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IN THIS ISSUE

FAMILY CONSIDERATIONS IN BUSINESS WEALTH TRANSFER

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Anyone approaching retirement age who owns a business has two big decisions ahead of them.

Firstly, when do they plan to exit the business? And secondly, what form will that exit take?

Succession of the business may take a number of forms including:

1. Sell the business to either an unrelated external third parties; management; family members; or private equity groups
2. Transfer the business to the next generation of family members if a family business (not a 'sale')
3. Float on the ASX
4. Consider alternatives such as Crowd Sourced Funding

For many business owners, consideration of the family and their needs and wishes is tied up in any decision about the future of the business.

To help decide what is the right approach for each owner and their business, questions to ask include:

- What is important to you and your family?
- What are your values and does your exit strategy align?
- Do you need funds from the sale of your business to fund your retirement or lifestyle after you are no longer owning or controlling the business?
- Will you consider vendor finance options?
- Do you want to make a 'gift' to your children?

Succession planning is more than the transition of the management and ownership of the business. It needs to align with you and your values as well as fund your lifestyle 'post' succession, in a tax effective manner.

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HLB COMES TOGETHER FOR A GOOD CAUSE

The HLB network celebrated the success of its first global Corporate Social Responsibility initiative in June this year.

HLB marked its 50th anniversary through its support of local and international community projects for #HLBCommunities Day. The initiative saw HLB staff around the world collectively volunteer 8,497 hours through 1,320 participants across 42 community projects.

Firms took part in projects including donating time to after school programs, maintaining outdoor spaces such as local gardens, beaches and school facilities, through to volunteering with the elderly and at food banks.

HLB Mann Judd Australasian Association chairman, Tony Fittler, says the day was just one example of the network joining together in recognition of the greater good and giving back to those in need.

"It was wonderful to see so many within our network recognise our collective obligation to give back to communities who need it most.

"It's an initiative that has the potential to get bigger and better every year, and we aim to consolidate on the fantastic efforts from this year, for next year and beyond," he said.


#HLBCommunities Day Sydney


#HLBCommunities Day Perth Insolvency

#HLBCommunities Day Fiji


#HLBCommunities Day Brisbane


#HLBCommunities Day Melbourne

#HLBCommunities Day Adelaide

2019 APPOINTMENTS

Fiona Dixon has been appointed partner in HLB Mann Judd Sydney's advisory division. She joined the firm in 2008 and has also worked for accounting firms in the UK. Her main area of focus is helping businesses improve their financial process and reporting. She holds a bachelor of commerce (accounting) from the University of Western Sydney, and is a member of Chartered Accountants Australia and New Zealand.

Steve Branson has been promoted to director in HLB Mann Judd Adelaide's business advisory division. Steve has over 18 years experience in business advisory, specialising in working with business owners. He joined HLB Mann Judd in 2013 and holds a bachelor of commerce from Flinders University and is a member of Chartered Accountants Australia and New Zealand.

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SUPER OVERLOOKED IN WEALTH CREATION STAKES

While many consider negative gearing an investment property to be a tax effective way of growing their investment wealth and reducing their personal tax, it may not be the best way forward.

Indeed many are not aware that they can now make personal super contributions and claim a tax deduction for this amount.

Using gearing to build wealth can be risky and negative gearing into property carries a higher risk without a guarantee of a greater return.

A negative gearing strategy can pay off, if the value of the property appreciates enough over time to deliver a strong capital gain, but this isn't always the outcome. In addition, the capital costs of running and maintaining an investment property can be high.

Generally speaking, people would be better off looking at making extra concessional (before tax) contributions to their superannuation as a means of lowering risk.

A common concern about superannuation is that the money is locked away and less accessible compared with other forms of investment.

While that is in part correct, property is far from an easily accessible asset. Investors can only access the capital upon the sale of the property, which can take time. Generally speaking, property is best held for at least 10 years.

At the same time, the income generated from rental is generally low – often at around 3 per cent per annum or less – and this income is often being utilised to meet loan repayments.

Irrespective of how wealth is built over a lifetime, there is no doubt that come retirement, the most tax effective place for wealth to be held is within super.

However, given the restricted concessional contribution limits of $25,000 a year that now apply, people can no longer deposit a large lump sum into super.

Instead, they need the benefit of time to build up their super balances.

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A LESSON IN SAVING...

Let's take 40-year-old, Sarah, earning an income of $100,000 a year, with a superannuation balance of $100,000. Assuming Sarah's super generates an average return of 7 per cent per annum and that her salary grows by 2 per cent a year, her balance through compulsory super alone would increase to $718,683 by the time she is 60.

If Sarah decides to buy a $500,000 investment property that is 100 per cent geared with the loan secured against her existing home, she would have upfront out-of-pocket expenses of about $20,000.

Sarah could expect to earn rental income of around $15,000 or 3 per cent per annum on the property, less annual expenses of about $5,000, giving her a net income of $10,000 per annum.

Assuming Sarah has an interest-only loan at 4.5 per cent per annum, her interest repayments would be $22,500 a year.

Sarah's taxable income would be reduced by the $12,500 income loss on the property resulting in a personal annual tax saving of $4,763.

Assuming the property's value would appreciate by an average of 4 per cent per annum it would be worth $1,095,562 in 20 years' time.

If Sarah sells the property at age 60, she will have a capital gain of $556,128. After repaying the principal of the loan and allowing for tax and other expenses, Sarah would have cash available of $482,091. When added to her superannuation balance, of $718,683, her overall investment wealth is $1,200,774.

However only $718,683 of the wealth is held within super and so would be relying on the current contribution rules to still be in place, and it would take her a number of years to contribute the $482,091 into super.

Alternatively, Sarah could invest her $12,500 into superannuation by making an additional concessional contribution each year. She could then claim a personal superannuation deduction which would also result in a personal annual tax saving of $4,763.

The $20,000 that she would have spent in upfront property costs could also be contributed to her superannuation. By age 60 Sarah's superannuation balance would be $1,209,011.

Sarah's financial position in 20 years' time would be similar under each option, however under the second scenario it is all already within the super environment and is a less risky strategy than gearing into property.

NFPS CAN USE RC FINDINGS AS BAROMETER OF PROGRESS

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While the Federal Government's Royal Commission highlighted serious governance and culture issues within banks, superannuation funds and financial services companies, it's an opportune time for other sectors to conduct their own reviews.

Governing boards and sub-committees within the not-for-profit (NFP) sector, in particular, should be assessing the findings handed down by Commission Kenneth Hayne QC against their own processes.

The complexity and risks associated with many NFP entities may be substantially less than those of banking and financial services organisations; however all boards still need to ensure they are effectively fulfilling their roles and compliance obligations. The NFP sector is no different.

Commissioner Hayne's final report identified a number of shortcomings within boards, including:

- Sufficiently challenging management
- Doing all they can to satisfy themselves that they are receiving the right information and inputs from management to make complex decisions
- Monitoring, measuring and assessment the organisation's culture and governance
- Providing rigorous oversight of risk including non-financial risks.

Board members should be regularly reviewing and reinforcing their understanding of their role within the organisation, and carry out their obligations accordingly.

The presentation of a budget is one simple example of governance to work through. While management may prepare the budget, the board should then play a key role to ensure there is an appropriate level of rigour within the budgetary setting process.

The board should seek address issues such as:

- how does the budget assist the organisation to achieve its objectives and strategies
- whether the board understands the key assumptions, estimates and the key budget variables
- does the budget have sufficient supporting information
- does the budget provide rigorous oversight of risk, including non-financial risk?

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"Board members should be regularly reviewing and reinforcing their understanding of their role within the organisation, and carry out their obligations accordingly."

AGING POPULATION DRIVING CHOICE IN AGED CARE LIVING

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The mass Baby Boomer generation is gearing up for retirement, giving rise to a number of aged care options available.

Aged care services can be both specific and diverse in their offerings, and it's important to understand the differences. It can also be a complicated area to navigate, and there will almost certainly be opportunities or pitfalls that take people by surprise, so seeking specialist advice is recommended.

There are three main types of aged care services or forms of senior living - Retirement Resorts, Independent Living Units and Residential Aged Care.

Residential care is heavily subsidised by the government, so costs are very specific to each individual's means. As a rule of thumb, the system is designed so that everyone can afford care, however, there are certainly better ways of funding care than simply accepting the status-quo.

In some cases, additional government payments can be accessed to reduce ongoing costs, but it all comes down to asset and income structuring before entering care.

RETIREMENT RESORTS

Providing very low or medium care, retirement resorts are typically marketed to people who are over the age of 50. These communities generally offer a specific lifestyle suited to retired individuals, with a focus on social cohesion. Residents will find community activities centred around the resort clubhouses, and some have access to facilities like swimming pools, lawn bowls or tennis courts or they may be adjacent to a golf club.

These communities are generally gated and maintained by site management, where residents pay a rental fee for living within the community. Properties are generally free hold, with some offering leased options, however typically there will be no exit fees.

RETIREMENT VILLAGES

Retirement villages offer a similar arrangement to retirement resorts, with the main distinction being a lease structure. Typically, residents will have access to an independent living unit or a serviced apartment where they can access food, linen and dry-cleaning services as well as care packages.

The level of care can range widely, from low to high care. Nursing care can be arranged through government-funded packages as well as privately, with some villages offering more support services than others. Offerings are varied so it's important to get information specific to the village under consideration.

RESIDENTIAL AGED CARE

Residential care is what was formerly referred to as a nursing home, however they are no longer old and tired buildings with limited amenities. Often architecturally designed, they provide a high level of care and support, including 24-hour nursing care, food, linen and other services.

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ATO OPENS UP TAX CONCESSIONS TO INVESTMENT COMPANIES

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The ATO has confirmed that the scope of carrying on a business, for certain purposes, will extend to a company that holds primarily passive assets, including for investment purposes.

Under the ruling TR 2019/1 – issued as final in April this year – the scope of carrying on a business will now extend to companies that hold assets such as property, shares or other financial investments, as long as their activities are carried out with a view to making a profit, which can include simply holding the assets to derive an income stream and for making future capital gains.

The position the ATO has taken opens investment companies up to a wider range of tax concessions than previously thought available.

The tax ruling covers two specific situations:

1. Applying the lower company tax rate of 27.5% to a "small business entity" (SBE) for the 2016 and 2017 tax years, which affected both the tax paid by the company and the rate at which dividends paid were to be franked; and
2. Determining whether a company would meet the definition of SBE under Division 328 of the tax legislation, which is relevant to claiming a range of small business tax concessions, not only in the 2016 and 2017 years, but also in subsequent years.

There are currently four other main tax concessions available to small businesses more broadly and, as a result of this tax ruling, should now be available not only to active trading businesses, but also to passive investment companies.

These concessions cover immediate deductions for prepaid expenses and entity startup costs and instant asset write-offs for SBEs with turnover not exceeding $10 million and medium businesses with turnover between $10 million - $50 million. The latter was only announced as part of the 2019 Federal Budget and while legislated, will only be available up until 30 June 2020.

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GOOD TIME TO THINK ABOUT SALARY SACRIFICING

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Salary sacrificing is a good way for people to generate a tax saving on the income they earn from an employer.

A salary sacrifice arrangement, or salary packaging, is an arrangement between an employer and an employee where the employee agrees to 'sacrifice' part of their salary for non-cash benefits of a similar value in pre-tax dollars. There is no statutory limit on how much remuneration can be salary sacrificed.

One useful option can be to make additional superannuation contributions via salary sacrifice, which will boost retirement savings for the future while creating tax benefits now. Another specific use of such arrangements is salary sacrificing into the new First Home Super Saver (SHSS) scheme.

Salary packaging is most effective for mid to high income earners who can help reduce their tax rate through such arrangements. In particular, anyone who has the opportunity to package FBT exempt or concessionally taxed items should consider salary sacrificing, especially those working for charities, hospitals or not-for-profit organisations.

Keep in mind that salary sacrifice arrangements can only be put in place before the income has been earned. For example, it is difficult to salary sacrifice a bonus at the end of a financial year if the bonus is linked to performance in that financial year, unless an effective salary sacrifice arrangement has been put in place at the beginning of the year that includes any bonus.

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ATO SETS ITS SIGHTS ON CRYPTO TRADERS

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Anyone trading in cryptocurrency is a potential target of the ATO as it seeks to verify data matching information through the use of third-party sources as part of its ongoing compliance program.

Given the increasing usage and limited regulation of cryptocurrency, the ATO is working in tandem with the Australian Transaction Reports and Analysis Centre, ASIC, and Designated Service Providers to implement a data matching protocol, matching external data with the data held by the ATO.

The third-party data provided to the ATO will include cryptocurrency purchase and sale information.

The ATO is of the view that taxpayers who undertake cryptocurrency mining are carrying on a business, and profit or loss is assessable on deductions.

Alternatively, as a form of property, taxpayers may be subject to capital gains tax on the disposal of cryptocurrency.

As such, the data matching program will help the ATO identify taxpayers who fail to disclose income details correctly. Taxpayers may be contacted by the ATO and given 28 days to clarify information obtained from the data provider.

The data matching protocol continues to retrieve greater knowledge and give regulators a better understanding of the black economy. The program helps identify serious fraud and evasion, as well as terrorism related money transfers, which have arisen due to the difficulty of tracking cryptocurrency transactions.

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What is cryptocurrency?

The term cryptocurrency is used to describe a digital asset in which encryption techniques are used to regulate the generation of additional units and verify transactions on a block chain. They can be bought or sold on an exchange platform using conventional money. Bitcoin, the first open-sourced software made available to the market in 2009, is widely considered to be the first example of cryptocurrency trading. In the decade since, more than 4,000 alternative cryptocurrencies have been created.

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The HLB Mann Judd Australasian Association comprises a number of independent accounting firms in Australia, New Zealand and Fiji.

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A SLOW START TO THE IPO MARKET IN 2019

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Despite a relatively slow start to the year for initial public offerings (IPOs), new listings* have performed well in terms of share price with good subscription levels for the six months to 30 June, according to the HLB Mann Judd IPO Watch Australia Mid-Year Report.

The first six months of 2019 was subdued with only 23 companies listing, possibly reflecting equity market conditions towards the latter half of 2018, and also a fall in the number of materials companies listing.

The majority of listings this year occurred in the second quarter, which is in contrast to 2017 and 2018 which saw an even spread of IPOs throughout the year.

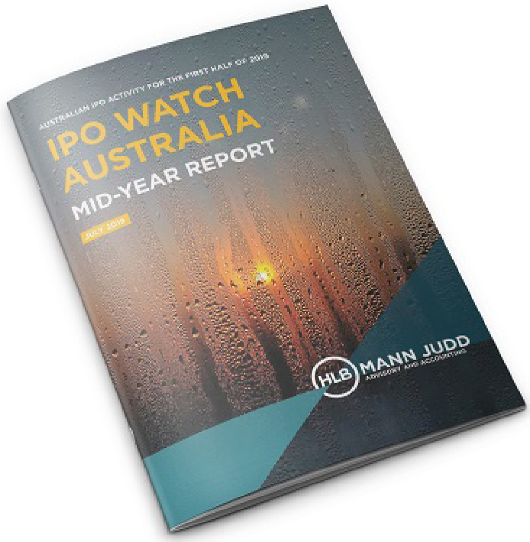
A total of $823 million was raised during the H1 of this year which, again, is significantly down on the previous two years with $2.5 billion and $1.9 billion being raised in the first half of 2018 and 2017 respectively.

The small cap sector (less than $100 million market capitalisation at listing) has been notably subdued with only 13 listings. In comparison, 2018 recorded 31 small cap listings in the same period and 72 over the 12-month period.

An underlying reason behind the drop in IPOs this year compared with the last couple of years has been the materials sector.

Materials had only three new listings for the period, compared to 16 for the same period last year. The reduced activity perhaps reflects broader macroeconomic issues and current investor sentiment.

From a share price perspective, however, IPOs have performed well, with 17 of the 23 IPOs recording first day gains for an average gain of 21%. In terms of share price growth post-listing, this performance continued with an average gain of 63% across all new entrants from listing to 30 June 2019.



This is a particularly good result and represents a return to the trend of IPOs tending to outperform the market which has itself had a good six months. The majority of industry sectors also performed well, with ten sectors recording first day gains, and ten sectors also recording positive gains on average to 30 June 2019.

There was improvement in IPO subscription rates for those companies that did list during the first six months of 2019 compared to the prior corresponding period. A total of 19 new listings (83%) met their subscription targets compared to 74% in the six months to 30 June 2018.

While the volume of IPOs was lower than in recent years, those companies which did list generally were well supported by investors both at listing and also subsequently.

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** Emerging, or small cap, companies are defined in this report as those with a market capitalisation of $100 million or less. All data excludes property trusts.*