## Not-for-profit update – financial reporting

Financial reporting for Not-for-Profits (NFP entities) continues to be an area of focus for the Australian Accounting Standards Board (AASB). We also continue to see developments in taxation law for NFP entities. We outline the latest developments in financial reporting and tax below. Please contact your EY advisor for further details.

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<th>Detail</th>
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<tr>
<td><strong>Depreciated Replacement Cost as a Measure of Value in Use</strong>&lt;br&gt;► Removes references to depreciated replacement cost (DRC) as a measure of value in use in AASB 136 <em>Impairment of Assets</em> for NFP entities.&lt;br&gt;► Clarifies that the recoverable amount of primarily non-cash generating assets, which are typically specialised assets and, that are generally held for continuing use of their service potential by NFP entities, should be measured at fair value in accordance with AASB 13 <em>Fair Value Measurement</em>.</td>
<td>► Amending standard AASB 2016-4 <em>Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities</em> was issued in June 2016.&lt;br&gt;► Effective for annual reporting periods beginning on or after 1 January 2017.</td>
<td>► No material impact expected.&lt;br&gt;► The AASB has noted that the definition of DRC in AASB 136 and the guidance on current replacement cost in AASB 13 are expected to result in values materially the same, and in practice valuers treat them interchangeably for the specialised assets being considered.</td>
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<td><strong>Income of NFP entities</strong>&lt;br&gt;► Income of NFP entities is currently governed by AASB 1004 <em>Contributions</em>.&lt;br&gt;► The new standards will defer income recognition in some circumstances for NFP entities, particularly where there is a performance obligation or any other liability. In addition, certain components in an arrangement, such as donations, may be separated from other types of income and recognised immediately. The Standard also expands the circumstances in which NFP entities are required to recognise income for goods and services received for consideration that is significantly less than the fair value of the asset principally to enable the entity to further its objectives (discounted goods and services), including for example, peppercorn leases.&lt;br&gt;► AASB 1004 will continue in force but with its scope restricted to specific issues for government entities and contributions by owners.</td>
<td>► AASB 1058 <em>Income of Not-for-Profit Entities</em> and AASB 2016-8 <em>Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities</em>, and revised AASB 1004 issued in December 2016.&lt;br&gt;► The new and revised standards apply to accounting periods beginning on or after 1 January 2019, and may be early adopted.</td>
<td>► Depends on how an NFP entity currently applies AASB 1004.&lt;br&gt;► Timing and amount of revenue/grants to be recognised by an NFP entity may be impacted.&lt;br&gt;► Clearer guidance for deferral of revenue from some transactions where sufficiently specific goods/services are promised (referencing the AASB 15 requirements).&lt;br&gt;► “Peppercorn rent” leases have a potentially significant impact in the year the NFP enters the agreement.</td>
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## Not-for-profit update – financial reporting

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<th>Standard Setting Framework</th>
<th>Service performance reporting for NFP entities</th>
<th>Improvements in Charity Reporting</th>
<th>Reduced Disclosure Requirements</th>
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<tbody>
<tr>
<td>Detail</td>
<td>The AASB is seeking comment on its proposed Framework for standard setting for Australian entities, including when modifications to IFRS Standards may be justified.</td>
<td>The purpose of the first stage of this Project is to develop an AASB ED that will propose a Standard on service performance reporting by NFP (including public sector) entities.</td>
<td>This exposure draft proposes some disclosure exemptions for Tier 2 reporters in relation to the recently released accounting standards AASB 1058 <em>Income of Not-For-Profit Entities</em>, AASB 16 <em>Leases</em> and AASB 1059 <em>Service Concession Arrangements: Grantors</em>.</td>
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<td>Status</td>
<td>AASB Invitation to comment 137: Standard setting framework for For-Profit and Not-For-Profit Entities was issued in October 2017.</td>
<td>ED 270 <em>Reporting Service Performance Information</em> was issued in August 2015. Comments closed 29 April 2016.</td>
<td>ED 284 <em>Recent Standards – Reduced Disclosure Requirements</em>, issued December 2017</td>
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<td>The Framework provides a basis for AASB modifications to IFRS. Constituents can use the Framework to better formulate and justify requests for changes to AASB standards.</td>
<td>The proposals would require NFP entities to provide information on: Key service performance objectives - what the entity does to fulfil its purpose. Performance indicators - how the entity measures its achievement of those service performance objectives. The proposals do not require this information to be audited or reviewed but acknowledge this may be required by other regulators.</td>
<td>The proposals will result in fewer required disclosures for those entities preparing Tier 2 General Purpose Financial Statements.</td>
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### Service performance reporting for NFP entities

- The ED is based on IPSASB ED 54 *Reporting Service Performance Reporting: Proposed Recommended Practice Guidance*, combined with the results of the AASB staff research to date and the work of the NZASB.
- ED 270 *Reporting Service Performance Information* was issued in August 2015. Comments closed 29 April 2016.
- AASB considering comments.

### Improvements in Charity Reporting

- The paper presents a range of illustrative financial reporting frameworks, using various criteria and thresholds.
- Its intention is to promote discussion among stakeholders.
- Potentially less complex requirements for reporting in the charity sector.
- Elimination of duplicate reporting requirements between state and federal level.
- Greater transparency around thresholds for reporting.

### Reduced Disclosure Requirements

- This exposure draft proposes some disclosure exemptions for Tier 2 reporters in relation to the recently released accounting standards AASB 1058 *Income of Not-For-Profit Entities*, AASB 16 *Leases* and AASB 1059 *Service Concession Arrangements: Grantors*.
- Comments requested by 31 March 2018.
# Not-for-profit update – financial reporting

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<tr>
<th><strong>Financial Instruments</strong>&lt;br&gt;(new standard)</th>
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<td>▶ This standard was issued in 24 July 2014 and replaces most of the guidance in AASB 139.&lt;br&gt;▶ AASB 9 introduces a new classification model for financial assets that is more principle-based than the current requirements under AASB 139. Financial assets are classified according to their contractual cash flow characteristics and the business models under which they are held.&lt;br&gt;▶ AASB 9 also introduces a significant change in impairment requirements, based on expected credit losses rather than incurred losses as under AASB 139. The Standard allows a simplified approach for trade receivables, lease receivables and contract assets.</td>
<td>▶ AASB 9 Financial Instruments&lt;br&gt;▶ The new standard is effective for annual periods beginning on or after 1 January 2018.</td>
<td>▶ Adopting the expected credit loss model requires changes in current system and processes and the use of judgement. For NFP entity, trade receivables and intra group loan provisioning may require new data analysis.&lt;br&gt;▶ Some managed investment portfolios may need to be held at fair value, introducing income volatility.</td>
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<th><strong>Leases</strong>&lt;br&gt;(new standard)</th>
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<td>▶ This standard was issued in February 2016, and replaces the existing AASB 117 Leases.&lt;br&gt;▶ AASB 16 provides a single model for accounting for leases by lessees. Leases other than low value and short-term leases must be recognised on the balance sheet of lessees. The lessee will recognise an asset, reflecting its right to use the underlying asset, and a liability, in respect of its obligation to make lease payments.&lt;br&gt;▶ Expenses in respect of leases will include amortisation of the right-of-use asset and interest expense in respect of the lease liability.&lt;br&gt;▶ Lessors will continue to account for leases as either operating or finance leases, consistent with current practice.</td>
<td>▶ AASB 16 Leases&lt;br&gt;▶ AASB 16 is effective for annual period beginning on or after 1 January 2019.</td>
<td>▶ If a NFP is the lessee in a lease with significantly below-market conditions, the right-of-use assets is measured at fair value in accordance with AASB 13 Fair Value Measurement.&lt;br&gt;▶ A lease liability for the nominal peppercorn payments will be recognised under AASB 16.&lt;br&gt;▶ The difference will be recorded as income in the year the lease is signed.</td>
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# Not-for-profit update – tax

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<th>Key impacts</th>
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| **Review of ACNC legislation: Terms of reference released** | ▶ Submissions are due by 28 February 2018.  
▶ The panel must provide a report to Government by 31 May 2018. |
| In December 2017, the Government announced the terms of reference for a review of the legislation governing the Australian Charities and Not-for-profits Commission (“ACNC”), as required by legislation. The Australian Charities and Not-for-profits Commission Act 2012 and the Australian Charities and Not-for-profits Commission (Consequential and Transitional) Act 2012 (“ACNC Acts”) both commenced operation in December 2012. The legislation requires a review to be undertaken after 5 years of operation.  
The ACNC have made their own submission with 40 recommendations including:  
▶ Whether a statutory definition of "not-for-profit" should be introduced for the purposes of the ACNC Act and the Charities Act.  
▶ Place a duty on a charity’s auditor to report to the ACNC where reasonable grounds to suspect contravention of the ACNC Act that has not been properly dealt with.  
▶ Increase discretion for the Commissioner to include additional information about a charity on the face of the register to improve transparency and accountability.  
▶ Provide the Commissioner with the authority to collect additional information about the responsible persons of a charity.  
▶ Additional data sharing and reporting abilities between government agencies.  
▶ Reviewing the definition of ‘government entity’ in the Charities Act to increase clarity. | |
| **Deductible Gift Recipient concessions** | ▶ Announced 5 December 2017 and will be consulted |
| The Government released a discussion paper on 15 June 2017 to consider potential reforms to the Deductible Gift Recipient (“DGR”) tax arrangements. Interested parties were invited to make a submission to the discussion paper, with Treasury receiving approximately 2,500 responses.  
Following the proposed reforms and Treasurer Scott Morrison’s Mid-Year Economic and Fiscal Outlook in December 2017, the ACNC and ATO are to be provided with a $5.7m funding boost to improve the integrity of the framework surrounding DGRs. The Hon Kelly O’Dwyer MP announced that all non-government DGRs will automatically be registered with the ACNC from 1 July 2019 with a 12-month transition period to assist non-charity DGRs with compliance. In addition the following will occur:  
▶ The government will be issuing External Conduct Standards to be enforced by the ACNC.  
▶ The ACNC will also be publishing charities’ declarations of political expenditure and the relevant criminal activities of charities’ staff and responsible persons.  
▶ The Overseas Aid Gift Deduction scheme will also be integrated into the ACNC register. | |
| **ACNC revokes registration of charities for failing to lodge annual information statements** | ▶ Ongoing |
| The ACNC has revoked the registration of 86 charities for twice failing to submit their Annual Information Statements. These organisations will now lose access to Commonwealth charity tax concessions (income tax exemption, FBT concessions and GST concessions). | |
# Not-for-profit update – tax

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<td><strong>Updated FBT Rates</strong></td>
<td>▶ Changes have been legislated with effect from 1 April 2017</td>
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<td>▶ The FBT rates and thresholds have been changed for the year ending 31 March 2018, as below:</td>
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<td><strong>Single Touch Payroll</strong></td>
<td>▶ Changes have been legislated with effect from 1 July 2018</td>
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<td>▶ Single Touch Payroll will be effective from 1 July 2018, for all employers with more than 20 employees.</td>
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<td>▶ There are no exemptions or concessions specific to the NFP sector.</td>
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<td>▶ Under Single Touch Payroll reporting, employers will be required to report specific payroll data directly to the ATO each time an employee payment is processed (whether this is weekly, fortnightly, monthly, off cycle etc.). More importantly, the real time information will need to be reported at an individual employee level (not at an aggregated level as is currently the case).</td>
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<td><strong>Cap on NFP meal and entertainment FBT concession</strong></td>
<td>▶ Changes have been legislated with effect from 1 April 2016.</td>
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<td>▶ Salary packaged meal entertainment and entertainment facility leasing fringe benefits continue to be:</td>
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<td>▶ Reportable fringe benefits;</td>
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<td>▶ Valued under the actual method (i.e. no concessional calculation method can be used); and</td>
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<td>▶ Subject to an additional $5,000 cap that applies to exempt and rebateable employers. Salary packaged entertainment benefits that exceed this cap may be subject to full FBT.</td>
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# ACNC requirements for registered charities

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<th>ACNC financial reporting requirements</th>
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|                                      | ▶ Medium (annual revenue $250,000 - $1 million) and large (annual revenue of $1 million or more) charities, (other than basic religious charities) lodge a financial report with the ACNC within six months of their year-end.  
▶ Financial statements and associated notes comply with applicable Australian Accounting Standards, and include a declaration made by a charity’s responsible person (e.g. trustee or board member).  
▶ Large charities to lodge an audited financial report. Medium charities have the option to have their financial report either reviewed or audited. | ▶ For non-reporting entities, special purpose financial statements (SPFs) can be prepared.  
▶ Charities that are a reporting entity and prepare general purpose financial statements should consider their eligibility for the Reduced Disclosure Regime under AASB 1053 Application of Tiers of Australian Accounting Standards, which would reduce the number of required disclosures. |

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<tr>
<th>Annual Information Statement</th>
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|                            | ▶ This includes both general and financial information.  
▶ Lodge the Annual Information Statement (AIS) within six months of the end of the financial year with the ACNC  
▶ Guidance on the AIS can be found on the ACNC website. | ▶ All registered charities must lodge the AIS within six months of the end of the financial year. |

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<tr>
<th>ACNC Governance arrangements</th>
<th>Detail</th>
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|                            | Five principles based Governance Standards:  
1. Purposes and not-for-profit nature of a charity  
2. Accountability to members  
3. Compliance with Australian laws  
4. Suitability of directors  
5. Duties of directors | ▶ Applicable for registered charities |
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APAC No. AU00003221

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