

Reportable Payments to contractors – are your clients ready?

From 1st July 2012, businesses in the building and construction industry need to report the total payments they make to each contractor for building and construction services each year. The ATO wants this in the form of a *taxable payments annual report*.

The aim is to improve compliance with tax obligations and to change the practices of those contractors who are not doing the right thing.

An MYOB Insights Panel of almost 400 small to medium sized business operators found close to two thirds (62%) were unaware of the introduction of this change. Only 13% were well aware and 42% of those aged 18-39 were concerned about the change.

When we broke it down to those who the change actually applied to:

- 52% of 18-39 year-olds were “fairly concerned” or “very concerned” about the change
- 35% of 40-49 year-olds were “fairly concerned” or “very concerned”
- 27% of 50-59 year olds were “fairly concerned” or “very concerned”
- 19% of 60+ year olds “fairly concerned” or “very concerned”.

Moreover, 57% of the relevant business owners and managers surveyed were “not aware” of the change to legislation. The least aware age groups were 40-49 and 50-59:

- 61% of 40-49 year-olds were “not aware”
- 61% of 50-59 year-olds were “not aware”
- 58% of 60+ year-olds were “not aware”
- 45% of 18-39 year olds were “not aware”

As with any new tax legislation, it is important for businesses to review how they’re currently keeping their records, to ensure they’re recording the details required for the taxable payments annual report. If this legislative change applies to your clients and the relevant payments aren’t recorded in their accounting software from 1st July onwards, they face a lot of work in June/July 2013 before the first report is due for lodgement on 21st July 2013.

Anyone using the paper based system like handwritten notes, a spread sheet, or a product that doesn't allow easy flagging of contractor payments, will likely struggle with his new requirement, so its worth figuring out now how best to accommodate the reporting change. One recommended option would be to start using MYOB.

Key facts you may wish to share with your clients:

Your business needs to report if you:

- are in the building and construction industry
- make payments to constructors for building and construction services, and
- have an Australian Business Number (ABN).

You are considered to be part of the building and construction industry if:

- 50% or more of your business activities in the current financial year relates to building and construction services.
- 50% or more of your business income in the current financial year is derived from providing building and construction services.
- 50% or more of your business income in the past financial year is derived from providing building and construction services.

The **details to report** will generally be contained in the invoices you receive from your contractors.

The **first annual report is due 21 July 2013** for payments made in the 2012-13 financial year. In this first year businesses that lodge their business activity statements quarterly may lodge by 28 July 2013.

The information reported about payments made to contractors will be matched against other information held by the ATO to detect contractors who have not:

- Lodged tax returns, or
- Included all their income in returns that have been lodged.

Building and construction services include any of the activities listed below if they are performed on, or in relation to, any part of a building, structure, works, surface or sub-surface:

- Alteration
- Assembly
- Construction
- Demolition
- Design
- Destruction
- Dismantling
- Erection
- Modification
- Excavation
- Removal
- Finishing Improvement
- Repair
- Installation
- Organisation of building and construction services
- Maintenance
- Management of building and construction services
- Site preparation

Do not report:

- Payments for materials only, such as building supplies and materials.
- Unpaid invoices as at 30th June each year. For example, if you receive an invoice in June 2012, but you do not pay that invoice until July 2012, you report that payment in the 2012-13 *Taxable payments annual report*.
- Pay as you go withholding payments (PAYG withholding).

For more information about taxable payments reporting visit
www.ato.gov.au/taxablepaymentsreporting to find details such as:

- A list of activities and occupations that are considered to be building and construction services.
- Examples of situations where reporting is required.
- Exclusions from reporting requirements.