



# Subcontractor Reportable Payments

January 2014

## Introduction

Building contractors are required to report to the Australian Taxation Office on an annual basis, all payments that they make to their subcontractors. The following information was included on the ATO website as at 10 January 2014 [www.ato.gov.au/taxablepaymentsreporting](http://www.ato.gov.au/taxablepaymentsreporting)

### Taxable payments reporting - building and construction industry

From 1 July 2012, businesses in the building and construction industry are required to report the total payments they make to each contractor for building and construction services each year. You need to report these payments to us (the ATO) on the *Taxable payments annual report*.

### Who needs to report?

You need to report if **all** of the following apply:

- you are a business that is primarily in the building and construction industry
- you make payments to contractors for building and construction services
- you have an Australian business number (ABN).

You are considered to be a business that is primarily in the building and construction industry if **any** of the following apply:

- in the current financial year, 50% or more of your business income is derived from providing building and construction services
- in the current financial year, 50% or more of your business activity relates to building and construction services
- in the financial year immediately before the current financial year, 50% or more of your business income was derived from providing building and construction services.

### Payments you need to report

You need to report payments you make to contractors for building and construction services.

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   | ○ improvement  |
| ○ assembly     | ○ installation                                       |
| ○ construction | ○ maintenance  |
| ○ demolition   | ○ management of building and construction services   |
| ○ design       | ○ modification                                       |
| ○ destruction  | ○ organisation of building and construction services |
| ○ dismantling  | ○ removal  |
| ○ erection     | ○ repair   |
| ○ excavation   | ○ site preparation                                   |
| ○ finishing    |  |

### Examples of building and construction services

The ATO website has quite a long list of occupations and work activities that satisfy the definition of building and construction

[http://www.ato.gov.au/Business/Building-and-construction/In-detail/Taxable-payments-reporting/Taxable-payments-reporting---building-and-construction-industry/?anchor=Appendix\\_1#Appendix\\_1](http://www.ato.gov.au/Business/Building-and-construction/In-detail/Taxable-payments-reporting/Taxable-payments-reporting---building-and-construction-industry/?anchor=Appendix_1#Appendix_1)

There is some confusion in parts of the industry as to exactly which payments are reportable.

I expected that, after the July 2013 data had been reviewed, the ATO would have issued some updated information to clarify the issues for next year. So far, this has not been the case.

### Some examples of this confusion

In the 'frequently asked questions section of the ATO website;

- **11. If I engage a contractor, and reimburse expenses they incurred in the course of providing building and construction services, do I need to include the reimbursed amounts in my annual report?**

Yes. If you are a business primarily in the building and construction industry, the reimbursed amount is required to be included in your annual report

- **12. I pay a contractor for materials and labour. What do I report?**

You are required to report the total amount of the payment if the payment is for a combination of materials and labour, unless the labour is incidental to the supply of the materials.

- **14. I'm in the building and construction industry. Sometimes I pay one of my contractors for invoices for both materials and labour. Other times, I pay for materials only. Do I report all of the payments I make to this contractor?**

You're not required to report payments made for materials only.

However, if you're unable to easily separate payments made for materials only without significant administrative effort, you can report all the payments you make to this contractor

In question 11 above, we are told that we include expenses reimbursed as reportable payments. These expenses are not described, but one may imagine that the expenses could relate to mobile phone calls, vehicle mileage, materials purchased, and the like. On the basis of everything else we read on the ATO website, these payments would not be reportable.

The answers to questions 12 and 14 seem to allow a subcontractor to split invoices, and invoice separately for labour and materials. I doubt that this is the intended outcome.

### Other examples

In the examples of work included as reportable, the ATO website lists –

- Building of room components (for example, kitchens, bathroom components, laundry components, cupboards and similar components)
- Cabinet making (including joinery and off-site fabrication for installation at a building site)

This would indicate that reportable payments include all items prefabricated off-site, and most likely includes metal door frames, windows, etc. The construction industry would normally regard these as ‘materials’ items and I would expect that most contractors will not report these payments.

### What Cheops Provides

*Cheops* provides facilities to flag subcontractor payments as **reportable**. Since it is the **payment** (and not the invoice or claim) that is reported, *Cheops* must flag the actual payment and then use the payment details to report to the ATO.

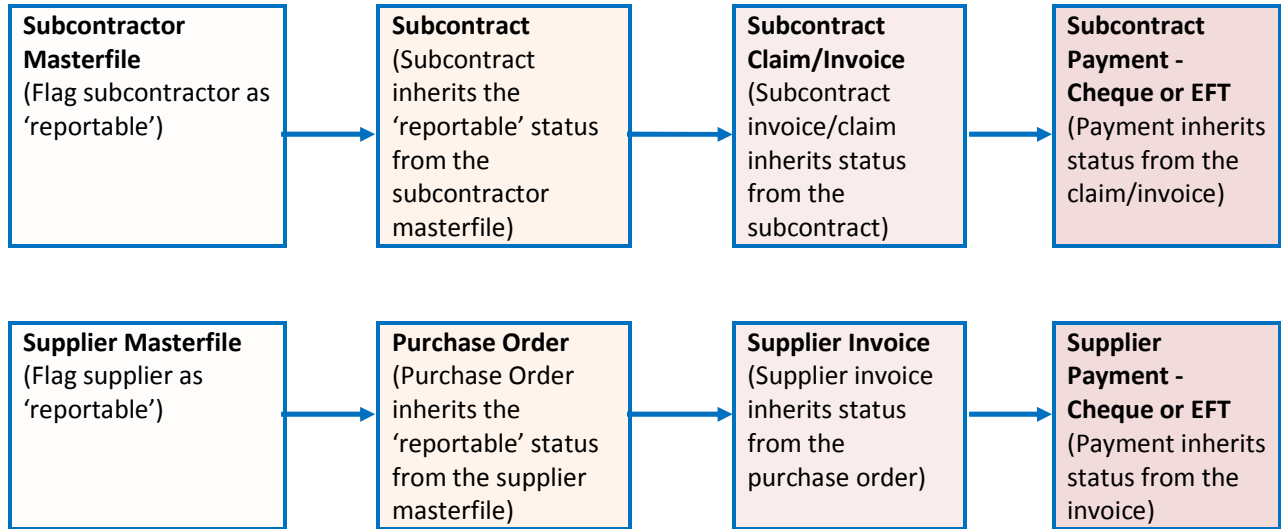
But for the user, it is the project staff that has the knowledge of the subcontract and the scope of work, and therefore the decision as to reportable/non-reportable is correctly made by the project staff. *Cheops* provides for the project staff to flag the subcontractor invoice or claim as reportable, and then *Cheops* will flag the subsequent payment (cheque or EFT) **or rather the component of the payment that relates to the ‘reportable’ invoice or subcontractor claim**. I wonder if the ATO would be expecting the entire ‘payment’ to be reported?

Accounts staff do not need to be involved in the reportable/non-reportable question.

Since some subcontractor payments may be processed as suppliers’ invoices, the same reportable/non-reportable logic applies to suppliers.

Further, *Cheops* also provides a default so that the subcontractor (or supplier) itself may be flagged as reportable, and then the contracts (or purchase orders) subsequently created inherit this reportable status, and claims and invoices are also flagged automatically. Of course, this flag may be removed from any single contract (order) or payment, if the specific example is non-reportable.

**Flow of Flagging from Masterfile to Payment**



**Cheops Cash Flow Menu Options**

Listed here are the menu options for the project and company.

Projects			
	No project entries or reports (Note that the company report may be run by project – see below)		
Company			
<b>Entry</b>	ATO Taxable Payments Bulk Update (Accounts Payable Menu)	ATOSET	This option allows for the payments to subcontractors to be flagged as reportable (or unflagged) even after payments have been processed. This therefore allows for corrections to be made retrospectively.
	ATO Taxable Payments File Generation (Accounts Payable Menu)	ATOFILE	Creates the file for sending to the ATO
<b>Reports</b>	ATO Taxable Payments Report (Accounts Payable Reports Menu)	FCFR	Shows the e