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BUSINESS BULLETIN SPRING 2023

Record-Keeping, the Education Directive, and Working With Your Bookkeeper

Common Source Documents

The best place to start a discussion on the importance of record-keeping is to discuss the legislative provisions which impose the legal obligation on us to keep business records.

For income tax, it starts with section 262A of the Income Tax Assessment Act 1936. Basically, this section says that a record needs to contain sufficient information to determine the essential features or purpose of a transaction. Income tax records must be kept for 5 years.

For GST, the requirement to make and keep proper Tax Invoices is imposed under section 29.70 of the GST Act. GST Ruling 2013/1 discusses in detail the legislative framework around Tax Invoices and who needs to keep them. The Taxation Administration Act discusses the periods for keeping records and other rules related to "indirect tax transactions", which includes GST and import duties, among others. "Indirect tax transaction" records must be kept for 5 years. Where a transaction exceeds \$82.50 (including GST) you cannot claim the GST credit

KEY DATES

21 SEPTEMBER

August monthly Activity Statements -
due for lodgement and payment

21 OCTOBER

September monthly Activity Statements -
due for lodgement and payment

28 OCTOBER

July - September Superannuation
Guarantee contributions due for payment

28 OCTOBER

Quarterly (July-September) Business
Activity Statements due for lodgement
and payment.

31 OCTOBER

Individual 2021/2022 income tax returns
due for lodgement if not using a tax
agent

without a valid Tax Invoice. A bank statement line will not be enough.

For payroll records, the Fair Work Act imposes a 7 year period for keeping “prescribed records” such as timesheets, pay slips and other payroll information.

In the bookkeeping industry, we generally refer to these business records as “source documents”. Source documents are the beginning of the transaction recording process. An example being a Tax Invoice – when you make a sale, you issue your customer a Tax Invoice. This Tax Invoice is a “source document”, it evidences the fact that you have made a sale, the details of the sale, how much GST is included, the identity of the customer, and the due date.

Another example of a source document is a timesheet. Your employees may submit a timesheet each fortnight for payroll, and this is used to process their payroll entitlements. A timesheet is a source document because it evidences the hours your employee has worked, the period it applies too, and other information such as what site they worked at and who their supervisor was.

The most common source documents you and your bookkeeper will deal with are;

- Tax Invoices sent to customers
- Bills received from suppliers
- Customer Statements
- Supplier Statements
- Purchase orders
- Receipts from small purchases (usually printed from store POS systems).
- Credit Notes from suppliers
- Adjustment notes
- Employee Timesheets and Payslips
- POS printouts for cash till, daily takings, and inventory reconciliations.
- Stock take reports for inventory management
- Credit card and bank statements.
- TFN Declarations and Super Choice forms,
- Pretty much any document that evidences a transaction in your business.



Just reading this list will show you that collecting and storing these documents is imperative to proving the truth of your business transactions. Timesheets and pay slip records are also imperative as any dispute that arises with Fair Work will usually come down to information from the timesheets and the pay slips. Fair Work will request these records to substantiate an employee’s claims of underpayment or incorrect payment.

Working on record -keeping with your Bookkeeper

As a business owner, where do you start when it comes to business records? How do you work with your bookkeeper? What questions should you be asking to make sure everything is in order?

When dealing with the ATO, having a source document inventory which is easy to use and all in one place will go a long way to being dealt with fairly and with a good outcome, especially in the event of an audit. Having your records in one place and well organised will increase your chances of a good outcome with the ATO, and this is mostly why they have turned to the education direction to send this message to the business community.

It's always handy to remember the "5 R's", or the "5 Rules of Record-Keeping". If the ATO conducts an audit on your records, they will apply these 5 rules.

So, what are the five rules?

1. You need to keep all records related to starting, running, changing, and selling or closing your business that are relevant to your tax and super affairs. If your expenses relate to business use or personal use, make sure you have clear documents to show the business portion.
2. The relevant information in your records must not be changed (for example, by using electronic sales suppression tools) and must be stored in a way that protects the information from being changed or the record from being damaged. The ATO may ask you to show you have appropriate safeguards in place. You also need to be able to reconstruct your original data if your recordkeeping system changes over time.
3. Most records need to be kept for 5 years. Generally, the 5-year retention period for each record starts from when you completed the transaction that the record relates to, but there are some exceptions – to give a couple:
 - fringe benefits tax (FBT) records - the 5 years starts from the date you lodge your fringe benefit tax (FBT) return.
 - records for super contributions for employees, the 5 years starts from the date of the contribution
4. You need to be able to produce records if the ATO ask for them. If you store your data and records digitally, make sure they can be retrieved, unlocked and decrypted if necessary.
5. Your records must be in English or able to be easily converted to English.



Your bookkeeper, if they are a registered BAS or Tax Agent, is bound by the Code of Professional Conduct, which requires the agent to take reasonable care to ascertain their clients state of affairs and carry out their duties with competence. They must also not impede the performance of the ATO and the tax system. This extends to ensuring that you, the client, is at least aware of your record-keeping requirements and that you are keeping the proper business records. Although the ultimate responsibility still falls on you as the taxpayer, your bookkeeper also has a professional duty to assist you in meeting your requirements and this is also a big part of the value-add of working with a bookkeeper and BAS Agent. This is why they must nag you for your records and access to your files!

Stock up on Ziplock sandwich bags because we might be going back to school!

With the passing of the Treasury Laws Amendment (2022 Measures No. 2) Bill 2022 the ATO has now stepped into the role of educator, alongside its regular role of enforcer, for those of us who have an issue with record-keeping.

So, what happened at the Treasury and why should we care?

The Treasury laws amendment gave the Commissioner of the ATO the power to order a responsible person to undertake a course in financial record-keeping if the Commissioner "reasonably believes" the responsible person failed to comply with one or more record-keeping obligations imposed by tax law. The legislation refers to this as a "tax-records education direction".

Firstly, it's up to the ATO to determine that an education direction would be appropriate instead of imposing administrative penalties for poor record-keeping. The ATO will look at a range of factors in determining this, including if the entity is a new business, the digital literacy level of the responsible person, if appropriate records are due to genuine mistakes, and if the entity has been otherwise compliant and cooperative with the ATO.

If a tax records education direction is issued, the responsible person will be given access to online modules provided by the ATO which will educate them on what records they need to keep and for how long. The modules will become available in late 2023 and then the ATO will begin issuing the education directive.

If you have any concerns about your record keeping, now is the time to talk to your Bookkeeper who will be able to assist to ensure all is in order if the ATO came knocking.

GST Compliance Program

In the 2023-24 Federal Budget, the government announced there is further funding for the ATO's GST compliance program with an additional \$588.8 million over 4 years from 1 July 2023 to ensure businesses meet their GST obligations, including accurately accounting for and remitting GST, and correctly claiming GST refunds. This measure is expected to increase ATO receipts by \$3.8 billion over 5 years

GST is one of the largest revenue raising measures the government has available to it, collecting around \$74 Billion annually. Whilst the ATO states that the GST system is operating well overall, they have calculated that there is a net GST gap estimated to around 5.9% of the total GST revenue collected (approx. \$4.3 billion).

The ATO note the following issues are the major cause of the GST gap:

- Non-reporting of GST
- Under-reporting of GST
- Over-claiming of refunds
- Non-payment of GST liabilities.

To address the GST gap and these major causes, the ATO have developed a 4 Pillars approach to apply to taxpayers including:

- Correctly registered for GST
- Lodgment of BAS by the due date
- The correct amount of GST reported
- Paying the correct amount of GST on time.

With the additional budget funding for GST compliance, the ATO will continue to develop and roll out compliance measures that address these areas.

