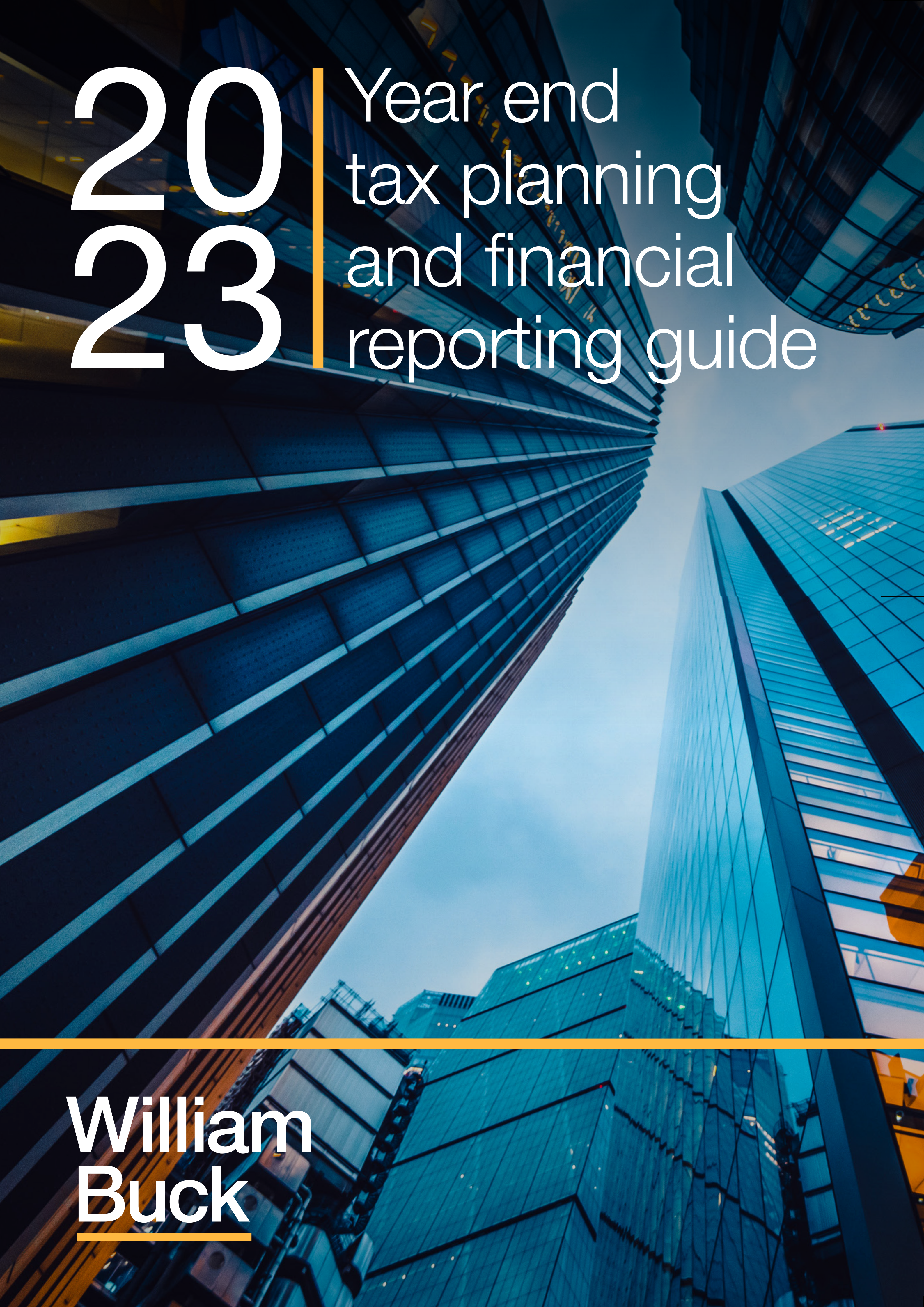

2023

Year end tax planning and financial reporting guide

William Buck

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Welcome

The end of a financial year presents an ideal opportunity to do a final check of whether you've achieved your tax goals and ensure that you're complying with all relevant reporting requirements. To assist you in this process, William Buck's tax and accounting guide provides comprehensive information on the relationship between tax planning and financial reporting, including key policy changes and their potential impact on middle-market businesses. With easy-to-understand sections, our guide will enable you to achieve:

Positive tax outcomes

Strategically navigate year-end issues to achieve positive tax outcomes for the 2023 financial year.

Accurate financial reports

Produce compliant and meaningful financial reports that accurately reflect your business' performance.

Key insights

Tax planning

Temporary full expensing

For many businesses, the ability to claim an instant deduction for purchases of capital assets will cease on 30 June 2023, so its important to act now. **Learn more on page 5.**

Loss carry-back

The 2023 financial year is the last opportunity for eligible companies to use the loss carry-back provisions introduced in the 6 October 2020 budget. **Learn more on page 6.**

Trust distributions

Last year the ATO announced a major crackdown on the taxation of family trusts, in particular where they are used to make distributions to adult dependent children paying tax at lower rates, or company beneficiaries. Many family groups will still need to carefully consider how they are using their family trust. **Learn more on page 6 and 7.**

Financial reporting

The Australian Securities and Investments Commission (ASIC) focus areas

Each reporting period ASIC highlights areas of focus for directors and preparers of financial reports. ASIC's media release on its latest review of financial reports revealed that the largest number of issues were noted around asset values, and disclosures in the Operating and Financial Review (OFR). **Learn more on page 20.**

The transition from special purpose to general purpose reporting

From 1 July 2021, for-profit entities that need to comply with Australian Accounting Standards cannot use Special Purpose Financial Statements (SPFS) for their reporting periods. Instead, they must prepare General Purpose Financial Statements (GPFS) for year-ends after 30 June 2022. **Learn more on page 20 and 21.**

Going concern and asset valuation

Making a going concern assessment or asset valuation of your business during times of uncertainty can be problematic. You need to consider a range of different factors including the economic situation (i.e. rising interest rates and inflation), market volatility and your unique circumstances. You may not be able to fall back on the usual assumptions made. **Learn more on page 22.**

Year End Tax Planning

William Buck

Temporary full expensing of depreciating assets

From 6 October 2020 to 30 June 2023 businesses with a turnover of up to $5bn may claim an immediate deduction for assets installed and ready for use by 30 June 2023. However, from 1 July 2023 this measure no longer applies.

The Government announced in the 2023/24 Federal Budget their intention for certain instant asset write-off measures to apply for the period 1 July 2023 – 30 June 2024, but only for smaller businesses and not for all asset purchases. The applicable thresholds to be eligible for the immediate deduction in recent years are as follows:

Date asset acquired and first used or installed ready for use	Aggregated turnover	Threshold for instant asset write-off
2 April 2019 to 12 March 2020	Less than $50 million	$30,000
12 March 2020 to 6 October 2020	Less than $500 million	$150,000
6 October 2020 to 30 June 2023	Less than $5 billion	No Limit
1 July 2023 to 30 June 2024*	Less than $10 million	$20,000

*Federal Budget announcement only

Where the asset acquired is a car, the immediate deduction is capped at the car limit ($64,741 for 30 June 2023). The balance of the cost of the car is not deductible.

For businesses using the small business pool for depreciation, from 6 October 2020, any balances of pooled assets may be fully depreciated.

Tax planning impact

- ☐ To be eligible for the write-off in this financial year, ensure that eligible assets have been bought and installed ready for use by 30 June 2023.
- ☐ Consider if the immediate deduction of depreciating assets may create tax losses in this financial year which can then be claimed back under the loss carry-back rules (**refer to page 6**).

Accounting impact

- ☐ While the temporary full expensing measure will result in accelerated depreciation for tax purposes, it will not necessarily result in accelerated deprecation for accounting purposes. Instead, the asset will generally be depreciated for accounting purposes over its useful life.
- ☐ Where there is a difference between the tax and accounting treatment of the asset, it could result in a deferred tax liability having to be recorded for accounting purposes.
- ☐ Specialised assistance might be required along with more sophisticated tracking of the ‘timing difference’ between tax depreciation and accounting depreciation over coming financial years, as the variance will narrow over time.

Loss carry-back

2023 is the last time that eligible companies can use the loss carry-back provisions. If your company incurs a tax loss in 2022/2023, you may be eligible to use those losses to offset taxable income from earlier profitable years as far back as 2018/19, and generates a refundable tax offset. Rather than amending a prior year's tax return, companies can claim the offset in the current year's tax return for tax paid in a previous year.

To be eligible to carry back a loss and offset it against a prior year, the company must have owed income tax in that year, after taking into account any tax offsets but not counting PAYG instalments raised. Additionally, the company must have a positive balance in its franking account at the end of the year it's claiming the offset in. If the offset amount is more than the available franking credits, then the offset is capped at the available credits, and the franking account balance will be reduced.

If the loss carry-back is not applied, the tax losses may be carried forward and recouped against future profits, subject to the standard loss recoupment tests being satisfied in the future. Broadly, these recoupment tests are whether there has been a continuity of majority ownership of the company, or a continuity of the underlying business carried on by the company.

Tax planning impact

- ☐ Estimate your company's tax loss position to determine the availability of the loss carry back.
- ☐ Monitor your franking account balance including any past Research and Development (R&D) credits.
- ☐ Due to the interaction of the changes in corporate tax rates and franking rates between 2018/19 to 2022/23, the navigation of these rules can be complex. Please contact your William Buck tax advisor to assist with the application of these provisions to your circumstances.

Trust distributions

Last year the ATO announced a major crackdown on the taxation of family trusts, in particular where they are used to make distributions to adult dependent children paying tax at lower rates, or company beneficiaries. Many family groups will need to carefully consider how they are using their family trust.

Tax planning impact

- ☐ Consider whether any of the ATO's views could be problematic to you. If your trust is distributing to a range of family members, or to companies, then you should review your situation in detail. You may need to make changes to your usual tax planning.
- ☐ Carefully consider which beneficiaries should receive distributions from your trust and how much those distributions should be. While the tax effectiveness of the distributions is an important consideration, broader aspects such as asset protection and the impact on other payments a beneficiary may be receiving should not be overlooked. For example, a beneficiary receiving Centrelink payments may lose their entitlement to payments depending on the amount of trust distributions they receive this year.
- ☐ Draft your Trust Resolution to appropriately reflect the distributions for this year. And remember that most trust distribution decisions need to be made by 30 June.
- ☐ Ensure that proposed beneficiaries are eligible beneficiaries in accordance with the Trust Deed and that a beneficiary TFN report has been lodged with the ATO for any new beneficiaries.

- ☐ If your trust receives franked distributions, consider whether it needs to make a Family Trust Election for those franking credits to pass to beneficiaries.
- ☐ Appropriate record keeping is even more critical in light of the new ATO guidance mentioned above. This is especially the case where expenses are being paid on behalf of others (for example on behalf of adult children).

Private company loans & Division 7A

The increased cost of living or the need to fund asset acquisitions are just some of the reasons you may have borrowed funds from your private company. Alternatively, financial pressures may have impacted your ability to repay loans from your company. This may inadvertently lead to adverse tax impacts under Division 7A (the section of the Tax Act that contains provisions aimed at preventing private company owners accessing company profits without paying tax on those amounts).

In addition to loans from private companies, unpaid distributions from trusts to private companies can also be caught under the Division 7A provisions, meaning that if those distributions are not appropriately managed adverse tax implications can arise. This is particularly notable for distributions from 1 July 2022 as the ATO are applying a tougher stance to those unpaid distributions (UPEs) to private companies, treating the UPEs as loans for Division 7A purposes. Those taxpayers who have been using ‘subtrust’ arrangements to deal with their UPEs between trusts and companies will likely need to reconsider that approach for the 2023 year onwards.

Tax planning impact

- ☐ Ensure you understand how Division 7A might impact your interactions with your private company, especially loans from the company or your use of company assets.
- ☐ Where you have problems meeting the minimum loan repayments to your company, notify your tax advisor early, as you may need to apply to the ATO for discretion to ensure adverse tax implications aren’t triggered.
- ☐ Where applicable, ensure you have complying loan agreements in place.
- ☐ Consider the use of dividends to meet your minimum repayment requirements.
- ☐ Consider how the ATO guidance on UPEs and Division 7A may impact any structuring decisions, and in particular unpaid distributions from a trust to a private company.

Company tax rates

Could you benefit from accessing the lower company tax rate under Australia’s two-tiered company tax rate system to assist you in better managing cash flow? In 2023 the corporate tax rate is 25% for certain companies that are part of a group with turnover of less than $50m, and 30% for other companies.

The rate at which a dividend is franked, and the company’s income tax rate for the year are determined independently of one other. However, assuming the ‘group’ has an aggregated turnover of less than $50 million, the mix of income the company has this year will impact the company tax rate this year, and the franking rate next year. Note: this year being the year ended 30 June 2023.

If the company has mostly 'passive' income this year:

— its tax rate this year will be 30%, and

— its franking rate next year will be 30%.

If the company has sufficient 'active' income (business income) this year and is part of a group with aggregated turnover of less than $50 million:

— its tax rate this year will be 25%, and

— its franking rate next year will be 25%.

Tax planning impact

The two-tiered corporate tax rate system has important implications for tax planning, including:

- ☐ A need for careful planning around what type of income a company derives and thus which tax rate applies this year (and hence what its franking rate will be next year).
- ☐ Is it tax effective to distribute profits to corporate beneficiaries or holding companies this year?

Residency status

In 2022, many local and international travel restrictions were eased. However, working patterns haven't fully returned to pre-COVID norms, and new ways of working have emerged. This means that you or your employees may be working in a different jurisdiction from pre-pandemic times or may have recently returned from a prolonged absence. These circumstances can affect the tax residency status of individuals and any companies they are involved with, which can affect your tax obligations.

Individual residency status

An individual will be a tax resident of Australia if:

— the individual 'resides' in Australia

— the individual is domiciled in Australia (unless their permanent home is overseas).

— the individual is present in Australia for more than half of the year (subject to some exceptions).

Members of certain Commonwealth superannuation schemes are also considered to be residents of Australia. The question of individual residency is one of fact, and the Australian Taxation Office (ATO) and the courts take into account a number of factors, including:

— the length of time that a person is physically present in Australia

— the individual's nationality

— the history of residence and the movements of the person

— the habits of the person and their 'mode of life'

— the frequency, regularity and duration of any visits to Australia

— the purpose of the visits and of any absences from Australia

— the family and business ties of the individual with Australia or with another country

— whether the individual maintains a place of abode.

Corporate residency status

Under the Australian tax law, a foreign company may be treated as an Australian tax resident where its central management and control (CMC) is exercised in Australia. Where a foreign company has Australian directors, part of the company's corporate governance strategy may involve holding board meetings overseas to ensure the central management and control of the company is not 'in Australia'.

Tax planning impact

Individual residency status

- ☐ If you or any of your employees fit into one of the situations outlined above, consider both the Australian tax residency impact and the position of overseas regulatory bodies (given that different countries have different tax residency tests).

Corporate residency status

- ☐ The location of where a company makes its key decisions is important to this question. Therefore, you will need to make sure that sufficient and appropriate records are maintained to show where the decisions are being made and, for instance, where the board meetings are held. If a company's board meetings are in Australia, there is a higher likelihood that its CMC is here, and the company is resident here.

Capital Gains Tax (CGT) events

If you're planning to sell an asset and have the flexibility to choose when to sell, it may be beneficial to defer the sale until after 30 June. This way, if the asset is sold for a gain, you may be able to delay the payment of the tax on that gain by 12 months. Keep in mind that Capital Gains Tax (CGT) implications are often triggered at the time when you enter into a contract for sale, not at settlement.

Additionally, if a trust or Australian resident individual owns the asset, consider whether it has been held for at least 12 months to potentially access the 50% CGT discount.

If you have already sold an asset during the year and made a gain, it's important to plan for when any tax payable may be due.

Tax planning impact

Consider whether any of the following might apply:

- ☐ You have carry-forward capital losses which may be offset against the gain.
- ☐ You have held an asset for more than 12 months and may be eligible for the 50% CGT discount.
- ☐ You obtained a replacement asset which may make you eligible for a CGT rollover. This may defer the taxing point to when the replacement asset is ultimately sold.
- ☐ You are eligible for the small business Capital Gains Tax concessions which may reduce the amount of your taxable gain or eliminate it altogether.
- ☐ The gain was realised in a discretionary trust and the Trust Deed allows streaming of capital gains to specific beneficiaries who have carry-forward capital losses or are eligible for the 50% CGT discount.

Bad debts

Before 30 June 2023, it's important to review all outstanding debtors to assess the probability of recovering the debt. Any debts that are determined to be genuinely unrecoverable may be able to be written off by 30 June and claimed as a tax deduction in that year. However, accurate and comprehensive records will be crucial in demonstrating that reasonable efforts have been made to recover the debts and that they were genuinely written off by year end.

Tax planning impact

To claim a tax deduction for bad debts in the current income year you should:

- ☐ Ensure that the debts have previously been reported as assessable income.
- ☐ Maintain sufficient evidence to demonstrate that the debts are genuinely not recoverable and that all reasonable efforts have been made to try and recover the debt.
- ☐ Write off debts as bad prior to 30 June

Accounting impact

Bad debt will also have an impact on your financial reporting. For more information, **see page 22 and 23**.

Stock valuations

Traditional tax planning usually involves recognising the value of trading stock for tax purposes at either:

- — Cost, or
- — Market selling value, or
- — Replacement value.

Irrespective of the method chosen, the tax laws allow for stock to be valued lower if it is warranted because of obsolescence or any other special circumstances relating to that item (and the value you elect is reasonable). Businesses should undertake a thorough consideration of their stock at year end, and in particular any product lines which are older or difficult to sell, in order to determine whether they should be valued at a lower amount. By adopting a lower trading stock value, you may reduce your assessable income for the year.

Tax planning impact

Thoroughly consider the tax treatment of your stock at year-end:

- ☐ Don't just calculate the stock value at this year-end using the same methodology adopted last year. Consider if it's still appropriate to use that method. Consider whether a different method may be more appropriate or whether the stock value is impacted by obsolescence or special circumstances.
- ☐ Ensure any write-down in the value of stock is warranted and reasonable.
- ☐ Keep appropriate records to support how you calculated your stock value.

Accounting impact

Changes to stock valuations and the impairment of assets will also have an impact on your financial reporting. For more information, **see page 23**.

Research and Development Tax Incentives

Have you undertaken activities within your business which may be innovative, experimental or involve research and development? If so, you may be eligible for the Research and Development (R&D) Tax Incentive which could provide significant tax and cash flow benefits for your business.

The method of claiming the R&D incentives requires a particular process to be followed in a specific timeframe, and the need to hold appropriate documentation to support your position.

Tax planning impact

- ☐ Ensure that any expenditure incurred to associates of the company, such as founders' salaries, are paid during the income year to qualify for the R&D Tax Incentive.
- ☐ To include superannuation expenses in your R&D Tax Incentive claim, ensure they are paid up to 30 June.
- ☐ Assets written off under the small business entity provisions will not qualify for the R&D Tax Incentive, but assets written off under the Temporary Full Expensing provisions will qualify, so you should consider the appropriate depreciation rates to apply to various assets.
- ☐ Expenditure that is eligible for the R&D tax offset is not tax deductible. You should consider other tax planning measures outlined in this document, such as writing off bad debts, trading stock valuation, revenue recognition, etc.
- ☐ Unique transactions, such as government grants and support payments may reduce the amount of eligible R&D expenditure, which could impact your cash flow forecasts.

Accounting impact

- ☐ The accounting treatment of the R&D Tax Incentive depends on whether the refundable or non-refundable tax offset is received.
- ☐ Generally, the refundable tax incentive is accounted for as a government grant and either recognised in the P&L or the balance sheet, dependent on how the original expenditure was treated. For the non-refundable tax offset, there are several generally accepted practices of accounting applying AASB 120 Government Grants and/or AASB 112 Income Taxes.

Cryptocurrencies and digital assets

The volatility of cryptocurrency assets can lead to holders selling in and out of cryptocurrencies and other digital assets such as Non-Fungible Tokens (NFTs). It's important to understand that any exchange between cryptocurrencies to fiat, and also between cryptocurrencies, are generally taxable events. Therefore, you should carefully consider the tax treatment of not just any realised gains or losses but also any exchange of assets.

The ATO believes there has been under reporting of income and gains from cryptocurrency transactions and has access to extensive data from exchanges and designated service providers which it will match to income tax returns. Therefore it is crucial that if you have cryptocurrencies or digital assets, you are appropriately addressing the tax implications of such holdings.

Tax planning impact

- ☐ If you held during the year any cryptocurrency or other digital assets, you should seek advice on how to report this correctly in your tax return, and ensure you have the appropriate records to substantiate the transactions.

Foreign currency exchange gains and losses

Recent uncertainty in forex markets has led to greater fluctuation in many currencies, which could have a significant impact on your tax planning. Foreign exchange gains and losses will often only be assessable or deductible for tax purposes once those gains or losses have been realised. However, this is not always the case, and some unrealised gains may also be recognised for tax purposes.

Tax planning impact

- ☐ Identify what, if any, foreign currency gains/losses you're likely to make this year and when they are assessable for tax purposes.

Revenue recognition

How and when you account for revenue can have a substantial impact on your tax planning – particularly in the current climate when some debtors may be slower in paying their invoices.

There are two broad methods of recognising your revenue; on a cash basis (when you receive payment) and on an accruals basis. The timing of when an amount is taxable can therefore be quite different depending on which method is applied by your business.

Tax planning impact

Considerations from a tax planning perspective include:

- ☐ Determine what period your income/revenue will be taxable in (this could be a different period to when it is recorded for accounting purposes).
- ☐ Different types of income may be taxable in different periods (for example, even though your business operates on an accruals basis and therefore business income may be recorded when an invoice is raised, investment returns may not be taxable until that investment income is received).
- ☐ Assess whether you can you legally defer the recognition of income to the next financial year.

Accounting impact

- ☐ It may be worthwhile to put in place written policies to support your revenue recognition method if it (or certain contracts) relies heavily on management assumptions and estimates. It is important these decisions are communicated to the internal finance team to ensure consistency in revenue recognition during the year.
- ☐ There are certain businesses that may be on the accruals basis for revenue recognition, but their goods and services tax (GST) is accounted for on a cash basis. This may be allowed if your business has aggregated turnover of less than $10 million and has elected to choose the cash accounting method in their GST registration with the ATO. It is important that a reconciliation is performed to ensure the correct revenue figures are reported to the ATO for the BAS lodgments.

Get on top of your record keeping and tax governance

Do you have effective record-keeping systems in place to support your income calculations and reporting? It's understandable to prioritise urgent tasks during times of rapid change but delaying documentation may cause issues in the future. While actual number calculations are often the focus in determining the tax position, it's crucial to review your record-keeping processes and practices and ensure you have sufficient documentation to support your positions.

Moreover, the ATO is increasingly scrutinising how taxpayers compile information for tax returns based on 'Tax Governance' principles. For simple businesses, this may involve reconciling reported income to bank statements and retaining proof of a contemporaneous reconciliation process. For most businesses, you may need to demonstrate how your internal processes accurately capture and record information, and how you identify transactions that pose tax risks or uncertain tax positions. It's important to be aware of these principles, especially if your income or business activities are significant.

Payroll tax and other considerations

Payroll tax is an ever-evolving area in the Australian tax landscape. Changes to the payroll tax rates and thresholds in recent years and across numerous states and territories have made the management of payroll tax more challenging for businesses. In addition to this, provisions such as grouping, or whether a party is considered a contractor or an employee for payroll tax purposes, continue to be impacted by numerous court decisions which only add to the complexity of the payroll tax situation for businesses.

Payroll tax

Australia's payroll tax system is characterised by a lack of uniformity, with the payroll tax rates ranging from 1.2% to 6.5% across the country. If you operate across state borders, or are looking to expand into other jurisdictions, it's important to be up to date with changes as they happen.

The current rates and thresholds are as follows:

	Tax rate	Threshold
NSW		
FY 2020/21	4.85%	$1,200,000
FY 2021/22	No change	No change
FY 2022/23	5.45%	No change
NT		
FY 2020/21	5.5%	$1,500,000
FY 2021/22	No change	No change
FY 2022/23	No change	No change
QLD		
FY 2020/21	4.75% for employers who pay < $6.5M in wages 4.95% for employers who pay > $6.5M in wages (a discount of 1% may apply to regional employers)	$1,300,000
FY 2021/22	No Change	No change
FY 2022/23	No change. However, from 1 January 2023, a “mental health levy” will apply employers and groups who pay more than $10 million in annual Australian wages. The levy is 0.25%, with an additional 0.5% for employers and groups who pay more than $100 million in annual Australian wages.	No change
SA		
FY 2020/21	Variable from 0% to 4.95% depending on wages paid	$1,500,000
FY 2021/22	No change	No change
FY 2022/23	No change	No change
VIC		
FY 2020/21	4.85% 2.425% (regional) 1.2125% (regional - bushfire affected areas)	$650,000
FY 2021/22	4.85% 2.2125% (regional)	$700,000
FY 2022/23	No change	No change
WA		
FY 2020/21	5.5% for employers who pay < $100M in wages 6% for employers who pay $100M to $1.5 billion in wages 6.5 % for employers > $1.5 billion in wages	$1,000,000
FY 2021/22	No change	No change
FY 2022/23	No change	No change

Tax planning impact

Payroll tax

- ☐ Make sure you're aware of any new tax thresholds and rates.
- ☐ Given payroll tax is a state-based tax, consider whether you're required to register for payroll tax in any other states, particularly where employees have been working remotely.
- ☐ Ensure you're up to date with your annual payroll tax reconciliation.
- ☐ Review and consider the use of contractors.

Other payroll considerations

- ☐ Ensure you've made your Single Touch Payroll (STP) finalisation declaration by 14 July.
- ☐ If you have an Employee Share Scheme (ESS) you must report employees' interests to relevant employees and the ATO by 14 July.
- ☐ Payment of June superannuation contributions is due by 30 June if you wish to claim a tax deduction in current year.

Fringe Benefits Tax (FBT)

In recent years, travel restrictions, workplace closures, and limitations on employee and client entertainment have been lifted. However, many businesses are still cutting back on these expenses compared to historic levels, which can affect not only how you calculate your Fringe Benefits Tax (FBT) liability but also the tax deductibility of particular items. To ensure you are prepared for tax season, it's advisable to also review your FBT approach and methodologies to ensure your overall tax planning strategies are aligned.

Tax planning impact

In reviewing your FBT, some of the aspects you should consider include:

- ☐ **Cars and utes** – The usage patterns for many company vehicles may have changed over recent years, meaning it's critical to ensure your logbooks are still valid. Among other reasons, a logbook may not be valid if it doesn't accurately reflect the current pattern of usage, or the logbook is older than the standard 5 year validity period.
  The use of some vehicles may not have previously resulted in an FBT liability because the private use of the vehicle was considered "minor, infrequent and irregular". You should check to ensure this is still the case, and that appropriate records are maintained to support the position.
  Certain electric vehicles now qualify for more favourable FBT treatment. Acquiring such vehicles may be a great way of managing your business' FBT position, but beware that not all electric vehicles qualify for the favourable FBT treatment, so seek appropriate advice before the purchase.
- ☐ **Entertainment** – Various methods exist under the tax laws to determine the FBT and income tax treatment of entertainment expenditure. These methods vary based on a range of factors, including record keeping obligations, and year end is a good time to reconsider whether you are using the most tax effective method for your business.
- ☐ **Car parking** – The ATO has released updated guidance which may impact whether your business provides a car parking fringe benefit. If you're providing car parking, check whether your business is eligible for one of the exemptions, including those applying to certain small to medium businesses.

Superannuation

Superannuation Guarantee

Businesses with employees (including certain contractors) should also ensure the minimum employer contributions (Superannuation Guarantee) are paid to the respective employee's complying regulated superannuation fund on time. Superannuation Guarantee shortfalls or late payments will attract potentially significant penalties. Superannuation Guarantee is currently 10.5% of an employee's ordinary time earnings, and is set to increase to 11% from 1 July 2023:

	2022-23	2023-24
Superannuation Guarantee Rate	10.5%	11%

Superannuation Caps

If you have a superannuation strategy, some of the caps and thresholds have changed. The ATO has published confirmation of the increase (due to indexation) to various superannuation caps and thresholds.

Some of these key superannuation cap and threshold changes include the following:

Superannuation Cap or Threshold	2022-23	2023-24
Concessional Contributions Cap	$27,500	$27,500
Non-Concessional Contributions	$110,000	$110,000
CGT Cap	$1,650,000	$1,705,000
Low-Rate Cap Amount	$230,000	$235,000
Defined Benefit Income Cap	$106,250	$118,750
Total Superannuation Balance Cap	$1,700,000	$1,900,000
Transfer Balance Cap	$1,700,000	$1,900,000

It's important to carefully navigate and understand the impact of these caps on your superannuation strategies. Where an individual who has already commenced a retirement phase pension, they will only receive a pro-rata indexation increment for their Transfer Balance Cap.

Working from home deductions

In February 2023, the ATO finalised its new, more stringent, regime for Work From Home (WFH) expense deductions.

Historically, taxpayers could claim deductions for working from home using an actual cost method (being a proportion of actual costs incurred) or a 'fixed rate' method at 52c per hour. Different record keeping and eligibility aspects applied to the respective methods, and even if the 'fixed rate' method was used, additional deductions could be claimed for items such as home internet and phone usage.

With the onset of COVID, the ATO introduced a third method, being the 'shortcut method', which allowed a deduction at 80c per hour to cover the costs of working from home. This method was designed to be more inclusive of a broader range of working from home costs (it included costs of home internet and phone) for a broader range of working from home circumstances.

Effective 1 July 2022, the historic fixed rate method and the shortcut methods have been discontinued. Instead, taxpayers will need to utilise the actual method, or the revised fixed rate method. The revised fixed rate method is designed to cover additional running costs you may incur on the following items as a result of working from home: internet and data, phone, electricity, gas, stationery and computer consumables. A separate deduction for other items, such as depreciation on home office equipment, may also be available.

Given the ATO only released the finalised position on the revised fixed rate method during the 2023 year, different record keeping requirements apply for different parts of the 2023 year. A summary of the relevant attributes of the revised fixed rate method are set out below:

Fixed rate method	**Transition period 1 July 2022 – 28 Feb 2023**	**1 March 2023 onwards**
Rate per hour	67c	67c
Evidence of work	Diary representative of hours worked in period	Must maintain actual timesheets or rosters for the entire financial year
Eligible to claim additional expenses separate (phone, internet, stationery)	No, these are included in the rate. Must show evidence that additional expenses have been incurred	No, these are included in the rate. Must show evidence that additional expenses have been incurred
Eligible to claim decline in value for work related assets?	Yes, must keep invoice and 4-week record of personal and income producing use	Yes, must keep invoice and 4-week record of personal and income producing use

Personal services income

Income produced mainly from personal skills or efforts as an individual (Personal Services Income or 'PSI') may be subject to special rules which limit the amount of deductions that can be claimed to those generally available to salaried employees. If you are self-assessing using the unrelated clients, business premises, or employment test, then you will also need to meet the 80% rule for that income year. If less than 80% of your PSI comes from one client and their associates, you do meet the 80% rule. Also, even if the income is derived through a company, partnership or trust, it will effectively be treated as your individual income for tax purposes.

Where the PSI rules do not apply, you are considered to be carrying on a Personal Services Business (PSB). This means that your deductions will not be limited in the same way, but you may still need to declare any PSI amounts at the relevant labels on your individual tax return.

Tax planning impact

- ☐ Consider whether one of the exemptions apply, being the results test or the 80% rule.
- ☐ If your circumstances are unusual and you wish to seek certainty, consider applying for a personal services business (PSB) determination from the ATO.

Taxable payments reporting system

Businesses that pay contractors in the courier, cleaning, building and construction, road freight, information technology, security, investigation, or surveillance services industries are required to notify the ATO of payments made to contractors annually.

In assessing whether an obligation exists, the question is whether the business meets the following criteria:

Service	You need to report if
Building and construction (B&C)	Either: 50% or more of business income is from B&C service, or 50% or more of business activity is B&C services.
Cleaning	10% or more business income is from cleaning services.
Courier or road freight	10% or more of business income is from courier and road freight services. Courier services include delivery.
Information Technology (IT)	10% or more of business income is from IT services.
Security, investigation or surveillance	10% or more of business income is from security, investigation, or surveillance services.
Government entities	Federal state, territory and local government entities except if an exemption applies to them.

If so, an obligation exists, and a Taxable Payments Annual Report (TPAR) is due. Where a business does not employ contractors, a nil TPAR report should be lodged.

Financial Reporting Review

William Buck

The Australian Securities and Investments Commission (ASIC) focus areas

Each reporting period, ASIC highlights areas of focus for directors and preparers of financial reports. ASIC's media release on its latest review of financial reports revealed that the largest number of issues were noted around asset values and disclosures in the Operating and Financial Review (OFR). Financial reports continue to attract scrutiny from both regulatory bodies and from users of the financial statements. It's vital that financial reports provide useful and meaningful information on the impact on current and future performance of changing and uncertain economic conditions. Directors and preparers should assess the impact on asset values and provisions, and disclose uncertainties, key assumptions, business strategies and risks.

ASIC's areas of focus in recent reporting periods have been, and are likely to continue to be, around the following areas

- Asset values including impairment testing of non-financial assets such as goodwill and intangibles, values of property assets, expected credit losses on loans and receivables, and values of other assets such as inventories, deferred tax assets and unlisted investments.
- Provisions which could be required for such things as onerous contracts, financial guarantees given, leased property make good, mine site restoration and restructuring.
- Solvency and going concern assessments (refer below).
- Subsequent events and whether events occurring after the year-end affect amounts recognised or whether they represent new conditions requiring disclosure.
- Disclosures in the financial report and the Operating and Financial Review (OFR) that tell the story and help the user understand uncertainties, assumptions used and sensitivities including relevant disclosures around climate change risk (using the recommendations of the Task Force on Climate-related Financial Disclosures, see below) and cyber security risks.

ASIC has also continued to remind directors to ensure material business risks are adequately disclosed in annual reports, to better inform shareholders and prospective investors. The regulator has recently made inquiries of several listed entities due to concerns that risks had not been sufficiently disclosed in the OFR resulting in these entities subsequently making inaccurate disclosures.

The transition from special purpose to general purpose reporting

From 1 July 2021, certain for-profit entities cannot use Special Purpose Financial Statements (SPFS) for their reporting periods. Instead, they must prepare General Purpose Financial Statements (GPFS) for year-ends after 30 June, 2022. GPFS must adhere to all recognition and measurement requirements of Australian Accounting Standards, which include consolidating subsidiaries and accounting for equity associates and joint ventures.

This change affects two categories of entities:

- Those required by law to comply with Australian Accounting Standards, and
- Those required by a constitution or any other document to prepare financial statements according to Australian Accounting Standards, if the document was created or amended after 1 July, 2021.

Those entities who are not required by law to prepare financials in accordance with Australian accounting standards (such as many small to medium sized entities) may be able to continue preparing special purpose financial statements in a similar manner to how they have in recent years. However, they should be particularly careful if they have banking covenants which require financial statements to be prepared in accordance with Australian accounting standards, or their constitution or deed requires financials to be prepared in accordance with Australian accounting standards, as this could trigger the need to comply with the GPFS requirements.

The Australian Accounting Standards Board (AASB) has introduced a new Tier 2 reporting framework called Simplified Disclosures to replace Reduced Disclosure Requirements (RDR) along with the removal of SPFS. Simplified Disclosures include fewer disclosures than RDR but with some additional disclosures like audit fees and franking credits.

Entities are advised to continue reviewing any documents created or amended after 1 July 2021, for any factors that may trigger the need to prepare GPFS.

Australian Financial Service Licence Reporting

The transition to GPFS requires all Australian Financial Services (AFS) licensees to complete a form of GPFS, for financial years commencing on or after 24 June 2022

For 30 June 2023, year end AFS licensees that are publicly accountable, large or sophisticated (and some other entities) are required to prepare Tier 1 GPFS. Tier 1 involves full recognition, measurement, classification and disclosure requirements of Australian Accounting Standards. This should be consistent with the financial reports prepared in previous financial years.

Publicly accountable

AASB 1053 Application of Tiers of Australian Accounting Standards defines a publicly accountable licensee as one which:

— has debt or equity instruments that are traded in a public market, or it's in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or

— holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

ASIC has confirmed its view that licensees that typically hold client monies or assets are deemed to be publicly accountable.

Large or sophisticated

ASIC has identified the following licensees as being large or sophisticated:

— regulated by Australian Prudential Regulation Authority (APRA)
— participants in a licensed market
— participants in a clearing and settlement facility
— retail over-the-counter derivative issuers
— wholesale electricity dealers
— corporate advisors that deal in financial products
— over-the-counter derivative issuers
— wholesale trustees

- responsible entities of a registered scheme
- providers of a custodial or depository service
- operators of an invested directed portfolio service
- corporate directors of a corporate collective investment vehicle.

Other AFS licensees

AFS licensees that do not have public accountability, nor are 'large or sophisticated', will be required to prepare a form of GPFS – either Tier 1 or Tier 2 depending on what is more suitable to them. They can no longer prepare SPFS.

ASIC has reinforced that all licensees will be required to prepare a cash flow statement (a requirement for all forms of GPFS). There may also be some additional disclosures for licensees that had previously prepared SPFSs, including in areas such as related party transactions, financial instrument exposures and lease accounting.

Going concern assessments

Recent inflation and interest rates could have had a significant economic impact on a diverse range of businesses. But has it affected your ability to continue operating for the next 12 months? Making a going concern assessment during times of uncertainty can be problematic – you need to consider a range of different factors including the economic situation (including rising interest rates and inflation), market volatility and your unique circumstances. You may not be able to fall back on the usual assumptions made.

Accounting impact

In assessing your ability to continue as a going concern you should:

- ☐ undertake a sensitivity analysis considering best and worst-case scenarios
  - economic and industry specific factors
  - international factors including overseas operations, international supply chain, foreign exchange exposure and international transactions
  - market changes including customer needs and competitor behaviour
  - government support and/or legislative changes
  - financing arrangements and access to capital.
- ☐ update all forecasts considering current and foreseeable risk factors, these might include:
  - Review your ability to meet loan covenants – there may be an increased risk these could be breached.
  - assess your risk plans – can your business overcome further economic downturn or increasing levels of inflation?

Where material uncertainties exist that cast significant doubt upon an entity's ability to continue as a going concern, those uncertainties must be disclosed.

Bad debts

In the current environment, we have noticed a rise in the number of bad or long-term debtors. Recognising and reporting expected losses can significantly impact your financial reporting. According to Australian Accounting Standards, an Expected Credit Loss (ECL) method must be applied to provide for impairment of receivables. ECLs are an estimate of credit losses (i.e. cash shortfalls) weighted by probability. To calculate these expected losses, the ECL model employs current and forward-looking information. It's often unsuitable to use past models based solely on historical data.

Accounting impact

- ☐ Review your expected credit loss formula. How have recent economic events impacted your 12 month expected losses and lifetime expected losses?

- ☐ Allowing for extended credit terms or seeing your customers delay settlement of their business debts will impact your expected credit loss formula.
- ☐ Keep an eye on customers with payment plans, and their ability to repay now and into the future.

Tax planning impact

- ☐ The effect of economic conditions on debtors will also have an impact on your tax planning. **See page 10 for more information**

Asset valuation and impairment reviews

With higher inflation, cost pressures on many organisations and fewer sale transactions to use as benchmarks, calculating asset values can be difficult in this climate. Consequently, conducting impairment reviews this financial year might be challenging. The impairment reviews of non-financial assets may involve a calculation of the weighted average cost of capital (WACC). High inflation might influence the WACC, and the discount rate used in the impairment review could be impacted as a result. In principle, the impairment of non-financial assets is based on best estimates. However, during uncertain times, these estimates must consider a wider range of risk factors.

Accounting impact

When conducting your impairment reviews you should consider the following:

- ☐ Updating your discount rates to reflect the current environment.
- ☐ Looking for alternative sources of benchmarking if comparable transactions are unavailable.
- ☐ Do you need to update your cash flow forecasts to consider industry factors or your specific circumstances?
- ☐ Are assumptions made in calculating recoverable amounts reasonable and supportable?
- ☐ Are additional disclosures required to outline specific sensitivities, risk factors or assumptions made?

Deferred tax assets arising from tax losses

If you've been running a profitable business, you may not have previously had available tax losses for recognition as deferred tax assets. However, with more businesses making a loss, or shutting down areas of their business, we're seeing a greater number of tax losses being generated that may be available for recognition. As a result, additional analysis may be required to ensure that these losses are accounted for appropriately.

Accounting impact

If your balance sheet contains substantial deferred tax assets relating to assessable or assessed tax losses, you should consider the following:

- ☐ A deferred tax asset can only be recognised to the extent that it will be probable that the entity will make future taxable income against which capitalised losses can be utilised. Therefore, the accounting impacts listed under 'Going Concern' **on page 22** will go hand-in-hand with your deferred tax asset assessment.
- ☐ Appropriate forecasts and budgets will be needed to support the additional recognition.

Environmental, Social and Governance disclosures

Environmental, Social and Governance reporting (ESG) is becoming increasingly important to global and larger corporations – and is predicted to be a big issue for middle-market business in years to come.

While not a legislative requirement, several entities are opting to implement an ESG reporting framework in response to a growing socially responsible investment movement, changing consumer expectations and evolving domestic and global policy.

The three pillars of ESG, are as follows:

— **Environmental** – How does your entity manage its environmental impact? This includes energy efficiency, climate change, waste management and biodiversity.

— **Social** – How does your entity engage with its employees, customers and other stakeholders? This includes, diversity, employee engagement and culture, customer satisfaction, ethical supply chain management, community relations and data protection and privacy.

— **Governance** – How does your entity manage and control risk? This includes implementing industry best practice procedures, executive composition and remuneration, board structure and composition (including the audit committee), shareholder rights and political contribution and activities.

By outlining an entity's performance in these areas, ESG reporting can provide a competitive advantage. It provides greater transparency to investor, employee and customer markets who are showing an increased appetite for this kind of data. The robust metrics behind ESG reporting can also play a central role in minimising risk by highlighting issues before they become a problem and allow for more considered board and executive decision making.

Task Force on Climate Related Financial Disclosures

The Task Force on Climate Related Financial Disclosures (TCFD) is another important aspect of ESG reporting because it provides guidance for companies to disclose climate-related financial risks. By implementing the TCFD recommendations, companies can improve their overall sustainability performance and provide more transparent disclosures on their climate-related risks and opportunities. Created by the Financial Stability Board in December 2015, the TCFD recognises the significant risk that climate change poses to the global financial sector. It provides guidance for companies to disclose climate-related financial risks to investors, lenders, and insurance underwriters. The TCFD's recommendations are organised into four categories: Governance, Strategy, Risk Management, and Metrics and Targets, and include a total of 11 recommended disclosures as shown in the following table.

Governance Disclose the organisation's governance around climate-related risks and opportunities.	— Describe the board's oversight of climate-related risks and opportunities — Describe management's role in assessing and managing climate-related risks and opportunities.
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.	— Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term. — Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning. — Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.
Risk management Disclose how the identifies, assesses, and manages climate-related risks.	— Describe the organisation's processes for identifying and assessing climate-related risks. — Describe the organisation's processes for managing climate-related risks. — Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.
Metrics and targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	— Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. — Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. — Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Accounting impact

If you're considering implementing an ESG framework in the next five years:

- ☐ Develop an ESG policy and assign ESG responsibility across the management team to ensure it's integrated across the organisation.
- ☐ Start considering which metrics matter most to your stakeholders and how you will gather the necessary data. For example:
  - — how do you track your carbon emissions?
  - — can you track your supply chain? Do your suppliers undertake ethical labour practices?
  - — how do your consumers dispose of your end-product?
  - — have you considered diversity quotas?
- ☐ Gather ESG intelligence to gauge where your organisation sits in comparison to industry best practice.
- ☐ Consider the TCFD's recommendations when formulating climate-change related disclosures in financial reports.

Not-for-profit entities

In 2022, the financial reporting thresholds for charities registered with the Australian Charities and Not-for-profits Commission (ACNC) were revised.

- **Small charities** were deemed to be those with annual revenue less than $500,000 (previously $250,000).
- **Medium charities** were deemed to be those annual revenue between $500,000 and $3 million (previously between $250,000 and $1 million).
- **Large charities** were deemed to be those with annual revenue of more than $3 million (previously $1 million).

These changes may affect business owners' decision to donate or partner with various charities, and the eligibility of certain charities to receive funding or support from businesses.

Accounting impact

- ☐ Incorporated associations registered with the ACNC will need to consider relevant state legislation to determine if they are able to benefit from the above changes in reporting thresholds.
- ☐ Large registered charities will need to continue disclosing remuneration paid to responsible persons and senior executives on an aggregated basis. This is only required for entities with two or more key management personnel.
- ☐ For reporting periods ending 30 June 2023 onwards, all charities will be required to report related party transactions in their Annual Information Statement. For medium and large charities these will be included in the financial statements. This means charities will need to keep records of related party transactions from the start of their 2023 reporting period.

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William Buck is an association of firms, each trading under the name of William Buck across Australia and New Zealand with affiliated offices worldwide.