



## **Substituted Accounting Period Case Study**

Correct as at February 2020

### **DISCLAIMER**

#### **Get your own legal and tax advice**

The below case study is intended to provide information in a practical way about how one production company used a Substituted Accounting Period (SAP) to its advantage.

It is in no way intended to provide legal, accounting or tax advice. Producers should seek their own legal, accounting and tax advice on this matter.

#### **Producer Offset Final Certificate Applications**

Once a Producer Offset Final Certificate application has been lodged, the end of financial year date cannot be changed.

If there is a change to the end of financial year date after an application has been lodged, the applicant must withdraw the application, revise the relevant details, submit an updated QAPE audit and re-submit their application.

The timeframe for assessing the updated application will be approximately 12 weeks from receipt of a complete application.

## CASE STUDY

Janet Wood-Joyce is the Group Accountant with Electric Pictures Pty Ltd. Electric Pictures is a prolific production company based in Western Australia who specialises in factual content. Learn more about them here: <https://electricpictures.com.au/>

Below Janet answers questions about how she applied the SAP process to programs made by Electric Pictures.

### **What is Substituted Accounting Period (SAP?)**

A SAP is a financial year that is not the standard tax year of 1 July to 30 June. For example a company may run their financial year from 1 April to 31 March.

An entity can apply to the Australian Taxation Office (ATO) for a SAP. Over the past 3 years, I have successfully applied to the ATO to have a SAP applied to several of Electric Pictures productions.

### **Why did you decide to apply for a SAP?**

Productions don't usually run with the standardised accounting period for practical reasons. We are not reporting financial results per se - the tax return is a vehicle to obtain the producer offset rebate.

If we are rigid in adhering to the 30 June period end then any period ending during the following 11 months falls into the next tax year. This delays the receipt of the offset.

For example, if a production completes on 31 July 2018, this is in the 2019 tax year and ordinarily the tax return cannot be submitted until after 30 June 2019.

By having a SAP you can plan the financial period end around the production and quickly move through the assessment period to the tax return. For example, if instead the financial period ends 31 July 2018 then the 2018 tax return can be submitted as soon as the final certificate is issued.

### **What were the steps involved?**

You need to apply to the ATO. The ATO rejected my first request but in doing so referred me to the legislation and information I needed on which to form and submit an appeal against their decision.

The appeal was successful and I have now applied for and been granted six SAPs. There is a form that can be used - see link below.

### **What are the key elements to consider?**

I demonstrated to the ATO's satisfaction that the business was a special case and was outside the ordinary run.

### **How do you work out the best ‘substitute’ end of year?**

We consider our production schedules and when we should deliver the finished product. Taking into account that all costs must be accounted for (QAPE purposes), I usually add on an extra month to the delivery date for safety. It is important to be careful about this because you need to deliver the production before the end of the SAP or potentially have to wait another 12 months before you can submit your tax refund application.

### **At what stage of the production did you decide to apply for the SAP?**

I apply once the production agreement with the broadcaster and the other investors is executed.

### **Can you work out the SAP at the end of the project to reduce uncertainty?**

I don't know and I wouldn't recommend it. I feel that a fixed time frame at the beginning is more important so that everyone involved is focused on the same end date. Don't try to make it too tight. The whole point of the SAP is that you can have a little flexibility.

### **Are there any limitations you are aware of as to when you can apply? E.g. is during post production too late?**

I don't know. However, once you have fixed the SAP it remains fixed and cannot be changed without further agreement from the ATO.

### **How long did the tax office take to process the SAP application?**

On average, 30 days.

### **Can you give us a typical timeline of one of the projects for which you got a SAP?**

- Received verbal agreement that the production is to go ahead from the broadcasters and distributors.
- Set up SPV and applied for ABN etc. (Required for contracts)
- Opened the bank accounts. (Required for contracts)
- Agreed delivery dates with broadcasters.
- Executed the production agreement.
- With reference to the delivery dates and practical issues in completing the production set the financial period end.
- Applied for the SAP.

## **Any final tips to others considering this as an option?**

Set your accounting software to the SAP before entering any transactions.

Remember that GST, Super and PAYG will still be accounted for in the traditional months or quarters ending 30 June.

After the final tax return is submitted and all liabilities are settled i.e. the Balance Sheet is nil you can apply to wind up the SPV voluntarily through ASIC for approximately \$40.

And lastly, make sure you get your own good, independent advice.

## **REFERENCE DOCUMENTS**

ATO: How it Works

<https://www.ato.gov.au/Tax-professionals/Prepare-and- lodge/Tax-agent-lodgment-program/Tax-returns-by-client-type/Substituted-accounting-periods/#HowaSAPworks>

ATO: Practice Statement Law Administration

<https://www.ato.gov.au/law/view/document?Docid=PSR/PS200721/NAT/ATO/00001>

ATO: Application for a SAP

[https://www.ato.gov.au/Forms/Application-for-a-substituted-accounting-period-\(SAP\)/](https://www.ato.gov.au/Forms/Application-for-a-substituted-accounting-period-(SAP)/)

Screen Australia Podcast: Producer Offset

<https://www.screenaustralia.gov.au/sa/screen-news/2019/08-01-podcast-producer-offset>