

Not-for-profit financial reporting and tax update

December 2021



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Financial reporting for Not-for-profit (NFP) entities continues to be an area of focus for the Australian Accounting Standards Board (AASB). We also continue to see developments in taxation law for NFPs.

This publication outlines the latest developments in financial reporting and taxation for private sector NFPs.

Please contact your EY advisor for further details.

Financial reporting update

Leases

AASB 2020-4 Amendments to AASBs - COVID-19-Related Rent Concessions

Effective for annual periods beginning on or after 1 June 2020.

AASB 2020-4 amended AASB 16 to allow lessees to not treat COVID-19-related rent concessions as lease modifications if all of the following conditions are satisfied:

- ▶ The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- ▶ Any reduction in lease payments affects only payments originally due on or before 30 June 2022¹.
- ▶ There is no substantive change to other terms and conditions of the lease.

Impact

If the practical expedient is elected, NFPs:

- ▶ Are not required to use a revised incremental borrowing rate to remeasure the lease liability.
- ▶ Can recognise the impact of the concessions either as a gain in profit or loss or as a reduction in a right-of-use (ROU) asset.

Resource

[Applying IFRS: Accounting for COVID-19-related rent concessions \(April 2021\)](#)

[IASB extends relief for COVID-19-related rent concessions \(April 2021\)](#)

¹ AASB 2021-3 extended the application period by one year to include lease payments up to 30 June 2022 (effective on or after 1 April 2021 but may be applied early.)

Simplified disclosure standard

AASB 1060 General Purpose Financial Statements - Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities

Effective for annual periods beginning on or after 1 July 2021.

AASB 1060 replaces the Reduced Disclosure Requirements (RDR) framework with the Simplified Disclosures Standard (SDS). In other words, NFPs will not have the ability to continue applying RDR for reporting periods beginning on or after 1 July 2021. SDS aims to further reduce the reporting burden of those preparing General Purpose Financial Statements (Tier 2) reports and applying RDR by requiring disclosures based on those in the IASB's *IFRS for SMEs* standard.

The key features of SDS include:

- ▶ A single standard (AASB 1060) with all disclosures required by entities preparing GPFS (Tier 2) reports (including public sector and NFP entities).
- ▶ Developed based on the IASB's IFRS for SMEs standard with some modifications to account for differences in Australia's recognition and measurement requirements (that follow full IFRS recognition and measurement), and Australian specific disclosure needs.
- ▶ Some Australian-specific disclosures including, for example, disclosures of fees for audit and review services.

The AASB has issued AASB 2021-1 to clarify that NFPs early-adopting SDS do not need to provide comparative information in the notes to the financial statements when its latest GPFS does not disclose such similar information.

Impact

- ▶ Reductions in disclosures compared to RDR
- ▶ An option to not present a statement of changes in equity under certain circumstances
- ▶ Some additional disclosures not currently required.

NFP financial reporting framework

The objective of this project is to develop a reporting framework that is simple, proportionate, consistent, transparent and cost-effective for all NFP private sector entities in Australia.

Based on the Board's tentative decisions to date, features of such a framework are likely to include an additional reporting tier, e.g., Tier 3 with simplified recognition and measurement requirements that are capable of being audited and enforced.

It is tentatively decided by the AASB that the Tier 3 reporting requirements will be issued as a single standalone pronouncement that will: (a) be drafted in simple language using terminology tailored to NFP private sector entities of the size contemplated by the Board for Tier 3 entities (revenue between \$500,000 and \$3 million), (b) have minimal cross-referencing to requirements of other Australian Accounting Standards, (c) include a simple Basis for Conclusions, and (d) include application guidance, implementation guidance and template financial statements.

An entity of the Tier 3 size contemplated by the Board will, however, be able to prepare Tier 1 or Tier 2 GPFs, if it elects to do so.

A Discussion Paper on the NFP Tier 3 reporting requirements is expected to be issued in Q3 2022.

AASB staff FAQs on NFP accounting matters

As mentioned in our previous update, the AASB has released several staff FAQs to provide additional guidance on various financial reporting matters relevant to NFP.²

- ▶ [AASB staff FAQs for NFP entities](#) that cover these matters:
 - ▶ Scope and effective dates of AASB 15 and AASB 1058
 - ▶ Accounting for research grants
 - ▶ Identifying and recognising performance obligations in NFP schools
 - ▶ Accounting for concessionary loans
 - ▶ Initial recognition by an NFP of an asset acquired for consideration that is significantly less than fair value principally to enable the entity further its objectives, and the associated income.

- ▶ [AASB Staff FAQs on events after the reporting period](#)
- ▶ [AASB Staff FAQs on impairment of non-financial assets](#)
- ▶ [AASB staff FAQs on accounting for government support](#)

ACNC Financial Reporting Changes

The ACNC has revised the reporting thresholds for Australian charities, with effect from 1 July 2022 (i.e. the 2021-22 financial year). The amendments increase the size thresholds at which charities are required to prepare and have audited financial reports, as follows:

- ▶ Annual revenue threshold for small charity³ has increased to \$500,000 from \$ 250,000.
- ▶ Annual revenue threshold for large charity⁴ has increased to \$3mil from \$ 1mil.
- ▶ Charities with annual revenue between \$500,000 and \$3mil are considered medium size charities⁵.

In addition:

- ▶ From 1 July 2022 (21/22 financial year), large charities with two or more key management personnel will be required to report remuneration paid to responsible persons (e.g., directors) and senior executives on an aggregated basis in their AIS.
- ▶ From 1 July 2023 (22/23 financial year), all charities will be required to report related party transactions in their AIS.

² No new staff FAQs were issued since our last update in March 2021.

³ Should submit ACNC Annual information statement (AIS)

⁴ Should submit AIS with audited financial statements

⁵ Should submit AIS with audited or reviewed financial report

Tax update

COVID-19 related

Certain support payments not assessable

There are a number of support payments for businesses and the ATO provides useful guidance on the tax treatment of each at [COVID-19 support: tax quick guide | Australian Taxation Office \(ato.gov.au\)](#).

Specifically payments to support businesses affected by COVID-19 (e.g. NSW 2021 COVID-19 JobSaver payment) may not be assessable where:

- ▶ The payment is received under a program formally declared as non assessable non exempt.
- ▶ You carried on a business with an aggregate turnover of less than \$50m.
- ▶ The payment is received in 2020-21 or 2021-22.

JobMaker Hiring Credit

Date of effect: 7 October 2020

Key impact

Eligible employers will be able to claim the JobMaker Hiring Credit for jobs created for eligible employees aged 16 to 35, for a maximum claim period of 12 months from their employment start date. The Hiring Credit will be paid quarterly in arrears at the rate of \$200 per week for those aged 16 to 29 and \$100 per week for those aged 30 to 35 (an annual maximum of \$10,400 per position).

Employers will need to demonstrate an increase in both overall employee headcount and total payroll for each position created. Additionally, Employees will need to have worked for a minimum of 20 hours per week and received the JobSeeker Payment, Youth Allowance (Other) or Parenting Payment for at least one month out of the three months prior to when they are hired.

A further enhanced 50% wage subsidy for apprentices and trainees will be available from 5 October 2020 to 30 September 2021, for businesses of any size, capped at 100,000 places, up to \$7,000 per quarter per eligible apprentice or trainee.

You can access further information about the Jobmaker payment here:

[JobMaker Hiring Credit - Information for employees \(ato.gov.au\)](#)

Temporary full expensing of depreciating assets extended

Date of effect: TBC - announced that extended until 30 June 2023

Key impact

This measure was announced as part of the Federal Budget on 6 October 2020 and allows businesses with aggregated turnover of less than \$5b to immediately deduct the business portion of the cost of eligible new depreciating assets. There is no limit placed on the cost of the asset but the eligible assets must be purchased after 7.30pm (AEDT) on 6 October 2020 and first used or installed ready for use by 30 June 2023.

This measure also extended full expensing to second hand assets for businesses with a turnover of less than \$50m.

The below table summarises the measures for new and second-hand assets.

Eligible new assets	<ul style="list-style-type: none">▶ Businesses with aggregated turnover < \$5bn can instantly write off capital assets acquired which are either first used, or installed, by 30 June 2023.▶ No threshold applies to each eligible asset.▶ Cost of improvements to existing eligible assets made before 30 June 2023 can also be deducted.
Eligible Second-hand assets	<ul style="list-style-type: none">▶ Small & medium sized businesses (aggregated turnover < \$50m) to fully expense cost of second-hand assets.▶ Businesses with turnover between \$50m-\$500m can still deduct second-hand assets costing < \$150,000 under previous measures.

Carry back of tax losses

Date of effect: 2020-21 tax year

Key impact

Tax losses of corporate tax entities incurred in the FY20 to FY22 years can be carried back to offset taxable income in FY19 or later years, generating a refundable tax offset for taxes paid in those earlier years. Eligible entities may elect to receive a tax refund when they lodge their 2020-21 and 2021-22 income tax returns (including carry back tax losses for the 2019-20 income year).

To qualify, a company's aggregated turnover must be less than \$5bn in the year of the loss. The quantum of tax losses that can be carried back is limited to the taxable income derived in the earlier years converted into a tax equivalent amount at the entity's corporate tax rate for the loss year and must not produce a franking account deficit for the company.

The loss carry back provisions include integrity rules consistent with those that applied under the previous 2013 year loss carry back rules.

Fringe benefits tax (FBT)

Updates - From 1 April 2021, access to current small business tax concessions were extended to businesses with an aggregated turnover between \$10m and \$50m. Those small businesses will be eligible for the FBT exemption on car parking and multiple work-related portable electronic devices, such as phones or laptops, provided to employees.

From 2 October 2020, a new FBT exemption is also available for certain employer-provided retraining and reskilling costs for employees who are redundant or soon to be redundant. This includes trainings that are not sufficiently connected to an employee's current employment.

Reminders - Employers may have provided fringe benefits to their employees to support them during COVID-19. Providing employees with emergency food, healthcare, quarantine cost reimbursements or even assistance in setting up their workstations at home may have FBT implications. Staying within the below guidelines can limit your potential FBT liability and there may also be salary packaging opportunities:

- ▶ **Utilise the Otherwise Deductible Rule:** If the employee would have been entitled to a once-off deduction in their personal tax return, had they paid for the benefit themselves, you may be able to reduce the taxable value for FBT purposes. This may include the purchase of computer items, desks, office chairs etc.
- ▶ **Providing tools of trade:** Providing a laptop or other portable electronic device primarily for use in the respect of employment may be exempt from FBT.
- ▶ **Apply the minor benefit exemption:** Providing benefits less than \$300 (including GST) on an irregular and infrequent basis may be able to be excluded from your FBT return.
- ▶ **Emergency assistance:** In the context of COVID-19, where assistance is provided to an employee who has been located in a high-risk area and has been relocated or otherwise required to self-isolate, exemptions may be available for temporary emergency meals, food supplies, accommodation and flights to return to Australia

- ▶ **Loans:** Employers may provide employees with loans to assist with financial difficulty as a result of COVID-19. FBT will be payable on the taxable interest component on the loan, which is calculated as the difference between the interest charged by the employer and the ATO interest rate (4.80% for the 2021 FBT year). Please note that where the taxable interest component is less than \$300, the minor benefit exemption may be applied.

The ATO has confirmed for the FBT year ending 31 March 2021, it will not apply any compliance resources to scrutinise expenditure under meal entertainment salary packaging arrangements provided the meals are provided by a supplier that was authorised as a meal entertainment provider as at 1 March 2020.

Payroll

Superannuation: There have been no changes to Superannuation Guarantee as a result of the COVID-19 environment. Superannuation contributions must still be made for employees, at a minimum by the quarterly statutory due date. Noting from 1 July 2021 the Superannuation Guarantee rate increased to 10%.

Stapled Super: As of 1 November 2021, for any new employees, employers will need to adjust their internal processes to include an additional step of requesting an employee's stapled superannuation fund, in order to comply with the choice of fund rules. The concept of 'stapled' superannuation has been introduced following the announced 'Your Future, Your Super' reforms (YFYS reforms) as part of the 2020-21 Federal Budget. The measure is designed to limit the creation of multiple unintended superannuation fund accounts for employees who move jobs and do not exercise their ability to choose a superannuation fund when issued their superannuation choice forms.

\$450 threshold for superannuation contributions: On 11 May 2021, as part of the 2021-22 Federal Budget, the Australian Government announced it will remove the \$450 per month threshold to expand coverage of super guarantee to eligible employees regardless of their monthly pay.

This legislation has now been drafted, but is not yet law. It is intended to commence from 1 July 2022, when passed.

Employers should be aware of the potential additional costs that may arise from these changes for new employees/contractors engaged going forward, as well as the existing arrangements in place.

Payroll tax: For those NFP subject to payroll tax, a number of payroll tax concessions and deferrals have been announced by the various state governments. Please visit the state revenue office websites relevant to you to find out more.

Single Touch Payroll (STP) Phase 2.0: An automatic deferral will be provided across the board till 1 March 2022, and no application will be required for this. Please reach out to your payroll provider for further guidance in relation to the steps they are undertaking to prepare for 2.0, as well as mapping your wage codes for STP 2.0 reporting purposes.

Other tax matters

DGRs required to be a registered charity

Date of effect: 14 December 2021

Key impact

From 14 December 2021 non-government DGRs are required to be a registered charity with the ACNC. Charity registration is an existing requirement for the majority of general DGR categories; however, the new legislative changes expand this requirement to 11 other DGR categories, including:

- ▶ Public fund for hospitals
- ▶ Public fund for public ambulance services
- ▶ Public fund for religious instruction in government schools
- ▶ Roman Catholic public fund for religious instruction in government schools
- ▶ School building fund
- ▶ Public fund for rural school hostel building.
- ▶ Approved research institute
- ▶ Public fund for persons in necessitous circumstances
- ▶ Fire and emergency services fund
- ▶ Public fund on the Register of Environmental Organisations (REO)
- ▶ Public fund on the Register of Cultural Organisations (ROCO)

Certain entities such as Australian government agencies, ancillary funds and entities exempt under the ITAA 1997 are exempt from this requirement.

Transition process: Entities are given an automatic 12-month general transition period, giving DGRs until 14 December 2022 to register as a charity. The ATO may grant an extension of up to 3 years in limited circumstances. Eligibility for the extension is dependent on the organisation's DGR category or the application date.

COVID-19 declared a disaster

Date of effect: 6 May 2020 (for two years from 18 March 2020)

Key impact

By declaring COVID-19 a disaster various disaster relief funds are able to receive tax-deductible donations to assist people affected by the pandemic.

Draft Tax Ruling TR2021/D6

Date of effect: TBC

Key impact

The ruling replaces TR97/22 and applies to societies, associations and clubs (collectively "club") that are seeking to determine if they qualify for the 'games and sports' exemption under table item 9.1(c) of s50-45 of the ITAA 1997.

A club qualifies for the games and sports exemption if it:

- ▶ Is established for the main purpose of the encouragement of a game or sport.
- ▶ Is not carried on for the purposes of their individual members' profit or gain.
- ▶ Meets other special conditions.

The key difference between the draft ruling and TR97/22 is the incorporation of commentary from the Word Investments case which considered how commercial activities can be connected to the purposes of an organisation. Accordingly, the draft ruling provides more guidance on how the non-sporting activities impact the main purpose of the organisation.

Clubs with both sporting and non-sporting purposes will not qualify for the exemption unless the non-sporting purposes are ancillary and incidental to carrying out the sporting purpose or are secondary to the sporting purpose.

Requirement to lodge an annual self-review

Date of effect: 1 July 2023

Key impact

The 2021-2022 Federal Budget brought in additional reporting obligations for non-charitable NFPs (e.g. sporting or agricultural organisations) that rely on a self-assessed income tax exemption. From 1 July 2023 NFPs with an active ABN must lodge an annual self-review in order to access an income tax exemption. Failure to complete the self-review could render the entity ineligible for an income tax exemption and penalties may apply under the ATO's penalty framework. Details of the reporting have not yet been provided.

Minimum distribution rates for ancillary funds

Date of effect: Legislated in June 2020

Key impact

The guidelines for both Public and Private ancillary funds have been updated to encourage distributions as a result of the COVID-19 pandemic. Where the ancillary fund exceeds its minimum distribution requirement by five percentage points or more for the 2019-20 and 2020-21 financial years it will have a reduction of one percentage point in the minimum annual distribution rate (3 percent for public ancillary funds and 4 percent for private ancillary funds).

The number of years this reduced rate applies is dependent on how much the fund exceeded the minimum distribution rate in the relevant years.

ATO and ACNC activity and enforcement powers

Increased ATO activity is expected due to the Government's various COVID-19 relief measures, in particular, the JobKeeper scheme and following increased funding to the ATO and ACNC. Key areas of interest are:

- ▶ We anticipate the ATO will continue to scrutinise JobKeeper claims - entities should ensure all eligibility conditions have been satisfied and appropriate documentation is maintained to substantiate their claims.
- ▶ The ATO has been encouraging larger taxpayers to adopt the Tax risk management and governance review guide and embrace tax risk management as part of good corporate governance. We anticipate the ATO to extend its focus on tax risk management and governance practices (at least to some extent) to all taxpayers in future years.
- ▶ The ATO has been undertaking a number of review programs for corporate entities and private groups and there is an expectation that this approach will be extended to government and not for profit entities in the near future.
- ▶ The ACNC has been provided funding in October 2020 to implement reviews where charities are at risk of failing to meet the governance standards.

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