



Australian Government



PRODUCER OFFSET FACT SHEET: Assets and rentals for non- SPVs

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The treatment of rentals and assets used in a production requires particular attention from applicants who are not producing their project through a special purpose vehicle (SPV) company.

Please note: Screen Australia cannot provide legal or accounting advice and strongly recommends that all potential applicants seek independent professional assistance. The information in this fact sheet is general information only, not tailored to any project in any way, and not intended to be relied on in place of professional advice

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Summary

- 'Intra-company' rentals are not recognised as expenditure for the purposes of the Producer Offset. QAPE is based on costs actually incurred by the applicant. A company cannot incur costs with itself; they must be paid to a third party. For example, the rental of premises may be a line item in a production budget and cost report however, unless it is paid to a third party, this rental cannot be claimed as QAPE. Any such charges should not be transferred to the final QAPE spreadsheet.
- If company-owned equipment is used on a production, the applicant cannot rent the company-owned equipment to the production, as that would mean it is renting the equipment to itself. Instead, the equipment is used up over time and thus it is possible to claim the depreciation on the equipment as QAPE over the period it is used on the production.
- For the purpose of the Producer Offset, an asset must be depreciated in the same way as it has been depreciated for the company's tax purposes. It is important to use the appropriate depreciation schedules (as provided by the company accountant or a tax accountant) to apportion the cost to the production. Below are some examples of how to claim (camera, premises).

1. 'Intra-company rentals' and QAPE

QAPE is based on costs you actually incur. A company cannot incur costs with itself; they must be paid to a third party. This may mean that your QAPE spreadsheet figures will be different from the expenditure in your cost report.

Where a company is submitting an application for the Producer Offset, it will have charges such as 'rentals' in its expenditure statements, cost reports and budget (eg office rental and equipment rental).

However, a rental situation, for the purposes of the Producer Offset, can only occur between two separate entities (eg parent company to subsidiary or SPV, or a third party to the applicant company). Please consult your company accountant or production accountant on how your company structure will impact your QAPE.

Where there is no SPV, rental amounts charged by the applicant company to the production cannot be claimed as QAPE for the purposes of the Producer Offset, because they have not been incurred – even if this amount is a line item in the budget and cost report.

What can be claimed as QAPE is actual rent paid by the applicant company to a third party. If the company owns its premises, for example, rental costs in the production budget cannot be claimed as QAPE as there is no expenditure incurred with a third party. Production expenditure charged for the cost of maintaining an office is expected to be covered in the applicant's 'Overheads' claim.

2. Claiming depreciation as QAPE

In the case of assets such as equipment, it is the amount of depreciation attributable to the use of the asset in making the film that can be claimed as QAPE, rather than the rental cost that may be itemised in the budget.

The depreciation method used for the company tax return must be used for the QAPE claim.

When preparing an Offset application, you should identify any equipment which has been 'assetised' (i.e. treated as an asset in company tax returns) and have your company or tax accountant create a comprehensive depreciation schedule for all such equipment. Cameras and sound and editing equipment owned by the applicant company are typical types of assets in these circumstances.

You also need to provide a depreciation schedule showing how the assets have been treated by the company to date, including the purchase price and date of purchase.

Screen Australia requires this information in order to properly determine QAPE.

You need to consult your company or tax accountant to provide all the requisite information.

However, the scenarios below might give applicants more clarity about how depreciation works in this context.

3. Some examples

CAMERA HIRE:

An applicant company owns a camera and uses it in making a film. The company charges the camera to the production at a cost of \$1,000 per week for 10 weeks (a total of \$10,000).

In both the following scenarios, the production budget for the film contains the same line item of \$10,000 for camera hire.

Scenario 1:

The applicant company purchased the camera (which has an effective life of five years) six years ago and it has been fully depreciated in the applicant company's books.

In this case, for the purposes of the Producer Offset, the \$10,000 does not form part of the film's total film expenditure and there is no amount entered into the QAPE spreadsheet at all. This is because the camera has no effective life left as an asset, and no value in taxation. Therefore, there is no depreciation amount to claim.

Scenario 2:

The applicant company purchased the camera (which has an effective life of five years) two years ago. The camera, therefore, has three years in which it

can still be depreciated, and the applicant company can claim the proportion of the remaining depreciation (effective life) that is relevant to the period it was used on the film.

If, after consulting a tax accountant, the camera is deemed to have an amount of depreciation attributable to its use on the film, for example of \$5,000, then this depreciable amount can be claimed as both the production expenditure and QAPE, ie \$5,000 is put in column A of the QAPE spreadsheet (Total Film Expenditure), and column C (Total QAPE).

		(A)	(B1)	(B2)	(C)	
7						
8						
9	ALL IN AUD	COMMENT	TOTAL	FOREIGN	AUSTRALIAN	TOTAL
10		ON	FILM	CO-PRODUCER	APPLICANT	
11		COST	EXPENDITURE	EXPENDITURE	EXCLUSIONS	TOTAL
12				<i>(see note below)</i>		QAPE
13	CAMERA EQUIP	Depreciable amount	5,000	-	-	5,000
14	SOUND EQUIP		-	-	-	-
15	LIGHTING EQUIP		-	-	-	-
16	GRIP EQUIP		-	-	-	-
17	UNIT FACILITIES		-	-	-	-
18	SAFETY		-	-	-	-
19	RENTALS & STORAGE		-	-	-	-
20	TRAVEL & TRANSPORT		-	-	-	-
21	ACCOM, LIVING, CATERING		-	-	-	-
22						
23						

This \$5,000 is the depreciable amount of the camera relevant to the period of the making of the film which is listed as the Total Film Expenditure and as QAPE.

Both scenarios will result in a difference between the expenditure amounts in the QAPE spreadsheet and the budget/cost report.

RENTAL CHARGES FOR PREMISES:

Scenario 1:

Your company owns its own office space and also owns the editing rooms you use on the production.

In this case, for the purposes of the Producer Offset, your company cannot charge a rental fee to itself (although the amount appears as a line item in the budget and cost report) for either the office or the editing rooms because it already owns the property and there is no outgoing expenditure to a third party.

No rental can be claimed as QAPE. The 'Overheads' claim is expected to cover any indirect costs incurred.

Scenario 2:

Your company rents office space from a third party (for example, a real estate agent).

In this case you may claim as QAPE the proportion of the actual rent that is attributable to the film's production. This fee can only be claimed as QAPE if rent was actually paid by the applicant company to a third party. You may be asked to substantiate this claim.

Scenario 3:

As one of the principals of the company, you run your company from home, including providing editing facilities. You personally own your home. Your company pays you office rental into your own personal bank account, and in the production budget and the cost report for the film, there will be a rental charge.

As in scenario 2, your company may claim as QAPE the proportion of actual rent attributable to the film's production. This is because rent was actually paid by the company to a third party. For the purposes of the Offset, it is not

the rental amount in the budget that is claimed as QAPE; rather, the actual rent that is paid to your personal account.

Scenario 4:

This scenario is the same as in 3 above, but your company does not pay office rental into your own personal account, even though there is a rental charge in the production budget and the cost report.

The budgeted rental fee in this situation would not be eligible as either film expenditure or QAPE because your company has not actually paid rent on the premises. It is expected that any such claims would be covered within the applicant's 'Overheads' claim.

Remember, the Producer Offset operates under tax legislation.

It is important to note that in assessing Producer Offset applications, Screen Australia is acting under, and subject to, the *Income Tax Assessment Act 1997* and accordingly, expects applicants to provide evidence of expenditure and substantiation of arm's length pricing in the same manner as is required when substantiating expenditure for other income tax purposes.

Criminal and civil penalties apply to persons who make false or misleading statements to Screen Australia or the Australian Taxation Office. In addition, if a final certificate issued by Screen Australia is obtained by fraud or serious misrepresentation, Screen Australia can revoke the certificate.

For further information, please contact the Producer Offset & Co-production Unit.