Not-for-profit financial reporting and tax update

March 2021

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

This publication outlines the latest developments in financial reporting and taxation for private sector NFPs. With COVID-19 continuing to impact entities and their operations, it also provides a reminder of the existing accounting requirements that NFPs should consider when addressing the financial effects of coronavirus in the preparation of financial statements for the annual reporting periods ending in 2021.

Please contact your EY advisor for further details.

Financial reporting update

Leases

AASB 2020-4 Amendments to AASs – Covid-19-Related Rent Concessions

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

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

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021[1], and
- There is no substantive change to other terms and conditions of the lease.

Impact

If the practical expedient is elected, NFPs:

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

Resource

Applying IFRS: Accounting for COVID-19 related rent concessions (Updated February 2021)

Compliance with R&M requirements

AASB 2019-4 *Amendments to AASs – Disclosure in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities on Compliance with Recognition and Measurement Requirements*

Effective for annual periods beginning on or after 1 July 2019.

This standard amends AASB 1054 to require private sector NFPs preparing special purpose financial statements (SPFS) to disclose information about whether their material accounting policies comply with all the recognition and measurement requirements in Australian Accounting Standards (AAS).

Impact

Among others, a private sector NFP is required to disclose the following:

- The basis on which the decision to prepare SPFS was made
- Whether interests in other entities have been accounted for in a manner consistent with the requirements of AASB 10 *Consolidated Financial Statements* or AASB 128 *Investments in Associates and Joint Ventures*
- Details of each material accounting policy that does not comply with the recognition and measurement requirements in AAS (except for requirements set out in AASB 10 or AASB 128)
- Whether the financial statements overall comply with all the recognition and measurement requirements in AAS (except for requirements set out in AASB 10 or AASB 128).

Simplified disclosure standard

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

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

AASB 1060 replaces the Reduced Disclosure Requirements (RDR) framework with the Simplified Disclosures Standard (SDS). SDS aims to reduce the reporting burden of those preparing GPFS (Tier 2) reports by requiring disclosures based on those in the IASB's *IFRS for SMEs* standard.

The key features of SDS are:

- A single standard (AASB 1060) with all disclosures required by entities preparing GPFS (Tier 2) reports (including public sector and NFP entities)

[1] The International Accounting Standards Board (IASB) is currently considering an extension to this condition for payments up to 30 June 2022

- Developed based on the IASB's IFRS for SMEs standard with some modifications to account for differences in Australia's recognition and measurement requirements (that follow full IFRS recognition and measurement), and Australian specific disclosure needs
- Some Australian specific disclosures including disclosures of fees for audit and review services, disclosure of imputation tax credits (which were disclosures were previously under AASB 1054 Australian Additional Disclosures) and a numerical tax reconciliation.

The AASB has issued ED 306 to propose that NFPs early adopting SDS do not need to provide comparative information in the notes to the financial statements when its latest GPFS (Tier 2) report does not disclose such similar information.

Impact

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

NFP financial reporting framework project

The AASB is working on a comprehensive set of changes for NFP financial reporting, which includes:

- A new definition of an NFP entity based on the NZ definition and its guidance on Public Benefit Entity
- A new NFP Financial reporting framework that provides:
    - Single set of reporting thresholds for all private sector NFPs, regardless of whether they are governed by ACNC or another legislator/regulator
    - A simplified recognition and measurement accounting framework for smaller NFPs
    - For other new standards addressing service performance and other information integral to financial reporting in the NFP sector
- Conceptual Framework modifications for NFPs.

NFP definition

Exposure Draft ED 291 *Not for Profit Entity Definition and Guidance*

Deadline for comments closed September 2019.

Currently, several AAS include the definition of an NFP entity as one whose "principal objective is not the generation of profit". Entities which meet this definition apply modified accounting requirements in certain areas, e.g. inventory and fixed assets.

ED 291 proposes a revised definition of Not for Profit Entity based on the New Zealand definition of Public Benefit Entity as well as detailed guidance on applying the definition.

Under the ED, a NFP entity is one "whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders…".

The Board decided to proceed with this definition proposed in ED 291 with the amendments to the implementation guidance clarifying that an entity is a NFP entity for financial reporting purposes if it is NFP for taxation purposes, unless its primary purpose is for the financial benefit of its equity holder(s) (subject to further clarification of the terms used in the implementation guidance and illustrative examples).

The Board did not agree that any entity should be able to elect to be a for-profit (FP) entity due to concerns with possible abuse of the election.

The AASB will consider revised implementation guidance and illustrative examples, based on feedback received on the ED, at a future meeting.

Impact if ED becomes a standard

- All NFPs will need to revisit their assessment of whether they meet the new definition of NFP entity which will allow them to continue to apply NFP accounting requirements
- Certain member-based organisations may find that if the benefits they provide are restricted to members, as opposed to providing benefits to the broader community, they may not fall within the revised definition. Going forward, such entities would need to apply the general for-profit entity rules.

AASB staff FAQs on NFP accounting matters

The AASB has released several staff FAQs to provide additional guidance on various financial reporting matters relevant to NFPs.

- AASB staff FAQs for Not-for-Profits entities that cover these matters:
  - Scope and effective dates of AASB 15 and AASB 1058
  - Accounting for research grants
  - Identifying and recognising performance obligations in NFP schools
  - Accounting for concessionary loans
  - Initial recognition by an NFP of an asset acquired for consideration that is significantly less than fair value principally to enable the entity further its objectives, and the associated income.
- AASB Staff FAQs on events after the reporting period
- AASB Staff FAQs on impairment of non-financial assets
- AASB staff FAQs on accounting for government support

COVID 19 – Accounting considerations

The circumstances created by COVID-19 outbreaks have presented entities with greater challenges when preparing their financial statements.

This section covers key COVID-19 related accounting considerations for NFPs. We discuss some of these situations and the existing accounting requirements that should be considered when addressing them.

Reporting deadlines

Financial reports

ASIC has issued a media release on additional time for listed and unlisted entities to lodge financial reports under the Corporations Act 2001 (the Act). The previous relief for unlisted entities for years ended from 31 December 2019 to 7 July 2020 (both inclusive) now continues through to 7 January 2021 year ends. The media release also covers the timing of AGMs.

Public companies can defer their AGM

ASIC has also adopted a 'no-action' position on upcoming AGMs that need to be deferred or that are held online. Public companies with year ends that end from 31 December 2019 to 7 January 2021 that would normally be required to hold an AGM within 5 months of year end may postpone their AGM by up to 2 months.

Revenue recognition

The disruptions caused by the outbreak could affect a NFP's ability to deliver on their obligations to customers. Entities may cancel or reschedule events and other services promised to customers with appropriate modifications to the contracts. These could create challenges when recognising and measuring revenue.

NFPs should also consider the requirements to disclose the judgements that significantly affect the determination of the amount and timing of revenue.

Situation 1: Inability to perform stand-ready obligations

Facts

An entity is recognising revenue on a straight-line basis over the term of the contract, as it is providing a stand-ready obligation in the form of annual club membership (such as gym memberships, community swimming pools and other similar facilities). Due to lockdown restrictions, it is unable to deliver services (as the club is closed) and hence has decided to extend the annual membership by 3 months to all members from the date restrictions are lifted to compensate for the time that members cannot use the facilities.

Response

Under AASB 15, revenue is recognised in a manner depicting transfer of services to the customer. During the lock-down, no services are transferred to the customer and as such, no revenue is recognised. As there is a change in scope of the contract (i.e. extension of membership period) without a corresponding change in price, this would be considered a contract modification (AASB 15.21). As the future services delivered post the lock-down are distinct from those received before lock-down, the modification would be accounted for as a termination of the old contract and creation of a new contract. All unrecognised revenue would be allocated over the extended membership period when services resume.

Situation 2: Event cancelations and refund liability

Facts

An entity is unable to hold a major event for which 75% of available tickets have been sold. The event has now been cancelled due to lockdown restrictions.

It is a requirement to refund amounts received from customers for events cancelled. Customers are also offered an option to use this amount to pay for future events within next two years. If the option is taken up, then the amount becomes non-refundable to apply to the cost of future events (and the customer would receive a 20% discount on all future events) in the next 2 years.

Response

Upon cancellation of a major event, the contract with the customer is treated as cancelled under AASB 15 and the amount received would need to be refunded.

Typically, an obligation to repay would not be a contract liability under AASB 15.

For customers that opt to leave the amount with the entity to pay for future events in the next two years, this would be accounted for as a new customer contract. The entity would then reclassify the amount held as a contract liability under AASB 15. The entity would also need to consider if there is a significant financing component, and if the 20% discount is a material right (accounted for as a separate performance obligation).

Situation 3: Government subsidy to cover operating costs

Facts

An entity is entitled to receive a government subsidy to cover its operating costs for the next six months. It is considering whether it can spread this income to match operating expenses.

Response

The entity should assess whether the subsidy falls within the scope of AASB 15 or AASB 1058.

To the extent that the subsidy is to support the operations of the entity and not for the provision of specific goods or services to third party beneficiaries (or linked to the acquisition of a specific non-financial asset under an enforceable agreement), then the entire subsidy would be recognised as a receivable and income immediately under AASB 1058 when the entity obtains control over it (i.e. becomes entitled to receive it). It cannot spread this income to match the associated operating expenses.

Situation 4: JobKeeper subsidy payments

Facts

An entity is entitled to receive the JobKeeper subsidy payments. It is considering whether these should be recognised as income or can be offset against the related wage expense.

Response

JobKeeper payments provided by government are accounted for under AASB 1058. An entity should recognise a receivable and income when it obtains control over it (i.e. becomes entitled to receive the subsidy).

The subsidy is recognised as income and cannot be offset against the related wages expense which they are intended to compensate.

Leases

Landlords offering rent concessions to affected lessees is a common practice during the COVID-19 pandemic. These concessions could be in the form of rent holidays, rent reductions or waivers.

A lessee should typically determine whether concessions should be accounted for as contract modifications or variable lease payments arising from the existing contract. As lease modification accounting could create a significant administrative burden when multiple leases are modified, AASB 16 was amended to allow lessees to not treat COVID-19 related rent concessions as lease modifications in certain circumstances.

Situation 5: COVID-19 related rent concessions

Facts

In response to COVID-19, the entity has been offered rent concessions such as rent holidays and temporary rent reductions.

Response

Lessees can consider COVID-19 related rent concessions not to be lease modifications when:

- Substantially the same or lesser revised consideration is to be paid
- Only payments originally due on or before 30 June 2021 are affected2, and
- No substantive changes to other terms and conditions.

When this practical expedient is not elected, the entity should determine whether concessions constitute a lease modification (or variable lease payments within the existing terms) by considering both the contract and all relevant facts and circumstances, including statutory or other laws or regulations applicable to lease contracts.

[2] see footnote 1 above

Resource

Applying IFRS: Accounting for COVID-19 related rent concessions (Updated February 2021)

Financial instruments

NFPs may be offering relief measures such as payment holidays to debtors and other borrowers. The terms and conditions associated with such relief should be assessed to determine their impact on the expected credit loss estimate as well as any other accounting impacts. Judgments should be applied when assessing these impacts.

Given the level of judgement involved in applying AASB 9, transparent disclosures are critical (e.g. key assumptions used and judgements, nature of any material reliefs offered to borrowers, etc).

Situation 6: Repayment extensions and current economic conditions in impairment calculation

Facts

An entity is extending the repayment terms of receivables (e.g. from 60 to 90 days). It is considering whether this means the debtor is in default.

Response

Short-term repayment extensions (e.g. from 60 to 90 days) are not automatically expected to result in the receivables being considered in default.

An impairment loss will need to be calculated reflecting the latest reasonable and supportable economic information, which also needs to take into account government assistance made available to debtors or borrowers. It may be necessary to take a portfolio approach to separate receivables from those segments whose credit may be more permanently impacted (e.g. hospitality, airlines), from those that are experiencing short-term cash flow disruption that are expected to return to regular payments.

Situation 7: Investments measured at fair value

Facts

An entity holds mutual fund investments measured at fair value. With the increased volatility in the market, it is considering whether these investments must still be measured at fair value.

Response

These investments should be measured at fair value, irrespective of volatility being experienced.

If the entity considers broker quotes or bank valuations to be unreliable, then that needs to be proven, which is a high hurdle. If unobservable inputs are used in a valuation model, then the asset could fall into Level 3 of the fair value hierarchy, resulting is greater disclosure of inputs.

Employee benefits

Entities have adopted several measures to face the uncertainties created by COVID-19. These include employees taking leave, reducing working hours and redundancies. The accounting treatments of these generally fall within AASB 119 *Employee Benefits*.

Situation 8: Termination benefits

Facts

The employees who have been made redundant by the entity are entitled to termination payments. The entity is considering when to account for the termination payments.

Response

The entity recognises a liability and expense for termination benefits, when it has communicated its plan to the affected employees.

Situation 9: Negative sick leave balances

Facts

An entity is permitting employees to take sick leave in excess of their current entitlements. It does not normally recognise a provision for sick leave.

Response

It is general practice for entities not to recognise provisions for sick leave entitlements, hence there are no accounting implications for negative sick leave balances (an asset is not recognised).

However, to the extent that the company has a legal right to offset any negative sick leave balance against any vested leave (e.g. annual leave) entitlements of the employee - if the employee were to leave or be terminated - then this negative leave should be recognised by offseting against those vested leave provisions.

Impairment of assets

AASB 136 *Impairment of Assets* requires an entity to assess, at the end of each reporting period, whether the entity's non-financial assets are impaired.

An asset is impaired when an entity is not able to recover its carrying value, either by using it or selling it. An entity estimates the recoverable amount of the asset for impairment testing. Recoverable amount is the higher of the fair value less costs of disposal (FVLCD) and the value in use (VIU).

VIU is defined as the present value of the future cash flows expected to be derived from an asset or cash generating unit (GCU). The calculation of an asset's or CGU's VIU incorporates an estimate of expected future cash flows and expectations about possible variations of such cash flows.

Uncertainties created by COVID-19 could result in entities performing an impairment test that incorporates COVID-19 risk.

Situation 1: Adjusting for COVID-19 risk in impairment testing

Facts

An entity's operation has been impacted by the lockdown measures taken by the government in response to COVID-19. This is identified as an impairment indicator. The entity is now considering how to adjust the recoverable amount to incorporate risks associated with COVID-19.

Response

Impairment models may adjust for risk via the discount rate or the cash flows used (AASB 136.55). The key concept is that risks are reflected in either the discount rate or the cashflows, but not in both.

Situation 2: Adjusting discount rate

Facts

The entity adjusts the discount rate to reflect the impact of COVID-19. It is considering whether a normalised rate could be used across all periods.

Response

If the impact of COVID-19 is included in the discount rate, the rate used should reflect the specific risks associated with the projected cash flows to reflect the return an investor requires at the measurement date (AASB 136.A18), including the risks associated with COVID-19.

If an entity considers that the risks associated with COVID-19 don't impact all future periods, then it should use separate discount rates to reflect the differing risks in each period (AASB 136.A21). Therefore, it's not appropriate to use a normalised rate across all periods.

Provisions, contingent liabilities and contingent assets

Provisions recognised by entities under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* should be remeasured at each reporting date, by considering all the associated risks and uncertainties.

COVID-19 will create additional risks and uncertainties that have not being considered in prior reporting periods.

Situation 1: Measurement of provisions and disclosures

Facts

An entity has a provision recognised under AASB 137. It is considering how to deal with the risk and uncertainty of COVID-19 when remeasuring this provision.

Response

Provisions must include the risks specific to the obligation. Risk can be incorporated in either the estimated cash flows or in the discount rate, but not in both.

If the discount rate has a significant effect on a provision, an entity should disclose the judgements and assumptions made when arriving at the discount rate. Disclosure may include a sensitivity analysis on the provision as recommended by AASB 101.129.

Resource

Applying IFRS - Accounting considerations of the coronavirus outbreak (Updated November 2020)

Tax update

COVID-19 related

Tax measures to support business and employers

The Federal Government is providing various measures to support businesses and employers impacted by COVID-19, including:

- **JobKeeper 2.0 payment** – fortnightly payments separated into either Tier 1 (higher) or Tier 2 (lower) available for eligible employers with eligible employees
- **JobMaker Hiring Credit** – employers hiring eligible employees will be able to claim up to $200 per week in Hiring Credit, up to an annual maximum of $10,400 per eligible employee
- **Increasing the instant asset write-off** – from 12 March to 30 June 2021, the instant asset write-off is increased to $150,000 (up from $30,000) and made available to businesses with an aggregated turnover of less than $500m (up from $50m)
- **Backing business investment** – accelerated depreciation deductions on eligible assets for businesses with an aggregated turnover of less than $500m.

Job Keeper 2.0

Date of effect: 28 September 2020 to 28 March 2021

Key impact

Employers significantly impacted by COVID-19 may be able to access the JobKeeper 2.0 payment from the ATO to assist with continuing to pay their employees. ACNC-registered charities (other than schools and universities) will generally be eligible where there has been a decline in their Australian turnover of 15% or more. For universities and schools to be eligible, the decline in turnover must be either 30% or 50%, depending on their aggregated turnover.

During 4th January 2021 to 28 March 2021, eligible businesses will be able to claim a fortnightly payment of $1,000 per eligible Tier 1 employee or $650 per eligible Tier 2 employee.

You can access further information about the JobKeeper 2.0 payment here:

Extension of the JobKeeper Payment – information for businesses and not-for-profits (ato.gov.au)

Changes announced on 24 April 2020 allow charities (other than schools and universities) to elect to exclude government revenue from the JobKeeper turnover test. This allows employing charities receiving revenue from government to use either their total turnover, or their turnover excluding government revenue, for the purposes of assessing eligibility for the JobKeeper 2.0 payment. This will help to ensure that the eligibility of charities is not adversely affected where they are delivering significant services that are funded by government.

Another change announced on 24 April 2020 allows JobKeeper payments to be made to religious institutions in respect of religious practitioners (with the exception of those that are students only), recognising that many religious practitioners are not "employees" of their religious institutions.

Changes announced on 1 May 2020 require universities to include income from Commonwealth-supported places (e.g. funded by HECS-HELP) and research grant income in turnover tests. However, if full fee-paying students (including international students) are a significant source of income, a university may demonstrate a turnover decline that enables it to qualify. The turnover test period is the six months commencing 1 January 2020, i.e. universities are required to consider projected turnover in this period as opposed to a month or quarter and compare it to the corresponding period in 2019. Many universities have wholly-owned entities which should also assess turnover on a standalone basis.

If you are a taxable NFP and have experienced an increase in assessable income through receiving JobKeeper Payments, the corresponding salary expenses should generally be deductible. In particular the ATO has provided guidance following consultation that the salary amount paid to employees which relates to the JobKeeper Payments is deductible for taxpayers applying the principle of mutuality.

JobMaker Hiring Credit

Date of effect: 7 October 2020

Key impact

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

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

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

You can access further information about the Jobmaker payment here:

JobMaker Hiring Credit - Information for employees (ato.gov.au)

Temporary full expensing of depreciating assets

Date of effect: 7:30pm AEDT on 6 October 2020

Key impact

This measure was announced as part of the Federal Budget on 6 October 2020 and allows businesses with aggregated turnover of less than $5b to immediately deduct the business portion of the cost of eligible new depreciating assets. There is no limit placed on the cost of the asset but the eligible assets must be purchased after 7.30pm (AEDT) on 6 October 2020 and first used or installed ready for use by 30 June 2022.

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

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

Eligible New Assets	▸ Businesses with aggregated turnover < $5bn can instantly write off capital assets acquired which are either first used, or installed, by 30 June 2022 ▸ No threshold applies to each eligible asset ▸ Cost of improvements to existing eligible assets made before 30 June 2022 can also be deducted
Eligible Second-hand Assets	▸ Small & medium sized businesses (aggregated turnover < $50m) to fully expense cost of second-hand assets ▸ Businesses with turnover between $50m-$500m can still deduct second-hand assets costing < $150,000 under previous measures

Carry back of tax losses

Date of effect: 2020-21 tax year

Key impact

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

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

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

Fringe benefits tax ("FBT")

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

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

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

- Utilise the Otherwise Deductible Rule: If the employee would have been entitled to a once-off deduction in their personal tax return, had they paid for the benefit themselves, you may be able to reduce the taxable value for FBT purposes. This may include the purchase of computer items, desks, office chairs etc

- Providing tools of trade: Providing a laptop or other portable electronic device primarily for use in the respect of employment may be exempt from FBT
- Apply the minor benefit exemption: Providing benefits less than $300 (including GST) on an irregular and infrequent basis may be able to be excluded from your FBT return
- Emergency assistance: In the context of COVID-19, where assistance is provided to an employee who has been located in a high-risk area and has been relocated or otherwise required to self-isolate, exemptions may be available for temporary emergency meals, food supplies, accommodation and flights to return to Australia
- Loans: Employers may provide employees with loans to assist with financial difficulty as a result of COVID-19. FBT will be payable on the taxable interest component on the loan, which is calculated as the difference between the interest charged by the employer and the ATO interest rate (4.80% for the 2021 FBT year). Please note that where the taxable interest component is less than $300, the minor benefit exemption may be applied.

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

Payroll

Superannuation -There have been no changes to Superannuation Guarantee as a result of the COVID-19 environment. Superannuation contributions must still be made for employees, at a minimum by the quarterly statutory due date.

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

Personal Income Tax changes (PAYG)

The second stage of the personal income tax relief plan announced in the 2019-20 Budget will commence retrospectively from 1 July 2020. This means that income tax brackets will change, and businesses need to ensure that their that tax withholding is correctly calculated with the updated PAYG withholding bracket retrospectively from 1 July 2020.

Other tax matters

Deductible gift recipient (DGR) reform

Date of effect: delayed until further notice (extended from 1 July 2019).

Key impact

- The requirement for non-government organisations with DGR status to register as a charity with the ACNC from 1 July 2020
- Transition arrangements to support existing organisations with DGR status to register as a charity with the ACNC
- The Commissioner's discretion to exempt organisations with DGR status from the requirement to register as a charity in specific circumstances
- The abolition of certain public fund requirements.

DGRs that are not registered with the ACNC are able to register in anticipation.

Community sheds

Date of effect: 1 October 2020

Key impact

Men's sheds and women's sheds (community sheds) can now apply for DGR endorsement, giving their donors access to a tax deduction for donations made to them.

Covid-19 declared a disaster

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

Key impact

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

Minimum distribution rates for ancillary funds

Date of effect: Legislated in June 2020

Key impact

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

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

New ACNC governance standard

Date of effect: submissions closed 8 January 2021

Key impact

Treasury has provided draft legislation for the introduction of a new governance standard requiring registered charities to take reasonable steps to participate in the National Redress Scheme for Child Sexual Abuse if they may have been involved in child sexual abuse within the scope of the Scheme.

ATO and ACNC activity and enforcement powers

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

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

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