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COVID-19 TECH CONSIDERATIONS



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The Coronavirus pandemic has created a challenge for businesses around the globe to continue operating despite massive shutdowns of offices and other facilities.

Overnight, the dependency and demand placed on digital infrastructure has skyrocketed, providing an opportunity for cyber criminals to take advantage of anxiety and uncertainty over COVID-19 with a host of new scams.

A study conducted by Comparitech ranked Australia 62 in terms of being the most cyber-secure country in the world this year, dropping 12 places compared to the

year prior. The study also estimated that around one in twenty mobiles and one in ten computers are infected.

The average cost of a cyber-attack to a business in Australia is over a quarter of a million dollars – caused both by the value of the stolen data and the time taken – several weeks in many cases, to resolve.

Now that many organisations have rolled out new capabilities, they should start preparing themselves for the aftermath. What will be the new working environment? Which new and existing practices will persist? What new IT security measures need to be implemented?

The answers to these questions may not be known for some time, however it is clear additional IT security measures post COVID-19 will be required, including some or all of the following:

- **New operating model:** Increased remote worker monitoring and support. IT rights will require closer examination

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- **Reset security systems:** IT systems will need to be analysed and assessed as to whether they are sufficiently robust, as cybercriminals may have found ways to gain entry into the network. The access rights granted during COVID-19 will require a review
- **Protect remote devices:** Use of strong encryption methods on home Wi-Fi routers, as well as strong passwords and two-factor authentication
- **New cyber risks:** The new cyber risks emerged during pandemic must be understood and evaluated against the organisations existing IT security capabilities

- **Educate staff:** Provide ongoing cyber security training to staff, including teaching employees about phishing scams and methods to verify email senders and embedded URLs before clicking
- **Update business continuity plans:** The existing plan should be reviewed and updated to include a pandemic-like scenario and regularly tested.

Addressing these areas will go some way in protecting a business and its employees even in the most uncertain of operating environments.

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MULTINATIONALS ON NOTICE: DON'T GET STUNG BY PENALTIES



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While terms such as SGE and CbC have become familiar lingo to multinationals in the past four years, the recent changes to the Significant Global Entity definition in May this year has now broadened its application to more taxpayers, but also introduced a new term, 'CbC RE', a Country by Country Reporting Entity.

Previously, Australian taxpayers that were ultimately controlled by a group with turnover of greater than \$1 billion but did not consolidate into the group accounts, by reason of the investment entity exclusion or materiality, were not SGEs.

As of 1 July 2019, or from 1 January 2020 for substituted accounting periods, Australian taxpayers that fall into this category will now become SGEs and be subject to the significantly increased penalties and anti-avoidance tax laws, such as Diverted Profits Tax and Multinational Anti-Avoidance Law.

The penalties (outlined in the table) are harsh and in practice are actively pursued by the ATO for the late lodgement of any documents with the ATO (such as income tax returns, Business Activity Statements, FBT). Penalties for new SGEs will be applied for lodgements due after 1 July 2020.

Days late	28 or less	29 to 56	57 to 84	85 to 112	112+
Old law	\$900	\$1,800	\$2,700	\$3,600	\$4,500
From 1 July 2020	\$111,000	\$222,000	\$333,000	\$444,000	\$555,000

SGEs under the old definition will also be CbC REs under the new law. However, if the Australian taxpayer is an SGE under the new definition because it is ultimately held by an investment entity, such as venture capitalists or private equity, it is not a CbC RE.

Australian taxpayers qualifying as SGEs because they were previously immaterial to the ultimate parent entity's consolidated accounts will become CBC REs.

CbC REs will be required to prepare and lodge CbC Reporting but also prepare and lodge General Purpose Financial Statements with the ATO if not already lodged with ASIC.

The recent change in SGE law calls for 100 per cent transparency between investor, investees and advisers. Australian taxpayers can find themselves consolidating the financial performance where there are no comparable financial statements, for example, at a private equity fund level.

It seems multinationals have had an uphill battle trying to navigate the ever-evolving tax obligations and guidelines from the OECD and ATO.

Speak with your HLB adviser so that we can assist you on the application of the SGE regime so that you won't get stung by the ATO later.

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JOBKEEPER AND MINI BUDGET UPDATE



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Federal Treasurer Josh Frydenberg recently released the Government's interim Economic and Fiscal Statement which sought to reconcile Australia's Budget position following \$289 billion worth of COVID-19 measures.

As expected, the figures make for grim reading. The forecast is an underlying cash Budget deficit of \$85.8 billion for 2019-20, rising to \$184.5 billion for 2020-21 (or 9.7 per cent of GDP).

Gross debt is expected to increase to \$851.9 billion (45 per cent of GDP) at 30 June 2021, while net debt will be \$677.1 billion (35.7 per cent of GDP). Once the economic recovery is established, the Treasurer expects stronger growth and an improvement in the fiscal position to help stabilise government debt as a share of GDP.

Tax receipts have been revised down by \$95.6 billion, being \$31.7 billion in 2019-20 and \$63.9 billion in 2020-21 due to the severe contraction in economic activity from the COVID-19 pandemic.

The outlook for tax receipts remains uncertain which reflects broader uncertainty around the economic outlook and how it interacts with structural and administrative features of the tax system, such as the ability of taxpayers to carry forward losses to offset future income. Total tax receipts, including GST and indirect taxes, are estimated to fall from \$432 billion in 2019-20 to \$416 billion for 2020-21.

The Economic and Fiscal Update outlines the key COVID-19 policy response measures announced by the Government since March 2020. The Treasurer said the Government has provided economic support for workers, households and businesses of around \$289 billion (14.6 per cent of GDP) in response to COVID-19. The unemployment rate is forecast to hit 8.75 per cent in 2020-21.

The extension of the Government's flagship JobKeeper program will be a lifeline for many Australians and their employers. Payments for eligible businesses will be extended for a further six months beyond its legislated finish date of 27 September 2020. The total cost of the JobKeeper regime, as extended, is now estimated to be \$85.7 billion over 2019-20 and 2020-21. From 28 September, the fortnightly payment will be \$1,200, and \$750 for employees working less than 20 hours per fortnight,

and from 4 January to 28 March 2021, the rate is \$1,000 (or \$650 for less than 20 hours per fortnight). Businesses will also be required to requalify by demonstrating an actual decline in turnover for payroll periods starting on or after 28 September.

Finally, new employees starting between 1 March 2020 and 1 July 2020 have been made eligible for JobKeeper payments from 3 August 2020.

More specific details of the new rules are progressively being announced.

Other measures announced as part of the mid-year update include:

Early super release of \$10,000 extended - the Government will extend the application period from 24 September 2020 to 31 December 2020 for the early release of their superannuation (tax-free) for those dealing with adverse economic effects of COVID-19.

Personal income tax exemption for Operation Orenda - a full income tax exemption will be provided for the pay and allowances of Australian Defence Force (ADF) personnel deployed on Operation Orenda as part of the United Nations Multidimensional Integrated Stabilisation Mission in Mali. Date of effect: 1 April 2020.

Unclaimed superannuation transfers to KiwiSaver - the start date for the 2015-16 Budget measure to allow the ATO to pay lost and unclaimed superannuation amounts directly to New Zealand KiwiSaver accounts, has been revised from 1 July 2016 to 6 months after the date of Royal Assent of the enabling legislation (yet to be introduced).

The full Federal Budget announcement will be delivered on 6 October 2020, and we will update clients with further information when available.

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**Correct at the time of publication. For updates visit hlb.com.au*

“As expected, the figures make for grim reading. The forecast is an underlying cash Budget deficit of \$85.8 billion for 2019-20.”

SURVIVAL MODE FOR BUSINESSES SEEKING ADVICE



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PERTH

The past few months have played havoc with the finances of many businesses. The shock of forced business closures, standing down staff or deferring loans took a huge financial and emotional toll on business owners.

This resulted in many holding on to as much cash as they could and throwing themselves and their business into survival mode.

Despite the Federal Government's cashflow stimulus measures and JobKeeper payments, many business owners remain especially cautious about their activities.

Each state and territory continues to be impacted differently by COVID-19 and, in Western Australia, while lockdown restrictions have been eased for some time, the hard border closure is set to impact many businesses who trade nationally and internationally, with the degree of caution among business owners remaining high.

Clients continue to approach us with the following queries:

- How much money do I have to make each week to remain operational?
- When will I run out of money after JobKeeper ends, if my sales only stay at X?
- I am going to change one aspect of the business as a direct result of the pandemic – will it still be viable?

- I need to have better visibility on the numbers more regularly, rather than just relying on whether I have cash in the bank – what can you do to help me with this?

A lot of businesses utilise their accountant for compliance matters only, such as lodging income tax returns and helping with GST queries when lodging Business Activity Statements. But we should be used for far more than just compliance.

Items we have been assisting our clients with include:

- Transparency over break-even points (how much do you have to sell each week or month to break even?)
- Cash flow projections in both the short and long-term, including factoring in additional borrowings if required (and determining when they may be required)
- Assessing the financial viability with a change of focus in the business (for example, sourcing different products/materials, sale of different products into different markets)
- Assisting the client's finance team to improve and regulate reporting to the decision-makers
- Strategic direction of the business.

In these times the ability to be nimble and having accurate information at your fingertips could be the difference between business success or failure.

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BUSINESS PLANS SHOULD BE REASSESSED



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Businesses should be reviewing key functions such as funding models and service delivery in determining their longer-term viability in a post COVID-19 recovery environment.

With Victoria in particular having entered Stage Four lockdown, business owners should be utilising any cessation of trading to reassess funding options and consider how they are going to operate and cover expenses when restrictions are lifted and normal trading resumes. A wholesale business, for example, will have stock to sell and, while they could pay wages, there's a timing issue between selling the stock and receiving the cash.

While the extension of the Federal Government's JobKeeper program may go some way in keeping businesses afloat, there will be a number of businesses that will not be eligible for JobKeeper 2.0 but need to change operations and reduce costs to remain viable. For all impacted businesses and owners a formal business-led recovery plan should be a key priority.

The plan should demonstrate funding requirements and strategy options, and can be used to explain

the business' position to the ATO, banks and other lenders, landlords, key suppliers and investors.

Once businesses understand their financial position, an independent business review can be conducted, which includes the review of the business plan. For any businesses showing signs of distress, this may be in the form of an independent Safe Harbour review undertaken by an independent third-party, typically an insolvency expert, that can include assessment of the plan, forecasts (including reasonableness of revenue and costs), possible options, and the value of the business.

Further, the plan may be useful for dealing with going concern requirements for companies subject to audit this year which are likely to be more extensive, with businesses needing to review forecasts diligently. All listed entities have disclosure requirements, which are intended to help manage the expectations of investors and require them to report any material risks. If businesses are prepared to report Coronavirus hasn't been material, they will then be required to justify it.

The recession has and will lead to a restructure of large sections of the economy with many sectors - particularly those receiving JobKeeper 2.0, like travel and education - having to adjust business models, reassess forecasts and consider business viability. There is likely to be economic uncertainty for some years before there is a return to pre-COVID operating volumes.

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IPO NUMBERS HALVE



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The number of initial public offerings (IPOs) in the first half of 2020 was considerably lower than at the same time last year.

The latest HLB Mann Judd IPO Watch Australia Mid-Year Report shows just 12 new listings this year compared to 23 in the first six months of 2019, and to the five-year average of 34 listings.

While the first half of the year historically experiences lower volumes of listings, the COVID-19 pandemic has clearly had a significant impact on the IPO market.

Most of the IPOs took place during the first quarter, with only three listings in the June quarter. The majority of the funds raised was also in the first quarter - \$87.5 million compared to \$44.5 million in the second quarter.

Further demonstrating the difficult market conditions is the pipeline of IPO activity, which had just the one new listing noted at the end of June.

The total amounts raised from new offerings also fell significantly compared to the same time last year. Only \$132 million was raised over this period compared to \$823 million raised over the same period in 2019 and \$2.5 billion in the first six months of 2018.

This was primarily due to the lack of large cap IPOs with only one new listing so far this year, Atomo Diagnostics Limited (ASX: AT1). During the same period in 2019, there were 10 new large cap listings raising a combined total of \$663 million.

Overall, the majority of listings were from the small cap sector (less than \$100 million market capitalisation at listing), with 11 new entrants, which was consistent with the previous period, when there were 13 listings.

On listing, overall share price performance was favourable, achieving an average gain of 16 per cent compared with the overall 12 per cent loss recorded on the wider market.

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APPOINTMENTS



JAMES HENDERSON

Chair

HLB ASIA PACIFIC

James Henderson has been appointed as chair of HLB Asia Pacific, and will also continue in his role as managing partner of HLB Mann Judd Brisbane.

In the role, Mr Henderson will lead HLB Asia Pacific over the next three years, and will be primarily responsible for implementing HLB's strategy and growth initiatives across the region.

Throughout his accounting career, Mr Henderson has specialised in a range of industries, including property and construction, hospitality, professional services, and the NFP sector.



LUCIO DI GIALLONARDO

Managing Partner

PERTH

In line with the firm's rotational managing partner policy, Lucio Di Giallonardo has been appointed managing partner of the HLB Mann Judd Perth office. He has been with HLB Mann Judd Perth for 34 years and previously served as the firm's managing partner from 2010 - 2014.

Mr Di Giallonardo specialises in audit and advisory services, prospectus preparation, expert reports and due diligence reviews.

Mr Di Giallonardo is a member of the national board of the Leukaemia Foundation of Australia. He will also join the HLB MJ Australasian Association Executive Committee, and is currently a serving member of HLB International's Audit Committee.

He replaces outgoing Norman Neill, who will shift back into a full-time partner role in Perth's corporate and audit services division.



ROWAN TRACEY

Partner

PERTH

Mr Tracey has been appointed partner in the business advisory division. Mr Tracey joined HLB Mann Judd Perth as a graduate in February 2005, and has extensive knowledge and experience in accounting and taxation issues across a diverse range of industries, including the building and construction industry.

He holds a Bachelor of Business from Edith Cowan University, and is a member of the Chartered Accountants Australia and New Zealand.



KATELYN ADAMS

Partner

ADELAIDE

Katelyn Adams has progressed to partnership in the HLB Mann Judd Adelaide office. She joined the firm in 2007 and has built up extensive knowledge in company secretarial duties, governance and risk management, ASX listing rule requirements, IPOs and capital raising processes. She is also the Company Secretary of various ASX listed companies as well as other unlisted companies.

Ms Adams has a Bachelor of Commerce from Flinders University, and is a member of the Chartered Accountants Australia and New Zealand.



MIKE ROWE

Director

ADELAIDE

Mike Rowe has been promoted to director. Mr Rowe started his career at HLB Mann Judd Adelaide as chief financial officer before becoming chief executive. He has extensive experience in consulting to a wide range of businesses, and has worked in senior finance roles for major blue-chip organisations.

He has extensive experience in consulting to a wide range of businesses, and has worked in senior finance roles for major blue-chip organisations.

He holds a Bachelor of Economics and is an associate of the Chartered Accountants Australia and New Zealand.



IAN BROWN

Associate

WOLLONGONG

Mr Brown has joined HLB Mann Judd Wollongong as an associate, and has experience in the areas of taxation, audit, and business advisory for small to medium sized businesses and individuals.

He began his career with a large Wollongong-based accountancy practice while completing his Bachelor of Commerce from the University of Wollongong. He later became a partner of that firm before establishing his own specialised practice in Wollongong.

Mr Brown is a fellow of the Chartered Accountants in Australia and New Zealand. He is also a registered tax agent and company auditor.

REBUILDING YOUR SUPERANNUATION



ANDREW BUCHAN
Partner, Wealth Management
BRISBANE

Super savings are the best structure for funding retirement, however as a result of market movements and the financial hardship caused by COVID-19, super balances have taken a hit.

There are a few strategies that could help to boost retirement savings between now and retirement. The sooner you start, the more chance you've got to ensure you can get your super savings back on track.

Sacrifice pre-tax salary to super: This may be appropriate for those who have sufficient cashflow to divert some of their pre-tax salary to super rather than as take-home pay. It doesn't need to be a large amount to start and the amount can be further increased in the future once things are really back on track. Salary sacrifice contributions are generally taxed at the concessional rate of up to 15 per cent, rather than the marginal rate which could be up to 47 per cent.

Government co-contribution: For those that meet the requirements and make personal (after-tax) contributions of up to \$1,000, the Government will also contribute up to \$500 into super accounts. The amount will vary based on income and the total annual personal contributions made. As a general rule, in 2019-20 the maximum co-contribution of \$500 is available to those who contribute \$1,000 and earn \$38,564 or less, and a reduced amount may be received if they contribute less than \$1,000 and/or earn between \$38,564 and \$53,564.

Make a spouse contribution and receive a tax-offset: Anyone who makes an after-tax contribution into their spouse's super account, and they earn less than \$40,000, may be eligible for a tax offset of up to \$540. To qualify for the full offset of \$540 in a financial year, \$3,000 or more must be contributed into the spouse's super account and the spouse must earn \$37,000 or less. A lower tax offset may be available if the contribution is less than \$3,000 or the spouse earns more than \$37,000 but less than \$40,000.

Make catch-up concessional contributions: Anyone who hasn't fully utilised their annual concessional contributions (CC) cap since 1 July 2018 may have accrued 'unused' CCs that could enable them to make larger contributions in a future year. Unused CCs can be carried forward for up to five years.

More than ever, seeking financial advice is critical. To discuss your superannuation, find out if these strategies are right for you and to understand more about the rules and eligibility conditions, speak to your wealth adviser.

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SPOTLIGHT ON... SYDNEY



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With a state economy that has been growing strongly for the better part of a decade, HLB Mann Judd Sydney has capitalised on an ever-burgeoning financial services sector and private client businesses. Now, in the grip of a global pandemic, Tony Fittler explains how the firm is positioning itself to manage during the COVID-19 pandemic and to help its clients weather the storm.

HLB Mann Judd Sydney has always had a strong focus on customer service and we have recently formalised our approach which we call OneHLB. OneHLB leverages our expertise and disciplines across the firm to give clients a more comprehensive, full advisory and financial service offering.

To help with this, we have structured the firm to focus on our three major client markets – Corporate, Private & Family Business and Individuals.

An example is Family Business. We have several qualified family business advisers and we're a supporter of the Family Business Association. Our family business advice includes succession planning and asset protection as well as wealth management, estate planning, debt advisory and insurance practice areas from different parts of the firm.

The not-for-profit (NFP) sector has also been a key area of focus for the Sydney firm since the establishment of our Exclusive Not-for-Profit Community in 2010. The community has now grown to over 1,000 key industry leaders as members. Many NFPs and their beneficiaries are experiencing an especially challenging time, and those who almost exclusively rely on fundraising have had to reassess their models which is something we are able to help with.

There is no doubt that COVID-19 has presented our firm and our clients with some challenges, but also opportunities. Back in March, I assembled our

Management Committee and senior people in key functions such as IT and HR. We met daily to discuss the issues at hand, and it gave some of those staff members a chance to be involved in decision-making at a higher level.

The degree of uncertainty affected everyone, including myself, but our key priority during that time was protecting the firm and making the right decisions with the information available.

When the Federal Government's JobKeeper scheme was announced, we saw it as a great opportunity to help our clients. Clients have been very receptive to increased communication and checking in to see how their business is faring.

The impact of COVID-19 on funds management and corporate clients has very much depended on their sector, but generally they are in very sound positions.

However, it is important to recognise that we are in a time of unprecedented Government support and that it is crucial that businesses and organisations position themselves for the end of these measures. We are well placed to assist businesses consider their options, whether they involve buying or selling businesses, refinancing or taking steps to winding down parts or the whole business. Steps taken now will maximise the opportunities for a successful outcome.

Looking at the accounting profession in retrospect, the industry has evolved and changed so much throughout my three-plus decades as a professional Chartered Accountant.

Tax legislation was very basic when I began my career – now, there's three large volumes of legislation in addition to the numerous ATO rulings and cases. There's been a dramatic shift in the sheer volume of information we need to be across. Of course, all other areas of practice have become more complex over this time – it's not unique to tax.

The one aspect of the accounting profession that hasn't changed over the years, and that's the need for client engagement. You're dealing with real people and real businesses that experience many different situations. It's their investments and as their accountant and adviser, we've got a very important role to play.

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Thomas
Noble &
Russell

Accountants | Auditors | Business Advisers