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Collins Hume
ACCOUNTANTS
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Pride & Prejudice: top four predictions for 2017

The global economy is picking up and Australia is about to secure the global record for the longest period a country has gone without a recession.

But with the focus on the political environment, there is uneasiness in the market and with uneasiness comes a reticence to take risks. The fortunes of Australians this year will have much to do with how you or your business is positioned and how you respond to challenges. Here are our top predictions:

1. 'Trumponomics' impact on our region

Business is business – either an opportunity makes sense or it doesn't. The biggest pressure from the new US President is unlikely to be the much discussed Trans-Pacific Partnership (Australia's current Free Trade Agreement with the US (AUSFTA) has been in place since 2005), or President Trump's controversial immigration policies, but the plan to cut the US Federal company tax rate from 35% to boost competitiveness. If the US drops its company tax rate below 30%, Australia will be the one of the most expensive countries in its region to do business and globally uncompetitive. The 2016-17 Federal Budget announcement to reduce Australia's company tax rate progressively to 25% for all businesses has stalled in the Parliament with voter perception that it is a gift to 'big business' at the expense of more deserving elements of the community.

The US is Australia's second largest two-way trading partner at around $69 billion and our third largest export market at $22 billion* (we import around $47 billion in US goods and services). Australia's trade relationship with China however swamps this volume with $150 billion in two-way trade of which almost $86 billion is in exports. These trade statistics are important to remember when we look at the geopolitical landscape of the Asia-Pacific region and in particular the increasingly antagonistic relationship between the United States and China.

Australia is too small an economy to successfully survive on its domestic market alone. Strong regional alliances and competitiveness are critical.

** 2015-16 figures Austrade Why Australia Benchmark Report 2017*

2. For business: Innovate or perish

Economists widely predict that residential construction and exports – the mainstay of Australia's domestic economic growth – will slow in 2017. Part of this is the Chinese Government's concern about investment outflows (Australia has been a significant beneficiary with Chinese Direct Foreign Investment growing by 72.5% over 2010-15). So, where is growth going to come from?

One of the most alarming statistics comes from the [Boston Consulting Group Global Manufacturing Cost-Competitiveness Index.]

The BCG analysis demonstrates that Australia was the least competitive of the top 25 global manufacturers between 2004-14 – Australia's direct manufacturing costs, for example, were just under 30% higher than the US. Manufacturing wages grew 48% in Australia over this period while labour productivity fell 1%. While this was a period of abnormal events with the mining boom, the Australian dollar at parity with the US, and a GFC, it still creates a stark picture of why a focus on productivity is important.

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Over the last two decades we have seen a global trend towards offshoring to reduce labour costs to achieve productivity gains. Now, gains are being achieved through innovation to reduce costs. This is an area where Government policy is there to support business. These incentives include:

- Small business rollover relief that removes the tax impediments associated with changing your business structure.
- Tax incentives for investors in early stage innovation companies.
- Broadened tax incentives for early stage venture capital limited partnerships and venture capital limited partnerships.
- More generous employee share scheme arrangements particularly for high growth start-ups.
- Immediate deductions for start-up businesses.
- Reduced company tax rates for small businesses.
- Plus there are also the R&D incentives for innovative companies.

To survive, all business owners need to look at the trends in their industry. Advances in technology will make some operators unsustainable and give others the capacity to change the very nature of their sector either through production efficiencies or disruption. After all, tech company Uber started in 2009, spreading exponentially around the world well before it launched in Australia in 2014. Real Estate Agents may be next with companies like Purplebricks.

The bottom line is that you cannot rely on the stability of your business model to sustain over time.

3. Superannuation knee-jerk reactions will disadvantage some

2017 will be a watershed year for Australian superannuation. With many of the reforms coming into effect on 1 July 2017, there will be temptation for many to 'do something' before the deadline.

The biggest impact of the reforms is likely to be on those with large super balances close to or exceeding $1.6 million. But it's not just the wealthy with large super balances; many small/medium business operators utilise the business real property exception to hold their business premises inside their SMSF, which can significantly increase the asset value of the fund. For anyone close to or exceeding the $1.6M cap, it's essential to have current valuations for your assets to know where you stand.

One of the key decision points for those with large balances is how Capital Gains Tax applies where assets supporting pension payments exceed the new $1.6m pension

transfer limits and need to be moved back into accumulation phase.

Knee-jerk reactions to the management of your fund's assets – like quickly selling assets pre-1 July – may result in your fund being in a worse position. As always, good financial advice is essential so call us on 02 6686 3000.

BUSINESS OWNERS Got a written debtors system?

A written debtors' system, customised to your business, will assist anyone responsible for managing debtors, will help reduce debtor days outstanding and contribute to cash flow improvement. If your credit sales are $1M per annum and you reduce debtor days outstanding by just five days, that's a cash flow improvement of $13,698. Think about it or call us on 02 6686 3000.

This communication has been prepared on a general advice basis only and has not been prepared to take into account your specific objectives, needs and financial situation. The information may not be appropriate to your individual needs and you should seek advice from your financial adviser before making any investment decisions.

4. 'International' is still a dirty word

If you are an individual or a business that transfers money internationally, you will continue to be a target. For individuals, if you work overseas be careful of residency issues. The residency tests don't necessarily work on 'common sense'. Just because you work outside of Australia for a period of time does not mean you are not a resident for tax purposes. And, for those with international investments, it's important to understand the tax status of earnings from those assets. Just because the asset and the earnings from those assets are overseas does not mean they are safe from Australian tax law, even if the cash stays outside Australia.

For business, Government regulation is increasingly cynical about those using low taxing jurisdictions, paying large management fees between international entities, and parking large debts in Australian entities.

Like every other tax authority, the Australian Tax Office wants its share of profits earned from Australian consumers. You can see this trend in the new GST rules (dubbed the 'Netflix tax') which come into effect on 1 July 2017 – although for many the requirement for foreign entities to charge GST on services and digital products provided to Australian consumers has already come into effect. On the other hand, changes to the GST treatment of international transactions that apply from 1 October 2016 are intended to make life easier for both Australian and overseas businesses, but these rules can become quite complex to apply in real life.

No one likes uncertainty and 2017 is shaping up to be a year where people feel unsettled. Take a breath, think strategically, look beyond your personal experience, and take advantage of the opportunities that are available to you.

HAPPY BIRTHDAY in February to Collins Hume Partner Shane Bartrim (left). Collins Hume celebrates our 37th birthday on 1 March, as well as even bigger cheers to Collins Hume Partner John Collins (right) who turns 70 years young next month!

ATO releases two new taxpayer alerts

The ATO this month issued warnings to anyone seeking to deliberately exploit the Research & Development (R&D) Tax Incentive program or to those not taking appropriate care with claims, at the risk of facing legal action.

The R&D tax incentive is designed to encourage businesses to engage in R&D, by providing a tax offset for eligible activities.

The ATO's alerts are designed to clarify what can and cannot be claimed, and help businesses to avoid mistakes such as ordinary business activities being self-assessed as R&D activities. Call Collins Hume on 02 6686 3000 if you're unsure or need further clarification around the R&D tax incentive program.

Collins Hume Free NRL tipping comp 2017

Free entry; $500 in prizes – as always everybody is invited, the more the merrier! Here's your chance to be part of our NRL Footy Tipping fun. Five easy steps will get you set up and tipping:

1. Go to http://www.iTipFooty.com.au
2. Click the REGISTER button if you don't already have an account
3. Once successfully registered, log in and click the JOIN COMP button
4. Enter the Comp #103098 and Comp Password CH1234
5. DONE!

Click here for full details including prize information.

Collins Hume welcomes new Accountant

Meet Stephen Cotterill FIPA, Cert (GIA), JP

Currently conducting audits and tax work for Collins Hume clients, Reckon specialist Stephen Cotterill joined the team in November 2016 and is enjoying getting his feet under the table.

Originally hailing from Bombala in the NSW south coast hinterland, Stephen had been running his own accounting firm before the Northern Rivers beckoned and a sea change ensued.

Bringing years of public practice experience and a CV as long as your arm, Stephen can pretty much turn his accounting acumen to most situations Collins Hume can throw his way.

"Running my business, I became an Accredited Professional Partner with Reckon and also gained experience using other accounting systems with clients," says Stephen.

Despite having worked in all sizes and shapes of accounting roles, Stephen loves the relationship-building side of the job.

"I'm a jack of all trades when it comes to accounting, however I put more emphasis on communicating and understanding the best ways to work with people."

"I have been an accountant for so long and I enjoy helping business owners be what they can be and supporting in any way that helps them to formulate decisions."

Stephen looks forward to tax season when he can kick things up a gear and turn his keen audit eye to tax file reviews.

"Collins Hume has a great team that gets along really well," says Stephen. "Our office atmosphere is good and tech-wise we're more modern than most accountants, which is all positive given accountants are not always known for progress."

"After relocating and finding a firm that is outward-looking as well as forward-looking can only be good as the world is only changing quicker and quicker."

Stephen completed business and office management studies before specialising in taxation with high distinction through IPA's professional development program at USQ. He received two Dean's Honour List awards during his sustainable agriculture studies at University of Sydney. Stephen also holds a Certificate in Governance (NFP)

from the Governance Institute of Australia (GIA), is a Justice of the Peace and a Fellow of the Institute of Public Accountants (IPA).

Watch out for waste

Monitoring business 'waste' an ongoing activity.

Waste comes in a whole range of formats and could relate to excessive transportation, too much stock or even the unrealised potential of employees. After a business has achieved some initial gains on waste management it's desirable that the business adopts a continuous improvement program so as to add to the initial gains that have been made.

Reduction of waste is enhanced if the leaders of the business can influence the culture within the business that waste needs to be eliminated. A successful waste management campaign incorporates improvement in customer service, enhancement in employee engagement within your business and achievement of your business' overall goals. Call Collins Hume on 02 6686 3000 if you'd like to talk with us about monitoring and reducing waste in your business.

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What happens when the Small Business Minister invites ideas for May's Budget?

Not all accountants are bean counters. In a 38-page submission to The Treasurer, Chartered Accountants Australia and New Zealand advocate what they see as the way forward for small business at Budget time and nailed a few issues on the head!

Australia is in a period of transition

Rather than just focusing on reducing welfare fraud and increasing efficiency, the Government must continue to invest in infrastructure, education, childcare and digital access to raise the possibility of reaping double dividend growth and equity:

- For tax, this means ensuring that the tax system does not distort investment decisions and that it operates as seamlessly as possible by reducing complexity.
- For super, this means ensuring that Australians have sustainable retirement incomes policies that allow them to invest and plan for the future with confidence.
- For governance, it requires better budgetary analysis, clear communication with the Australian people of the challenges ahead, and decision-making based on long-term, nation-building goals.

Australia's tax system needs to become sustainable

To ensure Australia's long-term fiscal stability there is a need to increase the rate and base of the GST and explore scope for environmental taxes. To encourage risk-taking and personal endeavour, we need to reduce relatively high personal and corporate tax rates. Until this is done Australia will struggle to fund the expected increases in expenditure that are largely driven by an aging population.

Tax efficiency and equity

Ensuring that all pay the appropriate amount of tax is integral to both the equity and efficiency of the tax system. It also helps ensure that there is a level playing field between businesses. The ATO has identified the cash economy as a major tax integrity risk, and is investigating the extent to which it has become systemic.

Greater alignment of the treatment of capital gains and ordinary income could improve both equity and simplicity. A substantial amount of tax planning can also occur due to the significant differential in tax rates between entities.

Sustainable retirement income policies

Investors who are forced participants in the superannuation sector must be more confident and engaged in the super system. Regulatory settings must foster competition and be more efficient and cost effective to ensure the objectives of the super system are met over the medium to longer term. In addition the government must address the income and assets tests for the aged pension.

Red tape battle has not been won

Australians need assurance that our government services are efficient and effective, and that our governments operate seamlessly to reduce the costs of doing business in our country. This involves revisiting policy to ensure that regulations are aligned. To the extent solutions are found in greater use of government online services, it also involves discussions about cyber security, privacy and rights to access information by both citizens about themselves and between government organisations.

Education, childcare and workforce

Australia needs to have an educated, creative and flexible workforce. This is best achieved by ensuring that Australians continue to have good access to the education system and childcare, with a focus on encouraging workforce participation.

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Grant Alert & Update

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Crowd Sourced Funding Legislation Update

The government has tabled in the Parliament the new "Corporations Amendment (Crowd Sourced Funding) Bill 2016"

The legislation allows businesses to obtain capital from a large number of investors through an online platform, where each investor typically contributes a small amount of money in return for an equity stake in the business.

The maximum investment that is available for a retail investor is $10,000 per twelve-month period.

The legislation will enable companies to fundraise up to $5M per annum from the crowd. For a company to be able to utilise this legislation the company will have to meet turnover and asset tests before they are able to fund raise using this legislation. The threshold is set at $25M for turnover and assets.

Public companies will be eligible to use crowd sourced equity funding.

The legislation also provides that proprietary companies that wish to raise funds from the crowd will be able to convert to a public company and receive exemptions from some of the more costly government and reporting requirements for up to five years.

The exemption from some of the reporting requirements will be available if a company undertakes "crowd sourced equity fund raising" within twelve months of registering as a public company and the company will be able to gain an exemption for up to five years from requirements to:

- hold an Annual General Meeting
- have annual reports audited if it has raised less than $1M from crowd sourced equity funding and provide its annual reports to investors other than by publishing the report on its website

The legislation has been tabled in the Senate and the Senate has referred the legislation to a committee to review it. The committee was expected to report back to the Senate by mid-February 2017.

Other grant news

Unfortunately the government has withdrawn the Skills Development Grant from the grants on offer to small/medium enterprises.

But there are always changes in grants; the government has now introduced a new grant known as "Centre for Defence Industry Capability, targeted at small/medium enterprises with less than 200 employees and the grant amounts vary from $5,000 to $250,000.

Remember that the very popular Business Growth Grant is still available for the government's targeted industries. Grants of up to $20,000 are available on a 50/50 basis for eligible businesses to virtually undertake any type of activity that could improve business performance. If you are not familiar with this grant why not call Collins Hume on 02 6686 3000.

If you have any questions, comments or suggestions on the grant funding assistance we are able to provide, please contact us or click here to read more.

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