

# IT services

## Taxable payments reporting

### Frequently asked questions

#### Who needs to report?

You will need to lodge a Taxable Payments Annual Report (“TPAR”) with the ATO if you meet both of the following requirements:

- You have an ABN; and
- You make payments to contractors for IT services they provide on your behalf.

If your business provides mixed services, not just IT services, you may need to lodge a TPAR if the payments you receive for IT services make up **10% or more** of your total current or projected GST turnover (**10% GST Turnover Threshold Test**). It is important to note that payments made to employees are not included in your TPAR.

If your business does not exceed the 10% GST Turnover Threshold, it is not required to report payments made to contractors for IT services provided on its behalf. However, you may still choose to lodge a TPAR disclosing payments made to the contractors.

You must reassess whether you need to lodge a TPAR each year.

#### What are ‘IT Services’?

IT services include the provision of expertise in the field of information technologies such as writing, modifying, testing or supporting software to meet the needs of a client. Some examples include:

| IT services                                     |                                    |
|---|------------------------------------|
| Computer facilities management                  | Computer hardware consulting       |
| Computer network systems design and integration | Computer programming               |
| Computer software consulting                    | Internet and web design consulting |
| IT consulting                                   | Software Development               |
| Software installation                           | Software simulation and testing    |
| Systems analysis                                | Technical support                  |

IT services may be performed on site, or remotely through the internet. Simply using IT hardware or software in your business to provide a service doesn’t make your business a provider of IT services.

IT services do not include the mass production of computer software, leasing or hiring computers or other data processing equipment and providing data processing services or computer data storage and retrieval services.

## What if I supply IT services and other services?

Where an arrangement with one of your customers involves the supply of IT services and other services, you must determine whether the supply is a composite supply of the services (i.e. the IT service is merely ancillary to the supply of another service and not a separate supply in its own right) or a mixed supply of a IT service and the other services (i.e. the IT service is a separate supply in its own right). This will depend on the terms of the agreement with your customer.

Where the IT service is ancillary or incidental to the supply of another service (i.e. it does not form a separate supply in its own right), then the supply is a composite supply. The IT part of the composite supply will therefore not constitute a separate supply of an IT service and will not form part of 'total payments you receive for supplies of IT services' for the purposes of the 10% GST Turnover Threshold Test.

However, where the IT service is a primary/material part of the supply, or could realistically be made as a separate supply, the supply is a mixed supply of an IT service and other service(s). The supply of the IT service as part of the mixed supply will therefore be a separate supply of IT services and will form part of 'total payments you receive for supplies of IT services' for the purposes of the 10% GST Turnover Threshold Test.

## How to apply the 10% GST Turnover Threshold Test

Once you have identified the IT services you provide, the following formula should be used to work out if you are required to report payments to contractors for IT services they provide on your behalf:

$$\frac{\text{Total payments you receive for supplies of 'IT services' in the income year}}{\text{Total 'current GST turnover' or 'projected GST turnover' of your entity}} \times 100\%$$

For the purposes of the formula:

- **Total payments you receive for IT services in the income year** must include all payments you receive for supplies of IT services you provide, regardless of whether an employee or a contractor performed those services for you. Where you provide mixed supplies, you will need to consider whether the supply of IT services is part of a composite or mixed supply as set out above.
- **Current GST turnover** is your GST turnover for the current income year, provided you have been operating as a business for at least 12 months. If you have been operating as a business for less than 12 months, then you must use 'projected GST turnover' in the formula.
- **Projected GST turnover** is your likely GST turnover for the following income year.

## What payments should be reported?

You need to report payments you make to contractors for IT services they provide on your behalf, unless you do not exceed the 10% GST Turnover Threshold and are therefore exempt from reporting.

The ATO requires taxpayers to report on a cash basis. Accordingly, unpaid invoices as at 30 June 2020 should be excluded from this year's report.

Invoices that are excluded from this year's report because they have not been paid as at 30 June 2020 should be included in next year's report if they are paid by 30 June 2021.

## Do you still need to report if both the purchaser and supplier are members of the same tax consolidated or Multiple Entry Consolidated (MEC) group?

No. Members of the same tax consolidated or MEC group are treated as a single entity for tax purposes. Payments between them do not need to be reported.

## Is an appointed administrator required to report?

While the ATO has not provided any guidance on this issue in relation to entities that are required to report payments made to contractors that provide IT services on their behalf, the ATO has confirmed that where an administrator has been appointed to manage an entity ("the incapacitated entity") that is primarily in the building and construction services industry, the administrator is required to report payments which the incapacitated entity made to contractors both before and after the date of the administrator's appointment.

Notwithstanding the administrator's obligation to report payments made to contractors both before and after the appointment date, the ATO does accept that where an administrator does not have access to details of the payments made to contractors before their appointment, provided the administrator has used best endeavours to include in the report all payments made to contractors that the administrator is aware of, the ATO will accept that the administrator has met their reporting obligations.

We expect the same requirements to apply to incapacitated entities that are required to report payments made to contractors for IT services, where an administrator has been appointed to manage the entity.

### **What payments should not be reported?**

The following payments should not be reported:

- Payments to contractors and individuals which are subject to PAYG withholding (e.g. payments to employees, contractors who do not quote an ABN);
- Invoices unpaid at the end of the financial year;
- Payments made within consolidated groups; and
- Payments made by individuals for private or domestic reasons.

Where an invoice includes both labour and materials, whether itemised or combined, you will need to report the whole amount of the payment.

### **What information needs to be included in the report?**

The following details need to be reported in respect of each contractor you have made a payment to in the year ended 30 June 2020:

- Australian Business Number (ABN);
- Name;
- Address;
- Gross amount paid to the contractor for the financial year (this is the total paid including any GST); and
- The amount of GST included in the gross (total) amount paid to the contractor.

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

### **In what format can the information be reported?**

The format of the information provided to the ATO must comply with the reporting requirements that have been prescribed by the ATO.

The following options are the only ones available:

- Paper – a paper form can be obtained from the ATO;
- Online – the annual report can be lodged through the Business Portal, Tax Agent Portal (for tax agents only) or Standard Business Reporting (SBR).

The ATO will not accept annual reports created using non-approved software including Excel spread sheets and other similar programs.

### **When is the report due?**

The Taxable Payments Annual Report is due by 28 August 2020 for payments made in the year ended 30 June 2020.

### **What is the penalty for lodging the report late?**

The amount of the penalty the ATO can impose for late lodgement of the report will depend on the entity size and the period for which the report is overdue, as follows -

## Failure to lodge penalty amount according to entity size (where infringement occurs on or after 1 July 2020)

| Days overdue            | Small   | Medium  | Large   | Significant Global Entity |
|-------------------------|---------|---------|---------|---------------------------|
| <b>28 days of less</b>  | \$222   | \$444   | \$1,110 | \$111,000                 |
| <b>29 to 56 days</b>    | \$444   | \$888   | \$2,220 | \$222,000                 |
| <b>57 to 84 days</b>    | \$666   | \$1,332 | \$3,330 | \$333,000                 |
| <b>85 to 112 days</b>   | \$888   | \$1,776 | \$4,440 | \$444,000                 |
| <b>113 days or more</b> | \$1,110 | \$2,220 | \$5,550 | \$555,000                 |

### Size Tests to determine the penalty amount:

A *small* entity is an entity that is neither a medium nor a large entity.

A *medium* entity is a 'medium' withholder for PAYG withholding purposes (i.e. amounts withheld during a financial year were \$25,001 to \$1 million), or an entity that has assessable income or a current annual GST turnover of more than \$1 million and less than \$20 million.

A *large* entity is a 'large' withholder for PAYG withholding purposes (i.e. amounts withheld during a financial year exceeded \$1 million) or that has assessable income or a current annual GST turnover of \$20 million or more.

An entity is a *significant global entity* for a period if it is one of the following:

- a) A 'global parent entity' whose 'annual global income' is AUD\$1 billion or more; or
- b) A member of a group of entities consolidated (for accounting purposes) where the global parent entity has an annual income of AUD\$1 billion or more.

### How can we assist you with your reporting obligations?

There are several ways in which we can assist you with your reporting obligation:

- a) We can work with you to determine which entities within your group need to report, and what information needs to be reported for the various suppliers you engage.
- b) We can assist you to generate the information from your systems in a suitable format for reporting to the ATO.
- c) We can prepare and lodge the annual report on behalf of the reporting entity, subject to getting the required information. If we act as the entity's tax agent, we can lodge the report through the Tax Agent Portal. Alternatively, we can lodge a paper report with the ATO.

### Further Information

Please contact one of our tax experts below for further information about taxable payments reporting:

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# Appendix

The following examples (provided by the ATO in LCR 2019/4) demonstrate the meaning of 'providing IT services' and whether or not a business providing IT services needs to lodge a TPAR.

## **Example 1: Manufacturing and selling computer peripherals and associated software**

Compass Drives Pty Ltd has an ABN and manufactures USB thumb drives and hard drives. Compass sells the USB drives to retail stores, which then sell them to consumers.

The manufacture and supply of computer hardware and peripherals for consumers, such as USB drives, is not supplying an IT service.

Compass Drives, therefore, doesn't have to report (on a TPAR) any payments made to contractors who manufacture the USB drives on its behalf.

Compass Drives also engages contractors to write USB drive optimisation software, which Compass Drives then sells separately via its website and bundles in with its high-end products.

The software being sold by Compass Drives is a product rather than a service being made available to consumers generally. It is not designed for, or in response to, the needs of a client.

Therefore, Compass Drives isn't providing an IT service when it develops this software and isn't required to report (on a TPAR) any payments it may make to contractors who develop this software on its behalf.

## **Example 2: A company designing local area networks for large businesses**

Whiz Networking Pty Ltd has an ABN and provides the following services to its clients:

- design and implementation of local area networks and intranets
- supply and installation of network hardware and associated cables
- testing services
- ongoing technical support.

Whiz Networking uses contractors to install and test the network hardware, develop, implement and test the intranet, and provide ongoing technical support.

The design, development, installation and testing of local area networks and intranets is an IT service that Whiz Networking provides to its clients.

The ongoing technical support that Whiz Networking provides is also an IT service being provided to clients.

At the end of the financial year, if the total payments Whiz Networking received for IT services is 10% or more of its current or projected GST turnover, it will need to report the payments it makes to contractors for IT services in a TPAR.

Whiz Networking also contracts a company to provide network hardware to its clients on its behalf. The supply of the hardware is not considered to be 'providing an IT service', therefore Whiz Networking isn't required to report payments it makes to this company on the TPAR.

## **Example 3: An IT company using both employees and contractors**

Goodtime Software Pty Ltd has an ABN and develops accounting software for clients. An accounting firm engages Goodtime to write an accounting software suite tailored to the specific needs of the firm. Goodtime develops this suite for the accounting firm and provides ongoing software patches to fix bugs as they are discovered.

Goodtime is considered to be 'providing an IT service' as the software has been developed for the client based on the outcome for which they contracted with Goodtime. The software was not produced for general sale or distribution. The writing of software patches for this accounting software is also considered to be 'providing an IT service', as the patch was written to address issues in the accounting software specifically developed for the client.

Goodtime has employees to develop the accounting software and uses contractors to write patches as required.

Goodtime Software Pty Ltd has been operating for the full financial year.

At the end of the financial year, the total payments Goodtime received for IT services is 10% or more of its current GST turnover, meaning Goodtime must lodge a TPAR.

Goodtime:

- doesn't report the payments it makes to its employees as those payments are reported in its pay as you go (PAYG) withholding payment summary annual report;
- needs to report (on the TPAR) payments it makes to its contractors writing software patches as they are providing an IT service on its behalf.

# Making business *personal*



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