VOLUME 3, ISSUE 17 | SPRING 2020
PH: 3360 9888 | WWW.PEAKPARTNERSHIP.COM.AU

The Peak Partnership
BUSINESS ADVISERS

PINNACLE Newsletter

INSIDE THIS ISSUE

VIEW FROM THE PEAK

with Sally Portley

The Directors at The Peak Partnership recently held our annual off-site Strategic Review over two days.

Throughout the course of our discussions and planning around our short and mid-term direction, a recurring theme surfaced. As professional advisers in the area of business accounting, business management, financial planning and asset protection, we have a very real responsibility to support and guide our clients through the economic challenges as a result of the COVID-19 pandemic.

We believe that – especially by helping our business clients sustain, restore and progress their profitability – the wins will be shared throughout the wider community. Economic recovery is reliant on professionals like us looking to share our expertise and knowledge, and that has become our mantra for 2020-2021.

John Eales calls time on career.

In case you missed the recent news, John Eales has "officially" closed the book on a financial career spanning more than fifty years. In true bean-counter logic, John decided it was time to step away effective 30 June 2020.

As a 1979 Foundation Partner of the firm that would eventually become The Peak Partnership, John has been instrumental in creating a financial services business that has been the envy of many. At the same time, he has guided many clients towards business success and personal financial wellbeing - creating lasting friendships along the way.

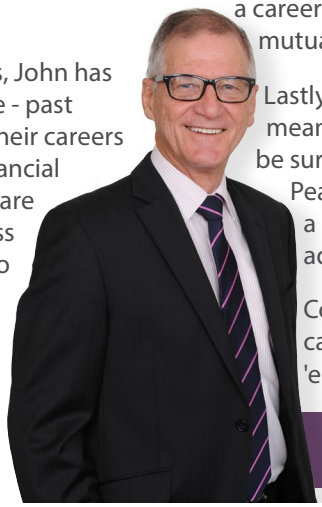
And true to his own values, John has mentored our Peak people - past and present - to develop their careers within and beyond the financial services profession. There are five Directors and countless other staff at The Peak who are forever grateful for John's influence over the years.

John can close the book on this chapter, knowing that The Peak Partnership is in good hands to continue the client service ethos he created.

While the COVID-19 restrictions prevented a fitting farewell to John, he himself found the many messages of support and well wishes truly heart-warming. The feedback was clearly an endorsement of a career founded on honesty, trust and mutual respect.

Lastly, we're not sure what "officially" means in John's world, but we won't be surprised to see him around The Peak office from time to time for a coffee, a chat, and a business advisory consultation or two.

Congratulations on a remarkable career, John - we hope you hit 'em straight and hit 'em long!



JOHN EALES
Foundation Partner 1979

JobKeeper 2.0.
What it means for you.

The Federal Government has announced changes and an extension to the JobKeeper scheme, which were passed through Parliament on 01 September 2020.

So what does JobKeeper 2.0 mean for employers and employees?

The good news is that employees that missed out on the original JobKeeper because they were not employed on 01 March 2020 might now be eligible.

The proposed changes enable employees employed on 01 July 2020 to receive JobKeeper payments from 03 August if they meet the other eligibility criteria.

If you have employees impacted by this change, you will still need to work through the eligibility requirements including providing JobKeeper Payment Employee Nomination.

JobKeeper will also be extended beyond 27 September 2020. To receive JobKeeper from 28 September 2020, employers will need to re-assess their eligibility with reference to actual GST turnover for the September 2020 quarter (for JobKeeper payments between 28 September to 03 January 2021), and again for the December 2020 quarter (for payments between 04 January 2021 to 28 March 2021).

Most businesses will generally use their Business Activity Statement (BAS) reporting to assess eligibility.

However, as the BAS is generally not due until the month after the end of the quarter, eligibility for JobKeeper will need to be assessed in advance of the BAS reporting deadlines to meet the wage condition for eligible employees.

However, the ATO will have discretion to extend the time an entity has to pay employees in order to meet the wage condition.

From 28 September 2020 the payment rates for JobKeeper will reduce and split into a higher and lower rate. Whether an eligible employee can access the higher or lower rate will depend on the number of hours they worked during a 4-week test period.

The higher rate will apply to employees who worked at least 20 hours a week on average in the four weeks of pay periods prior to either 01 March 2020 or 01 July 2020.

Between 28 September 2020 and 03 January 2021, the higher rate is $1,200 per fortnight, and $750 for the lower rate.

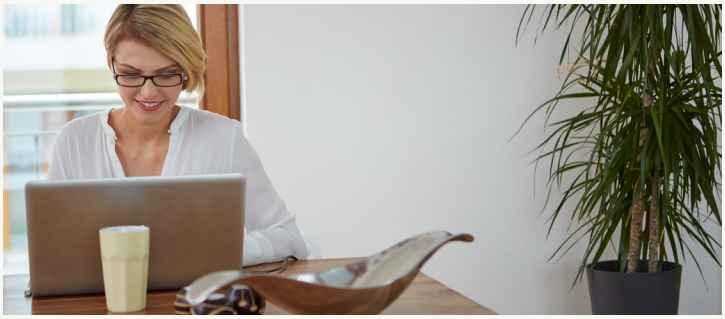
Between 04 January and 28 March 2021, the higher rate is $1,000 per fortnight and $650 for the lower rate.

DATES	30/03/2020 - 27/09/2020	28/09/2020 - 03/01/2021	04/01/2021 - 28/03/2021
Payment amount (per fortnight)	$1,500 per eligible employee or business participant	▪ $1,200 per eligible employee or business participant that works 20 hours or more per week ▪ $750 for all other eligible employees or business participants	▪ $1,000 per eligible employee or business participant that works 20 hours or more per week ▪ $650 for all other eligible employees or business participants
Decline in turnover threshold	▪ 50% for a business with annual aggregate turnover of more than $1 billion ▪ 30% for a business with annual aggregate turnover of less than $1 billion ▪ 15% for charity registered with the Australian Charities and Not-for-Profits Commission (ACNC)		
2020 test period for decline in turnover and basis for calculation	The relevant month or quarter within the period ended 27 September 2020. No requirement to re-test during this period. Projected and annual turnover.	Business must meet the decline in turnover threshold for September 2020 quarter. Actual GST turnover only.	Business must meet the decline in turnover threshold for December 2020 quarter. Actual GST turnover only.

COVID-19 QandA

A lot of people have a lot of questions about the impact of COVID-19 on their work, and their personal and business finances. We have some helpful information and downloads at our COVID-19 Resource Centre on our website, but here we take a look at a few QandA.

Q. During lock-down, I've had to work from home. I've set up a full home office with paintings, plants, a desk, computer equipment, a water tower and a sculpture. I presume I can claim everything I have purchased for this office and claim part of my mortgage and running costs?



A. In general, home office expenses are designed for those who run their business out of home. If you are merely working from home and not running a business at home, then it's unlikely you will be able to claim occupancy expenses such as mortgage interest or rent. Keep in mind that if you claim occupancy costs, this will impact on your access to the CGT main residence exemption.

The water cooler is unlikely to be deductible as food and drink is considered to be private in nature. The items that beautify your office will generally only be deductible if they are displayed in open viewing areas in premises used for income producing purposes including reception areas, waiting rooms and foyers.

If you are working from home and have set up a home office for this purpose, you can claim a deduction for your expenses based on the 80 cents per hour short-cut method, the 52 cents per hour method (which excludes phone, internet, or the decline in value of equipment which are all claimed separately), or the actual method.

Q. My business received a grant from the State Government. Do I pay tax on it?

A. Short answer. Probably.

INCOME TAX: Grants are likely to be taxable unless they are specifically excluded from tax.

If the grant relates to your continuing business activities, then it is likely to be included in assessable income for income tax purposes. The position can be different in cases where the payment is made so that the entity can commence a new business or cease carrying on a business.

GST: Government grants are not generally subject to GST unless the grant is for a supply of something.

The Australian Tax Office (ATO) has indicated that the Cash Flow Boost and JobKeeper Payments are not subject to GST, and this seems to be on the basis that these payments are not consideration for a material supply.

Normally, we look at whether the entity has to do something to obtain the payment or grant. This could include entering into an agreement to do something or refrain from doing something.

If not, there won't generally be any GST because no supply is or has been made.

JOBKEEPER TURNOVER CALCULATIONS: If GST does not apply to the grant, then it should not be included in the decline in turnover test for the initial phase of JobKeeper or the GST turnover figures that are reported to the ATO on a monthly basis by entities that are participating in JobKeeper.

The exception is the University sector where Commonwealth Government financial assistance provided is included in the JobKeeper turnover tests.

Q. My business has received a variety of payments and concessions from the Federal and State Govenment in relation to the economic stimulus measures. How should I record these transactions correctly in my business accounting software?

A. A simple question that can have a complex answer. The different accounting software solutions will have varying procedures for coding COVID-19 related transactions, but the principles are the same. The important considerations are identifying which payments and concessions (which have a value) are subject to GST and which transactions need to be included in your Business Activity Statement.

Our simplest answer is to head over to our **COVID-19 Resource Centre** at www.peakpartnership.com.au/covid-19/ and dowload our free Fact Sheet titled '**Bookkeeping Advice for COVID-19 Transactions**'.

FINANCIAL FACT SHEET

BOOKKEEPING ADVICE FOR COVID-19 TRANSACTIONS

ACCOUNTING FOR COVID-19 STIMULUS CONCESSIONS AND PAYMENTS

Now that businesses are starting to receive and utilise the stimulus measures announced by the Federal and State Governments (and the ATO), the big question is "how do I account for these transactions?"

The below table shows a summary of how to enter COVID-19 concessions into your accounting software. The GST reporting column shows how the GST or tax code should be entered for reporting the transaction in a Business Activity Statement (BAS).

CONCESSION	ACCOUNT TO USE	GST REPORTING	OTHER COMMENTS
JobKeeper payment received from ATO	New "Other income" account	BAS excluded	
JobKeeper payments to employees	Part of "Salary & wages" account	BAS excluded	MYOB and Xero have a process to enrol employees for JobKeeper.
Small Business Cash Flow Boost	New "Other income" account	BAS excluded	Record as part of BAS payment/refund.
Instant asset write-off	Fixed asset account e.g. "Motor Vehicles"	GST on capital expenses	We will calculate your total tax depreciation claim when we prepare your 2019-2020 income tax return.
ATO payment deferrals	"Trade creditor"	BAS excluded	We encourage clients to set up a separate creditor to allow tracking of the payment date.
PAYG instalment refunds	"Provision for tax account"	BAS excluded	Refunds received will cancel instalments paid on the September and December 2019 BAS.
Remission of CIC	"Interest expense"	GST free	This will reduce any earlier interest payments made.
Payment arrangements	"Trade creditor"	BAS excluded	We encourage clients to set up a separate creditor to allow tracking of the payment date to assist business cash flow.
Government loans – drawdown	New "Non-current liability"	BAS excluded	Account name will depend on where the loan is from.
Government loans – interest payments	"Interest expense"	GST free	
Payroll tax refunds	"Payroll tax expense"	GST free	This will reduce earlier payments made and reconcile to annual payroll tax returns lodged.
Payroll tax deferral	"Payroll tax expense"/"creditor"	GST free	Create a creditor to track future payments required to assist business cash flow.
Land tax rebate	"Land tax expense"	GST free	This will reduce earlier payments.
Land tax waiver	"Land tax expense"	GST free	This will reduce earlier payments.
Land tax deferral	"Land tax expense"/"creditor"	GST free	Create a creditor to track future payments required to assist business cash flow.

07 3360 9888
17 Mt Gravatt-Capalaba Road, Upper Mt Gravatt Qld 4122
Learn more at www.peakpartnership.com.au

The Peak Partnership CHARTERED ACCOUNTANTS

COVID-19 and the value of your business.

If you're selling or merging your business, you first need to understand its real value. But to what degree does the COVID-19 pandemic impact on value? Should you discount your selling price or hold firm to pre COVID-19 financial performance, on the basis that 'we'll come out of it eventually'?

Fair market value is the price that would be negotiated in an open market between a knowledgeable, willing but not too anxious buyer and a knowledgeable, willing but not too anxious seller dealing at arm's-length within a reasonable time frame.

Value and price may not be the same thing. The price you are offered (or offer), will often depend on the anxiousness of the parties. For example, a seller that does not need to sell where the business being sold adds value to the purchaser, may look to obtain a premium on value. Even where a quick sale is required it may not be discounted if the liquidated asset value of the business remains high (ie. the assets of the business are worth more broken up and sold off than as a whole).

However, to understand the value of a business, the pandemic necessitates a depth of investigation beyond the norm. You cannot simply ignore the pandemic and rely on pre-pandemic performance and financials, even if you are enthusiastic about the future.

Previously, anyone looking to buy or sell a business would likely analyse the past three years trading figures to help determine a value but this historical analysis may no longer present an accurate picture. For some businesses, history is no longer a reliable predictor of fair value.

Government controls put in place to contain COVID-19 transmission – closures, social distancing, border and travel restrictions - have a material economic impact. Closures and distancing impact in different ways and need to be considered at both an industry sector and individual business level. Government stimulus packages may also be providing abnormal short-term outcomes.

For some businesses, the operating and financial impact is material. And, this may flow into the underlying value of the business.

All valuations consider present and emerging risks and the current and anticipated business environment. This analysis is then brought into the modelling and valuation conclusion.

COVID-19 creates its own set of considerations for analysis including:

- COVID-19 impact at an economic, industry sector and business level.
- The supply chain across the customer and supplier base with a view to identifying possible COVID-19 impacts in the supply chain.
- Earnings normalisation including the removal of stimulus support measures. For the 2020 year, a deeper analysis is likely to be required with possible segmentation by quarter.
- Current and forward year position.
- COVID-19 risk in applying earnings multiples.
- COVID-19 related assumptions.

A hypothetical buyer might have been prepared to pay $1 million for a business. The business might be on offer for $800,000 and appear as if the investor has struck a bargain. But, the business might actually only be worth $600,000, and not such a good deal after all.

Almost all businesses are valued by one of two methods. The first is the industry approach, where sales of similar businesses are used for comparison. The basis of this method is that the market provides a reliable indicator of value. This method works best in a stable and active market and where recent history is a reliable indicator of the present. But, COVID-19 casts doubt on the reliability of past sales that occurred outside of pandemic conditions.

The other typical method of valuing a business is based on its maintainable earnings. This method is used for businesses with a trading history where it's likely that the value of the business will exceed the underlying value of its assets. This method determines the future maintainable earnings of the business, an appropriate earnings multiple, and the value of any assets surplus to the core business. The multiple applied to the business may be impacted by COVID-19 as the multiple falls as risk increases. For example, a business that was valued at four times earnings pre-pandemic might achieve a lower multiple as the pandemic presents a risk to the likelihood of the business achieving earnings consistent with pre-pandemic conditions.

Unlike the ASX, there is no index to indicate the value of private businesses. The pandemic has added complexity to the valuation process, meaning buyers and sellers should work more closely with their advisers before making a decision.

Damian Knoblanche (Peak Director) is a certified Business Valuation Specialist with CA ANZ, so if you'd like a due diligence completed for your business in preparation to sell, merge or engage with investors, contact us on 07 **3360 9888** for more details on the right steps to take.

Restructuring your growing business.

While some sectors of the economy are suffering during COVID-19, others are booming. If you're fortunate or adaptable enough to have a small business in a rapidly-growing sector, you may be considering a change from a relatively simple sole trader or partnership business structure to a more formal structure, such as a company or a trust.

Changes such as this are not always straight-forward, with each structure having its own distinct advantages and disadvantages. Before you consider a change, it's best to consult with your accounting adviser to avoid costly mistakes which could impede the success of your business.

BEFORE YOU CHANGE BUSINESS STRUCTURES

Most small businesses are sole traders with the individual as the owner and controller of the business. While it is the simplest and cheapest business structure, sole traders are legally responsible for all aspects of the business. This means that debts and losses cannot be shared with other individuals, and while you can employ workers in your business, you cannot employ yourself. Hence, as a sole trader you cannot claim deductions for money taken from the business as 'wages', even if you think of them as wages.

Usually, as a sole trader, you would use your individual Tax File Number (TFN) when lodging your income tax return, and report all your income using the section of business items to show your business income and expenses. The tax you pay will be at the same income tax rates as individual taxpayers although you may be eligible for the Small Business Tax Offset.

COMPANY BUSINESS

If your business is ready to move to a more complex structure, a company structure may be for you. A company is a legal entity within itself and pays tax at the company rate (currently 26.0% for business with an annual turnover less that $50 million), which may be lower than the personal tax rate you would pay as a sole trader. It may also be eligible for small business concessions and provides some asset protection. The downside of a company structure includes higher set-up and administration costs and additional reporting requirements.

Some of the common mistakes made by sole traders moving to a company structure include reporting income for the wrong entity (ie. continuing to report income as a sole trader) and personal use of business bank accounts. As the company is a separate legal entity, the money that the company earns belong to the company and individuals that control the business cannot take money out of the business except as a formal distribution of the profits or wages.

TURNING TO A TRUST

If you decide to convert your sole trader structure into a company structure, you should be aware that if you use company assets as a director or shareholder, it must be treated as a benefit. Division 7A or FBT provisions could apply if you do not treat these benefits correctly.

Setting up a trust is perhaps the most expensive option when considering a change in business structure, as a formal deed is required outlining how the trust will operate and there are formal yearly administrative tasks for the trustee. A trustee is legally responsible for the operation of the trust and this can be an individual or a company, but if you opt for a company as a trustee, there will be additional set-up costs.

However, the benefit of a trust is the flexibility it affords the trustee to distribute income amounts to adult beneficiaries depending on the trust deed. In addition, if all trust income is distributed, the trust is not liable to pay tax and each beneficiary reports the income in their own tax return which may be advantageous if one or more beneficiaries are on a lower tax bracket.

MORE INFORMATION

If you've been considering a change in your business structure as a result of increased turnover and profits, we have the expertise to guide you through the process. Whether you want to set up a company, trust or even a partnership structure, we can help set up your new business structure correctly and manage all the compliance requirements on your behalf.

Just contact one of our Accounting Advisers on 07 **3360 9888** for a no obligation chat about your growing business.

Framed: Melanie Gray

MELANIE GRAY, Client Services Officer on Damian Knoblanche's business services team, brings up her eighth anniversary with The Peak next month – yet she hasn't appeared in The Pinnacle, until now.

Mel (as she's known to all around the office) joined The Peak team in November 2012 and has been the common denominator on Damian's team ever since. In her CSO role, Mel is responsible for keeping team workflow on track, preparing and lodging client documents, following up outstanding client matters, and generally ruling the team with a subtle iron fist.

Born in Fiji and with a Chinese heritage, Mel moved to Australia as a six year-old. Prior to joining The Peak Partnership, she worked in hospitality, catering and retail. She is a trade-qualified baker and pastry chef, and she has also worked as a cake decorator.

With two daughters (aged eight and four), Mel has a busy life but she still finds time to run 11km five days a week – and naturally, she enjoys cooking and baking, as well as international travel. Mel is also a qualified Justice of the Peace.

COVID-19 and fringe benefits tax on vehicles.

The Australian Tax Office (ATO) has published a fact sheet to assist employers in determining if they have an FBT liability where cars are garaged at employees' homes because of COVID-19.

The fact sheet states that the ATO will accept that an employer isn't holding a car for the purposes of providing fringe benefits where the car isn't being driven at all, or is only being driven for maintenance purposes. Provided that the employer elects to use the operating cost method and maintains odometer records, the employer will not have an FBT liability for a car. Without electing to use the operating cost method or not having odometer records, the statutory formula method applies and an FBT liability will be incurred as the car garaged at the employee's home is taken to be available for private use.

Where a home-garaged car is being driven by an employee for business purposes, the ATO says the employer may be able to reduce the taxable value of the car fringe benefit by taking into account the business use, provided the employer has logbook records and odometer records for the period in question. Logbook records will need to be for at least:

- 12 continuous weeks; or
- until the car stops being garaged at home, if this is less than 12 weeks.

The fact sheet also provides information on logbook requirements for car fringe benefits and options for employers to consider where COVID-19 has impacted driving patterns. You can download the fact sheet at from the ATO's COVID-19 and Fringe Benefits Tax web page at **www.ato.gov.au/General/COVID-19/Support-for-businesses-and-employers/COVID-19-and-fringe-benefits-tax/**

07 3360 9888
17 Mt Gravatt-Capalaba Road
Upper Mt Gravatt Qld 4122

Learn more at **www.peakpartnership.com.au**