

# Not-for-profit financial reporting and tax update

June 2023



## Table of contents

Financial reporting update.....	2
In case you missed these.....	2
ACNC Financial Reporting Changes.....	2
Narrow scope amendments to AASB 15 and AASB 16.....	2
Update on AASB NFP projects .....	2
NFP Financial Reporting Framework.....	2
Proposed Tier 3 Standard for NFP.....	3
Post-implementation review - AASs that apply to NFPs.....	3
Other matters .....	3
Sustainability-related financial reporting standards .....	3
Tax update .....	4
Budget announcements .....	4
Business support measures coming to an end.....	4
Other tax matters.....	4
Your experienced NFP team .....	8

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. Changes to the financial reporting obligations of registered charities by the Australian Charities and Not-for-profits Commission (ACNC) mean that large and medium charities preparing Special Purpose Financial Statements (SPFS) are required to disclose, for the first time, related party transactions in their SPFS.

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

## In case you missed these

The following changes come into effect for the first time in the June 2023 reporting period. These were also discussed in our December 2022 publication.

### ACNC Financial Reporting Changes

The size thresholds at which charities are required to prepare and have audited financial reports have increased, effective from the reporting period covered by the 2022 AIS, as follows:

- ▶ Annual revenue threshold for a small charity<sup>1</sup> increased to \$500,000 from \$250,000
- ▶ Annual revenue threshold for a large charity<sup>2</sup> increased to \$3m from \$1m
- ▶ Charities with annual revenue between \$500,000 and \$3m are considered medium-sized charities<sup>3</sup>

In addition:

- ▶ Large charities with more than one Key Management Personnel (KMP) preparing SPFS are required to disclose KMP remuneration, effective from the reporting period covered by the 2022 AIS. They can provide this on an aggregated or disaggregated basis
- ▶ Large and medium charities preparing SPFS are required to disclose related party transactions in their SPFS, effective from the reporting period covered by the 2023 AIS
  - ▶ Entities can provide the related party disclosures by applying the full disclosure requirements in AASB 124 *Related Party Disclosures* or the equivalent simplified disclosure requirements in AASB 1060. They can also apply the simplified disclosures in AASB 1060 for the other 5 Standards required by ACNC (i.e., AASB 101, AASB 107, AASB 108, AASB 124, AASB 1048 and AASB 1054)
- ▶ Comparative information for related party or KMP disclosures is not required in the first year of application of the new requirements

### Resource

[ACNC financial reporting changes for charities \(June 2022\)](#)

## Narrow-scope amendments to AASB 15 and AASB 16

The following narrow-scope amendments to AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases* applicable to NFPs are effective for annual periods beginning on or after 1 July 2022.

- ▶ **AASB 15:** Add Illustrative Example 7A to AASB 15 to clarify the accounting for upfront fees
- ▶ **AASB 16:**
  - ▶ Retain the accounting policy choice in AASB 16 to initially measure a class of concessionary right-of-use assets at cost or fair value on an on-going basis for NFP private sector lessees only
  - ▶ Defer consideration of the accounting policy choice for NFP public sector lessees pending any additional guidance that may be developed as part of the Board's ED 320 *Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities*

## Update on AASB NFP projects

### NFP Financial Reporting Framework

The release of the revised Conceptual Framework for Financial Reporting (RCF)<sup>4</sup> for for-profit private sector entities led to the removal of the reporting entity concept and the ability of certain for-profit private sector entities to prepare SPFS.

However, at present NFPs that are required to prepare financial statements in accordance with Australian Accounting Standards (AAS) are still able to apply the reporting entity concept outlined 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 General Purpose Financial Statements (GPFS).

- ▶ From 1 July 2021, NFPs preparing Tier 2 GPFS are required to adopt the Simplified Disclosure Standard (SDS) that replaced the Reduced Disclosure Requirements (RDR) framework. A summary of this framework was discussed in the December 2022 edition of this publication
- ▶ NFPs currently preparing GPFS Tier-1 financial statements can continue to do so

<sup>1</sup> Should submit ACNC Annual information statement (AIS)

<sup>2</sup> Should submit AIS with audited financial statements

<sup>3</sup> Should submit AIS with audited or reviewed financial statements

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2021

Consistent with the for-profit private sector, the AASB intends to remove the ability for NFP entities to prepare SPFS under AAS once it develops the new Tier 3 GPFS reporting requirements discussed below.

### Proposed Tier 3 Standard for NFP

Under its project to revise the reporting framework for private sector NFP entities, the AASB issued a Discussion Paper (DP) in September 2022 incorporating its preliminary views on the proposed Tier 3 GPFS for such entities.

Once Tier 3 requirements are in place, many NFP entities currently preparing SPFS may lose their ability to do so. They may, however, determine that moving to GPFS is not that onerous as it may be sufficient for them to prepare Tier 3 GPFS to satisfy their reporting obligations, instead of moving to Tier 1 or Tier 2.

The adoption of Tier 3 GPFS and the removal of SPFS are expected to impact:

- ▶ 'Medium' sized and some 'large' charities that currently lodge SPFS with the ACNC and
- ▶ Incorporated associations, co-operatives and NFP companies limited by guarantee that are required to prepare financial statements that comply with AAS under legislation, and which currently prepare SPFS

The proposals are not expected to impact NFPs that are not required to prepare financial statements that comply with AAS. These entities may continue to prepare SPFS.

The proposed Tier 3 standard is intended to:

- ▶ Specify accounting requirements that are common for NFP entities in focus
- ▶ Be easy to understand
- ▶ Include guidance and template financial statements

In the light of the feedback received on DP, the AASB has decided to proceed with development of an Exposure Draft (ED) covering proposals on both the Tier 3 Accounting Standard and removal of the ability of certain NFP entities to prepare SPFS. It intends to use compatible requirements in the IFRS for SMEs Accounting Standard, complemented by requirements from overseas jurisdictions including the New Zealand Tier 3 Standard as resources for drafting the recognition and measurement proposals of the ED.

### Resources

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

### Post-implementation review - AASs that apply to NFPs

The AASB is currently undertaking post implementation review of the following Invitations to comment (ITC):

- ▶ [Income for Not-for-profit entities \(ITC 50\)](#) seeks feedback on the application of AASB 1058 *Income of Not-for-Profit Entities* and AASB 15 which became effective for NFPs from reporting periods beginning on or after 1 January 2019.
- ▶ [Control, Structured Entities, Related Party Disclosures and Basis of Preparation of Special Purpose Financial Statements \(ITC 51\)](#) seeks feedback on the application of NFP specific requirements and guidance in AASB 10 *Consolidated Financial Statements*, AASB 12 *Disclosure of Interests in Other Entities*, AASB 124 *Related Party Disclosures* and AASB 1054 *Australian Additional Disclosures*.

The comment period for these ITCs ended on 31 March 2023. AASB will consider feedback at future meetings.

### Other matters

#### Sustainability-related financial reporting standards

The International Sustainability Standards Board (ISSB) has issued its first two IFRS Sustainability Disclosure Standards:

- ▶ IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* sets out the core content requirements for a complete set of sustainability-related financial disclosures and requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects. The effect on the entity's prospects refers to the effect on the entity's cash flows, its access to finance or cost of capital over the short, medium or long term
- ▶ IFRS S2 *Climate-related Disclosures* which is the ISSB's first topic-based Standard, requires an entity to provide information about its exposure to climate-related risks and opportunities

In Australia, the AASB has been developing the AASB Sustainability Reporting Standard-Setting Framework, which the AASB will pilot in conjunction with consultation documents for its Climate-related Financial Disclosure project, including exploring the development of sector-neutral Australian climate-related financial disclosure requirements.

### Resources

[ISSB issues inaugural IFRS Sustainability Disclosure Standards](#)

# Tax update

## Budget announcements

On 9 May, the budget was handed down while a few measures from the previous budgets remain unenacted.

Previously announced but unenacted measures:

### ► Technology investment boost

Businesses with an aggregated turnover of less than \$50m per annum will be entitled to an additional 20% tax deduction for eligible expenses and assets acquired relating to digital uptakes, such as portable payment devices, cyber security systems or subscriptions to cloud-based services. There is an annual spending cap of \$100,000.

Date of effect: Unenacted but applies from 7.30pm (AEDT) on 29 March 2022 until 30 June 2023. There is a proposal to extend it to 30 June 2024 for businesses with a turnover of \$10m.

### ► Skills and training boost

Small businesses will also be entitled to the same 20% additional deduction for eligible expenditure on Australian registered external training courses for employees only. There is an annual spending cap of \$100,000.

Date of effect: Unenacted but this measure will apply to eligible expenditure from 7.30pm (AEDT) on 29 March 2022 until 30 June 2024.

## Small Business Energy Incentive

Businesses with aggregated turnover of less than \$50 million per annum will be entitled to an additional 20% tax deduction on spending that supports electrification and more efficient energy use.

Up to \$100,000 of total expenditure will be eligible for the incentive, which will cap the additional deduction at \$20,000. Eligible assets or upgrades will need to be first used or installed ready for use between 1 July 2023 and 30 June 2024. There will be some exclusions such as electric vehicles.

## Build to rent

Income tax incentives will be introduced to help increase the supply of housing by supporting investment in build-to-rent (BTR) assets:

- Increase the Division 43 building allowance from 2.5% to 4% per year for eligible new BTR projects
- From 1 July 2024, reduce the withholding tax rate for eligible fund payments from managed investment trusts (MIT) to foreign residents in Exchange of Information Countries from 30% to 15%

Construction must commence after 9 May 2023 and there are conditions around number of units and length of leases.

## Increasing the payment frequency of Superannuation Guarantee

Employers will be required to pay their employees' superannuation at the same time as earnings, from 1 July 2026, as opposed to on a quarterly basis. The ATO will receive additional funding for audit purposes and assistance to develop a new compliance system to help it detect unpaid super payments earlier.

## Business support measures coming to an end

**A number of concessions implemented in the last few years are coming to an end at 30 June 2023. These include:**

- Temporary full expensing of depreciating assets
- Loss carry back tax offset

## Other tax matters

### Optimising FBT Record-Keeping Processes through Streamlined Records

An exposure draft has been released, presenting a framework for the ATO to issue legislative instruments that simplify and reduce FBT record keeping requirements. This draft proposes the use of adequate existing corporate or alternative records with prescribed information, allowing taxpayers to avoid the need for additional statutory evidentiary documents. The legislation aims to codify practical alternatives for travel diaries and relocation transport records, while accommodating potential technological advancements in record-keeping. Although these changes are welcomed for simplification, they are not expected to significantly impact the overall record-keeping burden on employers. The legislation is set to apply to FBT years commencing after receiving Royal Assent, and a submission process will precede its finalisation.

### New guidance on employee versus contractor classification for PAYG and superannuation

The Australian Taxation Office (ATO) has released updated draft guidance on Pay-As-You-Go withholding and Superannuation Guarantee obligations for contractors, following recent High Court decisions. Draft Taxation Ruling 2022/D3 Income tax: pay as you go withholding - who is an employee? (TR

2022/D3) will be important for businesses to consider for both existing and new contractor arrangements.

The draft ruling outlines the ATO's view of the distinction between employees and contractors, and whilst it agrees that the contractual rights and obligations at the time the contract is entered into should be prioritised, it suggests there may still be instances where the Commissioner will use the multifactorial approach.

Further, the draft ruling indicates that whether a worker conducts their own business is not determinative of them being a contractor. Also, the ability to terminate a contract may confer a capacity to control, and consequently may suggest an employment relationship.

EY provided a submission to the ATO in relation to this draft, with recommendations the final ruling is more closely aligned to the High Court decisions. We suggested employers would be better equipped to make classifications of their workers by removing the need to review how the contract was performed subsequent to it being entered into.

Accompanying the draft ruling was a Practical Compliance Guide PCG 2022/D5 which outlines the Commissioner's risk framework for evaluating worker classification arrangements. It helps parties assess their compliance risk and outlines when the ATO will investigate and apply higher penalties. Consideration of this framework will be crucial, even when relying on "safe harbours," as the risk categories determine penalty outcomes if the ATO review a scenario and disagree with the approach taken.

To be classified as low risk, certain requirements must be fulfilled, including:

- ▶ Providing evidence of mutual understanding and intention regarding tax and superannuation consequences
- ▶ Obtaining specific advice from qualified sources confirming correct classification
- ▶ Meeting all tax, superannuation, and reporting obligations.

While we support a practical approach for worker classification, we find some of the conditions burdensome, such as the need for evidence of understanding and independent advice, which may not always be practical. Additionally, we believe that including TPAR reporting as a risk factor imposes undue penalties alongside existing obligations.

#### Action required:

- ▶ **Review existing contractor agreements:** Assess the robustness of existing agreements in light of the High Court decisions, and how accurately and sufficiently these agreements support the classification of workers as contractors.

- ▶ Review contractor classification processes: Assess and align internal processes with this updated guidance.
- ▶ Seek professional advice: Consult tax and legal experts for personalised guidance on the draft ruling's impact and assistance in navigating worker classification.
- ▶ Stay informed: Keep updated on ATO revisions or final versions of the ruling.

## Electric vehicles and FBT

Eligible electric vehicles, such as battery electric vehicles, hydrogen fuel cell electric vehicles, and plug-in hybrid electric vehicles, may qualify for exemptions from FBT (Fringe Benefits Tax). To be eligible, the electric vehicle must be first held and used on or after 1 July 2022. The FBT exemption for plug-in hybrid vehicles will cease on 1 April 2025, and a review of the eligibility criteria scheduled for mid-2027. Additionally, the vehicle's price should be below the fuel-efficient luxury car tax threshold, which is currently set at \$84,916 for FY 2023. Compliance with these criteria is crucial for individuals and organisations seeking FBT exemptions for their electric vehicles.

Car running expenses, including registration, insurance, repairs and maintenance, and electricity costs for fuel, incurred in relation to an exempt vehicle are exempt from FBT. However, it's important to note that home charging station costs are not eligible for FBT exemption.

Whilst the electric vehicle may be exempt from FBT, it will still be considered a reportable fringe benefit, and as such employers will be required to calculate the taxable value of the vehicle, using either the statutory fraction or operating cost methods, to determine its inclusion in the reportable fringe benefits calculation.

#### Action required

- ▶ Consider whether electric vehicles will be provided to employees, either as company provided cars, tool of trade or under a salary sacrifice arrangement
- ▶ Calculate the tax savings that can be achieved by the business and your employees as a result of utilising the electric vehicle FBT exemption
- ▶ Update your car and salary packaging policies
- ▶ Consider charging infrastructure at the workplace
- ▶ Consider impact on your Environmental, Social and Governance (ESG)

## Single Touch Payroll Phase 2 – ATO Activity Remains Vigilant and Robust

ATO audit activity continues in this area, consistently triggered by the analysis of STP data provided by employers. Throughout the past year, the ATO remained heavily invested in its data analytics capability, continuously harnessing the growing volume of real-time data available. Notably, several instances emerged where the ATO utilised upgraded data analytics processes to initiate PAYG and superannuation compliance investigations based on identified anomalies. The focus persisted on potential superannuation shortfalls and PAYG Withholding miscalculations. This sustained emphasis reinforced the significance for employers to maintain accurate payroll system configuration and ensure STP phase 2 has been correctly implemented.

### Action required

We hope that your business has successfully transitioned to STP Phase 2 reporting requirements. Most large employer payroll providers were allowed deferrals until 31 December 2022. As such, most employers should now be live for STP Phase 2. If you were unable to conduct any assessments of pay code configurations or wage code mapping prior to the commencement of STP Phase 2, it is not too late. This can still be performed and rectified if necessary.

## Proposed workplace reforms - Introducing Superannuation NES Entitlement and Stricter Non-Compliance Penalties

The Federal Government is focused on strengthening the workplace relations framework to tackle underpayments and wage theft related to superannuation. Proposed reforms include new avenues for employees to seek compensation for underpayments, increased civil and criminal penalties, and aligning superannuation payments with earnings.

### Proposed FW Act Changes

A proposed bill seeks to amend the Fair Work Act, introducing a superannuation entitlement as part of the National Employment Standards (NES) and higher penalties. Non-compliance could lead to civil remedies and penalties imposed by the ATO. Penalties may increase up to 5 times, with potential penalties that could exceed \$4 million for companies and \$82,500 or more for individuals.

### Key Implications for Employers

Employers should ensure accurate and timely superannuation payments are being made for all relevant employees. Reviewing payroll systems, classifications, agreements, processes, and governance is essential. Compliance with

superannuation obligations should be a primary focus for employers.

Employers should consider:

- ▶ Reviewing your systems and processes to determine if you are taking reasonable steps to mitigate any substantial risk of underpayment.
- ▶ Assessing and identifying whether there are any existing underpayments.
- ▶ Consider external assistance with any potential or actual interactions with the FWO and ATO.

## Tax Ruling TR 2022/2 – Sporting bodies

Date of effect: 14 September 2022

### 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 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 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.

## **ATO and ACNC regulatory activity**

Key areas of interest are:

- ▶ Additional funding has been provided to the ATO for compliance programs
- ▶ 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 is implementing reviews where charities are at risk of failing to meet the governance standards
- ▶ The ACNC has a mandate to review 2% of all registered charities endorsed as DGRs
- ▶ Additional funding in the recent budget for disclosure of ACNC compliance activities

## **Referendum disclosure scheme**

This scheme has introduced financial disclosure requirements in relation to campaign expenditure and donations for referendum entities. Relevantly the referendum expenditure period commences 6 months before the writ is issued.

Date of effect: Became law on 27 March 2023

# Your experienced NFP team

## Sydney



**John Robinson**  
Partner - Assurance, EY Australia  
Tel: +61 2 8295 6536  
john.robinson@au.ey.com



**Anne-Marie Hyde**  
Associate Partner - IFRS Professional Practice,  
EY Australia  
Tel: +61 2 9248 5537  
anne-marie.hyde@au.ey.com



**Melissa Hohnen**  
Director - Employment Taxes, EY Australia  
Tel: +61 2 9248 5941  
melissa.hohnen@au.ey.com



**Jason Wrigley**  
Managing Partner - Western Sydney, EY Australia  
Tel: +61 2 9248 5303  
jason.wrigley@au.ey.com

## Melbourne



**Stuart Painter**  
Partner - Consulting, EY Australia  
Tel: +61 3 9288 8622  
stuart.painter@au.ey.com



**Russell Phillips**  
Partner - Tax, EY Australia  
Tel: +61 3 9655 2696  
russell.phillips@au.ey.com



**Paul Gower**  
Partner - Assurance, EY Australia  
Tel: +61 3 9288 8218  
paul.gower@au.ey.com



**Georgina Dellaportas**  
Associate Partner - IFRS Professional Practice,  
EY Australia  
Tel: +61 3 9288 8621  
georgina.dellaportas@au.ey.com



**Kalaselvi Kandiah**  
Director - IFRS Professional Practice, EY Australia  
Tel: +61 3 9288 8034  
kalaselvi.kandiah@au.ey.com

## Brisbane



**Kellie McKenzie**  
Partner - Assurance, EY Australia  
Tel: +61 7 3011 3333  
kellie.mckenzie@au.ey.com



**Kylie Meaney**  
Associate Partner - Financial Accounting and Advisory  
Services, EY Australia  
Tel: +61 7 3011 3379  
kylie.meaney@au.ey.com

## Perth



**Megan Strydom**  
Partner - Financial Accounting Advisory Services,  
EY Australia  
Tel: +61 8 9217 1298  
megan.strydom@au.ey.com



**Timothy Dachs**  
Partner - Assurance, EY Australia  
Tel: +61 8 9429 2111  
timothy.dachs@au.ey.com



**Philip Teale**  
Partner - Assurance, EY Australia  
Tel: +61 8 9429 2442  
philip.teale@au.ey.com



**Jemma Newton**  
Partner - Assurance, EY Australia  
Tel: +61 8 9429 2222  
jemma.newton@au.ey.com

## Canberra



**Todd Wills**  
Partner - Tax, EY Australia  
Tel: +61 2 6267 3876  
todd.wills@au.ey.com



**Ben Tansley**  
Partner - Assurance, EY Australia  
Tel: +61 2 6267 3933  
ben.tansley@au.ey.com



**Matthew Whittaker**  
Director - Tax, EY Australia  
Tel: +61 2 6267 3977  
matthew.whittaker@au.ey.com

## Adelaide



**James Lawes**  
Partner - Assurance, EY Australia  
Tel: +61 8 8417 1720  
james.lawes@au.ey.com

## **EY | Building a better working world**

**EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.**

**Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.**

**Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.**

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via [ey.com/privacy](https://ey.com/privacy). EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit [ey.com](https://ey.com).

© 2023 Ernst & Young, Australia  
All Rights Reserved.

Liability limited by a scheme approved under Professional Standards Legislation.

EYSCORE 006022-23-AUNZ

ED None

This communication provides general information which is current at the time of production. The information contained in this communication does not constitute advice and should not be relied on as such. Professional advice should be sought prior to any action being taken in reliance on any of the information. Ernst & Young disclaims all responsibility and liability (including, without limitation, for any direct or indirect or consequential costs, loss or damage or loss of profits) arising from anything done or omitted to be done by any party in reliance, whether wholly or partially, on any of the information. Any party that relies on the information does so at its own risk. Liability limited by a scheme approved under Professional Standards Legislation.

[ey.com](https://ey.com)