or trading through a branch  Make film for cinema exhibition or broadcast  Be existent for at least 12 months and have filed corporation tax return  Not connected to a broadcaster	Italian Executive Producer Service Company that produce portions of films on commission from foreign production companies	<ul> <li>Foreign production companies filming in Malaysia or undertaking post production</li> <li>Co-production with a Malaysian film producer with majority foreign ownership</li> </ul>

- SPV for 1 film

<sup>&</sup>lt;sup>54</sup>Aus Film, Australia Government – Department of Arts & Communication, Screen Australia

<sup>55</sup> Canada Film Capital 56 Section 481 - Irish Film Board 57 Filming in Italy, Interlinea Film

<sup>&</sup>lt;sup>58</sup>Film in Malaysia

Australia <sup>54</sup>	Canada (British Columbia <sup>55</sup>	Ireland <sup>56</sup>	Italy <sup>57</sup>	Malaysia <sup>58</sup>
QAPE includes:	QPE include:	Eligible expenditure	Eligible expenses are:	QMPE includes:
Goods and services	• Wage expenditures	includes cost of all cast and crew and goods,	• Production costs till	• provided in Malaysia
provided in Australia	Service contract	services and facilities	master copy	• Land use in Malaysi
Crew cost for members remaining in Australia beyond 2 consecutive weeks     Minimum QAPE of AUD 500,000 (\$380,000) for feature films (net of GST) to qualify for PDV offset     Location offset for films with minimum QAPE of AUD 15 mn (\$11.4 mn)     Film should have     Significant Australian	expenditure  Tangible property expenses  Hotel, international travel expenses  Minimum production expenses of CAD 1 mn (\$0.7 mn)	purchased in Ireland Projects having eligible expenditure of at least EUR 125,000, or total cost of production of at least EUR 250,000 Must pass cultural test	<ul> <li>Financial and insurance expenses up to 7.5% of production cost</li> <li>Production staff costs up to 25% of total cost</li> <li>Overhead expenses up to 7.5% of production cost</li> <li>Eligible expenses to not exceed 60% of total budget</li> <li>All films must pass a cultural test</li> </ul>	Minimum QMPE required:  MYR 5 million (\$1.2 mn) for production (inclusive of post-production); or  MYR 1.5 million (\$370,000) for post-production
Content (SAC) to be eligible for rebate      Film must be released in Australia in commercial cinemas or through distribution/ broadcast channels	• NA	• NA	• NA	<ul> <li>Crew: At least 30% Malaysians</li> <li>Intern: Minimum number of interns based on production size:</li> <li>o \$5-15 mn — 3 Interns</li> </ul>
				o \$15-45 mn— 5 Interns o >\$45 mn — 7 Interns

Mauritius<sup>59</sup>

Spain<sup>60</sup>

					(New York) <sup>63</sup>
Sche 30% Qual Expe in Ma local	Rebate me provides rebate for ifying Production nditures incurred auritius for both and international hakers	International films produced in Spain eligible for 15% tax rebate on eligible costs with cap of EUR 2.5 mn (\$2.8 mn)  Rebate of 35% for productions based in Gran Canaria with a cap of EUR 4.5 mn (\$5 mn)	VAT refund on procurement and import of the goods and services purchased during film production	<ul> <li>25% cash rebate on UK qualifying film production expenditure</li> <li>Tax relief is capped at 80% of core expenditure</li> <li>No budget limit</li> </ul>	Film Production Credit of a 30% refundable tax credit on qualified expenses  30-35% post production tax credit for costs incurred in NY  Productions with budgets over \$500,000 receive additional 10% credit on qualified labour expenses from specific countries  Sales tax exemption to film production activities
comp in Ma those	production pany registered auritius including e with 100% gn ownership	Foreign producer along with Spanish production service company to manage production	All cinematographic works approved by the Ministry of Culture and Tourism	<ul> <li>Film Production Companies (FPCs) within the UK tax net</li> <li>Official Treaty Co- productions</li> </ul>	Production companies that film majority of the project in NY or post production work happens in NY

Turkey<sup>61</sup>

UK<sup>62</sup>

US

 <sup>&</sup>lt;sup>59</sup>Filming in Mauritius
 <sup>60</sup>European Film Commissions Network
 <sup>61</sup>Turkey Film Commission
 <sup>62</sup>British Film Commission
 <sup>62</sup>Empire State Development – Film Tax Credit Program

# **Eligibility for Benefits**

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Mauritius <sup>59</sup>	Spain <sup>60</sup>	Turkey <sup>61</sup>	UK <sup>62</sup>	US (New York) <sup>63</sup>
Qualifying Production Expenditures include:  Travel and accommodation  Ground transport and facility vehicle services  Labour costs  Production service company fees  Post productions services  Professional services (such as insurance, legal and accounting services)  Rental of equipment  Allied costs Minimum local qualifying spend of \$100,000 per project	Eligible expenses:  Creative staff costs from Spain or EU not exceeding EUR 50,000 (\$55,000) per head  Expenses for hiring technical companies and other service providers  Minimum investment of EUR 1 mn (\$1.1 mn) in Spain	Foreign film producers can file for VAT returns post duration of film shooting  • Submission of certified financial accountant (CFA) report following which VAT returns finalized in 30 days	Eligible expenditure is that incurred on preproduction, principal photography, post production within the UK and goods and services consumed in UK  Minimum of 10% of total costs must be spent on UK qualifying expenditure  Production must pass cultural test or qualify as an official co-production	Films with budgets of over \$15 mn and being produced by a company with more than 5% ownership by a public firm requires at least 10% of principal photography to be in a Qualified Production Facility (QPF) in NY or incur 75% of expenses related to work done at QPF
NA	Deduction plus the rest of subsidies obtained by taxpayer under this scheme cannot be more than 50% of total production cost	NA	Films must be intended for theatrical release	NA

#### Film Tourism in India: An Overview

Currently, India is gaining traction as a film shooting destination. After the success of India based movies such as Slumdog Millionaire, several international studios are increasingly considering shooting a large portion of their films in India. Some of the recent Hollywood movies shot in the country include Point Break, The Second Best Exotic Marigold Hotel, Million Dollar Arm, The Hundred Foot Journey, The Darjeeling Limited, Life of Pi, Mission Impossible IV, The Best Exotic Marigold Hotel, and Jobs. Factors promoting India as a prime location for film shooting include:

- Several attractive locations for shoots: India has various heritage and picturesque locations for shooting films of various genres. Different terrains including beaches, deserts, and mountain ranges as well as world renowned heritage sites such as the Taj Mahal provides the filmmaker with various options. The country also has innumerable unexplored locations that can provide new visual landscapes for shooting foreign films.
- Low cost labour: Talented crews to assist in filmmaking at a comparatively low cost are available locally in India. The country also has well developed post-production capabilities including VFX, 3D and animation which are currently being outsourced by major Hollywood films due to the significantly lower cost. Foreign film producers can create entire films from shooting to post-production at a considerable cost advantage locally. Making of foreign films with assistance from Indian film studios has historically lead to reduction of production costs by up to 15%.
- Film infrastructure availability: India has film production facilities across multiple cities called film cities. These facilities provide all infrastructure requisites for film producers including air-conditioned and soundproof shooting floors, custom-designed set locations, digital film processing labs, dubbing studios and other allied requirements. Major film

cities in India are the Mumbai Film City, the Ramoji Film City in Hyderabad, the MGR film City in Chennai, and the Noida film city in Delhi, NCR. The Ramoji Film City is the world's largest integrated film studio complex. Further, film studios and cities are being developed in popular film shooting destinations such as Goa, Vishakhapatnam, Mussoorie, etc.

However, foreign filmmakers still have to face long convoluted procedures to obtain clearances and shooting permits. Currently, about 70 approvals and licences from as many as 30 authorities are required for shooting films in India. Delays in the approvals process often results in filmmaker going to other destinations despite the cost advantage in the country. Due to hurdles in obtaining licenses, India has lost at least 18 big budget movies to other locations in the last 4 years. However, with the establishment of the Film Facilitation Office (FFO) and India Film Commission, simplification of procedures is to be expected along with considerable film shooting support and efficiency.

Further, there is considerable competition amongst countries to incentivise film productions locally. Foreign filmmakers are more inclined to shoot in destinations providing lucrative financial incentives as well as assistance with visas, licencing and application process and other on the ground requirements. In order to promote the shooting of foreign films in India, it is imperative to streamline the process of approvals as well as provide incentive packages to filmmakers.

## Recent initiatives to Improve Film Tourism

#### **Central Government Initiatives**

The Government of India has recognised the potential of films to promote tourism to various destinations in India. Recent initiatives to boost film production in India include:

 The Ministry of Tourism has formulated guidelines for extending Central Financial Assistance to States and Union Territories for promoting local shooting for films.

- In 2012, a Memorandum of Understanding was signed between the Ministry of Tourism and the MIB to promote Indian cinema under the 'Incredible India' campaign in international film festivals and larger global industry.
- The MIB has recently announced the formation of a Film Facilitation Office (FFO) to facilitate efficient approvals and improving the ease of shooting in India.
- Website for India Film Commission established to provide details of permissions required, film treaties, tax incentives, etc.<sup>64</sup>
- Film treaties have been signed with 11 countries including UK, Spain, Germany, China, Canada, New Zealand, Brazil, Italy, Germany, Poland, China, and, most recently, South Korea. The salient features of the film treaties are as follows:
  - o Co-productions get treated as national productions in both nations and can claim financial and other benefits available to films in either region.
  - Governments facilitate the temporary stay and entry of film personnel along with custom free export and import of equipment to ease film shooting.
  - Most film treaties mandate the shooting, production and post production of films in the coproduction countries; however, other locations can be used if required and approved.
  - o Film treaties require the employment of personnel from the co-production countries, unless otherwise approved.
  - o Minimum financial contribution is outlined in co-production treaties (mostly minimum contribution required in 20% of total film costs) and creative contribution is expected in line with the above split.

An overview of the treaties entered into by India is as follows:

Table 7: Film Treaties in India

Country	Date	Minimum financial	Finance only	Locatio	on of work	Provision for <ul><li>nationals</li></ul>	Third
		contribution project	projects permitted	Shooting	Post Production	from non-co- producing countries	party co- producers permitted
New Zealand	Oct-11	20% (Max 80%)	Yes	Shooting in other countries permitted if technicians from India and New Zealand employed	Co-production countries	Exceptional cases requiring approval for performers and technical personnel	Yes
Brazil	Jun-07	20% 10% of multilateral productions (max 70%)	Yes	Any location (on approval)	Co-production countries	small roles or additional employees from country of shooting permitted	Yes
Canada	Oct-05	20% (Ma x 80%)	No	Any location (on approval)	Co-production countries	Mutual consent required for third-party nationals	Yes
France	Dec-06	20% (Max 80%)	No	India or France Other shooting locations permitted if required on approval	Co-production countries	Film personnel to be from India, France or EU Participants from other countries may participate on approval	Yes
Germany	Feb-07	20% (Max 80%) 10% of multilateral productions (max 70%)	Yes	Not specified	Not specified	Film personnel to be from India or German  Participants from other countries inly in exceptional circumstances	Yes
Italy	May-05	20% (Max 80%)	No	Shooting in other countries permitted if technicians from India and Italy employed	Co-production countries	Film personnel to be from India or Italy Participants from other countries permitted in case of dire need	No

Country	Date	Minimum financial	Finance only	Locatio	on of work	Provision for nationals	Third party co-
		contribution pr	projects permitted	Shooting	Post Production	from non-co- producing countries	producers permitted
Poland	Jul-12	20% (Max 80%) 10% of multilateral	No	Shooting in other countries permitted if	Co-production countries	Film personnel to be from India or Poland	Yes
	productions (max 70%)		technicians from India and Poland employed		Participants from other countries on approval		
<b>Spain</b> Oct-12	Oct-12	multilateral	Yes (financial contribution between	0	Co-production countries	Film personnel to be from India or Spain	Yes (third party contribution
	(max 70%)	10% - 25%)	technicians from India and Spain employed		Participants from other countries on approval in exceptional circumstances	capped at 30%)	
UK Oct-0	Oct-08 20% Yes	Yes	Shooting in	Co-production	Film personnel	Yes	
		10% permissible (financial in some cases contribution between 10% - 25%)	other countries countries permitted on agreement		from India, the UK, EU or EEA unless agreed otherwise	Not greater than 4 co- producers	

Source: Individual Film Treaties

More recently, additional treaties have been signed with China and South Korea in September 2014 and May 2015 respectively.

Going forward, the Government is expected to increase the number of film treaties signed with foreign countries. Key film treaties with US and Australia would help in boosting the Indian film industry as well as developing skills in the local talent pool.<sup>65</sup>

#### **Regional Government Initiatives**

A number of states provide production and tax incentives to attract both domestic and foreign filmmakers to their region. An illustrative list of states along with the benefits provided is listed below:

#### **Table 8: Incentives and Initiatives by Regional Governments**

State	Monetary	Non-Monetary
State  Maharashtra  Gujarat	No tax for Marathi Films with additional tax	Tourism policy 2016 envisages:
	<ul><li>exemption subsidy of INR 1.5 million</li><li>Tax exemptions to single screens under</li></ul>	Simplification of procedures and Single window clearance mechanism for permissions
	Municipal Councils for 5 years and to those located in rural areas for 7 years	Online registry mechanism for various services related to the film industry
		• Creation of the Film Tourism Promotion Council under the aegis of 'Maharashtra Tourism'.
		• Familiarization tours for major production houses in India and across the globe for key tourist destinations in Maharashtra
		• Marketing support for films shot locally in global film festivals
		• Online portal for information on locations <sup>66</sup>
		Maharashtra Tourism Development Corporation (MTDC) rolled out a Bollywood tourism plan for guided tours of film studios and sets
ujarat	• 100% exemption from Entertainment Tax for Gujarati films	State Government has started a Single Window Clearance Desk to help filmmakers scout locations and provide logistic support
	<ul> <li>Gujarati Films to be graded out of 100 and be bucketed in 4 categories:</li> <li>81 or more points – A grade – INR 5 million or 75% of production cost whichever less</li> </ul>	<ul> <li>Presence of a dedicated web portal, international promotions, database of product facilities and hotels and emergency services<sup>68</sup></li> </ul>
	o 61-80 points – B grade – INR 2.5 million or 75% of production cost whichever less	
	o 51-60 points – C grade – INR 1 million or 75% of production cost whichever less	
	o 41-50 points – D grade – INR 0.5 million or 75% of production cost whichever less	
	o Children film and women empowerment related film will get additional 25% financial assistance	
	<ul> <li>Further assistance in range of INR 20–50 million given to the films that win awards, for example, for an Oscar assistance will be INR 50 million<sup>67</sup></li> </ul>	

<sup>&</sup>lt;sup>66</sup>Maharashtra Tourism Policy 2016

<sup>67</sup>Gujarat govt announces new policy for incentives to Gujarati films 68Gujarat named most film-friendly state

State	Monetary	Non-Monetary
Andhra Pradesh	7% concession on Entertainment Tax for low- budget Telugu films and 15% for high-budget ones	Earmarked 7% of Entertainment Tax collected to develop films and arts in the state
	<ul> <li>Andhra Pradesh Government's Animation, Media and Entertainment policy (2014–2019) offers reimbursement of INR 0.5 million lease rentals, power subsidies, etc., to makers of animation films</li> </ul>	
Tamil Nadu	100% entertainment tax exemption on films with Tamil names given U certificates	Established animation and visual effects studio, renovated dubbing theatres and constructed hostels in MGR Film City with an expenditure of INR 80 million
Uttar Pradesh	Subsidy limit of 50% for Braj, Awadhi, Bundeli, and Bhojpuri films and 25% for Hindi movies on production costs	Film Bandhu, Uttar Pradesh set up to provide all film production related requirements and acts as a nodal agency to promote film related activities
	<ul> <li>Maximum limit of INR 10 million for films with at least 50% of shooting days in UP</li> </ul>	• Film Development Fund set up for sanctioning subsidies to films produced in the state, scholarship to students, arrangement
	<ul> <li>Maximum limit of INR 20 million for films with at least two-third of shooting days in UP</li> </ul>	of film equipment, setting up of film training institutes, organisation of film festivals, financial assistance on film, etc.
	<ul> <li>If 5 main artist used in the film hail from UP, additional subsidy of amount paid as wages to the artist or INR 2.5 million (whichever is lower)</li> </ul>	• Film Development Council to be constituted to ensure long term development of the film sector in UP <sup>70</sup>
	<ul> <li>If all artist used in the film hail from UP, additional subsidy of amount paid as wages to the artist or INR 5 million (whichever is lower)</li> </ul>	
	<ul> <li>For carrying out post-production in UP, 50% of processing cost or INR 5 million, whichever is lower, to be given as subsidy</li> </ul>	
	<ul> <li>If the film captures tourist and heritage places in UP, an additional subsidy of INR 5 million provided</li> </ul>	
	• Hindi, Braj, Awadhi, Bundeli and Bhojpuri films produced in UP provided 100% Entertainment tax exemption <sup>69</sup>	

State	Monetary	Non-Monetary
West Bengal	• 2% Entertainment Tax on Bengali films	NA
	• Tax rates for Bengali, Nepali, and Santhali films reduced to 10% from 15%	
	<ul> <li>For new and renovated cinema halls, Entertainment Tax exemption for 3 years</li> </ul>	
	<ul> <li>Maximum incentive of INR 30 million in the form of subsidy for film makers executing post production processing at Cine Laboratory Complex<sup>71</sup></li> </ul>	
Rajasthan	• Exemption of 50% Entertainment Tax for films shoot at least 50% in Rajasthan <sup>72</sup>	NA
	<ul> <li>Films that are minimum 75% shot in Rajasthan and have U certificate are 100% exempted from Entertainment Tax for 1 year</li> </ul>	
	• New multiplex cinema halls receive Entertainment Tax subsidy for 3 years (75% of 1st year, 50% for 2nd year, 25% for 3rd year) <sup>73</sup>	
	Waiver of security deposit of INR 5 million for a one week schedule and INR 1 million per day beyond one week	
	<ul> <li>Waiver of processing charges of INR 15,000 per day for the first week and INR 10,000 a day beyond the first week</li> </ul>	
	• Waiver of application fee of INR 1,000 <sup>74</sup>	
Jammu & Kashmir	Waiver of taxes for films shot in the sate	Single window clearance system for granting permission for shooting films within 7 days in Kashmir
		• Film Tourism Promotion Committee established to promote the region as a filming location and extends all support to film productions including security <sup>75</sup>
Goa	Entertainment Society of Goa (ESG) is formulating a draft scheme for reimbursement of 5% of the film cost spent in	The International Film Festival of India is held annually at Goa which attracts filmmakers from across the globe
	reimbursement of 5% of the film cost spent in Goa <sup>76</sup>	<ul> <li>Single window clearance system and permits for films to be shot anywhere in the state</li> </ul>

<sup>&</sup>lt;sup>71</sup>West Bengal Incentive Subsidy Scheme
<sup>72</sup>Rajasthan Tourism website
<sup>73</sup>Rajasthan Tourism Board
<sup>74</sup>Rajasthan offers sops to boost film shootings
<sup>75</sup>Kashmir in Bollywood Films
<sup>76</sup>Govt may provide tax rebate to filmmakers shooting in Goa

State	Monetary	Non-Monetary	
Punjab	Rebate of 5% on Entertainment Tax to     Punjabi filmmakers provided that 75% of the     dialogues are in Punjabi	• Film City and film institute to be set up in Mohali providing animation, film mixing, cinematography, sound engineering, editing and lighting facilities along with training in 48 specialisations <sup>78</sup>	
	<ul> <li>Proposal to abolish entertainment tax on Punjabi language movies being considered<sup>77</sup></li> </ul>	<ul> <li>Punjab Film Policy to promote and incentivise film shooting in the state is being developed<sup>79</sup></li> </ul>	
		<ul> <li>Set up of cinema halls in villages having one or two screens having a capacity of 100 seats proposed<sup>80</sup></li> </ul>	
Jharkhand	• Films made in Jharkhandi languages granted 50% subsidy on total production costs	Film Development Management to work along with banks to provide funding support for films shot more than 75% in	
	<ul> <li>Films made in Hindi, Bangla, Oriya and other languages will be granted 25% subsidy on total production costs</li> </ul>	<ul> <li>Film Fund set up for sanctioning subsidies to films produced in the state, scholarship to students, arrangement of film</li> </ul>	
	<ul> <li>Maximum limit of INR 10 million for films with at least 50% of shooting days in the state</li> </ul>	equipment, setting up of film training institutes, organisation of film festivals, financial assistance on film processing, etc.	
	<ul> <li>Maximum limit of INR 20 million for films with at least 2/3rd of shooting days in the state</li> </ul>	Single desk system for clearances <sup>81</sup>	
	• Films shot more than 50% in the state will be given 50% tax subsidy for 6 months		
	• Films shot more than 75% in the state will be tax exemption for 1 year		

#### **Next Steps and Initiatives**

**Roll out of Single Window Clearance** through Film Facilitation Office for **film shooting in India:** In India, as many as 30 authorities are involved in granting permission for film producers to shoot in the country leading to increase in process time from the stipulated three weeks to over three months. Recently, the government has launched a single window clearance to facilitate the film makers in the country in order to secure efficient approvals and improve the ease of shooting in India.82 The MIB has also announced the formation of a Film Facilitation Office (FFO), which will be operated by the National Film Development Corporation (NFDC). The FFO will include representatives from key ministries like Home, Tourism, Culture, Railways, Civil Aviation, Defence, and External Affairs ministries to coordinate and provide quick clearances. The office will also include nodal officers from State Governments for film clearances. The FFO will develop and implement a standard operating procedure to accord clearances for film shooting by domestic and foreign filmmakers across the country.

While the establishment of the FFO has been announced, the swift implementation of the office is critical to promoting local film tourism and encouraging

foreign filmmakers to enter India. FFO is required to be modelled around the lines of film commissions across the world that provide the complete range of pre-production services. The role of FFO should encompass general resource for filmmakers, clearing house for information locations and repository of logistical information regarding crew, talent, facilities, stages, equipment and support services. Overall, the goal of the FFO is to provide assistance throughout a film's production life cycle and aim at promoting India as a favoured region for film shooting.<sup>83</sup>

A summary of some services that could be provided by the FFO is as follows:

<sup>&</sup>lt;sup>77</sup>Punjab proposes to abolish entertainment tax on Punjabi movies

<sup>&</sup>lt;sup>78</sup>Punjab govt sets up Film Institute to promote Punjabi film industry

<sup>&</sup>lt;sup>79</sup>Soon, Policy for Promoting Films in Punjab

<sup>80</sup>Punjab to announce new film policy, set up rural cinema halls

<sup>81|</sup>harkhand Film Policy 2015

<sup>&</sup>lt;sup>82</sup>IB Ministry has launched single window clearance to facilitate country's film makers

<sup>83</sup>Deloitte – FICCI Report: Single window clearance: Making India easier for filmmakers June 2013

Some other roles and responsibilities of the FFO are as follows:

- Entry and informational assistance to foreign productions: The FFO should provide all necessary information with respect to acquiring work permits and visas, rules for import and subsequent export of equipment, and any other information on mobility of personnel and equipment. Additionally, the FFO should provide information to the foreign filmmakers on the country, climate, cultural sensitivities and other handy tips which can assist in planning shoots. It may also choose to provide contact details of relevant government,
- regulatory and transport agencies.
- Collaboration with film funds or financial institutions: While the FFO is not a financing body, it may need to work closely with film funds and banks to provide funding options to producers.
- Marketing of the Indian film industry:
   The FFO should participate in various international film festivals such as Cannes and Toronto in order to promote India as a favoured region for shooting films.
   Additionally, the FFO could organize roadshows showcasing India to key foreign producers or members of the film fraternity. The FFO can also consider opening offices overseas, particularly in
- Hollywood to help in creating awareness about India as a shoot destination and promote brand India.
- Affiliations with international Film Commissions: FFO would need to obtain membership of international networks of Film Commissions. This would help in expanding the reach of the FFO as well as enable an exchange of the best practices among commissions.

FFO should be viewed as a nodal agency for all film making requirements in India. However, the services envisaged for this agency will have to be built over time and rolled out in a phased manner.

Figure 16: Overview of FFO's Assistance to Film Makers

#### **Permissions: Location scouting:** • One stop window for all clearances (Police, • An online database showcasing various locations which facilitate easy category wise Municipal, script approval, circumstantial permissions likes ASI, Traffic, Railways, Defence and geography wise search. This database etc.) along with clearly defined Service Level should be able to provide a visual experience **Pre-production** Agreements (SLAs) for turning around the • Regular and frequent updates to the database application · Local coordinator assists in finalizing the • Permissions for national and historic parks locations as per requirements · Local coordinators who assist with additional • Local guides to help introduce local culture and permissions with respect to specific locations customs of a location Contacts of registered agencies: **Certification:** • All the touch points eligible to be featured as contacts should be reliable and should go · Provide direct contacts of certified and reliable production houses, equipment **Production** providers, trade unions and various guilds and through a rigorous certification / inspection associations which can be utilized during film process before being featured. production. • Additional option for foreign producers to • Provide updated information about labor rates, rate these service providers after availing the wherever possible services could also promote fair practices **Post Production** Contacts of registered agencies: **Certification:** Provide a list of certified and credible post • Post production facilities listed should be production and VFX facilities. certified after a thorough inspection process

Source: Deloitte - FICCI Report: Single window clearance: Making India easier for filmmakers June 2013

Figure 17: Phased Roll-out of FFO's Services

	Services to be rolled out in near term (1-2 years)	Services to be rolled out in medium term (2-4 years)	Services to be rolled out in long term (>4 years)
Area		Activities to be Rolled Out	
Operational assistance	<ul> <li>Redirection of permissions to apt bodies</li> <li>Basic location scouting services</li> <li>Single window clearance</li> </ul>	Comprehensive location     scouting services	
	Basic database of registered agencies for production	Comprehensive database of registered agencies for production	Comprehensive database of registered agencies for production
	Basic database of registered agencies for post-production	Comprehensive database of registered agencies for post- production	Comprehensive database of registered agencies for post production
Informational Assistance	<ul> <li>Information on work permits, visa, import export of equipment</li> <li>Information on local culture and requirements</li> </ul>	Information about general code of conduct in the country, contact of other relevant govt. agencies	
Financial Assistance	Financial incentives for film shooting such as tax credits, cash rebates etc.	Financial incentives for film shooting such as tax credits, cash rebates etc.	
Marketing Initiatives	Participation in film festivals and events	<ul><li>Organize roadshows in the country</li><li>Open offices overseas</li></ul>	

Grant of Film Incentives: Several countries across the world have initiated incentives to improve film tourism due to the enormous benefits that can be accrued. For example, the French Government has set up Film France to attract international film shoots through offering incentives such as refund of VAT and rebate of 20% for non-French projects at least partly made in the country capped at \$22 million per project.

India's regulations already permits 100%

FDI for films and TV productions under the automatic route which has encouraged overseas studios to co-produce films in India. Further, State Governments have proactively initiated measures to attract both foreign and local filmmakers by offering production and tax incentives in their regions. However, India needs to adopt a globally recognised standard to introduce production benefits to boost film production across various locations. Production incentives, timely permits, availability of local talent, production

resources, and infrastructure are key ingredients to attract foreign and local productions to shoot in a country.
Ensuring these factors are available to filmmakers in an efficient and cost effective way will ensure retention of local productions within the country and help position India as an international filming destination.

An array of film shooting incentives are implemented by various countries. In India, these can be provided through

the FFO and provided uniformly across different states in the country. These incentives can range from cash rebates, tax credits, exemption from or refund of VAT/customs duty to financial assistance in the form of interest-free loans. The following examples illustrate the success of the incentive regimes in other countries:

- Cash grants: Cash grants are funds disbursed to the production companies which help them reduce their cost of production and can be paid upfront or on completion of the particular project. For example, Life of Pi, an American 3D adventure film was partly (70%) shot in Taiwan in 2012. The Government of Taiwan provided a cash grant of \$1.7 million to the film and also invested (\$6.7 million) in the film through a subsidy scheme set up to aid projects undertaken locally.
- Cash rebates: Cash rebates are given as a refund of actual expenditure incurred during shooting of the film. Cash rebates are usually given at a specified percentage on a minimum expenditure incurred in the host country or on the overall production budget. For example, Krrish, an Indian science fiction film,

was partly (60%) shot in Singapore on prominent location such as Singapore Zoo, the Gateway Building, and Singapore National Library. Through Singapore Tourism Board's (STB), Film in Singapore subsidy scheme, Krrish availed 50% of the expenses incurred during the shoots in Singapore.

- Tax credit: Tax credit is given as a sum to be deducted from the total tax to be paid by the film production. It can be granted for various types of taxes such as income tax, value added tax (VAT), etc., or through refund of taxes paid while filming in a location. For example, Zindagi Na Milegi Dobara was shot in Spain and the filmmakers were provided with a refund of 18% on VAT.
- Tax holiday and tax breaks: A tax holiday or tax breaks are a reduction or elimination of taxes payable for a specified period of time. Such exemptions can bring down production budgets significantly, thus, attracting production companies to shoot in these destinations. For example, Harry Potter was mainly shot in the UK and was given extensive tax breaks for its filming in the region, resulting in incentives of \$160 million per year.



# International Best Practices: Case Studies

#### **Case Study: Film Tourism in the UK**

#### Overview of the UK Film Industry

The UK film industry has shown significant growth in the last two decades. The UK box office recorded the highest revenue in 2015 of over GBP 1.2 billion (\$1.6 billion) exhibiting an increase of 17% over 2014. Further, annual admissions soured to 171.9 million with London accounting for majority of the footfalls (approximately 25%). In 2015, 201 films were produced wholly or in part in the UK having declined from 310 in 2014. Of these, 30 were co-productions, 124 were domestic UK features and 47

The number of companies in the UK film industry has also grown rapidly at 47% since 2010 versus the industry average growth of 17%. Currently, the industry has over 6,800 film production companies, 2,660 film, video and TV post-production companies, 420 film distribution

companies, and 230 film exhibition

were inward investment films.

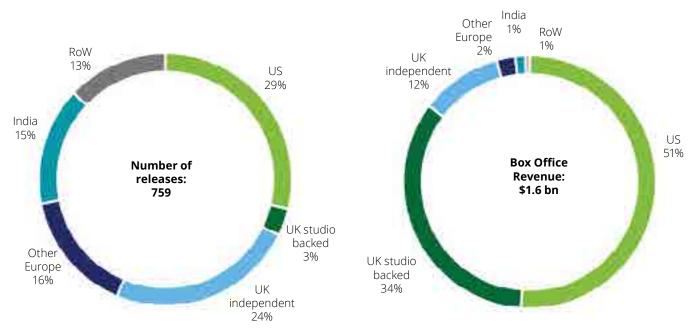
Out of the total 759 films released in the UK during 2015, close to 210 were produced by the local film industry showing a steady increase from about 80 productions

in 2000. However, majority of the films released in the UK originate from the US, India, and Europe.

UK films also contribute to over 25% share of the global industry with worldwide gross revenues of \$9.2 billion. UK studio-backed films (UK films wholly or partly financed and controlled by US studios but featuring UK cast, crew, locations, facilities, post-production, and often UK source material) accounted for 22.3% of the worldwide box office in 2015, while UK independent films earned 2.8% of global revenues. <sup>84</sup>



companies.



Source: BFI Research and Statistics, The Box Office 2015

The UK film industry has had wide acclaim globally along with a large domestic audience for international films. Owing to this, the UK is well positioned to encourage local film shootings due to an established domestic and global market, familiar locations and clear procedures. Out of the GBP 2.1 billion (\$2.75 billion) generated by overseas visitors and tourists in 2013, GBP 840 million is attributable to filminduced tourism along with generating full-time employment for 8,400 people and contributing GBP 92 million (\$120 million) to the Exchequer.85

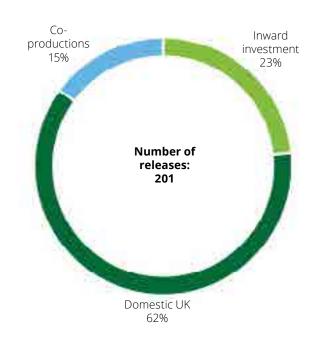
#### Film Tourism in the UK

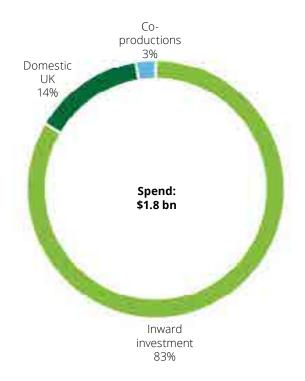
The UK has been a preferred destination for many productions in Hollywood due to developed infrastructure, availability of talented and experienced crew. Some of the famous movies shot in UK include The Da Vinci Code, Golden Compass, The Bourne Ultimatum, The Dark Knight, Clash of the Titans, and Inception. The UK region saw the production of 47 inward investment films and 30 co-productions being shot in 2015. The total spend generated by films produced in the UK was GBP 1.4 billion (\$1.8 billion) in 2015 out of which foreign films (inward investment and co-productions) accounted for almost 85%. Major international films produced domestically in the UK included Avengers: Age of Ultron, Pan, Spectre, and Star Wars: The Force Awakens. Recent major productions have resulted in bringing in investments, creating jobs, and helping film professionals develop new skills which can then benefit independent productions.

The expenditure incurred by foreign film shootings in the UK has steadily risen by 11.5% CAGR over the last 10 years to GBP 1.2 billion (\$1.6 billion) in 2015. This growth has been primarily driven by the following key factors:

Film Tax Relief: The UK Film Tax Relief Scheme was announced in 2007 with the aim to incentivise investments in the domestic film production and promote films showcasing the UK's culture and history. The film incentive program was revamped in 2015 to provide 25% cash rebate on all

Figure 19: Films Produced in the UK (by number and market share)





Source: BFI Research and Statistics, The Box Office 2015

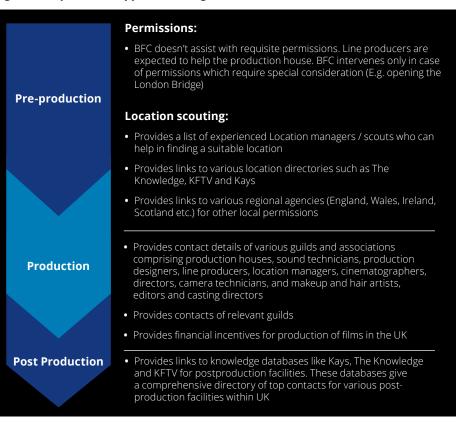
<sup>85</sup>BFI Report: Economic Contribution of the UK's Film, High-End TV, Video Game, and Animation Programming Sectors

UK, qualifying expenditure is provided for films produced locally. Films qualifying for the tax relief have to have at least 10% of its total spend on goods or services used or consumed in the UK. The tax relief provided is capped at 80% of total core expenditure; however, there is no cap on the amount to be claimed. For example, in 2014, Disney was given a total tax credit of GBP 32 million by HM Revenue and Customs for filming the Avengers: Age of the Ultron in the UK. This has historically been the highest tax relief provided to a film in the UK.

In 2015, a total of GBP 251 million (\$372) million) was provided to the UK film industry through the film tax relief program resulting in over GBP 1 billion (\$1.5 billion) in direct investments in the country. According to the British Film Institute, every pound of film tax relief provided contributes approximately GBP 12.5 (\$18) for the UK economy. Since the introduction of the tax relief scheme in 2007, the UK film industry has secured GBP 1.5 billion (\$2.25 billion) in government support with a total of 2,615 claims.86 A majority of the tax relief (approximately 66%) was paid to big budget films while the remaining was provided to lower budget films. The tax relief program has resulted in an investment of over GBP 6.9 billion (\$10 billion) by the UK film industry across other sectors in the UK, generated 260,000 full time creative sector jobs, and positioned the UK film sector as a global leader.87

- British Film Council: The British Film Commission (BFC) is the national body in charge of attracting, encouraging, and supporting the production of international feature films in the UK. The BFC's key roles are as follows:
- o Operational assistance to foreign productions
- o One source for entry and information assistance to foreign productions:
  - Necessary information with respect to migration of workers and import of equipment
  - All information required for mandatory film insurance along with a database of insurance companies
  - Contact details of various

Figure 20: Operation Support to Foreign Filmmakers



- government agencieis, information sources and directories, travel and tourism associations, weather associations, etc.
- Liaising with the UK Government to secure and maintain film-friendly policies
- Production and location support across the country
- o Financial assistance to foreign productions: Guidance on the Film Tax Relief to all films passing the cultural test or qualifying as a co-production
- o Marketing the UK as a filming destination:
  - BFC participates in various film festivals such as Toronto International Film Festival to promote UK as a favoured territory
  - Organizes various networking events with other screen agencies in the UK
  - Increases awareness and encourages filming in the UK within Hollywood by having brand offices

- in Los Angeles and US
- BFC is a member of the Association of Film Commissioners International (AFCI) and is affiliated to European Film Commissions Network through Film London

# • Abundance of Film Infrastructure & Talent:

- o Studios and facilities: The UK has a number of world class studios such as Pinewood, Warner Bros. Studios Leavesden, Shepperton, Elstree, Ealing, Longcross, 3 Mills, The Bottle Yard Studios, etc. to undertake productions of varying size. By 2017, the UK will boast over 1 million square feet of additional studio and workshop space.<sup>88</sup>
- Post-production and VFX: The UK has one of the largest repository of special effects and post production talent and technology.
- Skilled manpower: The UK Government invests large sums, managed by Creative Skillset, to support training and skills development across film,

 <sup>86</sup>UK Pays Out \$2.24 Billion in Film Tax Relief in Nine Years
 87Record year for UK film industry tax relief
 88BFC Report – Made in UK 2015

television, animation and VFX. As a consequence, the UK has highly skilled technicians in the film sector with experience across the globe.

#### **Harry Potter Franchise - An Example**

Harry Potter is a series of eight fantasy films based on the 'Harry Potter' novels by J.K. Rowling. The series was distributed by Warner Bros and primarily shot in the UK. Harry Potter is one of the highest grossing film series globally with \$7.7 billion in box office receipts.

The UK Government and other agencies provided a number of film shooting and tourism initiatives to encourage the shooting of Harry Potter in the country as well as promote tourism to the key shooting destinations. Some of the key initiatives they took are as follows:

- Financial incentives: Tax break of \$160 million per year on all movies made in the UK (which accounts for 25% of the total production cost)
- Movie Map: In November 2001, the British Tourist Authority (BTA, now known as VisitBritain) launched an international tourism camA A saw a 300% increase on the number of enquiries about travel to the UK
- Tours: Following the release of the movies, a number of Harry Potter themed guided tours and events were undertaken throughout the UK. British Tours Limited, a leading tour guide operator in the UK, reported that almost 700 groups booked the Harry Potter tour which is larger than bookings for any other themed tour offered. Further, in 2010, Warner Bros acquired the Leavesden Studio in Hertfordshire where the Harry Potter films were shot for approximately GBP 100 million. In the 200 acre studio, the Making of Harry Potter tour comprising of sets, costumes, prosthetics, and film experiences was launched by Warner Bros which is visited by more than 5,000 people daily.

• Individual Site Promotions: Several areas where Harry Potter shootings took place have become key tourist attractions leveraging their link to the series such as Gloucester Cathedral, Alnwick Castle and Lacock Abbey. In London, the King's Cross station erected a plaque signalling 'Platform 9¾', in response to visitor demand. Goathland Station runs 'Wizard's Weekends' and Glencoe has themed events such as a Harry Potter safari in which they point out the sets.

The Harry Potter series has significantly helped promote tourism in the UK. The above initiatives have led to substantial increases in the number of visitors to the following locations:

• Alnwick Castle: The castle located in Northumberland was depicted as the Hogwarts School of Witchcraft and Wizardry in the first two Harry Potter films—the Philosopher's Stone and the Chamber of Secrets. Since the release of the films, Alnwick Castle has seen an increase of 230% in tourist numbers, receiving over 800,000 visits yearly. In 2014, tourists' expenditure generated an

estimated GBP 4.2 million for the castle.89

- Gloucester Cathedral: The cathedral was used to depict the corridors of Hogwarts in the first two Harry Potter films. The cathedral recorded a 50% increase in visitors in 2003 post the release of the movies.
- Pembrokeshire County: The Harry Potter and The Deathly Hallows was premiered in 2010 in the Pembrokeshire County. The visitors to the county increased to 4.2 million from 30,000 during that year along with a rise in tourist expenditure in the county.

The outcome of shooting the films in the UK was an increase in expenditure on local film production from \$670 million pre-release of the Harry Potter movies to \$1.8 billion backed by Warner Bros.'s investment in special effects technicians. Further, Warner Bros. contributed almost \$2 billion to the UK economy every year during the shooting and marketing of the films, through salaries, national insurance contribution, advertising and infrastructure investments.



### Case Study: Film Tourism in New Zealand

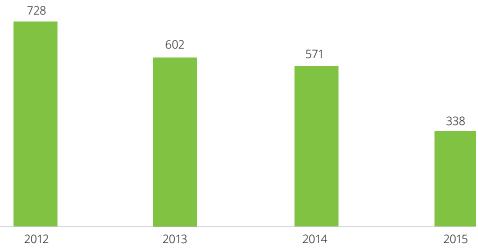
# Overview of the New Zealand Film Industry

New Zealand has a growing film industry with increasing number of local films along with several large international productions. In 2015, film production and post-production contributed NZD 483 million (\$338 million) in gross revenues to the economy, with 35 feature films produced locally, showing a decline from 40 produced in 2014. The industry experienced a decline in revenue from 2014 to 2015, post the production of the high budget The Hobbit trilogy released, and during 2012-14 which clocked a total

were completed exhibiting a 34% increase over the previous year. Majority of the co-productions were in collaboration with Australian partners.

New Zealand, as a destination for mega projects such as LOTR and The Hobbit, is expected to continue to boost the film sector. James Cameron's Avatar series, comprising four films, is expected to be produced in New Zealand. A Memorandum of Understanding (MoU) signed between 21st Century Fox, Lightstorm Entertainment and the New Zealand Government states a minimum spend of \$412 million on production activity in New Zealand on the films, including liveaction and visual effects. The MoU also

Figure 21: Gross Production and Co-Production Revenue (\$ million)



Source: New Zealand Film Commission

spend of \$745 million.90

While the local film production is still in a nascent stage, New Zealand has become a popular destination for production and post-production of foreign films. The successful production of the Lord of the Rings (LOTR) Trilogy in New Zealand, one of the largest film projects globally, succeeded in putting the country on the international filming map. Several international productions have followed since including Avatar, Chronicles of Narnia: The Lion, the Witch and the Wardrobe, The Last Samurai, King Kong and The Hobbit. In 2015, a total of 106 international co-productions<sup>91</sup>

highlighted additional incentives provided to Lightstorm and 21st Century Fox including a 25% percent rebate on the total spend in the country.

Apart from being a key destination for international productions, New Zealand has also emerged as a global leader in special effects and computer generated imagery. The industry has a number of studios undertaking post-production and VFX work having worked on award winning projects such as The Hunger Games: Mockingjay - Part 2, Dawn of the Planet of the Apes, Batman v Superman: Dawn of Justice amongst others.

<sup>90&#</sup>x27;Hobbit' Trilogy Reportedly Cost \$745 Million to Make

<sup>91</sup>Co-productions describe content produced with an overseas business or individual, where each business made a financial and creative contribution.



#### Film Tourism in New Zealand

New Zealand has become a global hub for filmmaking and a preferred film location both for its dramatic beauty and its domestic talent pool spanning extensive production, post-production and special effects capabilities. Additionally, the Government has been instrumental in attracting international films through providing financial incentives under the New Zealand Screen Production Grant (NZSPG) as well as entering into several co-production treaties. For example, the Hobbit Trilogy collected \$120 million in filming cash grants from the New Zealand government over the course of the 4 year production process. In turn, the films generated 3,000 direct jobs during their production and brought other significant economic benefits such as increased tourism, influx of foreign currency, and marketing related expenditure by the production company. 92

#### • Financial Incentives93

Since November 2003, the New Zealand Government has encouraged

international production of films in New Zealand by offering financial incentives. The first incentive rolled-out in 2003 was known as the Large Budget Screen Production Grant (LBSP Grant) providing a 12.5% rebate on qualifying New Zealand production expenditure (QNZPE). In 2007, the LBSP Grant was increased to a 15% rebate and extended to post-production and VFX work under the Post, Digital and Visual Effects Grant (PDV Grant). In 2014, the LBSP Grant and PDV Grant were replaced with the New Zealand Screen Production Grant (NZSPG) for International Productions increasing the rebate to 20% of QNZPE.

Under the current framework, the NZSPG offers a cash grant of 20% on all QNZPE with a minimum threshold expenditure of NZD 15 million (\$10.5 million) for feature films and NZD 500,000 (\$350,000) for post-production work for international productions. Some projects may be also eligible for an additional 5% uplift if significant economic benefits are foreseen from the film and it meets a minimum

threshold expenditure of NZD 30 million (\$21 million). The QNZPE comprises the following:

- Goods and services provided in New Zealand
- · Land lease and rental
- Fees and expenses for cast and non-cast professionals who have travelled to New Zealand to work on the production provided they have worked on the production for at least 14 days

The applicant for the cash grant must be:

- New Zealand resident company or partnership for tax purposes, or a foreign corporation with a fixed establishment in New Zealand
- Entity responsible for all activities involved in making the production
- Special purpose vehicle established solely to make the production in New Zealand

<sup>92</sup>Hobbit trilogy collects \$120m in New Zealand filming incentives over four years

<sup>93</sup>Film New Zealand



#### • Co-Production Treaties

New Zealand has co-production treaties or agreements with Australia, Canada, China, Chinese Taipei, Denmark, France, Germany, India, Ireland, Israel (to be enforced), Italy, Poland, The Republic of Korea, Singapore, Spain, South Africa and the UK. Further treaties with Canada and Brazil are under negotiation.

The New Zealand Government offers additional financial incentives to New Zealand productions and official coproductions. Under the NZSPG, a cash grant of 40% of QNZPE is provided for films with a minimum threshold expenditure of NZD 2.5 million (\$1.7 million). The grant is capped at NZD 6 million (\$4.2 million) per production. An additional grant of 40% of QNZPE above NZD 15 million (\$10.5 million) is provided to productions with QNZPE above NZD 15 million (\$10.5 million). The additional grant is capped at NZD 14 million (\$9.8 million) and New Zealand Film Commission is entitled to a share of net income and profit from the production.

Productions must have significant New Zealand content to qualify for the grant which is determined by a points test (i.e., cultural test). Official co-productions are deemed to have significant New Zealand content and are exempt from the points test. The points test takes into account the following:

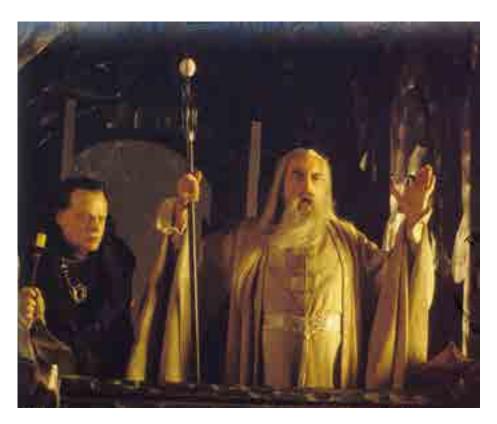
- New Zealand subject matter including setting, lead characters, creative material, culture/history
- New Zealand production activity in terms of shooting location or studio for production, post-production of VFZ
- New Zealand personnel employed
- New Zealand business engaged

## Lord of the Rings (LOTR) Trilogy - An Example

Lord of The Rings Trilogy consists of a fantasy series based on books by JRR Tolkien released during 2001–2003 [The Fellowship of the Ring (2001), The Two Towers (2002) and The Return of the King (2003)]. The movies were directed by Peter Jackson and shot in various locations across New Zealand. The films have had a favourable impact on the perception of New Zealand, as they have showcased the country as a favourable film destination and have attracted tourists from around the world. The production of the films incurred an expenditure of approximately NZD 353 million (approximately \$250 million) including NZD 188 million (\$130 million) in labour costs.

The New Zealand Government provided extensive financial and operation support to the LOTR films during the production period. This included \$150 financial support and amending the labour laws to make the filmmaking process conducive for international productions.94 Further, the Government played an active role in promoting the films, collaborated closely with the production company and invested in the launch of the 'New Zealand: Home of Middle Earth' campaign.95 For example, the New Zealand Airlines made its tag line the official airline of Middle Earth post the release of the LOTR trilogy and has released a LOTR based safety video after the Hobbit trilogy.

Post the release of the films, a 50% increase in tourist visits to New Zealand were seen. In 2004, 6% of visitors to New Zealand (120,000-150,000 people) cited The Lord of the Rings as being one of the main reasons for visiting New Zealand. Additionally, 1% of tourist cited LOTR as their only reason for visiting New Zealand which contributes approximately NZD 33 million (\$24 million) to the country



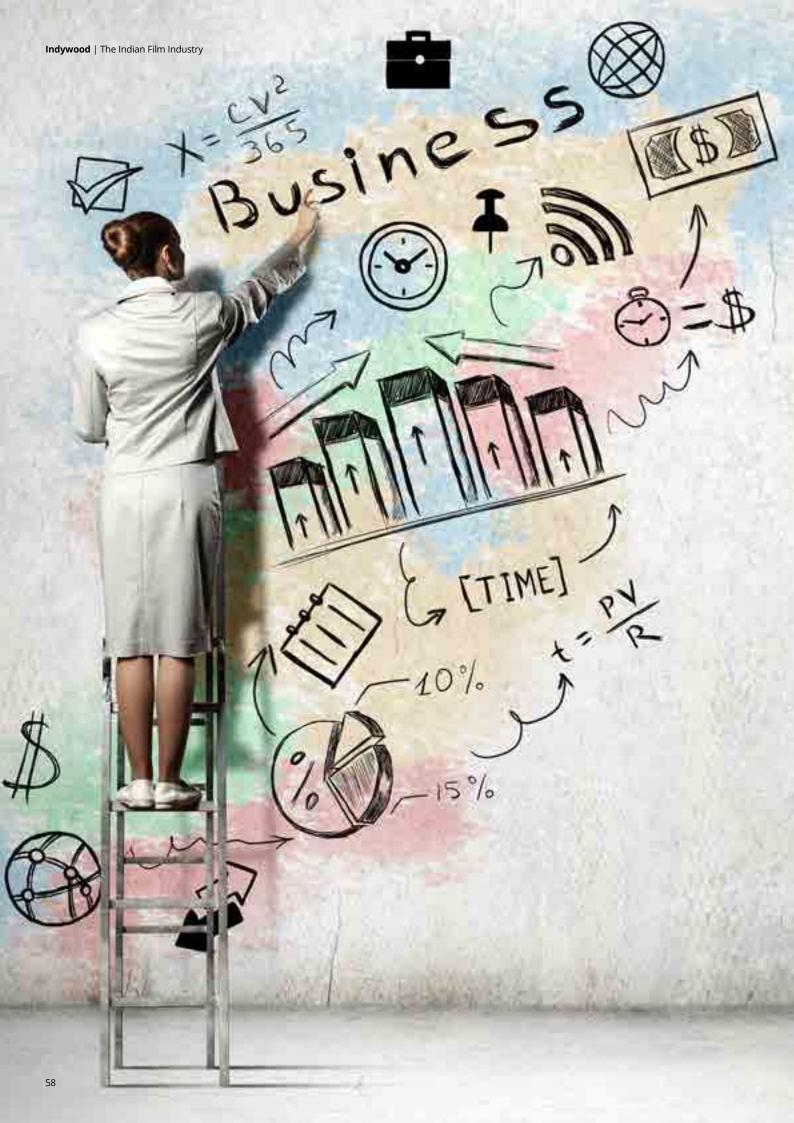
in tourism spend. Further, traveling to the sites of the LOTR shooting such as Hobbiton (a.k.a. Matamata), Fernside Lodge, and Lothlorien has become the leading tourist activity. Since 2004, an average 47,000 visitors each year have visited a film location. The LOTR trilogy had several other long term effects on the country and the economy:

- It raised the international profile of New Zealand film writing, production, and post-production industry
- It built skills and development of forerunning technology in the production and special effects industry
- It contributed to the development and expansion of film related infrastructure
- It contributed to the move towards a film friendly regulatory environment
- It enhanced Brand New Zealand, and helped in boosting of tourism
- It enhanced the potential for spin-off industries such as merchandising, theme tours, theme parks, etc.

<sup>94</sup>New Zealand tourism: Facts and figures

<sup>&</sup>lt;sup>95</sup>How have the Middle Earth films benefited NZ?

<sup>&</sup>lt;sup>96</sup>The Impact (Economic and Otherwise) of Lord of the Rings/The Hobbit on New Zealand



# Shooting of Foreign Films in India – Tax Aspects

#### **Background**

In recent times, the Indian Government has been focusing on promoting India as a filming destination. A country benefits from film shooting, primarily, by providing local facilities/infrastructure (e.g., hotel), generating employment opportunities for its residents, collecting taxes, and showcasing the country's tourist locations, thereby promoting tourism.

Over the past few years, several foreign films have been shot in India such as Kung Fu Yoga, Point Break, The Second Best Exotic Marigold Hotel, Million Dollar Arm, and The Hundred-Foot Journey.

#### **Business Model**

Typically, foreign producers and studios appoint a line producer in India for assistance with India film production related activities and pay fees to such line producers. The line producer may be a third party entity or an Indian group entity. For shooting the film (or principal photography) in India, foreign actors and foreign crew are engaged by the foreign producer/studio. The line producer engages the Indian cast, crew and facilities and accordingly, enters into agreements with them. Prior to the commencement of principal photography, it is common for the foreign producers/studios to undertake a recce in India.

#### **Income-tax implications**

In connection with film shooting in India, income-tax implications for the following non-residents should be evaluated:

- Foreign film producers/studios
- Foreign actors (in front of the camera)
- Foreign crew (behind-the-scenes).

Foreign film producers<sup>97</sup>: Based on a specific exemption under the domestic tax laws, income of foreign producers should not be taxable in India in respect of operations confined to shooting a film in India. Income from distribution of films is not covered under this exemption and hence, taxation of the same needs to be evaluated separately.

Foreign actors: Taxability of foreign actors is covered under Article 17 of most of the tax treaties (Taxation of entertainers and sportspersons) that India have with other countries. Income from personal activities, as such, performed by actors in India should be taxable in India. At times, income from acting fees is paid/accrues to star companies or loan-out corporations, i.e., companies owned by such actors. In such cases, the actor services are provided to the film producer by star companies or loan-out corporations and accordingly, acting fees are paid by the film producer to such star companies or loan-out corporations. The star companies or loan-out corporations, in turn, engage the actor for acting services. In such cases, performance income of the actor accrues not directly to the actor but to another person/entity (star company or loan-out corporation). This income should still be taxable in India [Article 17(2)]. This is an anti-avoidance measure included in tax treaties. The income-tax implications in the hands of star company or loan-out corporation also needs to be evaluated.

Income from performance in India (e.g., acting fees) is taxable in India and taxes are required to be withheld by the payer at 20% (plus surcharge and education cess) under the domestic tax laws. If appropriate taxes are withheld on acting fees and this is the only India sourced-income for the actors, then such actors are not required to file a tax return in India. This benefit is applicable in case of non-resident actors who are not Indian citizens.

Foreign crew would include behind-the-scenes personnel such as action director, costume designer, etc. Taxability of their income should be evaluated based on criteria such as specific nature of services, employer-employee relationship with the payer, legal form of entity, presence/period of stay in India, and relevant tax treaty provisions. Foreign crew would be required to file an income-tax return in India, if the income is taxable in India.

<sup>&</sup>lt;sup>97</sup>Individual not citizen of India, firm which does not have any partner citizen/resident of India, company which does not have any shareholder citizen/resident of India

In addition to the above, following are the income-tax compliances to be noted in case of foreign films being shot in India:

- Individuals (e.g., foreign film actors), not domiciled in India, who visit India for purposes of business/profession and earn income from a source in India, are required to obtain a tax clearance certificate from the Revenue authorities before departing from India.
- Indian income-tax registration number (permanent account number) is required to be obtained by the film producer and actors. The crew is also required to obtain a registration number, if income is taxable in India.
- A film producer or any other payer withholding Indian taxes is required to file quarterly withholding tax returns outlining the details of expenses incurred and taxes withheld. A person liable to withhold taxes on payments is required to obtain an Indian withholding tax registration number (i.e., tax deduction and collection account number).
- Additionally, a film producer is required to furnish a prescribed statement (Form No 52A) outlining the details of expenses incurred. Such statement is required to be submitted per film per year within 30 days from the end of the financial year or completion of film, whichever is earlier.
- In case of cross-border payments made to group entities, implications from a transfer pricing perspective need to be evaluated. Once transfer pricing provisions are applicable, the arm's

length price is to be considered for taxation purposes and an accountant's report (Form No 3CEB) may have to be filed with the Revenue authorities.

A non-resident can claim benefits of a tax treaty, to the extent it is more beneficial for such non-resident vis-à-vis the provisions of the domestic tax laws in India. For claiming tax treaty benefits, a non-resident requires a tax residency certificate issued by the Revenue authorities of the home country and Form No 10F (self-attested document).

#### **Indirect-tax implications**

In connection with film shooting in India, indirect tax implications could emerge in relation to the following transactions:

- Import of film equipment by foreign unit in India
- Services availed from line producers
- Royalty/license fees paid for importation of film print

Import of film equipment by foreign unit:

- The Admission Temporaire/Temporary Admission (ATA) Carnet permits duty free temporary admission of goods into a member country. The list of exempted products inter alia includes filming equipment.
- Moreover, Entry No. 414 of Notification No. 12/2012-Cus, dated 17.03.2012, stipulates nil rate of customs duty for television equipment, cameras and other equipment for taking films, imported by a foreign film unit or television

team on a condition that an accredited representative of the foreign film unit or the television team executes a bond in such form and with such surety as may be acceptable to the Deputy Commissioner of Customs or the Assistant Commissioner of Customs, as the case may be, binding himself to pay on demand an amount equal to the duty leviable on such equipment and cameras if the same are not placed under customs control for re-export within a period of three months or such extended period as the said Deputy Commissioner or the Assistant Commissioner may permit, after clearance for home consumption.

Services availed from line producers:

- Foreign producers may enter into a contract with Indian line producers to assist them with shooting films in India.
   This would include availing services of backstage technicians, music composers, lights, etc., which could be provided by the line producers.
- Services provided by such line producers to the foreign production unit should be examined to determine applicability of service tax depending on the nature of service involved and further if such services are provided in taxable territory as per Place of Provision of Services Rules, 2012 ('POPS Rule'), could attract service tax in India.

Royalty/license fee on importation of film print:

• Film shot in India will be broadcasted in India through the distributors. On importation of the cinematographic film, in addition to the cost of the print, remittance of royalty, license fee, profit sharing, etc., is made to the foreign producer/supplier for re-producing copies, etc. Issue arises whether transaction value for the purpose of calculation of customs duty, if applicable, includes only cost of print or also such royalty/license fees paid for the same. The Central Board of Excise and Customs ('CBEC') has clarified that royalties and license fee related to the imported goods which the buyer is required to pay, directly or indirectly, as a condition





of sale of the goods being valued, shall be added to the price actually paid or payable for the imported goods to the extent that such royalties and fee are not included in the price actually paid or payable. Thus, such royalty or license fee, if are a condition of sale of the print imported into India, then the same would be included for customs duty purposes adding to the cost of doing business.

• Likewise, the declared list of services includes within its purview temporary transfer or permitting the use or enjoyment of any intellectual property right. Grant of license for theatrical release of film has been exempted from service tax, whereas, grant of license of non-theatrical right being television right, internet right, etc., by producers attracts service tax. Thus, service tax exposure on such royalty/license fee would also be relevant to examine.

Impact of Goods and Services Tax (GST)

GST is likely to get introduced in India from April 1, 2017, which would subsume most of the indirect taxes currently applicable, inter-alia, to foreign film producers. Some of the impact points includes:

Levy of tax on service provided by resident to non-resident:

- As per draft GST law, if the recipient of the service is not a registered person then the place of supply is the location of the recipient where the address on record of the supplier exists. If the address on record of the supplier does not exist then place of supply is the location of the supplier of service.
- It would thus be required to examine the implications on the Indian line producer vis-à-vis transactions with the foreign production unit.

#### Abolishment of Entertainment tax:

 Currently producers and multiplex are required to pay both service tax as well as entertainment tax. GST will bring a major change and uniformity in business. Multiplex chains will save on revenues as there will be a more uniform tax, unlike current high rate of entertainment tax levied by different states. It may lower the average ticket price, and increase the footfalls in multiplexes.

#### Availability of Input tax credit:

GST will be a big boon to film producers and studios that currently pay service tax on most of their cost, but cannot charge input credit on creative services (payment to artists, etc.) as they fall under the negative list. Under GST, they will be able to claim credit of these services which will reduce the overall cost of production.

With the thrust on promoting India as a filming destination, consideration of tax aspects on film shooting in India has become important especially with the introduction of GST, the biggest tax reform to be introduced in the country. The GST rate may see an upward rise vis a vis current applicable service tax rate. The foreign film producers/studios should structure contractual arrangements appropriately to mitigate tax risks and undertake Indian tax compliances (such as withholding tax on payments) as required. In case of star companies or loan-out corporations, additional complexities arise on account of triangular cases (i.e., situations where more than two countries are involved).

# **Authors**

#### Neeraj Jain

#### **Partner**

neerajjain@deloitte.com

#### Tarun Soneja

#### **Director**

tsoneja@deloitte.com

#### Japun Ahluwalia

#### Manager

jaahluwalia@deloitte.com

# Acknowledgements

#### **Hemant Joshi**

Technology, Media & Telecommunications

#### **Ashesh Jani**

Media

#### **Prashant Bhojwani**

Media

#### **Anu Peisker**

**Clients & Industries** 

# Contacts

#### Ahmedabad

19th Floor, Shapath –V S. G. Highway, Ahmedabad – 380015. Tel: +91 (079) 66827300

Fax: +91 (079) 66827400

#### **Bangalore**

Deloitte Centre, Anchorage II, 100/2, Richmond Road, Bangalore 560 025.

Tel: +91 (080) 6627 6000 Fax: +91 (080) 6627 6010

#### Chennai

No.52, Venkatanarayana Road, 7th Floor, ASV N Ramana Tower, T-Nagar, Chennai 600 017. Tel: +91 (044) 6688 5000

Fax: +91 (044) 6688 5050

#### Delhi/Gurgaon

Building 10, Tower B, 7th Floor, DLF Cyber City, Gurgaon 122 002.

Tel: +91 (0124) 679 2000 Fax: +91 (0124) 679 2012

#### Hyderabad

1-8-384 and 385, 3rd Floor, Gowra Grand S.P.Road, Begumpet, Secunderabad – 500 003.

Tel: +91 (040) 6603 2600 Fax:+91 (040) 6603 2714

#### Kolkata

Bengal Intelligent Park Building Alpha, 1st floor, Block EP and GP Sector V, Salt Lake Electronics Complex, Kolkata - 700 091.

Tel: +91 (033) 6612 1000 Fax: +91 (033) 6612 1001

#### Mumbai

Indiabulls Finance Centre, Tower 3, 28th Floor, Elphinstone Mill Compound, Senapati Bapat Marg, Elphinstone (W), Mumbai – 400013. Tel: +91 (022) 6185 4000

Fax: + 91 (022) 6185 4101

#### Pune

706, B-Wing, 7th Floor, ICC Trade Tower, Senapati Bapat Road, Pune – 411 016. Tel: + 91 (020) 6624 4600

Fax: +91 (020) 6624 46055

Contact us at **inmediasector@deloitte.com** for any information / assistance.

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