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Public accountant

INSTITUTE OF PUBLIC ACCOUNTANTS®

THE OFFICIAL JOURNAL OF THE INSTITUTE OF PUBLIC ACCOUNTANTS

inside
HOW AUSTRALIA CAN OPTIMISE ITS SPACE INVESTMENT

Seize the DAY

As the big four banks continue the exodus from their wealth management businesses, accountants have a unique opportunity to stake a claim on territory long seen as the domain of financial advisers

| ORGANISING NON-CLIENT TIME | THE NEW ACCOUNTING STANDARDS | IMPROVING PRESENTATION SKILLS |

Public accountant

THE OFFICIAL JOURNAL OF THE INSTITUTE OF PUBLIC ACCOUNTANTS

Features

Everywhere you look, small accounting firms are being set up to grow and succeed like never before. The biggest opportunity, perhaps in a generation, comes from the exit of the big four banks from their wealth management arms. This has largely stemmed from their inability to act in the best interest of clients. As a result, firms have a unique chance to 'seize the day' and make the most of the resulting client service gap.

This month, we explore how the long-standing competitive advantage of size and scale from big four accounting firms is being minimised as accounting software becomes ever more accessible and affordable to firms on the smaller end of the market.

Though it hasn't all been good news. Firms with small business clients that have taken up the government's superannuation guarantee amnesty have been left in limbo through no fault of their own. We examine the current state of play, and hope that by the time you receive this issue all will have been resolved.

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Contents

46 Back to school

After taking time away from the office, Bridget Murray has set out to achieve a big goal – one that involves hitting the books

by Linda Santacruz

"You want to be sending the message of independence, rather than having drive. That's probably handy for a young woman to see"
– Bridget Murray

Regulars

Opinion

IPA INSTITUTE OF PUBLIC ACCOUNTANTS®

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President's report

A remarkable year by all accounts

At the time of writing this report, the Institute is awaiting final sign-off of the accounts and preparing its annual report for the 2017-18 financial year.

I am pleased to report it has been another stellar year for the IPA, heralded by record growth and retained earnings; a vital element for reinvestment to deliver even greater member benefits.

Growth has been significant in all regions (Australia, UK and Asia). However, none of these results could be possible without the breadth and quality of support from you, our loyal members.

It is worthwhile to mention a number of the highlights that took place throughout the year; as there has been a range of activities that we can all be proud of.

At the start of the financial year, the IPA took on its new look with a refreshed brand, which has been very well received in the marketplace. This change stemmed from considerable research and has translated to all of our other operational jurisdictions.

After many months of work with the Professional Standards Council (PSC), we extended the PSC scheme to cover all states and territories under mutual recognition. This provided IPA members with a capped liability should there ever be a claim made based on quality of advice or conduct. We anticipate that this arrangement is to be extended to a permanent standalone scheme, likely to commence in early 2019. Similarly, our advocacy activities throughout the year have been tireless and have involved a large number of submissions to government, regulators and standard setters. This has been supported by strong media relations to highlight our position on key issues impacting members, the profession and small businesses.

The IPA has represented its members and the profession in key areas, including tax reform, superannuation guarantee amnesty, the proposed SMSF 3-year audit cycle, along with many other issues. It would also be remiss not to mention the development of the second edition of our Australian Small Business White Paper launched at the end of September; this was a significant body of over 12 months' work through the IPA Deakin SME Research Centre and will form the basis of ongoing advocacy and lobbying work.

To underline the global nature of the profession and the IPA Group, we undertook our inaugural UK delegation, with Australian members enjoying an insightful program of visits in London. This was followed by another delegation to China, with a focus on commercial benefits, including visits to key business segment leaders such as Alibaba, which is set to become the largest online retailer in the world.

To extend further member benefits, the IPA has introduced a number of new strategic partnerships, including quality brands such as: Officeworks, Qantas Business Rewards and the St. George banking group. More recently, in partnership with Reckon, we have introduced the online accounting software solution, IPA Books+. This development is important for small businesses that will be impacted by the single touch payroll regime when it is implemented in July 2019.

Yes, it has indeed been a great year for the IPA. I look forward to the next 12 months, where we will strive for even greater achievements.

Damien Moore FIPA FFA

From the CEO

Making small business count

Over 12 months ago, the IPA redefined its purpose for being as improving the quality of life of small business. Understanding the importance of small business to our economy and in fact, global economies, is one of the key drivers behind our intent.

After more than 12 months of research and policy work through the IPA Deakin SME Research Centre, we launched the second edition of the Australian Small Business White Paper. This follows the success of the release of the landmark first edition in 2015.

Not surprisingly, our latest release focuses on many of the aspects from the earlier edition; such as productivity, regulation, taxation, access to finance and capital, innovation, competition policy, job creation, workplace relations, trade and internationalisation. We have also introduced new areas, such as cyber security and mental health of small business operators, which will continue to be the subjects of further research and policy development.

This body of work is a great achievement, but we will not rest on our laurels by merely saying 'job done'. It is now imperative that our ongoing advocacy work stands behind the many recommendations contained within the White Paper and we push for reforms that are in the best interests of small business in Australia.

However, this is just the start as we look to support our members here and in other jurisdictions where we represent the interests of small business.

Most nations see small business as the 'engine room' of their respective economies. As cliché as that may sound, it's statistically true. However, I believe small business is much more than just the engine room; it's the whole plant and factory. Despite this, in Australia we still lag behind some of the initiatives championed in other countries that elevate small business to the front of policy-making.

We have formed the IPA Group to influence and drive change. We have already introduced a Small Business White Paper in Shanghai, and our intention is to create a similar vehicle in the UK. Many of the issues impacting small business here in Australia are faced by small business globally and, therefore, will be 'transferable' to the UK market. However, our efforts in the UK (and other markets) must take into consideration the local political and regulatory environments.

With the academic support we have acquired in the UK to establish a sound research base, I expect to start the process of establishing the UK version in early 2019. This series of White Papers will underpin the IPA Group's growing influence and recognition in an increasingly integrated, global and digital economy.

What is the relevance to our members? More than 70 per cent of IPA Group members service small business, and as their trusted advisers, we should represent not only the interests of our members but also, the small businesses and SMEs they serve. This is something you should be proud to share with your clients, employers and businesses.

In closing, I would like to thank our members for engaging so actively throughout the recent member roadshows and for the strong support shown for our strategic plan 2025.

Andrew Conway FIPA FFA

FAST Stay Ahead

A new way to add value for your clients

CEO of FAST, Brendan Wright, writes how engaging the services of a broker can help accounting firms to meet more of their clients' needs

The digital revolution that has allowed many businesses to bring accounting functions in-house is leading to dramatic changes in how businesses and the accounting firms that support them work together.

According to a recent study into the accounting industry[1], SME clients are increasingly seeking someone they can trust as their proactive adviser, helping them drive growth and efficiency in their businesses.

Around 20 per cent of small business owners said they would like to receive advice on their financial future and growth opportunities from their accountant. The research also found that the primary reason SMEs change their accountant is because their business' financial needs have changed (31 per cent), while almost a quarter (23 per cent) said they had switched accountants because they did not receive proactive advice.

As a result of this changing client landscape, it has never been more important for accounting firms to build strong and lasting relationships with their clients.

A multi-disciplined approach

Accounting businesses can expand their service offering and cement their role as multi-disciplinary professional advice practices by adding debt advisory and financing services to their existing proposition.

From the accounting firm's perspective, it means delivering a stronger client offering, which may also attract new clients. There is also evidence that multi-disciplined businesses with varied and sustainable income streams hold higher business value.

For clients, it means a more holistic service, which can ultimately lead to better outcomes. Having a single point of contact not only helps to build trust and understanding but can bring crucial time-saving benefits for today's busy clients. This can help reduce the need for multiple inputs, meetings and enhances the speed of transactions.

Complementary disciplines

Some examples of how brokers and accountants can work together include facilitating cash flow management for businesses; assisting clients who are seeking to buy, grow or sell a business; helping business owners with commercial property transactions; funding more tax-effective investments and assisting clients with home and car loans.

Selecting the right partner is critical.

The first step for any accounting firm should be to analyse the needs of the client base to determine the skills and experience to look for in a lending specialist partner. For example, for accounting firms that service small business owners, partnering with a commercial broker could be beneficial, while for firms in regional areas, partnering with a specialist in equipment finance or agribusiness may be a better fit.

The next step is to decide on the right approach to partnering.

The simplest is establishing a referral agreement or strategic alliance, where the accountant puts their client in touch with a loan specialist directly. This model often suits smaller accounting firms or those who want to maintain accounting services as their core focus.

Another model we see many accountants use to diversify their business is to engage a finance broker to work within their business on a contractual basis. This is often the preferred option for accounting practices that are seeking to grow their in-house service offering.

For more established practices, fully integrating financing services into the business presents an opportunity to leverage strong client relationships and provide a holistic financial offering.

While this model can require a considerable upfront investment, as businesses are effectively hiring new employees, the rewards in terms of client loyalty, cross-marketing and economies of scale can really pay off.

How FAST supports accountants

FAST is the leading aggregator for business-minded professionals looking to offer diverse lending solutions. FAST brokers are highly regarded within the industry for their professionalism, business acumen and client-first mentality.

For many years, FAST has been working with accounting firms to establish the right partnership arrangement for their business, whether that is adding a referral or business partner or building their own lending arm in-house.

Accounting partners who work with FAST receive the tools and support they need to add financing service to their business, and as a result around 85 per cent of FAST brokers currently have or have had successful relationships with accounting firms.

As trusted advisers, accounting firms have a significant opportunity to broaden the range of services they offer. Taking some time to review which complementary services best suit the needs of their clients can help accountants to stay on track to achieve their business goals, while also helping clients realise theirs.

FAST was recently awarded the title of 'Aggregator of the Year' at the prestigious 2018 MFAA National Excellence Awards for the second year in a row, and 'Mortgage Aggregator of the Year' at the Australian Business Banking Awards 2018. FAST finance brokers can help accounting firms offer a broader range of services to their clients. To find out more about how FAST can help your business and clients visit www.fastgroup.com.au/numbers

1. NAB: Key Insights into the Accounting Industry

IPA in the media

The IPA has actively engaged with the media on a wide range of important and pressing issues such as GST on new residential property, wage theft, and new business compliance.

Wage theft

“Any non-payment of this worker entitlement represents wage theft; a practice never to be condoned,” IPA chief executive officer, Andrew Conway said.”

– *Business Acumen Magazine*

Annual audit

“Without the annual and timely audit oversight, we are concerned that the low rate of contraventions may start to reverse for the sake of a potential small reduction in costs over time. A loss of integrity in the SMSF sector is simply not worth the risk.”

– Andrew Conway, *selfmanagedsuper Magazine*

Small business support

“Australia must do everything in its power to support small business productivity and growth for the sake of our economy,” [Andrew] Conway said.”

– Public Accountant Hub

SME lending report

“A well-functioning SMSF sector is a by-product of good regulation. The SMSF auditor plays a vital role in providing the regulator with assurances that SMSF trustees are playing by the rules,” said IPA chief executive Andrew Conway.”

– Accountants Daily

Accountants' impact on clients' mental health

“We don't save lives in the same way a nurse or doctor might but research from our small business white paper has revealed the pivotal role accountants play in the mental health of their small business clients,” said [Andrew] Conway. “They could be coming with a whole raft of concerns and anxiety that, in that one interaction with us as an accountant, we have the power to reduce stress and anxiety, which has a deep impact on their mental health and wellbeing. [Accountants] sometimes lose sight of the bigger picture, which is the social dimension of the work we do.”

– Accountants Daily

GST on new residential property

“It is a massive number and it is a cost to the community and unfortunately there are people purposely finding weaknesses in systems, be it the tax system, the business registers, or employers being able to skirt their responsibilities and there's been a lot of tightening to make it harder for this type of activity,” said [Tony] Greco. “The downside is, as they tighten some of the weaknesses, it introduces compliance costs for everyone else and a good example of that will be in relation to GST on new residential property.”

– Accountants Daily

New business compliance

“By going to an adviser or an accountant, they can understand what their obligations are and it's a step that gets too late in the piece. If someone sets up a business, they are probably not even understanding all the compliance that they have to adhere to and by the time they are thinking of those things, the business is up and running and all matter of things could be done improperly,” said [Tony] Greco.”

– Accountants Daily

ABN registration

“Whilst we applaud a simple, efficient system, there are not enough checks and balances to ensure the registration of an ABN is appropriate or not,” IPA chief executive officer, Andrew Conway said.”

– *Business Acumen Magazine*

IPA Books+ online accounting solution

“As recent reports from the Australian Small Business and Family Enterprise Ombudsman has revealed, a staggering 45 per cent of small businesses are yet to adopt online accounting solutions. With the advent of Single Touch Payroll, the time has come for IPA Books+, a single, reliable, comprehensive solution.”

– Andrew Conway, *iT Wire*

Rise of fintech

“The smaller sectors always have issues with funding and expansion because they lack the brick and mortar, and the banks have not always been flexible in that regard and that's why a lot of the new fintechs are able to seize on that opportunity, but it comes at an added cost but there are more options available,” said [Tony] Greco.”

– Accountants Daily

Wellness starts at home

Many of you may be serving clients with young families or you may have young families of your own. Or simply, you may be recognising people that they are not in the same 'head space' that you are

by Wayne Debernardi

Wayne Debernardi, general manager media and strategic communications, IPA

This article is not about fixing the head-space issue but more focuses on a real issue of social-gaming addiction. More so, how we protect youth from being addicted to games that not only consumes healthy mindsets but exposes them to real external 'predator' dangers.

One such example is the worldwide explosion of attention to an online craze called *Fortnite: Battle Royale*, which may well be played by you or your children. Or your clients' children; right now.

While it may have started simplistically, we now have an online killing and destruction game. Simply put, it teaches violence. However, that's not where the dangers stop. This is interactive and, unfortunately, there are people in the community that prey on young children. These predators come in different forms but as covered in media across the world, has resulted in tragic endings.

I would ask two questions as an author of this column. What are your children doing on the computer, laptop, iPad or any other device – at any point of time? Who else are they innocently connecting with?

Another subsequent impact of playing such games is the impact of loss. I am a competitive person when it comes to sport. I am competitive to a fault; not a John McEnroe tennis racquet throwing result – I am dignified in loss. However, not all kids are equipped to be, and loss to a cyber competitor can be hard on young minds.

Two crusaders in Victoria (Australia) have started the Cyber Safety Project to help in the education of young and adolescent children. Both directors, Sam Macaulay and Trent Ray, both with primary education backgrounds, are passionate in teaching both young children and their parents about the dangers of game addiction and what else it may bring.

I suggest that as a parent we may become blasé about what we perceive as harmless and for many, we may not take enough time in our busy lives to take enough interest to consider what dangers may be lurking beneath. I have spoken to the Cyber Safety Project team and I believe they have a lesson to deliver to us all.

The point of violence within a game should be seriously considered by all players regardless of age. When it comes to our children and their interactions, this becomes very, very serious.

A key message from the Cyber Safety Project team is simply: "Discuss associated emotions with your child and ask them how the gameplay makes them feel. Use the game as an opportunity for your child to learn to regulate their emotions appropriately and practice strategies to manage anger or disappointment after a loss."

For more information on the Cyber Safety Project, go to: www.cybersafetyproject.com.au

Don't be shy, embrace the cloud

To run a smooth practice while putting your clients first, one of your priorities should be to ensure they (and you) are using your preferred cloud accounting solution

by Sam Allert

Sam Allert, chief executive, Reckon

As an adviser, you will always take into account the specific circumstances of the client in question and one size never fits all; however, a move to the cloud will eventually be on the cards. With Single Touch Payroll (STP) being rolled out and the likelihood of further regulatory changes over time, the benefits of cloud accounting solutions will speak for themselves. This technology train left the station a long time ago, so if you aren't across the cloud you need to catch up.

What is cloud accounting exactly?

Quite often people simply assume you know what they mean when they specify 'cloud accounting', but it's a rather easy concept. You will already be using cloud technologies if you have email, social media, Office 365, online file storage or a plethora of other applications.

It simply means you can access your data and software functionality from any device in any location with an internet connection. The data is stored in, and accessed from, remote server rooms, instead of locally on your device. Cloud accounting software essentially means you no longer have all of your important business data on a single device, where at times you may be unable to access online. You can free yourself from your single location and single point of storage, creating a vastly more useful and secure accounting solution, allowing greatly increased efficiency in everyday tasks.

There's a reason the world is moving to cloud accounting

This is not a passing phase. It will continue to grow and let there be no mistaking it; cloud is the future.

There may be a few teething pains as adoption increases and both manual paperwork and desktop software fade into obscurity, but the upside will be evident. Primary benefits of cloud-based accounting include:

Business owner

- Secure, centralised access at any time or any place
- Real time cash flow data including payroll, invoicing, bank feed automation and sales figures
- Easy accountant/adviser access to reduce tax time friction

Adviser

- Seamless and instant access to client data with secure collaboration
- Simple, online account reconciliation
- Dashboard of KPIs
- A single ledger

Adoption rates

You will inevitably have some switched on clients who adopted the cloud early and need no encouragement. You will have some who have not had a reason to switch and are more complacent; yet, are ready to be convinced. Then you will have the staunch objectors, welded to their ways and as malleable as a granite boulder. It doesn't take a genius to figure out who will require the most convincing. The key to this is in education. Be sure you share e-books, webinars, quality articles and ATO advice with your clients that not only outline the massive savings in time, money and reduced errors, but also increased functionality and 'anywhere, anytime' ease of use.

The STP situation

A burning reason right now for small business owners to ensure they have modern accounting technology is the recently launched Single Touch Payroll initiative. Surprisingly, despite the mandatory nature of STP and the general benefits to be found in cloud accounting software, up to 45 per cent of business owners do not use any accounting software.

This can be a fantastic way to start the conversation – STP also has a 2019 date attached, which can create the genuine urgency required to shift some of the more stubborn business owners to get with it and move to the cloud, for the benefit of all involved.

There will be over 600,000 small businesses with 19 or fewer employees looking to get compliant come 1 July 2019, presenting an opportunity for bookkeepers and accountants to get their clients onto an appropriate accounting solution and dually for small businesses, who will reap the benefits of a modern, compliant and comprehensive accounting solution while alleviating any STP concerns.

Special purpose financial statements: where to from here?

Removing the ability to prepare special purpose financial statements will greatly benefit accountants as well as simplify the Australian financial reporting framework, argues the Australian Accounting Standards Board

by Kris Peach and Dr Danielius Valuckas

Kris Peach,
chair,
AASB

Dr Danielius Valuckas,
graduate intern,
AASB

Australia is the only country that permits entities (required by legislation to prepare financial reports) to self-assess their reporting requirements and prepare special purpose financial statements (SPFS). As a result, publicly lodged financial statements are often not comparable, consistent or transparent. SPFS do not always comply with recognition and measurement requirements of Accounting Standards and can have widely differing disclosures.

By contrast, general purpose financial statements (GPFS) comply with all relevant Accounting Standards. Accordingly, Australia's financial reporting requirements are complex for preparers and users to understand, and the diversity can undermine users' trust and confidence in these reports.

In view of these concerns, the Australian Accounting Standards Board (AASB) is proposing to remove the ability to prepare SPFS for entities required by legislation or constituent documents to prepare financial reports in accordance with Accounting Standards. This is the most significant accounting reform proposed in Australia since the adoption of International Financial Reporting Standards (IFRS Standards) in 2005.

Why remove the ability to prepare SPFS?

Removing the ability to prepare SPFS for entities would simplify the financial reporting framework in Australia, reduce risk for directors, preparers and auditors, facilitate comparability for users, and enhance enforceability for regulators.

So, why now? Australia's ability to self-assess financial reporting requirements arises from our 'reporting entity' definition, and the Statement of Accounting Concepts SAC 1 Definition of the Reporting Entity guidance used to determine which entities should prepare GPFS.

In March 2018, the International Accounting Standards Board (IASB) issued the revised Conceptual Framework for Financial Reporting (RCF). It sets out the fundamental concepts that guide the development of IFRS Standards and assists companies in developing accounting policies when no Standard applies to a particular transaction or event, or when a Standard allows an accounting policy choice.

The AASB's SAC 1 sets out that a 'reporting entity' exists when it is reasonable to expect the existence of external users dependent on GPFS as their primary source of information for making and evaluating decisions about resource allocation.

The IASB's RCF uses 'reporting entity' in a different way, based on a premise that financial reports required by legislation are GPFS, so it is used to determine the boundary of reporting.

The application of the IASB's RCF in Australia is essential as it ensures that:

- publicly accountable for-profit entities (i.e. listed entities, registered managed investment schemes, banks and insurers) and other entities that voluntarily report compliance with IFRS Standards can maintain IFRS compliance;
- IFRS Standards continue to be the base reporting requirements for all other entities, modified as appropriate, in accordance with the AASB's standard-setting frameworks for for-profit and not-for-profit (NFP) entities.

Accordingly, the AASB's need to make the IASB's RCF applicable in Australia means the timing is right to address the bigger and uniquely Australian problem with SPFS.

In view of these problems, the AASB has issued a consultation paper, which proposes:

- the adoption of the IASB's RCF;
- the removal of the Australian 'reporting entity' concept and the ability to prepare SPFS for entities required to prepare financial reports in accordance with Accounting Standards.

Two-phased approach

Allows time for further research and outreach to better:

- ✔ understand constituents' needs and to provide mitigating actions to alleviate the additional burden for some entities
- ✔ determine the NFP reporting framework

PHASE 1

- ✔ Implements the RCF for publicly accountable for-profit entities and other entities that volunatrily report IFRS compliance and need to maintain IFRS compliance on a continuous basis.
- ✔ Maintains status quo for other entities in the short term, while consulting and determining the most appropriate alternative GPFS Tier 2 framework to replace SPFS for the for-profit sector in the medium-term.

PHASE 2

- ✔ Implementing the RCF for all entities in the medium term maintains IFRS Standards as a base for all entities, reducing confusion and the risk of inappropriate accounting policy and interpretation decisions likely to arise from operating two conceptual frameworks and one set of Accounting Standards for any length of time.

Source: The Australian Accounting Standards Board

What implications will this have?

If you (or your client) are a small proprietary company (unless foreign-owned), a small charity, a self-managed super fund, a small association or a trust, and are not required by legislation or otherwise (such as the entity's constitution) to prepare financial reports in accordance with Accounting Standards, you can continue preparing SPFS. The AASB proposals will not change the public lodgement relief granted to grandfathered proprietary companies, or ASIC's 'large or small' proprietary company test.

For-profit entities likely to be significantly impacted by the AASB proposals will be companies lodging financial statements with ASIC – e.g. large proprietary companies, small foreign-owned, unlisted public companies – currently preparing SPFS without full recognition and measurement, consolidation or equity accounting.

The AASB's proposals would result in these entities complying with all recognition and measurement requirements. However, either the existing GPFS Tier 2 – Reduced Disclosure Requirements (RDRs) or a new Tier 2 – Specified Disclosure Requirements (SDRs) would determine the disclosures.

Tier 2 – SDRs are based on ASIC RG 85 with four additional disclosures – revenue, income taxes, impairment of assets and related parties. Having an appropriate specified level of disclosures is critical in achieving trust and transparency in financial reporting.

The not-for-profit sector

Overall, the impact of the AASB proposals on charities, companies limited by guarantee, incorporated associations, co-operatives and other NFP private sector entities, will depend on the results of the ACNC Legislative Review and our ongoing consultations with the ACNC, and state and territory regulators.

Based on what we have learnt during our roundtable sessions with the charity sector (December 2017), our consultation paper briefing sessions (May 2018) and numerous AASB research reports, we expect there are likely to be three tiers of NFP reporting, with consistent, comparable and transparent reporting for each tier.

The AASB is expecting to perform extensive consultation on a broader range of proposals for NFPs compared with what is contained in ITC 39. In addition to exploring the three tiers of reporting, based on what we have heard in previous outreach, we will be looking at service performance reporting, remuneration reporting, fundraising and related party disclosures.

Why did the AASB choose its preferred two-phased approach?

The two-phased approach has the greatest net benefit to users, directors, preparers, regulators and auditors as it removes the inconsistencies and risks associated with self-assessment; ensures a 'level playing field'; and increases stakeholder confidence in reporting.

Removing the subjectivity of self-assessment will also improve regulation of reporting and help facilitate trans-Tasman harmonisation by aligning Australian requirements with New Zealand's requirement for a larger population of for-profit entities.

What's next?

The AASB will consider the feedback received on Phase 1 proposals and determine whether the proposals should be finalised in the form of a Standard.

Based on the information received on Phase 2 proposals, the AASB will also consider feedback received in relation to the Australian Financial Reporting Framework project and determine when and how the medium-term approach should be pursued. The next phase will include the development of an Exposure Draft with more specific proposals on for-profit company GPFS Tier 2 reporting requirements.

To alleviate the increased reporting burden brought about by removing the ability to prepare SPFS, the AASB is expecting to propose:

- transitional relief for entities required to apply consolidation and equity accounting and for those moving to a different tier of reporting (which is additional to the relief available within specific Accounting Standards);
- staggered implementation – proposals would apply to for-profit entities first, followed by not-for-profit entities after consultation and collaboration with the ACNC, and state and territory regulators;
- education, support and tools such as templates and guidance to help preparers manage the new requirements.

We encourage members to get engaged and be a part of the most significant accounting reform proposed since the introduction of IFRS Standards in 2005

One Voice – extending the global voice of the IPA Group

Andrew Conway, chief executive, FIPA FFA, Institute of Public Accountants

In only a few months' time, we will celebrate the fourth anniversary of the Institute of Financial Accountants (IFA – UK) coming into the IPA Group family.

The acquisition at the start of 2015 forms part of the IPA's global growth strategy and was based on strategic synergies, namely our passion for small business. With the inclusion of the IFA, the IPA Group became the largest SME-focused accounting body in the world.

Our advocacy work in representing the interests of our members and, more broadly, the small business community continues. With the IPA Group having member presence in over 80 countries, we intend to drive that effort in other jurisdictions that we operate in.

Together, we can make a difference to the global economy by supporting and strengthening the small business sector. In doing so, we intend to increase our public voice and media in our areas of overseas operations.

To further this cause, we are developing a multi-jurisdictional digital content platform, which will not only provide news from this journal but other local and global news of interest. Stay tuned for this development in the coming months. This platform will be extended to the UK early next year and will accommodate other jurisdictions progressively. This will be cutting-edge digital content, and I hope you will enjoy it.

Vicki Stylianou, executive general manager – advocacy and technical, IPA

Advancing the small business cause

The IPA's Vicki Stylianou talks about her recent election to the International Council for Small Business (ICSB) for a two-year term, and what she hopes to achieve in the role for both members and small businesses

What will be the nature of your role at the ICSB?

I'll be the senior vice president of development. What that entails is a whole list of different things, but one of the main things that I'm responsible for is looking after existing members and affiliates and making sure they're happy, while also bringing in new affiliates and new members.

I'm also responsible for the PR strategy, which is quite broad, and I also look after special interest groups. There are around 10 different things that I'm responsible for, but the core part of it is looking after existing affiliates, bringing in new affiliates and creating a PR strategy.

How did the opportunity come about and what motivated you to take it on?

I had some involvement with the ICSB in the past, and I just thought that when I saw the call for nominations come up, I thought this could be a really good way to contribute to small business on a broader global scale. As the IPA is becoming globalised, as the accounting profession is more globalised, I thought this would be a good platform to really help small business on a bigger scale. I think it's going to be a great challenge for us, and it's a great thing for the IPA.

What goals or targets are you setting out to achieve for IPA members and their clients?

I would definitely like to see a greater expansion of the affiliates. At the moment, the ICSB has 18 or 19 affiliates represented in 85 countries. But there are some parts of the world where it's not really represented, like India for example. Most of Africa, for example, is not represented at the ICSB. We've got a whole heap of applicants that want to become affiliates. Part of my role will be to process those, so I definitely want to see an expansion to cover lots of different parts of the world.

The ICSB can be a regular at the table of some of these forums, speaking on behalf of small business. These things are ongoing. You can't just turn up one day and say "Here I am", and then go away and never come back and then think that people are going to remember you, because it doesn't work that way. It's just about constantly putting in an effort. Also, we have to have something to say that people want to hear. And you have to have something to say with influence. We've got to have clear, consistent messages, and I think at the moment that's something that might need some development.

Also with the PR strategy, I'd like to look back and say that I was instrumental in establishing regular communications with members that actually have some meaning and relevance to them. At the moment there's a fantastic academic journal that's put out, but to a non-academic like myself I'd like to see even just a regular newsletter that comes out monthly that talks about some of the academic research and what it actually means to the businesses on the ground. If I can establish those three things, I think I will be very happy.

> **Vicki's three goals at the ICSB**
>
> 1. Expand the affiliate network
> 2. Bring the ICSB to more global forums
> 3. Create an effective PR strategy

Are you going to seek another term after your initial two-year term finishes?

laughs I don't know. Ask me in about a year or so. It's going to be a lot of work, and it's also a lot of travel. It's a big organisation with people with lots of different interests, so it's going to be really interesting for me personally as well. I think a lot will depend on the amount of work that's involved. If I have achieved most of what I want to after two years, then I might call it a day, but I don't know.

Why the business of SMSFs needs yearly audits

In an attempt to cut red tape, the government recently proposed moving to a three-yearly audit cycle for self-managed super funds, but it comes at the cost of serious risks to firms and the sector's integrity

by Belinda Aisbett

Belinda Aisbett, director, Super Sphere

The government decided that well-behaved trustees should be rewarded, and the reward they decided upon was to alter the requirement to have an audit done annually. This reward, if taken up by the trustee, will see the fund having those annual audits done every three years.

This came as quite a shock to many in the industry and was followed by many questions around why the government would announce a proposal to amend the annual audit requirement for SMSFs. SMSFs (like all superannuation vehicles) are presently required to be audited each year by an ASIC-approved SMSF auditor. The federal government's proposal is to move to a three-yearly audit cycle, rather than an annual SMSF audit.

As a specialist SMSF auditor, I have been contacted hundreds of times in recent days with concerns regarding the integrity of the system if SMSFs are to go unaudited over a three-year period.

The concerns are significant and as a result we have established the SMSF Auditors Lobby Group. We have also prepared a submission to document the collective concerns of those who have joined the SMSF Auditors Lobby Group.

Serious risks associated with three-yearly audits

There are many concerns with the bundling of three annual audits, including:

1. No scrutiny for two years. There will be trustees that attempt to take advantage of no audit scrutiny for a two-year period, and who may attempt to circumvent the SIS compliance requirements applicable to their fund.
2. No cost savings, and more likely additional cost. There will be no cost savings (as suggested) with the bundling of three audit years. Undertaking three financial year audits at the one time will derive minimal economies of scale, and in fact, it is predicted that audit costs will increase as a result of this proposed measure. The factors that will lead to increases in SMSF audit costs are multiple, and include:
   a. Trustee retention of information will be poor, and attempting to obtain historical documentation will add time and therefore cost to any audit undertaken;
   b. Trustee recollections to explain transactions or events possibly four years earlier will be problematic;
   c. Attempting to source historical information on asset valuations will be time consuming, adding to the cost of the audit;
   d. Auditing prior year financials (that of course will still be required to comply with SIS and enable the tax return to be prepared and lodged) will inevitably identify errors, resulting in time spent preparing and lodging amended tax returns and other superannuation reporting. This will increase the workload for not only auditors, but accountants, trustees and the ATO; and
   e. Practice overheads for auditors will somehow need to be maintained to ensure adequate staffing levels, to ensure CPD is achieved and mandatory insurance is maintained – to name a few areas of concern.
3. Compliance issues not discussed, or reported, in a timely manner. Where an approved SMSF auditor identifies a compliance issue in say year one, the auditor may be required to bring this to the attention to the ATO, however in many instances, this matter is only required to be addressed with the trustee directly. A bundled audit cycle will mean that these communications are not done in a timely manner.
4. Delayed reporting to the ATO creates further compliance issues and extra cost. By moving to three-yearly audits, there will be increased reporting to the ATO in year two and year three (and year four) as prior year and ongoing issues remain unidentified and unrectified by the trustee. Increased ATO reporting will result in increased audit time, and therefore costs in connection with the year two and subsequent year audits. Additional ATO resources will therefore be required to review a greater number of auditor contravention reports.
5. Greater risk of penalties imposed on SMSF trustees. Moving to a three-yearly audit cycle, which leads to delayed reporting of compliance issues, can mean that SMSF trustees are at a greater risk of being penalised by the ATO for maintaining compliance issues in their fund, even if these matters are inadvertent.
6. Auditors play a key role in trustee education. To change the annual SMSF audit to a three-year requirement waters down this key relationship.
7. Safeguarding of assets (via a review of asset titles) is a key audit check. It is essential that assets are held on trust for the fund. Delaying this SMSF audit check for a three-year period introduces the real risk that superannuation assets may be unprotected from administration or bankruptcy proceedings.
8. Fraud risk will increase for SMSF trustees. An SMSF audit can, and does, identify fraud in an SMSF. Delaying the audit over a three-year period will clearly delay the identification of fraudulent activity.
9. Elder abuse risk increases. The risk of elder abuse is amplified where the SMSF audit is delayed. Auditors play a key role in identifying the early warning signs of elder abuse, and to delay the audit removes the review necessary to identify those at risk of elder abuse as early as possible.

Alternative recommendations to reduce SMSF audit costs

As an approved SMSF auditor, and as founder of the SMSF Auditors Lobby Group, I acknowledge that cost savings for SMSF trustees is a positive goal, and to this end, our submission to the federal government has identified three areas that could be reviewed that would assist in reducing audit fees for an SMSF.

These three recommendations are:

- removing the need for certain minor contraventions to be reported to the ATO, saving time and cost;
- removing the need for the approved SMSF auditor to review certain documentation throughout the audit, saving time and cost; and
- consulting with the setters of auditing standards with the goal of designing more relevant and efficient mandatory auditing standards applicable to SMSFs would assist in reducing audit fees.

Reviewing the comments on various industry forums in relation to the proposed SMSF audit changes has been interesting. Of course, some in the super industry think the federal government's proposal is a good idea. Interestingly, however, many clients have voiced their surprise that such a key integrity measure would be removed or delayed.

So, when you have the SMSF trustees commenting that it will be detrimental for the industry, this helps me reaffirm my conclusion that this must be bad policy.

I think it is important to remove the premise that the audit is simply a red tape annoyance, and instead focus on the integrity of the system. To remove or delay the annual SMSF audit would be akin to only putting a speed camera on the road once every three years and expecting the level of speeding drivers to remain at present-day levels.

Without timely, annual SMSF audits – how long will the SMSF industry be sustained?

The changing nature of depreciation

Accountants should be well-aware of the recent changes to depreciation in order to maximise tax deductions for clients considering the purchase of a property

by Bradley Beer

Bradley Beer,
chief executive,
BMT Tax Depreciation

Depreciation claims still strong despite changes

During the 2015-16 financial year, just under 3 million property investors claimed deductions relating to their rental property.

Of these investors, 1,381,138 claimed an average capital works deduction of $2,326. This was an increase of 2.71 per cent when compared with the average capital works deductions claimed during the 2014-15 financial year.

Just over 2 million property investors claimed an average of $1,324 in plant and equipment depreciation deductions during the 2015-16 financial year, according to the ATO statistics. This was a 3.92 per cent increase when compared with the average plant and equipment deduction claimed during 2014-15.

According to the ATO statistics, investors claimed a total average depreciation deduction of $3,650 during the 2015-16 financial year. However, BMT Tax Depreciation found our clients had an average total depreciation deduction of $9,099 during the same financial year.

Following the changes made to depreciation legislation regarding plant and equipment found in second-hand properties in November 2017, it will be interesting to observe the ATO statistics as they are released for recent financial years.

During 2016-17, BMT saw a slight decrease in the total average depreciation claim to $8,972. However, this decrease is to an extent due to a number of older properties nearing the end of their 40-year effective life.

Despite the changes that have occurred to depreciation legislation, we are still finding our clients an average of $8,893 in deductions during the 2017-18 financial year for all residential properties.

Furthermore, those properties directly affected by the changes in depreciation legislation, i.e. second-hand properties where contracts were exchanged after 7:30pm on 9 May 2017, still had an average claim of $5,033 in the 2017-18 financial year.

Changed legislation benefits renovators

Renovating or 'property flipping' has become a huge trend in Australia, especially on the eastern seaboard where almost 7 per cent of transactions in Sydney, Melbourne and Brisbane were sold shortly after purchase following a renovation, according to CoreLogic.

CoreLogic's data also demonstrates that 90 per cent of properties flipped during 2017 were sold for a profit.

'Property flipping' occurs when an investor buys, renovates and resells a property within a relatively short space of time, with the intention of making a profit.

Legislation passed through the Senate on 15 November 2017 has changed the way depreciation for pre-existing plant and equipment found in second-hand properties will be treated.

Plant and equipment depreciation covers all removable and mechanical assets, which generally depreciate faster than the building.

The legislation states that investors who purchase second-hand residential properties after 7:30pm on the 9th of May 2017 cannot claim depreciation on pre-existing plant and equipment, unless the property is deemed to have been substantially renovated or is brand new.

Below are some examples of structural and non-structural works that, in combination, could be considered substantial when property flipping:

- Structural: altering, removing or replacing foundations, floors, supporting walls or part thereof (interior or exterior); lifting or modifying roofs; replacing existing windows or doors where brickwork is altered (single to double door);
- Non-structural: replacing electrical wiring or plumbing; replacing, removing or altering non-supporting walls.

So, if a property is considered to be substantially renovated before it is sold, then the plant and equipment depreciation can be claimed on all the removable and mechanical assets by the new owner.

Capital works deductions on the structure of a building, including any fixed and irremovable assets, were not affected by the new legislation and generally make up 85 to 90 per cent of the total claimable amount. Current investors can continue to claim these deductions for both existing and new additions, regardless of when the work took place.

To demonstrate, we looked at an example of a second-hand property built in 1973 that an investor recently purchased.

The property had recently undergone a renovation. Due to the extent of the renovation, BMT could assess the property as substantially renovated, allowing the new owner to claim depreciation for all the plant and equipment, and new capital works.

In addition, during their inspection, BMT identified that a small extension had taken place in 1998. Because capital works deductions are unaffected by the legislation change, the current owners were able to claim it for this renovation, even though it was completed 20 years ago by previous owners.

The table above demonstrates the deductions this particular client could claim for plant and equipment depreciation and capital works.

A renovation example

	Opening value	Depreciation rate	First full-year deduction
Air conditioner - split systems	$2,941	20.00%	$588
Automatic garage door controls	$188	100.00%	$188
Automatic garage door motors	$765	18.75%	$143
Bathroom accessories (freestanding)	$129	100.0%	$129
Blinds	$978	18.75%	$183
Carpets	$1,913	20.0%	$383
Ceiling fans	$1,205	18.75%	$226
Dishwashers	$1,765	20.00%	$353
Exhaust fans	$518	18.75%	$97
Garbage bins	$299	100.00%	$299
Hot water systems	$2,294	16.70%	$383
Light shades	$522	18.75%	$98
Rangehoods	$824	18.75%	$155
Smoke alarms	$618	18.75%	$116
Stoves	$3,176	16.70%	$530
Total Division 40 plant and equipment	**$18,135**		**$3,871**
Division 43 capital works 2018	**$90,560**	**2.50%**	**$2,264**
Division 43 capital works 1998	**$84,600**	**2.50%**	**$2,115**
Total first year deductions			**$8,250**

Assumptions and disclaimers

As the table shows, BMT identified $8,250 in both capital works and depreciation deductions for the new owner of this property.

Investors who renovate a rental property they own must note that they are likely removing structures or assets that have a remaining un-deducted value. This can be claimed as a deduction in full when the asset is removed.

Upfront

How Australia can optimise its space investment

The Australian government hopes to achieve substantial returns through renewed investment in space and near-space capabilities, including well over $5 billion in revenue growth and more than 25,000 new jobs by 2026

by Frank Robert and Elena Siegel

Frank Robert, associate vice president, Melbourne, A.T. Kearney

Elena Siegel, principal, Middle East, A.T. Kearney

Compared with other developed countries, Australia is late in starting to build its space program. The country must now provide the kinds of incentives and funding that can lure global industry players and make it easier for them to get established or expand locally. As a starting point, this means investing to achieve leadership in selected segments and garner at least a proportionate share of growth in the global space industry.

Creating a large number of high-paying "clean" jobs should produce direct benefits from any space-related investment and greater margins for Australian companies enjoying leadership positions. At the same time, as demonstrated elsewhere, there will be economic benefits for supporting industries, reminiscent of those enjoyed by industries that benefited from the mining equipment and services booms. Other countries have benefited greatly from the industry's growth and its spin-offs, and this should also be the case for Australia.

The UK Space Agency, launched in April 2010, is a good example of what returns an Australian space agency could generate. A simulation conducted by the government of South Australia's Defence SA estimated the UK Space Agency's impact on the size of the country's space-related industries and trickle-down impact beyond the directly affected sectors over the agency's first eight years of operation. The simulation also scaled these impacts to the Australian case. Defence SA found that, based on a conservative estimate, if Australia were to replicate the performance of the UK Space Agency on its smaller scale, revenues from the aerospace sector would rise by $5.3 billion on a base of $4 billion. The sector would directly generate 11,700 new jobs as well as supporting 16,000 indirect and induced jobs by 2026-2027.

The UK is not a high bar. After all, it only spends 0.019 per cent of its GDP on space – a third less than the European Union average and even less than Canada. Australia can likely do better.

So, what might this investment involve in practice?

A lower-risk and higher-investment approach

Australia must invest to lure industry players to come and support the ramp-up in scale that the country seeks. The international average space budget for fiscal year 2017 was 0.072 per cent of GDP, compared with Australia's 0.002 per cent. This is the gap that must be bridged to reach parity – not the gap to invest at a level required to win in selected areas. It is reasonable to assume that 0.9 per cent of GDP for the first few years would be enough to accelerate Australia into a leading position. To do so, the country would likely need to raise its game from investing the OECD-estimated $300 million to around $1.4 billion per year – an increase of $1.1 billion. To simply reach parity would require investing about $1.1 billion per year – an increase of $800 million. This investment could bring major returns in the form of jobs, GDP growth, and contracts coming to Australia that would not otherwise have done so – in amounts that are well beyond those in the UK example.

A stepwise approach

Australia will likely focus its investments where it will generate the highest returns. A stepwise mechanism would allow the country to reach its space objectives with a smaller investment per year – although perhaps not as rapidly as a lower-risk, higher-investment approach. Such an approach might involve the following:

Create international agreements that open the door for Australian industry participants to supply products and services. These include bilateral agreements with countries such as the US, UK, Canada, New Zealand, Japan, Germany, and France, and agencies such as NASA, ESA, and the UK Space Agency. This investment should be absorbed in the core staffing of Australia's space agency and should not amount to a substantial additional investment. Besides, the returns would likely amount to hundreds of millions of dollars – and possibly much higher.

Offer competitive grant support for industry-led R&D and commercialisation in strategic priority and leapfrog areas. This could include radio and optical communications with and via spacecraft, military and commercial space situational awareness, navigation and timing for security and several industry segments, advanced integrated Earth observation data, and robotics in space and on Earth. All solutions developed would be for domestic consumption and potentially for export, offering Australia strategic self-reliance as well as direct, indirect and induced jobs, and associated skills.

Set up leapfrog areas where industry can lead but where government funding is needed to prevent being overtaken. This might include quantum computing, optical and hybrid optical-radio communications, sensors, antennas, and instrumentation. Investment in each of these areas could be modest – perhaps in the tens of millions to the low hundreds of millions of Australian dollars, where a world lead could be worth tens of billions of dollars. Satellite manufacturing, for example, was valued at US$14 billion globally in 2016 but is likely to grow radically as LEO and small satellite constellations expand.

Develop national nodes in partnership with the state and territory governments and their industries. This would stimulate tens of thousands of new high-end jobs in an industry growing at more than 8 per cent per year. The cost of these nodes would be a few million Australian dollars, and the jobs value could be well over $2 billion.

Provide an early stimulus for enabling commercial ground stations (radio and optical) and shared test facilities. This could represent an investment of a few tens of millions of Australian dollars initially in each technology (radio and optical), which may return substantial growth for Australia. Of the US$30 billion in global satellite revenues gleaned from everything other than direct-to-home (DTH) TV in 2017, less than 1 per cent came from CubeSats and a small fraction from LEOs. These are expected to burgeon over the next several years, rapidly offering tens of millions to hundreds of millions of Australian dollars in opportunity. Over the longer term, as the shift to LEO and optical expands, this opportunity should multiply.

Enter the global launch market in a small way. This market is relatively small globally – somewhat below $7 billion a year – but it has a substantial impact on jobs, R&D, and technology intellectual property revenue. If Australia built or attracted a single launch company capable of the equivalent of New Zealand's Rocket Lab, which has a per week small-satellite launch schedule worth $6 million, it could generate more than $300 million a year and pay associated taxes. This would be worth the significant incentives required to help build or attract such a company.

Establish major inspirational space projects, such as science missions every three to four years, Australian or Australia-led, and in collaboration with other countries. The return on investing in this undertaking would be soft initially but very substantial over time, drawing on students' inspiration to build the skills Australia needs to reach its objectives. The minimum cost of autonomous Australian science missions, such as planetary missions, would likely be around $350 million a year.

For example, Australia could undertake or jointly organise a mission that uses Australian-invented 3D-motion-capable imaging of infrared emissions from the night side of Venus. This could be a follow-up to Japan's Akatsuki mission and possibly be undertaken jointly with the Japan Aerospace Exploration Agency. Or the country could create an Australian-led version of one of the very high-impact missions that are currently competing for NASA's budget.

The latest on the IPA's advocacy work

The IPA lobbied the government on issues such as designing a modern Australian Business Number system and the three-yearly audit cycle for SMSFs

1. Designing a modern ABN system

The IPA provided a submission in response to the consultation paper titled “Designing a modern Australian Business Number system”.

The IPA is supportive of the ABN review, which is long overdue. The ABN is akin to a licence to do business and this unique identifier now represents a key business credential. When the ABN system was introduced back in 2000, it was supposed to make operating in the black a more difficult undertaking. Without an ABN, the payer is generally required to withhold tax at the highest marginal tax rate. What we now know is that the ABN system has been gamed by black market participants and rather than being an inhibitor, is being used by participants to provide a false sense of legitimacy to their business.

The introduction of the taxable payment reporting system (TPRS) has illustrated the wide spread abuse of the ABN system. The first sector subject to mandatory TPRS was the building and construction industry. In its first year of operation in 2012, an extra $2.3 billion of revenue was reported to the revenue authority. The Black Economy Taskforce has confirmed that the ABN system is facilitating rather hindering black economy activity by allowing participants to deceive other businesses by legitimising business transactions.

The government is further expanding the TPRS to other high-risk sectors. Entities with ABNs providing road freight, IT or security, investigation or surveillance services will be required to report to the ATO information about transactions where the entity has provided consideration to another entity to provide that service on its behalf.

IPA members have informed us that the levying of fees for an ABN, and business registrations generally, has been a contentious issue for business owners within the small business community. The IPA is of the view that it may be inappropriate for there to be any fees for ABN registration or renewal under the proposed regime. An ABN is conceptually the same as a tax file number (TFN), given that a TFN is used for identification and/or tracking purposes. The process of registering an ABN or a TFN is not the same as the more detailed processes involved in the incorporation/registration of an association or a company, as well as annual lodgement and reporting requirements in respect of these entities. It is important that this fact be recognised in any move to change the current regime. Once the proposed online platform has been implemented, the government should consider making access available to current and potential ABN holders free-of-charge. We see no need to impose a further charge on small businesses for what is essentially the development of regulatory infrastructure.

Use of accountants to verify ABNs

The IPA believes that the government should make more extensive use of tax and BAS agents to verify the need for new ABNs. Accountants have an existing relationship with their clients and would thus be in an ideal position to vouch for their intent in terms of their business goals and plans and ABN requirements. This is one way that accountants and similar professional advisers can assist in the process of ensuring that an ABN will be issued to persons for proper business purposes.

Having an accountant provide some form of clearance can add much more rigour to the application process. Applicants may not fully understand the eligibility requirements, nor the compliance obligations associated with holding an ABN. The integrity of each holder of an ABN is vitally important to the tax system so we need to balance the ease of obtaining one against adding some integrity controls into the ABN application process. Trusted intermediaries such as tax agents who are also members of an accounting body, which are subject to and must abide by ethical and professional standards, can play an important assurance role in determining the quality of an ABN application.

Given the number of ABN holders who have obtained one without satisfying eligibility, there is a need to tighten the process. Prevention early in the cycle is much better than dealing with the issues after the horse has bolted. The number of ABNs that the ATO has had to cancel illustrates the poor integrity over the application process. Twenty per cent of ABNs cancelled in 2015–16 financial year became employees, highlighting the significant problem of sham contracting that is prevalent and the threat that this imposes on PAYG withholding base.

We acknowledge that one of the current benefits of obtaining an ABN is the easy application process. However, given the importance of the ABN system to the integrity of the tax system, the regulators need to also ensure that there is more rigour in the application process.

2. Three-yearly audit cycle for some SMSFs

The IPA has already held informal discussions with Treasury on this matter and has also provided a written submission on this proposal. The government has subsequently issued a discussion paper on this proposal to which the IPA responded by lodging another submission addressing some of the policy detail around the measure.

The discussion paper acknowledges some of the stakeholder concerns expressed to date from consultations with stakeholders moving to a three-yearly audit cycle, such as:

- there could be increased non-compliance with tax and regulatory obligations; and
- a reduction in audit frequency could alter the workflow of the SMSF audit industry, reducing profitability. This could lead to a reduction in the number of businesses specialising in SMSF audits and lower quality audits.

The discussion paper makes a statement that the concerns will be mitigated by appropriate eligibility criteria and, if necessary, transitional arrangements.

This assumption that the ATO can continue to manage the risk of tax and regulatory breaches by monitoring Superannuation Annual Returns (SARs), thus maintaining appropriate oversight of SMSFs on a three-yearly audit cycle should be questioned. We question the ATO's ability to audit particular SMSFs in response to identified concerns.

Considering the number of concerns expressed by stakeholders, we find this statement of 'will be mitigated' to be unhelpful and downplays the important role SMSF auditors perform in the regulatory oversight of trustees.

Whilst we appreciate some of the concerns can be mitigated, to categorically say they will be addressed through appropriate eligibility criteria, suggests that Treasury may not fully understand the SMSF audit procedures and the environment that SMSFs operate under.

There are risks that cannot be mitigated by limiting access to a three-yearly audit by using appropriate eligibility criteria. One example to illustrate this point is ensuring assets are held on trust for the superannuation fund. If title is not in the name of the superfund, there is no safeguarding of assets held in trust to protect the assets from creditors or other claimants.

The lodgement of an SAR will not be able to verify this risk. There are many more examples of other risks that the ATO will not be able to effectively manage through monitoring of SARs as suggested.

What the good compliance history does not show is what happens behind the scene at the desk of the auditor. Not all breaches by trustees end up being reported as contraventions.

Also, many funds receive a management letter that outlines minor compliance issues, preventive advice, or education advice from the auditor. Without this check and balance, and delay in receiving this timely type of advice, we fear a spike in contraventions that could have been avoided.

Auditors spend a lot of time making sure breaches are rectified and all housekeeping tasks are in order as part of the audit process. The data on reported conventions is not a good metric to justify any changes as it does not reflect matters that are not reported.

Adding eligibility criteria will also increase complexity as trustees will need to self-assess eligibility to the three-year audit cycle. Given the long lead time for the lodgement of SARs, this will be problematic if trustees incorrectly self-assess.

The discussion paper already canvasses seven key events that may increase the risk of a breach under the *SIS Act* or SIS Regulations. If the list of key events becomes voluminous, it will add more complexity for unsophisticated trustees to navigate eligibility. Trustees, with the help of their advisers, will need to do a pre-emptive audit to determine eligibility. If this service is not going to be provided for free, there will be hidden costs to factor into any perceived cost savings.

Lastly, the proposal is at odds with the *Super System Review Final Report*, which was chaired by Jeremy Cooper. The Super System Review found that an “annual audit provides a high level of assurance to members, regulators, government and the community more generally”. Its current frequency of annual audits is appropriate and should not be reduced.

Think local, act global

Globalisation is front-and-centre of the IPA Deakin SME Research Centre's second Australian Small Business White Paper

by Vicki Stylianou

Vicki Stylianou,
executive general manager – advocacy and technical, IPA

When the first White Paper was released in 2015, we stated that the principal purpose of the Small Business White Paper was to present policy options for Australia to deal with a looming economic crisis, which has the potential to rival or even surpass the recession of the early 1990s. We posed the fundamental proposition that while the government grapples with ways to address our budgetary problems, a much more profound and urgent challenge befalls us – Australia has a productivity crisis. In the three years since we made that statement, what has changed? Has Australia's productivity 'crisis' been addressed or are we deeper into the 'crisis'?

Since 2015, the world has experienced the election of Donald Trump as US President, Brexit, rising protectionism, cyber crime, continuing refugee crises, continuing rise of China as a superpower, ongoing technological advances with the advent of the Fourth Industrial Revolution, and continuing demographic shifts, which have all combined to create an environment of uncertainty and change. Since policy is not created in a vacuum, we need to consider how this environment impacts and influences our policy recommendations and choices.

Over the last three years, our world has continued to become more interconnected and interdependent, with scientific and technological advances driving economic growth in many countries. However, this is happening against a backdrop where globalisation and political alienation have been blamed for the rise of nationalism and protectionism. For a small, open economy like Australia, the rise of protectionism could damage economic growth and undermine the rules that support trade and investment. At a time when productivity remains stagnant, this could have serious consequences for our economy and our future living standards. Accordingly, one of the main themes considered in the White Paper is globalisation and its impact on productivity.

As with the first White Paper, our main focus is on the small business sector and how it can assist in lifting Australia's national productivity. Small business is a huge component of the economy. As noted by the Australian Small Business and Family Enterprise Ombudsman (ASBFEO) in the 2016 report, *Small Business Counts – Small Business in the Australian Economy*, small businesses account for 97 per cent of all businesses by employee size, with 61 per cent being sole traders with no employees, contributing one-third of GDP, employing 44 per cent of total employment and generating 40 per cent of new jobs.

However, if small business is to prosper, some things need to change. For instance, we also note that small businesses are less likely to engage in innovative practices, with 60 per cent of small businesses engaged in innovative activity, 67 per cent of medium-sized businesses and 80 per cent of large businesses, according to the *Small Business Counts* report from the ASBFEO.

Also, only 28 per cent of small businesses reported improvements in productivity, compared with 36 per cent of large firms. Small businesses represented 44 per cent of all businesses exporting goods; however, the value of small business exports makes up only 0.5 per cent of the total value of goods exported.

Though this may improve with an increasing number of small businesses that are 'born global'. There is significant room for improvement, which means reform agenda has become more critical than it was three years ago.

As noted in the Foreword to the White Paper by Andrew Conway, IPA CEO, we look to Small Business: Big Vision to frame our response to the productivity reform agenda.

Productivity – what is it and why does it matter?

As noted in the first Small Business White Paper, productivity is about how well people combine resources to produce goods and services; this includes resources such as raw materials, labour, skills, capital equipment, land, intellectual property, managerial capability, technology and financial capital. Productivity matters because the higher the productivity of a country, the higher the living standards that it can achieve, and the more options it has to choose from to improved wellbeing. Simply put, productivity growth is the primary determinant of income growth and living standards.

Productivity – how bad is it?

As noted by the Productivity Commission (PC) in its report *Shifting the Dial: 5 Year Productivity Review*, released in August 2017, productivity growth – outputs per unit inputs – has been flat, on average, for over a decade.

The PC concludes that periods of sluggish productivity growth have been observed in Australia in the past, leading to sustained periods of weak income growth. It is likely that the contributions to income growth of past major reforms and the mining investment boom are largely behind us. Looking ahead, it is growth in the non-mining sector that will largely determine prospects for income growth.

Work undertaken by the OECD and others (Andrews et al) find significant differences in productivity across firms within the Australian economy. This indicates potential to achieve national productivity growth by improving the productivity across firms, including small business and SMEs.

Labour productivity growth has been declining since the 1960s, as seen by the growth rate assumptions adopted by the federal Treasury in each *Intergenerational Report*. Structural change in the Australian economy has shifted the focus onto the services sector, which has lower measured growth in labour productivity compared with traditional goods-producing industries, which tend to have higher rates of measured labour productivity growth. This long-term trend is expected to continue, states the PC in its *Shifting the Dial* report. In other words, labour productivity growth will continue to decline unless significant reform is implemented.

Productivity – the rise and rise of services

Since the end of the mining boom, we have seen non-mining business investment, as noted in the federal budget 2017–18, remain a key uncertainty for growth. Despite lower official interest rates and surveys indicating above-average business confidence, investment remains muted. This implies that businesses are likely to be waiting for improved business conditions before significant new investments are made. However, as the economy changes structurally towards more service sectors, these are less capital-intensive in production and more reliant on skilled labour, and have a lower level of productivity. These industries also tend to rely

more on investment in intangible capital, such as research and development, ICT, brand equity and organisational capital, all of which affect productivity.

This outlook is supported by the International Monetary Fund (IMF), which observed in 2017 that the prolonged period of uncertainty and sluggish private investment after the GFC have further held back productivity growth, especially in the advanced economies, and that this slow growth is likely to make challenges such as the population ageing harder to address.

Globalisation - why does it matter so much for Australia?

A simple definition is that globalisation refers to all those processes by which people of the world are incorporated into a single world society, global society (Martin Albrow, 1990). It can also be seen as the worldwide movement towards economic, financial, trade and communications integration.

One in five Australian jobs are trade-related, and one in seven rely on exports. Over 50,000 Australian businesses export, contributing $337 billion in export income in 2016. Exporting firms on average employ more people and pay higher wages than firms focused on the domestic market alone. Trade liberalisation delivers $8,448 extra income per year for the average family (2017 Foreign Policy White Paper, Department of Foreign Affairs and Trade).

Although Australia has very low tariff rates, the World Bank's Doing Business survey in 2018 ranks Australia 95th for ease of trading across borders. It is important that Australia keep liberalising trade, as the impact of a global trade war could be costly. The PC in its 2017 report, *Rising protectionism: Challenges, threats and opportunities for Australia*, has estimated that a global trade war would cost us 1 per cent of GDP per year.

The Australian government will need to maximise economic growth in the region by facilitating the ability of Australian businesses to tap into the global value chain and to increase our relatively low investment in Asia, which may be hindering our ability to tap into global value chains. This includes manufacturing businesses.

Manufacturing makes up $44 billion or 13 per cent of our exports. More than four out of five manufacturing businesses are small or medium enterprises. They rank fifth among advanced economies for business innovation. This should be applauded, encouraged and improved through government policy settings.

Services make up a growing share of our exports, $75 billion or one-fifth of exports in 2016. Australia is the third-largest provider of education to international students.

Other opportunities are through the 'complementarity' of our economy with those of our regional neighbours who are emerging with urbanisation and expanding middle classes. That is, Asian economic growth relies on what Australia produces.

China and India together make up more than 60 per cent of Asia's economic activity. By 2030, Asia will produce more than half of the world's economic output, and consume more than half of the world's food and 40 per cent of its energy. By then, more than 600 million more people will live in Asian cities.

Wealth advice

SEIZE THE DAY
Carpe diem

As the big four banks continue the exodus from their wealth management businesses, accountants have a unique opportunity to stake a claim on territory long seen as the domain of financial advisers

by Adrian Flores

→

Wealth advice

The ongoing financial services royal commission continues to wreak havoc on the big four banks. Amid continuous reports of misdemeanours and client misgivings, it is unsurprising they want to exit the wealth management space. It is also a damning indictment of the vertical integration model upon which the big four banks have been operating wealth advice.

On top of that, the royal commission has done major damage to the reputation of financial advisers, both bank and non-bank aligned. A survey conducted in June by financial services marketing agency Yell and research firm Ipsos revealed consumer trust in financial advisers dipped by 6 per cent since 2017, while trust in banks dropped by 8 per cent. In addition, recent research from the Governance Institute of Australia found that only 33 per cent of Australians believed financial advice practices to be ethical businesses.

On the other hand, the same survey revealed that 51 per cent of Australians thought of accountants as ethical. Even as the royal commission inflicts significant damage to the reputation of the financial services industry overall, the accounting sector has been left relatively unscathed.

The advice opportunity

Accountants now have a major advisory opportunity being presented to them, says Smithink director David Smith. He acknowledges that every accounting firm is in a different place when it comes to their technical skills and resources and that there is no one right approach to adopting advisory services.

> “Accountants are very good at what they do and have very strong trusted relationships and great knowledge of the client’s affairs, but in many cases either lack the time and resources to develop financial planning services”
>
> – David Smith, director, Smithink

“I don’t think there’s a ‘one size fits all’ here. Some firms might have accountants with real skills and the desire to be able to develop their financial planning service in house,” Mr Smith says.

“Other firms recognise that there’s an opportunity to provide a better service to their clients but for one reason or another don’t have the skills or the resources to be able to do that, in which case partnering might be the right answer.”

A critical skill Mr Smith has been working with firms to develop is their ability to have broad-based conversations with their clients in uncovering their needs, noting they can be both business and personal financial affairs. By creating broader-based conversations, firms should also not expect every conversation to be around financial planning.

1 July 2016

The date the government removed the exemption allowing accountants to provide financial advice related to self-managed superannuation.

“There may be issues that they might have [such as] marketing issues in their business. They might have HR issues. They might have IT issues. They might have all sorts of different things going on,” says Mr Smith.

“If they do have those holistic conversations with their clients, one of the things that’s going to spin out of that will be a need for strong financial planning and insurance advice, because that’s such a critical component in everybody’s lives to get right.”

The fundamental difference between accounting and financial planning, according to Mr Smith, is that financial planning is a different game in terms of communicating and engaging with a client.

“Accountants are very good at what they do and have very strong trusted relationships and great knowledge of the client’s affairs, but in many cases either lack the time and resources to develop financial planning services or don’t really have the manner to be able to engage with clients in the way which is best when you’re talking about the development of financial plans and the like,” he says.

The big four banks and wealth management

ANZ – 17 October 2017
Reached an agreement to sell its dealer group business to IOOF

Westpac – 8 May 2018
Chief executive Brian Hartzer said it remained committed to its BT Financial Group wealth management subsidiary

NAB – 30 April 2018
Subsidiary Godfrey Pembroke reportedly indicated intentions to leave its MLC network and set up as non-bank dealer group under its own AFSL

CBA – 25 June 2018
Announced plans to create a new separate business called CFS Group. CBA said the move would “enhance its focus on its core banking businesses”

Building bridges

Over the last few years, Hoffman Kelly director Michael Kerwin has noticed more collaborative relationships between financial advice and accounting firms in Brisbane, where his firm is based, whether that be done in-house or through some sort of joint-venture relationship with an external firm.

“There is a great deal of benefit to be had on both the accountant and the adviser to have a collaborative approach. I think that has been increasing over the last five years, and I think that will continue to increase,” he says.

However, Mr Kerwin’s approach is much more cautious. He has found that when a client comes to him from another financial

adviser, often the frustration from the client's point of view is that no one speaks to each other. This often results in multiple conversations between the accountant, the adviser and the lawyer about a client problem when normally one would suffice. As a result, the accountant/adviser relationship needs to be carefully navigated.

"There are some risks in there around accountants pushing into [wealth advice], especially managing the conflict-of-interest issue, which is what got the banks into all this trouble in the first place," he explains. "As an accounting firm, you've got to be very careful that that is managed."

Mr Kerwin says Hoffman Kelly went through an extensive vetting process in order to find the right set of advisers to partner with before choosing HKS Planning, also in Brisbane. The partnership has been going strong for more than 10 years.

"We've got a partner that's very aligned. I think for other accountants, that's the first step, and it goes a long way to having very few of those issues. The other reason why we have a good relationship is because we don't put our noses into the planning piece," he explains.

"We obviously discuss strategy with them, making sure that our tax and asset protection instruction advice fits in with their investment advice. We don't stick our noses in and go, 'We don't think you should recommend product A, B and C'. They run their own business. They're very good at what they do, and we trust them to make those right decisions.

"We've had that for many years now, and we feel very lucky we've got that sort of partnership. I think that is probably the model you should go with."

Bringing the exemption back

As the client wealth advice gap widens, it is perhaps unsurprising that there has been a broader push from the Institute of Public Accountants for the reinstatement of the exemption allowing accountants to provide advice on self-managed superannuation funds.

In lobbying for the exemption in August, IPA chief executive Andrew Conway said the principle at play is ensuring Australians have access to affordable financial advice. Ever since the exemption was removed on 1 July 2016, he says some Australians have simply opted out of advice altogether, something that "may ultimately place their financial future at risk".

"The capacity of an accountant to provide advice on self-managed superannuation funds has long been held as not being a systemic risk to the integrity of the financial services system," Mr Conway says.

"The public rely on their annual interaction with their accountant to finalise their tax affairs and seek guidance on issues, which unfortunately is now considered financial advice as part of this process.

> "There is a great deal of benefit to be had on both the accountant and the adviser to have a collaborative approach. I think that has been increasing over the last five years"
>
> – Michael Kerwin, director, Hoffman Kelly

Without this guidance, many will receive no financial advice at all for important matters such as retirement planning."

Since the Future of Financial Advice became a mandatory form of compliance for financial advisers on 1 July 2013, Mr Conway thinks the reform has ultimately failed to achieve its policy objective of making financial advice affordable.

"As trusted advisers, accountants can play an important role in helping clients manage their financial affairs and revisiting the accountants' exemption is paramount to restoring access to basic financial advice. Seventy per cent of the population and 95 per cent of all businesses have a trusted accountant behind them, and denying them access to any guidance is not in the public interest," he argues.

Hoffman Kelly's Mr Kerwin agrees, calling the removal of the accountants' exemption "a terrible decision". He says he has met a lot of his clients who have simply said they "just don't want a financial planner", and thinks this is something that firms will be encountering more often in the future.

"I think we will see more people trying to navigate complex investment decisions on their own, which I think largely is a terrible thing," Mr Kerwin says.

"I think accountants can at least have that exemption back when we can have limited discussions around certain aspects.

"At least it might help those clients get some advice instead of potentially no advice."

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An even playing field

LEVELLING THE FIELD

Technological change is diminishing the traditional advantages of size and scale from the big four firms, opening up a wealth of growth opportunities for smaller, suburban practices

by Adrian Flores

→

Whether it be artificial intelligence or a price pressure on standard compliance work, no accounting firm of any size is immune to some sort of industry disruption. As software firms continue upping their tech offerings to firms, the price of technology is becoming cheaper.

Due to their relative size and scale over smaller firms, technology has long been a traditional advantage of the big four firms, able to provide such services to clients in-house for many years. But as technology becomes more affordable and accessible to the mid-tiers and the small firms, that advantage is becoming ever more insignificant. Now the big four firms face increasing competition from smaller firms hungrier than ever to bring in clients normally the domain of the big four.

It is a trend in which Power Tynan chief executive Paul Hilton hopes to capitalise. Only several months ago, the mid-tier was competing against KPMG for a client that, from his perspective, was a good mid-sized client for them but was probably a lower-end client for the big four firm.

Ultimately, the gig was split between the two firms. Power Tynan outsourced some of its part of the gig to an IT company as well as sought guidance from some change management consultants. At the end of the day, Mr Hilton says the client "got the best of both worlds".

"We were local while they used KPMG for their expertise in this particular industry because they had Australia-wide expertise," he recalls. "They got the high-level expertise out of them, and they came to us to say, 'OK, we want you to do the implementation, to do the change management, to do some IT expertise in the implementation'. We didn't have all that in-house, the stuff we had to do. We used our network to do the service to the client."

> "Project management is a skill set you may not have had as accountants many years ago, but now it's very important"
>
> – Paul Hilton, chief executive, Power Tynan

Collaborative accounting

This example reflects the more collaborative environment that is emerging within the world of accounting, something Mr Hilton believes is happening more often than in the past. Against such a backdrop, he says a firm's agility in adjusting to change is very important for future growth.

"When you're competing against the big four, they're a lot harder to move. Agility is really important, so if a firm's team is on board and they have a good mindset, the onus is on those practices, [which] could do really well if they want to. It's a lot easier to move, say, 10 people than 10,000," Mr Hilton says.

Not only is accounting about collaboration, it's also about transformation, says strategic alliances director for APAC at Thomson Reuters, Hydar Al Ammar. According to Mr Al Ammar, transformation is a big industry buzzword at the moment among the larger firms. He boils this trend down to a number of factors.

Old accounting v New accounting

Old accounting	New accounting
SME updates every six months or year	SME updates in real time
Outsourcing of work	Collaboration of work
Big four firms working in-house	Big four firms working with mid-tiers
Hard skills – examining hard numbers	Soft skills – building relationships
Client management skills	Project management skills

"We're finally seeing tax transformation," he says. "That's one particular event in which CFOs are really tasking their heads around, figuring out how internal tax team catch up with the times and invest in improving their internal processes."

Mr Al Ammar also observes the ATO becoming more aggressive in the review and audits it undertakes, which is then driving a lot of tax transformation.

"We're seeing taxpayers worried about the ATO being aggressive and saying, 'Well let's get my house in order before the ATO comes knocking'."

In response, technology vendors are now going out and educating the market around the changes.

"We're seeing Australian heads of tax being exposed to other regions which are probably more pro-transformation, pro-technology, such as the UK and the US, which are probably a couple of years ahead of us in terms of adopting tax technology," explains Mr Al Ammar.

"I think it's a combination of all these little factors that [is] driving change."

Greater demands from SMEs

What does this all this collaboration and transformation mean for the smaller firms? According to Mr Al Ammar, SMEs now want greater clarity around how their business is operating. In particular, they need real-time information and data, and for accountants to be on top of it for them.

"Accountants should be asking to themselves, 'What is the position of my client right now?', not 'What was it six months ago?' or 'What was it a year ago?'," he notes. "What is it now? How does that impact certain decisions being made by that business? Technology definitely plays a role in that. What are the technologies that clients are using that give real-time insights around what their financial position is?"

To meet growing SME client demands, an increasing number of workflow collaboration tools are emerging in the marketplace, whereby the accountant, the client and third parties can exchange information in a seamless manner. "Everyone's got access to stakeholders and can pull out reports at the right time," says Mr Al Ammar. "Those sort of collaboration tools are definitely out there in the marketplace."

Power Tynan's Mr Hilton adds that firms also need to have a strategy built around improving and owning what he calls its 'digital footprint', as well as a strategy built around improving its business advisory services.

"Part of that is looking at our soft skills, relationship skills for our member firms, so that they can engage better with their clients, because accountants traditionally look at hard numbers and their hard skill set. We're looking at improving our client engagement skills in order to bring them up to another level," he explains.

"With any project, you need clear guidelines and proper preparation. It's project management at the end of the day. Project management is a skill set you may not have had as accountants many years ago, but now it's very important."

What are the risks?

Collaboration obviously doesn't come without its potential pitfalls. Thomson Reuters' Mr Al Ammar is well aware of the education gap that exists with clients around hosting data on the cloud that needs to be filled.

"Each vendor will make their own decisions around hosting," he says.

"For me, what it comes down to is the security measures you've got in place to protect that data and ensure it remains private."

However, Mr Al Ammar thinks people are now understanding the risks associated with hosting on the cloud, and that addressing those risks simply comes down to the measures that firms have in place to protect their data and ensuring it remains private.

"Obviously staying within Australia is always important, and that's where it becomes a decision around the risk appetite of the individual firm. But I'm seeing less hesitation for cloud-based technology than, say, a couple of years ago where it was more of a question of what does this mean for me. If I host on the cloud now it's almost like a cloud-first mentality," Mr Al Ammar says.

> "Accountants should be asking to themselves, 'What is the position of my client right now?', not 'What was it six months ago?' or 'What was it a year ago?'"
>
> – Hydar Al Ammar, strategic alliances director, APAC, Thomson Reuters

Mr Hilton says one major risk for accounting firms that don't embrace the collaborative environment is that they will be left with a skills shortage and no proper succession plan. Firms will also be left without a solid client base, since clients are more likely to move to another firm that has the services they require.

"As well as the accounting practices facing those disruption issues, every client of every accounting practice is also facing those issues. If we're going to be a good adviser to our clients, we need to understand those issues ourselves and talk to our client[s] about it," he says.

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The new accounting frontier

Collaboration within accounting won't be going away anytime soon. Mr Hilton points to the emergence of the Millennial generation as the dominant workforce demographic. For him, a major trend among Millennials in the workforce is that they will change jobs more often than previous generations but will keep the same skill set developed over many years.

"Even though they might come and go and you still align with them, they'll be happy to work with you because their values and your values will be the same, but they might be not as committed to one particular firm," he says.

"That's a sign of collaboration. That's just the way Millennials are, there's nothing wrong with that. There's also the attractiveness to blend your business and personal life values together because it's a balance – business and life. They can do that in order to be more independent yet still be great contributors in a network."

As for creating the right network, Mr Hilton searched high and low for more than five years until he was able to find a network of collaborators that he was satisfied with, and made sure the network itself had a strategy and that the strategies of all the firms within the network were aligned accordingly.

"If you don't have a similar strategy that leaves you content, it's not going to work. We spend a lot of time to make sure our strategy is aligned. If they're not aligned, well you need to find another network that is aligned," he advises.

"In the new accounting environment, the mindset for smaller accounting firms is one of growth. If they don't have a growth mindset, then they're not going to get anywhere. That's the facts of life."

NO *guarantees* IN SUPER

When the government announced its superannuation guarantee amnesty, it was to be a once-in-a-lifetime opportunity for small businesses to correct the record. What has followed is further uncertainty and complications

by Adrian Flores

→

Superannuation guarantee

The current state of the SG amnesty

- On 24 May, the government announced a one-off, 12-month amnesty period for employers to address any historical underpayment of SG
- Under the proposal, an employer qualifies for the amnesty if they have an SG shortfall amount within any period from 1 July 1992 to 31 March 2018
- The amnesty was scheduled to run from the announcement date of 24 May, pending passage of the related bill through Parliament
- As of September, the bill is still yet to pass through Parliament

In May this year, the government introduced a one-off 12-month amnesty period for small businesses to address any historical underpayment of superannuation entitlements, dating all the way back to when the superannuation guarantee (SG) was first introduced in 1992.

In announcing the SG amnesty, then-minister for revenue and financial services Kelly O'Dwyer said it will allow "employers to wipe the slate clean and pay their workers what they're owed". The government then noted the SG amnesty would run from the day of the announcement, 24 May, with the assumption that the legislation putting it in place – the Treasury Laws Amendment (Superannuation 2018 Measures) Bill 2018 – would pass through Parliament shortly after. However, there was just one problem.

As of September, the legislation is still yet to pass, a full three months after the initial announcement. With Labor stating their opposition to the SG amnesty shortly thereafter, the current state of the SG amnesty continues to be in limbo.

Unintended risks

As a result, the limbo could lead to risks for small businesses, notes DBA Lawyers director Daniel Butler and lawyer Christian Pakpahan.

"The many employers that have already made disclosures to the ATO on the basis of the proposed amnesty may have therefore been misled. However, the ATO will broadly treat these as voluntary disclosures if the SG bill fails to become law," they say.

"Further, there are still a number of serious modifications required to be made in order to make the amnesty an appropriate basis for employers to come forward with legal certainty. Indeed, it would be preferable for the law to be introduced and passed before an amnesty of this nature is announced."

Mr Butler and Mr Pakpahan say super contributions made under the amnesty would broadly be considered concessional contributions, meaning employees may exceed their $25,000 annual concessional contributions cap.

They add that, generally, employees are not subject to tax on their concessional contributions, but concessional contributions in excess of the contributions cap are included in the employee's assessable income, meaning the employee could also be liable to pay the excess concessional contributions charge.

"The amnesty partly circumvents this where contributions are made by the ATO on behalf of the employer by streamlining the exercise of the ATO's discretion to disregard contributions in relation to a financial year where contributions are made by the ATO on behalf of the employer due to the amnesty," they explain. "However, the exception does not apply where the employer has made the contributions directly to an employee's fund under the amnesty and has used those contributions to offset their SG charge liability."

In addition, Mr Butler and Mr Pakpahan also highlight the broad definition of the term 'examination' as stated in the explanatory memorandum of the SG bill. Because it refers to the ATO's views on the meaning of 'examination' as explained in its ruling in MT 2012/3, it covers not only traditional audits that the ATO undertakes to ascertain an entity's tax-related liability but also any examination of that entity's affairs.

"A range of compliance activities undertaken by the ATO may involve an examination of an entity's affairs, including reviews, audits, verification checks, record keeping reviews/audits and other similar activities. This means that any of those compliance activities may disqualify an employer from being eligible to access the amnesty for that relevant quarter," say Mr Butler and Mr Pakpahan.

Could the amnesty have been handled better?

Thus, it is unsurprising that skepticism persists around how many non-SG-compliant businesses will come forward to take up the SG amnesty. For the chief technical officer of Sky Accountants, Ashley Carmichael, he is unsure of the motivation behind it, saying it "smells a little bit like an information-gathering exercise".

Mr Carmichael says such businesses have obviously flown under the radar without the amnesty in place and have not done the right thing up to this point. He suspects many of them will continue to fly under the radar, believing it would be unwise to notify the ATO of their historical non-compliance.

"It's more about making themselves known, so to speak, as a business that's been non-compliant in the past. No business really wants the ATO's attention," he says. "I think they would be fearful that putting their hand up for this could lead to audit activity in the future."

Even though he says many accountants will certainly be pushing the SG amnesty on their clients, Mr Carmichael thinks a lot of small businesses would be fearful of disclosing their issues.

"What you're seeing is that when businesses struggle, there are certain types of payments that stop getting made, and the Tax Office is generally one of the first ones who stop getting paid. Then it's the employee super, and so on and so forth," says Mr Carmichael. "By-and-large, it's not businesses that are maliciously choosing not to pay their super to employees. It's businesses that just simply got themselves into a very bad cash flow position and can't pay it."

$2.85bn

Around $2.85 billion in SG payments went unpaid in 2014-15, according to the ATO.

A better alternative, according to Mr Carmichael, would've been to create a 'blanket' amnesty that doesn't require businesses to notify the ATO in any way, and simply have it as a period of time within which they need to catch up on their super contribution payments.

"If they do subsequently review an employer and they find that they got their payments in by the due date, then accept that and give them the amnesty. But I think if there was no requirement to declare yourself, and the requirement was simply about getting your payments up to date by the end of the 12-month period, then I think a lot of businesses would make a significant effort to do so," says Mr Carmichael.

"It's just that declaring yourself to the Tax Office that makes a lot of small business people nervous and, particularly, in light of some of the more recent stories about how the ATO can be a bit heavy-handed. I think there's good reason for small business to feel like there might be some ulterior motives there, and they're certainly doing a bit of a cost-benefit analysis about whether the advantages of the amnesty are outweighed by the risks that may be presented in [the] future."

Where from here?

Despite the SG amnesty not currently being law, the Institute of Public Accountants has revealed there are already a number of employers who have come forward to take up the amnesty. With the benefit of hindsight, IPA general manager technical policy Tony Greco says the amnesty period really should've started from the date that the law would be enacted rather than 24 May when it was announced.

"Let's say this thing gets through some time in August. You've already lost part of May, June, July and part of August," he says.

"Cash flow ticks in too, so the business has less time to take advantage of the amnesty. Whether that is still an option remains to be seen."

Regardless of whether the SG amnesty comes into being, Mr Greco says employers are still meeting an obligation that the law requires them to should they come forward, even though they may not get the full concessionary benefits of the amnesty. He suggests affected businesses go into that disclosure with open eyes and say to themselves, "OK, if this doesn't become law, then I have to wear the brunt of the penalty regime".

"Technically, you can bring more compliance to accountants under this amnesty if you have the cash flow to do so. For some people this might be the way it happens, where employers might realise that this is their best opportunity to come clean," says Mr Greco.

"At the end of the day, it was an obligation that the business hadn't dealt with, so they're going to get clobbered by the penalty and that is non-deductibility of the payment, which is quite severe, and the admin fee and potentially some of those other interest."

One thing the SG amnesty has most definitely achieved is to send a clear and simple message to small businesses – employers should be paying super to their employees on time and in full.

"What the amnesty is doing is making good on an employer obligation to satisfy employee entitlements in full," Mr Greco says.

"At the end of the day, it's entitlements that are due. If you focus just on that and say, 'OK, let lying dogs lie', then it's a good thing – this once-in-a-lifetime opportunity to clean the slate going back to 1992."

> "By-and-large, it's not businesses that are maliciously choosing not to pay their super to employees. It's businesses that just simply got themselves into a very bad cash flow position and can't pay it"
>
> – Ashley Carmichael, chief technical officer, Sky Accountants

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Back to SCHOOL

After taking time away from the office, Bridget Murray has set out to achieve a big goal – one that involves hitting the books

by Linda Santacruz

→

Bridget Murray was in the middle of a career break when she decided she would do something kind of scary. She went back to school. For an accomplished executive leader with 15-plus years' experience in corporate finance, this would seem like a surprising move.

But Ms Murray isn't going for just any degree. She's enrolled in the Master of Business Administration (MBA) program being offered by the Institute of Public Accountants (IPA) in partnership with Deakin University. She decided to embark on this new journey after a career break allowed her to deeply reflect on what she wanted for the future.

"I had taken a bit of time off just to spend time with my daughter before she started school. I feel like I jumped off the hamster wheel for a little while and I've had the chance to reflect on where I am and where I want to be," she says.

"I think sometimes when you've got little ones and you work full-time, you run from childcare to work and back and you never have time to think about where you're really heading. I've had a bit of time to sort of reflect on where do I want to go from here? How do I leverage my existing skill base, which is comprehensively mostly corporate finance? How do I do that with the right type of study?

"I think the MBA is perfect for that because, clearly, my financial acumen is strong. But embracing strategy, marketing, and the other components in the MBA will really help forward my skillset."

Her journey, however, hasn't always been easy.

As a single mum to a five-year-old, Ms Murray has had to learn how to balance home life with study. She also finds some parts of the MBA to be more challenging than others.

"I've got my hands full. My skillset is more numbers and not the wordy. And, [the MBA] has a lot of assignments," Ms Murray says. "I anticipate that I am probably going to be challenged and that's good. It's a good sign that I'm learning something."

Moving up the ladder

Ms Murray grew up in rural west Queensland on what she calls a "massive" cattle station. To launch herself from that, she attended boarding school for 12 years before starting at Southern Cross University, where she earned a bachelor of business degree in accounting.

It was while working at a public accounting practice

“I anticipate that I am probably going to be challenged and that’s good. It’s a good sign that I’m learning something”

→ where Ms Murray realised she required a different kind of business environment.

“I didn’t particularly enjoy it,” Ms Murray admits. “I found it a bit stuffy. I’m a very open and vibrant person and it didn’t, at the time, fit with who I am as a person. But it’s not like that anymore. Accountants aren’t stuffy, boring people. We’re really fun and outgoing.”

Ms Murray’s first corporate job was as a financial accountant at Oracle. Since then, she’s held roles as a financial controller for Clear Channel Media in London and Tom Saunders Construction and IDP Education in Sydney. Most recently, Ms Murray was the CFO, director and company secretary at Human Synergistics for six years until 2016.

Having worked across different industries, such as IT, construction and education, Ms Murray says her next step will be to consolidate all of her experience into something wholesome. With an MBA, she also hopes to one day take up a CEO or board position.

“I’m hoping that eventually I’ll be able to leverage out of finance and into a more senior, general manager or CEO role, long-term. I’m hoping that [the MBA] will also help me long-term to gain a position on a board because it gives me such a broader outlook than a straight finance or accounting background,” she says.

“My short-term goal at this point is to complete [the MBA] and go back into a senior leadership role. It’s easier to work in high-level leadership positions if you have a really good understanding of where people in those other senior positions are coming from. It’s not that I don’t have those skills. But I think I’ll be better skilled at dealing with it in the future, having completed my MBA.”

As for the industry she’d like to work in, Ms Murray says she’s better suited these days to the SME environment.

“Because you end up getting a broader role there. I like that. I would hope that I’m going to stay in an SME or even a start-up environment,” she says. “I would be really keen to jump on a start-up and be involved in that.”

Starting a new trend

The IPA program is made up of two stages, which, upon completion, culminates in an MBA from Deakin University. The first stage includes six units that are designed to refine accounting and finance skills, such as applied business finance, accounting standards and practice, strategic management accounting, and assurance and audit services.

The subjects in the second stage are strategic in nature and geared towards enhancing communication skills. These units include marketing management, people management, principles of leadership, business process management, and managing growth for SMEs.

The program also offers the opportunity to complete some of the MBA units in just five days through Deakin’s residential MBA classroom workshops based in Geelong, Victoria.

IPA members (MIPA) and fellows (FIPA) can join stage two of the MBA program directly, as Deakin has approved them to qualify for 50 per cent recognition of prior learning. New or associate IPA members who complete the six units as part of the IPA Professional Program (alongside required work experience) will also be eligible to commence the second stage.

Ms Murray expects she will enjoy the residential component of the program the most.

“One of the things I really liked about the program is that you can do these residentials in five days and finish a subject. That makes it easier for busy people to go down to Melbourne, have a residential and complete one subject, instead of doing it over a 12-week course online, which is more assignment based,” she says.

“That learning environment is my preference. I think I will probably struggle more with the assignments online. My natural learning style is more group motivated, so I think I’ll enjoy the residentials a bit more.”

For anyone considering enrolling in the MBA program, Ms Murray suggests it would be best suited to those with some life and work experience.

“There’s a trend for people to go straight from university into master’s and they don’t have the life skills nor the business skills to know how to apply what they’re learning,” she says.

“I actually think people are better suited for these types of programs once they’ve got a good few years under their belts and they really do understand how a business works. I find it really hard to see how an MBA, in particular, would be suited to someone just graduated from university. I think you really need to have a good background to make the most of it.”

Ms Murray also believes the program would be a great tool for any mum who took a career break and is now looking to rejoin the industry. It also sends a great message to daughters.

“I know women who take a bit of time off and find it hard to re-enter the market. I’m having my break because my daughter is four turning five, which is unusual because I worked from the time she was born. So, this might be a really helpful tool for mums returning to work to able to have this on their CV,” she says.

“You want to be sending the message of independence, rather than having drive. That’s probably handy for a young woman to see. As the economy is changing in countries, it’s more and more likely that both parents will work.

“It’s actually really important for young women to see their mums working and seeing them be able to do that and still have time for their kids.”

Read this article online at pubacct.org.au

Gone
FISHING

Accounting and MBA school enabled Nader Seifen to go from commercial roles to running a pizza restaurant to now consulting SMEs to 'fish'

by Linda Santacruz

→

For Nader Seifen, studying accounting wasn't initially a part of the plan. In fact, after graduating high school he had hoped to work in mechanical engineering.

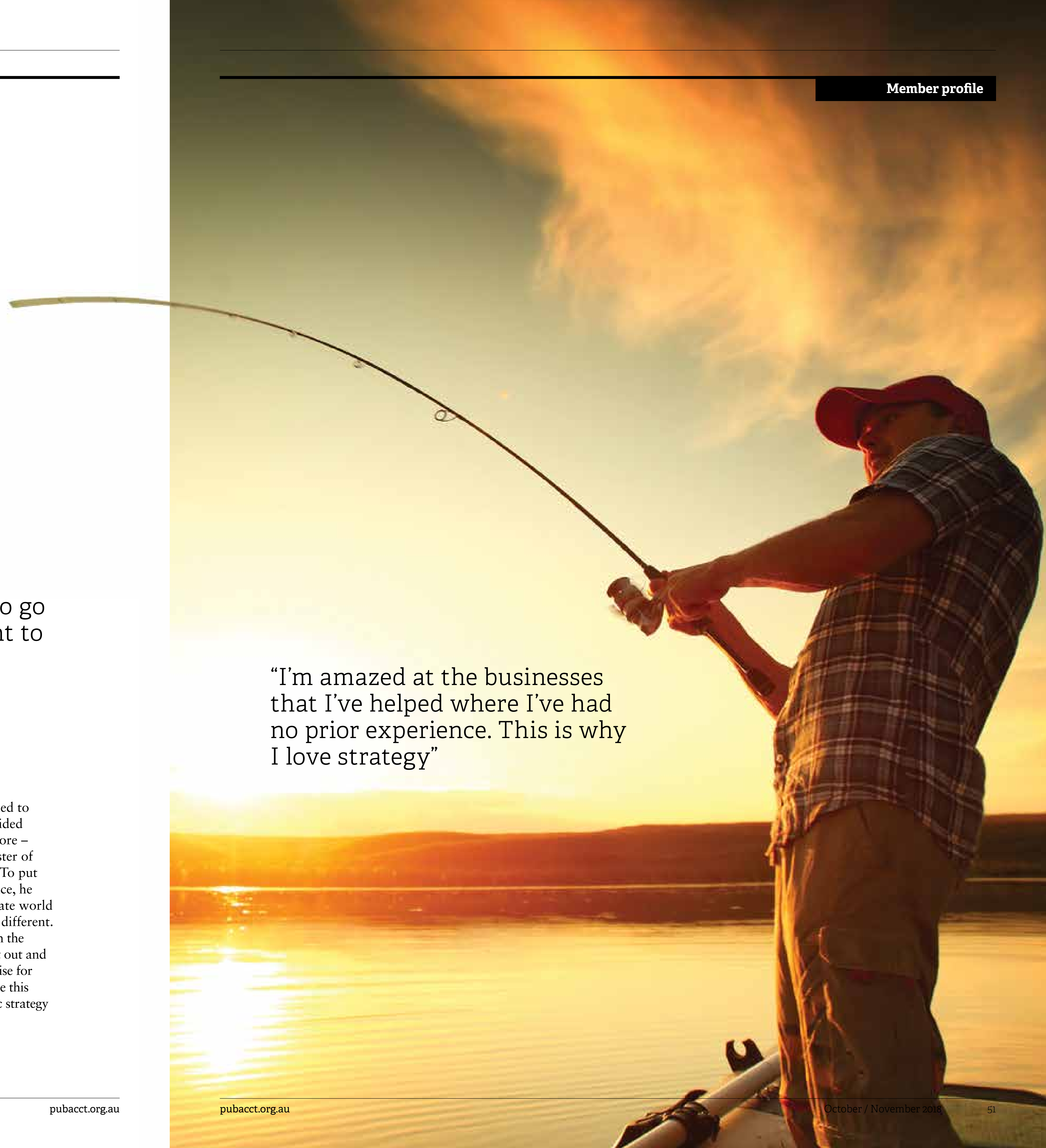
But after one year in his course, Mr Seifen began having second thoughts.

"I dropped out," he says. "I thought mechanical engineering was about cars, but all we talked about was air conditioning. I ended up working at an American company called Avco Finance, which did consumer lending."

It was this job that ultimately led Mr Seifen down the path to studying accounting, which sparked his interest in business strategy and helped him obtain a variety of commercial roles. His new skills even brought him to Saudi Arabia for a few years to work for TNT Australia, which at the time was considered a start-up.

When Mr Seifen returned to Australia in 2002, he decided he would skill up once more – this time obtaining a Master of Business Administration. To put his knowledge into practice, he chose to leave the corporate world and do something a little different.

"I was disillusioned with the corporate world, so I went out and took on a fast food franchise for seven years. Here, you have this mind that's full of fantastic strategy



> "I'm amazed at the businesses that I've helped where I've had no prior experience. This is why I love strategy"

from the MBA to running a pizza restaurant," he says.

"What I learned in accounting and MBA school was for that business to run without me. I refused to have cameras at home to watch my staff. So, I had to have processes in place so when I'm not there, it was running just as good as when I am there."

And it worked. Mr Seifen's processes eventually arrived to a point where he was working only three and a half days a week. So, to avoid growing bored, he began helping others in network with their business issues. This has led to the business consultancy Mr Seifen runs today, known as Spindletop Strategists Advisors and Mentors.

"I needed mental simulation other than making pizzas. So, my network of friends began approaching me to help them with different problems," Mr Seifen says.

"Since then, I've done some amazing things. I've done strategic plans for an independent school, manufacturing businesses, cleaning businesses. I'm amazed at the businesses that I've helped where I've had no prior experience. This is why I love strategy."

Playing the game

For Mr Seifen, a business is like a game.

"You play by the rules. You play to win. Whether it's football or baseball or running a small business or a large business, there are lots of things in common there," he says.

"There's training, there's discipline, there's a goal, there's focus. There is a strategy, assessing your opponent and discarding the home ground advantage or the audience or the weather. A strategy looks at all sorts of factors.

"That's what enabled me to move from a different variety of businesses."

> "I don't work with any businesses that are after profit at any cost. I am far more interested in businesses that want to lay good foundations"

This unique point of view helped him become a mentor and presenter to franchisees in the National Franchise Convention. Mr Seifen later started writing articles targeted to small businesses, which allowed him to indirectly grow his consultancy.

"Becoming a subject matter expert is a fantastic way of promoting yourself," he says. "But this was not about promoting myself. This was more about simplifying business concepts, taking what I learned in the MBA and simplifying it into 1,200 words."

Another way Mr Seifen says he was able to grow his consultancy was by "staying true".

"I don't work with any businesses that are after profit at any cost. I am far more interested in businesses that want to lay good foundations to build a good business on. So, they can get rid of me, having the foundations," he says.

"The more my clients become independent of me, the more gratified I am."

As for the name of his firm, Spindletop, Mr Seifen says it's a metaphor to describe his mission.

"The original Spindletop was an oil well in Beaumont, Texas. In 1893, a man had the intuition that there was crude oil at that spot. In eight years, several impatient investors lost faith and abandoned the project. In 1901, Spindletop became the biggest oil well in the world," he says.

"It took two weeks between the time the derrick struck oil and the time they managed to cap the well. In those two weeks, 800,000 barrels of crude oil gushed into the air. Today's value of those 800,000 barrels is billions of dollars in refined petrol. The inspiration here is that over 95 per cent of businesses (bell curve distribution pattern) have deep potential and hidden potential."

He continues: "These are two very different things: Many businesses know their deep potential and strive for it with varying degrees of success. Most businesses do not know their 'hidden' potential and never realise it.

"In the case of Spindletop, the hidden potential was billions and billions of dollars."

Leaving a legacy

When it comes to future goals, Mr Seifen says he will be focusing on working with accounting practices, as he believes the sector could use some strategy improvement.

According to IBISWorld research, the accounting sector has achieved an annual growth of 1.5 per cent between 2013 and 2018, while inflation has grown by an average of 2.42 per cent per year since 2013, and GDP grew by 3.1 per cent last year.

Mr Seifen believes this demonstrates an opportunity for accountants to grow their businesses, which can then set a good example for their business clients.

"That's what I've been working on for the last year and a half. Trying to get accountants to understand that the kind of strategy that they do and the kind of strategy that I have learned and that I do are two different things," he says.

"Why has the professional accounting business advisory sector grown by only 1.5 per cent? I see this potential for the profession, members of the IPA and their clients, to grow their respective businesses. There is a Spindletop opportunity to strike oil."

Mr Seifen believes part of the problem is that services offered are being commoditised, rather than being differentiated.

"A commoditised offer is based on price, whereas a differentiated offer is based on value," he says. "It means that whatever is offered by the sector, the value is not appreciated by the consumer. This could mean some accountants don't know how to communicate their value."

Another goal for Mr Seifen is to have more consultants who are wanting to teach companies to 'fish'. The term derives from a proverb, which states: "Give a man a fish and you feed him for a day; teach a man to fish and you feed him for a lifetime".

"I'm all about teaching people to 'fish'," he says.

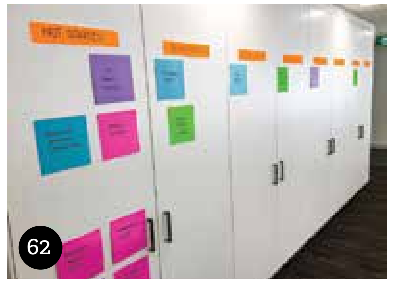
"[My goal] is to have more consultants to simplify the concepts and imparting that knowledge to accountants, to businesses and to clients."

But the overall mission of his consultancy, Mr Seifen says, is to leave a legacy behind.

"My mission is leaving a legacy. And that legacy is intelligent, educated people that can take what I've learned and apply it and even pass it on," he says. "My goal is a legacy of simple ideas and passions of how to put a proper foundation."

Business building

A wrap of the latest strategies, insights and trends affecting your business, as well as your clients' businesses



The impact of the new education for financial advice on accountants

Unlicensed and unauthorised accountants have until 31 December 2018 to bring themselves under an AFSL or be considered a new entrant – studying up to 24 subjects to qualify to provide basic SMSF advice

by David Moss

David Moss,
accountants services director, Merit Wealth

FASEA was established under legislation to introduce higher education standards for financial planners, together with a Code of Ethics.

Every adviser who operates under an Australian Financial Services Licence (AFSL) or is authorised under an AFSL is caught by these new provisions. This includes accountants who have a limited authorisation to provide SMSF advice to their clients.

If an accountant is not licensed or authorised by 31 December 2018, they will be treated like any new entrant into the financial advice world and caught by the new educational standards coming into effect from 1 January 2019.

One day can make the world of difference – two or more years in the advice wilderness not being legally able to provide advice on SMSF, or being able to continue to do what you have done for many years.

Post 1 January 2019

To be authorised or licensed from 1 January 2019, you must hold an approved degree. This is a university degree in financial planning or equivalent. This is 24 subjects.

The typical degree held by accountants in commerce, business, accounting, economics or tax are not approved degrees. They are related degrees for which you may receive some credits for recognised prior learning.

For those who are licensed or authorised under an AFSL before 31 December, there is a different and less onerous education requirement. Your existing qualification will likely mean you will have until 2024 to complete three subjects and in some cases only one subject, being ethics. A far cry from 24 subjects.

This deadline won't be changing. Every accountant in public practice needs to consider, could I or any staff member wish to give SMSF or financial advice at a point in the future?

What a difference a day makes – 24 subjects to study or one!

How and why did FASEA come about?

Enhanced education standards and a new Code of Ethics was codified under section 921U(2)(b) of the *Corporations Amendment (Professional Standards of Financial Advisers) Act 2017*. This resulted in the creation of FASEA. In recent times, we have seen the establishment of a FASEA board with a cross-section of the industry and including representation from consumers, through Choice.

Obligations and requirements

The key aspects of this new obligation are that individuals authorised to give personal advice under the *Corporations Act* as at 1 January 2019 will be required to do the following:

- Move to an updated and improved continuing professional development program, which will be annual for all advisers from 1 January 2019;
- Have signed up to the FASEA code of ethics by 1 January 2020;
- Pass an industry examination by 1 January 2021; and
- Meet minimum industry qualifications by 2024.

Like the introduction of the Financial Services Reforms in 2003, this has created an enormous amount of concern, particularly from older advisers who may not have completed formal education, nor participated in an examination process for many decades. In addition, each subject is likely to cost circa $2,000 and if you are required to do eight, then it is a reasonable commitment if you intend to only to be in the industry for another five years or so.

The FASEA education pathways consultation closed for comment on 30 June 2018. Overall, it is a better outcome than we had originally expected. For example, someone with a related degree but no postgraduate qualification will be required to do a three-subject bridging course by no later than 1 January 2024. One subject will be based around the *Corporations Act* and the various sections that influence the advice area, the second will be on the Code of Ethics and the third around behavioural finance and consumer behaviour.

Someone with a related postgraduate qualification will only be required to complete the Code of Ethics subject.

Related degrees and qualifications are defined – related degrees include bachelor of commerce, bachelor of business, bachelor of economics and bachelor of accounting, with majors that are related.

There are many people within our industry who do not have a degree, whether related or unrelated. They will be required to complete an approved graduate diploma program consisting of at least eight subjects or a degree or master's program to the equivalent of Australian Qualifications Framework level 7 or above.

This education requirement will dovetail with the establishment of "Code Monitoring Bodies". These will monitor the Code of Ethics and provide enforcement (other than in relation to breaches of the *Corporations Act*).

There is some debate currently regarding whether the CA and CPA qualifications will be treated as "postgraduate qualifications" or as "designations". The argument is that both are run by educational institutions, but the CA program appears to be accredited by a university. This issue is still to be resolved.

New entrant	**Existing adviser** with **no** degree	**Existing adviser** with **unrelated** degree	**Existing adviser** with **related** degree	**Existing adviser** with **related** degree + **related** post graduate qualification	**Existing adviser** with **approved** degree
Education required Approved degree (24 subjects at AQF7) **by no later than** 1 January 2019	**Education required** Approved graduate diploma (8 subjects at AQF8) OR Other approved qualifications (degree or master's - AQF7 and above) **by no later than** 1 January 2024	**Education required** Approved graduate diploma (8 subjects at AQF8) **by no later than** 1 January 2024	**Education required** Bridging course (**3** subjects at AQF8) **by no later than** 1 January 2024	**Education required** Bridging course (**1** subject - FASEA Code of Ethics at AQF8) **by no later than** 1 January 2024	FASEA approved bachelor's or master's degree already meets the qualifications requirements. **Education required** Bridging course (**1** subject - FASEA Code of Ethics at AQF8) **by no later than** 1 January 2024
Professional requirements • PY • Exam • Annual CPD • Code of Ethics	**RPL options likely to be available in these two categories** Professional designation programs, education and experience may attract RPL. FASEA would expect greater RPL credits to be available for advisers with formal qualifications.		**Bridging course subjects** • *Corporations Act* (emphasis on Chapter 7 - Financial Services and Markets) • The FASEA Code of Ethics • Behavourial finance clients and consumer behaviour, engagement and decision making		
	Professional requirements for **existing** advisers		**Pass an exam by** 01/01/2021	**Annual CPD from** 01/01/2019	**Code of Ethics** 01/01/2020

Improving compliance on tax deductions for work-related expenses

We partnered with the Australian Taxation Office to examine the extent to which behaviourally-informed communications to tax agents could reduce erroneous work-related expense claims

Professor Michael Hiscox, founding director, Behavioural Economics Team within the Department of the Prime Minister and Cabinet

by Professor Michael Hiscox

Recent unpublished ATO research has found that many taxpayers think it is wrong to over-claim work-related expenses and intend to do their best to report income and claim deductions correctly. However, in practice it appears some taxpayers think it is OK to over-claim 'a little'. Ensuring deductions are claimed accurately is a priority for the Australian government and the ATO.

Approximately 65 per cent of Australian taxpayers claim work-related expense deductions. In 2015–16, 8.6 million taxpayers claimed nearly $22 billion in work-related expense deductions – representing a 15 per cent increase since 2010–11.

Over 70 per cent of Australians lodge their income tax return through a tax agent, so prompting a behaviour change among agents could lead to a larger increase in overall tax compliance.

The ATO uses data analytics to identify agents whose clients' claims are higher than expected when compared with agents with similar clientele. Agents are then engaged directly to address compliance risks in relation to work-related expense claims in their client base.

In engaging with agents, the ATO uses a range of approaches to encourage compliance, from help and education through to enforcement activities. Unpublished work by the ATO has found that the most positive return on investment and sustainable compliance impact results from activities where interaction with agents is tailored (using data analytics) and involves direct dialogue between an ATO officer and agent.

In this trial, we tested whether ATO data analytics could be coupled with behaviourally informed written communications to improve the accuracy of work-related expense claims in a low-cost manner.

The trial

We used a randomised controlled trial to test the impact of sending this letter to tax agents whose clients had higher than expected work-related expense claims compared with their peers. The letter specifically identified each agent's clients who had lodged higher than expected claims (referred to as 'identified clients'). There were over 2,000 tax agents in the trial, who were randomly assigned to a letter group or a 'no letter' control group.

In the letter group, 17 per cent of agents lodged amendments, compared with 1 per cent of agents in the 'no letter' group. On average, identified clients represented by agents in the letter group reduced their work-related expense claims by $191, compared with a $2 increase in the 'no letter' group. Overall, identified clients reduced their work-related expense claims by a total of $2.2 million. If we had sent the letter to all agents in the trial, including those who did not receive a letter, we expect this simple messaging intervention would have decreased work related expense deductions by about $4.4 million.

The letter led to an increase in the average total tax paid per client of $76, for a total of $0.9 million. If we had sent the letter to all agents in the trial, total tax revenue would have increased by an estimated $1.7 million. We cannot be sure about the contribution of the reduction in work-related expense claims to the increase in tax paid, because amendments to tax return labels other than work-related expenses could have influenced the net tax position.

Overall, these findings indicate low-cost, well-targeted and well-designed communications incorporating behavioural insights are effective in reducing erroneous work-related expense claims, although the length of time for which this behavioural change is sustained remains unknown.

So what does all this mean?

The results of the trial demonstrate coupling data analytics with communications incorporating behavioural insight techniques can influence compliance for work-related expense claims.

Identified clients represented by agents in the letter group reduced their work-related expense claims by a total of $2.2 million. On average, identified clients represented by agents in the letter group reduced their work-related expense claims by $191, compared with a $2 increase in the 'no letter' group.

While acknowledging factors other than work-related expense deductions may also be driving the amount of net tax paid, agents in the letter group also increased tax paid by $0.9 million. On average, tax paid increased per client by $76. Given there were as many agents in the 'no letter' group as in the letter group, we can estimate if the letter was sent to all agents in the trial, work-related expense claims would have reduced by $4.4 million and tax revenue increased by $1.7 million.

On the face of it, this result indicates an effective return on investment when the cost of sending the letters is compared with the additional tax revenue collected as a result of reducing deductions. However, noted alongside this result, unpublished ATO reports suggest other approaches employed within the ATO to influence compliance for work-related expense claims are resulting in a greater return on investment. The ATO has previously established that unless follow-up compliance work is conducted after letter campaigns, the effectiveness of future campaigns is decreased. The need for this follow-up action reduces the cost effectiveness of a letter-based approach.

Our trial shows it is important to test interventions because human behaviour is complex. Our trial showed the letter was effective at reducing work-related expense claims, but work-related expenses are just one part of the overall tax system and tax return process. As changes in deductions claimed in one category may be offset by increases in deductions claimed in other categories, future trials should connect and analyse data across all deduction categories to better identify shifts in behaviour around claiming deductions.

A word from ATO commissioner Chris Jordan

Let me share with you some things the data is telling us from our random enquiry program and other compliance activities conducted for the individuals-not-in-business market. We are continuing to see a level of incorrect claiming for deductions that is concerning – particularly in relation to over-claiming of work-related expenses.

While the amount of each adjustment may be small, the overall impact when extrapolated to the whole population is significant. As I have mentioned previously, the work-related expenses gap is estimated to be greater than the large corporate tax gap of $2.5 billion.

Though this is not new news, what is concerning is the different results for self-preparers and those who use an agent.

The incorrect claiming in these random enquiries is actually worse in agent prepared returns. It would seem complacency has crept in and the three golden rules of deductions are not being observed. That is, you must have spent the money and not been reimbursed, it must relate to your work (not private expenditure), and you must be able to prove your expenditure if asked.

These results are really disappointing. For years I've heard how tax agents were guardians of the system – these random enquiry results tell me this is not the case for some agents. They are not fulfilling their duty as a registered tax practitioner in line with the Tax Practitioners Code of Conduct. In reality, they are selling their clients short – they are not bringing their expertise, nor taking care beyond reliance or blind acceptance of information given by clients, or even leading clients to deductions that are not allowable. Tax practitioners are meant to take steps to ensure the information is accurate and complete, and claims can be substantiated, and it would appear this is not always happening.

I understand that agents want the best for their clients, and that they are also competing for business. But not doing the right thing might be a "sugar hit" for your clients in the short term but in the long run is not good for your clients, not good for the profession and not good for the system. High integrity agents encourage, enable and ensure their clients do the right thing.

Michelle Bowden,
managing director,
Michelle Bowden Enterprises

Why presentation skills are so important to your career success

As someone who has trained thousands of people in persuasive presentation skills over much of the past two decades, anyone can be an exceptional presenter. It's just a matter of knowing what to do and doing it

by Michelle Bowden

Most of us have had the experience where a business meeting just goes wrong. Where the presenter either didn't grab your attention from the start or where they lost control of the presentation at some stage.

But the real question is, have you ever been the presenter who delivered a 'less than successful' business presentation or pitch for your services? Have you ever facilitated a meeting that ended in your client or colleagues walking out at the end, busting to get back to work, with no intention whatsoever of implementing anything you have just talked to them about? Have you ever pitched in business and afterwards felt terrible, because you know deep down that there is no way your potential client feels compelled to engage in a business partnership with you in any way, shape or form? At the time, it feels like the meeting was a huge waste of time for you, for them and for your business.

Interestingly, most people think of presenting as something separate from life; as something we only do when there's a lectern, some slides and an audience. But just because you don't have to make big pitches to a board or represent your company at an industry conference doesn't mean you don't present to people. We present to people with the intention to influence them every single day. We present to our colleagues, our staff or managers, our suppliers and potential clients. You are presenting yourself every day at work whether you realise it or not, and presentation skills are critical when you are trying to get ahead in business.

The more successful entrepreneurs I meet, the more I realise that regardless of their intelligence and business acumen, regardless of their excellent products or service and regardless of their commitment to their business, these successful people have one thing in common. They know how to present their ideas in a compelling, influential and memorable way. They know how to structure their thoughts, how to connect with people, and they say what they want to say in a way that resonates with their audience. They inspire and compel their audiences to take action!

Let's be clear on what is meant by presenting

I believe presenting is any form of communication with another person (including face to face, over the phone, by email or through the internet), from one-on-one, to small and large groups. And I believe we present both formally and informally. In short, most people in business present regularly every single day of their life.

Presenting is about connecting with people through the words you choose to say and the way you choose to say them. When you present you show people who you are and how you can help them. It's an opportunity to step up and be noticed for what you can offer. Presenting provides a unique opportunity for you to showcase your professional expertise and accelerate your career.

It doesn't matter how good your message is if no one's listening

You may have thought that you were just running another team meeting, but your team members that morning were hoping it would be a motivational event that would encourage them to work harder and not apply for that job with your competitor.

You may have thought that this was just another prospective client as you answered the phone to convert the business – but this 'potential client' has already spoken to your three closest competitors as they shop around for the best solution to their problem.

You may have thought that you were just a small part of the picture, just the technical expert with the graphs and charts, but the client was watching the way you presented your information with a plan to refer you to their biggest supplier.

You may have thought you were just answering another email inquiry that came through your website contacts page, but the person inquiring actually turned over millions of dollars this year and absolutely needed long-term financial advice. The minute you connected with them they were judging your interpersonal skills.

Presentation skills really matter

In case you're not yet convinced, in a business context, audience members or clients will typically give you less than five minutes to prove yourself before completely switching off.

My research in Australia (conducted with over 800 employees from small, medium and large businesses) has found that if you are an effective business presenter, you are in the minority. When asked about workplace presenters they had seen in the last 12 months:

- Only 38 per cent of respondents thought presenters understood their needs as a client.
- More than half the respondents said that presenters generally read from their PowerPoint slides.
- Only 40 per cent of respondents found presenters to be engaging.
- Only 28 per cent of respondents said that they were moved to action after seeing presenters.

So what does all this mean?

It means we are typically going to too many boring meetings and workplace presentations where the presenter is not enjoying themselves, and the audience is enjoying themselves even less! It's critical you remember that anyone can be an exceptional presenter. It's just a matter of knowing what to do and doing it.

Every important presentation should be planned, and the good news is that the more practised or accomplished you are at crafting your message, the more efficient and productive you will become.

Anyone can be an exceptional presenter

Here are 10 tips to get you started:

1. Analyse the 'audience' before writing out what you'd like to say. What are they thinking, feeling and doing, and what change are you trying to create in them?

2. Learn how to build rapport. Remember, it's not about you, it's all about the audience. Make a plan for how you will flex your personality and approach, so you are as 'like' your audience as possible – that's what rapport is all about.

3. Rehearse, rehearse, rehearse to increase your confidence and improve your performance. A typical executive that I would coach in my business will rehearse their opening and closing between 50 and 200 times – yes you read those numbers correctly! Great presenters are made not born.

4. Warm up before you try to speak so you don't 'trip' over your words. In particular, warm up your lips, cheeks and jaw. A rich, resonant vocal quality does wonders for your credibility and makes it easier for people to listen to you.

5. Design your slides LAST. After you've done your analysis and design of the message, then craft the slides to reinforce your key points.

6. Don't read out your slides to your audience. PowerPoint is a visual aid – it's not the presentation.

7. Use your body to support your message. For example, don't place your hands over your crotch in what is known as the fig leaf, or reluctant nudist posture! Do try and stand with your hands by your side and gesture as a visual aid when necessary to reinforce your key messages.

8. Connect with your audience – really 'see' them. Look into the whites of the audience's eyes and truly engage them. This way you'll be more compelling, you'll reduce your own nerves and guess what? The secret to an interesting voice is direct, connected eye contact. Focus on your audience at all times. It's not about you – it's always ALL about them.

9. Pause and breathe. This will help your audience to catch up with your ideas, it will give you clarity of thought, a feeling of greater relaxation and it will also help you project your voice more powerfully.

10. Ask for what you want so the audience knows what you want them to do as a result of listening to you, and be sure that you leave them feeling terrific at the end.

Remember, it doesn't matter how good your company is, how good your products or services are, how good your ideas are, or how good your message is if no one's listening. Improve your presentation skills today and reap the extraordinary benefits.

How to implement projects and improve your business

Being more purposeful and organised with non-client time will make a massive difference to the development of your firm

by Scott Charlton

Scott Charlton, director, Slipstream Coaching

Whilst we're all familiar with the plumber with the leaking tap syndrome, it's still a challenge to avoid it occurring in one's professional service firm.

This is because most practitioners are too busy with day-to-day client matters to orchestrate a consistent business improvement program for themselves.

In this regard, I've observed that accountants' high attentiveness to their client responsibilities make them prime candidates for remaining with the status quo. Don't believe me? Try engaging accountants in strategic matters when they are behind with their tax lodgement program!

On the other hand, those that successfully implement projects designed to improve their business are well on their way to building a prosperous firm of the future.

To help practitioners appreciate what's involved with this process, I like to share the analogy of a wheelbarrow. One can fill it with the greatest business improvement ideas in the world, but unless someone grabs the handles and pushes, the barrow just stands still!

It's my contention that your strategies don't even have to be that brilliant. Consistent implementation of good ideas beats brilliance gathering dust in your wheelbarrow every time.

The joy of implementation

A colleague wearily said to me the other day that many of the strategic planning sessions in which he's participated over the years had ultimately been worthless, because nothing was implemented. Sadly, he's not alone.

Conversely, by mastering the art of getting things done you'll reap enormous benefits. That is, by completing business improvement projects on the way to implementing agreed strategies, you can expect to enjoy:

a) Massive improvements. If each and every quarter you implement up to three projects that will make a significant difference to your business, then well within 12 months you will have a vastly better business.

b) Team morale. Deep down, everyone wants to play on a winning team. Continuously improving the way business is done in your firm will create an unstoppable, success-orientated culture.

c) Better business outcomes. Implementing your projects is the key to achieving your business plans.

Six tips for successful implementation

As you will doubtless have to implement a significant number of projects on the way to building your ideal firm of the future, it makes sense to adopt a standard approach to undertaking them. Here are six tips which have been compiled from observing the firms in our coaching program who have turned implementation into a core competence.

1. Time allocation

Success starts with creating the space for it to happen. That's why for working on your projects and, indeed, all of your other non-client responsibilities, it pays to set time aside to fulfil them. Once you determine an appropriate time split, it is recommended that you go to the extent of colour coding your diary for the times when you'll be focused on projects. Although there will always need to be flexibility, train your team to avoid making client appointments during project times.

2. Frame up your projects

In the inset are some suggestions for running your projects. For starters, there are three essential specifications if your projects are to be successful:

- Clear definition. It's amazing the difference in one's results when a project must be well defined before commencement;
- Time budget. This incorporates when the project needs to be completed or, in the case of a large project, when each phase needs to be finished; and
- Resource allocation. Resources could be in the form of team members, a time and expense budget and/or external resources. What will it take to get the project completed?

3. Kanban

Here at Slipstream Coaching, we've embraced Kanban, a system originating in the car industry for tracking manufacturing progress.

Each project is represented on coloured paper, with the colour denoting who is responsible.

Each project gets prominently displayed on a wall in the office, enabling its progress to be continuously tracked. Importantly, no project can be lost or forgotten.

The project stages we use are (see image): not started, brainstormed, scoped and costed, started, 50 per cent completed, refinement, re-view, and completion.

These stages become "column headings" featured on the wall, with the paper for each project being moved from one stage to the next as it gets completed.

4. Get out of the office

Ironically, the features that make your office a great place to get client work done – access to client files, rapid exchange of emails, proximity to business partners and responding to the needs of team members – can kill off the focus and creativity required to develop something new.

Some of our clients report their best thinking gets done on the way to and from their quarterly group coaching meetings. Personally, I'm all for working from home on occasion or even taking oneself off to someone else's boardroom to get away from all distractions – yes, those emails can wait! Do, however, appoint an accountability buddy, tasked to ensure you stick to working on the business and enquire about what you achieved.

5. Guns for hire

Because it's challenging to get sufficient periods of uninterrupted time, principals would be well advised not to take on the role of "projects officer". Invariably this means spasmodic attention at best, typically on weekends. Instead, the best roles for principals to play are that of originators, supervisors, mentors, reviewers and approvers.

On the other hand, a part-time projects officer or contractor to work on specific projects leaves busy professional staff and your practice manager free to concentrate on what they do best. There may also be roles for external experts – software trainers, video producers, marketing consultants and others – to play in fulfilling the brief.

6. Be accountable

The easiest person to let down is yourself so for best results, share what you are striving to achieve with others who can be relied upon to expectantly enquire about your progress.

At Slipstream, we encourage and foster accountability – to business partners, your team, coach and members of one's external coaching group.

Recap

It's worth repeating the benefits you can expect to receive from consistently implementing projects – massive improvements in targeted areas, a team culture of accomplishment and your business objectives achieved.

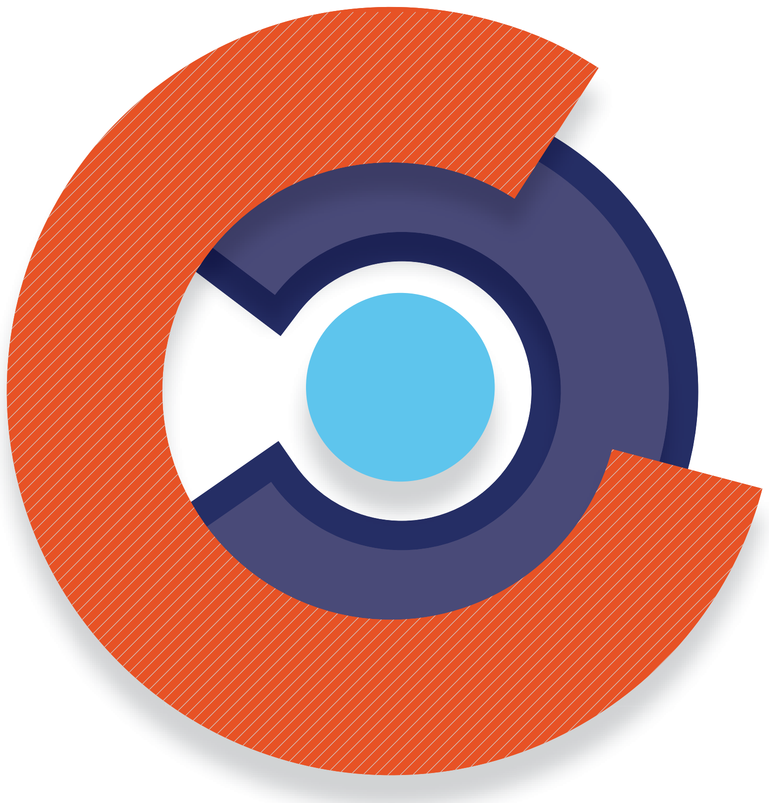
Characteristics of a successful project

Here are some quick insights into projects which prosper

- Links with the business plan. It's easy to create a long list of "busy work". It's more effective to have a much smaller list of projects that are specifically related to implementing your business plan. After all, how else will the plan ever be implemented if you're not focused on achieving it?
- An action-orientated business plan. Follows on from the above. Let's have less piffle, and more specific objectives and action items.
- Well-defined. Adopt the discipline of creating a simple document describing each project, how it is to be approached and the expected outcomes. This alone will vastly increase chances of success.
- Definite start and end points. Hopefully, not much explanation is required. Clarity here is vital.
- Tracked throughout its implementation.
- Appropriately resourced.
- Debriefed and celebrated upon completion.

360 DEGREES

What have your clients been asking you about the banking royal commission?



Miriam Holme
founder and director,
Fab Tax Accountants

Clients have been interested in finding out how the banking royal commission directly affects them. Their current perceived impact has been around the tightening and changing of the banks' lending criteria. Some clients have thought that the drop in some property markets have been partly caused by a credit crunch linked to the banking royal commission.

A few clients already had a general distrust and disliking towards the industry, and the banking royal commission has certainly highlighted reasons for this. They have discussed the articles that have exposed the lying, bribery and fraud to name a few.

Clients were disappointed with the lack of respect and compassion the industry has shown to people, particularly those in distress or who have passed away, and the time frames taken to redress wrong doings.

The royal commission has also brought up clients' own experiences with negligent financial advice, in particular one client who had their whole superannuation stolen by a financial planner many years ago. This financial planner was actually referred to them and highly recommended by their accountant. They feel disillusioned that it's all too late for them and it won't help them get their money back.

Clients are wanting professional and ethical advisers that they can trust and that focus on their best interest. This is where my relationship as their trusted accountant is so crucial. They want more simplicity in the industry and more assurances, so they can get a better service and sound advice.

Let us all hope that the royal commission delivers on these points and improves the culture of the industry.

Timothy Munro
director and CEO,
Change Accountants and Advisors

Absolutely nothing. I've not had one client ask me anything about the royal commission.

Yes, I know they're aware it's on and they've seen it on the news and read about it, but it really hasn't affected our clients.

Why? We've always focused on the strategy part of wealth advice rather than the investment placement part. Our clients can clearly see that we're 100 per cent genuine with our commitment to help them be better off as a result of our advice.

We don't have a large book of "trailing commissions". Unless there is real value created for clients, an adviser has no right to charge them anything. I've always felt this was an absolute con job by the industry.

Our approach is to not charge any ongoing fees, but instead we educate our clients in our statements of advice that: 1. They will need our advice from time to time in the future when certain life events happen. 2. We will charge you a price when you need our assistance for specific things in the future (and we list out what these prices are), and 3. If we become aware of something that we think you will need, we will let you know, and then you can choose if you want it.

No FDS, no opt-in is needed as a result – less paperwork for us and our clients, and 100 per cent transparency.

After the royal commission has finished and reports and recommendations are released – our clients will still be there and still need our advice more than ever.

Advisers – embrace the outcomes from the royal commission and let's get 100 per cent focused on helping the mums and dads of Australia to achieve and exceed their personal financial goals!

Josh Gloede
partner,
Accodex Partners

No one has spoken to me about the banking royal commission as such in a direct commentary of it. However, what clients have done is they've spoken to me about their general feeling on banks. I think the banks particularly have a long way to go to repaying faith in businesses.

I think there's a lot of brand damage that has come out, and what has aired out in the royal commission is representing what a lot of businesses are already feeling about their banks; that they're not being looked after. Quite a few of them are actually actively seeking to change banks to someone who they think will better look after them.

Time and time again, it's being shown that businesses are being sometimes taken for a ride, and it takes them quite a while to find a bank manager who looks after their interests and will get back them in a reasonable time.

There have been a lot of things that have come out of the royal commission in terms of the banks looking after their own personal interests before the interests of their clients and that's always going to be a massive issue. As accountants, we put our clients number one. Every single thing we do is in the client's best interest. I feel that we're probably held up to a higher standard of professional ethics.

I believe it's going to bring in more regulation designed to protect clients or consumers. I think it probably is in the public's best interest because we've seen how it's failed before, but it is going to be more difficult for those bank managers who are out there doing the right thing. They'll have more compliance they need to go through but I think it's just really what's going to be required to protect against those that aren't acting in the best interest of their clients.

Daniel Moore
founding director,
Duca Advisors

The conversations I've had from clients directly in relation to the royal commission have obviously been about the flow-on effects to small businesses, which I guess comes from having a little bit of a lack of faith in the banks. These days, what's happening with the banks feels like just an open slather. It feels so much like a cartel. You hear people reference it and they joke with me, but it's certainly not too far from the truth.

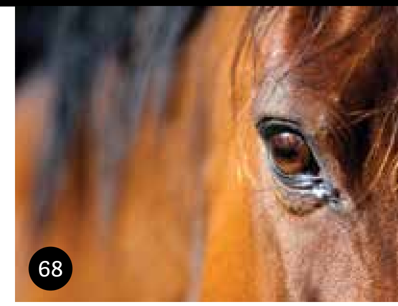
Most of the concerns I've heard from clients have mainly been around financing and the restrictions that have come about over the last few years, which I guess is in part due to the overabundance of finance that banks have given internationally. A couple of years ago it would've been quite easy to get finance, particularly if clients were trying to buy new premises to run their business. Now it would prove almost impossible for them to get finance. The royal commission is obviously putting a limitation on the further development of small businesses and the possible growth they expect to have.

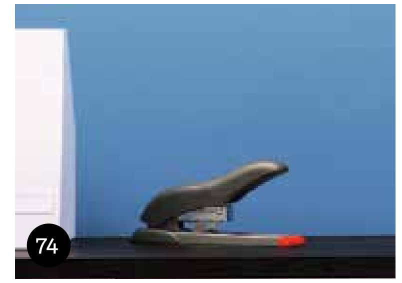
As for what I've learned about the royal commission through other colleagues over the last year, I've got a good friend that I was doing their accounting work for. They told me that a particular bank can at any time just go, 'All right, that's it. We're not taking any more essential loans and no longer want to grow that sector of the business. We're going to focus on another side of the business.'

The banks seem to be a bit of a protected species, yet they say that the reason we survived the global financial crisis so well was because our banking system was so good and so strong.

Technical

Our technical section keeps you abreast of the regulatory, legislative and policy developments affecting the accounting industry





Technical | Superannuation guarantee

Never look a gift horse in the mouth - SG amnesty again

Not paying superannuation guarantee (SG) by the required date attracts hefty penalties. Despite these harsh penalties, there are a number of employers, particularly small businesses, that may not be fully complying with their SG obligations

by Tony Greco

Tony Greco FIPA, general manager of technical policy, IPA

The ATO has estimated that 5 per cent of employers are in this category. The draconian penalty regime can also be a factor contributing towards non-compliance. Even if you are late by a few days, the full penalty regime takes hold, which can be disproportionate to the mischief. To give these businesses an opportunity to rectify past SG underpayments, the government has announced a 12-month SG amnesty applying from 24 May 2018 to 23 May 2019, on the proviso that this measure is passed into law by Parliament. The amnesty requires a legislative fix to enable the ATO to apply the concessionary penalty treatment, as the ATO has very little discretion for SG underpayments under the current rules.

If the law change does not proceed, the existing penalty regime will apply. In addition to underpaid SG, an administration charge, interest and penalties will apply, and the entire amount is no longer deductible for tax purposes. The ATO can, however, remit some of the penalties in accordance with its remission policy for voluntary disclosures.

To give an example of the full impact of the penalty regime, let's say an employer omits to pay SG for one year for one employee who has an annual salary of, say, $60,000 but earns $65,000 with overtime. If paid on time, the SG would be 9.5 per cent of $60,000, which would amount to $5,700. If the current SG charge penalty provisions apply, the impact will be substantial as SG will need to be calculated on the $65,000 amount to which interest, penalties and admin fees will be added. The resulting amount will then need to be gross up to factor in non-deductibility, as any late payments are no longer deductible for tax. The resulting amount could end up costing the business more than double the original SG shortfall.

At the time of writing, there was uncertainty around whether the measure would become law, as it was being opposed by Australian Labor Party, so despite the amnesty period window having already commenced (applies from 24 May), there was no legal basis behind the initiative. Any employer that seeks to avail themselves of the amnesty before the law is passed may not receive the full benefits of the amnesty, so it may be prudent to wait. If the ATO were to conduct an audit, however, then the gloves are off and employers cannot avail themselves of the amnesty irrespective of whether the amnesty becomes law or not.

At the end of the day, SG obligations are an employee entitlement, and therefore employers should make good this obligation.

Benefits of SG amnesty if passed into law

An employer that has an SG shortfall amount that qualifies for the amnesty within any period from 1 July 1992 up to 31 March 2018 can take advantage of reduced penalty outcomes. This must come as a welcome relief for employers trying to do the right thing but were reluctant to do so as a result of the harsh penalty regime.

The proposed amnesty provides the following benefits:

1) the ability to claim a tax deduction in respect of SG charge payments for the SG shortfall made within the amnesty period;

2) the removal of the $20 per employee administrative component to the SG charge for each affected quarter;

3) no Part 7 penalties will apply (up to 200 per cent of SGC amount with a minimum of 50 per cent normally applied).

Employers, whilst avoiding most of the harshness of the SG penalty regime, are not completely off the hook. Employers will still be required to pay unpaid SG amounts and the nominal interest plus general interest charge if applicable on the SG shortfall.

There are eligibility requirements for employers to avail of the amnesty. One of the requirements is for the employer to disclose certain information relating to the SG shortfall and associated charges.

After calculating the relevant amounts of the SG charge, employers can apply to access the amnesty in one of two ways:

- pay the relevant amounts directly to the relevant employee's superfund, and complete and lodge the relevant approved form;
- if the employer wants to take advantage of the amnesty but does not have the necessary funds to fully pay the SG charge amount, then the employer needs to complete and lodge the approved form, and pay the amount owing to the ATO in accordance to a payment plan that the ATO will help the employer set up.

Employer catch-up payments of SG could cause excess contribution issues for some employees. The ATO, however, can exercise its discretion to disregard the contributions made under the amnesty.

It will be much more difficult for non-complying employers to avoid meeting their SG obligations when single touch payroll takes hold and becomes mandatory for all employers. Whilst single touch payroll is already in place for larger employers, it is proposed to apply to all employers from 1st July 2019. This will provide the ATO with much more visibility around employers who are not making timely SG payments.

It's a one-off opportunity to put SG non-compliance right, and employers should not look a gift horse in the mouth.

It is unfortunate that the amnesty has a retrospective start date irrespective of when the law is passed rather than applying from when the law becomes operative, which is highly usual. Whilst the bill has passed the lower house, it requires the Senate to pass the legislation. The IPA is urging all Senators to support this initiative to allow underpaid SG to flow to workers who have not received their lawful entitlement.

Technical | Superannuation

Superannuation death benefits as a vital part of estate planning

It's important to understand the rules covering the payment of superannuation death benefits and how control of the payment decisions may be implemented

by Michael Harkin

Michael Harkin
national manager, training and advice, Topdocs

Contrary to a common misunderstanding, an individual's superannuation death benefits are not directed by their will. It is vital that an individual's estate planning considers the special rules applicable to assets they hold in superannuation, as well as their assets outside of superannuation.

What are superannuation death benefits?

Superannuation death benefits are basically the payment to a person from a superannuation fund because the deceased person was a member of that fund.

The benefits can be paid either from the accumulation account of a deceased member, or from any pension account held for them.

Specific tax concessions, which may not be available in other circumstances, can apply to the payment of death benefits.

To whom can the benefits be paid?

A superannuation death benefit can be paid, in the first instance, to either the legal personal representative (LPR) of the deceased, or any person who is classified as a dependant under the *Superannuation Industry (Supervision) Act 1993 (SIS Act)*.

If neither an LPR nor any other such dependant exists at the time of death, a broader category of recipients may be considered.

It is important to note that there are a number of different definitions of 'dependant' that apply in superannuation, the two main definitions being:

- dependants under the *SIS Act*, generally referred to as 'SIS dependants'; and
- dependants under the *Income Tax Assessment Act 1997 (Tax Act)*, generally referred to as 'tax dependants'.

A person who is classified as a SIS dependant may not meet the definition of a tax dependant, meaning that although they are entitled to receive a superannuation death benefit, it may be subject to tax.

What is an LPR?

The term 'legal personal representative' covers a range of scenarios for people at different stages of their lives but, for a deceased person, it refers to the executor of their will or administrator of their estate.

Who can be an SIS dependant?

The *SIS Act* defines a dependant of a deceased member of a superannuation fund as any of:

- the spouse (married or de-facto) – there can be more than one spouse at a given time;
- any child of the deceased; and
- any person with whom the deceased had an 'interdependency relationship'.

As the SIS dependant definition is an 'inclusive' definition, financial dependency may also meet the definition.

What defines a 'child'?

The range of individuals who may be classified as a child can be quite broad, including:

- adopted, step or ex-nuptial children;
- children of a person's spouse; and
- children under the broader context of the *Family Law Act*.

The tax definition of dependant for death benefit purposes limits dependent children to those under 18 years of age.

The ATO, in an Interpretative Decision, ID 2011/77, considered the issue of 'stepchild' in the context of the divorce of a child's natural parent and the step-parent. The ATO's decision was that the "relationship of stepchild to step-parent is severed when the marriage between the natural parent and the step-parent ends …". That would apply either on:

- the death of the natural parent; or
- the divorce of the natural parent from the step-parent.

The term 'stepchild' only applies, as detailed in the ATO decision, in relation to individuals who are legally married. If the couple was in a de-facto relationship, the definition 'children of a person's spouse' would apply.

In either scenario, the stepchild or stepchildren would need to demonstrate some other dependency, such as interdependency or financial dependency, to meet the definition of SIS dependency.

What is required to confirm an interdependency relationship?

Section 10A of the *SIS Act* states that two persons (whether or not related by family) have an interdependency relationship if:

(a) they have a close personal relationship; and
(b) they live together; and
(c) one or each of them provides the other with financial support; and
(d) one or each of them provides the other with domestic support and personal care.

The only exception permitted to the requirements relates to living together. If the individuals are unable to live together because of a disability, but meet the other requirements, they will be considered to be in an interdependency relationship.

Can adult children have an interdependency relationship with a parent?

The Superannuation Complaints Tribunal has considered this question and has determined that it is possible for an interdependency relationship to exist between a parent and their adult child.

This can have significant tax and estate planning consequences when, for example, an individual resides in an interdependency relationship with one of a number of the person's adult children.

Who can be a financial dependant?

There is no limitation to the range of people who may be financial dependants. As the term 'financial dependant' is not defined in either the *SIS Act* or the SIS Regulations, the fund trustee has the responsibility of determining whether a person was financially dependent on the deceased member at the time of their death, in accordance with any instructions contained in the governing rules of the fund.

What if there are no SIS dependants surviving the member?

That situation may occur, for example, following the death of a young person who was not in a relationship (as a couple), had no children, had not made a will, and had no assets other than superannuation savings.

In that instance, there is unlikely to be any need for a relative to apply for letters of administration, meaning there will be no LPR to whom the trustee could pay the superannuation death benefit.

So long as the governing rules of the fund permit, the trustee is able to pay the death benefit to another person, such as a parent of the member.

How may the benefits be paid?

Superannuation death benefits can be paid as a lump sum or, in limited circumstances, as a pension. The limitations on payment of a pension relate to children of the deceased member.

A pension may only be paid to a child if the child:

- is under 18 years of age; or
- is under 25 years of age and is financially dependent on the member; or
- has a disability.

A lump sum payment made from the member's accumulation account, regardless of the timing of the payment, will be a superannuation death benefit.

Who decides who will receive the benefits?

The trustee is considered by many to be the main decider as to the type and amount of superannuation death benefits payable, and the recipients.

However, in many SMSFs, in particular, there is a range of options available to the member:

- ***Automatic Reversion of Pensions***, in which the pension payable to a member automatically becomes payable to another person (nominated previously by the member) on the death of the member, provided the nominated person is entitled to receive a pension under SIS rules.
- ***Non-Binding Death Benefit Nominations***, which are, in effect, suggestions to the trustee as to who the member wishes payment be made, with the ultimate decision left to the discretion of the trustee.
- ***Non-Lapsing Binding Death Benefit Nominations***, which remove any discretion from the trustee so long as the nominated recipients are SIS dependants at the time of death.
- ***Binding Death Benefit Rule***, effectively a rule written into the trust deed by the trustee at the request of a member, which sets out the conditions regarding the payment of the benefit at the time of the death.
- ***Member Benefit Guardian***, which prevents the trustee from undertaking certain actions without the written consent of the Member Benefit Guardian. If appointed, a Member Benefit Guardian's consent would be required by the trustee prior to making superannuation death benefit payments, where neither a reversionary pension nor a valid binding death benefit nomination is in place.

Technical | Cryptocurrencies

Blockchain and the evolution of cryptocurrencies

Every day, the amount of blockchain technology, including the proliferation of 'cryptocurrencies', used in real-world scenarios grows

by Rafael Morillo Maldonado

Rafael Morillo Maldonado
principal – Melbourne, RSM Australia

From logistics to fine art, it is hard to find a sector that has not been touched by this transformative technology. We have reached a point where the technology has proven itself, and global businesses can no longer ignore it.

The World Economic Forum anticipates that 10 per cent of global GDP will be stored on the blockchain by 2025. That means executives out there are preparing for this seismic shift and are ready to completely back its implementation. The impact of distributed ledger technology could be as grand as the internet revolution itself.

Blockchain

Blockchain provides the ability to operate in a peer-to-peer business model, where individual members of a chain interact directly without the need for intermediaries. The blocks in a blockchain contain a cryptographic hash of the previous block and, therefore, are resistant to modification of data. This provides a significant level of security over the integrity of the data as the transactions recorded in the ledger cannot be altered retroactively without alteration of all subsequent blocks.

The use of blockchain technology is growing at different speeds, depending on the type of business and industry sector. However, the appealing idea to replace the current accounting of business transactions by means of software with a blockchain system is something I personally do not see happening soon.

This is because it would require a multi-complex level of different blockchains, interconnecting thousands of members from different chains, with potential implications on privacy and confidentiality.

Cryptocurrencies

It is difficult to talk about blockchain and not talk about cryptocurrencies, as this was initially invented to serve as the public transaction ledger of the cryptocurrency bitcoin.

Cryptocurrencies are digital currencies in which encryption techniques are used to regulate the generation of units of currency. These currencies operate independently of a central bank.

Since the genesis of bitcoin (by far the most well-known cryptocurrency), hundreds of other cryptocurrencies have been created.

Recently, the volatility of its value has been a matter of public interest. On introduction in 2009, a bitcoin's price amounted to US$0; its price during the years 2014 to late 2016 was ranging from US$200-US$400. Then, suddenly, it rose to US$1,000 by the end of January 2017 and reached US$20,000 in December 2017 (now approximately US$6,000).

Why such appreciation?

This appreciation appears to be the combination of significant changes in demand, driven by the limited number of digital currencies in circulation, a peak demand from late technology adopters/investors and, obviously, speculation.

Another challenge that has emerged with cryptocurrencies is in relation to the accounting, classification and valuation of

these assets for financial reporting purposes. At this stage, the International Accounting Standards Board (IFRS) has held discussions regarding the accounting of digital currency, but it has not yet issued any standard or interpretation providing a clear guidance in accounting of cryptocurrencies. In fact, this issue is not even in their work plan of projects.

There are different views as to what class of assets they represent, whether they are financial instruments, inventory or intangible assets.

After doing further research, the best guidance available is perhaps the assessment prepared by the Australian Accounting Standards Board (AASB) in its presentation to the ASAF 2016 Meeting – 'Digital currency – A case for standard setting activity'.

The AASB concluded that there is lack of guidance for accounting for these assets. In their opinion *"it is not necessarily clear in the context of digital currencies, when digital currencies should be accounted for under the scope of IAS 2 or IAS 38. Furthermore, it is also not clear if a digital currency should be considered a commodity for the purposes of IAS 2's measurement exemption for commodity broker-traders"*.

After reading and analysing all material available, the conclusion reached is as follows:

- Entities will need to develop their own accounting policy to deal with the initial recognition, classification and subsequent measurement of cryptocurrencies; and
- The accounting policy to be developed should provide guidance as to how to account for the digital currencies, depending on the purpose of holding them. For example:
  - The treatment of digital currencies held for investment purposes. These should be classified as an intangible asset measured at either the cost model or under the fair value model (through other comprehensive income). Some people would argue that the fair value model will result in more useful information to any stakeholder.
  - The treatment of digital currencies accepted as means of payment for their goods or services and which potentially will be converted to cash in the short term. In this scenario, the currencies should be classified as an intangible asset.
  - The treatment of digital currencies held for sale in the ordinary course of business). These should be accounted for as inventory but measured at fair value less cost to sell, with changes in fair value recognised through profit or loss.

The AASB's views on digital currency

Class of asset - cash
The AASB conclusion that cryptocurrencies are unlikely to represent 'cash' is mainly based on the fact that cryptocurrencies are not supported by a central bank or recognised as legal tender. They argue other aspects, such as the relative small number of entities accepting digital currency as a medium of exchange and/or payment, to support this view.

Class of asset – cash equivalent
Cryptocurrencies fail the definition of 'cash equivalents' is becasue cash equivalents are assets subject to an insignificant risk of changes in value. This, technically, is a clear and strong argument.

Class of asset – financial asset
IAS 32 'Financial Instruments: Presentation' defines financial assets as "a contractual right: *(i) to receive cash or another financial asset from another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity"*.

There is neither such contractual rights with cryptocurrencies.

Class of asset – property, plant and equipment
They are not 'property, plant and equipment,' which the definition in the accounting standards states is "tangible", a criteria digital currencies obviously do not meet.

Class of asset – investment property
No cryptocurrency meets the definition as this is defined as land or buildings.

Class of asset – intangible asset (IA)
The AASB concluded that cryptocurrencies met the criteria of an IA. Cryptocurrencies are "identifiable" as they are sold in units on an exchange. The AASB considered that digital currencies are not cash and therefore met the "non-monetary" criteria.

It also meets the "without physical substance" criteria of the definition.

However, the AASB concluded that entities trading with digital currencies would be considered to hold such digital currencies for sale in the ordinary course of business, and therefore will be excluded from the scope of IA in accordance with the applicable accounting standard.

Class of asset – inventory
The AASB outlines that if an entity determines that it is holding digital currency for sale in the ordinary course of business, it will need to determine if it is considered a 'commodity broker-trader' under the standard IAS 2. This is because IAS 2 excludes commodity broker-traders from the measurement criteria of inventory, but instead requires them to measure their assets at fair value less cost to sell, with changes in fair value recognised in profit or loss.

Technical | Stapled structures

Understanding the integrity measure proposals on stapled structures

Treasury has proposed integrity rules for stapled structures eligible for transitional relief under the stapled structure exposure draft legislation which, if implemented, will impose additional conditions on pricing cross staple rent during the transitional period

by Brendon Lamers & Scott Farrell

Brendon Lamers
partner, KPMG

Scott Farrell
partner, KPMG

The government previously released exposure draft legislation and explanatory material to address perceived imbalances in the way the Australian tax system taxes foreign investors.

Under the proposed tax changes, the concessional managed investment trust (MIT) withholding tax rates on cross-staple rental arrangements will continue to be available for transitional periods of:

1. 7 years for existing projects; and
2. 15 years for economic infrastructure assets.

An overview

Importantly, the general anti-avoidance rules will not apply in respect of a choice of a stapled structure to obtain a deduction on cross staple rent for the transitional period.

The government has now released a consultation paper on the measures to prevent projects from adopting aggressive cross-staple pricing during the transitional period. The key aspects include:

1. All cross-staple arrangements eligible for the transitional measures will continue to be subject to the MIT non-arm's length income rule (NALIR).
2. Those projects subject to the seven-year transition will not have further safeguards imposed. However, the paper highlights the importance of obtaining appropriate evidence to support the fact that the pricing is arm's length.
3. Projects eligible for the 15-year transitional relief will have a further cap on the rent eligible for the 15 per cent MIT withholding tax rate, being either:
   a. For existing arrangements using an objective methodology to set rent, that amount; and
   b. For other projects, the additional cap is that the taxable profit of the asset trust cannot exceed 80 per cent of the taxable profit for the project.

Preventing aggressive cross-staple rental pricing

The integrity proposal seeks to prevent projects adopting aggressive cross-staple pricing eligible for transitional relief, and attempts to minimise impacts on commercial arrangements, by taxing excessive amounts at the 30 per cent MIT withholding tax rate. What is considered an excessive amount of rent will depend on the type of transitional relief a project has access to.

Projects with access to the seven-year transition rule

The integrity proposal states that as there should be sufficient comparable third-party transactions for these projects (including property and agriculture staples), the NALIR alone is considered sufficient to prevent aggressive cross-staple pricing for the seven-year transition period.

Minor technical adjustments to the NALIR will be made to ensure it will apply to MITs subsequently acquiring an interest in cross-staple arrangements.

The NALIR is already operative for existing MITs and AMITs being:

1. For MIT arrangements existing prior to 1 July 2016, from the start of the 2018-19 income year; and
2. From 1 July 2016, for MITs established on or after this time.

The NALIR is therefore applicable before the transitional measures take effect on 1 July 2019, if the legislation is enacted.

The consultation paper highlights the need to reference publicly available third-party arrangements to support the pricing of specific projects. The adequacy of the supporting documentation is likely to be a compliance focus of the ATO when reviewing these MITs. This reflects the recent emphasis in transfer pricing of maintaining detailed evidence of comparable transactions or arrangements.

For many sectors, the ability to benchmark against comparable third-party transactions may prove difficult. It is important to consider the comparability of benchmark transactions identified to the facts of a particular MIT and to review existing documentation prepared to support pricing decisions.

Economic infrastructure projects

For economic infrastructure staples, the NALIR on its own is considered insufficient to safeguard against aggressive cross-staple pricing, due to the lack of readily identifiable third-party comparable transactions. Accordingly, the additional caps will need to be met for these projects in addition to the NALIR, to access the concessional MIT withholding rate during the transitional period.

The paper highlights the difficulty of identifying comparable third-party data for economic infrastructure in applying the NALIR for economic infrastructure projects. If market data is not available at a holistic level, projects should consider analysing whether elements of the transaction can be isolated and benchmarked so as to show that one or more key components are commercial.

Maintain existing arrangements

Projects with arrangements in place prior to 27 March 2018 will be eligible for the 15 per cent MIT rate during the transition period where the rent is less than an arm's length amount and:

1. The cross-staple rent is determined under a rent calculation methodology and that methodology continues to be applied after that date. If the methodology changes, the 15 per cent MIT rate will be capped based on the rent calculation methodology as at 27 March; or
2. For projects with no pre-existing rent methodology, but with an established fixed rent amount, an annual CPI increase to the fixed rent will be permissible noting the statutory cap.

A rent review process will not allow a project to increase the rental amount by changing the calculation methodology, unless the methodology was already contemplated. It is unclear whether a market rent review process which forms part of an existing arrangement will constitute a rent methodology that may support a rental increase as a fixed rent amount, or a methodology subject to specified criteria.

If the components of distributable income include rent that is taxed at both the 15 per cent and 30 per cent MIT rates, expenses will be first allocated to rent taxed at 15 per cent.

Statutory cap

This methodology applies to projects eligible for transitional relief but without a lease or established rental methodology at 27 March 2018, and infrastructure is declared to be new economic infrastructure.

Broadly, the calculation is intended to result in the asset entity having no more than 80 per cent of the project's current taxable income allocated to it. If the cross-staple rent exceeds this amount, it will be treated as non-concessional MIT income and be subject to withholding at a rate of 30 per cent.

Projects that are subject to the statutory cap will also remain subject to the NALIR.

Practically, for many new economic infrastructure projects in the early development stage, the amount of cross-staple rent will be limited by the NALIR while the project is in taxable losses, even though the statutory cap may permit a different level of rent in accordance with the statutory method statement.

Questions for further consideration

7-year transition

1. Where third party comparables exist, are there sufficient publicly available transactions to benchmark?
2. Does comparable data availability vary between sectors?
3. When looking to benchmark transactions, what are the key indicia?

15-year transition

1. What is an objective methodology to set rent?
   a. Will a rental calculation based on a formula always represent an 'objective methodology'?
   b. If not, in what circumstances will it not represent an 'objective methodology?
2. Where documentation used to set the rent does not form part of the lease:
   a. Does there need to be evidence that this methodology was to be applied for the whole lease?
   b. Can this assumption be made if there is a market rent review clause in the lease?
3. NALIR applies first and then the additional cap. In relation to the NALIR:
   a. How does Treasury see NALIR working if there are insufficient available benchmarks?
   b. In relation to the 7-year transition, the need to identify comparable Australian market pricing is highlighted. What is the position in relation to infrastructure assets?
   c. Does the approach vary depending on the class of infrastructure assets?
4. What happens if there is a subsequent amendment to the taxable income? Presumably, that will amend the cap and so could result in consequential amendments.

Technical | Discretionary trusts

Managing the extra duty and land tax surcharges on foreigners

With eight different jurisdictions with different legislation and with different definitions of who is a 'foreign person', supplying discretionary trust deeds to such people can prove complex

by Shaun Backhaus and Daniel Butler

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While we can supply a discretionary trust deed to exclude foreign persons from being beneficiaries, we don't automatically exclude them as this may exclude beneficiaries forever and may have substantial long-term implications. Thus, we need to obtain specific instructions from each client so that we can tailor each discretionary trust to exclude foreign persons having regard to the relevant jurisdiction(s) and where the property is held or may in the future be held. We outline our reasoning below.

Foreign persons no longer automatically excluded

Broadly, extra:

- duty is payable on the purchase of residential real estate by a trustee of a discretionary trust by a foreign purchaser; or
- land tax is payable on residential real estate held by a trustee of a discretionary trust with certain foreign beneficiaries.

For your convenience, we have prepared a summary of the extra duty and land tax that applies to trustees of discretionary trusts in the various Australian states and territories. These extra taxes have given rise to considerable complexity, and some trustees without an appropriately drafted trust deed have been getting assessed on these extra taxes in various jurisdictions around Australia. Indeed, there are many suppliers of trust deeds (especially those not supplied by a law firm with tax and trusts expertise) that have not yet developed appropriate strategies to cover these extra taxes.

As discussed above, there are eight different jurisdictions, with different legislation and with different definitions, and more states are planning to impose similar taxes. Thus, there is no consistency by the different jurisdictions on the definition of a foreign person and how the relevant legislation will be applied in practice. As such, DBA Lawyers believes it is necessary to ensure that each client wanting to exclude foreign persons from their trust deed considers what legislation is likely to apply and obtain a deed that caters to their specific circumstances.

Why be careful?

Once established, a discretionary trust can last for up to 80 years in most Australian jurisdictions, with the exception of a trust covered by applicable South Australian law. As well as being costly and difficult to carry out, any variation to a discretionary trust deed carries with it a risk of resettlement of the trust, which can result in substantial duty being imposed and other unforeseen consequences. Because of this, it is important that any trust deed is correctly and appropriately drafted from the outset to limit the chance of a variation being required in the future.

Additional state and territory taxes – foreign beneficiaries

Additional duty and land tax may be payable by a trustee in respect of real property and certain other dutiable property in most states and territories in Australia. This primarily applies to residential property.

Further, the exclusion of foreign persons from being eligible beneficiaries of a discretionary trust (that is usually intended to include an expansive range of potential beneficiaries including close family members, relatives, eligible trusts, eligible companies and charities, etc) should not be undertaken without proper consideration of all the consequences. Clients should ensure that they are aware of who is likely to be excluded from being a beneficiary by excluding foreign persons as this may have unintended consequences.

For example, in seeking to save on land tax applicable to an absentee owner in Victoria (broadly a 'foreign person' for Victorian land tax purposes), the Victorian foreign land tax surcharge provisions refer to the specified or named beneficiaries of the trust. Thus, to save on land tax, you may need to exclude one or more specified or named beneficiaries of the trust. However, by doing so the State Revenue Office Victoria may then argue that the trust has been resettled and, therefore, assess duty on the full value of all dutiable property held in the trust. Query: was the land tax saving worth the duty cost and did the drafter of the deed consider or even know about the potential downstream consequences?

This is a real danger area for non-qualified advisers who are not registered lawyers doing legal work, especially with the raft of new methods available. Such methods include having a subscription service to prepare legal documentation for clients which, on first blush, appears very attractive to many accountants, financial planners and other advisers where they can simply go to the web and insert data and become the preparer of the deed. While this all appears smooth sailing, these advisers, among other things, have committed an offence under applicable state and territory legal practice rules, are likely to be exposed for professional negligence without any professional indemnity insurance (if they have drafted and supplied a legal document for a fee without being a qualified and registered lawyer) and may do a disservice to their clients. Moreover, those advisers that belong to a professional body that has ethical standards, are also likely to be at risk under those standards that preclude their members carrying out any legal work.

If you wish to exclude a foreign person from a discretionary trust

To ensure that the discretionary trust deeds that DBA Lawyers provide are drafted for our clients' specific requests, we ask that clients who specifically wish to exclude foreign persons notify us of their intentions in their instructions. Our order forms and online ordering portal have specific notes to assist in completing your order.

We include a tick box for those that wish to exclude foreign beneficiaries in our order forms/portal. We will then contact our clients to ascertain their needs and will tailor our deed to their specific instructions, having regard to the jurisdiction(s) that are applicable. Our normal ordering process will prompt our clients to consider this issue.

Given that a trust may last many years, it is likely that the relevant laws and revenue office policies and practices will change over time, and this may still result in additional taxes being imposed. Accordingly, the issue of whether a trust is a foreign trust must be considered on an ongoing basis and, at least, prior to any transaction involving real estate that might incur land transfer duty and land tax. Naturally, we generally recommend that expert advice be obtained before any substantial asset is acquired.

Please note that added complexity arises as a person

State/territory	Is there a foreign person duty surcharge?	Is there a foreign person land tax surcharge?
Vic	Yes	Yes
NSW	Yes	Yes
Qld	Yes	Yes
SA	Yes	No
WA	Proposed from 1 January 2019	No
ACT	No	Yes
Tas	Yes	No
NT	No	No

may change their status from time to time. For example, there may be situations where a foreign person becomes an Australian citizen, in which case they would no longer meet the definition of a foreign person as contained in say the *Duties Act 2000 (Vic)*. Similarly, a person holding a permanent visa may no longer continue to hold that visa and then be a foreign person for the purposes of the *Duties Act 2000 (Vic)*. Moreover, added complexity arises as a trust may have properties in more than one jurisdiction, which can result in multiple different definitions in different legislation applying at the same time to the property, subject to the legislation of the relevant jurisdiction.

What is foreign purchaser duty and land tax surcharge?

In a number of Australian jurisdictions, foreign trusts are now subject to foreign purchaser surcharge duty or its equivalent where the trustee acquires residential property. Foreign trusts would pay the usual rate of duty plus the additional surcharge duty. For example, in Victoria duty on the acquisition of dutiable property (i.e. real estate) is typically around 5.5 per cent and the surcharge for foreign trusts is 7 per cent, resulting in an overall duty rate of around 12 per cent.

As noted above, since the specific legislative definitions markedly differ from jurisdiction to jurisdiction, and the practices and policies of the relevant revenue offices also differ, they can have a significant impact on the way the law is interpreted and applied by those offices, and their practices and policies may not coincide with a generally accepted legal view. Some jurisdictions may even allow the relevant revenue commissioner to determine and deem that a trust is a foreign trust, despite not otherwise meeting the standard definition under the relevant legislation.

Further, in Victoria, NSW, the ACT and Queensland, the trustee of an absentee trust (or its equivalent terminology) is subject to a land tax surcharge or equivalent on residential real estate for all the trust's non-exempt properties.

The table on this page is a summary of the states and territories in Australia that have a duty surcharge and/or a land tax surcharge for foreign purchasers. While the table is correct as at the date of preparation of this article, ongoing further changes are likely. Clients should consider their obligations to pay these taxes as part of any transaction and, in respect of land tax, on an ongoing annual basis. Advisers, in particular, should seek out a quality supplier of trust deeds that is on top of this area, as 'cheap is not always cheerful'.

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The following list updates the Membership Register of the Institute of Public Accountants. The board of directors extends congratulations to all new members and to those who have advanced in status

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