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WINTER 2020

Thomas Noble & Russell

Accountants | Auditors | Business Advisers

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FOREWORD

TONY FITTLER
Chairman, HLB Mann Judd Australasian Association
SYDNEY

It goes without saying there has been significant and wide-reaching change and upheaval since our last edition of Financial Times, way back in early March.

The world for both businesses and individuals has been turned on its head, and life as we once knew it – just a few months ago – will unlikely resemble anything we've seen before.

Like so many other businesses both in Australia and globally, HLB Mann Judd has had to adapt to a new way of working, brought on by the Coronavirus pandemic.

Our employees and management have spent many weeks adjusting to a home office environment, and have only recently resumed a staggered return to office buildings.

With our clients also in the same uncertain predicament, we have had to tweak the logistics of our operations but, importantly, not our service delivery.

In these most difficult and demanding of times, it has been humbling to witness the partners and staff of HLB Mann Judd continue to respond to and advise clients with specialised, professional advice.

This time of year is traditionally very busy for the accounting and business advisory profession, with end of financial year planning in full swing, and strategies for the new financial year being constructed and finalised. Now, with a number of government initiatives in place to stave off the severity of the economic downturn – JobKeeper being the hero piece in the Federal Government's armour – we are also assessing the merits of these on behalf of our clients. Added to that is client issues around liquidity and cash flow, managing working capital, renegotiating bank loans and other payment arrangements, longer-term business viability and whether a merger or acquisition at this time is appropriate; there are myriad of issues businesses are being faced with and will continue to face for some time yet.

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With confirmation Australia has now officially entered into recession, the ability for businesses – and individuals – to access quality, independent financial advice is paramount and could mean the difference between operating and forced closure.

The complexity of the current trading environment is such that businesses need to fully understand their financial position and obligations, particularly where employees are concerned.

Sound financial advice is more than lodging a tax return; it covers all aspects of superannuation and other investments, tax effective strategies, estate planning, cash flow, insurance, debt management and refinancing.

The degree of change is overwhelming, but having a financial strategy in place for yourself and your business will provide some comfort and assurance at a time when it's needed most.

Enjoy the Winter edition,

Tony Fittler

JOBKEEPER A LIFELINE BUT AT A COST

PETER BEMBRICK
Partner, Tax Consulting
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The March introduction of the Federal Government's JobKeeper Payment was initially met with confusion by employers and employees, but has since proven to be a lifeline for many businesses.

More than a million casual workers were excluded from the scheme, that was originally forecast to cost $130 billion but has now been revised down to $70 billion before payments are due to cease on September 27. The wage subsidy pays employers a $1,500 a fortnight wage subsidy to eligible employees including some long-term casuals but excludes short-term casuals (less than 12 months employment) and temporary residents.

The government's decision to extend the JobKeeper rules to include those employed through a grouped special purpose entity, rather than as originally prescribed testing each employer on a stand-alone basis, was a sensible solution. Special treatment was also allowed by the ATO for service entities that, while not actually forming a group for tax purposes, operated in conjunction with a related operated entity by supplying them with staff, which is quite a common arrangement.

Another key feature that has been confirmed by the government was the "one in, all in" principle, under which employers cannot select which eligible employees will participate in the scheme.

Further clarification was obtained by the release of "alternative turnover testing" methods to allow for unusual situations such as where entities have started or ceased a business within the last 12 months, or have turnover that is irregular and makes the basic 12 month turnover comparison impractical and unreasonable, offering many more businesses access to the scheme.

Now that JobKeeper is live, some key considerations going forward are:

- Employers who didn't qualify for April or May could still access it for future periods, with the deadline for registering to receive June JobKeeper payments being 30 June
- Pay employees $1,500 per fortnight from first period of JobKeeper claim
- Monthly payroll cycle is still acceptable as long as average out to $1,500 per fortnight
- Lodge monthly reports with the ATO by the 14th day of following month, including current employee numbers, current and projected turnover for the month.

Warning - employers must keep good records as ATO enforcement action is coming.

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PANDEMIC DEMANDS REVIEW OF RETIREMENT PLANS

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Lingering financial uncertainty is likely to persist for some time yet and, for many, this will impact retirement plans that were already in place. Further to this, what will happen if your parents' savings aren't sufficient in supporting their retirement, too?

Many adult children could soon be faced with putting their own retirement plans on hold while focusing on their parents' financial wellbeing instead. Sacrificing one's own retirement savings to assist elderly parents has the potential to develop into a cycle where the retirement plans of the children are also threatened.

In these circumstances, consideration should be given to the following:

- For the *parents*, you'll require hard numbers in order to assess the situation properly. Developing a budget spreadsheet of your parents' expenses and income will enable you to see exactly where they stand financially, and how long their money is likely to last. It's important to include the financial consequences of COVID-19 and how this has impacted superannuation balances and investments. If there is a deficiency in their income, you might want to consider professional financial advice. This may include setting up an emergency fund to cover medical expenses, and they could consider downsizing from the family home
- For the *children*, identify how much you'll need in retirement and whether you're on track to meet it by using a retirement calculator. If financially impacted by COVID-19, you are likely to have a number of years to recover from any current financial effects or losses. If you find that you're going to fall short, you may want to consider investing more into your retirement savings than just the compulsory 9.5 per cent employer contribution.

Additionally, one of the most important things you can do - as children - is to ensure that your parents have appropriate insurance. If you don't invest in financially protecting your parents now, you may end up having to cover basic retirement expenses later on. Healthcare costs in particular, are becoming increasingly expensive, so it may be in your best interest as well as theirs.

While your parents may want to retain their independence in retirement, at some point, assisted care may become necessary.

Retirement homes and assisted living facilities can be expensive, so if this isn't going to fit within your budget, you may need to consider other options. One option could be that they move in with you or a sibling for instance. You may also want to investigate whether they meet the requirements for government funded housing support.

Understandably, managing these pressures amid a time of great uncertainty can be difficult, so independent advice from a third party, such as a financial adviser, can be useful. They can assist in developing appropriate strategies to ensure you're meeting your own retirement objectives as well as those of your parents.

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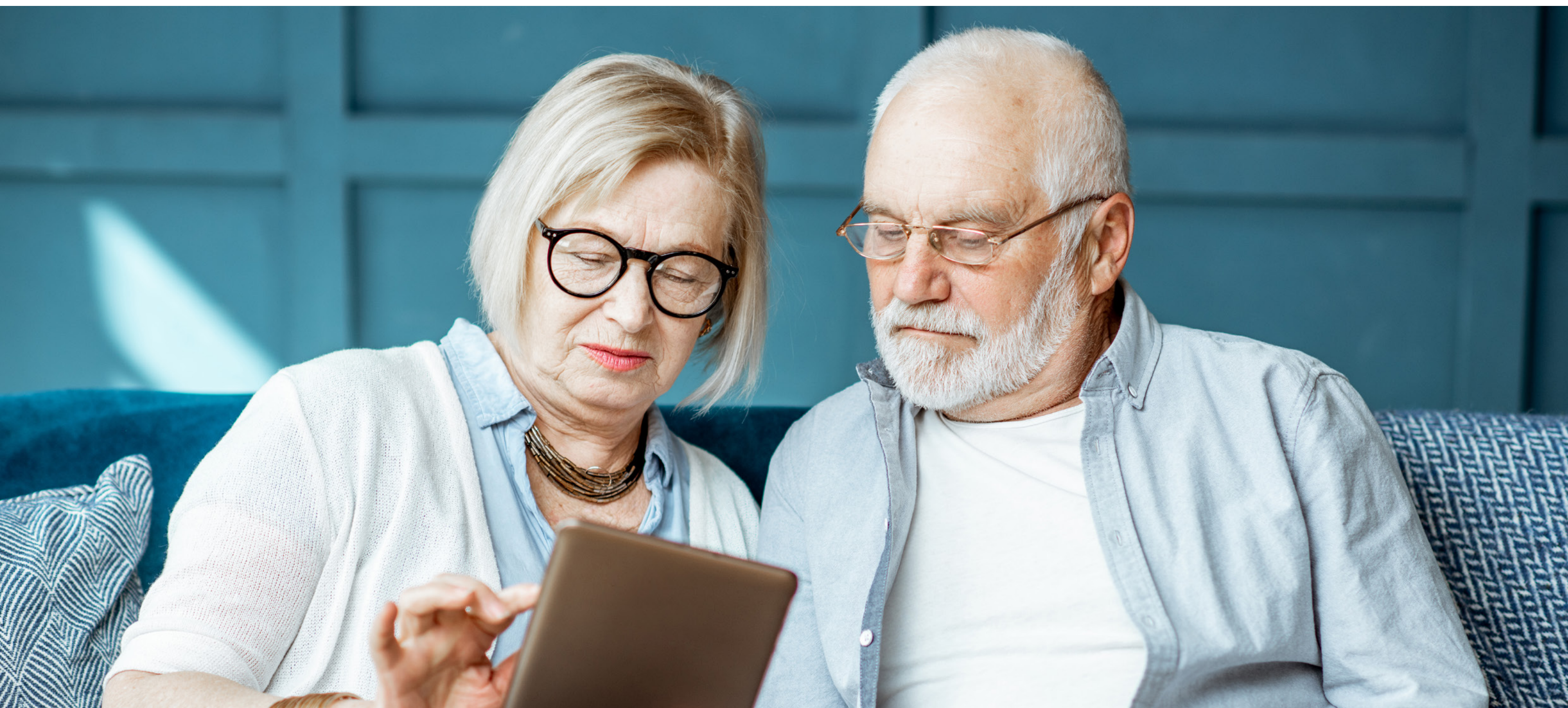

HOME OFFICE EXPENSES FOR EOFY PLANNING

ANDREW BUCHAN
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The proportion of people working from a home office environment over recent months has never been greater, and with this trend likely to continue for some time yet, there are a number of deductions taxpayers should be aware of prior to lodging their tax returns.

Any expenses that have been incurred because people are working from home following the lockdown can potentially be claimed as a tax deduction. Many workers will notice a marked increase in expenses such as their electricity and gas bills, as well as one-off purchases such as home desks, chairs, lap tops and computers, and printers.

Deductible running expenses include:

- Utilities such as heating and lighting
- Cleaning costs for the work area
- Mobile or landline phone expenses for work calls
- Internet connection
- Stationery and computer accessories such as print cartridges
- Repair costs for home office equipment and furniture
- Depreciation of home office equipment, computers, furniture and fittings
- Small capital items such as a computer (purchased for the purpose of working from home) can be claimed if they cost under $300. If the cost exceeds $300, the decline in value can be deducted.

Importantly, the ATO has introduced a new method for calculating home office expenses, where people can claim expenses at a rate of 80 cents for each hour worked from home as a result of the lockdown. The shortcut will apply from 1 March 2020 to 30 June 2020.

Taxpayers will need to keep a record of hours worked, such as timesheets or rosters and as an alternative, they can still use existing deduction methods, albeit these are more time consuming. Any costs can be apportioned to the extent that they are work related.

Effective tax planning strategies can assist with both minimising tax bills and increasing the likelihood of a refund from the ATO. As a general rule, taxpayers should also aim to lodge a tax return early if a refund is expected as it not only ensures prompt processing, but can help with reducing any ongoing quarterly tax instalment payments.

Lastly, superannuation planning should also be front of mind come EOFY. Here are five super strategies:

1. **Add to your super – and claim a tax deduction**
   If you contribute some of your after-tax income or savings into super, you may be eligible to claim a tax deduction. This means you'll reduce your taxable income for this financial year – and potentially pay less tax. And at the same time, you'll be boosting your super balance.
2. **Get more from your salary or a bonus**
   If you're an employee, you may be able to arrange for your employer to direct some of your pre-tax salary or a bonus into your super as a 'salary sacrifice' contribution.
3. **Convert your savings into super savings**
   Another way to invest more in your super is with some of your after-tax income or savings, by making a personal non-concessional contribution. Although these contributions don't reduce your taxable income for the year, you can still benefit from the low tax rate of up to 15 per cent that's paid in super on investment earnings.
4. **Get a super top-up from the Government**
   If you earn less than $53,564 in the 2019/20 financial year, and at least 10 per cent is from your job or a business, you may want to consider making an after-tax super contribution. If you do, the Government may make a 'co-contribution' of up to $500 into your super account.
5. **Boost your spouse's super and reduce your tax**
   If your spouse is not working or earns a low income, you may want to consider making an after-tax contribution into their super account. This strategy could potentially benefit you both: your spouse's super account gets a boost and you may qualify for a tax offset of up to $540.

You'll need to meet certain eligibility conditions before benefitting from any of these strategies. If you're thinking about investing more in super before 30 June, talk to your HLB contact.

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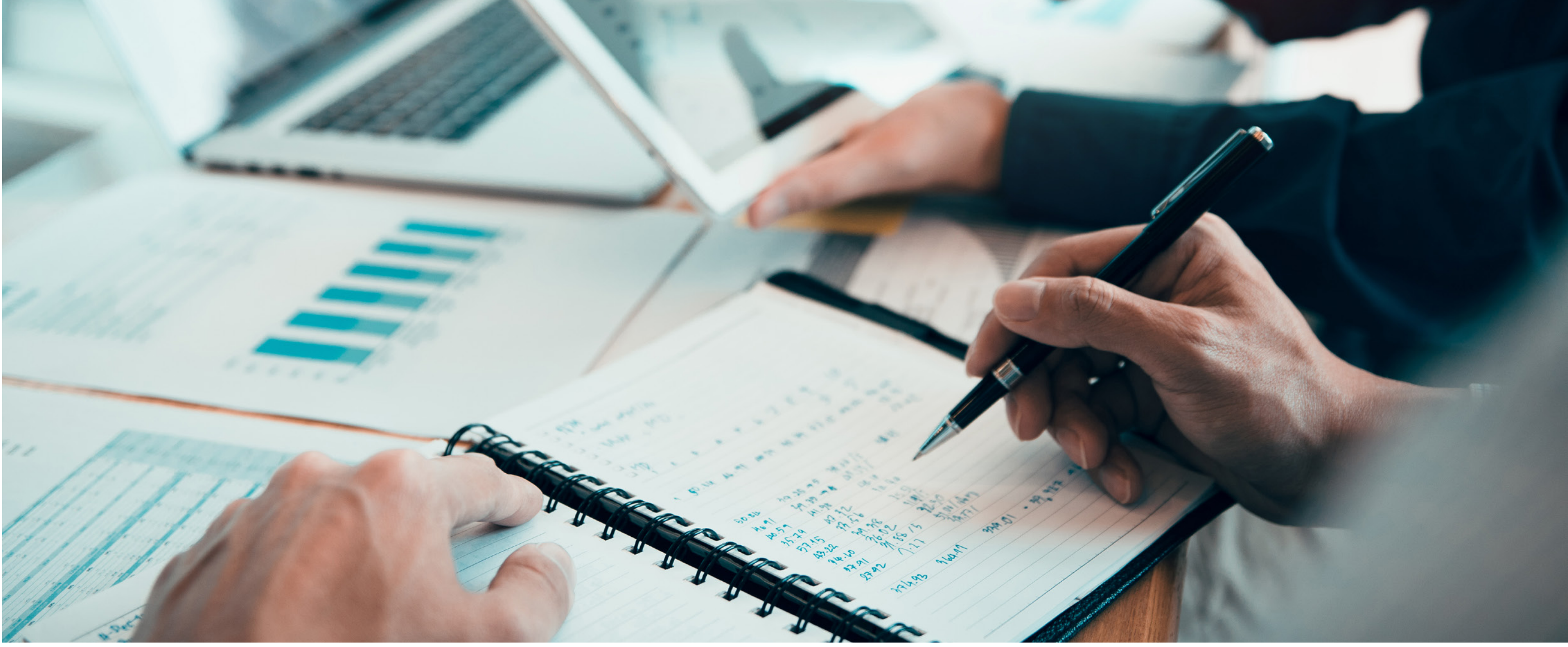

CASH FLOW IN THE TIME OF COVID-19

MIKE ROWE
Chief Executive Officer
ADELAIDE

In the face of a looming global and domestic recession, the ability for businesses to access cash when needed most has never been more apparent than now.

In mitigating any impacts to cash flow within a business, there are a number of ways business owners can quickly and effectively access liquidity in shoring up balance sheets, including:

- Access Federal and State Government initiatives - it's worth researching what is applicable to you and your business. These include the JobKeeper payment, Backing Business Investment (50 per cent of the cost of an eligible asset), apprentices subsidy, Boosting Cash Flow for Employers, PAYG instalments, GST deferrals (six months), and interest-free payment arrangements, which can be separately negotiated
- Talk to your bank – lending institutions have been very responsive and accommodating during recent months. Having a discussion with your bank manager, where you can explain any business issues or concerns, and collectively work through them, can greatly assist with repositioning a business and have it heading in the right direction. Some alternative banking arrangements could involve increasing an overdraft, a loan "holiday" or refinancing. Prepare a cashflow and make sure you include any deferrals detailed above. The important thing to demonstrate is how you are going to trade out of this situation
- Reinvigorate a sales strategy – this might include anything from better understanding your business' contribution margin and reassessing the business model and pricing, to bringing projects forward and offering incentives to secure new business
- Keep an eye on your costs – it sounds simple and obvious enough, but staying across all overheads and costs effectively keeps a business trading. Areas to monitor closely include premises costs and whether you can request rent waivers and deferrals, staffing needs and the demand for your product or service in the new normal, and consideration to convert fixed costs to variable costs (such as outsourcing, using contractors or building up flexible talent pools)
- Managing working capital – this can include keeping stock at appropriate levels, dealing with reputable clients who are reliable with paying invoices, ensure your creditors are not paid before you collect from your debtors, and negotiate long-term payment plans where possible.

Ultimately, preparing a cashflow forecast and a budget will be the most effective safeguard against any last-resort measures. At a time of such great uncertainty, a cashflow forecast will provide business owners with a degree of certainty, with a budget affording the ability to follow the path to recovery. Both documents are valuable tools in the good times, but are critical tools in current times. Stay close to them and deliver on the key assumptions that make up the models and you will be a strong chance to survive, recover and ultimately grow your business.

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NFPS PLANNING FOR POST PANDEMIC

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With ongoing media coverage of the economic downturn largely focusing on for-profit businesses, what happens to not-for-profit organisation's during such times, and how are they planning to reinvent themselves in the new normal?

As the number of active COVID-19 cases start to reduce and restrictions are gradually eased, all businesses, included NFPs, are now putting their minds to how life will look as we emerge from the pandemic.

The Federal Government's stimulus packages have been funded through borrowing, but just what is the potential impact of this on NFPs? With an $850 billion debt ceiling, this puts a huge strain on the country in terms of how this will be repaid, when it will be repaid and by whom. NFPs will be particularly affected as repayment of any government debt can only be funded as follows:

- New or increased taxes – new taxes, increased current taxes, or even a redistribution of taxes will invariably lead to either less disposable income of potential donors, or a reduced capacity to donate funds to NFPs
- Reduced expenditure – this could take the form of reduced grant funding to NFPs. The Federal Government recently announced that research showed donations to charities had decreased by 7.1 per cent in 2020 and was predicted to decrease a further 11.9 per cent in 2021 due to the effects of COVID-19. As we come out of the pandemic, and stimulus packages such as JobKeeper and JobSeeker cease, the post-2021 picture may worsen before things improve.

Apart from the generic stimulus packages that have been afforded to all businesses (including NFPs) and some one-off stimulus for NFPs, the Federal Government's only incentive to promote philanthropic support has been an increase in the minimum distributions that Private and Public Ancillary Funds are required to make each year. Funds that grant at least four per cent more than their minimum annual distribution across the 2020 and 2021 financial years will be eligible for a partial credit which they can use to reduce their minimum distributions in future years. This is incentivising these funds to increase their distributions to charities now – at a time when it's most needed.

Along with these incentives, there are several NFP organisation's should be doing now to shore up their financial position, including:

- Get back to financial basics – consider implementing rolling forecasts to replace more conventional static annual budgets. This will allow you to update cash flows on a monthly basis and be nimble when it comes to making decisions going forward
- Review costs – question whether you can reduce costs without affecting service delivery or whether you should have been incurring those costs in the first place
- Bang the drum – now is the time to reinforce your message to your stakeholders. Government funding bodies, other funders, sponsors, general donors, potential bequestors, employees, volunteers, recipients of your services are just some examples of stakeholders who play a vital role in your organisation's existence. You need to remind them of what your organisation is about to ensure their ongoing support.

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HOW TO THRIVE IN THE NEW NORMAL?

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By now, I'm certain that many of us have repeatedly read sayings along the line of 'don't let a good crisis go to waste', 'use COVID-19 as an opportunity to make lasting change', and 'coping in the new normal environment', and so on.

Over the course of the last few months, I've been reminded of a management concept learnt at a conference some years ago – it's the 'ctrl alt delete', or CAD, concept. The idea is about being prepared to reset one's thinking pattern when lacking clarity of thought. It takes courage and conviction but, over time, it can become second nature.

Using the CAD concept, some of the lessons I've learnt throughout the pandemic period to date and which are enabling me to thrive in the new normal include:

- The importance of being resilient and reminding myself of my purpose. At times, it meant making some hard decisions and backing my own judgement
- To keep embracing new ideas, trialling them and failing fast
- The importance of practising gratitude and mindfulness.

At an operational level, our audit business has also been able to apply some of these lessons over recent weeks, including:

- We were able to activate our remote working protocols with minimal disruption and went from doing 30 per cent of our work remotely to 100 per cent, without impacting our capacity to service clients
- We refined our audit administration function to incorporate the use of overseas staff from the HLB Mann Judd Fiji office in an effort to counter the negative impact of being unable to bring in overseas secondees during the peak season
- We accelerated our push to digitise our suite of workflow procedures to assist with training and maintaining audit quality
- We increased our workplace wellbeing and health initiatives in better supporting our ability to effectively work from home.

The new normal will not resemble what we were all used to, which is a daunting predicament for many. But, it's also an opportunity for leaders to further shape the future of work, business and family life.

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FAIR VALUE MEASUREMENT IN A COVID-19 WORLD

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With the June reporting season now imminent, it is increasingly important for Boards and finance teams to assess and understand how the COVID-19 pandemic may affect fair value measurement come June 30.

AASB 13 Fair Value Measurement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Valuation techniques that are appropriate maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

Some key areas to consider when measuring fair value as a result of the pandemic include:

- The pandemic has had a direct effect on observable inputs (such as prices quoted on a stock exchange) however due to significant declines in trading volumes and market activity, observable inputs relied upon in measuring the fair value of some assets and liabilities may not be observable or will require adjustment to reflect changes in the current market conditions at the measurement date. As a result, significant estimates and judgements may be required which will require additional financial statement disclosure
- Observable inputs (unadjusted) based on pre pandemic transactions are unlikely to be appropriate inputs on a standalone basis for fair value measurements at June 30, 2020 and either adjustments to these inputs or alternative valuation techniques and inputs may need to be considered
- Many fair value measurements may require reclassification if significant inputs become less observable compared to prior periods

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- Certain unobservable inputs (such as cash flow or profitability forecasts) will also be challenging with the continuously changing economic environment and higher levels of uncertainty that exist. Probability based modelling may need to be utilised and discount rates adjusted for the risks inherent in future cash flows
- Valuation techniques used in measuring fair value may need to be reassessed if inputs previously used are no longer available or if changes in market conditions indicate another valuation technique is more appropriate
- For non-financial assets (such as real estate and vehicles), fair value is measured based on the non-financial assets highest and best use determined from the perspective of market participants – the use that market participants would maximise the value of the asset in the current environment. Changes in market conditions due to the pandemic may change previous assessments of a non-financial asset's highest and best use and therefore change the valuation premise used to measure fair value.

Fair value measurement is a challenging area at the best of times however with the unprecedented current economic conditions caused by the pandemic it is expected to be a highly judgemental and significant area of focus for Boards, finance teams, auditors and regulators in the upcoming reporting season.

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CLIENT CHOICE AWARDS 2020

Earlier this year, HLB Mann Judd received three accolades at the Client Choice Awards 2020. These were Best Accounting & Consulting Services Firm (revenue $50 - $200 million), Best Accountant (Litsa Christodulou) and Best Professional (Litsa Christodulou).

It is the sixth time that HLB Mann Judd has won the Best Accounting Firm Award in its revenue category and the second win for Perth-based business advisory services partner, Ms Christodulou.

The Client Choice Awards recognise best practice in the professional services industry and are based on client votes for professional services firms in Australia and New Zealand. There are no panels, judges or self-nominations, with client ratings independently researched by Beaton Consulting + Research.

CLIENT CHOICE AWARDS WINNER 2020

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HLB Mann Judd firms are part of HLB International, the global advisory and accounting network.

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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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SPOTLIGHT ON... MELBOURNE

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Managing Partner
MELBOURNE

Steering a business through the murky waters of COVID-19 isn't without its challenges but, as Melbourne's Jeff Long can attest, careful planning can mitigate the impact with opportunities already emerging.

I began my accounting career relatively late in life compared to some of my peers but have been with HLB Mann Judd for 24-odd years now. The benefit of many experiences during this time really helps in times like these; I've been through partnership breakups, the GFC and now COVID-19, and all of these events teach you lessons that enable you to be a better leader.

Change in itself isn't a bad thing; in fact, it's healthy and can breathe new life into a business. I've been through a number of changes with the firm and it's afforded me some useful tips, particularly around the importance of the stakeholders strategically working together with a plan, managing staff and adapting to change quickly as required.

I've worked in business advisory for much of my accounting career and undertake a lot of valuation work for clients including for those in the legal fraternity and on family law matters, where I've been to court to give evidence in some cases. This high-pressure type of experience has helped to shape my approach to leadership and to manage some difficult times with the business.

Fortuitously, we started planning to have staff more mobile back in December, so the plan was already in motion however the pandemic certainly forced our hand. We wanted to ensure our staff could work from home in a safe environment, and that our systems and processes were adequate in allowing them to do their job. This aligns with our philosophy and the direction of the business in providing staff with a more flexible work life. It also ties in with making all employees – irrespective of role or seniority – accountable, and focussing on outcomes and performance, not time sheets.

Over the past few months, clients have been appreciative of a simple phone call to see how they're going and whether there's anything we can do to assist them. Most of our clients are very loyal and checking in should be routine, but we've also won new clients on the back of phone calls simply because they hadn't heard from their existing accountant.

There are three main service sectors of the Melbourne business – audit, tax and business advisory. With audit, we're particularly strong in government work for the Auditor General, and it's a stable business widely considered to be market leading in the use of technology. Similarly, the tax business is well-regarded and is heavily involved in tax advice for construction industry clients, and our business advisory offering focuses on high level advice and service delivery to existing large family business clients.

Looking ahead, while it's hard to predict trading conditions, you can be prudent in your planning. The business is only budgeting three months ahead at a time as we believe that will help tell a reasonable story, and a key focus will be only having clients that pay within 90 days. We're officially in recession now, but with many of the stimulus measures ceasing in September, October to January could prove even more challenging for both individuals and businesses.

We're three to four months into this economic downturn and, without a doubt, it's the biggest yet. We need people to be employed and to be spending money so all businesses get their share of the pie.

I recently chatted with the local coffee shop guy about what Melbourne might look like as a city going forward. Given we, as a business, have planned for half of our staff to be in the office at any one time, this means we will have approximately 60 people less coming into the city each day. Assuming other businesses adopt a similar approach that means a significant reduction in the number of people in the city each day going forward. What happens to traffic flow, public transport, office space, cafes etc? Our way of life and what Melbourne looks like as a city may be very different.

And then there's the footy – will we ever see 100,000 people at the MCG again?

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