REPORT

Tax concessions for Public Interest Journalism

Examining the case for tax incentive based funding

Prepared for
Public Interest Journalism Initiative

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THE CENTRE FOR INTERNATIONAL ECONOMICS
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Summary

- This report considers the case for tax concessions to encourage additional public interest journalism (PIJ).
  - Tax concessions, or incentives, similar to those provided to R&D (in Australia and a number of other countries) are designed to lower the cost of employing journalists and so encourage effort devoted to activities that will generate public benefits.
- The public good nature of PIJ, along with associated positive spillover effects suggests that some form of government funding is appropriate to encourage additional PIJ.
- Recent international economic research has indicated that tax credits that directly reduce the marginal cost of investing in journalism provide an efficient scheme to stimulate PIJ.
- Whether a tax incentive scheme for PIJ would be successful in Australia depends particularly on the additionality associated with any scheme and on the magnitude of the public benefits associated with PIJ.
- Additionality refers to the dollar increase in PIJ for each incremental dollar of government incentive (or tax foregone in the case of tax credits).
  - Indirect evidence suggests that additionality for PIJ may be around 1.
- Survey work commissioned by the Public Interest Journalism Initiative suggests that willingness to pay for PIJ ranges from $1.50 to $2.90 per person per month.
  - This translates to an aggregate willingness to pay of between $380 million and $740 million per year.
- Preliminary benefit cost analysis using these benefits for an illustrative tax incentive scheme suggests that, using additionality of 1, the benefit cost ratio (BCR) could range from 0.97 to 1.90.
  - Assuming additionality of 1.5 leads to a BCR of between 1.46 and 2.84.
- These overall results suggest that a tax incentive scheme for PIJ is worth serious consideration, with a number of clear avenues for further investigation.

1 Introduction and overview

The issue

This report considers whether a reasonable case can be made for the use of tax concessions (sometimes called tax incentives or tax credits, applied to expenditure on the costs, mostly wages, incurred in generating public interest journalism) as a public policy response to the clearly understood public good nature of public interest journalism (PIJ).

In the broadest sense, a tax concession works by allowing a greater than 100 per cent tax deduction on particular categories of expenditure, creating an effective subsidy to that particular expenditure item. This subsidy is designed to increase the activity of interest, leading to overall social and economic gains.

The question of tax concessions arises particularly out of the recent Australian Senate examination of the future of PIJ and the ACCC *Digital Platforms Inquiry Final Report*. The Senate report noted that:

> There was a great deal of support in evidence for the Commonwealth to consider offering tax concessions to media companies employing journalists, as a cost-effective, targeted means of encouraging a reinvigorated public interest journalism sector[1].

In contrast, the ACCC noted the idea of tax concessions but did not consider they warranted any further investigation[2]. The ACCC did not draw the parallel between PIJ and R&D which is in contrast with some international literature which considers tax concessions to be a viable mechanism for supporting PIJ, explicitly drawing on the parallel with R&D[3].

Both R&D and PIJ are concerned with the provision of information of particular types. In the case of R&D, this is information about the natural world which is then used to enhance economic and social outcomes. In the case of PIJ, it is information about the nature of the democracy, government administration and society we live in which can also be used to improve economic and social outcomes. The very wide use of tax concessions to support R&D across OECD countries — including Australia — suggests that the same broad mechanism could prove effective in the case of PIJ.

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1 The Senate Select Committee on the Future of Public Interest Journalism, Report. February 2018 p. 121. Report available at https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Future_of_Public_Interest_Journalism/PublicInterestJournalism.

2 ACCC 2019 *Digital Platforms Inquiry Final Report*, section 6.9.3. Available at https://www.accc.gov.au/publications/digital-platforms-inquiry-final-report.

3 See, for example, Kind and Moen 2015 'Effects of taxes and subsidies on media services' in Picard and Wildman (eds) *Handbook on the Economics of the Media*, Edward Elgar Publishing.

Questions considered

Considering the case for tax concessions requires looking at several elements both of PIJ and the potential for government action.

- Is there a case for government intervention into the market? That is, does PIJ involve public goods, or externalities, that justify government action?
- Of the policy instruments available to deal with this public good, can tax concessions work in principle as an appropriate instrument?
- How can tax concession be used to actually target PIJ? Is it possible to define the activities which constitute PIJ?
- Is the tax concession likely to lead to additional PIJ? What is a reasonable estimate of additionality in the case of PIJ?
- What is the magnitude of the dollar value of the public benefits from PIJ? What is the willingness to pay?
- Taking these factors into account, could tax concessions pass a broad benefit cost test. That is, will the benefits arising from induced additional PIJ be greater than the costs in terms of foregone government revenue and other administrative costs?

The definition of PIJ

There are a variety of definitions of PIJ, and some of the details of what constitutes PIJ will be considered later in this report. For consistency with the recent work by the ACCC, we note the two following broad definitions.

> Public interest journalism has the primary purpose of recording, investigating and explaining public policy and issues of public interest or significance with the aim of engaging citizens in public debate and informing democratic decision making. (Public Interest Journalism Initiative).

And

> Journalism with the primary purpose of recording, investigating and explaining issues of public significance in order to engage citizens in public debate and inform democratic decision making at all levels of government. (ACCC *Digital Platforms Inquiry Final Repor*t, p.285)

2 PIJ as a public good with positive externalities

The social benefits of PIJ

The breakdown of the traditional revenue model for much of the media has led to an explosion of interest both in the economics of media enterprises and in the public policy implications of recent changes — particularly in digital platforms — that have led to a decline in the provision of PIJ.

A very large literature has tended to reaffirm that PIJ is a public good (it has a value that is not captured by any one firm or individual) and generates positive externalities — that is, a range of flow on benefits that were not part of the original decision to provide the journalism in the first place.

This feature of the media is concisely captured as follows:

> Media have enormous externalities. If the market generates a lousy journalism that keeps the citizens poorly informed, the entire society suffers—not just the consumers of particular media—because the resulting political governance will be shoddy. If it leads to an unnecessary war or to massive corruption, for example, we all pay. It does not affect the buyer and seller. Conversely, if the market generates a splendid journalism that leads to wise policies, everybody benefits, even those who are not purchasing specific media products.[4]

The ACCC makes a similar point, noting that

> Journalism provides benefits to individuals who consume it by improving their knowledge and understanding of issues and events that affect them. However, the benefits of journalism are not confined to these individuals. Journalism provides broader benefits to society including to individuals who do not consume it[5].

The case for tax incentives

One of the consequences of the public good nature of PIJ is that there is a risk it will be underprovided in the market and that 'targeted government assistance may be necessary to support forms of public interest journalism that are at risk of under-provision'[6].

The question then arises as to the best form of this government assistance.

A recent analysis of direct and indirect financial support for journalism concluded that tax credits were an efficient approach to targeting quality journalism.

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4 McChesney, RW 2008, *The Political Economy of the Media. Enduring Issues, Emerging Dilemmas*. New York: Monthly Review Press.

5 ACCC *Digital Platforms Inquiry Final Report* p.283.

6 ACCC *Digital Platforms Inquiry Final Report* p.328.

> Tax credits or other indirect subsidy schemes that directly reduce the marginal cost of investing in journalism are the most efficient scheme to increase the quality and quantity of journalism and stimulate investigative journalism. Tax credit schemes are widely used in OECD countries to promote R&D investments, but not much used as a media policy instrument. We believe they deserve far more attention from both academics and policy makers who reflect on how to secure high quality journalism when the traditional business model of the media industry is eroded by the internet and more or less free distribution of news[7].

Kind and Moen undertook a theoretical analysis and found that different funding schemes had different effects. A key finding, as indicated in the quote above was that changing the marginal cost of PIJ through a targeted tax concession is an effective way of targeting the specific outcome required; in this case and increase in PIJ.

Inducing journalism by reducing the marginal cost

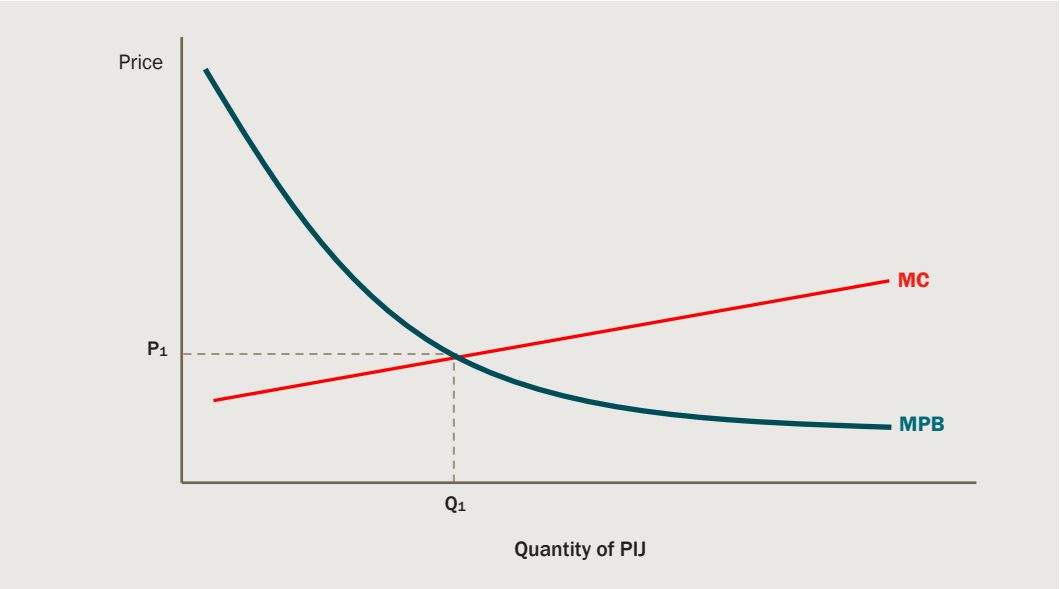
Charts 2.1 to 2.3 illustrate some of the key concepts involved. Chart 2.1 shows the private (company) demand for PIJ. The so called 'marginal private benefit' curve (MPB) shows, for each additional unit of PIJ, the benefit the firm receives. This benefit is determined by a range of factors including sales and advertising revenue, benefits from product differentiation and reputation enhancement, ability to attract quality journalists and so on. The marginal benefit declines as the amount of PIJ increases.

The marginal cost (MC) of PIJ measures the other side of the transaction; how much the firm has to pay to attract the resources needed to undertake PIJ. The MC is shown as increasing in this chart, however for any one firm it is likely to be very flat.

The firm will choose the amount of PIJ to equate private benefits with marginal cost, which is the point Q_1 in chart 2.1.

7 Hans Kind and Jarle Moen 2014 *Effects of taxes and subsidies on media services* Discussion Paper, Norwegian School of Economics.

2.1 Private benefits and costs from PIJ

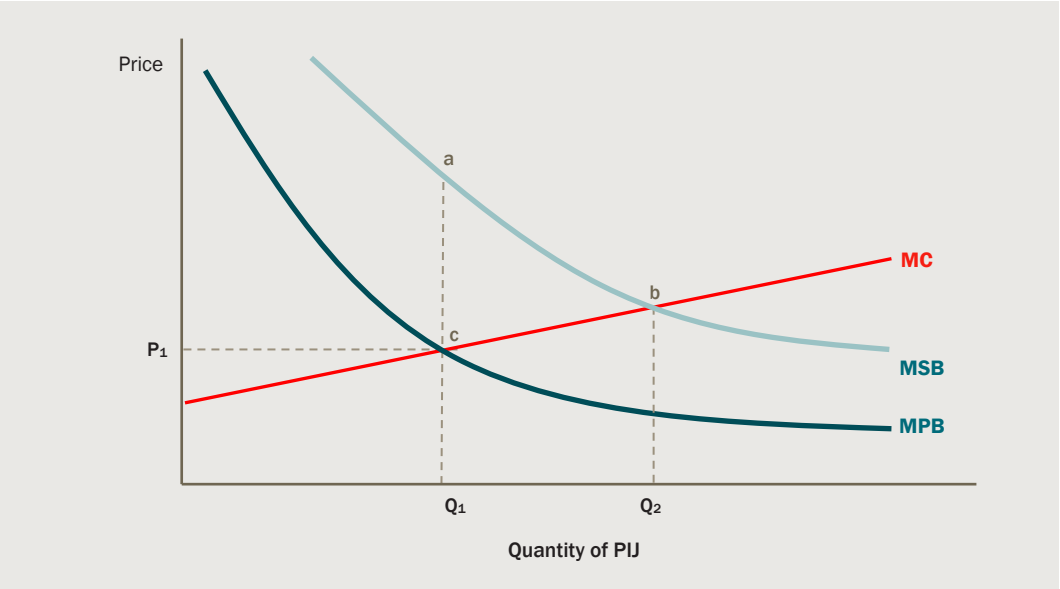


Data source: The CIE

Chart 2.2 extends the analysis by adding in a curve to represent marginal social benefits (MSB) or PIJ. At any point, the MSB is greater than the MPB, reflecting the public goods and positive externalities associated with PIJ.

Chart 3.2 illustrates that at the point of optimal private provision (Q_1, or the point *c*) there are social benefits that are not achieved (the gap between *a* and *c*). Assuming for illustration that the MC curve represents both public and private costs, then chart 2.2 indicates that the point of optimal social provision of PIJ is at Q_2, where social marginal costs and benefits are equated.

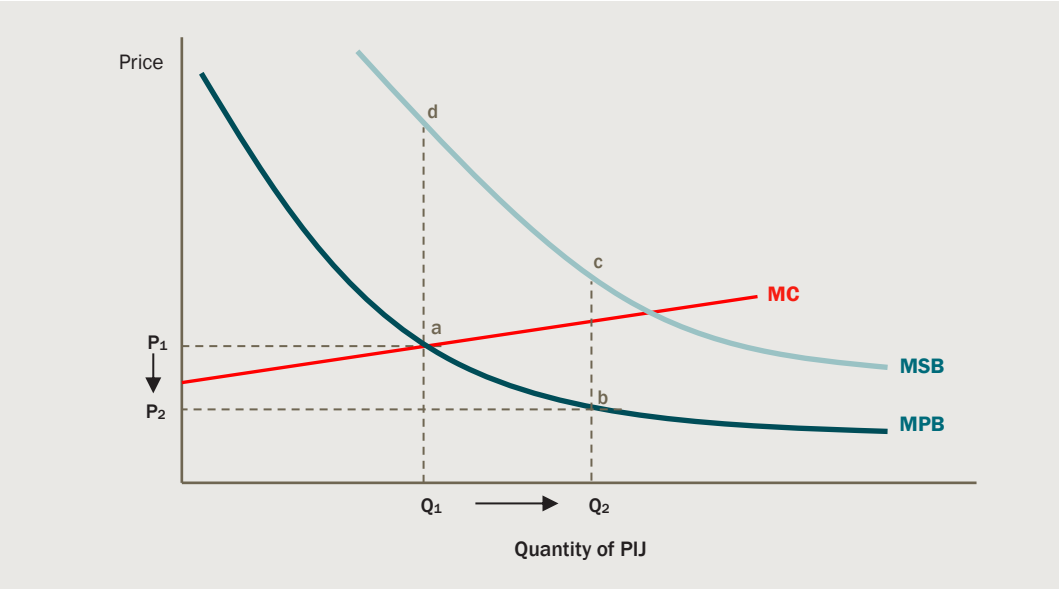
2.2 Private versus public benefits



Data source: The CIE

Finally, chart 2.3 shows the object of tax concession: to effectively lower the marginal cost of PIJ to the firm so that the provision of PIJ increases, generating incremental public benefits. In chart 2.3 the effect of the tax concession is to lower the marginal cost from the firm's perspective from P_1 down to P_2. Given the shape of the MPB curve as shown, this increases the quantity of PIJ from Q_1 to Q_2, generating additional social benefits.

2.3 Lowering the marginal cost to induce additional PIJ



Data source: The CIE.

From the point of view of the effectiveness and efficiency of the tax concession policy, the relationship between the incremental tax cost to induce the increased PIJ (represented by the area P_1abP_2) and the incremental social benefits (the area *adcb*) — all net of other incremental costs — is crucial. The policy is efficient if the increment in social benefits is greater than the increment in costs. This in turn depends on the slope of the MPB curve and the difference between the MPB and MSB curves.

Trade-offs in using tax incentives

The best example of the use of tax incentives to induce desirable private activity is the R&D Tax Incentive currently in place in Australia. A recent review of this tax incentive noted a number of trade-offs involved in using the tax system in this way[8].

- On the advantages side, a tax-based instrument takes advantage of the taxation infrastructure already in place by using monitoring and compliance systems that are broadly familiar to most firms.

8 See Centre for International Economics 2016 *R&D Tax Incentive Program Review*, report prepared for the Department of Industry, Innovation and Science. Available online at https://www.industry.gov.au/data-and-publications/review-of-the-rd-tax-incentive.

- Similarly, using the tax system allows for effective R&D subsidies (and potentially PIJ subsidies) that are neutral with respect to the nature of the firm involved, the nature of the R&D (or PIJ) involved, and the size of the firm — except where this is deliberately intended. In the context of journalism, it is also important that incentives implemented and monitored through the tax system are not subject to arbitrary or political interference.
- On the other hand, the tax system has limited ability to control or target additionality or public benefits. In many ways, the rates of additionality and public benefits are largely determined by factors outside the tax incentive.

The same review also noted that the tax incentive system inevitably involved a number of empirical uncertainties. Both additionality (considered below in chapter 4) and the value of public goods and externalities (spillovers) are hard to measure precisely.

Defining eligible activities

One of the key steps in establishing tax incentives for PIJ will be to appropriately define the activities (expenditure items) that would be eligible for the tax concession.

Working by analogy with R&D

There is a strong parallel here with the R&D Tax Incentive in that this policy contains detailed infrastructure to move from a broad definition of R&D to very specific guidance of what expenditure are allowed.

According to the *Australian and New Zealand Standard Research Classification*:

> Research and Development is defined according to the OECD standard as comprising creative work undertaken on a systematic basis in order to increase the stock of knowledge, including knowledge of man, culture and society, and the use of this stock of knowledge to devise new applications.
>
> An R&D activity is characterised by originality. It has investigation as a primary objective, the outcome of which is new knowledge, with or without a specific practical application, or new or improved materials, products, devices, processes or services. R&D ends when work is no longer primarily investigative.[9]

This broad definition is made operational under the Taxation Act to define core R&D activities as experimental activities:

a) whose outcome cannot be known or determined in advance on the basis of current knowledge, information or experience, but can only be determined by applying a systematic progression of work that
   i. is based on principles of established science; and
   ii. (proceeds from hypothesis to experiment, observation and evaluation, and leads to logical conclusions; and

9 See https://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/2A3A6DB3F4180D03CA25741A000E25F3/$File/12970_2008.pdf.

b) that are conducted for the purpose of generating new knowledge (including new knowledge in the form of new or improved materials, products, devices, processes or services).[10]

Within this broad definition, both the Department of Industry, Innovation and Science (through the business.gov.au portal) and the Australian Taxation Office provide detailed guidance and advice. The recent review of the R&D Tax Incentive found that the administration of the scheme was very successful, with most participants satisfied with the information they are provided.

Applying this approach to PIJ

Similarly, it is possible to move from a broad definition of the functions of PIJ to specific guidance for expenditure categories. In doing this, there is a large amount of research concerning the functions of PIJ (parallel to the function of R&D noted above) that can be drawn on.

For example, Michael Schudson provided a well-regarded list of functions including:

- Informing the public on matters of concern and interest
- Investigations, to expose wrong doing and keep powerful institutions accountable
- Analysis – explaining and making public events understandable
- Social empathy – using individual stories to create impetus for change
- Creating a public forum for airing views and working out solutions to problems
- Mobilizing public opinion – to create opportunities for positive change
- Publicising and advocating for representative democracy[11]

More recently, Simons et al provided the following list:

- Campaigning journalism: Journalism that focuses on a particular cause or issue with the objective of achieving societal change
- Investigative journalism: Journalism that requires substantial original inquiry by the journalist(s)
- Civic forum journalism: Journalism that focuses on the processes, proceedings and activities of public institutions such as parliaments, courts and local councils.
- Reportage: Journalism that describes society to itself, including events, social problems, trends, public policy, business, culture, education, science, media, industry, environment, religion, health and other centres of power/influence.
- Commentary and opinion: The provision of a forum for debate and the exchange of ideas and opinions, enabling discourse in the public sphere.[12]

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10 See https://www.business.gov.au/Grants-and-Programs/Research-and-Development-Tax-Incentive.

11 Schudson, Michael. 2008. *Why Democracies Need an Unlovable Press*. Malden, MA: Polity Press.

12 Simons, M., Tiffen, R., Hendrie, D., Carson, A., Sullivan, H., Muller, D., & McNair, B. (2017). Understanding the civic impact of journalism: A realistic evaluation perspective. *Journalism Studies*, 18(11), 1400-1414.

In the same way that the broad definition of R&D has converted both to a tight specification within the Taxation Act and has led to considerable advisory material for business (when judging whether they are eligible for what is a self-assessed incentive scheme), this broad understanding of PIJ could convert to a similar range of material.

In the case of PIJ, the material would be able to be more focused. While, in principle, any Australian firm could undertake R&D, for PIJ there is likely to be a much smaller number of firms involved.

3 Additionality

'Additionality' and its measurement

'Additionality' is defined as the dollar increase in the particular activity (R&D, or PIJ) in response to a one dollar subsidy provided through the tax concession. That is, it is the net additional amount invested (in R&D or PIJ) by the firm for every dollar of tax revenue foregone by the government.

The policy is designed to increase expenditure on the relevant items, therefore a policy objective would be to achieve additionality of at least 1.

As shown in the previous chapter, additionality depends on the slope of the MPB curve. That is, how the firm's demand for journalists to undertake PIJ responds to a reduction in their marginal cost. While the firm will have incentive to employ more journalists, exactly how many more the key question that determines additionality.

There are, in effect, four possibilities for additionality.

- First, the firm may choose to maintain the same level of spending on PIJ, regardless of the subsidy. In this case, the value of the subsidy is absorbed into the general operations of the firm and additionality is zero.
- Second, the firm may use part, but not all, of the subsidy to increase expenditure on PIJ. In this case additionality is less than 1.
- Third, the firm may use all of the subsidy to increase expenditure on PIJ. In this case additionality is 1.
- Fourth, the firm may use the subsidy to lever additional funds into PIJ, in which case additionality will be greater than 1.

Measuring additionality

Measuring additionality requires comparing two potential situations — one in which the firm does not receive the incentive with one in which it does — and then measuring the difference between these two. In practice, such a direct comparison is not possible so in practice additionality is inferred through statistical approaches or survey and modelling techniques.

In the case of R&D, Thomson and Skali provide a good example of detailed statistical analysis to infer additionality. In their case, they find additionality of between 0.8 and 1.9.[13]

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13 Russell Thomson and Ahmed Skali 2016 *The Additionality of R&D Tax Policy in Australia*, Centre for Transformative Innovation. Available at

Detailed survey and modelling analysis undertaken for a review of the R&D Tax Incentive found that additionality varied from 0.3 to 1.5.[14] Using detailed survey data, this same review found a number of reasons for different levels of additionality across firms.

- Some firms, for example, always seek to spend the same proportion of revenue on R&D each year. In this case, additionality is relatively low.
- In contrast, firms whose main business line involves ongoing innovation (which are often smaller firms) demonstrate very high levels of additionality, simply because of the focus of their business. There is an interesting analogy here with media firms, who by nature of their business may be more likely to have higher additionality.

Additionality for PIJ

Given that there is no tax incentive currently in place for PIJ, statistical analysis is not an option. Similarly, it is beyond the scope of this report to conduct a detailed survey of media companies that would allow the detailed modelling similar to that undertaken for the R&D Tax Incentive.

Nevertheless, there is some indirect and suggestive information that leads to a conclusion that additionality could be towards the higher end of the range found in the case of R&D.

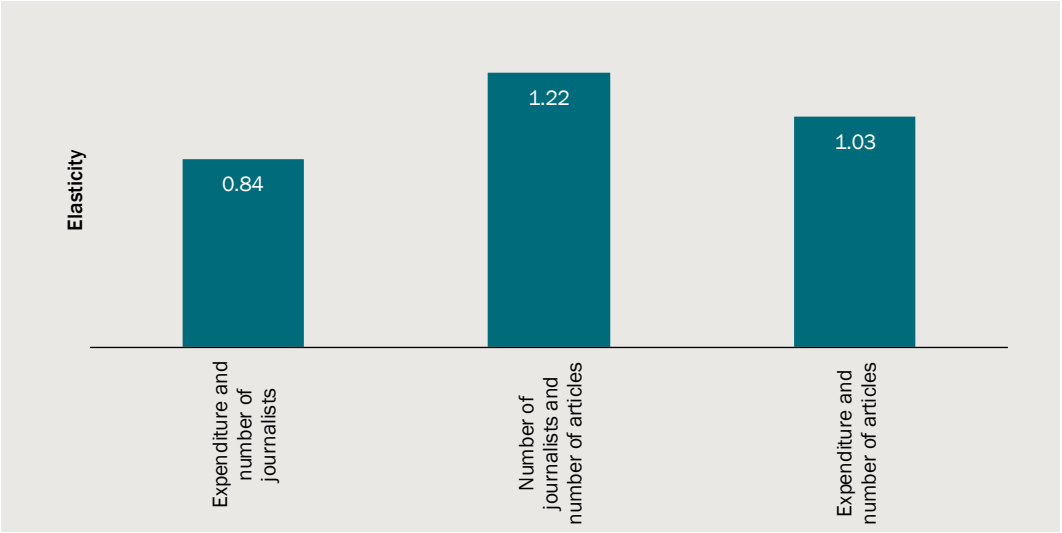
Data from Digital Platforms report

Chart 3.1 summarises the net effects of some of the data obtained from media companies and published by the ACCC in their *Digital Platforms* report. These effects are expressed as an 'elasticity', that is, the percentage change in one variable associated with a 1 per cent change in another variable.

https://www.industry.gov.au/sites/default/files/May%202018/document/extra/research-and-development-tax-incentive-review-report-rate-of-additionality-swinburne.pdf

14 Centre for International Economics 2016 *R&D Tax Incentive Program Review*, report prepared for the Department of Industry, Innovation and Science. Available online at https://www.industry.gov.au/data-and-publications/review-of-the-rd-tax-incentive.

3.1 Responses to changes in expenditure



Data source: CIE estimates based on data published in ACCC *Digital Platforms* report.

For example, chart 3.1 shows that a 1 per cent reduction in total expenditure is associated with a 0.84 per cent reduction in the number of journalists employed. At the same time, a 1 per cent reduction in the number of journalists employed is associated with a 1.22 per cent reduction in the number of articles published. The net result is that a 1 per cent reduction in expenditure is associated with a 1.03 per cent reduction in the number of articles published.

While far from definitive, this suggests that any available in expenditure for journalism may increase the number of articles by the same percentage. This is important because the estimation of willingness to pay of PIJ and the cost benefit analysis discussed further below use the number of articles as a broad metric to represent changes in PIJ.

Theoretical considerations

The analysis by Kind and Moen shows that an increase in expenditure on PIJ in response to a tax incentive leads not only to the potential for increased product sales, but also the opportunity to increase the reputation and quality of the overall product leading to increased distribution and the potential for increased revenue from advertising.

These factors combined tend to suggest that the MPB curve shown previously is likely to be relatively flat for media companies, leading to a greater additionality response to a tax incentive.

Interviews with editors

Recent research published by the PIJI has indicated that if more resources were made available for journalism, editors would use them to specifically provide more public interest journalism[15].

15 Simons, M., Dickson, G. and Alembakis, R. 2019 *The Nature of the Editorial Deficit.* Melbourne. Public Interest Journalism Initiative.

This qualitative research, based on interviews with editors and newsroom managers, indicates that editors consider that reporting currently lacks desirable depth and, in some cases, (particularly in regional, local and smaller publications) is unable to fully serve the local communities. In these interviews, editors from newsrooms around Australia consistently said that they would use additional resources to increase both the depth of their reporting and the routine coverage of public fora.

The authors of the report conclude:

> …all of our respondents said that any increase in journalistic resources would be spent not on lifestyle or entertainment journalism, nor on editing or promotion, but on increasing the breath and depth of public interest journalism — both journal of record functions and also investigative work[16].

Together, this provides a strong qualitative impression that additionality of PIJ in response to any tax incentives is likely to be relatively high, particularly for smaller local or regional outlets.

16 Simons et al 2019 *The Nature of the Editorial Deficit*, p. 24.

4 Measuring the benefits

A crucial component of the success of a tax incentive policy is the actual value to the community of the PIJ that is induced by the incentive. While it is widely agreed that there is a public good benefit from PIJ, the actual dollar magnitude of this benefit is not known with any certainty.

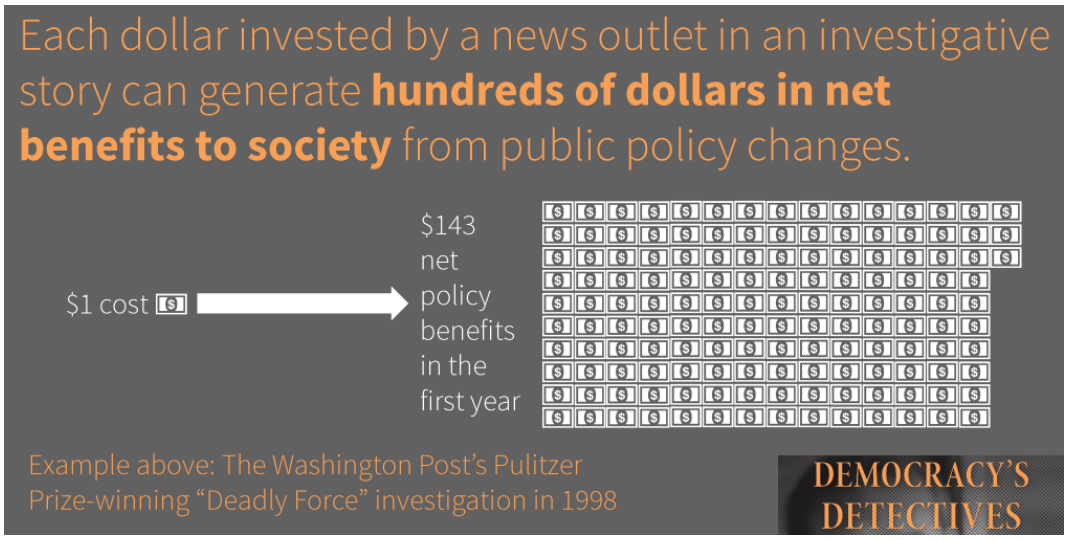
Directly estimating the value of outcomes

One approach to estimating the benefits of PIJ is to calculate the actual outcome from specific instances of PIJ.

This is the approach taken recently by James Hamilton in his study *Democracy's Detectives*. Amongst other things, Hamilton developed a detailed database of investigative journalism in the US and used this to drill down into the benefits of some specific cases where investigative journalism had directly led to changes in public policy.

Chart 4.1 presents an infographic from one of Hamilton's results, the Washington Post's 'Deadly Force' investigation. According to Hamilton's calculations, this investigation resulted in a ratio of benefits to costs (in one year) of 143 to 1. This is an extraordinarily large return and shows the potential high leverage of some aspects of PIJ.

4.1 Benefits from investigative journalism



Source: James T Hamilton Democracy's Detectives http://cjlab.stanford.edu/democracys-detectives-jay-hamilton/.

Calculations such as this do not currently seem to be available for Australia. While there are some limitations in how such calculations could be used in a cost benefit analysis of

policy (not all PIJ necessarily leads to such large returns, for example), this approach nevertheless illustrates some important features of PIJ.

Estimating willingness to pay

The alternative to directly estimating outcomes — and the approach most commonly used in benefit cost evaluation — is to estimate individuals' willingness to pay (WTP) for the public good aspects of PIJ. Because this WTP is not associated with a direct market transaction (which would only reveal WTP for private benefits), other approaches must be taken to estimating WTP for the public good aspects of PIJ.

There are a wide variety of approaches to estimating WTP, most of which involve survey techniques to directly ask respondents about their WTP.

The Essential Media survey

The PIJI commissioned Essential Media to undertake a survey which, amongst other things, involved direct questions designed to allow the estimation of WTP[17]. The Essential Media survey included the following question, designed to elicit individuals' WTP for a specified increase in PIJ:

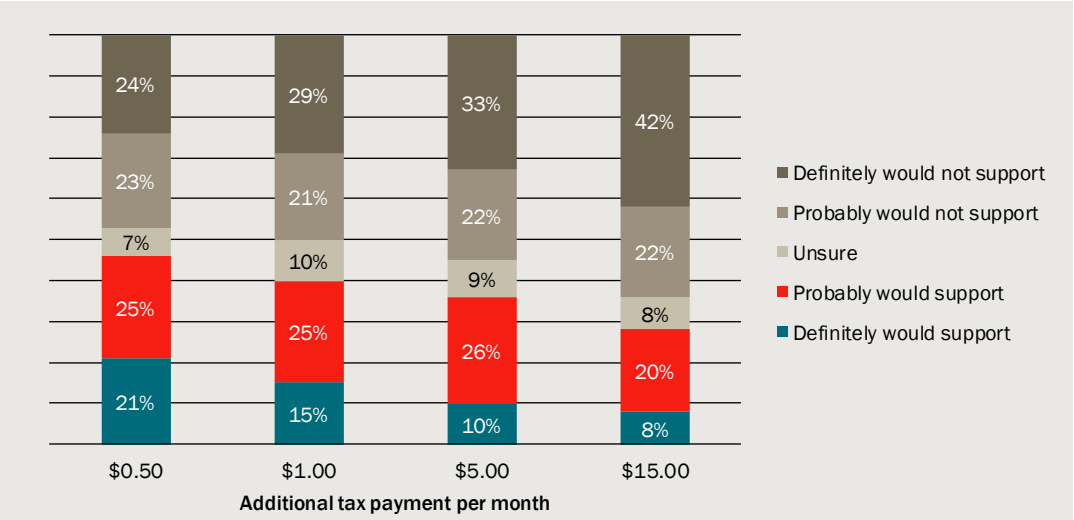
> "The government already provides funding for public interest journalism through public broadcasting (e.g. ABC and SBS), as well as in commercial and other media (such as newspapers, websites and social media) for news and current affairs.
>
> It has been suggested that the government could increase the amount of public interest journalism articles or reports produced per year by 50 per cent, by increasing the amount of tax you pay by <$X1> per month (<$X2> per year).
>
> To what extent would you support or oppose paying <$X1> per month in tax for increased public interest journalism?"

The variable <$X1> was randomly drawn for each respondent from the levels $0.50, $1, $5 and $15.

Chart 4.2 summarises some of the key results from the survey. It shows the proportion of respondents willing to pay different tax increases in order to fund additional PIJ. The proportion of respondents indicating they would definitely support the additional tax declined from 21 per cent at a monthly cost of $0.50 to 8 per cent at a monthly cost of $15. The proportion indicating they would at least probably support the additional PIJ declined from 46 per cent to 28 per cent over the same price levels.

17 Essential Media 2019 *The Essential Report — Public Interest Journalism Initiative*. Report prepared for PIJI.

4.2 Survey results: proportion of respondents willing to pay for PIJ



Note: n=282 at $0.50, n=276 at $1, n=259 at $5, n=267 at $15

Data source: Essential Media

Estimating average willingness to pay

We can use the underlying data from these survey results to estimate average willingness to pay for an increase in PIJ. We estimate respondents' average WTP using the lower-bound non-parametric Turnbull estimator.[18] Under a conservative approach, in which 'probably would support' is treated as a 'no' vote, we estimate average WTP at $1.51 per month per person. Under a less conservative approach, in which 'probably would support' is treated as a 'yes' vote at the next-lowest price level in the price vector (e.g. 'probably would support' at a price of $5 is treated as a 'definitely would support' at $1), we estimate average WTP at $2.94 per month. These results are summarised in table 4.3.

4.3 Estimates of average willingness to pay per person

	Average willingness to pay
	$/month
Treating 'probably would support' as a 'no' vote	$1.51
Treating 'probably would support' as a 'yes' vote at the next-lowest price level	$2.94

Source: CIE estimates based on Essential Media survey results

For the purposes of the benefit cost analysis presented below, we apply these per person results to the adult population to estimate the WTP for a 50 per cent increase in PIJ of between $380 million and $740 million per year.

18 This is a statistical approach designed to estimate averages and other variables from data that falls into categories rather than being continuous. See Turnbull, B.W., 1976. The empirical distribution function with arbitrarily grouped, censored and truncated data. Journal of the Royal Statistical Society: Series B (Methodological), 38(3), pp.290-295.

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As always, there are reasons to be cautious when using the results from this survey. First, the survey instrument provided little opportunity to give respondents background information on the potential benefits of PIJ. In the survey PIJ was defined briefly with little elucidation of how public benefits could emerge. This could have the result of lowering overall WTP.

At the same time, the payment vehicle — tax —was loosely defined, which raises concerns about hypothetical bias and 'yea-saying'. Fortunately, these two factors would tend to have opposing impacts on the WTP estimate.

While there are improvements that could be made to the methodology in a dedicated stated preference study, the Essential Media survey question provides a valuable order-of-magnitude estimate where very little evidence is currently available.

5 *Indicative benefit cost analysis*

This chapter presents and indicative benefit-cost analysis of a notional tax incentive scheme for PIJ.

The core assumptions underlying this analysis are as follows.

- **Representative annual analysis**. While it would be expected that the benefits of PIJ emerge over time, we have constructed the analysis here on a representative annual basis. That is, we assume that the relevant benefits and costs occur at the same time. This is consistent with the WTP estimation of an annual value.
- **Incentive rates**. For illustration, we assume incentive rates of 25 per cent and 50 per cent. Because other assumptions are assumed to be proportional to the dollar value of the incentive, the choice of incentive rate affects overall magnitudes but not the benefit cost ratio. Note that rates under the R&D Tax Incentive are currently between 38.5 per cent and 43.5 per cent.
- **Cost base for journalism expenditure**. Following estimates provided by the ACCC in their *Digital Platforms* report, we assume this is $600 million.
- **Deadweight loss from taxation**. This item recognises that the tax foregone as a result of the incentive must be made up elsewhere. All tax raising is associated with a deadweight cost that is essentially the result of disincentives within the tax system. Consistent with the CIE review of the R&D Tax Incentive, we assume this is 20 per cent of the amount of the tax incentive.
- **Compliance and administration costs**. The review of the R&D Tax Incentives found compliance and administration costs to be 9 per cent and 1 per cent respectively of total tax expenditure on the program. Given that the R&D Tax Incentive is a very large program (around $2 billion) and that any PIJ program would be incremental to it, we have assumed half the total compliance and administrative costs, with compliance costs set at 4 per cent and administration costs at 1 per cent.
- **Additionality**. For the base calculation, additionality is assumed to be 1. We provide a sensitivity analysis with additionality at 1.5. Note that the additionality rate is applied to the tax subsidy net of compliance costs which are assumed to be borne by the firm. Compliance costs thus lower the effective amount of the tax subsidy.
- **Willingness to pay (for a 50 per cent increase in PIJ).** Following the results reported above, this is assumed to have a lower value of $381 million per year and an upper value of $741 million per year.

Chart 5.1 summarises the results of the benefit cost analysis using these assumptions. Labelled columns (1) and (2) are concerned with notional incentive rates of 25 and 50 per cent while assuming additionality of 1. Labelled columns (3) and (4) are concerned with notional incentive rates of 25 and 50 per cent, but this time assuming additionality of 1.5.

5.1 Summary of benefit cost results

Item	Units	(1)	(2)	(3)	(4)
Core assumptions					
Incentive rate	%	25%	50%	25%	50%
Journalism cost base ($m)	$ million	600	600	600	600
Benefit of 50% increase in PIJ: lower	$ million	381	381	381	381
Benefit of 50% increase in PIJ: upper	$ million	741	741	741	741
Additionality	Rate	1	1	1.5	1.5
Cost elements					
Gross value of incentive ($m)	$ million	150	300	150	300
Compliance cost (4% of incentive)	$ million	6	12	6	12
Administration cost (1% of incentive)	$ million	2	3	2	3
Deadweight loss (20% of incentive)	$ million	30	60	30	60
Total costs	$ million	188	375	188	375
Benefit elements					
Funds available for PIJ	$ million	144	288	144	288
Increment to PIJ	%	24	48	36	72
Benefits lower	$ million	183	365	274	548
Benefits upper	$ million	356	711	533	1067
Net benefits					
Lower	$ million	-5	-10	86	173
Upper	$ million	168	336	346	692
Benefit cost ratio					
Lower	Ratio	0.97	0.97	1.46	1.46
Upper	Ratio	1.90	1.90	2.84	2.84

Source: CIE estimates

With additionality of 1, the notional incentive scheme yields net benefits of between – $5million and $336 million a year, with an associated benefit cost ratio of between 0.97 and 1.90.

With additionality of 1.5, the notional incentive scheme yields net benefits of between $86 million and $692 million a year, with an associated benefit cost ratio of between 1.46 and 2.84.

6 Conclusions and further research

The material presented in this report suggests that a tax concessions or incentive scheme — modelling along the lines of the existing R&D Tax Incentive scheme — for PIJ is worth more detailed consideration.

A number of avenues are worth further investigation including the following.

- Further work to establish willingness to pay for PIJ. The results from the Essential Media survey commissioned by the PIJI clearly indicate a positive valuation of PIJ. While this initial survey was inevitably constrained, it has demonstrated the possibility of further refining the estimates of willingness to pay to further assist in policy design.
- Media company survey analysis to further establish likely values for additionality associated with tax incentives. As noted, additionality is very hard to estimate even with large data sets. However, further exploration with media companies, perhaps involving structured survey work (designed for input into a specific estimation methodology) is likely to yield a much better estimate of additionality than currently available.

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