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Thomas Noble & Russell

Accountants | Auditors | Business Advisers

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COST OF NOT CHANGING SYSTEMS

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When talking to SMEs about their current accounting and business management software, or how they manage workflows in their business, all too often they have not reviewed the software in a number of years, if at all. Indeed many are still using manual workflows to do work that can now be automated.

Research conducted in the UK showed that an average of 40 minutes per day per employee is wasted on slow or outdated technology. It’s likely that Australia would have similar results.

When we speak with clients about changing finance or accounting systems, one excuse that comes up again and again is the cost of changing systems.

Understandably, it is easy to focus only on the cost of purchasing a new accounting system. However there are hidden costs in not upgrading that are not always factored in, such as:

- the server costs to host and back up the software
- paper costs for printing
- employee costs to manually enter invoices and file invoices
- time costs to extract information and manipulate it into the required format.

Investing in software that can perform some if not all of the low value work frees up employees’ time to perform high value work such as analysing the data, generating accurate budgeting and providing timely information to assist the business owner in making strategic business decisions.

It also helps ensure business processes and records are properly documented, which helps both in meeting regulatory requirements as well as in putting the business on the proper footing for future growth.

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FOREIGN RESIDENT PROPERTY TAXES CLOSER TO HOME THAN YOU THINK

There is a trap for trusts that own property. Even though the trust generally only distributes to Australian residents, if they have the ability to distribute to foreign residents then they will be treated as subject to the "vacancy fee" and to state-based purchaser and land tax surcharge.

There have been ongoing changes in recent years to the tax landscape for foreign residents owning property in Australia.

However, many Australians may not realise that these changes can also affect Australian trusts that hold Australian properties. It is standard practice to include a broad class of beneficiaries in a trust deed, and any foreign resident or entity who is a beneficiary of a trust would subject the trust to some or all of the foreign resident property taxes. It may therefore be necessary to formally amend trust deeds to exclude any distributions to foreign residents.

The main tax changes that could impact Australian trusts are included in the table below.

Whether or not someone is a foreign resident for Australian income tax purposes does not generally depend on their citizenship. However, the vacancy fee does not apply to Australian citizens nor to citizens of another country who live in Australia for at least 200 days in the preceding year, even though they may be foreign residents for Australian income tax purposes.

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TAX CHANGE	EFFECTIVE DATE	WHAT DOES IT MEAN?
Removing the capital gain tax (CGT) discount percentage for foreign residents or temporary residents	8 May 2012	Foreign residents or temporary residents cannot claim the CGT discount on capital gains accrued after 8 May 2012
Foreign resident capital gains withholding tax	1 July 2016	Foreign resident vendors are subject to a non-final withholding tax. From 1 July 2017, the withholding tax rate is 12.5% and is applicable to Australian real property with a market value of A$750,000 or above
Vacancy fee	9 May 2017	This is an annual fee chargeable on foreign residents owning Australian residential property where the property is not occupied or genuinely available for rent for at least 183 days of a year. Short term holiday leasing such as through Airbnb will not readily meet the conditions for waiving the vacancy fee. It only applies to those residential property purchases subject to foreign investment applications and purchased after 9 May 2017 by foreign owners.
The proposed removal of main residence exemption	Proposed effective date 1 July 2019	If enacted, people would not be able to claim the CGT main residence exemption when they a property which was once used as their main residence, if they are a foreign resident at the time of sale. This includes Australian expats living overseas for a period of time. Consequently, a foreign resident would be subject to the withholding tax requirement mentioned above and would be required to report such capital gain in their Australian income tax return. These proposed rules disregard the owner's residency history during the period of property ownership – the deciding factor is the owner's Australian residency status at the time the property is sold.

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When making the decision to invest in new software, it is important to consider what the business actually requires now as well as what might be needed in the future. If the ultimate finance system is too expensive up front, maybe consider breaking it down into smaller projects. It's not always necessary to do everything at once.

Even the smallest of businesses can benefit from some of the new technology now available, to become more efficient, more professional, and ready for growth.

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SMART STRATEGIES FOR THIS FINANCIAL YEAR

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The end of financial year is looming but it's not too late to put in place some smart strategies before 30 June to help reduce tax liabilities.

1. TAX-EFFECTIVE PHILANTHROPIC GIVING

One option for managing the tax situation is to consider tax-deductible charitable giving. This can assist with year-end tax planning while making a difference to the lives of others.

Depending on individual circumstances, clients may consider donating directly to a chosen charity, setting up an account within a public charitable fund, or establishing a Private Ancillary Fund (PAF). Professional advice will ensure the chosen strategy maximises both tax effectiveness and social impact.

2. ADD TO SUPER – AND CLAIM A TAX DEDUCTION

Contributing some after-tax income or savings into super may allow a tax deduction. It means reducing taxable income for this financial year and potentially paying less tax – and at the same time, boosting the super balance.

The strategy works for those with a marginal tax rate higher than 30 percent. Super contributions are generally taxed at up to 15 percent in the fund (or up to 30 percent for those earning $250,000 or more). For those with a marginal tax rate up to 47 percent (including the Medicare Levy), contributing to super could reduce the tax payable.

A valid 'Notice of Intent' must be sent to the super fund, and an acknowledgement received from them, before completing the tax return.

Keep in mind that personal deductible contributions count towards the concessional contribution cap, which is $25,000 for this 2018/19 financial year (which also includes all employer contributions, including Superannuation Guarantee, salary sacrifice and separate superannuation policies). Penalties may apply if the cap is exceeded so it's important to stay within the limits.

3. CONVERT SAVINGS INTO SUPER SAVINGS

Another way to invest more into super is by making a personal non-concessional contribution with after-tax income or savings.

Although these contributions don't reduce taxable income for the year, clients still benefit from the low tax rate of up to 15 percent that's paid on super on investment earnings. This tax rate may be lower than that paid if the money is held in other investments outside super.

Before considering this strategy, make sure contributions stay under the non-concessional contribution cap, which in 2018/19 is $100,000 (or up to $300,000 if certain conditions are met). That's because after-tax contributions count as non-concessional contributions. Penalties may apply if the cap is breached.

To use this strategy, the total super balance must have been under $1.6 million on 30 June 2018.

Remember, any money put into a super fund can't be accessed until preservation age is reached, or other 'conditions of release' are met.

4. GET A SUPER TOP-UP FROM THE GOVERNMENT

Those earning less than $52,697 in the 2018/19 financial year, with at least 10 percent of this from a job or business, could consider making an after-tax super contribution, as the Government may make a co-contribution of up to $500.

The maximum co-contribution is available for those who contribute $1,000 and earn $37,697 or less a year. A lower amount may be contributed for those who contribute less than $1,000 and/or earn between $37,697 and $52,697 a year.

Keep in mind that earnings include assessable income, reportable fringe benefits and reportable employer super contributions.

5. BOOST SPOUSE'S SUPER

If one spouse is not working or earns a low income, couples may want to consider making an after-tax contribution into their super account. This strategy could potentially benefit the low-earning spouse's super account which gets a boost as well as the higher-earning spouse as they may qualify for a tax offset of up to $540.

The full offset is available for those who contribute $3,000 and the spouse earns $37,000 or less a year (including assessable income, reportable fringe benefits and reportable employer super contributions).

A lower tax offset may be available for those who contribute less than $3,000, or the spouse earns between $37,001 and $39,999 a year.

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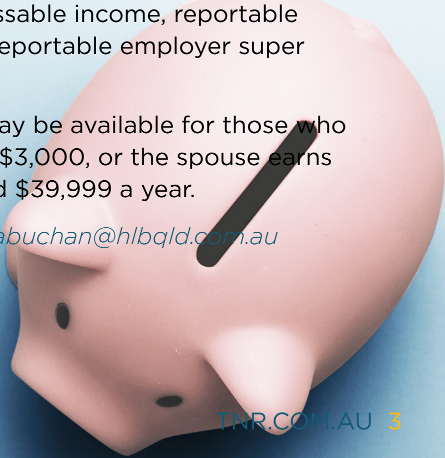

BUSINESS AWARDS PLAY ROLE IN BUSINESS GROWTH

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While the thrill of winning never gets old, participating in business awards is more than just chasing glory. It can shape and influence business and hiring strategies, internal culture and the bottom line.

No matter the type of business award, being nominated as a finalist or winning can be very rewarding.

At HLB Mann Judd, our involvement in awards has had profound influence on measuring what is most important to us as a firm and a brand. We participate in several, carefully selected, business and young leader awards throughout the year, such as the *Financial Review* (formally BRW) Client Choice Awards.

There are several benefits of choosing to participate in business awards:

1. INCREASES BUSINESS PROFILE

Being nominated for an award is a great way to raise a business's profile. A nomination can give the business a point of difference and help it stand out from the crowd. It can also add credibility to the brand by recognising the positive work the business is doing in the community or within a particular industry.

2. BOOSTS STAFF MORALE AND STRENGTHENS CULTURE

Awards are a great way to recognise and celebrate a team's hard work, dedication and successes. It also shines a spotlight on the business' values. Showcasing what the business is passionate about may also attract prospective employees who share similar values.

3. CREATES OPPORTUNITY TO EXAMINE THE BUSINESS

Award submissions vary depending on the assessment process. Often the application process requires time and effort, particularly if it involves lengthy questionnaires or sourcing testimonials.

Collecting and collating the required information may uncover key strengths and weakness in the business that owners may not have been aware of. Going through the application process could give a fresh perspective on the business's market position.

4. BENCHMARKS THE BUSINESS AGAINST COMPETITORS

Putting the business or a team member forward for recognition can be an effective way to improve reputation. It also allows the business to be scrutinised and compared against others. This benchmarking process may prove insightful and assist in developing future growth strategies.

5. STRENGTHENS THE VALUE PROPOSITION

Not all awards carry the same weight. It is important to research which awards are the right fit for the business and its values. Many businesses incorporate business awards as a part of their marketing strategy. If selected as a finalist, it is important to have a strategy in place to effectively communicate the message to clients, staff and the business community.

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ARE YOUR CHILDREN PREPARED FOR YOUR RETIREMENT?

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There's been a lot of talk lately about succession planning and the intergenerational wealth transfer, as the baby boomer generation reaches retirement age.

One aspect that hasn't been widely considered is the impact on other family members, and in particular children, as their parents think about selling their business or retiring from their career, perhaps selling their family home, and starting life in retirement.

It is important that children are prepared to deal with this process, not least so they are aware of the financial implications and how they may be affected.

For instance, children may be expecting to receive a certain amount of money from their parents – particularly those who are selling a business – and end up disappointed. Conversely, they may not be expecting to receive anything, and are therefore not equipped to deal with a windfall.

GEN Y AND MONEY

The children of those entering retirement today are usually Gen Y or Millennials, born between 1980 and 1994. Although they are considered to be ambitious, driven and income rich, research shows they rely heavily on debt and are somewhat financially illiterate.

They tend to believe they have a good understanding of their financial situation, however they most likely don't have as good a grasp on it as they think. In addition, this is a critical time as they are now a few years into their career and earning money at a level they haven't before. They could be purchasing their first home, planning for a wedding or planning to start a family.

OPEN A DIALOGUE

For those approaching, or in, retirement, it's important to have frank and open conversations with children about expectations and also whether children have the knowledge and understanding to manage financial matters.

This is not an easy exercise, and some may not want to discuss their financial affairs with their children. However, it can be very worthwhile. Parents may find their children's eyes are opened when they see what their parents have been able to achieve financially. They may even want to know how they can do that themselves and change their own habits.

FOSTER INDEPENDENCE

Everyone works hard to provide for their family, and perhaps even leave them a legacy. However, parents approaching retirement shouldn't feel that their family is solely reliant on them, or that they need to be responsible for their children's financial situation.

Some children may believe they don't have to worry financially because mum and dad will always be there to bail them out. Indeed it's not uncommon for children – even adult children – to think their parents have a financial empire they can rely on.

However, once their parents discuss their life plans after business, this attitude can change, especially if children come to the realisation that their parents' retirement planning doesn't take into account their own financial mishaps.

ESTABLISH A FOOTING

A good approach is to help children establish their own strong financial footing. For instance, introducing children to professional advisers can provide comfort that there is someone they can go to for advice.

Having open conversations with children and expressing wishes and goals will also ensure that the family are all on the same page and help reduce potential conflict.

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GET IN TOUCH – THE OLD-FASHIONED WAY

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In a technology-focussed world, the 'old school' business practices of face-to-face and personal client contact are not being embraced by the next generation of professionals – to their detriment.

Many younger people struggle to form solid professional relationships with clients because they rely too heavily on technology, such as email or text, in order to communicate.

One of the best ways to establish and maintain trust and mutual respect through clients, and to build strong relationships, is through personal contact.

In my view, nothing beats picking up the phone and talking to clients – unless it is a face-to-face meeting. While email is useful and often necessary, it shouldn't be treated as the only communication tool available, as it doesn't allow the connection and collaboration that is such an integral part of the job.

It's important to show that you understand each client in order to help them meet their goals.

Excellent client relations and customer service are based on knowing what each individual needs and wants, and this includes their preferred methods of communication which could be as simple as a phone call.

Those who are mentoring or managing millennials must find ways to encourage them to look beyond the ease and convenience of email and text communication when dealing with clients.

Some tips for millennial professionals include:

1. Plan for the future by building strong relationships early in your career - pick up the phone and make plans to meet your clients face-to-face

2. Remember you're providing the service to your client, not the other way around

3. Talk straight – tell clients what they need to know not what they want to hear

4. If you make a mistake, take the time to understand what went wrong – this is the best way to learn.

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SINGLE TOUCH PAYROLL DEADLINE APPROACHING FOR SMES

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Small businesses – those with fewer than 20 employees – will now be required to use Single Touch Payroll (STP) from 1 July 2019.

STP requires businesses to report employees' salaries and wages, allowances, deductions, PAYG Withholding and superannuation electronically and in real-time to the Australian Taxation Office (ATO). The legislation has been in place for larger businesses with 20 or more employees since 1 July 2018.

WHAT DOES THIS MEAN FOR SMES?

Small employers need to check that their current payroll or accounting software is STP-enabled to allow the automatic transfer of payroll data to the ATO. Most accounting software providers are already STP compliant.

If an employer is already utilising payroll software that is STP compliant, we recommend they perform a risk review of all the information and settings (including tax free thresholds, HELP, salary sacrifice, superannuation) to ensure that the data sent to the ATO is accurate.

A range of no-cost and low-cost STP solutions have been developed for micro-employers (those with one to four employees) who do not currently have STP-ready software. These STP solutions will cost no more than $10 per month and will not require the employer to maintain the software.

Employers reporting under STP are no longer required to provide year-end payment summaries to employees. Employees will have to access their myGov account to see their year-to-date tax and super information online. We recommend employers advise their employees to open a myGov account, if they have not already done so.

ARE THERE EXEMPTIONS OR CONCESSIONS?

The move to real-time digital reporting may be a significant change for small businesses. The ATO has acknowledged that there will be circumstances where small employers need more time to implement STP or lodge reports.

As such, the extension of STP to small employers will be gradual and not all small employers are required to start reporting from 1 July 2019.

Small employers can start reporting any time from the 1 July start date to 30 September 2019. The ATO will also allow micro employers to report their STP information quarterly through their registered tax agent, rather than each time they run their payroll, up until 30 June 2020.

The ATO has advised it will grant deferrals to any small employer who requests additional time to start STP reporting, and exemptions from STP reporting will be provided for employers experiencing hardship, or in areas with intermittent or no internet connection.

Finally, flexible reporting options are available to small employers with closely held payees (that is, non-arm's length employees including any family members, directors or shareholders). Small employers will be exempt from reporting payments to closely held payees for the year ended 30 June 2020 (however, they must still report payments to arm's length employees through STP). From 1 July 2020, small employers can report closely held payees quarterly.

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IMPLICATIONS FOR SMES FROM ROYAL COMMISSION

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There are a number of findings and recommendations from the Banking Royal Commission that will have a significant impact on the SME sector, and the implications could take some time to fully play out.

The final report, released in February, contained a list of recommendations designed to break the cycle of appalling behaviour in the banking sector.

ACCESS TO CREDIT

While the commission revealed some less than ideal practises amongst Australia's largest banks to their small business clients, there is also considerable concern about the credit implications for the SME sector, given access to finance had already been an issue in the lead-up to and during the hearings.

Unless the banking sector as a whole comes to the realisation that its primary purpose is to provide access to credit in a responsible manner, access to credit is likely to remain an issue.

It may well mean that SMEs will need to access finance from alternative sources, such as shadow lenders, with terms and conditions different to those traditionally offered by the banks. This may have implications in terms of covenant reporting and funding costs.

SMEs are advised to carefully assess and consider what impact this will have on their business at the outset of the application process. For some owners, it may also translate to considering alternate succession plans (i.e. bringing forward exit and/or sell down strategies).

LENDING

Another relevant recommendation was the expansion of SME lending under the new industry code, which is scheduled take effect from 1 July, to firms with less than 100 full-time equivalent employees, where loans are less than $5 million.

CODE PROVISIONS

The report also recommended granting new powers to ASIC to police the "enforceable code provisions" in the 2019 Banking Code, therefore elevating breaches of certain code provisions to breaches of law.

CORPORATE ETHICS

The report touched on the importance of having sound and appropriate corporate governance in place, and for Board of Directors to do what is right rather than focussing on what it is legally required to do. This is a very important distinction in business and should not be under-estimated in terms of its impact.

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DON’T THINK YOU NEED LIFE INSURANCE? THINK AGAIN

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Ask people what their biggest asset is, and most will name their home, or perhaps their superannuation or investment portfolio. But this mistake could cost people dearly.

For most people, the most important asset is their ability to earn income for the remainder of their working life.

The average 30 year old earning $100,000 a year right now can reasonably expect to earn over $5.5 million by the time they retire at 65 (assuming income growth at a steady 2.5 percent a year).

But while most people insure their car or home against loss or damage without a second thought, many people leave themselves completely unprotected against the accidents and illnesses that can happen to anyone, and financial security could be lost overnight.

If your ability to go to work and earn an income suddenly disappears, then not only is the house and car likely to disappear, but everyday living expenses – such as putting food on the table, paying your utilities and other bills, providing schooling or care for your kids – are also put at risk.

For those who are unable to work for whatever reason, the right level of life insurance, as well as total & permanent disability (TPD), income protection (IP), and trauma cover, can help give them and their family protection and financial security.

Understandably, many people are put off by the idea of needing so many different kinds of insurance, and may feel a bit uncomfortable thinking about what might happen if something goes wrong.

It’s therefore important to understand when and why life or income protection insurance should be considered.

The most common triggers for taking out this kind of insurance are:

- getting married
- starting or increasing a mortgage
- having kids
- sole income families
- big changes to finances, like a higher paying job or an inheritance.

For those who don’t have life insurance at the moment, key questions to ask include:

- What impact would it have on my family’s lifestyle and future if I could no longer earn an income?
- Could I afford to pay large medical and rehabilitation costs if I am in an accident?
- Could I keep paying off my mortgage if I stop earning an income for several months?
- What would happen if I couldn’t pay school fees for the foreseeable future?

If you can’t easily and comfortably find an answer to these questions, then it’s time to think about life insurance.

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