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Welcome to the newest edition of our Not-for-Profit Newsletter. Please feel free to contact us if you have any questions about the content of this Newsletter.

#### In this edition

This edition has a particular focus on the impacts on the current COVID-19 pandemic and includes details of the resultant amendments to the lease accounting standard, considerations for going concern assessments, the approach of regulatory bodies, and accounting for government support. We also provide another reminder of the requirements of new accounting standards that will be applicable to 30 June 2020 reporting and disclosure changes for charities that prepare special purpose financial statements.

This edition also includes important information on the superannuation-guarantee amnesty, single touch payroll declarations and deductible gift recipients as well as various governance related matters.





## Governance

### ATO helps NFPs to comply

The Australian Taxation Office has compiled a list of online resources that aims to help NFPs in their annual reviews of tax compliance.

Included are an online guide on exemptions for sporting clubs and an income-tax-status review worksheet that most NFPs should be able to use.

The tax office encourages charities to review annually their Tax Concession Charities endorsement concessions and deductible-gift-recipient status.

NFPs with DGR status should also review their organisations to ensure that they still operate for the purposes for which they were granted DGR endorsement.

**Two worksheets will assist you in reviewing DGR endorsement:**

- Review of a DGR-endorsed as a whole, and
- Review of a DGR-endorsed for the operation of a fund, authority or institution it owns or includes.

For further information visit the ATO website [here](#).

### DGR reforms delayed, but not for long

Assistant minister for finance, charities and electoral matters Zed Seselja has announced that the government remains committed to reforming the administration and oversight of the deductible-gift-recipient status.

But given legislative delays brought on by the COVID-19 pandemic, three reforms that were scheduled to be implemented from 1 July have been delayed. The reforms will instead begin three months after royal assent.

**They relate to:**

- Requiring non-government organisations wishing to hold DGR status to be registered as a charity with the ACNC
- The removal of public-fund requirements for DGRs, and
- Transferring the administration of the four DGR registers to the ATO and the ACNC.

DGRs that are not yet registered as charities are encouraged to do so ahead of the legislative amendments.

### National regulatory approach to charitable fundraising

State and territory NFP regulators have issued a statement about the enforcement approach they will take in the light of COVID-19.

The *COVID-19 Statement of Regulatory Intent* responds to laws made because of the pandemic.

Regulators across Australia recognise that COVID-19 has created an exceptional set of circumstances that will have significant effects on charitable fundraisers.

They might, for instance, need to comply with many fundraising laws (including several registrations) if they intend to raise money in more than one state or territory.

For fundraisers that cannot comply with relevant legislative requirements due to the impacts of COVID-19, regulators will take a supportive and educative approach when assessing compliance.

Regulators will continue to monitor the situation and provide advice and help, they say.

NSW Fair Trading, for instance, recognises that due to the pandemic many authority holders may experience difficulty in complying with their statutory obligations under the *Charitable Fundraising Act 1991*.

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Charitable 'fundraising authority' holders unaffected by the pandemic are expected to honour their existing obligations under the act.

Where an authority holder cannot comply due to factors outside its control associated with the pandemic, NSW Fair Trading will take a supportive and educative approach to assessing compliance. The approach will be implemented provided that authority holders have made genuine documented attempts to comply.

**Requirements that might be affected by the pandemic include:**

- Lodgement of financial returns/reports and other documents under section 23, and
- Annual auditing requirements for authority holders that receive more than \$250,000 gross in any financial year under section 24.

NSW Fair Trading reserves the right to vary its approach as appropriate, particularly in circumstances that might involve a significant risk of harm to the community.

If organisations are experiencing difficulties in complying with their statutory obligations as a result of COVID-19, they may contact NSW Fair Trading.

## ATO warns on COVID lurks

The ATO says it will stamp down on anyone engaging in illegal behaviour or developing contrived schemes to take advantage of COVID-19 stimulus packages.

The office will resolve genuine mistakes.

To date, the tax office has refused more than 6500 applications for JobKeeper due to either ineligibility or fraudulent behaviour, but more businesses can expect to see their payments suspended as 3000 officers are tasked with compliance activity.

'We also encourage applicants to review their applications and ensure they are complying with all their obligations. Failure to do so can result in overpayment as well as significant penalties. This is particularly so if we contact you and you do not take any action to rectify', says an ATO spokesperson.

## Superannuation-guarantee amnesty closing

The federal government has introduced a superannuation-guarantee amnesty. The amnesty allows employers to disclose and pay previously unpaid super-guarantee charges, including nominal interest, that they owe their employees, for quarters starting from 1 July 1992 to 31 March 2018, without incurring the administration component (\$20 per employee per quarter) or Part 7 penalty.

The amnesty finishes on 7 September and cannot be extended. Apply now for this one-off opportunity to correct past unpaid super, avoiding administration charges and penalties.

For further information visit the ATO website [here](#).

## Good-governance guides released

The Governance Institute available [here](#), has released three new good-governance guides that explore key challenges.

**Topics examined include:**

**Technology governance:**

- The role of technology governance in a corporate-governance framework
- The role of directors
- Technology-governance committees, and
- Emerging technology, innovation opportunities and risks.

**Emerging risk:**

- What are the emerging risks?
- Environmental and social risks
- Technology risks, and
- Where are emerging risks recorded?

**Compliance guide (revised):**

- A compliance framework
- Compliance culture
- Compliance management systems,
- Oversight of the compliance function.



## Financial reporting insights

### Several AASBs operative for 30 June

Under AASB 15 *Revenue from Contracts with Customers*, revenue is recognised so that promised goods and services are transferred in an amount that reflects the consideration to which their provider expects to be entitled.

#### AASB 15 requires the application of a five-step model:

- Identify the contract(s) with a customer
- Identify the performance obligations under the contract(s)
- Determine the transaction price
- Allocate the transaction price to the performance obligations under the contract(s), and
- Recognise revenue when (or as) the entity satisfies the performance obligations.

AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* inserts Australian requirements and authoritative implementation guidance for not-for-profit entities into AASB 15 and AASB 9 *Financial Instruments*. The guidance assists NFPs in applying those standards to particular transactions and other events.

The amendments to AASB 15 address the identification of a contract with a customer and its performance obligations. It also examines the allocation of transaction price to performance obligations.

Amendments to AASB 9 address the initial measurement and recognition of non-contractual receivables arising from statutory requirements, including taxes, rates and fines.

AASB 1058 *Income of Not-for-Profit Entities* is likely to have a significant impact on NFPs' income recognition.

They should consider how assets received below fair value, transfers received to acquire or construct non-financial assets, grants received, prepaid rates, and volunteer services and leases entered into at below market rates are likely to affect them.

AASB 2018-4 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Public Sector Licensors* amends AASB 15 to add requirements and authoritative implementation guidance for application by NFP public-sector licensors to transactions involving the issue of licences.

#### The amendments include:

- Expanding the scope of AASB 15 to include non-contractual licences
- Guidance distinguishing a licence from a tax
- Guidance clarifying the types of licences issued by not-for-profit public-sector licensors
- Guidance clarifying the application of the principles in AASB 15 to licences that are not within the scope of other Australian accounting standards, and
- Providing recognition exemptions for short-term licences and licences issued for a low transaction price.

The amendments to AASB 16 clarify that licences that are in substance leases or contain leases, except licences of intellectual property, fall within the scope of AASB 16.

AASB 16 *Leases* introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months unless the underlying asset is of low value.

A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset, and a lease liability representing its obligation to make lease payments.

A lessee recognises depreciation of the right-of-use asset and interest on the lease liability. In the statement of cash flows, a lessee separates the total amount of cash paid into principal (presented within financing activities) and interest (presented within either operating or financing activities).

Assets and liabilities arising from a lease are initially measured on a present-value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

Right-of-use asset falls within the scope of AASB 136 *Impairment of Assets*.

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AASB 2018-8 *Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities* amends five standards to provide a temporary option for NFPs not to apply the fair-value initial-measurement requirements for right-of-use assets arising under leases with significantly below-market terms and conditions principally to enable the entity to further its objectives.

The standard requires an NFP that elects to apply the option (that is, measures a class or classes of such right-of-use assets at cost rather than fair value) to include additional disclosures in the financial statements to ensure that users understand the effects on the financial position, financial performance and cash flows of the entity arising from these leases.

AASB 2019-8 *Amendments to Australian Accounting Standards – Class of Right-of-Use Assets arising under Concessionary Leases* amended AASB 16 to specify for NFPs that right-of-use assets arising under concessionary leases can be treated as a separate class of right-of-use assets from those arising under other leases for the purposes of AASB 16.

These accounting standards are complex and necessitate changes to reporting systems and related internal controls. Detailed accounting policy papers will need to be prepared by management and approved by governance. Financial statements will require significant revisions.

## COVID-19 causes Leases amendment

AASB 16 *Leases* has been amended to exclude rent holidays caused by COVID-19 from being assessed as lease 'modifications'.

The amendment provides a practical expedient that permits lessees not to assess whether rent concessions such as rent holidays and temporary rent reductions that occur as a direct consequence of the COVID-19 pandemic and meet specified conditions are lease modifications.

### The standard amends AASB 16 to:

- Provide lessees with an optional practical expedient regarding assessing whether a COVID-19-related rent concession is a lease modification
- Require lessees that apply the practical expedient to account for COVID-19-related rent concessions as if they were not lease modifications
- Require a lessee that applies the practical expedient to disclose that it has applied it to rent concessions that meet the conditions, or, if not applied, to supply information about the nature of the contracts to which it has applied it
- Require lessees applying the practical expedient to disclose the amount recognised in profit or loss to reflect changes in lease payments that arise from COVID-19-related rent concessions
- Require lessees to apply the practical expedient retrospectively at the start of the reporting period in which the expedient is first applied, and
- Not require lessees to disclose the information required by AASB 108 paragraph 28(f) in the reporting period in which the practical expedient is first applied.

AASB 2020-4 *Amendments to Australian Accounting Standards – COVID-19-Related Rent Concessions* applies to annual periods beginning on or after 1 June. Earlier application is permitted, including in financial statements not authorised for issue at the date this standard was issued (15 June).

Further information can be found on our website [here](#).

## New SPFS disclosures apply for 30 June

New recognition and measurement disclosures are required by charities registered with the ACNC reporting on 30 June that have an annual revenue of \$250,000 or more.

The disclosures apply to charities preparing special-purpose financial statements, and those (for example, companies limited by guarantee) lodging SPFSs with the Australian Securities and Investments Commission.

Under AASB 2019-4 *Amendments to Australian Accounting Standards – Disclosure in Special Purpose Financial Statements of Not-for-Profit Private Sector Entities* on Compliance with Recognition and Measurement Requirements, SPFSs will need to disclose:

- Why the decision was made to prepare an SPFS
- For each material accounting policy that does not comply with the recognition and measurement requirements, an indication of where it does not comply or why the assessment has not been made
- The overall compliance of the SPFS with the recognition and measurement requirements of accounting standards (except for consolidation and equity accounting), or whether this assessment has not been made, and
- How the consolidation and equity accounting requirements have been applied.

For more information visit our website [here](#).



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## FAQs on accounting for government support

The Australian Accounting Standards Board has released staff-paper *FAQs on Accounting for Government Support* to identify standards that might be applied by for-profit and not-for-profit entities in accounting for COVID-19 government support.

To stimulate the economy and support entities affected most by the pandemic, governments are providing a range of financial support.

The AASB staff-paper can be found [here](#).

For further details, please refer to our website [here](#).

## COVID-19 and on going concern

COVID-19 is having an unprecedented impact on the economic outlook for Australian and global economies.

For the first time, many entities will be required to consider in more detail their solvency and ability to continue operating as a going concern.

Surprisingly, there are only two paragraphs in AASB 101 *Presentation of Financial Statements* that directly address the going-concern basis:

'25 When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.'

'26 In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.'

To help with this assessment, the AASB and the Auditing and Assurance Standards Board have released a new 27-page publication *The Impact of COVID-19s on Going Concern and Related Assessments* that provides an overview of directors' and management's responsibilities.

They are:

- Duties in relation to assessments of solvency and going concern, how these concepts interact and how they might be affected by COVID-19, and
- Responsibilities to assess whether the going-concern basis of preparation is appropriate and how this affects preparation and disclosures in financial statements.

The publication is available [here](#).

## Understanding NFP standards

NFP preparers of financial statements may use the 46-page *AASB-staff Modifications to Australian Accounting Standards for Not-for-Profit Entities* to understand the extent and rationale of standards modifications.

The updates were made to reflect changes since May 2017.

The AASB uses IFRS standards as a base in developing standards for NFPs such as charities and public-sector entities. Where necessary, they are modified to address user needs and specific issues that would cause undue cost or effort to apply.

The publication helps NFP preparers and auditors to understand modifications to IFRS standards and Australian standards that apply to NFPs as well as the AASB's rationale for the modifications.

It should also assist the transition from IFRS standards for those first encountering the Australian Financial Reporting Framework for NFPs.





## ACNC activities

### ACNC and COVID-19

The Australian Charities and Not-for-profits Commission has recognised that a charity's usual operations might be affected by COVID-19 and has set up a dedicated web page available [here](#), to help charities.

#### Topics covered include:

- ACNC compliance during COVID-19
- Federal government support for eligible charities
- Charity meetings and AGMs
- Charity operations and governance
- Charity financial considerations
- Charity reserves
- Charity fundraising
- State and territory stimulus packages, and
- Other useful resources and information.

The ACNC has also updated its guidance on record-keeping, including more information on keeping records when working remotely and from home available [here](#).

### Release of *The Australian Charities Report 2018*

Australian charities' revenue grew by more than 6 per cent in 2018, more than triple the Australian economy's counterpart figure.

This is a key finding of the just-released ACNC's *Australian Charities Report 2018*.

The report documents the contribution of Australian charities to the economy and communities both at home and abroad. It analyses information in charities' annual information statements.

#### Key findings include:

- In the 2018 reporting year, charity revenue grew by more than 6 per cent, significantly more than the Australian economy in the same period (1.9 per cent)
- Australia's charities, overall, operated at a surplus, supported by substantial assets
- Revenue was up by \$9.3 billion, from \$146.1 billion in 2017 to \$155.4 billion in 2018
- Donations rose to \$10.5 billion, an increase of \$600 million from the previous year
- The largest charities (0.4 per cent of all charities) reported revenue of more than \$100 million
- Assets increased by \$18.7 billion to \$323 billion
- Almost half of charity revenue came from the government (47 per cent), and more than a third (34 per cent) was generated by providing goods and services (some of which were subsidised by government funding)
- Most charities were small (66 per cent) generating less than \$250,000 in revenue, followed by large (18 per cent) with revenue of more than \$1 million, and medium (16 per cent) with revenue of \$250,000 or more but under \$1 million
- Charities employed more than 1.3 million people
- Volunteer numbers across Australia's charity sector increased to 3.7 million, up 12 per cent on the previous year's figure of 3.3 million
- Half of all charities operated without any paid staff
- Charities spent \$81.1 billion on employee expenses, up 8 per cent on the previous year's figure of \$74.8 billion, and
- The most common activities for charities included religious, primary and secondary education, grant-making, social services and aged-care services.

*The Australian Charities Report 2018*, the sixth edition, provides fascinating insights.



# Governments

## Treasurer clarifies JobKeeper

Treasurer Josh Frydenberg has clarified JobKeeper payments, perhaps affecting whether certain charities and NFPs may access the scheme.

### The clarifications include:

- Charities and the treatment of government revenue: Changes will allow charities (other than schools and universities) to elect to exclude government revenue from the JobKeeper turnover test. This will allow employing charities receiving revenue from the government to use either their total turnover or their turnover excluding government revenue, for the purposes of assessing eligibility for the JobKeeper 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.
- Religious practitioners: Changes will allow JobKeeper payments to be made to religious institutions in respect of religious practitioners (with the exception of those who are only students), recognising that many religious practitioners are not 'employees' of their religious institutions.
- International Aid Organisations: Changes will allow entities that are endorsed under the Overseas Aid Gift Deductibility Scheme or for developed-country relief to meet the requirement that NFPs pursue their objectives principally in Australia. The current requirement that employees must be Australian residents to be eligible under the JobKeeper program would remain in place.
- Universities: Changes will clarify that the core commonwealth government financial assistance provided to universities will be included in JobKeeper turnover tests.

## STP 'finalisation declaration' due soon

As part of NFPs' single-touch-payroll obligations, they are required to finalise employees' 2019-20 end-of-financial-year payroll information by 31 July if they have 19 or fewer employees and 4 July if they have 20 or more.

NFPs will need to make a 2019-20 'finalisation declaration' through STP-enabled software. Payment summaries to employees and lodging a 'payment summary' annual report to the ATO are no longer required.

## DGR information updated

The ATO has updated and clarified home gifts and donations under the headings:

- What is a DGR?
- When a gift or donation is deductible
- What you can claim
- What you can't claim, and
- Keeping donation records.

For more information click [here](#).



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## Using scholarship funds

Many non-government schools have asked the ATO if they can use DGR-endorsed scholarship funds to provide fee relief to enrolled students during COVID-19.

The ATO has advised that DGR-endorsed scholarship funds may be used only to award scholarships for reasons of merit or equity and must be open to individuals within a region of at least 200,000 people.

A scholarship fund cannot be used to provide fee relief to families that are unable to pay their school fees, even if only for a limited period.

Scholarships can be awarded only in a way that is consistent with tax law and the governing document of a fund.

## Amendments to encourage increased grants

Assistant Minister for Finance, Charities and Electoral Matters Zed Seselja has announced that the federal government is creating an incentive for philanthropic funds to support charities in times of need.

A recent JBWere report estimated that charitable giving might decrease by 7.1 per cent in 2020, and by a further 11.9 per cent in 2021 because of the pandemic.

'I will be amending the ministerial guidelines for public and private ancillary funds to provide a credit for funds that make total distributions in 2019-20 and 2020-21 that are at least four percentage points above the minimum required distributions. The credit – equal to half the percentage points by which the distributions exceed the minimum – may be used to reduce the minimum distribution by up to one percentage point in 2021-22 and future financial years until [it] is exhausted,' the minister said.

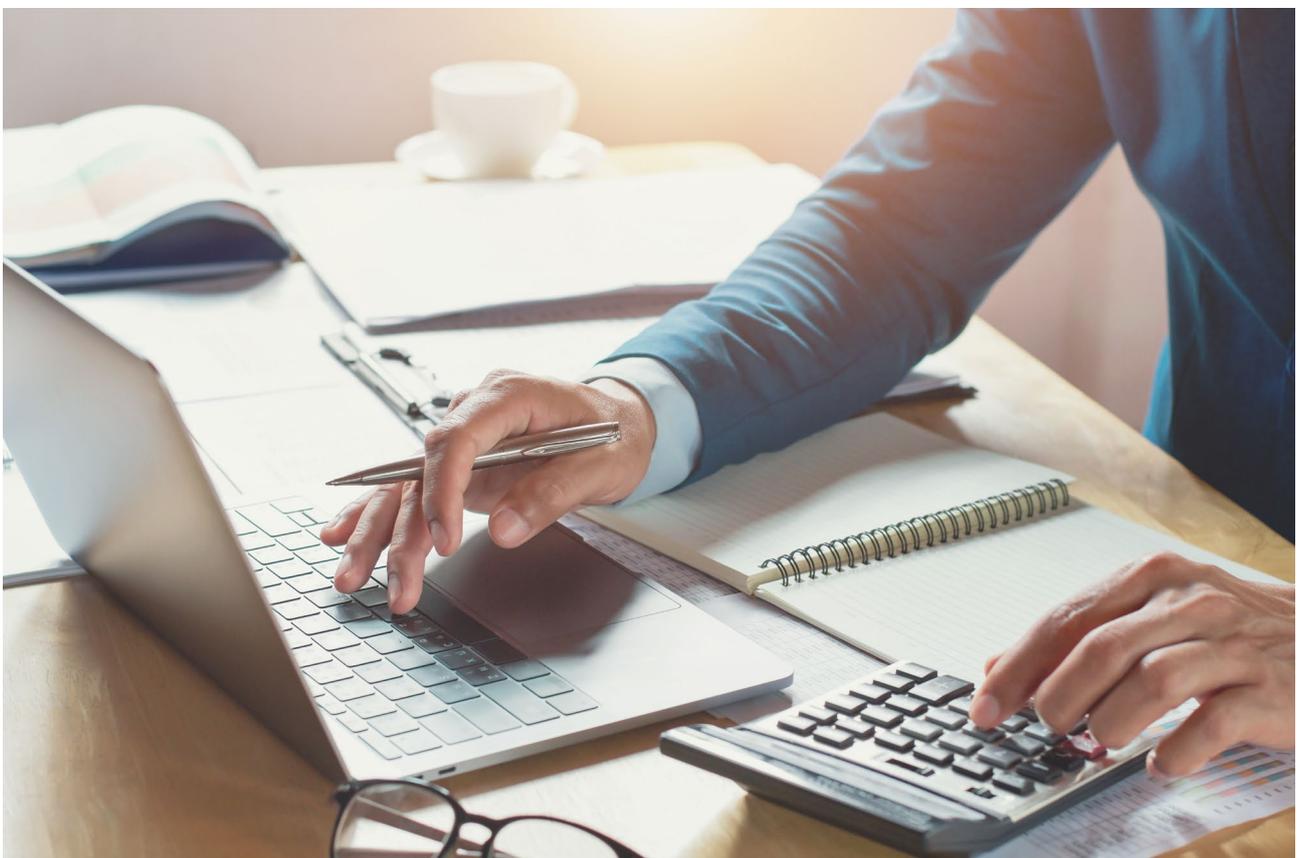
Mr Seselja also declared COVID-19 a disaster for the purposes of establishing Australian disaster relief funds as DGRs, allowing them to receive tax-deductible donations.

'This declaration will allow funds that are established for the relief of people affected by the COVID-19 pandemic to receive tax-deductible donations, and greater assist their communities.'

Donations to the funds will be tax-deductible when made within two years.

Disaster-relief funds will need to apply for formal endorsement with the ACNC.

For further information visit [here](#).



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## Bodies coordinate philanthropic response

The Australian Communities Foundation and Philanthropy Australia have partnered to provide a national funding platform to coordinate the philanthropic response to COVID-19.

NFPs are encouraged to register their COVID-19-related funding needs so that philanthropic funders can understand the granting opportunities available and respond to the critical needs of the sector.

Register [here](#).

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