

Cleaning 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 all the following requirements:

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

If your business provides mixed services, not just cleaning, you may need to lodge a TPAR if the payments you receive for **cleaning services** make up **10% or more** of your total current or projected GST turnover (**10% GST Turnover Threshold Test**).

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

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

What are 'cleaning services'?

Cleaning services include (but are not limited to), the following activities undertaken on a building, residence, structure, place, surface, transport / vehicle, industrial machinery or equipment and for events -

| Cleaning services | | | |
|-------------------|--|---------------------------|--------------------------------------|
| Interior cleaning | Exterior cleaning (except sandblasting) | Carpet cleaning | Chimney cleaning |
| Gutter cleaning | Road sweeping and street cleaning | Swimming pool cleaning | Park and Park facilities cleaning |

- 'Events' include staging of sporting, cultural, scientific, technological, agricultural or entertainment events and exhibitions.
- 'Transport / vehicles' includes trains, trams, buses, ferries, airplanes, ships, trucks, cars and other motor vehicles.

What if I supply cleaning services and other services?

Where an arrangement with one of your customers involves the supply of cleaning services and other services, you must determine whether the supply is a composite supply of the services (i.e. the cleaning 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 cleaning service and the other services (i.e. the cleaning service is a separate supply in its own right). This will depend on the terms of the agreement with your customer.

This is relevant to determining whether the income earned from the service should be included in the 'total payments you receive for supplies of cleaning services' as part of the 10% GST Turnover Threshold Test, as discussed below.

Where the cleaning 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 cleaning part of the composite supply will therefore not constitute a separate supply of a cleaning service and will not form part of 'total payments you receive for supplies of cleaning services' for the purposes of the 10% GST Turnover Threshold Test.

However, where the cleaning 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 a cleaning service and other service(s). The supply of the cleaning service as part of the mixed supply will therefore be a separate supply of cleaning services and will form part of 'total payments you receive for supplies of cleaning services' for the purposes of the 10% GST Turnover Threshold Test.

Attached at Appendix 1 is a list of examples which the ATO has provided in its Law Companion Ruling (LCR) 2018/8 to assist with determining whether you are providing a cleaning service that forms part of a composite supply (i.e. the cleaning service is not a separate supply in its own right) or a mixed supply (i.e. the cleaning service is a separate supply in its own right).

How to apply the 10% GST Turnover Threshold Test

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

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

For the purposes of the formula:

- **Total payments you receive for cleaning services in the income year** must include all payments you receive for supplies of cleaning 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 cleaning 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.

Attached at Appendix 2 are calculation examples which the ATO has provided in LCR 2018/8.

What payments should be reported?

You need to report payments you make to contractors for cleaning 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 cleaning 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 or construction 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 cleaning 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);
- Payments for materials only;
- Invoices unpaid at the end of the income 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.

What is the lodgement due date for the report?

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 |
| 28 days or less | \$222 | \$444 | \$1,110 | \$111,000 |
| 29 to 56 days | \$444 | \$888 | \$2,220 | \$222,000 |
| 57 to 84 days | \$666 | \$1,332 | \$3,330 | \$333,000 |
| 85 to 112 days | \$888 | \$1,776 | \$4,440 | \$444,000 |
| 113 days or more | \$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 'global parent entity' whose 'annual global income' is AUD\$1 billion or more; or
- 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 obligation?

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

- 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.
- We can assist you to generate the information from your systems in a suitable format for reporting to the ATO.
- 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:

Jacqueline Watt

E jacqueline.watt@pitcher.com.au

T +61 3 8612 9617

Nicole Hornsby

E nicole.hornsby@pitcher.com.au

T +61 3 8612 9783

Craig Whatman

E craig.whatman@pitcher.com.au

T +61 3 8610 5617

Appendix 1

Examples of when a cleaning service forms part of a composite supply or a mixed supply (as provided by the ATO in LCR 2018/8).

Example 1: Business selling cleaning products and occasionally providing cleaning

Cleaners & All operates a business (with an ABN) that sells cleaning products. Occasionally, customers that purchase their cleaning products also engage them to provide cleaning services. The cleaning services provided to these customers are separate to the sale of their cleaning products, so Cleaners & All is supplying a cleaning service.

Cleaners & All hires contractors to provide the cleaning services on their behalf. Therefore Cleaners & All are required to report payments it makes to contractors who provide the cleaning services, which occur on or after 1 July 2018, in a TPAR (unless a reporting exemption applies).

Example 2: Business providing gardening and ancillary cleaning services

Efficient Gardening Pty Ltd operates a business (with an ABN) that provides gardening services to homes, including trimming, hedging and weed control. Efficient Gardening pays contractors to provide these gardening services on their behalf. As part of the gardening services, the contractors clean up after themselves at the end of a job by sweeping verandas and pavements, and removing plant cuttings, weeds and dirt.

This cleaning service is incidental to and integrated with the gardening services provided by Efficient Gardening. The cleaning is undertaken as a part of providing the gardening services to customers. This a composite supply of a garden care/maintenance service. Efficient Gardening is not supplying a separate cleaning service when its contractors clean up after a job for a client. Efficient Gardening is therefore not required to report payments made to their contractors.

Example 3: Business providing cleaning and other services

Highlight Management Pty Ltd operates a business (with an ABN) that provides a wide range of services including event management, catering, corporate training and cleaning. Highlight Management has an agreement with an industry association to manage a five-day industry forum event. The agreement specifies that Highlight Management will provide and manage the IT equipment for the event venue, provide chauffeurs for specific attendees, provide daily catering and ensure the venue is cleaned at the end of each day.

The cleaning services Highlight Management provide are discrete and separate from the other services they provide to their client. The cleaning services are not ancillary or incidental to the other services because the cleaning services can be undertaken independently of the other activities (and in fact are provided by different teams). Highlight Management is supplying a mix of cleaning services and other services to their client (the industry association) and engaging contractors to provide these services on their behalf. Therefore, Highlight Management are required to report payments to the contractors who provide the cleaning services on their behalf, which occur on or after 1 July 2018, in a TPAR (unless a reporting exemption applies).

Example 4: Owners corporation manager contracting cleaners as agent

Condo Living Pty Ltd is the appointed owners corporation manager for an apartment block in Melbourne and has an ABN. Condo Living is acting as agent for the owners corporation when it contracts cleaners to regularly clean and maintain the common areas of the property. Condo Living pays for the contractors' services from the owners corporation fees which are periodically collected.

Condo Living is not supplying a cleaning service to the owners corporation or owners, rather it is acting as agent for the owners corporation. Condo Living is not supplying a relevant service (of cleaning services), therefore is not required to report the payments it makes to the contracted cleaners.

Note: The reporting exemption referred to in the above examples relates to whether the entity exceeds the 10% GST Threshold Test.

Appendix 2

Application of the 10% GST Threshold Test – Calculation Examples (as provided by the ATO in LCR 2018/8).

Example 1 – Business providing cleaning and other services

JB Building Services (JBBS) operates a business (with an ABN) that provides a range of building maintenance services including office cleaning. The office cleaning can be identified separately from the other building maintenance services it provides. JBBS is supplying a cleaning service to its customers when it provides office cleaning, for which it uses both employees and contractors.

In the 2018-19 income year, the total current GST turnover for JBBS is \$100,000, of which \$10,000 was for cleaning services. The payments it received for cleaning services are 10% of its total current GST turnover for that year ($\$10,000$ [total payments received for cleaning services] / $\$100,000$ [current GST turnover] * 100 = 10%). Therefore, JBBS is not exempt from the reporting requirement; it must report the payments it made to its cleaning contractors in a TPAR for the 2018-19 income year.

JBBS' records show that they paid \$7,000 to their cleaning contractors in that year. Note that the reporting exemption is based on payments the business receives for providing relevant services to their customers, rather than the payments it makes to its contractors. Details of the \$7,000 payments are what must be reported in the TPAR as payments to contractors for providing relevant services.

Example 2 – business that has been operating for less than 12 months

Alphonso Cleaning Agents Pty Ltd operates a business (with an ABN) that provides cleaning services and hires contractors to undertake those cleaning activities.

Alphonso Cleaning Agents has only been operating for six months by the end of the 2018-19 income year. Therefore, Alphonso Cleaning Agents must estimate its projected GST turnover for the 2019-20 income year to work out if it is exempt from the reporting requirement.

Alphonso Cleaning Agents expects its projected GST turnover in the 2019-20 income year to be \$90,000. The payments it has received for its cleaning services in the 2018-19 income year are \$36,000. This equals 40% of its projected GST turnover for the 2019-20 income year. As this is not less than 10%, Alphonso Cleaning Agents is not exempt and must report the payments it made to its cleaning contractors in a TPAR for the 2018-19 income year.

Example 3 – business providing courier and cleaning services

Best Cleaners and Couriers Pty Ltd operates a business (with an ABN) that comprises separate cleaning and parcel delivery agencies. Its cleaning agency supplies cleaning services to homes, while its parcel delivery agency supplies courier services to small businesses. Best Cleaners and Couriers engage contractors to provide each of these services.

Best Cleaners and Couriers has a current GST turnover in the 2018-19 income year of \$1 million, \$950,000 of which is received from customers for its cleaning services. This is 95% of the current GST turnover for Best Cleaners and Couriers in that year. Best Cleaners and Couriers is not exempt from reporting the payments it made to its cleaning contractors in a TPAR for the 2018-19 income year.

Best Cleaners and Couriers received \$50,000 for its courier services in the 2018-19 income year. This is 5% of its current GST turnover for that year. As this is less than 10%, Best Cleaners and Couriers is exempt from reporting the payments it made to its courier contractors in that year.

Making business *personal*



Craig Whatman

Executive Director

+61 3 8610 5617

craig.whatman@pitcher.com.au

Pitcher Partners has the resources and depth of expertise of a major firm, but with a boutique firm feel. We give our clients the highest level of personal service and attention. That's the difference.

Pitcher Partners is an association of accounting and business advisory firms located in Adelaide, Brisbane, Melbourne, Newcastle, Perth and Sydney. We have a strong reputation for providing personal service and quality commercial advice to our clients across a broad range of industries.

We specialise in working with middle market businesses in Australia, including privately owned, foreign controlled, government owned and not-for-profits. Our clients require high technical standards, matched with a personal understanding and involvement in their affairs.

Each Pitcher Partners firm is also an independent member of Baker Tilly International, one of the world's leading networks of independently owned and managed accountancy and business advisory firms. Our strong relationship with other Baker Tilly International member firms has allowed us to open many doors across borders for our clients.

Adelaide Brisbane Melbourne Newcastle Perth Sydney

Pitcher Partners is an association of independent firms. Liability limited by a scheme approved under Professional Standards Legislation. Pitcher Partners is a member of the global network of Baker Tilly International Limited, the members of which are separate and independent legal entities.