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Client Alert

Proposed Contractor Reporting Requirements
for the Building & Construction Industry

Background to the Proposed Changes

On May 30, 2011, the Australian Federal Treasury (Treasury) released a public consultation paper which sought submissions from stakeholders about the introduction of a reporting regime for the reporting of payments made to contractors in the building industry.

On December 14th, 2011 Treasury released exposure draft regulations and explanatory materials designed to give effect to this measure from July 1st, 2012. From that date businesses operating in the building and construction industry will be required, on an annual basis, to lodge a report with the Australian Taxation Office (ATO) outlining payments made to contractors and the contractors ABN. This report will likely be similar to the PAYG withholding forms lodged with the ATO for your employees.

Why is the Government taking this step?

According to the May 30 consultation paper, the ATO recently undertook a compliance analysis on data from the 2006 and 2009 years on businesses with a turnover of \$2 million or less. Out of the 6 industries with the most businesses under this turnover threshold, it was determined that the Building and Construction Industry was the least compliant. Specifically, audit programs carried out by the ATO revealed significant compliance problems with contractors in the Building and Construction Industry who were not correctly reporting payments received on either tax returns or activity statements. By requiring businesses making payments to contractors to lodge reports, the ATO can use their data matching process to ensure contractors are reporting correct amounts.

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What is required to be reported?

The ATO has outlined the following information which will need to be reported for each contractor;

- The contractor's name;
- The contractor's ABN;
- The contractor's address;
- The total amount paid or credited to the contractor over the income year;
- The amount of any goods and services tax.

All of this is information that should already be collected by businesses under their existing record keeping requirements.

How often will it be reported?

The ATO is consulting with both industry and software providers to ensure compliance costs are kept to a minimum. This means that your Accounting software should be able to produce these reports in much the same way that they produce PAYG Payment Summary Statements for Employees. In year 1 the ATO will require businesses to report annually however it is also proposed that after the first year of operation the ATO will accept quarterly lodgements from businesses that want to report more frequently.

The Government has not yet introduced this legislation into Parliament so we cannot be certain of the final design of the reporting scheme. However the Government has previously made clear its desire to crackdown on the "cash economy" and this proposed reporting regime represents a first step in that direction for the Building and Construction Industry.

For further information please contact **Clark Jacobs** on 61 2 9264 1111.



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