# News Bulletin

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Accountants &
Business Advisors

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## TAX DEVELOPMENTS UPDATE


### ATO powers to obtain access to taxpayer information.

In an age where technology is providing the ATO with arsenal of powerful computers, combined with connections with other government bodies, taxpayers should be aware of the ATO's wide-ranging gathering powers, to enforce compliance with taxation laws.

In summary, the ATO's powers include:

- Power to issue notices to request and obtain information (including electronic information) from taxpayers and their advisers. The Commissioner is also able to issue formal notices to a third parties (e.g. banks) without seeking the express consent of a taxpayer beforehand
- power to enter the premises of taxpayers or third parties (e.g. advisers) and to have 'full and free' access to documents and other property on the premises. The Courts have held that the Commissioner's power of 'full and free access' to all buildings and documents is an unrestricted right, subject only to its exercise being in good faith, and
- through mandatory reporting of a vast range of payments and transactions by the payers, payees, government bodies and other third parties, the ATO also has access to vast amounts of data about taxpayers that are held by third parties, including from overseas. The mechanisms through which the ATO may gather a taxpayer's information from third parties, include.
    - legislated data collection from banks, employers etc
    - third party reporting regimes
    - formal data matching programs
    - date exchange agreements with government agencies.

It should be noted that penalties for not complying with a notice or denying access to premises and documents include financial penalties and/or up to two years' imprisonment.

However, the ATO's access powers are not unlimited, and you need to know your rights and the protections available to you in the face of such broad powers and resources. It is therefore important that clients contact us immediately if they receive a request for information and/or documents from the ATO.

## ATO CRACKDOWN ON TPAR LODGMENTS

The ATO is again warning businesses to lodge their taxable payments annual report (TPAR) or risk the imposition of penalties.

The ATO has recently issued more than 16,000 penalties for businesses who failed to lodge their TPARs for previous years despite receiving multiple reminders. The average penalty for non-lodgement was approximately $1,110.

The TPAR system is a black economy measure designed to identify contractors who don't report or under-report their income.

### ATO GST Red Flags in Selecting Audit Targets

- Size of Turnover & GST liability
- Retail industries and those with high volumes of cash transactions
- Misalignment between income tax & GST records
- Variance from industry norms
- Size and Frequency of GST Refunds
- Repeated late lodgements, extension requests & late payments.
- Previous compliance history

Businesses need to lodge a TPAR if they made payments to contractors providing the following services:

- building and construction;
- cleaning;
- courier and road freight;
- information technology (IT); or
- security, investigation or surveillance.

If the total payments you receive for TPAR services are 10% or more of the business income, a TPAR must be lodged. There is no requirement to lodge a TPAR if the TPAR services are less than 10% of the business income.

Clients wishing assistance to comply with their TPAR obligations, should contact our office for assistance.

## ATO RAMPS UP PURSUIT OF UNPAID TAXES

The ATO is now taking a tougher line than last year when it resumed its debt collection activities following the pandemic, significantly ramping up the number of Director Penalty Notices issued to directors whose companies have failed to make PAYG, GST and super guarantee payments.

Many small businesses were artificially kept from becoming insolvent during the pandemic, and now the ATO is sending a clear message: there is a need for accountability, that these taxes have been incurred and must be paid.

More recently, the ATO have returned to the courts as a principal way of recovering tax debts. 476 winding up proceedings were initiated in the first seven months of 2023.

If a company has entered into a payment arrangement with the ATO, and the company defaults on that payment arrangement, even if the company's still making voluntary payments, DPNs are being issued against directors.

Clients should take care in managing their debt to the ATO and make sure that they fully comply with any payment arrangements in place, as any non-compliance could have serious repercussions

## BONUS TAX DEDUCTION FOR INVESTMENT IN EFFICIENT ENERGY

Small and medium businesses (with an aggregated annual turnover of less than $50 million) are now able to access a bonus deduction equal to 20% of the expenditure incurred, between 1 July 2023 and 30 June 2024 on eligible assets or improvements to existing assets that support electrification or more efficient energy use.

Certain kinds of assets and improvements are not eligible for the bonus deduction, including where the asset or improvement uses a fossil fuel.

Small and medium businesses may claim up to a maximum bonus deduction of $20,000.

### Depreciating assets

A depreciating asset is eligible for the bonus deduction if it:

- uses electricity and there is a new reasonably comparable asset that uses a fossil fuel available in the market.
- uses electricity and is more energy efficient than the asset it is replacing or,
- is an energy storage, demand management or efficiency-improving asset.

### Improvements

In addition to newly acquired depreciating assets, improvements to existing depreciating assets may also be eligible for the bonus deduction.

An improvement to a depreciating asset is eligible if it:

- enables the asset to use electricity instead of fossil fuels;
- enables the asset to be more energy efficient; or
- facilitates energy storage, demand management or monitoring.

### Exclusions

Some types of assets and expenditure are ineligible for the bonus deduction even where they would otherwise meet the requirements. These are:

- assets, and expenditure on assets, that can use a fossil fuel;
- assets which have the sole or predominant purpose of generating electricity (such as solar panels);
- capital works;
- motor vehicles (including hybrid and electric vehicles) and expenditure on motor vehicles;
- assets and expenditure on an asset where expenditure on the asset is allocated to a software development pool; and
- financing costs, including interest, payments in the nature of interest and expenses of borrowing.

## KEY NUMBERS TO DRIVE PROFIT

In uncertain economic conditions such as we are currently experiencing, it is critical that business owners have the necessary information to ensure that their businesses are on a profitable path.

A standard financial performance report that all businesses use is the Profit and Loss Statement and Balance Sheet. While these reports contain a lot of useful of numbers on performance, they show only the end results of operations of the previous periods, and they are often prepared for tax purposes rather than management use. They do not show the key numbers that drive profit and cash flow.

Examples of key numbers that do not feature on standard financial reports that Drive Profit are:

**Revenue Growth %** - Revenue and generating sales sufficient to cover increasing costs is obviously critical to maintain and increase the profitability of a business. If revenue growth if not well managed and looked at in conjunction with other key profit drivers, profitability and cash flow could suffer. It is often said that businesses that don't grow generally go backwards.

**Price Change % -** means the percentage increase or decrease at which you sell your products or services. In a highly competitive marketplace, it's tempting to sell for the cheapest price possible. However, if you're not covering costs with the price you are charging, then you are not going to make a profit. Discounting some products or services in order to gain business for other more profitable ones, is fine as long as it is targeted and controlled.

A trap many businesses fall into, is failing to increase prices regularly by small amounts e.g. by the Consumer Price Index (CPI). Customers can get a shock if you've never increased prices and suddenly make a large increase, whereas regular small increases are much easier to achieve.

**COGS%** – 'Cost of Goods Sold' means the costs incurred to get the product or service to the customer, before taking into account Overheads. This is often referred to as 'Direct Costs' or 'Variable Costs'. This is a really important number as it has a huge impact on your Gross Profit and an even bigger one on your Net Profit.

For service-based business, attention to work practices and job management can have the same effect on Gross Profit. e.g., knowing how many labour hours you are selling compared to those you are paying for, provides opportunity to investigate differences and tighten up processes.

**Overheads%** - Many business owners focus attention only on the dollar amount of the overheads in the Profit and Loss Statement without comparing them relatively, (by percentage) to the Revenue. If you just look at the overhead's dollar amount you could be increasing Revenue without increasing your Net Profit.

Of course, an overhead percentage figure by itself would not be very meaningful unless it is compared to a target figure which should form part of the business budget, which is a critical monitoring tool of every business. Not having a budget in business is like trying to find a new destination without a roadmap.

Some <u>other examples</u> of key drivers that affect profit are:

**Days Receivable** – is the number of days, on average, your customers are taking to pay invoices. Managing this number can have a huge impact on cash-flow.

It is important that Accounts Receivable Days do not increase compared to Revenue growth. This is because if Accounts Receivable Days increase at a faster rate than revenue growth the business will experience cash-flow squeeze and could run out of working capital.

**Days Inventory** – is the number of days, on average, that goods for sale are sitting in your storeroom, from when they are delivered by suppliers, to when they are shipped out to customers.

These goods often have to be paid for before they have been sold. This means you have had to spend valuable working capital to have the stock sitting there waiting to be sold. If you can manage this situation better, and reduce the number of Inventory Days, this can have a big impact on your bank account and working capital situation.

If you are in a service-based business Work in Progress (WIP) Days is very similar to Inventory Days, in that your 'stock in trade', is the labour and materials you have to sell. Slow WIP days can be just as dangerous to cash-flow and working capital as Inventory Days.

Anything you can do to tighten up processes and speed up the time work is ready to be invoiced, will pay dividends in your bank account and reduce your interest expense.