Accountants &
Business Advisors

News Bulletin

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ATO: CASH ECONOMY INTELLIGENCE TIP-OFFS

In a recent media release the ATO revealed how it is using intelligence from tip-offs as part of its approach in dealing with the shadow economy.

The shadow economy (also known as the black economy) refers to activities that take place outside of the tax and other regulatory systems.

The ATO in the media statement revealed that In the media release, the ATO reveals that demanding cash from customers, paying workers 'cash in hand', or not declaring all sales are the most common examples of the 43,000 tip-offs it received in the 2022 financial year.

The ATO estimates that around $11bn in taxes is lost each year as a result of the shadow economy.

Topping the list of industries the ATO was tipped off about in the past year were building and construction, hairdressing and beauty services, cafés and restaurants, road freight transport, and management advice and related consulting services.

The ATO advised that tell-tale signs that a business may be operating in the shadow economy include features such as:

- 'cash only' signs,
- offering a discount for cash,
- not accepting card payments,
- failing to provide payslips to workers,
- not ringing up sales, or even running illegal software that deletes or modifies sales transactions.

THE END OF SPECIAL PURPOSE FINANCIAL REPORTS

Entities that prepare special purpose financial statements (SPFS) must transition to general purpose financial statements (GPFS) under recent changes in Accounting Standards.

For the 30 June 2022 annual reporting periods, **for-profit private sector entities** must prepare GPFS if **either**:

- They are required by **legislation** to prepare financial statements, in accordance with Australian Accounting Standards or 'accounting standards'
- They are required by their **constitution or other documents** if dated post 1 July, 2022, such as a lending agreement, to prepare financial statements in accordance with Australian Accounting Standards.

The following types of entities that previously prepared SPFS will need to prepare GFPS for the 30 June 2022 annual reporting period:

- Unlisted public companies
- Large proprietary companies, including 'grandfathered entities'

DIRECTOR ID DEADLINE FAST APPROACHING!

With 30 November 2022 approaching, a timely reminder that all Company Directors (if not already applied) *must apply for a Director Identification Number (DIN) by 30 November 2022.*

Applying for a Director ID is something Directors need to do personally, because an important part of this process is confirming their identity. You can apply for a DIN by phone, but Directors are encouraged to set up a myGovID and apply online.

Directors who fail to apply within the timeframe could face fines of up to $1.1 million (s1272D)

For clients that are struggling to get a Director ID, the ATO has demo video which can be accessed by clicking on the link below.

https://www.ato.gov.au/Super/Sup/Watch-our-new-director-ID-demonstration-video/

BUSINESS SURVIVAL TIPS IN AN ECONOMIC DOWNTURN

With the world economy heading towards hard times, it is very likely that our economy will also be impacted and possibly head towards recession.

It is important therefore that businesses prepare for such a contingency and look at ways to ensure that the business can withstand the economic headwinds.

Below are some strategies that may help your business weather the storm.

Review and update your budgets

Review your budgets to make sure your forecasts are realistic in the current climate. Used wisely, budgets can guide your cash flow, revenue projections and spikes in expenditure.

Budgets also help identify seasonal trends – e.g. times when you are likely to need extra working capital – so you can plan and take appropriate action

Track your business performance

It goes without saying that it is important that a business needs regular up-to-date financial reports in order that management is able to make informed decisions.

However, because financial reports only really focus on outcome and not on process, a business also needs information on how its business processes are performing in order that its business activities are effectively managed.

To effectively manage business activities a business needs to develop a set of Key Performance Indicators (KPI's) and a system of regularly monitoring the KPI's. KPI's are not merely scorecards of performance but should also identify existing or emerging problems.

Prepare and review cash flow forecasts

Cash is one of the first things affected during a business downturn.

A cash flow forecast is a key tool for diagnosing the health of any business. It can highlight when you are likely to need extra working capital or simply help you survive day to day financial fluctuations.

Many businesses will be able to improve cash flow by:

- Targeting overdue debtors – provide incentives for payment
- Reducing stock levels – review all slow moving, obsolete or surplus stock Deleting low margin or low turnover stock items
- Reviewing invoice payment terms

Review your business expenses

In many businesses there are discretionary expenses which are routinely incurred and often overlooked or mistaken to be a necessity. Now is the time to take a closer look.

Review your expenses to sort the essentials from the non-essentials. In difficult times, cutting discretionary expenditure can significantly improve the health of your business.

Examples of discretionary expenditure which should be reviewed are:

- Travel and entertainment
- Non-essential repairs and maintenance
- Offsite Christmas functions
- Excessive staff amenities & Staff bonuses

It is also a good time to look at your staffing levels to ensure they are consistent with current and future needs.

Review debt and restructuring options

With interest rates rising, now could be a good time to shop around for a better rate and a more customer friendly provider.

The cost of financing is often one of the biggest expenses of any business, so take advantage of reduced rates that may be on offer, provided refinancing does not involve excessive penalties.

If your business is generating surplus cash, consider putting that money towards reducing debt.

Review your customer relationships

- Identify customers that have a good record of on time payment and reasonable contributions to profits. Consider terminating customers who have a history of late payment, or tend to use your business as a lender of last resort
- Be clear about and enforce your terms of trade.
- Conduct a credit check before offering credit, including asking for trade references to check a new customer's credentials.
- Ask for a bank reference or even personal guarantees for large credit accounts.

120% DEDUCTION FOR SKILLS TRAINING AND TECHNOLOGY COSTS

An election ago, the 2022-23 Budget proposed a 120% tax deduction for expenditure by small and medium businesses on technology, or skills and training for their staff. This proposal has now been adopted by the current Government and details released in recent exposure draft by Treasury.

Two investments 'boosts' will be available to small and medium businesses with an aggregated annual turnover of less than $50 million:

- Skills & Training Boost
- Technology Investment Boost

Technology Investment Boost

The Technology Investment Boost is a 120% tax deduction for expenditure incurred on business expenses and depreciating assets that support digital adoption, such as portable payment devices, cyber security systems, or subscriptions to cloud-based services.

The boost is capped at $100,000 per income year with a maximum deduction of $20,000.

To be eligible for the bonus deduction:

- The expenditure must be eligible for deduction (salary and wage costs are excluded for the purpose of these rules)
- The expenditure must have been incurred between 7.30pm (AEST), 29 March 2022 and 30 June 2023. Any such expenditure incurred before 1 July 2022 is to be claimed in the 2023 tax Return. In the meantime, it is important to start tracking any expenditure incurred
- If the expenditure is on a depreciating asset, the asset must be first used or installed ready for use by 30 June 2023.

To be eligible, the expenditure must be wholly or substantially for the entity's digital operations or digitising its operations. For example:

- **digital enabling items** – computer and telecommunications hardware and equipment, software, systems and services that form and facilitate the use of computer networks;
- **digital media and marketing** – audio and visual content that can be created, accessed, stored or viewed on digital devices; and**e-**
- **commerce** – supporting digitally ordered or platform enabled online transactions.

Skills and Training Boost

The Skills and Training Boost is intended to apply to eligible expenditure incurred from 7:30 pm (AEDT) on 29 March 2022 until 30 June 2024 (s 328-445 and s 328-450 of ITAA 1997). The business, however, will not be able to start claiming the bonus deduction until the 2023 tax return. That is, for expenditure incurred between 29 March 2022 and 30 June 2022, the additional 20% 'boost' deduction will not be claimable until the 2022-23 tax return.

The Skills and Training boost measure will allow small businesses with an aggregated annual turnover of less than $50 million to deduct 20% in addition to an existing available deduction for eligible expenditure incurred on external training for employees, ie 120%.

The expenditure must be incurred on external training delivered to their employees by training providers registered in Australia is a 120% tax deduction for expenditure incurred on external training courses provided to employees.

To be eligible for the bonus deduction:

- The expenditure must be for training employees, either in-person in Australia, or online
- The expenditure must be charged, directly or indirectly, by a registered training provider
- The registered training provider must not be the small business or an associate of the small business
- The training must be necessarily incurred in carrying on a business for the purpose of gaining or producing income.

ATO refocus on debt collection!

The ATO has not pursued many business tax debts during the pandemic and allowed tax refunds to flow through even if the business had a tax debt.

That position has now changed and the ATO has resumed debt collection and offsetting tax debts against refunds. If you have a tax debt that has been on-hold, expect the ATO to offset any refunds against this debt, and take steps to actively pursue the payment of the debt.

Small business account for around two thirds of the total debt owed to the ATO. If you have a tax debt, it is important that you engage with the ATO to work out how this debt will be paid.