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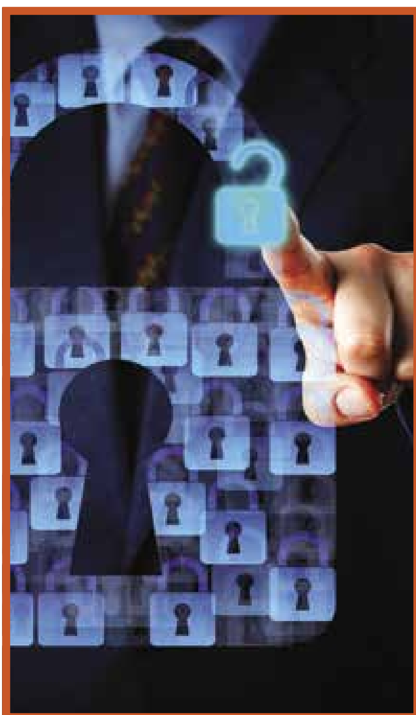
Protect your business from cybercrime



The last six years has seen cybercrime move from being statistically insignificant to being the largest economic crime in dollar terms in Australia.

Cybercrime is used to describe both:

- Crimes directed at computers or other information communications technologies (ICTs) such as hacking and denial of service attacks.
- Traditional crimes where computers or ICTs are an integral part of the offence such as online fraud, money laundering and identity theft.

So prevalent is cybercrime that even if businesses don't believe they have been targeted, this may simply mean they haven't yet discovered it.

In today's digital environment the cliché may be true; 'it's not a case of if, but when'.

In a 2016 survey of Australian businesses, 65% of respondents said they had experienced some form of cybercrime in the previous 24 months.

In the same survey it was revealed that it had cost five percent of the respondents over $10 million individually to remediate the damage.

In this digital age, organisations have become more reliant on cloud providers, telecommunication providers and applications. This gives rise to the possibility of customer data and personally identifiable information being obtained and on-sold.

Therefore, it now more important than ever to develop a cyber attack prevention and response plan.

At a minimum it should address:

- Containment - analysis of the incident to identify the method of compromise to prevent further spread
- Eradication – identify the method of compromise and develop plans for the remediation of security vulnerabilities discovered
- Restoration – effective planning for business recovery that minimises downtime in the event of an incident
- Investigation – including: digital crime scene investigation; digital evidence searching and documentation; and digital event reconstruction and documentation
- Measurement of economic loss and recoupment (if possible).

Insurance

Recently some insurers have begun to offer Cyber Insurance Coverage; however the reality is an insurance policy is a reactive measure, not a preventative one.

When a cyber claim is made, the challenge is that many costs and

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Your responses will help us ensure the newsletter remains useful and relevant.

All returned surveys will be entered into a draw to win a case of wine.

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Can big data analytics help your business?

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Thanks to cloud and mobile technology, the quantities of data now available to businesses are immense.

Increasingly, predictive analytics, user behavior analytics, or other advanced data analytics methods are being developed to extract value from data.

Data analytics involves the use of 'intelligent processes' to find new correlations in data, to not only spot business trends, but assist scientists to prevent diseases, and intelligence agencies combat terrorism.

For example, there are cloud based solution providers that have access to data across thousands of companies around the world. This enables them to build algorithms to not just look at what has happened in the past, but also to predict what will happen in the future and prescribe what possible actions should be taken.

Small and medium sized businesses should not feel lost in this ever-evolving business environment. The following basic business principles still apply:

1. Ensure you have access to relevant data, in a timely manner
2. Have set comparison points to measure business performance (benchmarks)
3. Have the courage to act when trends change.

Simple data analytics techniques can be used to capture and analyse customer, supplier and employee data and lead to better informed decisions. The base data is contained within existing business systems – businesses just need to know how to capture and analyse it, and how to interpret the results.

As a first step, ensure transactional processing is as up-to-date as possible.

Next, establish benchmarks or comparison points. Comprehensive data interrogation requires these in order to compare and assess results.

They could be based on historical business data, or industry best practice (often available through industry associations).

Over time, cloud based solution providers will provide affordable access to relevant data that can be used as benchmarks.

Unfortunately however, even when businesses have access to solid data; have undertaken comprehensive analysis and formed a view on what the future looks like, they don't have the courage to act when trends change – don't let that be you. ■

Risky business in not having a sound risk management framework

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Risk management may sound like a complicated or scientific undertaking, but it isn't.

Risk management in its simplest form is the identification, assessment and prioritisation of the risks a business faces, followed by the application of resources to control and monitor them.

Adopting sound risk management practices simply makes good business sense. It is something that is taken very seriously by successful businesses– so much so that risk registers form the basis of their board and executive meeting agendas.

With the operating environment – as well as the political and economic environment – changing at a faster rate than ever before, there are always new risks emerging that need to be integrated into systems and processes.

Business owners and managers should ask themselves:

- Does the organisation have an effective risk management framework in place that ensures risks are identified, assessed and managed?
- Are all risks being considered as part of the risk management program (operational and compliance risks will in time emerge as financial risks, impacting the bottom line)?
- Does the current risk reporting regime provide the board and/ or executive with adequate information on the status of risk management activities?

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Owning commercial real estate in an SMSF can be attractive, but should be carefully considered, says Andrew Yee.

Should you hold commercial property in an SMSF?

One of the most popular investments by self-managed superannuation fund (SMSF) trustees has long been commercial property. Indeed it is one of the first questions we are often asked when clients set up an SMSF!

However the changes to superannuation from 1 July 2017 which reduce, or eliminate, the amount of contributions people can make to superannuation on an annual basis may mean that investing commercial property becomes less attractive to SMSFs.

While the changes will certainly make it more difficult to finance the acquisition of large lumpy assets, such investments shouldn't be dismissed entirely. This is especially so if it meets the fund's overall investment objectives and the retirement aims of its members.

There would still be scope for SMSFs to acquire and own a commercial property after 1 July 2017, as long as proper planning is put in place, or if they were able to utilise tax concessions such as the small business capital gains tax (CGT) concessions pertaining to superannuation.

There are two main situations where SMSFs seek to invest in commercial property – firstly where the property is just another investment, and secondly where the property is used by the fund members or another related entity to carry on a business. Both offer benefits to SMSF members.

In the latter scenario, there are particular issues to consider when the SMSF acquires the asset from a related party, rather than from an independent vendor. It is vital that trustees avoid breaching the rules that require a superannuation fund to transact only for certain specified purposes relating to providing for the members' retirement (the 'sole purpose test') and rules restricting the acquisition of assets from related parties.

A key question that has come up in recent times is whether a family or their related entities might transfer a commercial property into their SMSF as an in-specie super contribution, using the small business CGT concessions to reduce the tax otherwise payable on the transfer.

While there is a general prohibition against a superannuation fund acquiring assets from related parties (such as members), one of the permitted exceptions is for business real estate used wholly and exclusively in one or more businesses, whether carried on by the entity or not. It is critical that all transactions between the parties are undertaken for market value.

Example

Eddie and his wife Susannah jointly own a Sydney-based commercial building used as a factory and warehouse by Tower Pty Ltd, in which they are each 50 percent shareholders. They are also the only members of the Gilead Superannuation Fund, and would like to build up the level of their superannuation balances.

However as with many small business owners, they lack the available cash to make substantial non-concessional contributions on top of the concessional contributions already being made.

Eddie obtains an independent valuation of $1.25 million for the commercial building, which they had acquired in 1986 for just $50,000, i.e. a total capital gain of $1.2 million. After deducting the 50% CGT discount, and applying the small business CGT concessions in the most tax-effective way, it is possible for Eddie and Susannah to transfer the building to the Gilead Superannuation Fund without paying any CGT and only $500 in NSW transfer stamp duty (note, other states may have similar stamp duty concessions).

By making the transfer in July 2017, and using the available 2017-18 contribution limits of $650,000 (i.e. $25,000 each as concessional contributions and $300,000 each as non-concessional contributions under the three year "bring-forward" rule), plus $300,000 each (up to a lifetime limit of $500,000 each) that can be contributed under the small business CGT retirement concession, Eddie and Susannah are able to transfer a substantial asset to their SMSF without cash changing hands, nil CGT and minimal stamp duty.

In this example, transferring the commercial building into the SMSF, and then renting it out to Tower Pty Limited for continued use in the business, is technically feasible; appears reasonably tax-effective; and should not breach any of the super fund regulations.

The only question left to consider is whether it is a good decision from an investment / superannuation planning perspective. ■

Continued from previous page

- Is there a quality compliance process that regularly reviews and confirms the operation of internal controls over the systems and processes that are relied on to manage risks to acceptable levels?
- Are you comfortable that appropriate 'warning flags' are in place that will assist in identifying any potential fraudulent activity?

Those who can't answer these questions in the affirmative could be operating a risky business. ■

Budget Roundup: personal finance considerations

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Following major changes to superannuation in the 2016 Budget, there are only minor tweaks in the 2017 Budget, primarily based around helping housing affordability.

While they are yet to be legislated, the proposed changes include:

Downsizing

From 1 July 2018, people aged 65 and over can make a non-concessional contribution into superannuation of up to $300,000 from the sale proceeds of their principal home.

These contributions will be in addition to those currently permitted under existing rules and caps and will be exempt from the existing age test, work test and the $1.6 million total superannuation balance test.

The measure will apply to sales of a principal residence owned for at least 10 years, and both members of a couple will be able to take advantage of this measure for the same home, allowing a total of $600,000 to be contributed per couple.

However the proceeds contributed to super in this manner are not likely to be exempt from the Age Pension assets test.

Home saver scheme

The government hopes to encourage home ownership by allowing contributions to superannuation accounts to be withdrawn for a first home deposit, from 1 July 2017.

Up to $15,000 per year, and $30,000 in total, can be contributed, with both voluntary concessional and non-concessional contributions qualifying. Concessional contributions and earnings that are withdrawn will be taxed at marginal rates less a 30 percent tax offset.

Withdrawals will be allowed from 1 July 2018, and will include associated deemed earnings. This will provide an incentive enabling first home buyers to build savings more quickly, and is expected to boost saving for a first home deposit by at least 30 percent compared to standard bank accounts.

Both members of a couple can combine their savings under this measure for a single deposit on their first home together.

Pensioner Concession Card

The government will reinstate the Pensioner Concession Card for those affected by the asset test change introduced in January this year, allowing an extra 92,000 people to access discounts offered to holders of the card.

CGT discount

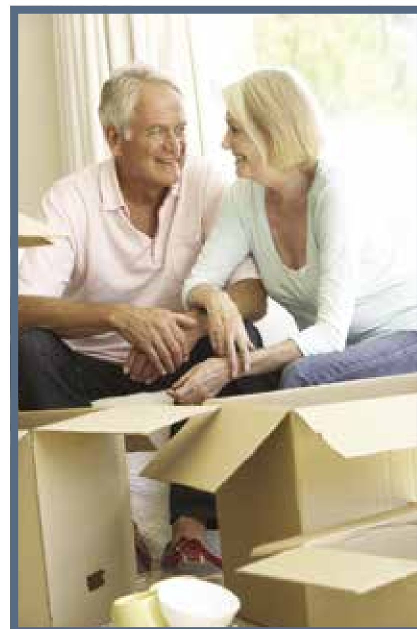
From 1 January 2018, the government will increase the Capital Gains Tax (CGT) discount for resident individuals who invest in qualifying affordable housing, from 50 percent to 60 percent.

To qualify, housing must be provided to low to moderate income tenants, held for a minimum period of three years, managed by a registered community housing provider, and charge rent at a discount to the market rate.

Property expenses

Deductions for travel expenses claimed for inspecting, maintaining or collecting rent for a residential investment property will be disallowed.

In addition, the rules around claiming depreciation will change, meaning deductions for plant and equipment will only be allowed where an expense has actually been incurred. This change will apply from 1 July 2017.



This measure will not prevent investors from engaging third parties such as real estate agents for property management services. These expenses will remain tax deductible.

Last year's Budget

It is also worth remembering that the major changes to superannuation that were announced in last year's Budget, take effect on 1 July this year, including the reduction in the non-concessional contribution cap to $100,000 a year (down from $180,000) or, if brought forward over three years, down to $300,000 (from $540,000).

Further, people with more than $1.6 million in superannuation on or after 1 July 2017 will not be allowed to make any further non-concessional contributions.

It is therefore vital to ensure superannuation affairs are structured to take advantage of existing rules before these changes come into effect. ■

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potential losses are unknown and cover unfamiliar depth that is less common in other types of claims.

There is no substitute for ensuring that proper risk management and security measures are in place and regularly reviewed. ■

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Overall, this year's Budget should give business owners some much-needed certainty, says Peter Bembrick.

Budget Roundup: business tax

Instant write-off

The Government confirmed that the small business instant write-off for depreciating assets costing less than $20,000, which was due to expire on 30 June 2017, has been extended for another 12 months until 30 June 2018.

As the annual turnover threshold for this purpose has recently been increased from $2 million to $10 million, we expect that the number of businesses eligible for the instant asset write-off will increase dramatically, and include many that would not identify themselves as small businesses.

To complement this measure, the suspension of the 'lock out' rules for the simplified depreciation regime will also be extended by 12 months until 30 June 2018.

The 'lock out' rules prevent SMEs from re-entering the simplified depreciation regime for five years if they opt out.

Super and housing

Employers should be prepared for staff who take advantage of the ability to make salary sacrificed contributions into superannuation accounts, to be later withdrawn and put towards the deposit on their first home.

The nature of the contributions must be made clear to the superannuation fund as they will need to be accounted for separately from regular superannuation contributions, so reporting methods may need to be reviewed.

CGT concessions

One measure that had not been flagged before Budget Night, and on which there is so far very little detail, is a proposal to tighten up the small business Capital Gains Tax (CGT) concessions to deny eligibility for assets unrelated to the small business.

In the Budget there was a reference to

taxpayers structuring their affairs to access the concessions for interests in larger businesses (in a way that the Government believes goes against the policy of the concessions). As the concessions are specifically made available to those selling shares or units in a business entity, we would hope that the proposed Budget amendments are relatively limited and will be targeted at arrangements that are clearly artificially structured to obtain unrealistic outcomes.

Nevertheless, we will be keeping a close eye on this proposal and whether CGT concessions could potentially apply to a business sale.

Company tax rate

The Government has committed to the remainder of the 10-year package to reduce company tax rate. This will see the corporate tax rate reduced for companies with a turnover less than $50 million.

In the 2016–2017 financial year, the reduced corporate tax rate of 27.5 percent will apply for businesses with an aggregated turnover of less than $10 million; $25 million turnover in 2017–2018; and $50 million turnover from 2018–2019.

As per the trajectory in the Budget, the corporate tax rate will also be further reduced in stages, starting from 1 July 2024, so that it will eventually fall to 25 percent by the 2026–2027 financial year for businesses with an aggregated turnover of less than $50 million.

In addition to the reduced company tax rate, the Enterprise Tax Plan Bill that was recently passed by Parliament includes measures to:

- increase the small business entity aggregated turnover threshold to $10 million from 1 July 2016 – but the threshold for accessing the CGT small business concessions will remain at $2 million; and
- increase the unincorporated small business tax discount from 5 percent to 16 percent over a 10-year period –- the threshold for accessing the discount will be $5 million (aggregated turnover).

The increase in the small business entity aggregated turnover threshold will enable a greater number of businesses to access concessions such as the simplified depreciation and trading stock rules and a two-year (instead of four-year) review period for amending assessments. ■

Impact of new revenue accounting standards

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The way in which revenue is accounted for will significantly change for many businesses next year, as a result of the introduction of new accounting standards known as AASB 15 Revenue from Contracts with Customers.

Most entities with revenue or grant income will be affected by these changes. It means that those who prepare the financial information will need to look closely at each revenue transaction.

Those with long-term contracts (greater than 12 months) will be the most affected, as will those with bundled-type products (e.g. a physical good provided with ongoing support or maintenance).

Therefore those in the construction industry and service-providers will likely have the largest changes to make; however we believe that all revenue-generating entities will be affected.

> *"...however we believe that all revenue-generating entities will be affected."*

The least impact will likely be felt by those with spot, 'cash-type' sales.

In essence, this new standard requires that revenue is allocated in accordance with the satisfaction of the performance obligations of a contract.

This has been split into five steps:

1. Identify the contract with the customer
2. Determine the performance obligations under the contract
3. Calculate the full transaction price
4. Allocate the transaction price to each of the performance obligations
5. Recognise revenue as each performance obligation is met.

It is especially important to note that a contract under this standard can be written, verbal or implied.

The most significant change is the requirement to record revenue upon the satisfaction to performance conditions.

This is intended to respond to concerns under the previous rules, that the method applied did not accurately match the level of effort required by an entity to generate revenue.

The new standard will require businesses to assess what their performance obligations under a specific contract are, determine what value to apply to each performance obligation and then record the revenue as each is met.

The timeline for the standard coming into effect is shown at the end.

Another impact of the new standard is the requirement to break down contracts into their individual components, or un-bundling.

An example is a mobile phone contract, where the sale of the handset and the provision of the service must now be analysed and recognised separately.

Un-bundling is paramount when entities sell the bundled products separately, as well as part of a discounted bundle.

Not for profits

The introduction of the standards has been delayed by a year for NFP entities, which has allowed some reprieve. ■

Year End	30 June	31 December
Commencement date	1 July 2018	1 January 2018
First full year affected	30 June 2019	31 December 2018
Start of earliest comparative	1 July 2017	1 January 2017

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As with any considerable change, it is important to start early.

Entities that tend to be most efficient in completing their financial statements are those that prepare a set of 'shell' financial statements – draft financial statements with full disclosures and lay-out, but awaiting the insertion of final numbers. This allows early engagement with boards, audit committees and auditors.

Putting the effort in prior to the end of the financial year is a worthwhile investment that will ultimately save time and effort during the demanding year-end financial reporting period. ■

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The road to success for startups is a rocky one and being aware of funding and incentive opportunities available to them can help give startups a better chance of success, says Josh Chye.

Grants and incentives to help startups

There are a number of grants and assistance programs available to support innovative companies.

These programs are designed to help commercialise innovative ideas, as well as provide support to improve business strategy, refine processes, and to enhance growth potential.

One of the key planning issues with startups is to ensure the right legal structure is set up to benefit from any opportunities.

We have witnessed cases where a business is created under a trust structure which can result in missed R&D tax incentive claim opportunities and significant costs and time incurred to restructure the business.

Nonetheless, while the potential benefits of the grants needs to be weighed against the time and costs to apply, it is worth understanding the options available.

R&D tax incentive

Companies with an annual turnover of $20 million may be eligible to claim a cash refund of 43.5 percent of eligible research and development (R&D) spend as part of the annual tax return lodged.

The R&D tax incentive is arguably the most significant opportunity for startup companies as there is no cap in eligible R&D claims and it operates under a 'self assessment' system; however significant care is required to document and justify eligible claims.

ESIC tax incentives

These tax incentives are intended to connect early stage innovation companies (ESICs) with investors who have funds and knowledge in business. The tax incentives provide eligible investors who purchase new shares in an ESIC with:

- A 20 percent non-refundable, carry-forward tax offset for qualifying investments capped at $200,000 for each investor; and
- An exemption from Capital Gains Tax (CGT) for qualifying investments held between 12 months and ten years.

ESS startup concessions

The Employee Share Scheme concessions reduces the compliance obligations encountered by small businesses in setting up and maintaining employee share schemes. The key features of the ESS startup provisions are:

- No tax paid until the options or shares are sold
- Any gains derived from the options or shares have access to the capital gains tax (CGT) provisions and therefore the 50 percent CGT discount.

The Commissioner has released simplified valuation methodologies for the purposes of valuing shares relating to the ESS start up concession. The ATO has also provided template offer letters and ESS agreements.

Export Market Development Grant

The EMDG supports Australian exports and promotes the Australian tourism industry by potentially reimbursing 50 percent of costs exceeding $5,000 for businesses that have $15,000 or more in export promotion.

Entrepreneurs Programme

The Entrepreneurs Programme is a related set of sub programs offered by the Federal Government to provide potential access to funding advisors and facilitators. For example, it includes the Accelerating Commercialisation Grants which offers ventures up to 50% on eligible expenditures. The maximum grant is $250,000 for commercialisation offices and eligible partner entities and $1 million for all other applicants. ■

Five tips for preparing for financial reporting

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As financial year 2017 draws to a close, it is a good idea to spend some time planning for the financial reporting season to ensure an efficient and trouble-free assembly of annual reports.

Asset values

ASIC and other regulators continue to place significant focus on asset valuations, and businesses need to consider carefully whether there is a need to impair goodwill or other assets.

ASIC continues to report instances of companies using impairment calculations containing unrealistic cash flow forecasts or underlying assumptions, and improperly identifying Cash Generating Units at a level higher than allowed.

Digital disruption is affecting more and more industries. Therefore, it is important to consider whether this will have an impact on your future cash flows, and whether previous forecasts and impairment assumptions continue to remain relevant and supportable.

New accounting standards

Three new accounting standards are due to be implemented over the coming two years.

These are expected to have a significant impact on future financial reports, and 30 June 2017 will represent the start of the first comparative period that will be affected.

The disclosures regarding the expected impact of these new standards is an area of ASIC's focus, and something to consider as part of compiling 2017 annual reports.

Early consideration of the standard could influence future decisions in terms of contract structure, terms of sale, etc.

Enhanced audit reports

Enhanced audit reports and Key Audit Matters (KAMs) will be applicable for most listed entities for the first time at 30 June 2017.

The inclusion of KAMs will draw further attention to the most significant disclosures and matters within financial reports, and it is important that preparers are aware of this additional level of scrutiny.

Decluttering

In recent times there has been a conscious push to improve the readability of financial statements so that they are clear and understandable. This is often referred to as 'decluttering' or 'streamlining'.

The process of decluttering involves reducing or removing non-essential and irrelevant disclosures, bringing the most significant disclosures to the fore, and applying a 'plain English' writing style to the disclosures within the financial statements.

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