

A person is running away from the camera on a paved road that curves into the distance. The background is filled with lush green trees and a bright, hazy sky, suggesting a sunrise or sunset. A semi-transparent green rectangular box is overlaid on the center of the image, containing white and dark green text.

BUSINESS & TAXATION BULLETIN

WINTER 2020

■ REPORTS ■ NEWS ■ ANALYSIS



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Sydney, NSW

IN THIS ISSUE



■ SUPERANNUATION GUARANTEE AMNESTY	2
------------------------------------	---

■ INSTANT ASSET WRITE OFF	2
---------------------------	---

■ GIC & SIC RATES	2
-------------------	---

■ SINGLE TOUCH PAYROLL (STP) FOR CLOSELY HELD EMPLOYEES	3
---	---

■ CLAIMING AT TAX DEDUCTION FOR WORKING FROM HOME	3
---	---

■ DFK AUSTRALIA & NEW ZEALAND MARKET UPDATE	4
---	---

■ DFK ANZ FINANCE ARTICLE HOW TO NEGOTIATE IN A SOFTER HOUSING MARKET	7
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■ UPCOMING KEY DATES & DEADLINES	8
----------------------------------	---

■ CONTACT DETAILS	8
-------------------	---



IMPORTANT: Information contained in this newsletter is not advice. Clients should not act solely on the basis of material contained in this bulletin. Items herein are general comments only and do not constitute or convey advice per se. Also, changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. The bulletin is issued as a helpful guide to our clients and for their information.

DFK AUSTRALIA NEW ZEALAND PARTNER GROUP



CHEREE Woolcock

DFK ANZ Chair
B.Bus (Accounting) FCA CTA

WHO WE ARE

We're a leading accounting association, established in 1991. Together, our 14 member firms offer the kind of world-class advice and reach you'd expect from the biggest companies, with the personal service only possible in smaller organisations.

Our locations are in the key cities across Australia and New Zealand.

WE TAKE CARE OF YOUR BUSINESS

Not just the compliance aspects but your pathways to growth. Your success is our success too.

We're invested in helping you achieve, at every stage of business from the day you start up onwards.

IF YOU'RE LIKE US, IT'S NOT ALL ABOUT WORK

We know you have bigger things on your mind than your accounting. Our job is to make that part easy, while you focus on the things that matter more.

Together, we'll shape the lifestyle you've been working for. With your business running smoothly, you'll have time to step away.

WE'LL SPEAK YOUR LANGUAGE

Our independent, fully-accredited firms handle clients' accounting, taxation, audit and assurance requirements. We offer complex business advisory and consultancy services, delivered in a way that makes sense.

No jargon. No acronyms. Just the straight-forward presentation of complex concepts that make your business hum.

WE'LL HELP GROW YOUR EXPERTISE

We'll coach you on any aspect of business that you're keen to develop, whether that's creating a dynamic business plan or getting clear on your service model and pricing.

We've even created a suite of free resources that you can access any time to help build your knowledge and capacity.

ONE GLOBAL ORGANISATION. A SEAMLESS CUSTOMER EXPERIENCE.

We tap into the expertise of DFK Asia Pacific and DFK International, in a way that's truly collaborative and efficient.

Whenever your business extends beyond our borders, we've still got you.

SUPERANNUATION GUARANTEE AMNESTY

The Superannuation Guarantee Amnesty is available for six months up to 7 September 2020.

During this period, a business may report and pay any unpaid superannuation from a prior quarter without incurring administration charges or penalties. Any Superannuation Guarantee paid during this time will also be eligible for an income tax deduction.

The Tax Office has advised that it will consider payment plans if a business reports during the amnesty period but is unable to pay its outstanding Super Guarantee liabilities. Note that only payments made during the amnesty period are tax deductible.

If your business has any old unpaid superannuation liabilities, the amnesty is the only opportunity to correct mistakes, otherwise penalties of 100% to 200% will be applied to any Superannuation Guarantee shortfalls. The Tax Office has advised that there will be no extension of the amnesty period beyond 7 September 2020.

INSTANT ASSET WRITE OFF

The Instant Asset Write Off thresholds are often changing and it is important to consider future thresholds when planning large asset purchases for your business.

For the year ending 30 June 2020 and subsequent years, the thresholds are as follows:

ELIGIBLE BUSINESS	DATE RANGE FOR WHEN ASSET FIRST USED OR INSTALLED	THRESHOLD
Less than \$50m turnover	2 April 2019 to 11 March 2020	\$30,000
Less than \$500m turnover	12 March 2020 to 30 June 2020	\$150,000
Less than \$10m turnover	From 1 July 2020	\$1,000

Due to the large reduction in the threshold from 1 July 2020, it would be prudent, subject to financial constraints, to complete any business asset purchases prior to 30 June 2020.

In order to claim the instant write off, the asset must be installed and ready for use by 30 June 2020.

An asset that is merely on order or paid for by 30 June 2020 is not eligible for the instant write off.

GIC & SIC RATES

The Tax Office has published the interest rates for the 4th quarter of the 2020 financial year.

The General Interest Charge (GIC) is set at 7.89% whilst the Shortfall Interest Charge (SIC) is set at 3.89%.

SINGLE TOUCH PAYROLL (STP) FOR CLOSELY HELD EMPLOYEES



The Tax Office has extended the exemption for small employers with 'closely held' employees from the requirement to register for Single Touch Payroll from 1 July 2020 to 1 July 2021.

If your business only has directors, shareholders and their families as employees, they are not yet required to report wages through Single Touch Payroll.

A family business may still choose to report wages through this system prior to this date.

CLAIMING AT TAX DEDUCTION FOR WORKING FROM HOME

Due to COVID-19, a large portion of the workforce have been required to work from home increasing their household expenditure.

In recognition of this taxpayers are able to claim a personal tax deduction for the costs incurred while working from home.

To claim a deduction, you must have actually spent money on an expense directly related to earning your income, you have a record to prove the expenditure and the cost was not reimbursed by your employer.

Expenses That May Be Included Are:

- Electricity costs associated with heating, cooling and lighting
- Cleaning costs of dedicated work area
- Telephone and internet expenses
- Computer consumables and stationery
- Home office equipment and electronics up to \$300 (items over \$300 must be depreciated)

You cannot claim rent, mortgage costs or rates when working from home, nor the cost of tea, coffee or general household items that may have otherwise been provided by your workplace.

Calculating Running Expenses Can Be Done In Three Ways.

Shortcut Method

A flat 80 cents per hour you worked from home during the COVID-19 pandemic period.

Fixed Rate Method

52 cents per hour worked from home during the COVID-19 pandemic for electricity, cleaning and furniture depreciation, while claiming actual portion of work-related phone, internet and computer depreciation.

Actual Cost Method

The actual work-related portion of all home office running expenses calculated on a reasonable basis for the period that you worked from home during the COVID-19 pandemic.

An individual is required to keep a diary of the number of dedicated hours working from home.

DFK AUSTRALIA & NEW ZEALAND MARKET UPDATE

In this update we examine the completed quarter, lesson from SARS, why Australia is well placed relative to most global peers, and what the new normal looks like, post the Coronavirus or COVID-19.

March Quarter

A recap of the March quarter.

- Up until mid-February, financial markets adopted a measured response to the Corona virus, as China remained the epi-centre. Once Corona gathered momentum outside China, financial markets commenced discounting increased risks of a recession, and downgraded growth expectations.
- The ASX 200 Accumulation Index finished down 23.1% for the quarter. The market peaked on the 20th February. The market fell 38% from top to bottom and some of the banks 56%, more than they fell in the GFC, in just a month. At the time of writing the market is up over 16% from its lows on the 23rd of March.
- Historically, event-driven downturns, like COVID-19 have ended sooner than cyclical or structural downturns. Although they are often sharper, they generally passes faster. In contrast the Global Financial Crisis (GFC) was a structural downturn, and took longer to recover, as banks needed to deleverage and recapitalise post 2008.

- Policymakers have significantly stepped up actual stimulus over the past month, reducing the risk of a credit meltdown.

In addition the actions by Global central banks has made sure that when the “All Clear” sounds the era of ultra-low interest rates will continue and the stock market will price that in.

Lessons From SARS

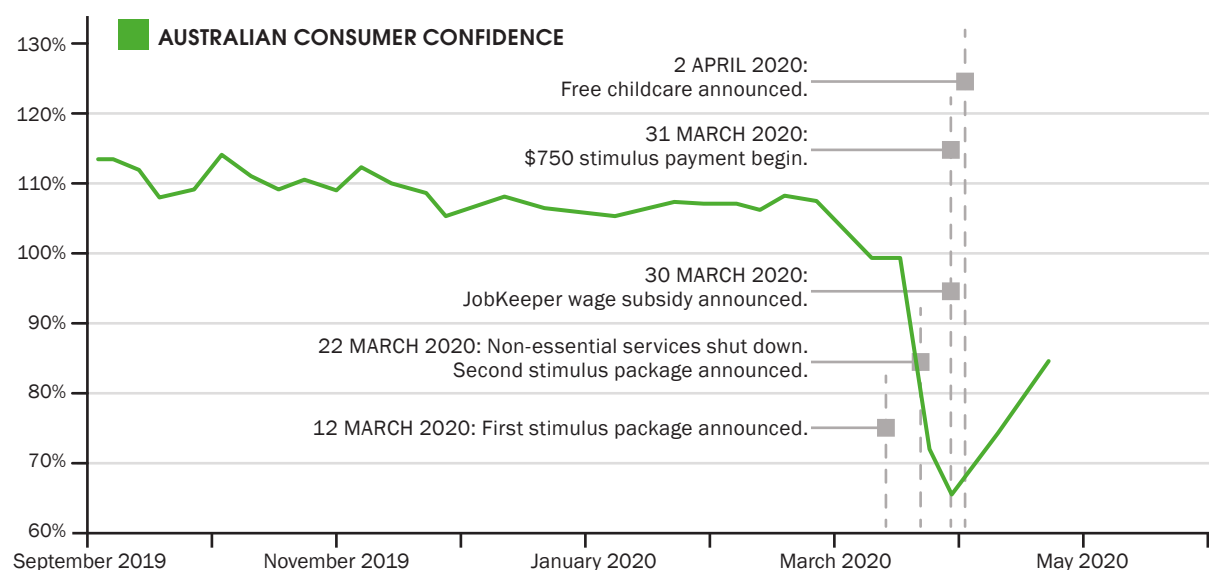
COVID-19 has had a larger impact on the world and markets than SARS, but we think some of the general principles from SARS also apply.

The SARS correction was short and sharp, with a low 4 months before the World Health Organisation said the crisis was over. Stocks rose 26% in the year after the low.

By the time the WHO said the SARS crisis was over, ASX stocks were up 12% and global stocks 20%.

Event driven bear markets such as this one, given the backdrop of low interest rates, low inflation and fiscal stimulus don't normally have long duration.

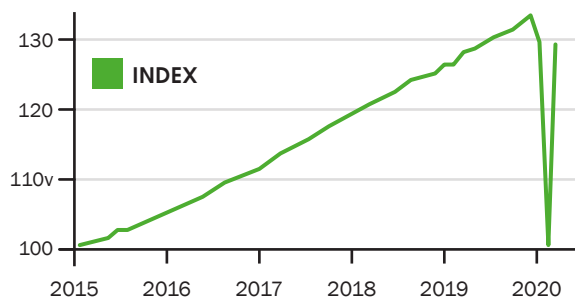
CHART 1: Consumer confidence has improved in recent weeks as government programs come on line.



MARKET UPDATE: AUSTRALIA IS WELL POSITIONED RELATIVE TO GLOBAL PEERS

Our initial assessment of how the pandemic would evolve was based on the Asian experience. China, South Korea and Taiwan moved quite quickly to lock down the movement of citizens and close borders.

CHART 2: China Industrial Production.



This resulted in a month or so of disruption followed by a gradual return to business as usual. The breakout in Wuhan started in January and by late April the situation appears to be normalising.

Coal consumption and traffic congestion suggests the Chinese economy is back to 90% of pre COVID – 19 levels. China's experience suggests manufacturing, finance, construction, real estate, online sales, farming and auto sales are rebounding. However, the hospitality industry, airlines and mass transportation are slower in their return.

It's worth noting that it is far easier to enforce a strict lockdown in more authoritarian political structures. In advanced western democracies, it has proved much more challenging to enforce the social distancing required to bring the coronavirus under control.

As a very infectious disease, once it is allowed to gather momentum, it has proved challenging to bring under control. Healthcare systems in many countries have been shown to be incapable of dealing with the scale of the problem. Testing standards have been inadequate, as demonstrated by Italy, Spain, the UK and most significantly, the United States.

Pleasingly, Australia seems to be a good chance of following the Asian model. By implementing a lockdown relatively early, enforcing social distancing and undertaking a comprehensive testing program, the signs are that within a month or so, the corona virus will be brought under control. From there, things can begin to normalise.

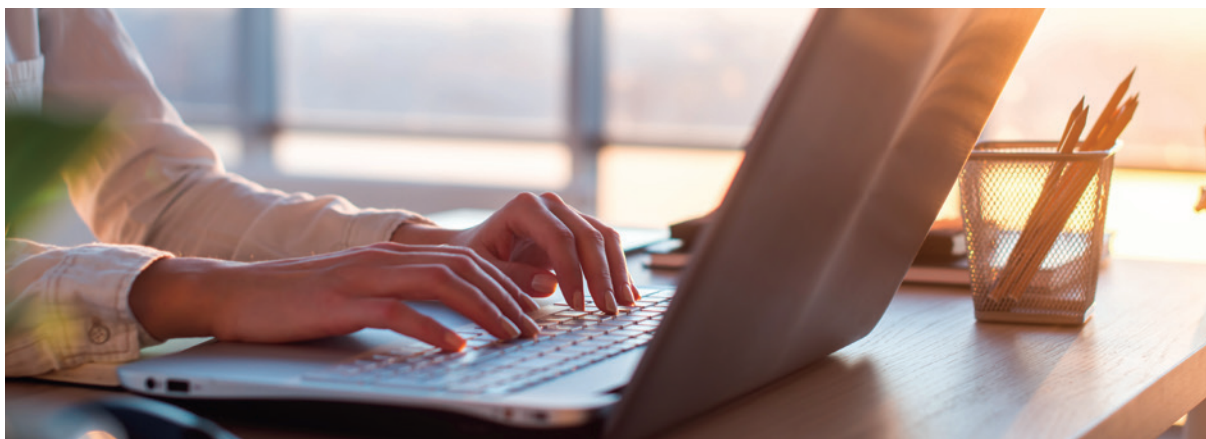
At a high level, it seems to us that those countries that have gone hard and early will have a distinct advantage over those that haven't. The Asian region generally, including Australia, seem likely to emerge from this relatively unscathed. In contrast much of Europe and especially the US appear likely to suffer far more human and economic damage. As in the GFC, Australia finds itself in a good position with our economy firmly tied to Asia and China.

There are a number of reasons why we feel Australia is well positioned relative to global peers:

- Australia's major trading partner, China, is now moving into recovery mode. The impact of this should not be under-estimated on the outlook for the Australian economy.
- The Government has acted earlier in taking measures to contain the spread of the virus. While Australia is still at a relatively early stage of the outbreak, we are not seeing an exponential rise in infections as many feared. In the eight days since Australia recorded its 1,000th case, the number of reported cases passed 3,600, which ranks 17th on the trajectory of the 22 nations with over 1,000 reported cases.
- Australia has had one of the highest testing rates per capita in the world. Less than 2% of Australian's tested have returned a positive result vs. over 15% in the US. Importantly, when Australia passed 1,000 cases only 7 people had died. This compared to 20 deaths in Britain, 30 in Italy and 35 in the US, at the same time.
- Influential Westpac economist Bill Evans said the JobSeeker package would have a profound effect on unemployment. So much so that he has slashed his prediction of a jobless rate of 17% to 7% by the end of the year.

The next 3 to 6 months will be an economic, social and emotional roller coaster. Substantial increases in unemployment, decreases in economic activity, implementation of the vast stimulation programs will continue to impact daily lives. Financial markets are likely to continue to reflect this volatility.

MARKET UPDATE CONTINUED



WHAT WILL THE NEW NORMAL LOOK LIKE?

We would not expect the new “normal” to be the same as the old “normal”. Trends that have evolved during the lockdown phase could reasonably be expected to remain. Working from home, teams working together remotely, online education, online shopping are likely to remain in place. International travel, especially the cruise ship industry, will take time to recover with longer term consequences for the tourism industry. The retail sector seems destined to structural change with consequences for the property sector.

The winners will include parts of the technology sector. Growth in use of the cloud, connectivity, movement of data are long term trends. Healthcare, on a global basis, will surely see substantial attention and investment in the aftermath of the corona virus. For Australia, our economic linkage with Asia continues to underwrite the long term success for our resources and food sectors.

Investment Strategy

In the current uncertain and volatile time we find ourselves in, capital preservation is the main priority.

From a stock selection perspective that involves being invested in companies where there is reasonable earnings visibility and predictability, and a solid financial structure.

Sectors that have a relatively high degree of sustainability include healthcare, consumer staples, food and beverage, utilities, some infrastructure and technology.

The present market volatility is also providing us with the opportunity to add to some of our core holdings at very attractive entry points. Some core holdings have traded 50% down on recent highs over the last month or so, including REA, Aristocrat, Macquarie Bank, Magellan.

As things stabilise, we are likely to reduce some exposure (not all) to some of the more defensive names that have performed well during the downturn (e.g. Resmed, CSL, Coles) and recycle funds into some of stocks that have seen a much bigger fall.

Finally, we continue to like resources, including BHP, and Northern Star. The combination of China in recovery mode, relatively high iron ore and gold prices and a low \$A underpin corporate earnings.

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DFK ANZ FINANCE ARTICLE

HOW TO NEGOTIATE IN A SOFTER HOUSING MARKET

VENDORS & SELLER'S EXPECTATIONS ARE STILL HIGH BUT BUYERS WANT LOW PRICES IN A SLOWING MARKET

After some recent years of rising house prices in the Sydney market the recent property slowdown will have taken people by surprise – not least those with a home to sell.

Whatever the state of the market every negotiation is based on the same premise – vendors want to receive the highest possible price while buyers want to pay as little as possible. Both parties, however, need to give careful thought to how they approach a negotiation when the market is in decline.

BE REALISTIC

From a vendor's point of view, it's crucial that you price your property correctly from the start. The best homes won't sell if they're overpriced and therefore vendors need to be realistic.

Some potential buyers are waiting for prices to fall further so there are fewer people actively looking. Buyers have more properties to choose from so it's harder to convince them to pay a premium price. And the longer a property stays on the market the less likely it is to sell at a higher price – buyers can easily determine how long the property has been on the market and will use that against the vendor.

Unless a vendor bought in the last couple of years they will probably receive a higher amount for their property than the original purchase price. If they are selling to buy another property the vendor will be paying a reduced purchase price. It can be more helpful to think in terms of the changeover price, rather than fixate on the price you may have been able to achieve a 6 – 9 months ago. A bit like the way we think about car changeover prices.

TAKE OFFERS SERIOUSLY

If a property is on the market it's there for a reason. This isn't a time to be testing the market or selling a property if you are in a hurry. If you do need to sell you should be prepared to take offers seriously, even if it's not at the level you were hoping for. At least enter in negotiations to see how far you can get your potential buyer to increase their offer.

When buyers have the upper hand, presentation is particularly important. You need to be clear about the attributes of your home – the unique selling points that make it desirable. It may also be worth spending some time and money on minimising anything that would cause concern. You don't want potential buyers to go away with the impression that there are another five homes they'd be equally happy with.

A good Real Estate Agent can help you identify your property's strengths and weaknesses then demonstrate and sell its strengths.

In a softer market, it's vital that you start by getting good advice on everything from pricing to presentation. The right Agent will also help you market the property effectively. This needs to be considered on a case by case basis – for example, advertising in print media may work well for some but, for others, it would be a waste of money.

BE READY TO ACT

As a buyer today, you're well placed – but you shouldn't be too complacent.

If you see a property that appeals to you it's also likely to appeal to other people, so you can't afford to sit back and wait in the hope that the price will fall. You may wish to throw your cap into the ring and start the negotiation process.

TIPS TO GET THE BEST RESULTS FROM YOUR NEGOTIATION

IF YOU'RE SELLING

- Set a realistic price from the outset
- Find a good Real Estate Agent you can trust
- Take extra care with presentation – you want potential buyers to fall in love with your property

IF YOU'RE BUYING

- Do your research – be clear about a realistic market price
- Let the Agent know if you're interested in a property
- Don't wait too long for a bargain.

UPCOMING KEY DATES & DEADLINES

14 JULY	Last day for monthly business declaration for JobKeeper Payment. Reporting actual June GST turnover and projected July GST turnover.
14 JULY	Single Touch Payroll finalisation declaration due for employers with 20 or more employees.
21 JULY	June Monthly Activity Statement due for lodgement and payment.
21 JULY	Quarterly PAYG Instalment Activity statement due for lodgement and payment for head companies of a consolidated group.
28 JULY	NSW Payroll Tax Annual Reconciliation due for lodgement and payment.
28 JULY	Superannuation Guarantee Contributions due for payment for April – June 2020 quarter.
28 JULY	April – June 2020 Business Activity Statement due for paper lodgement and payment
31 JULY	Single Touch Payroll finalisation declaration due for employers with 19 or less employees.
31 JULY	TFN Report for closely held trusts for TFNs quoted by beneficiaries of the trust.
7 AUGUST	Last day for monthly business declaration for JobKeeper Payment. Reporting actual July GST turnover and projected Aug GST turnover.
21 AUGUST	July 2020 Monthly Activity Statement due for lodgement and payment.
25 AUGUST	April – June 2020 Business Activity Statement due for electronic lodgement and payment.
28 AUGUST	Taxable Payments Report due for lodgement with ATO for Building and Construction Industry, Cleaning Services, Couriers, Road Freight, IT Services or Security Services.
7 SEPTEMBER	Last day for monthly business declaration for JobKeeper Payment. Reporting actual August GST turnover and projected September GST turnover.
7 SEPTEMBER	Last Day to lodge under Superannuation Guarantee Amnesty.
21 SEPTEMBER	August 2019 Monthly Activity Statement due for lodgement and payment.

DFK AUSTRALIA NEW ZEALAND

For further information or enquiries about any of the latest business and taxation topics discussed in this newsletter, please contact the Directors and team at DFK ANZ.

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