Not-for-profit financial reporting and tax update

July 2024

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

Please contact your local EY advisor for further details.

What included within?

Financial reporting update

AASB 18 - Presentation and disclosure in financial statements

Following the issue of IFRS 18 by the International Accounting Standards Board (IASB), the Australian Accounting Standards Board (AASB) has issued the Australian equivalent standard, AASB 18, which replaces AASB 101 - *Presentation of Financial Statements*.

The AASB deferred the application date of the standard for NFP entities for an extra year, to periods beginning on or after 1 January 2028. This will allow the AASB time to consider whether any NFP amendments may be required to the new standard.

In addition, the AASB will consider disclosure requirements for Tier 2 entities, with amendments being made subsequently to AASB 1060.

AASB 18 introduces new requirements on presentation within the statement of profit or loss, including:

- Specified totals and subtotals
- Disclosure of management-defined performance measures
- New requirements for aggregation and disaggregation of financial information, based on the identified 'roles' of the primary financial statements and the notes

There are also consequential amendments to other accounting standards.

Resources

IASB issues IFRS 18 Presentation and Disclosure in Financial Statements

Sustainability-related financial reporting standards

The Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 (the Bill), which outlines the amendments to the Corporations Act to introduce mandatory climate disclosures, is under consideration by Parliament. The Bill has passed the lower house and is awaiting passage in the upper house.

The Bill stipulates that entities registered with the Australian Charities and Not-for-profits Commission will not be required to make climate-related financial disclosures. However, other not-for-profit entities that are companies limited by guarantee will be required to prepare a sustainability report if they meet the size thresholds and have revenue of at least $1 million. If the Bill passes Parliament and becomes law before 1 December 2024, the requirements will be effective from 1 January 2025.

In conjunction with the development of the Bill, the Australian Accounting Standards Board (AASB) has been redeliberating its proposals in ED SR1 Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information (ED SR1) after considering feedback from the comment letters. ED SR1 has been drafted to apply to both for-profit and not-for-profit (NFP) entities, including those in the public sector. In these redeliberations, the AASB has not yet discussed feedback specific to the NFP entities. The AASB has indicated an aspirational deadline of the end of August 2024 for finalising the ASRS.

It is important to note that it will be the responsibility of regulators and authorities other than the AASB to mandate which NFP entities should comply with the ASRS. Should NFP entities wish to voluntarily prepare sustainability disclosures, in the absence of a finalised ASRS, IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures, issued by the International Sustainability Standards Board (ISSB), are available for adoption.

Resources

[Sustainability Disclosure Hub | EY Australia]

NFP financial reporting framework and proposed Tier 3 standard

The AASB has continued the development of an ED for a Tier 3 standard for NFPs. The AASB recently decided, inter alia, to include the following proposals / approaches in the ED:

Recognition and measurement matters

- **Financial assets acquired at significantly less than fair value:** policy choice to measure at initial recognition, at cost or at fair value. For subsequent measurement, regardless of how measured initially, entities can choose cost or revaluation model.
- **Concessional loans**: initial measurement at transaction price rather than fair value.
- **Equity accounting**: include an impracticability exemption for aligning the policies of an investee and investor when equity accounting.
- **Impairment of non-financial assets**: add guidance on measurement of Value in Use.
- **Asset held for sale**: apply the Tier 2 requirements for assets held for sale.
- **Business combinations**: measure assets and liabilities of the combined entity at pre-combination book values. Material assets and liabilities that do not have carting amounts under AAS are recognised at their combination date fair value. Any difference between combination date fair value and the net assets is recognised in equity.
- **Comparative information**: a new combined entity may elect to present comparative information for the combined operations for the periods prior to the combination date in the primary financial statements or notes.
- **Intangible assets:** align with Tier 2 recognition and measurement requirements with a few exceptions such as non-recognition of internally generated intangibles and maximum useful life of 10 years for indefinite-lived intangible assets.

Financial statement presentation matters

- **Statement of changes in equity**: align the requirements with existing Tier 2 requirements.
- **Statement of cash flows**: election to present cash flows from investing and financing activities separately or together and present cash flows from operating activities using the direct method or the indirect method.

Disclosure matters

- **Non-financial assets acquired at significantly less than fair value**: develop disclosure requirements to help users understand the nature of and the entity's dependency on such assets.
- **Key management personnel remuneration:** not require such disclosures.

Transitional requirements

- **When moving first time to Tier 3**: Apply transitional requirements based on AASB 1 *First-time Adoption of Australian Accounting Standards* or the Tier 3 Standard directly using a modified retrospective approach.
- **Moving to Tier 1 or Tier 2 from Tier 3 GPFS**: include specific requirements for entities moving between Tiers.

Resources

[AASB Action Alert No. 228, Mar 2024]

[AASB Action Alert No. 231, June 2024]

[Discussion Paper - Development of Simplified Accounting Requirements (Tier 3 NFP Private Sector Entities)]

[AASB NFP Framework Project Summary]

Conceptual Framework: Not-for-Profit Amendments

Consistent with the for-profit private sector, the AASB intends to remove the ability for certain NFP entities to prepare Special Purpose Financial Statements (SPFS) under AAS once it develops the new Tier 3 GPFS reporting requirements discussed above.

The AASB is proposing to:

- Exempt from its application NFP entities required only by their constituting document or another document to prepare financial statements that comply with AAS, if the document was created/ amended before the effective date of the amendments
- Provide relief to NFP entities currently preparing SPFS that will prepare for the first time Tier 2 GPFS

Until such changes are made by the AASB, NFPs that are required to prepare financial statements in accordance with AAS are still able to apply the reporting entity concept in SAC 1 *Definition of Reporting Entity* and choose to prepare SPFS if they self-assess themselves as a non-reporting entity and don't opt to prepare GPFS.

Resources

[AASB Action Alert No. 231, June 2024]

Tax update

2024-25 Budget

There were several updates announced or confirmed in the 2024-25 Federal Budget. These included:

- Personal tax rate changes - which will impact PAYG withholding amounts from 1 July 2024
- Removal of 457 tariffs
- Addition and removal of entities specifically listed as deductible gift recipients (DGRs)
- Small business instant asset write-off extended (see below).

Small business instant asset write-off extended

The increase in the instant asset write-off threshold for small businesses, originally announced in the 2023-24 budget, will be extended by a year for small businesses with aggregated turnover of less than $10 million per annum.

A $20,000 threshold will now apply (on a per asset basis) for assets acquired and first used or installed ready for use for taxable purposes between 1 July 2023 and 30 June 2025. The existing small business accelerated depreciation rules (which include the small business simplified depreciation pool) will continue to apply for assets costing more than $20,000.

Build To Rent Tax (BTR) Concessions

Exposure draft legislation was released for consultation in April 2024. The legislation proposes to amend the *Income Tax Assessment Act 1936* and the *Tax Administration Act 1953* to implement improved incentives for investors in new BTR developments and introduce a misuse tax to prevent abuse. Key incentives include:

- Increase the rate of capital works tax deduction from 2.5 per cent per year to 4 per cent per year for active BTR developments (eligibility conditions apply when determining active BTR developments)
- Reduce the final withholding tax rate on eligible payments from managed investment trusts for active BTR developments from 30 per cent to 15 per cent.

The proposed law includes conditions for the BTR projects, additional reporting requirements and a misuse tax of 1.5% of the BTR misuse amount to neutralise the tax concessions in certain circumstances.

ACNC updates

ACNC Secrecy Reforms Project

The ACNC received funding in the 2023-24 Budget to publish further information about its regulatory activities within the sector. The aim is that by providing de-identified reasons for registration decisions the ACNC will provide greater transparency and education.

To date the ACNC has published de-identified reasons for registration decisions in relation to two types of organisations/charity subtypes:

- Necessitous circumstances
- Proprietary company limited by shares (Pty Ltd).

ATO reporting

New reporting requirements for self-assessing income tax exempt NFPs from 1 July 2024

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 Australian Taxation Office's (ATO) penalty framework.

Reporting will be online and available from 1 July 2024. Timing will depend on whether the entity has an approved substituted accounting period. The annual reporting will include questions on income tax exemption eligibility and some high-level financial information to assist the ATO in understanding the size of the organisation.

Date of effect: first reporting from 1 July 2024.

Other tax matters

FBT: Adequate alternative records

From 1 April 2024 several legislative instruments on record-keeping came into effect. Importantly, these instruments allow for other, specific record keeping to satisfy the record keeping that is otherwise required as a formal declaration. This provides an opportunity for process improvement in relation to FBT record keeping.

Specifically, the record keeping administrative concessions relate to: Temporary accommodation in respect of relocation; Otherwise, deductible benefits; Living away from home, maintaining an Australian home; Fly-in fly-out and drive-in drive-out employees; Private use of Vehicles other than cars.

Key implications for employers:

If using the alternative records ensure that you have satisfied the specific record keeping requirements as set out in the instruments.

FBT: recent ATO guidance

- ATO ruling TR 2024/3 sets out clearer guidance on treatment of self-education expenses including university fees, conferences involving travel and other scenarios.
- Electric vehicles - ATO has published c/km rate of 4.2c for zero emissions vehicles that can be used for determining the value of claims for employee use of their own cars, and to value employee contributions and operating cost when calculating value for reportable purposes.

Regulatory activity

Key areas of interest are:

- ATO is undertaking a review of all specifically listed DGRs
- Additional funding has been provided to the ATO for compliance programmes
- The ATO is ramping up audit activity in relation to employment taxes
- The ACNC has a mandate to review 2% of all registered charities endorsed as DGRs.

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EYSCORE 006406-24-AUNZ

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