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The Peak Partnership
BUSINESS ADVISERS

PINNACLE Newsletter

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VIEW FROM THE PEAK

with Pat Kelly

At its 01 December meeting, the Reserve Bank Board made the decision to keep official interest rates to 0.10% – the lowest in recorded history.

The decision was wonderful news for home loan and business borrowers – especially with the banks finally getting on board to lower loan rates – but it's been the opposite for mum and dad investors, pre-retirees and retirees.

With the stroke of a pen, many Australians who are reliant on interest revenue are now seeing their cash flow slashed or looking at higher-risk investment options.

But it's not all doom and gloom for investors. There are defensive investment options available to generate solid returns without compromising an investor's risk position too much. You can read more about these options on Page 4 inside.

Tax cuts are welcome news.

Several tax announcements from the 2020 Federal Budget on 06 October have now been passed into law, including the bringing forward of changes to the personal income tax thresholds so that they apply from 01 July 2020.

From that date, the top threshold of the 19% personal income tax bracket is increased from $37,000 to $45,000. The top threshold of the 32.5% tax bracket is increased from $90,000 to $120,000. The low income tax offset increases to $700 (from $455) and the low and middle income tax offset (up to $1,080) is retained for 2020–2021.

A range of tax concessions already available to small businesses have been extended to medium sized businesses as well, and businesses with turnover less than $5 billion can deduct the full cost of eligible depreciating business assets that are installed ready for use between 06 October 2020 and 30 June 2022 under the Instant Asset Write-off Scheme.

TAXABLE INCOME	TAX PAYABLE
$0 - $18,200	Nil
$18,201 - $45,000	19% of excess over $18,200
$45,001 - $120,000	$5,092 + 32.5% of excess over $45,000
$120,001 - $180,000	$29,467 + 37% of excess over $120,000
$180,001 and over	$51,667 + 45% of excess over $180,000

Australian resident tax rates only and excludes Medicare Levy.

You can find all the up-to-date tax information for 2020-2021 (reflecting the changes from the Budget announcement) in our Tax Tutor – just go to our website and click on LEARN > More Free Stuff.

BUSINESS in the post-COVID era.

The Australian Tax Office has recently outlined its expectations for businesses post-COVID, warning companies against using loopholes to obtain benefits from government stimulus packages and urged them to not only follow the letter of the law, but also the spirit of the law. Specifically, it stated that measures such as the expanded instant asset write-off and the loss carry-back scheme should not be used in artificial arrangements for businesses to obtain an advantage.

In a recent speech, the ATO's Second Commissioner of Client Engagement, Jeremy Hirschhorn, noted that while companies are largely compliant with 92.5% voluntary compliance at lodgement and 96.3% after compliance activity, the ATO is seeking to increase the percentages to 96% and 98% respectively.

According to the ATO, those businesses accessing government stimulus packages should not only follow tax law, but also the spirit of the law. It notes, for example, although there was nothing explicit in the stimulus measure rules that prevented companies from paying executive bonuses or paying shareholders while accessing these benefits, it urged companies to "consider the optics" of such a move.

In addition, the ATO notes that the other measures encouraging businesses to invest, including the immediate deduction for assets and carry back losses should only be used by businesses for the purposes which they were introduced.

Businesses are discouraged from entering into artificial mechanisms to take advantage of the measures. For example, structured transactions where the plant and equipment are not actually used in the business, intellectual property migration with no change in real activity, asset swaps with related parties etc.

Similarly, loss carry back should not be used to artificially shift profits (and losses) around company groups.

Further, companies with complicated tax situations that find themselves under audit, are encouraged by the ATO to open communication, engagement and transparency which creates space for the parties to work better together to resolve differences and even in circumstances where resolution is not achieved, refine and narrow the issue in dispute".

> **"Invest in new plant, upgrade your facilities, claim a tax offset and reinvest the money in your business and jobs!"**
>
> *Jeremy Hirschhorn, Second Commissioner, Client Engagement at the Australian Tax Office*

The ATO encourages corporate taxpayers to use information published by the ATO to compare their performance against those of their peers in relation to income tax.

For businesses unsure of the certainty of their material tax positions, the ATO encourages obtaining assurance commensurate with importance.

Mr Hirschhorn notes that it is "an unambiguously bad idea to rely on non-detection by the ATO".

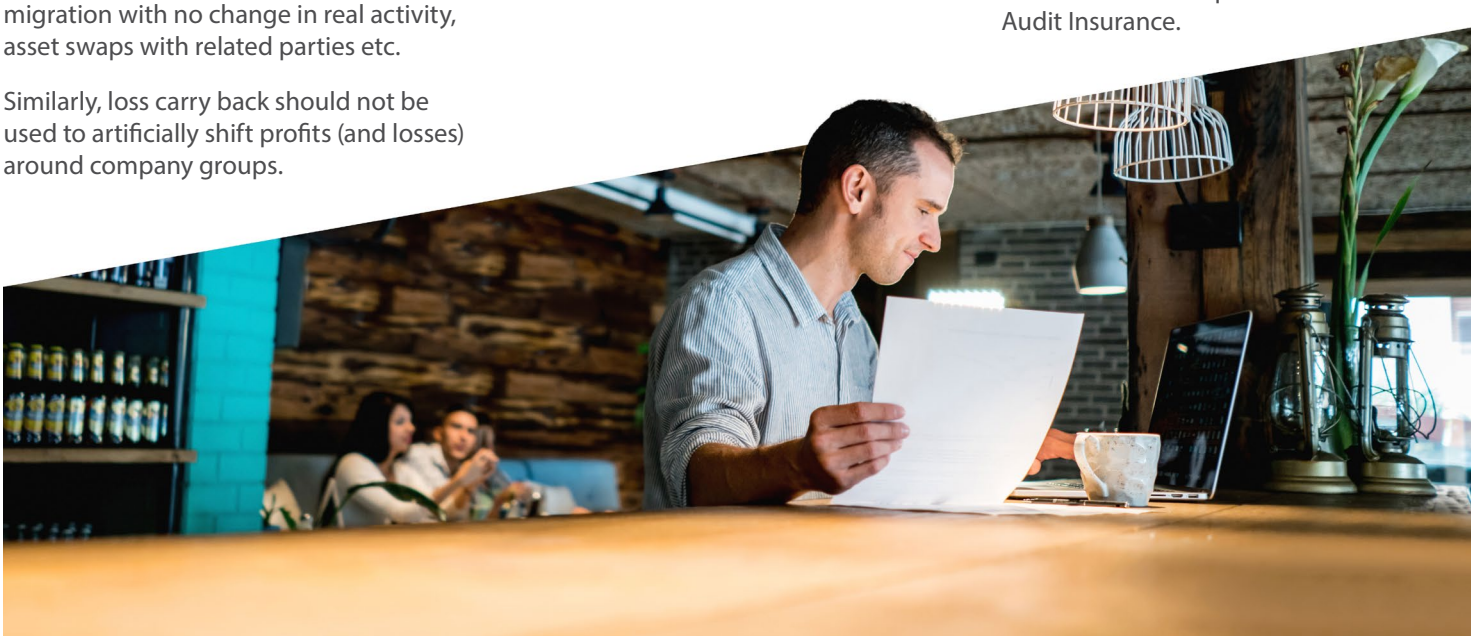
According to the ATO, businesses have been entrusted by the government with leading our economic recovery with a range of stimulus measures, and with that comes increased expectations around corporate behaviour including tax. Ultimately, it says a tax system is about underpinning a country's social contract, by collecting the revenue that funds its program and services.

WHAT'S NEXT?

While the ATO has not specifically outlined any compliance action it will take in relation to government stimulus packages, recent data-matching programs in relation to employment stimulus for apprentices and trainees give some indications of the future of compliance that awaits.

If you're unsure about your business' tax responsibilities as a result of accessing any of the government's COVID-19 stimulus measures, it's best to contact your Peak Adviser early to make sure your reporting is in order.

We also offer cost-effective Audit Insurance cover to offset the professional costs of and reviews or audits initiated by the Australian Tax Office. Just ask one of our Accounting Advisers for more information and a quote for Audit Insurance.



ATO News

THE LATEST COVID-19 UPDATES

Working from home.
Shortcut deduction extended.

The Australian Tax Office has advised that the "shortcut" rate for claiming work-from-home running expenses has been extended, in recognition that many employees and business owners are still required to work from home due to COVID-19.

Part of the COVID-19 stimulus measures, this shortcut deduction rate was previously extended to 30 September 2020, but will now be available until at least 31 December 2020.

Eligible employees and business owners can choose to claim additional running expenses incurred between 01 March 2020 and 31 December 2020 at the rate of **80 cents per work hour**, provided they keep a record (such as a timesheet or work logbook) of the number of hours worked from home during this ten-month timeframe.

Company losses.
Guidance from the Tax Office.

Changes to business operations could potentially impact on whether the company is able to utilise carried-forward losses in the current year or a future income year with reference to the same or similar business tests. As a general rule, a company that has completely closed its business with no intention to resume will normally fail the same or similar business test. However, a company that has temporarily closed its business may still be able to satisfy the same or similar business test in future.

The ATO's guidance on the company loss tests has been updated to include the following comments with respect to changes in business operation and closing business:

"If a company is still carrying on its business, it will not fail the same business test or similar business test merely because it has:

- reduced the scale of its business, including if its activities have reduced to a minimum or are almost entirely suspended
- suspended or temporarily closed its business only because of temporary adversity or due to reasons beyond its control which it intends to overcome.

In determining whether a company's business is still being carried on the following must be considered:

- reasons for the inactivity– for example, whether the company is actively holding itself out for business though obtaining none, and
- whether there is the expectation of resuming active operations within a reasonable time."

That is, at a high level, the ATO seems to be indicating that changes to business models or the scale of activities should not automatically mean a company is considered to fail the same or similar business test. Having said that, this is an issue that will need to be considered separately for each client that may be affected, based on the specific facts of their case.

The ATO also confirms that a company will not fail the same business test or similar business test merely because it has received JobKeeper payments.

Digital AGMs
and electronic signatures.

The Government has formally extended the ability for companies to convene Annual General Meetings (AGMs) and other prescribed meetings entirely online until March 2021.

This extension allows company boards to:

- provide notice of AGMs to shareholders using email;
- achieve a quorum with shareholders attending online; and
- hold AGMs meetings online, with shareholders able to put questions to board members online and vote online.

Company officers are also permitted to use electronic signatures to meet the relevant legal requirements.

Remember double-digit deposit interest rates?

NO? NEITHER CAN WE. *Cash plays a key role as a source of security and liquidity in our lives. Cash provides for short-term goals and emergencies, and is supported by a Government Guarantee of up to $250,000 per bank or ADI (Authorised Deposit Taking Institution).*

There has traditionally been another purpose of cash for savers – a source of interest income without the associated anxiety and stress of capital volatility and risk. **The Peace of Mind factor!**

Holding a level of savings or term deposit funds in a diversified retirement portfolio (the peace of mind allocation) allows an investor to have the right mindset and time horizon for the balance of their investments.

On the flip-side, holding too much cash has always been a risk for longer-term capital preservation. With interest rates approaching 0%, the risk/return trade-off has definitely skewed away from cash holdings. Whilst there is little short-term risk, the long-term risk can be very high as inflation and the returns from other assets deflate the real value of your cash.

The good news is that there are ways to generate a more tangible return outcome other than cash, without venturing too far up the risk scale.

BONDS AND DIVERSIFICATION.

People feel very secure "lending" their hard earned money to a bank, but the Global Financial Crisis (September 2007 to March 2009) highlighted the fact that bank deposits (essentially lending your money to a bank) is not risk-free!

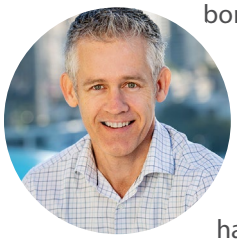
To restore confidence in the financial system, governments around the world started to guarantee bank deposits. This guarantee is still in place today. The traditional way to generate a risk-free return though, is to lend your money to the government, investing in their bonds through to maturity.

Given the low-risk outcome, the return is also very low in the Government Bond market, however there are ways that astute fund managers can take advantage of the low-risk nature of the Government Bond market to generate more tangible returns for investors.

Likewise, the Corporate Bond market provides the ability to generate a solid return without compromising investors overall risk position too much.

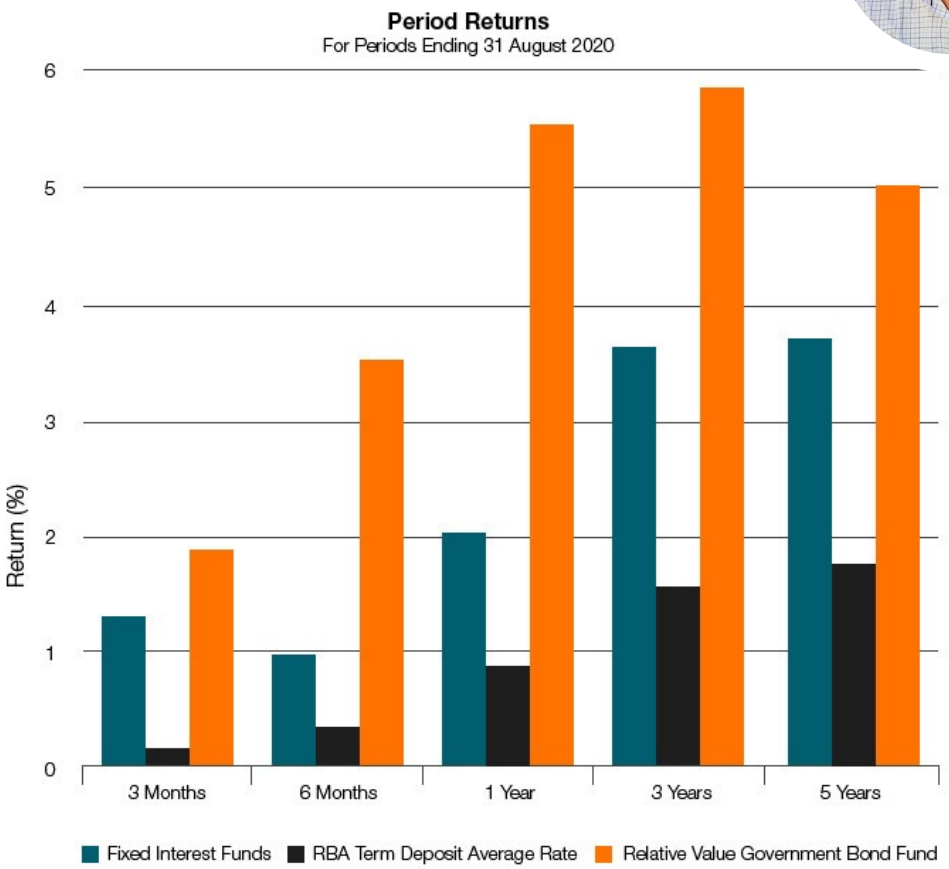
Large companies generally raise capital for their business by issuing shares or bonds. As a shareholder, you become a part-owner of the company and share in the fortunes or misfortunes of the business over time. Shares are fantastic long-term investments, however you need the right mindset and time horizon to mitigate the inherent risks.

As a bond holder, your return is more stable in the form of an interest payment (known as a coupon) every six months until the maturity of the bond, as long as the company itself doesn't default. The key is to diversify away as much credit (default) risk as possible and focus on Investment Grade or above underlying bond issuers.



Pat Kelly
Director & Financial Adviser

These offer a lower risk, having been assessed as having a strong capacity to meet their financial commitments. Now, because you are not rewarded by having a concentrated exposure, the more underlying bond issuers in your portfolio the better. This can easily be achieved with a well-managed, diversified bond fund. In fact, there are high quality Conservative funds that can deliver diversified exposure to shares and bonds, whilst moderating volatility and risk.



SPARK SOME INTEREST.

Regardless of interest rates, we are the first to stress the importance of maintaining adequate cash reserves.

However, if your bank continually offers very low rates on your term deposits, feel free to contact me and my financial advice team at The Peak Partnership Wealth Design Solutions.

We can help you design an appropriate plan, cash allocation and investment strategy to deal with the current low interest rate environment.

A tsunami of insolvencies. Don't get caught up.

On 31 December 2020 the "safe harbour" protections implemented by the Federal Government during COVID-19 are scheduled to come to an end. This effectively means that the cloak some companies and their directors have been allowed to stand behind will be lifted, allowing creditors the unrestricted right to collect overdue debts from those businesses.

OVER RECENT MONTHS we have been tracking payment performance and default rates across a range of industries, and to suggest that the rapid increase in defaults being reported to agencies such as Creditor Watch and Equifax is alarming would be a gross understatement.

Between March and July 2020, there was a 46% decrease in the number of companies that have gone into external administration compared to the same period in 2019 – largely the result of COVID-related legislative changes protecting directors from insolvent trading and extending debtor limits around statutory demands and bankruptcy notices.

For small business, the complexity and the cost of adhering to the current insolvency system often leaves little for creditors, makes it difficult to restructure, and places control of the business in the hands of an administrator. The proposed reforms should help simplify the process.

Considering the uncertainty that 2021 holds in terms of knowing how deeply the COVID-19 pandemic has affected businesses, we think it's important to remind our business clients that the benevolence shown to your customers during the pandemic doesn't need to continue into the new year – it's time to get paid on time.

Anticipating a wave of insolvencies in early 2021, the Government has moved to streamline insolvency laws to enable small business to either restructure or efficiently wind-up. There are three key elements to the reforms:

1. A new formal debt restructuring process for companies that will enable a business to keep trading under the control of its owners while a debt restructuring plan is developed and voted on by creditors.
2. A new, simplified liquidation pathway for small businesses to allow faster and lower-cost liquidation.
3. Complementary measures to ensure the insolvency sector can respond effectively both in the short and long-term to increased demand and to the needs of small business.

The measures will be available to businesses with liabilities of less than $1 million and will commence on 01 January 2021 (subject to passing of legislation).

In Australia, the insolvency laws currently do not differentiate between large and small businesses. Everyone goes through a similar process.

When combined with the likely implications of the proposed insolvency law changes, there may be a "perfect storm" brewing, and you getting paid for your work may come down to how fast you act on overdue accounts.

At Nexus Collections, we offer clients of The Peak Partnership free telephone consultations to discuss any concerns you might have about overdue debtor accounts. It's as easy as giving us a call on 07 3287 2433.

STEVE DOWNS is Managing Director of Nexus Collections, our debt recovery and management affiliate. We're happy to facilitate an introduction to help your business keep your debtors in check.

nexus COLLECTIONS
debt collection | receivables management | legal recoveries

Framed: SymonHossain

SYMON HOSSAIN, one of our Accountants on Damian Knoblanche's team, has been with The Peak Partnership since May 2018 – and he's proven to be one of our real quiet achievers.

After completing his Bachelor of Commerce degree from Griffith University (with mostly High Distinctions), Symon moved into the accounting world with a Graduate Accountant role at a Sydney-based web development business in January 2016. Following a similar role with a small accounting firm in Moree, Symon found his way to The Peak.

Along with his regular accounting responsibilities across business services and compliance, Symon has seemlessly stepped into the role of certified MYOB expert to support our staff and clients with software set-up and trouble-shooting.

Symon also recently completed his Chartered Accountant studies, demonstrating his commitment to his professional development while managing his full-time role here at The Peak.

And an interesting footnote: Symon is fluent in spoken and written Bengali.

And so this is Christmas 2020.

SOON WE'LL SAY GOOD-BYE to what has been one of the most unusual and challenging years many of us can remember. It seems a long time ago that we first heard the words Coronavirus, pandemic, isolation and border closures.

Yet people and businesses have, for the large part, adapted and adjusted to the new normal of 2020. Sadly, the impact of COVID-19 has been far greater for some – physically, mentally, emotionally, financially – and we can only sympathise with those people and hope that 2021 brings better prospects.

On that note, our Christmas Message 2020 is not the Ho, Ho, Ho of past years. This year, our hopes and wishes are that our clients, colleagues, staff and their collective families and friends have a safe and peaceful festive season, as we look forward with open eyes and open minds to the possibilities in 2021.

You can watch our Christmas Wishes video on our YouTube Channel. Just go to **youtube.com** and search '**The Peak Partnership**'.

IMPORTANT: Our office will close at 3.00 pm on Wednesday, 23 December and re-open on Monday, 04 January 2021. Merry Christmas from all of us at The Peak Partnership.

Carmen White in our Christmas video

This Christmas,
Nan's getting
nothin'.

ONELESSPRESENT.COM.AU

ONE LESS PRESENT IS BACK.

After two very successful Christmas fundraising campaigns, the team at Act for Kids (Australia's premier child abuse and neglect charity) has reinvented their **One Less Present** appeal.

Based on the simple concept that many of us could really do with one less present at Christmas time and donate the value to a wonderful cause, Act for KIds is hoping to raise $150,000 this festive season to go directly towards the treatment of children and young people who have been impacted by abuse or neglect.

As is tradition, our staff at The Peak will kick the tin for vulnerable kids with our own donations, and we encourage you to do the same. To find out more about one less present, Act for Kids and to donate, just go to **onelesspresent.com.au**

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Learn more at www.peakpartnership.com.au

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