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IPA INSTITUTE OF PUBLIC® ACCOUNTANTS

Public accountant

THE OFFICIAL JOURNAL OF THE INSTITUTE OF P

inside
IS CROWDFUNDING A CAPITAL SOLUTION FOR SMALL BUSINESS?

MAN ON FIRE

Chris Jordan on the ATO's transformation and goals

| RISE OF THE ZOMBIE COMPANIES | JAPAN EPA OPPORTUNITIES | UK SME COMPLIANCE REFORM |

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Features

It's not common to view any tax office as a hotbed of transformation. However, Australian tax commissioner Chris Jordan is making a concerted effort to update and streamline ATO processes, and has some ambitious goals for the organisation he leads. The IPA's Tony Greco caught up with Jordan recently – turn to page 30 for the full interview.

While the Tax Office targets overseas goliaths, locally there's a growing number of zombie companies that are posing challenges for accountants and the ATO. Find out how to spot and handle the 'working dead', on page 16.

Meanwhile, a number of initiatives – from the government's renewed interest in crowdfunding (page 40) to the new economic agreement with Japan (page 24) – offer small business big opportunities.

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Technology's impact **on members**

For a considerable time now, the IPA has been encouraging members to consider their future business models. The emergence of the financial services industry under the FoFA legislation provides opportunities for practices to grow and diversify their businesses. It is critical for practices to be compliant, and time is running out, with the end of the accountants' exemption on 30 June 2016.

> "The ATO's use of technology ... may be viewed as a game changer"

Technology is also playing a big role in the future of accounting and represents both opportunity and threat. The ATO's use of technology under the new Reinventing the ATO program may be viewed as a game changer. For instance, the increased use of automatic lodgement through MyTax signifies another way that traditional compliance work is diminishing.

Currently, 70 per cent of the public uses the services of a tax agent. However, there is no doubt the ATO will continue to promote its ease of lodgement and prefilled tax return services, which can only lead to reduced demand for existing tax agents. This is one of many reasons for tax agents who undertake mostly compliance work for clients to reconsider their business model.

Statistically, individuals who use the services of a tax agent receive a higher refund and consumers get safe-harbour protection from penalties by going through a tax agent. The IPA will continue to promote the use of a registered tax agent in the best interests of the public. However, future legislation and the reduction and/or removal of workplace deductions may detract from the use of tax agents in the future.

We need to be mindful of this impact, so it is extremely timely to consider what your future business will look like, including the range of services you choose to provide and the types of clients you choose to target.

On the brighter side, there will be increased public demand for specialist advice. As trusted advisers, IPA members are still in the best position to optimise this demand, not just in the financial services environment but also from a more holistic business advisory perspective.

But, be aware: the clock is ticking.

Wendy Leegel FIPA

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The power of advocacy

Each year, the IPA carries out significant advocacy in the interests of members, Australia's small business sector and the wider community. This effort includes a detailed submission leading up to the annual federal Budget, and I am pleased to report some successes that were announced in the 2015/16 Budget.

> "A number of measures introduced ... reflected our pre-Budget submission recommendations"

Small business was the ultimate winner, with a number of measures introduced that reflected our pre-Budget submission recommendations.

As promised, the government delivered a 1.5 per cent corporate tax cut for those small businesses that are incorporated and have an annual turnover of less than $2 million. Our concern that only incorporated businesses would see such a tax break was alleviated with non-incorporated entities receiving a tax discount of 5 per cent, up to the cap of $1,000.

This is the first small business tax cut in 13 years. We are pleased, therefore, to see the government adopt the IPA's signature tax policy of reducing the tax rate for all businesses in this sector, regardless of structure.

But there was even more good news for small business. The government announced an increase from $1,000 to $20,000 in the accelerated depreciation write-off threshold. Effective immediately for all small businesses, the new threshold applies to each and any individual asset that costs less than $20,000 – a significant boost for cash flow.

This asset write-off initiative is bringing forward the tax deduction that would have been deductible over a number of years. For example, if a small business makes a profit of $50,000, the tax payable at the new company tax rate would be $14,250. The deduction of a business-related asset up to $20,000 would reduce the taxable profit to $30,000 with a tax payable amount of $8,550: a tax saving of $5,700. For a non-incorporated small business, the tax saving will be dependent on the individual's marginal tax rate.

This will have major flow-on effects for the broader economy. More cash to invest in the economy makes this initiative a winning proposition all round.

Other positives stemming from the Budget include significant reductions in red tape through such initiatives as the Streamlined Business Registration service, plus a special write-off for start-up companies to help with professional expenses.

All in all, it's a good package to drive small business productivity and growth, which are key ingredients required right now for Australia's economic wellbeing and prosperity.

Andrew Conway FIPA

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2015 IPA Federal Budget Breakfast

The IPA once again held the annual Budget Breakfast, in partnership with the Canberra Business Chamber. This year's event, attended by some 600 people, comprised a Q&A-style format hosted by radio and television personality Steve Price, who was accompanied by a panel of leading journalists (Robert Gottliebsen, Charis Palmer and Callam Pickering). The minister for small business, the Hon Bruce Billson MP, and the shadow minister for financial services and superannuation, the Hon Bernie Ripoll MP, provided their insights regarding the Budget handed down the night before, then faced questions from the panel.

This page
Right: The Hon Bruce Billson MP, minister for small business, and IPA board president Wendy Leegel

Far right: Q&A panellists: Robert Gottliebsen, Charis Palmer and Callam Pickering

Below, from left to right: Robert Gottliebsen, Budget Breakfast host Steve Price, Charis Palmer, Callam Pickering, Wendy Leegel, Canberra Business Chamber chairman Glenn Keys and IPA CEO Andrew Conway

Opposite page
Top: The Hon Bernie Ripoll MP, shadow minister for financial services and superannuation

Middle: Bernie Ripoll and Bruce Billson

Bottom: Guests enjoy the IPA Budget Breakfast in the Great Hall of Parliament House, Canberra

Photography by Andrew Sikorski

Flying the flag for small business

by Vicki Stylianou, IPA executive general manager, public affairs

Every year, the IPA develops its pre-Budget submission, which becomes the platform for policy recommendations and advocacy activities to government, with the intention of influencing the outcomes.

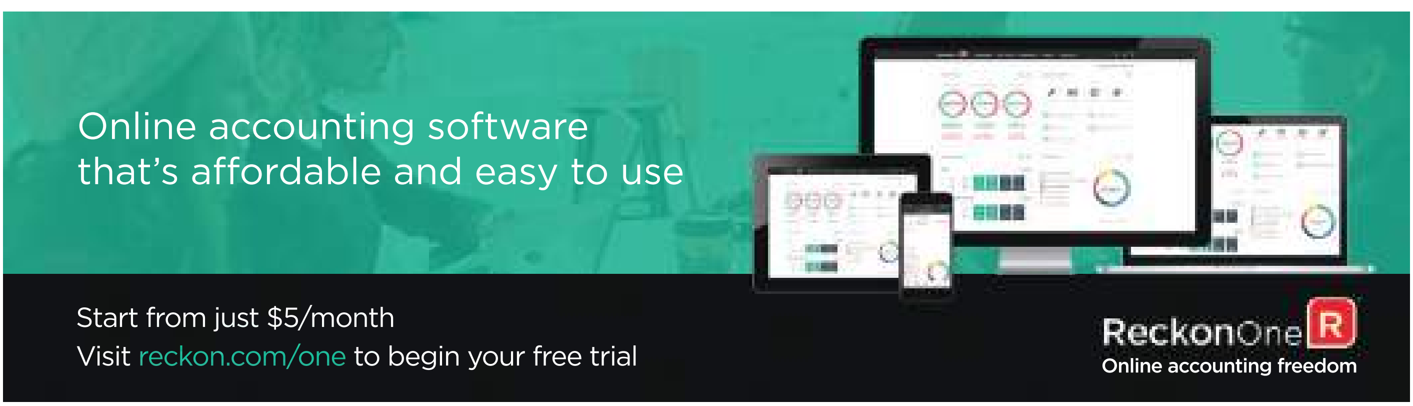
This year, we based most of our pre-Budget submission on the *Australian Small Business White Paper*, which has been developed as part of the IPA–Deakin University SME Research Partnership.

One of our major recommendations is the development of a state-backed loan guarantee scheme to address the lack of affordable finance for small business, which is impeding growth. In fact, Australia is one of the only countries in the developed world without such a scheme. The intention is to encourage banks and other commercial lenders to increase the supply of loan finance available to small business at affordable rates and on reasonable terms.

A signature policy of the IPA has been to improve small business productivity by reducing the income tax rate to either zero – when the economic climate allows – or a much-reduced rate. We suggested offsetting the reductions by streamlining small business tax concessions.

It is pleasing to see that both the government and the opposition have adopted the essential concepts behind these policies. In the 2015 Budget, the government announced a reduction of 1.5 per cent in the income tax rate for incorporated small businesses and a 5 per cent discount for unincorporated small businesses. In its Budget reply, the opposition announced a small business loan scheme.

The IPA has welcomed both announcements. We now look forward to being part of the consultation process to ensure the successful implementation of these and other beneficial policies for small business.



Promote your practice!

The enhanced 'Find an Accountant' service on the IPA website now offers an up-to-date list of all IPA members in practice, their location and a complete suite of the services they offer.

This long-awaited improvement will allow members to actively promote their practice in the lead-up to the forthcoming tax season.

Members are encouraged to log in to your dashboards and update your information to ensure you're taking advantage of this great opportunity for promotion.

Go to http://www.publicaccountants.org.au/find-an-accountant

IPA seeks education reform

The IPA has called on federal and state governments to address and reform the education system's ability to increase the stock of knowledge-based workers available for employment.

"Without a sweeping reform of the education system, Australia will not address the significant skills deficits that are abundantly apparent in the economy," says IPA chief executive officer Andrew Conway.

"Where businesses have a high demand for skilled labour but are constrained by lack of resources, then there is a *prima facie* case for government intervention.

"We believe the strongest argument for government intervention relates to the potential for positive spillover into the wider economy, as highly skilled workers move around employers and disseminate their knowledge."

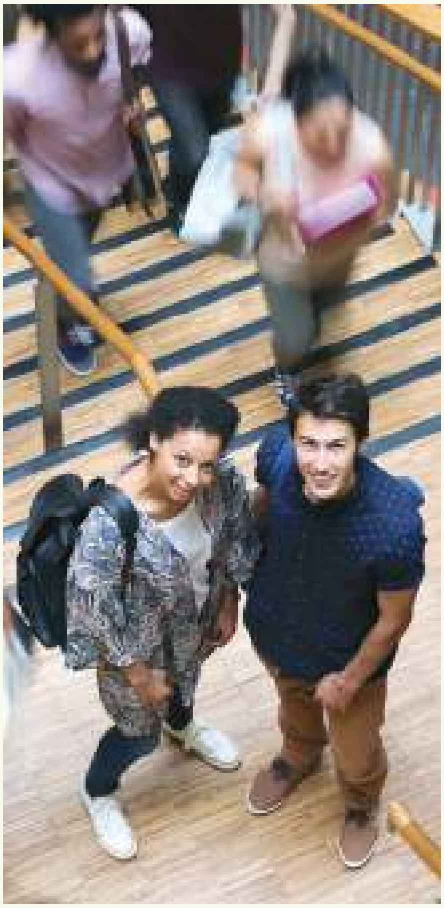
Conway points to recent research showing that one in six businesses in Australia faces a problem involving skills deficiencies.

"According to research undertaken by Deakin University as part of the joint *Australian Small Business White Paper,* some 64,000 businesses have an identifiable skills deficiency in relation to finance professionals, 55,000 in relation to marketing professionals and 45,000 businesses are deficient in IT professionals," he says.

"This indicates that while there may be trade skill shortages relating to the construction boom, there is a bigger problem on the horizon with deficiencies in high value-added professional services."

Conway says that to stem the tide of skills shortages, the IPA is "urging governments to consider the inclusion of enterprise training at all levels of the education system from early school years to further and higher education institutions".

To read the *Australian Small Business White Paper,* visit: https://www.publicaccountants.org.au/resources/small-business-white-paper



Member snapshot:
Thomas Dawson

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Who is he?
Thomas Dawson is a director of Sydney-based insolvency and corporate restructuring firm Insol Group. He joined the firm in 2012. "We have six staff, and we've had a lot of support from different referrers, including accountants."

What's his background?
Dawson is a qualified accountant and started his career in London, where he worked for about six years. "I got an offer to work in Australia and jumped at the chance," he says. "I came over and worked in a few insolvency firms and ended up at Ernst & Young ... before joining Insol."

What does he do?
"What I do is not purely an accounting role, because it incorporates a whole range of areas," explains Dawson. "Insolvency incorporates the accounting side of things and the legal side of things, as well as people management and conflict resolution.

"We often get called in very late to businesses that are struggling, and we try to restructure them where there's a chance. But sometimes there's not much to save and the business has to be closed down.

"My role involves investigation, asset realisation, dealing with conflicts and managing all the stakeholders. It can get quite hairy sometimes. Every day is different."

How does he keep his professional knowledge current?
Dawson is a member of the Australian Restructuring Insolvency & Turnaround Association (ARITA), which, he says, assists with a lot of training.

"I've also needed to keep track of the new PPSR [Personal Property Securities Register] laws, the register where details of security interests in personal property can be registered and searched," he adds.

What advice would he give to new practitioners?
"Perseverance. It takes time. You can't learn a lot of the stuff we do from textbooks. Most of it is experience; the day-to-day experience is how you learn to do the job."

Accountant salaries on the rise

—

A survey of chief financial officers by recruitment firm Robert Half has found that firms looking to recruit and retain skilled finance and accounting professionals will increase salaries during the next 12 months.

The *2015 Robert Half Salary Guide* has revealed that almost two-thirds of CFOs across Australia and New Zealand plan to raise salaries, reflecting demand for highly skilled individuals exceeds current supply.

Roles considered a priority in recruiting across Australia include financial and management accountants. In New Zealand, there is a skills shortage across the board, particularly in the finance and accounting sector, right up to managerial positions.

The research shows that skills shortage and retention continue to weigh heavily on management time and play a key role in strategic planning.

Around 30 per cent of those surveyed across Australia and New Zealand noted work–life balance as the key factor in deciding to leave a job.

Turn to page 52 to see what skills our experts say are most in demand right now.

LinkedIn

What's on members' minds?

Share your views with fellow IPA members by joining the IPA LinkedIn Group at http://goo.gl/9cyzkX

Accounting fees

Business owners today see the compliance work performed by an accountant as a commodity. They believe that any accountant can produce that same commodity and hence cannot see why they should pay more for this commodity with one accountant when they can get it cheaper somewhere else. I am seeing a trend where business owners are now shopping around for lower accounting fees.

—

We have an enormous value to clients. Due to the taxation laws, a lot of our time has been spent on taxation; however, there is a lot more that accountants do. Our task is to advertise what we do, not just tax.

Advisory boards

My estimate and the estimate of surveys of many professional groups is that less than 5 per cent of accounting firms have any sort of formal strategic planning process in their business. This is a staggering revelation in light of the compounding rate of change taking place in our market and at a time when long-term survival depends so much upon having effective strategies.

Salary sacrifice

As the law stands now, employers have the choice to pay SGC on either the OTE before salary sacrifice or after salary sacrifice. The government needs to change the law so that employers pay SGC on pre-salary sacrifice amount.

Featured event:
IPA National Congress 2015

—

Date: 19–21 November 2015
Venue: Sheraton Mirage, Gold Coast
More details: Contact Alicia Richards on 03 8665 3119 or email national.congress@publicaccountants.org.au

The third annual IPA National Congress, taking place at the Gold Coast's only five-star beachfront hotel, promises to be bigger and better. Speakers will share their industry insights and expertise, plus there's plenty of opportunity to network with other IPA members at the cocktail reception, gala dinner and farewell dinner.

Members can accumulate up to half their annual structured CPE quota at the congress (21 hours over 2.5 days). The IPA is also arranging optional daytime excursions for the partners of delegates.

An impressive 96 per cent of 2014 delegates agreed that the IPA National Congress offered superior value for money – so book your place now!

Countdown to Single Touch Payroll

—

In December 2014, the government announced that it will be introducing Single Touch Payroll. The aim of this electronic reporting initiative is to cut red tape for Australian businesses by making tax and super reporting simpler.

While government is still consulting with business and industry bodies such as the IPA, it's expected that employers with withholding greater than $100,000 will be encouraged to adopt Single Touch Payroll from 1 July 2016 and will be required by law to do so from July 2017. Employers with withholding less than $100,000 will have an additional year to adopt the new system, although they will be permitted to make the transition from July 2016.

While the IPA welcomes government initiatives that will reduce red tape and increase business productivity, Single Touch Payroll may actually increase costs and administration time for micro and small businesses that don't have access to cloud-based software and a reliable internet connection.

To find out more about the IPA's position on Single Touch Payroll, visit https://www.publicaccountants.org.au/resources/news-and-media/media-releases/single-touch-payroll-not-right-for-every-user.

IPA submissions and views

The IPA believes government action is required to drive local entrepreneurship and SME activity.

Classification and Measurement of Share-based Payment Transactions
The IPA made a submission to the International Accounting Standards Board (IASB) and the Australian Accounting Standards Board (AASB) on Exposure Draft ED 2014/5 'Classification and Measurement of Share-based Payment Transactions (proposed amendments to IFRS 2)'.

The IPA supports the IASB's attempt to address divergent practice in accounting for share-based payments and when applying IFRS. However, we have concerns as to the efficiency and effectiveness of the mechanisms to address such divergent practice.

Reporting the financial effects of rate regulation (DP/2014/1)
The IPA made a submission to the IASB and AASB on the Discussion Paper DP/2014/2 *Reporting the Financial Effects of Rate Regulation*. While the IPA recognises the need to provide guidance in relation to reporting the effects of rate regulation to address a diversity of practice, we believe that any proposals should be consistent with the framework and the existing body of financial reporting standards.

Productivity Commission: workplace relations framework
The Fair Work laws, along with their application and enforcement, are clearly areas of major confusion and expense for small businesses. It is an issue that we believe requires the urgent attention of the federal government.

Recommended actions include legislative changes to ensure simplification of the system; reviewing the award system to make it more flexible for small businesses and to suit the economic conditions; more clarity around independent contractors; and reducing other areas of confusion for small businesses over their obligations under the Fair Work system.

Productivity Commission: business set-up, transfer and closure
This IPA submission makes recommendations that promote immediate and tangible incentives for entrepreneurs and innovators to encourage their entry into, and long-term engagement with, the Australian small business sector.

The federal government needs to implement policies that will drive business activity and innovation across all sectors. The submission canvasses the issues of limited access to finance, inhibitive regulation, tax incentives and a viable and sustainable entrepreneurial ecosystem, along with a number of other recommendations.

Upfront

IPA in the media

The IPA has attracted media attention on a range of issues, including funding for small businesses and access to financial advice.

Failure to fund innovation

IPA's CEO, Andrew Conway, stated, "Many young firms face funding problems, particularly in uncertain technological or new knowledge environments, because of their unattractiveness to bank lenders. Australia must recognise the fact that it is a lost opportunity to the economy when innovative firms with high commercial potential are constrained by the absence of external finance."

– *Yahoo!7: Kochie's Business Builders*

Valued and trusted profession

"The financial planning industry would love to have that sore of kudos, the confidence from the public in the profession. Accountants are valued and they've earned that recognition, and rate very highly amongst their clientele for that reason."

– the IPA's Tony Greco in *Professional Planner*

Legal privilege

The IPA has used its pre-Budget submission to call for the extension of legal privilege to tax advice provided by accountants and tax agents.

– *Accountants Daily*

Outdated tax system

"What we're all asking for is the big macro policy setting stuff to be covered – most commentators will say that our tax system belongs in the 1950s."

– Tony Greco in *Accountants Daily*

Network opportunity

Referral relationships are one effective method for accountants to boost their client network as compliance work continues to wane.

– the IPA's Vicki Stylianou in *SMSF Adviser*

Tax incentive for financial advice

"The tax deductibility of financial advice would considerably increase financial literacy, boost affordability and accessibility and reduce demands on public funding. It would encourage a larger number of Australians to seek financial advice."

– IPA CEO Andrew Conway in *Accountants Daily*

Call to repeal the 10 per cent rule

The Institute of Public Accountants (IPA) is calling on the Government to repeal the legislation that prohibits a personal concessional member contribution where the member earns more than 10 per cent of their income from employment services.

– *noodls*

IPA advocating on new pay scheme

"We have received significant feedback from IPA members who are expressing their concerns [about Single Touch Payroll] and we have committed to ongoing consultation with the Government to ensure an appropriate process is put in place."

– Andrew Conway in *Money Management*

Concern over Single Touch Payroll

"While it is a move to cut red tape for some employers by simplifying tax and superannuation reporting obligations, the reality is that Single Touch Payroll will do the opposite for many micro and small businesses," Mr [Andrew] Conway said.

– *Money Management*

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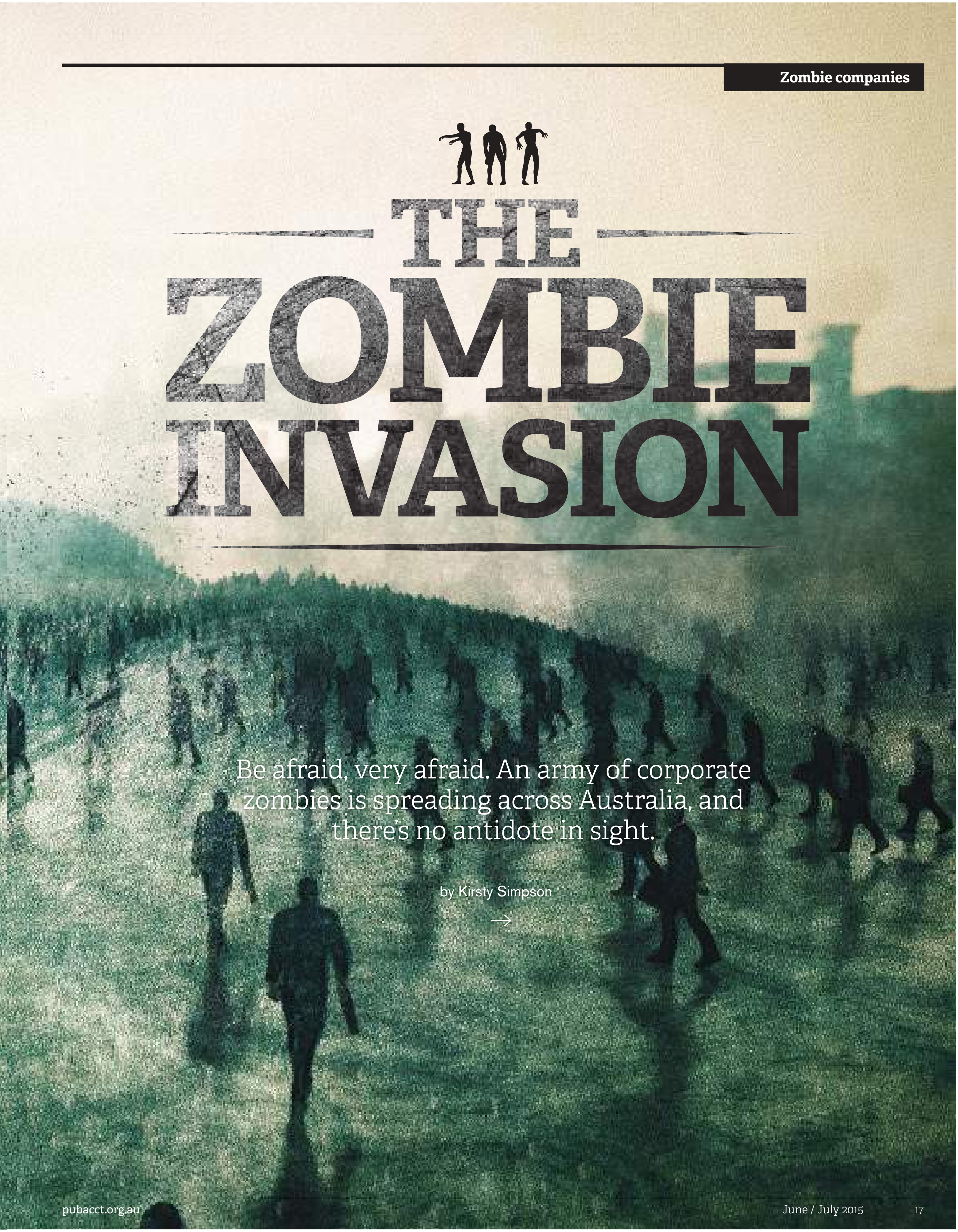


THE ZOMBIE INVASION

Be afraid, very afraid. An army of corporate zombies is spreading across Australia, and there's no antidote in sight.

by Kirsty Simpson

→

Zombie companies

It's not just Australian homeowners – and house prices – that are being kept afloat during this Indian summer of low interest rates. An army of 'zombie' companies is also able to battle on, thanks to historically low official rates.

This is the conclusion of a report by national accounting firm RSM Bird Cameron. Authored by partner Andrew Beck, the report defines these underperforming businesses as "escaping insolvency by virtue of the fact that financiers were unlikely to enforce their security and the companies were therefore able to meet their basic obligations… Their resources are stretched thin, letting them meet immediate financial obligations but providing no room for growth, debt reduction or investment. This trend could continue well into 2015 since there is no expected increase in interest rates in the near future."

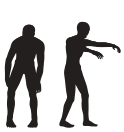
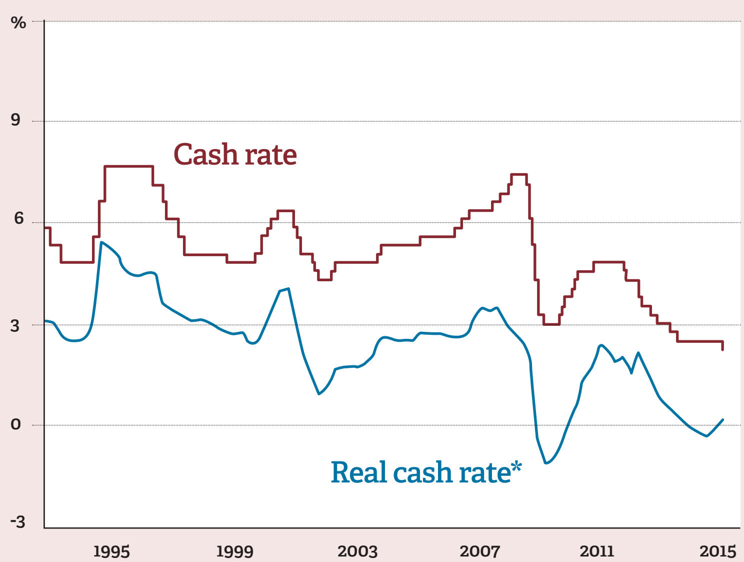


Table 1:
Australian cash rate



Source: RBA, ABS
* Calculated using weighted median and trimmed mean inflation.

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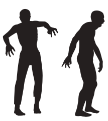


Delays in paying their bills is a vital warning sign, particularly given that the average Australian business finally returned to its pre-GFC highs of settling bills in September 2014. According to Dun & Bradstreet, the average time taken to pay was at its lowest level since September 2007, with firms settling accounts after an average of 51.7 days, while more than half pay within 30 days.

Zombies in hiding

Beck's observations come as business insolvency numbers in Australia have begun to fall again, which he attributes to a stagnant economy and low interest-rate environment. A pick-up in both could leave some of these problem companies stranded and lead to another burst of insolvencies, he tells *Public Accountant*. "I believe there is a lot more stress out there than people realise."

Australia's banks have also preferred to help companies work through their difficulties rather than see them put into receivership, says Beck. While banks are lending less to business – thanks to a lower-than-normal appetite for expansion and new ventures – calling in debts is less of an issue. "But when the economy takes off again," he says, "I expect they will take more action [against such companies]."

Because these stressed companies are not picked up by any national database, Beck's observations remain anecdotal, although others in the insolvency practice are seeing similar trends.

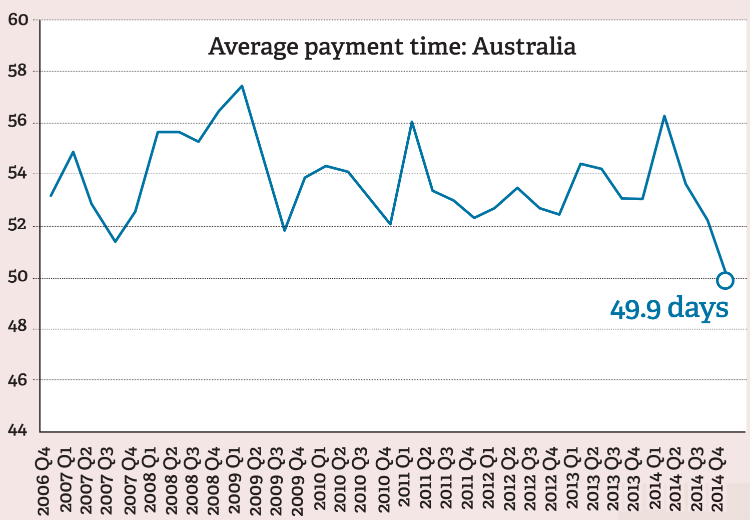
"We are seeing companies just barely scraping by," says Michael Jones, chief executive of insolvency specialists Jones Partners. "What I am seeing – and I am in a biased market – is the owners of small businesses working very long hours for very little return. They … want to do whatever's necessary and work on reduced margins.

"Anecdotal evidence from us so far is that businesses are facing margin squeeze and while some are surviving, they are taking significantly less in pay. This can only last so long."

Robin Buckham, from Family Business Australia, also says she is seeing indications of underlying stress levels. "Even in the way that families are paying their membership here, we are getting more queries about payment terms," she says.

With the local economy stagnant for longer than many first anticipated after the GFC hit, Buckham says: "My sense is that family businesses are more stressed than they were. I'm noticing even among the biggest companies, which are nowhere near that category

Table 2:
Average business-to-business payment times to Q4 2014

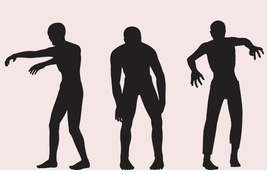


Source: Dun & Bradstreet

Table 3:
Companies entering external administration

Period	Number	Period	Number
1999-2000	4,205	2006-2007	7,487
2000-2001	5,967	2007-2008	7,907
2001-2002	6,411	2008-2009	10,005
2002-2003	6,591	2009-2010	9,281
2003-2004	6,549	2010-2011	9,829
2004-2005	6,624	2011-2012	10,757
2005-2006	7,818	2012-2013	10,746
		2013-2014	9,822

Source: ASIC



[‘zombie’ status] – they are just finding things less comfortable than they were, and so they are tightening their belts and being very careful in the way they transition to the next generation.”

ATO intervention

Jones identifies the planned introduction of new software from the ATO as another potential trigger that will shake out the ‘walking dead’. Announced during the post-Christmas lull last year, the federal government revealed plans to introduce Single Touch Payroll – available from July 2016 – as part of its push to reduce red tape for business. The new system will require employers to electronically report payroll and super information to the ATO each time they pay their employees.

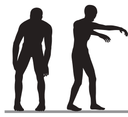
On its website, the ATO says the payment system would achieve further red tape reductions if “it is extended to include payment functionality, so that employers can remit PAYG withholding and the SG using their software at the same time that employees are paid. This would smooth cash flows for businesses and would enable the ATO to identify earlier those employers who are having problems and need support.”

It is this last statement that both Beck and Jones support. “These zombie companies are using the ATO as de facto financiers,” says Beck. “It’s bad for the business community and it gives them [zombies] an unfair advantage against those who pay on time. The tax office is owed billions of dollars from business.”

Jones, an advocate for the Single Touch system, predicts that “when it comes in, there will be carnage and insolvency numbers will spike. The economy has been distorted for too long by the artificial support from the tax office.”

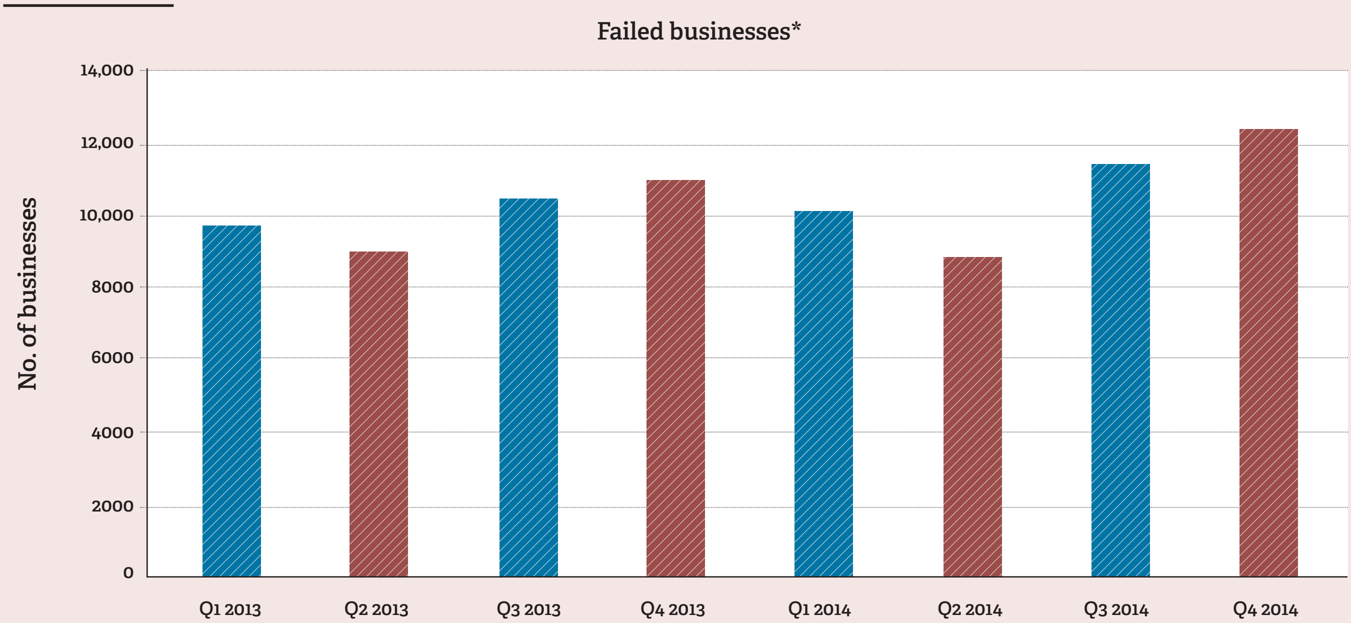
Economic growth

After incremental rises in insolvencies in 2000–2007, there was a dramatic lift in corporate insolvencies from 2008 after the GFC hit, with a peak in 2011–2013. But in the past 12 months, numbers have been declining again. →



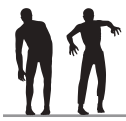
> “These zombie companies are using the ATO as de facto financiers”
>
> – Andrew Beck, RSM Bird Cameron

Table 4:
Business failures



Source: Dun & Bradstreet
* D&B defines a business which seeks legal relief from its creditors or ceases operations without paying all its creditors in full as a ‘failed business’, rather than one that has been formally declared insolvent.

→ Jones Partners' 2014 insolvencies report notes a "steady inverse relationship between the number of corporate insolvencies and economic growth. When economic growth has been higher, growth in insolvency activity has trended lower and vice versa. This relationship was especially pronounced during the global financial crisis, when economic growth collapsed and there was a substantial surge in corporate



"When it [Single Touch Payroll] comes in, there will be carnage and insolvency numbers will spike"
– Michael Jones, Jones Partners

insolvencies. In 2008–09, company insolvency administrations grew by a record 26.5 per cent, the highest rate in a decade."

But this time around, the reason the insolvency rate is dropping does not appear to be a revival in the economy, but rather general corporate deleveraging. Delays in paying bills and tax are keeping struggling companies afloat.

"When you look at the reason for insolvencies, the number one reason is poor management, followed by cash flow. The state of the economy doesn't even make the top 10," says Jones.

While zombie companies will always be with us, a shake-out is overdue, according to Beck. But whether the trigger will be economic recovery, higher rates or even the introduction of a Single Touch Payroll system, only time will tell.

Read this article online at **pubacct.org.au**

How to spot a ZOMBIE

RSM Bird Cameron's *How to avoid becoming a zombie company* report says there are five key signs that a business might fall into this category...

1. They can only cover the bare minimum, such as running costs and interest-only repayments.
2. They can pay costs such as rent and wages, but can only pay the interest, not the principal, of their debt.
3. They are unable to invest in new business or hire new staff.
4. They have trouble getting new finance.
5. They are late payers, regularly missing suppliers' trading terms; and/or fail to forward on statutory tax liabilities; or they enter into repayment programs with the ATO.

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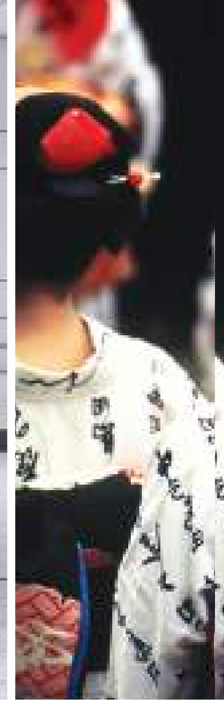

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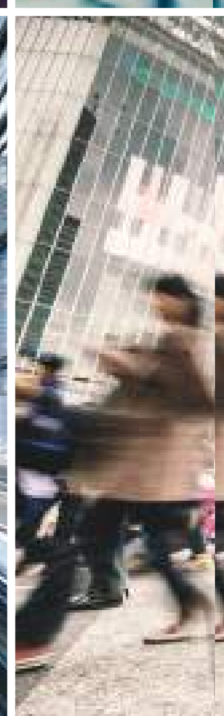

JAPAN: STRETCHING THE FRIENDSHIP

PART 2

Japan has long played a vital role as one of Australia's major trading partners, but now the new Japan–Australia Economic Partnership Agreement is set to open even more doors.

by Rod Myer

Japan is in many ways the enigma of the modern world. While it is the third-largest economy behind the US and China, it has been, by some measures, the 'sick man' of Asia since the collapse of an asset price bubble 25 years ago, which caused deflation, a shrinking GDP and a massive climb in public debt.

But its sophisticated manufacturing output still dominates many markets, its unemployment is relatively low and its technological ability is world-class. Now, Japan could be turning the corner, driven by 'Abenomics', the stimulus policies of Prime Minister Shinzo Abe that have seen markets rise, the yen fall and confidence build.

For Australia, the effect of these changes is particularly significant: Japan is our second-largest trading partner. Now the Japan–Australia Economic Partnership Agreement (JAEPA), which came into force on 15 January 2015, has the potential to let Australian business join the Abenomics party.

JAEPA benefits

The JAEPA deal, in outline, looks like this:

- Australia becomes the first major producer to get privileged access to the highly protected Japanese food markets, with cuts to – or removal of – duties on beef, wine, dairy, grains and seafood.
- There are some small gains for Australian resources and manufactured exports.
- There are significant improvements in market access for Australian service providers and investors.
- Japanese investors get a serious leg up locally, with unregulated deal limits pushed up from $248 million to $1.078 billion.
- Remaining tariffs on Japanese imports will be wound back.

Unbottling Japan's wine sector

Australia's wine industry has a significant opportunity to make gains from JAEPA, according to Peter Bailey, wine sector intelligence manager for the Australian Grape and Wine Authority. "It will make the market more accessible and provide a stimulus to grow Australian wine categories in Japan," he says.

Currently, Japan is Australia's ninth biggest wine export market, taking about 10 million litres – worth about $42 million – last financial year. Australian wine faces a tariff of 15 per cent on some varieties and fixed tariffs of up to 182 yen (AU$1.96) per litre on other varieties.

JAEPA will see tariffs eliminated over seven years, with significant decreases happening immediately. "It will put us on an equal footing with Chile, which has a free trade agreement with Japan," says Bailey.

That's an attractive proposition. Between 2009 and 2014, Chilean wine sales in Japan rose 168 per cent, while Australian sales were flat and French sales rose about 2 per cent. Bailey says Australia won't necessarily do as well, as our currency is still relatively strong against the yen, but the opportunity is significant.

"The agreement has certainly opened up the market," he says, "but now it's about us promoting Australian wines."

Agricultural exports to Japan total about $4 billion, with beef alone accounting for $1.4 billion. While that may seem small among $49 billion in total export receipts, it should grow significantly as a result of the new trade deal, yielding benefits to Australian business and the overall economy.

Indeed, agricultural investment trends emerging prior to JAEPA look like game changers according to David Williams, principal of agriculturally focused investment bank Kidder Williams. "We're doing a lot of work with Japanese companies inbound into Australia," says Williams. "They're buying into food industries like dairy, grain, red meat and aquaculture."

Some of this investment uses the traditional Japanese trading company model, where groups like Mitsubishi and Mitsui joint-venture in resource developments and trade part of the output into Japan and other Asian markets. Williams points to Mitsubishi's 24 per cent investment in Murray Goulburn's Tasmanian milk plant and a similar move by Itochu into Gippsland-based Burra Foods. Both deals put capital into the businesses "and they want offtake [of milk products], which they put into Japan or other Asian markets," says Williams.

Services opportunity

There will be benefits to Australia from many areas, but according to Sir Rod Eddington, president of the Australia Japan Business Co-operation Committee (AJBCC), the area to watch is services.

Leader of the AJBCC for seven years and Japanese resident in the mid-1980s, Sir Rod pushed for a service emphasis in JAEPA and says "that's where the future lies, without trying to diminish the continued importance of resources and agriculture. I was delighted to see a strong services chapter in the final agreement."

Why services are the big sleeper in JAEPA becomes obvious once you look at the figures. Last financial year, two-way trade between Australia and Japan topped $72.2 billion. But $67.5 billion of that was in goods and only $4.7 billion was accounted for by services. Of that, Australian service exports totalled only $2.005 billion. That paints the classic stereotypical picture of the Australian 'farm and quarry' relationship with one of the world's most sophisticated economies.

> "I believe JAEPA could bring Australia $39 billion in benefits over a decade, with real gains in services"
>
> – Tim Harcourt, UNSW

The services picture is even more dismal when you look closer and find over one-third of the services total ($744 million) came from the pockets of Japanese tourists in Australia. So, for the agreement to have big effect, services trade needs to start taking up the slack.

Signs JAEPA is causing a structural earthquake in the services sector emerged just a month after it came into force. Soon-to-be- →

privatised Japan Post bid $6.5 billion for Australian logistics giant Toll Holdings, which has operations throughout Asia and in 50 countries worldwide.

"They're not buying into Toll just for Australian opportunities," says Sir Rod. "They want to acquire Toll's human capital and its businesses across Asia."

Those sorts of relationships could be developed right across the service sector as a result of JAEPA, and education is one area of significant opportunity.

Leonie Muldoon, Australia's trade commissioner in Japan, says: "Japanese higher education is internationalising and looking for partners in new ways of operating, like pan-Asian campuses and joint degrees." Australian universities, she says, are well placed to be part of that development.

Many believe the low-hanging fruit for Australia in the services business is funds management. Much of Japan's massive savings pool has been locked into low yield investments since the 1990s' bust, and the new agreement gives Australia's highly developed investment industry the chance to turn a serious dollar for Japanese investors.

NAB's general manager, Japan, Kohei Tsushima says Australian superannuation expertise could be exported to Japan and that Australia is "well positioned to provide Japan with expert advice on possible privatisations of Japanese infrastructure, such as airports and toll roads".

Already, finance groups like NAB, Macquarie, Lend Lease and ANZ have a foothold in Japan.

Bridging the gap

JAEPA provides significant opportunities for companies providing legal, accounting, engineering and architectural services to set up shop in Japan, but a significant cultural change will have to come first.

"Japan has been pretty much closed to us, with only about 100 Australian companies having offices there, while over 3,000 have offices in China," says economist Tim Harcourt, a former Austrade executive who now teaches international business at The University of New South Wales (UNSW).

Muldoon says there have been some interesting developments in recent times, with retailers Muji and Uniqlo setting up in Australia and Japanese advertising company Dentsu buying a local operator.

But Australian business must follow suit and make serious efforts in Japan for JAEPA to deliver on its promise. "It's nice to have market access, but at the end of the day, it's how you go in the market that really matters," says Harcourt.

If things go well, he adds, "I believe JAEPA could bring Australia $39 billion in benefits over a decade, with real gains in services."

PART 3

In the next issue of *Public Accountant*, we take a closer look at the new Free Trade Agreement with Australia's third-largest export market, Korea.

Australia–Japan trade in numbers for 2013/14

Two-way trade
Total trade **$72.2 billion**
Total goods trade **$67.5 billion**
Total services trade **$4.7 billion**

Major exports to Japan
Liquefied natural gas **$17 billion** (approx)
Coal **$13.17 billion**
Iron ore **$9.6 billion**

Agricultural exports to Japan
Total $4 billion
$1.43 billion Beef
$42 million Wine

Service exports to Japan
$2.005 billion

Total Australian investments in Japan is $50.2 billion

Major imports from Japan
$7.38 billion Vehicles
$3.42 billion Petroleum
$760 million Steel products

Total Japanese investments in Australia **$130.9 billion**

Source: Department of Foreign Affairs and Trade

An innovative, free legal service for accountants

Slater and Gordon has introduced a commercial litigation legal hotline for IPA members.

Slater and Gordon's commercial litigation practice area has thrown open its doors to accountants across Australia looking for fast, high-quality and no-obligation commercial legal advice, by opening an exclusive Direct Access phone line.

Mark Walter, practice group leader in commercial litigation at the firm, coined the idea after he realised how accountants welcomed prompt and efficient access to legal advice from Slater and Gordon's commercial litigation team.

"Accountants are busy people, so when it comes to getting legal advice, whether it's just a quick question or for a broader problem they or their clients may be facing – it needs to be easily accessible, practical and direct," he said.

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"To make the call meaningful, we needed to tap into the experience of the litigators. So our senior litigators will make themselves available to have a discussion as soon as possible," said Walter.

"The purpose of the initial discussion is really to work through with the accountant the potential legal issues and guide them through their range of options, whether there is a real issue or not, or whether there's other strategic steps that can be taken in the meantime."

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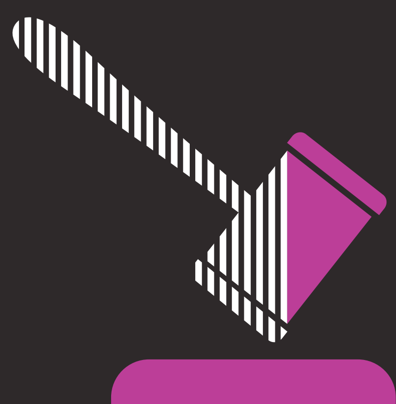

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MAN ON A MISSION

Tax commissioner Chris Jordan is intent on reinventing the Australian Taxation Office, with a focus on improving the tax system for practitioners and small businesses.

by Tony Kaye

→

→

Candid exchange: Chris Jordan opens up to the IPA's Tony Greco

He's no longer the new kid on the block. But tax commissioner Chris Jordan still has all the zeal and passion to shake up the Australian Taxation Office that he first exhibited on assuming the top job at the start of 2013.

Never one to mince his words, Australia's chief taxman talked candidly with the IPA's general manager of technical policy, Tony Greco, about the burning issues, the progress he's made so far and his priorities for the future.

> "We [at the ATO] have a significant majority committed and wanting to change"

Greco What have been the most important achievements in your tenure as tax commissioner?

Jordan I think the major achievement so far culminated in the recent release of the Reinventing the ATO Blueprint. That will drive everything we do over the next two to three years. It sets out and, importantly, recognises that the culture of the organisation is at the centre. The cultural traits that we need to focus on as an organisation are all around putting ourselves more in the shoes of the client, recognising time has a cost, focusing on service, being future oriented, having a sense of materiality and reasonableness, and treating people fairly and with respect.

We've designed a new site called Reinventing the ATO, which is dedicated to all of these issues. It sets out our plans, principles and strategies, and paints a whole series of cameos from different market segments. We've really spent the time segmenting our client base: individuals, small businesses, superannuation consultants, BAS agents and the tax profession generally. We now include software developers as a specific segment, because they will play such an important role going forward.

Obviously, change is difficult in an organisation the size that we are, and there are always some people who don't want to change – they're very comfortable with what they're doing. But by and large we have a significant majority committed and wanting to change, so that's been really pleasing.

Greco What impact will ATO retrenchments have on the service levels expected by stakeholders?

Jordan I don't think you'll see any discernible change in the level of service that we provide. We have gone out of our way to make sure we have people at the front line,

> “Going hard on these multinationals has a tremendous impact on the confidence and sense of fairness for the whole community.”

particularly offering services to advisers and tax practitioners, because they play such an important role. So we have an increased priority in terms of supporting and servicing that segment, because they can make the system work better if we service them properly.

Our target for retrenchments was 3,000, but with the hiring freeze on and some natural attrition, that figure is more around 3,700. Most of the cuts have been in the back office. We are looking at reforming teams and at different ways to work to ensure any gaps are filled.

We've spent a lot of time focusing on being more efficient. We're getting better leverage from technology – frankly, I don't think we've harvested the efficiencies from technology and analytics in the past, and we're doing that better now.

Greco The ATO has introduced simplified transfer pricing recordkeeping requirements to reduce the compliance burden on small business taxpayers. Is this a trend we can expect more of?

Jordan We're doing a lot to try to make our correspondence and explanations simpler for businesses – ultimately, that will reduce compliance costs. There's a lot of talk about SBR [standard business reporting]. It's a little bit down the track, but once we get people with software that is enabled with standard business reporting we can calculate instalments on actual results.

The other concept is Single Touch Payroll, which makes on-boarding employees easier, because the employee effectively does their TFN and their super fund in a standard form and transmits that to the employer. The software accepts that, then every fortnight when [employers] pay their employee, we know, as the ATO, what the salaries are and where the super is going. So, with Single Touch Payroll and with SBR-enabled software, there could well be a transformation in compliance costs.

Greco Some small accounting practitioners have built their business around individual tax returns. What messages would you send to these practitioners?

Jordan There's no doubt that all our worlds are changing, being driven by technology and advances in software. What does that mean for tax agents? I think the era of high-volume, low-margin simple individual tax returns... you'd have to question that business model going forward.

We had over a million people use MyTax last year and we're expanding the pool of eligible people to around five million for tax time 2015. Tax agents are going to have to look at how they can move into advising small businesses, how they can →

Greco and Jordan discuss a wide range of issues

Jordan spells out his vision for the ATO, tax agents and taxpayers

look at doing more financial / business advice, how they can advise people on their superannuation. That's the sort of area that's not going to go away.

Greco Dispute resolution for larger taxpayers has vastly improved under your tenure. What more can be done for smaller taxpayers, who have limited resources to expedite ATO disputes?

Jordan A great deal of publicity has been on the large market, but we have actually quietly done a lot more in the small business area. We have many in-house facilitators now. We ran an alternative dispute resolution pilot about two years ago, and, quite extraordinarily in my view, one-third of all disputes were solved in the first phone call, because they weren't actually real disputes. There was just a lot of misunderstanding that needed clarification.

We're also training a lot of the small business and other compliance officers in facilitation of disputes, about how you go about trying to work something out and how it might actually just be a miscalculation or misunderstanding, and all we really need to do is clarify the situation. It might be on our side or it might be on the taxpayer's side.

We've also got to have a greater sense of materiality. You can't chase every dollar down the burrow; you've got to have a return on investment. If someone's paying a lot of tax and you might have an argument over tiny amounts, you know what, let it go and focus on future compliance. Focus on the big picture, focus on how to do things quickly and don't argue over the little things.

Greco Most compliant taxpayers are concerned about the level of taxes paid on profits generated from business undertaken by multinationals in Australia. What can the ATO do to ensure our good voluntary tax behaviour continues in the future?

Jordan Firstly, we're not waiting for any new international tax laws to come into place. We're actually out there challenging a lot of the previous assertions made by some of these companies. I can't talk about individual cases, but when you draw something up on a whiteboard and it's contrived, not commercial at all and set to give a result that a lot of your sales are not subject to tax in Australia, I stand back and say: is that really how business is done?

Well, guess what? We're checking all of this stuff now, and I think you'll find the tax due diligence 101 is paying off. We're out there under existing laws looking to see whether there are dependent agents; what is the source of this income in reality? We're working really closely with the OECD, the G20, the government, to make sure that we have sensible and clear new laws that seek to attribute profit to where it's earned.

We have a lot of reviews – there are 40 or so audits going on. We've already raised $240 million under this one project and we have a target of $1.1 billion by 2017 that I think we'll easily meet. And it is important, because our mission is to contribute to the economic and social wellbeing of Australians by fostering willing participation in the tax and super systems.

Going hard on these multinationals has a tremendous impact on the confidence and sense of fairness for the whole community. It's our job to take this on.

Photography by Paul Henderson-Kelly

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Roger Moore starred as James Bond for the fifth time in the 1981 movie, *For your eyes only*

For your EYES ONLY

Can you keep a secret? Maybe you can, and maybe you want to – but the ability to maintain true confidentiality rests on having a statutory legal protection in place.

by Caleb Samson

→

Accountants often provide advice specific to tax law, but your client communications are not legally privileged. That needs to change.

The idea of extending legal privilege to tax advice from professional advisers is not new. But in light of the changing legal landscape, ongoing need and repeated recommendations, it is worth seriously considering again.

Case for legal backing

In its pre-Budget submission for the 2015/16 financial year, the Institute of Public Accountants recommended that the government introduces legal privilege for registered tax agents.

The basic argument is simple. The tax legislation makes an allowance for accountants to give legal advice specific to tax law. However, because they are not lawyers, any communications in relation to that advice are not privileged. If a lawyer gave the same advice, it would be.

"It doesn't sit right in principle," says Tony Greco, the Institute's general manager of technical policy. "Lawyers are able to provide advice about the law. Tax law, at the end of the day, is just a bunch of laws confined to tax.

"We have the same authority to provide advice, but you can't give the client the same level of assurance that the relationship remains confidential."

Greco readily admits there is some limited protection in place, thanks to the Australian Taxation Office's accountants' concession. This is an administrative arrangement restricting access to accountants' papers in "all but exceptional circumstances". In practice, it requires a detailed form to be filled out to both make and justify a claim to confidentiality.

"It's a bit ironic that the revenue authority is the one that provides the concession," says Greco. "It is at their discretion, and we want to have something stronger than that."

John Azzi, an academic at the University of Western Sydney, also sees the need for stronger legal backing. His research found that: "If the commissioner [of taxation] decides to lift the concession and access documents, the scope for overturning this decision is extremely limited."

Rather than creating a right, all the concession does is create a weaker legal protection called a legitimate expectation. And, of course, the arrangement can always be abandoned or changed at any time by the tax commissioner.

Who deserves protection?

A distinction is often emphasised for lawyers: the privilege belongs

to the client, not the professional. In the legal community, there has been a shift away from the phrase 'legal professional privilege' to the phrase 'client legal privilege'. This not only clarifies the distinction, but comes from the wording used by the High Court and the uniform Evidence Acts.

While the client is free to breach the confidence at any time, the professional must not. Privilege Street only runs one way.

With this in mind, it is perhaps more accurate to call for the privilege to be extended to the clients of tax agents. It is the clients who are potentially harmed by a forced disclosure to the ATO, and so it is the clients who deserve this protection.

This point was reinforced by a High Court case in 2010, with actor Paul Hogan and his manager John Cornell unsuccessfully seeking to stop their financial documents from being made public, as part of a long-running battle with the ATO over alleged unpaid tax. The case confirmed that the accountants' concession does not protect documents that are in the possession of someone other than the taxpayer or the adviser. The concession applies only to the accountant; privilege, however, would protect the client, whoever happens to be in possession of the confidential documents.

On the backburner

The Australian Law Reform Commission first formally recommended privilege for tax advice in 2007.

It was a call picked up in 2011 by the then assistant treasurer, Bill Shorten, with a discussion paper aimed at "exploring the merits" of the idea. However, there has been little movement on the issue since that time.

> "All the concession does is create a weaker legal protection ..."

Asked why the proposal hadn't gained traction, Greco says it was likely due to opposition from the legal fraternity. But he also identifies a lack of political will. "There's no votes in it," he says. "Other priorities have got in the way and accountants aren't exactly high on the list of recipients of anything these days."

Greco says the legal environment has changed since 2007, too. With a code of practice for the tax community and obligations under taxation services legislation, there is a structure to which privilege could apply.

Limits and limitations

The IPA has suggested the preferred model would only apply to advice from registered tax agents who are members of professional associations. Greco argues that since about 85 per cent of the tax practitioner community is already linked with a professional body, this isn't too drastic a limit.

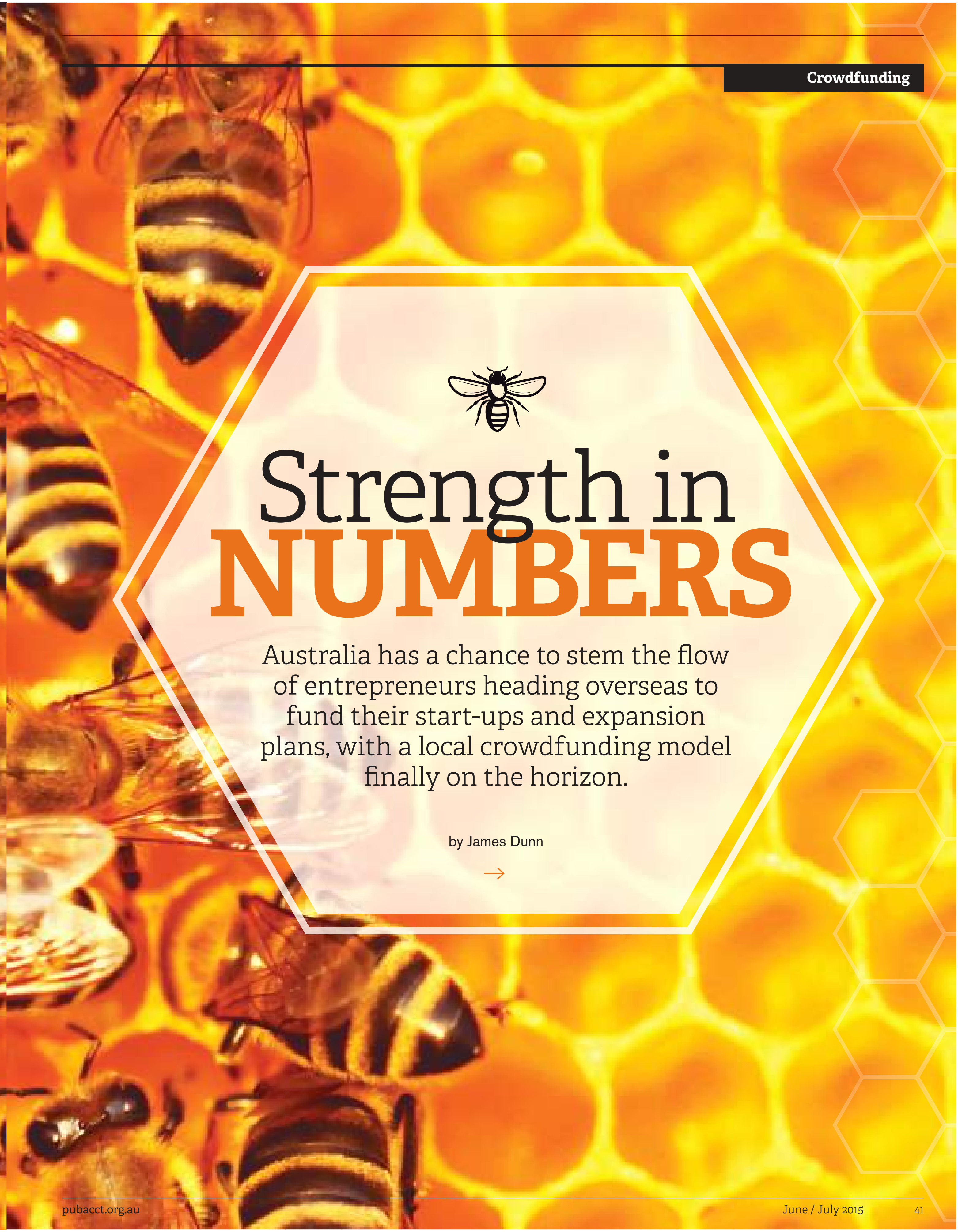
"Some would argue it's a vested interest," he says, "but it's more rigour on top of the tax legislation, and the professional bodies should be favoured because of that extra rigour."

Finally, it's worth thinking about the limits of confidentiality in the modern world. We live in the age of WikiLeaks, cloud computing and metadata retention. Documents and information are stored and vulnerable in new ways that are not yet fully understood.

Extending privilege could help make confidentiality more effective. It's about having something strong to rely on if needed.

And it's a protection that is long overdue.

Read this article online at **pubacct.org.au**



Strength in NUMBERS

Australia has a chance to stem the flow of entrepreneurs heading overseas to fund their start-ups and expansion plans, with a local crowdfunding model finally on the horizon.

by James Dunn

→

It's long overdue, but moves are afoot in Australia to establish a formal model for crowdfunding. Among the recent Budget incentives for small business and entrepreneurs was the promise of $7.8 million over the next four years for ASIC to implement and monitor a crowdfunding regulatory framework – plus tax incentives for start-ups using crowd-sourced equity funding.

There are two main types of crowdfunding – equity and rewards-based. Both offer a way for a project, small business or start-up to raise funds via members of the online community either pledging cash (equity) or buying products and services (rewards).

Companies can already get small investments – the Corporations Act has a specific provision (section 708) that exempts small-scale offerings from strict prospectus requirements. Offerings of up to $5 million in a 12-month period can be made without a prospectus, as long as no more than 20 investors participate – this is known as the 20/12 rule. Companies are allowed to have 50 non-employee shareholders. Any more, and they must change status to an unlisted public company.

But crowd-sourced equity funding would see this investment process taken online, through a specific portal and platform that formalises and handles all the administration.

"There's a great opportunity for accountants if they get behind it [crowdfunding]"

– Paul Niederer, Australian Small Scale Offerings Board

Willing and able

Bruce Billson, federal minister for small business, says the government is "red-hot keen" on crowdfunding but "wants to get the model right".

"We announced in the Industry, Innovation and Competitiveness Agenda in October 2014 that we would look to get [the legislation] up," says Billson. "We recognise that crowd-sourced equity funding is another avenue for raising the finance that is desperately needed by smaller businesses and start-ups. But we want to take our time and make sure we calibrate the regulatory framework so that it's the lightest touch, most effective and cost-effective regime we can put in place, that balances all interests."

The government asked the Corporations and Markets Advisory Committee (CAMAC) – which is no longer in operation – to report on crowd-sourced equity funding. The committee recommended that individuals could invest up to $10,000 a year in small businesses, with a maximum of $2,500 in each company. CAMAC also recommended that a specific-purpose entity structure be created to facilitate crowdfunding.

"We have the recommendations from CAMAC, we have consulted widely with interested parties and we've drawn on all the international experience," says Billson, pointing to New Zealand's current framework.

Broadly, he says, the government is working on four key themes:

- An Australian crowd-sourced equity funding framework should complement other equity-raising mechanisms already in place for more mature and larger businesses.
- The existing corporate entity structures should be sufficient.
- The licensed intermediaries (the web-based platforms) should play the role of gatekeeper, conducting due diligence, investor identification and enforcing market regulations.
- The regulatory framework

Appealing to the masses

While success in reaching a monetary target is not guaranteed, many start-ups and projects have got off to a flying start thanks to crowdfunding.

In March 2015, a revolutionary Australian beehive system called Flow Hive became one of the most successful crowdfunded campaigns in history, raising more than $4 million in global support in less than a fortnight – 6,646 per cent above the target!

Pebble wristwatch raised almost US$10 million in less than 30 days by pre-selling on the Kickstarter crowdfunding platform. Its initial target was only US$100,000.

In Australia, the Spielgaben educational toy failed to raise enough support in its first crowdfunding attempt, so it tried a different platform and reached its target goal in just two days.

should be right-sized, balancing investor protection with the broader benefits of crowd-sourced equity funding.

Room for improvement

Paul Niederer, chief executive of the Australian Small Scale Offerings Board (ASSOB), says Australia was the first jurisdiction in the world to allow 'mum-and-dad investors' to invest in a private-company raising, through section 708 and the 20/12 rule, but the government has a "wonderful opportunity to improve the settings".

"That was great legislation. It has stood the test of time, but 20 investors is not enough these days," says Niederer. "Small private companies get their funding in the first place from friends, family and fans of the business – people that are around the business. But if you want to raise $600,000 from your friends and family, they've got to put up $30,000 each. If we say 100 or 150 investors can participate, we can reach more people and make it easier to raise money."

This is truly "using the power of the crowd", says Chris Gilbert, co-founder of crowdfunding platform Equitise. "That is the strength of the crowd-sourced equity funding model: that businesses get to aggregate funds from friends and family and the customers and supporters more easily," he says. →

According to a Deloitte Access Economics report, 30 per cent of small businesses in Australia in 2014 could not access expansion capital, adds Gilbert. "The banks aren't lending and even if they are, they want property as security," he says. "Getting venture capital investment is next to impossible as well, unless you're the next Facebook. This is all about using the power of the crowd to get small amounts of money, instead of getting one big cheque from a cornerstone investor."

Gilbert's platform has gone live in New Zealand – where crowd-sourced equity investments are uncapped – while he participates in Billson's consultation process and waits to see what emerges in Australia.

"Some of the things that New Zealand has done – such as having restricted reporting requirements and people acknowledging before they invest that they understand the risks of private companies – make a lot of sense," he says.

Opportunity knocks

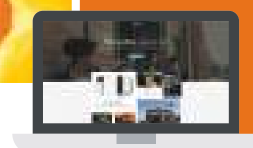
Niederer says crowdfunding represents a great opportunity for accountants. "Every accountant knows about Section 708 and the 20/12 rule, but they should be thinking about how to better it," he says. "Let's get it up to 100 or 150 investors – then you're crowd sourcing. The accountants get to manage the share registry, the escrow account, they do the accounts, they may have to do the offer document – there's a great opportunity for accountants if they get behind it."

Accountants also need to know about crowdfunding to "fill out their advice repertoire", notes Gilbert. "It is important that accountants know about this sort of thing and can suggest it for the right candidate," he says. "We find that lots of the opportunities come from boutique accountants. The knowledge that their clients can raise finance in a quick and easy manner, simply by giving their customer database the ability to chip in $1,000 each to become a shareholder in the business that they love in the first place, is a big opportunity."

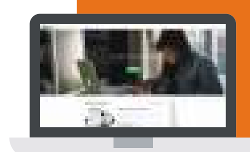
As Andrew Conway, CEO of the Institute of Public Accountants, says: "An ideal future outcome would be crowdfunders, business angels and venture capitalists each working on contiguous parts of the market for entrepreneurial finance."

Popular platforms

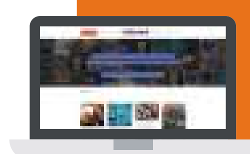
With the growing popularity of crowdfunding, the number of crowdfunding platforms is also on the rise. Here are a few of them ...



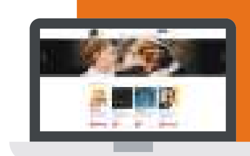
Pozible: The largest crowdfunding platform in the Asia–Pacific region. Many of its projects are within creative industries, such as music and film. (pozible.com)



Kickstarter: Since launching in 2009, this platform has received more than US$1 billion in pledges and has funded almost 60,000 projects worldwide. (kickstarter.com)



OzCrowd: An Australian platform that hosts a diverse range of projects covering personal causes, charities, social enterprises and business initiatives. (ozcrowd.com)



Indiegogo: One of the first sites to offer crowdfunding, it is now one of the largest and attracts 15 million online visitors a month from all over the world. (indiegogo.com)

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Follow the LEADER

Other countries, such as the UK, are cutting compliance costs and reducing red tape for small business. Now Australia is set to follow suit.

by Adrian Rollins

→

It is not often that the European Union finds itself emulated in the name of simplicity. But such is the case, with Australia now following the unlikely lead of the EU – including the United Kingdom – in simplifying small business red tape requirements as part of a broader package to ease the taxation and regulatory burden for this sector.

In his final budget before the UK general election in May, British chancellor George Osborne made a strong pitch to small business with a package of measures aimed at cutting compliance costs and overheads. These included a promise to scrap annual tax returns and replace them with real-time digital accounts, and to review the country's antiquated system under which spiralling property prices have sent business rates soaring, hitting high street retailers particularly hard.

> "For firms under significant pressure ... these changes cannot come too soon"

Just as significant, accounting standards for the UK's three million small and 'micro' businesses – those with fewer than 50 employees and a turnover of less than £10.2 million (approximately AU$20 million) – have been substantially simplified following the UK government's decision to implement the EU's Accounting Directive. The Cameron government argues the change will relieve small business owners and managers, including hundreds of thousands of sole operators, from onerous reporting requirements often out of all proportion to the scale of their commercial activity.

But experience elsewhere suggests the effect of such a reform may be modest. In New Zealand, the government has claimed that changes to the Financial Reporting Act – greatly reducing the detail that small and medium businesses have to include in their financial statements – will save $90 million a year in compliance costs. But accountants are not so sure.

PricewaterhouseCoopers New Zealand partner Scott Kerse told Wellington's *The Dominion Post* that many business owners planned to continue to provide the same level of detail as they always had, not least because of the financial information potential purchasers would require.

Local incentives

In Australia, the $5.5 billion *Growing Jobs and Small Business* package announced in the May Budget was good news for those seeking a reduction in overheads and compliance burden. Among the measures in the package was a 1.5 per cent company tax break for small incorporated enterprises (and a tax discount of 5 per cent for non-incorporated entities, up to the cap of $1,000) from 1 July 2015.

The federal government has also revamped employee share scheme arrangements, at a cost to the Budget of $200 million, to ensure options are taxed – at a 15 per cent discount – only when they are converted to shares (not when they were received, as under the previous rules).

In addition, small businesses are to be conferred the same legal protections against unfair contracts as consumers. Plus, overly harsh penalties for superannuation breaches will be curbed and Board of Taxation recommendations for tax system changes intended to streamline processes and cut red tape have been heeded.

For firms under significant pressure from lacklustre economic activity and subdued consumer spending, these changes cannot come too soon.

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"Almost half the firms [surveyed] found red tape weighed heavily on their operations"

Risk of failure

Politicians reflexively call small enterprises the engine rooms of the economy, not without reason – almost one in every two private sector workers are employed by small businesses, and together they account for a third of private industry output.

But times have not been kind to the sector.

Since the height of the GFC, the survival rate of firms with fewer than five employees has plummeted, as evidenced by a recent study by Reserve Bank of Australia (RBA) officials Sam Nicholls and David Orsmond. Their March 2015 report, *The Economic Trends, Challenges and Behaviour of Small Businesses in Australia,* reveals that over the past four years, only around 60–70 per cent of micro firms (those with zero or 1–4 employees) are still in business, and less than half of the firms that were established in 2009/10 are still operating today.

The report examined the reasons behind the high failure rate of small businesses and found that although many succumbed to the weak economic conditions, it was far more common for them to collapse because of managerial shortcomings, which were often exacerbated by compliance problems.

The study, which drew on the results of the RBA's business liaison work, found that as their businesses grew, owner-managers often tried to stretch their skills over several new areas rather than seek the help of a professional administrator.

Nicholls and Orsmond found that a lack of knowledge and experience in complying with regulations, not the least taxation, labour laws, planning rules and other stipulations, can leave firms vulnerable when conditions turn and finances tighten.

In the past, governments attempting to assist small business have devoted much of their attention to improving access to finance. But, with the official cash rate at historic lows and the money supply growing strongly, obtaining credit does not seem to be particularly troublesome. Since the GFC, small enterprises – like businesses of all sizes – have focused on reducing debt and cutting costs instead of hunting for credit.

Burden of red tape

Earlier in 2015, another RBA-commissioned study involving more than 1,000 small business owners and managing directors found that concerns about the health of the economy loomed large.

However, the research also found that small business owners were kept awake at night by cash flow problems (not least late customer payments), the relentless pressure of overheads like rent and power and the burden of government red tape.

Almost half the firms found red tape weighed heavily on their operations – most commonly tax compliance costs, as well as meeting demands associated with employment laws, corporate regulation, local government and planning rules and payroll tax.

The government's 1.5 per cent company tax cut and a reduced compliance burden will help, along with the unexpected – but very welcome – announcement of immediate deductibility for assets costing up to $20,000.

A long-time advocate for bolder measures to assist the sector, the Council of Small Business Australia says the depth of announcements in the Budget "shows the government understands that it is the little changes as well as the big ticket items that make a difference".

Read this article online at **pubacct.org.au**

Did you know there are more than 2 million businesses across Australia and New Zealand, yet only 15% have broken the $1 million turnover milestone. Increase this to over $10 million turnover and it's under 1%.

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EMBRACING CHANGE

Karen Groves can see her industry changing before her eyes. The question she's constantly asking herself is how she can futureproof her business.

by Carolyn Boyd

Karen Groves is no stranger to hard work and reinventing herself. After growing up helping on the family farm in the lush Hunter Valley wine region in New South Wales, the avid netballer left school at 15 to join the Commonwealth Bank, where she worked her way up to manager level.

Nearly two decades later, Groves was one of the Commonwealth Bank's first mobile lenders. It was in that job that she got a taste for what it might be like to run her own business. And there were other considerations, too. "I had children and working really odd hours [as a mobile lender] didn't suit me," she explains.

A chance meeting with a client in the bookkeeping industry sparked the idea of branching out on her own. In 1999, she founded Canberra bookkeeping and consulting business Successful Alliances.

> "We have to change our spots and do different things to remain relevant"

What started out as a home business is now a small firm with five employees, including one who is based overseas.

Adapt and thrive

In 2013, Groves was named ACT Business Woman of the Year by Canberra Women in Business, and last year she was a finalist in the Telstra Business Women's Awards. She says the accolades are testaments – for both herself and her dedicated staff – to being adaptable. This is a trait that will stand Successful Alliances in good stead, as the accounting industry changes.

Already, the fast uptake of cloud-based accounting and automated add-ons that do everything from reconcile bank feeds to convert handwritten receipts into expense claims is having an impact on Groves' traditional bread-and-butter data entry work. This was something she foresaw several years ago and has spent the past year preparing for.

"The Tax Office is ultimately going to be able to prepare business and instalment activity statements – they are just going to suck that information out of the accounting file," she says. "The ATO is going to automate small business tax reporting, so small business tax returns won't be done by accountants anymore.

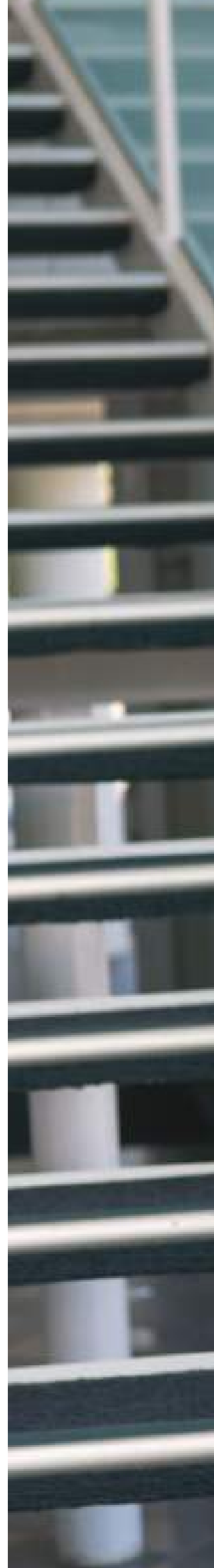
"I can see that the next thing that the Tax Office is going to take will be PAYG summaries – it has already slated payment summaries as part of the evolution.

"You can see that the landscape of our industry is absolutely changing. I felt I was on top of it for a while, but it has swept away a little bit faster than I anticipated."

Constant learning

One of Groves' approaches has been to boost skill levels across the business. "I spent a year upskilling my staff, so they could take on more responsibility and I could then take some time off to complete my Graduate Certificate of Professional Accounting and my Master of Commerce (Professional Accounting) through the IPA Program," she explains. "I started studying when I was about 46. I was always terrified of university up until then. So you can change; you just have to do things when it's right for you, rather than when the norm is."

Upskilling has allowed Groves to re-frame her business, to offer new



Photography by Steve Keough

Member profile

Name: Karen Groves

Company: Successful Alliances

IPA status: MIPA

Location: Canberra

and broader services to her clients. "All of a sudden, we've turned from being a data entry bookkeeping business to one where we have to be a reviewer," she says. "We have to change our spots and do different things to remain relevant.

"The minimum requirement now to be a BAS [business activity statement] agent is a certificate IV in bookkeeping and even that is not going to be enough, because clients will expect more. That's why I went on to study, so I feel like I am up on top of the wave of change."

New territory

Initially, Groves thought she would reshape her business to provide management reporting. However, she's come to the conclusion that doing that would put her head-to-head with accountants.

"The accountants who were doing the small business tax returns will actually be squashed down into our area, because they will suddenly have extra time," she says.

"What we're doing now is focusing on the extra add-ons that you can do to make a business more efficient. So, we're training our staff and we're hoping we'll be a small business consulting firm that does bookkeeping as just one of the things we do."

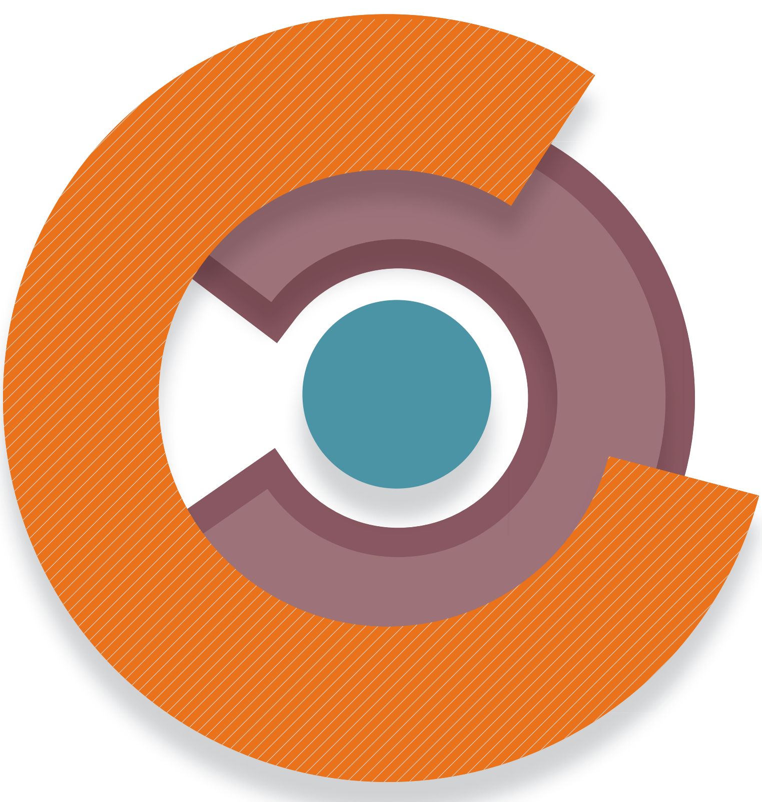
So far, the change plan is going well. "I'm really fortunate that I've got a team behind me who are adaptable to change," says Groves.

"I have been speaking about this for two or three years and they're kind of waiting for it; they are expecting it."

Opinion

360 DEGREES

The accounting industry is in hiring mode. What skills are accounting firms and businesses looking for?



Andrew Retschko

Andrew Retschko is a principal consultant, accounting and finance, for national executive search firm SHK.

Skills that go well beyond the balance-sheet.

There is a real demand in the accounting profession for candidates who offer more than just outstanding technical skills. Any accounting firm looking to hire new staff is likely to be considering criteria beyond how well a candidate can complete a set of financial reports.

While financial and numerical acuity is an essential criterion, accounting firms are increasingly looking for candidates with the ability to use the numbers to tell a story that is relevant and accessible to both internal and external stakeholders.

The challenge facing anyone looking for a new role is finding ways to differentiate themselves in a talent-rich market. Key skills include leadership capability; the capacity to engage effectively with clients – and internally – at all levels, plus the ability to sell.

A broader commercial and business focus is another key criterion for many hiring organisations – how can a new hire translate into an increase in profit?

Organisations are looking for candidates who have the ability to partner across a business. The idea of working in defined silos is becoming increasingly obsolete, replaced by business partnering with all divisions. To demonstrate strong business partnering ability, candidates can highlight examples of adaptability, diverse stakeholder engagement, high emotional intelligence and exceptional communication skills.

Adrienne Unkovich

Adrienne Unkovich is the partner manager at enableHR, an online HR administration practice.

The ability to tap into wider networks.

enableHR works closely with the accounting industry and has seen firsthand that the accountancy profession is in the midst of digital disruption. Clients are embracing web-based software and many are comfortable for their accountants to outsource compliance work, so they can focus on providing the type of strategic business advice that helps practices grow.

When accounting firms are hiring, even at graduate level, they're seeking additional capabilities on top of the technical skills that should be a given. These new capabilities include the ability to network and the ability to communicate effectively.

Employers are looking for high emotional intelligence. Some of the things they'll be looking at to ascertain this include how active the candidate is in their social environment. Do they attend professional association meetings? Do they have a profile from past work experience? Are they involved with sports clubs, charities or cultural pursuits?

Firms know that this kind of social engagement will pay off when the time comes for their staff to specialise in an industry sector. Only those individuals who have built relationships will be able to grow industry revenue in the practice.

Capabilities like collaboration, networking and communication with industry stakeholders will define their ultimate success.

David Smith

David Smith is the director of Smithink 2020, a consulting and advisory service, providing tools and resources to accounting practices.

Moving from compliance to reliance.

Driven by new technologies, the accounting industry is undergoing significant change, where much of the tax and accounting compliance work will be automated. The growth opportunity for accountants is to move from compliance to reliance – to be the trusted business adviser.

A trusted business adviser is a very different character to the traditional compliance accountant. They must be able to build deeper client relationships, have well-rounded business experience, be able to think on their feet, think strategically and confidently, and decisively communicate any advice given. All this must be done without losing the trust, care and technical accuracy that have been the mainstays of the profession.

Some accountancy practices are already hiring along these lines, but many are not. If you want to stay ahead of the pack, this is what you should be doing.

To help them develop, new recruits should be at client meetings where they are the note taker and manager of the action plans. They should be involved in preparing budgets and cash flows, scenario planning and strategic-planning activities. They should be exposed to as many businesses as possible.

Fortunately Gen Y is a confident lot. Our challenge is to harness that confidence and provide them with the life and business experiences to be great advisers.

Kevin Jarvis

Kevin Jarvis is a director of human resource consulting firm Robert Half.

Filling the demand for niche, specialist skills.

Improvements in the global economy and the stability of the domestic economy are providing the business sector a valuable confidence boost, and our latest Salary Guide research indicates that about half of Australia's chief financial officers have plans to recruit new finance and accounting professionals in 2015.

The key drivers underpinning demand for candidates are the development of new projects and business expansion. However, firms are finding it difficult to source skilled professionals, and two out of five CFOs say demand for quality talent outweighs supply.

Despite healthy demand for accounting and finance professionals, the business sector is increasingly calling for candidates with specialist skills. Our research notes that 28 per cent of CFOs nationally report a lack of niche, technical experts. Skills in particular demand at present involve business/financial analysis (reported by 22 per cent of CFOs), accounting assistants (21 per cent), accounting (14 per cent), audit (10 per cent) and credit and collections skills (9 per cent).

Along with technical skills, employers are also looking for candidates with excellent soft skills. Most notably, firms want accounting and finance professionals who can lead and manage relationships inside – and outside – the finance sphere. The ability to communicate effectively with non-finance specialists is highly valued.

Tony Greco FIPA is the IPA general manager of technical policy. He can be contacted on (03) 8665 3134 or at tony.greco@publicaccountants.org.au

Matching rhetoric with action

In shining a long-awaited spotlight on the small business sector, the federal Budget aims to stimulate wider growth and economic wellbeing.

by Tony Greco

We have all heard the catchcry that small business is the powerhouse behind the Australian economy and that it is integral to Australia's future wellbeing.

Despite its importance, small business has been left to deal with an ever-increasing compliance burden while it is coming to grips with the impacts of digital technology.

It is pleasing to see that, at last, the small business sector is receiving some much-deserved attention from the Financial System Inquiry, Competition Policy Review, Board of Taxation's Review of Tax Impediments Facing Small Business and now the federal Budget. This refocusing of attention is partly due to the influence of having the Minister for Small Business as part of cabinet. Bruce Billson truly understands the importance of having a vibrant small business sector and its impact on the wellbeing of the economy.

The 2015/16 federal Budget's centrepiece is a focus on the small business sector. The government is hoping that a revival of small business will resurrect flagging growth, as the economy is impacted by the decline of the mining boom and a sharp fall in our terms of trade.

The federal Budget included many changes benefiting small business taxpayers. These included tax cuts, an immediate deduction for professional fees and the 'big ticket' item: an immediate deduction for assets costing less than $20,000, available from Budget night.

The integrity in our tax system was another focus, with the introduction of measures to combat multinational tax avoidance. This included a new anti-avoidance provision and more extensive transfer pricing documentation requirements. The Budget also proposed applying the GST to cross-border supplies of digital products and services.

> "We are hopeful some of our other small business policy recommendations may also come to fruition"

Treasurer Joe Hockey delivers the Budget in the House of Representatives in Parliament House.

This article will examine the small business tax measures that occupy a large part of the 2015/16 Budget agenda and a few of the tax changes impacting individuals.

Small business tax package

Instant asset write-off Small businesses will be entitled to an immediate deduction (as opposed to claiming depreciation) for assets costing less than $20,000 that are bought and installed ready for use between 12 May 2015 and 30 June 2017. This represents a significant increase from the existing write-off threshold of $1,000 that currently applies to assets acquired from 1 January 2014. Assets valued at $20,000 or more may be placed in the small business depreciation pool and depreciated at 15 per cent in the first year and 30 per cent in subsequent years.

Accelerated depreciation will apply to the majority of capital asset types, including cars, machinery and equipment. A small number of assets will not be eligible for the immediate write-off, including horticultural plants and in-house software. Specific depreciation rules apply to these assets.

While a bigger up-front tax deduction is a good thing, the new threshold will only make a cash flow difference when a business is in a tax-payable position – it is of limited value to businesses in the start-up phase. Further, we are expecting disputes will arise as to what constitutes an asset for the purposes of measuring the less-than-$20,000 limit. For instance, is an item to be properly viewed as an asset in its own right, or is it part of a larger asset? Expect to see more guidance on this from the ATO.

Accelerated depreciation for primary producers For income years commencing on or after 1 July 2016, the government will allow all primary producers to immediately deduct capital expenditure on fencing and water facilities such as dams, tanks, bores, irrigation channels, pumps, water towers and windmills. In addition, the government will allow primary producers to depreciate over three years all capital expenditure on fodder storage assets, such as silos and tanks used to store grain and other animal feed.

Immediate deduction for professional expenses Small businesses that seek professional advice in establishing the business will be entitled to claim an immediate deduction for professional expenses, such as legal and accounting advice. Currently, some professional costs associated with a business start-up →

are deducted over a five-year period as ‘black hole expenditure’ – for example, legal expenses incurred in establishing a new company, trust or partnership.

Taxation cuts

Incorporated small businesses

Another welcome announcement is that small businesses structured as companies will see a 1.5 per cent reduction in the company tax rate, from 30 per cent to 28.5 per cent. These companies will still be able to frank their dividends to a maximum of 30 per cent if they have sufficient franking credits.

If companies exceed the $2 million small business threshold, they will be taxed at 30 per cent on their full taxable income. This hard cut-off may act as a disincentive to accelerate business growth.

Non-incorporated small businesses In recognising that most small businesses are not conducted by companies, the government has extended its tax-cut concession to individuals who derive small business income from unincorporated entities, such as sole traders (37 per cent of small businesses), trusts (25 per cent) and partnerships (12 per cent).

A 5 per cent discount will be provided to individuals who receive business income from these unincorporated entities. The discount will be paid in the form of a tax offset, capped at $1,000 per individual per income year. Presumably, this means that an individual beneficiary who receives distributions from a discretionary trust that runs a small business will be entitled to a 5 per cent reduction of the tax payable on their share of the trust’s business income.

Read this article online at **pubacct.org.au**

Restructures

Capital gains tax rollover relief

Where small businesses restructure, their owners may be liable for CGT, because there are currently few effective and appropriate CGT rollovers available for small business restructures. To allow for greater flexibility in small business structures, the government has announced restructures of small business entities will attract CGT rollover relief; however, most state and territory governments apply stamp duty to these same restructures, so this will need to be considered.

accordingly, no FBT is payable. The caps for the 2016/17 FBT year are $31,177 for public benevolent institutions and health promotion charities, and $17,667 for public and non-profit hospitals and public ambulance services.

In addition, these expenses are not currently reportable on employee PAYG payment summaries.

> “The government is hoping that a revival of small business will resurrect flagging growth”

Individuals: work-related car expenditure options reduced

From 1 July 2015, taxpayers will only have two methods available to calculate and claim their work-related car expenses – the cents-per-kilometre and log-book methods. The sliding scale of deductions available under the cents-per-kilometre method, based on vehicle engine size, will be removed and replaced by a flat rate for all vehicles.

The current law requires taxpayers to know their engine size and type to determine what set rate is used in calculating their claim, to a maximum of 5,000 business kilometres. A flat rate of 66 cents per kilometre for all claims regardless of the engine size or type will replace this sliding scale.

Individuals: entertainment benefits will no longer be fully exempt or rebatable

The current fringe benefits tax (FBT) law provides that meal entertainment and entertainment facility leasing expenses are fully exempt or fully rebatable for certain employers. This means these expenses are not subject to the grossed-up caps and,

The proposed changes mean employers will be liable for FBT in full, where the grossed-up value of entertainment benefits exceeds $5,000 (which equates to $2,329 in benefits that are subject to GST). However, where the employee has not fully utilised the general $31,177 or $17,667 cap with other benefits, entertainment benefits can exceed the $5,000 cap to the extent of the unutilised general cap. It is pleasing to see that the government has reduced the exploitation of this concession; this was well overdue.

There is an acknowledgement in the Budget papers that compliance costs are regressive for small business and that a concessionary tax treatment is appropriate. It is pleasing to note that the IPA’s signature policy of having a concessionally lower tax rate for all small businesses, regardless of structure, has been adopted.

Our advocacy efforts have influenced government policy, and we are hopeful some of our other small business policy recommendations may also come to fruition in the not-too-distant future.

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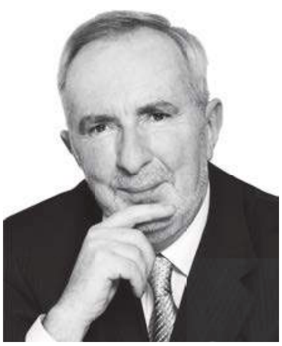
Culling the clutter

Those preparing financial statements need to keep them relevant for users, easy to understand and entity specific – anything else is just not good enough.

by Colin Parker and Carmen Ridley



Colin Parker is a member of the GAAP Consulting team advising the IPA on financial reporting, ethics and audit.

Carmen Ridley is a member of the Australian Accounting Standards Board, team leader corporate reporting at GAAP Consulting (gaap.com.au) and a principal of Australian Financial Reporting Solutions.

Easy-to-use templates, model sets of accounts and a lack of interest or competency by preparers and managers can clutter financial reporting. General-purpose financial statements are based on decisions, but many decisions can't be made because too many financial 'trees' obscure the important 'wood'.

Some preparers attempt to pass off financial-reporting risks to auditors. If financial statements pass audit muster with the minimum of thought, preparers believe the financial compliance process is over and they can move on to the more engaging aspects of managing the business and its associated risks.

So, what can be done to improve the engagement of preparers and governance?

Putting users first

Users rightly hold preparers accountable for poor-quality financial reporting. 'What are you going to do to improve your communications?' and 'I want only relevant information' should be their catchcry. Those who prepare financial statements and those for whom they're prepared need to lift their game.

Preparers need to identify and understand the accounting requirements of an entity's business model and prepare accounting policies and disclosures to suit it. These should be expressed with clarity and brevity, with users' needs firmly in mind.

Cutting and pasting from a model set of accounts is brainless. The accounting policies, choices in them and disclosures (particularly concerning risks) need to be entity specific. They require thought and substantiation. Boilerplate disclosures are just lazy.

Best practice

Good preparers develop internal guidance that links the principle of materiality (AASB 101) to users' information needs and the objective of financial reporting. They analyse and understand financial-reporting aspects of new transactions during the reporting period – for example, business combinations, restructuring and new financial instruments. They settle accounting and disclosures well before year-end and incorporate them into templates as transactions are completed.

If a business doesn't have this kind of expertise in-house, it needs to hire it. Importantly, advisers ensure that specific financial-reporting knowledge is embedded within the entity.

Good preparers also have financial statements independently reviewed before they are issued. A fresh set of eyes ensures clarity, compliance and clutter removal. It also provides comfort for preparers themselves, managers and even the auditors.

Remember, too, that accounting standards have in-built clutter-busters. Think about:

- materiality and information for user decision-making;
- the explicit objective of the individual accounting standards;
- disclosure of information by classes;
- aggregation of information.

Use them.

Whose responsibility?

Auditor assistance with financial statements is restricted. For public-interest entities, an auditor cannot prepare the financial statements. For non-public-interest entities, services can be provided related to the preparation of accounting records and financial statements, but they must be routine or mechanical in nature and, importantly, the self-review threat created must be reduced to an acceptable level.

In short, preparers and governance are responsible for financial statements. They need to be competent to meet their professional, regulatory and case-law obligations (such as those arising from the Centro judgement).

Tailoring financial statements requires an initial investment by preparers and governance, but the communications benefits to users and the relative ease of preparing subsequent statements are well worth the effort.

Don't blame accounting standards for clutter. After all, they are *your* financial statements. Inform, don't bore, and don't obscure key messages. Above all, be relevant to users' needs.

The new grocery code

Larger businesses have been sent a clear message on what is appropriate conduct in their commercial dealings with smaller enterprises.

by Dr Michael Schaper

"The result has very important economic consequences"

Dr Michael Schaper is deputy chair of the Australian Competition and Consumer Commission.

Late last year, in the days leading up to Christmas 2014, the Federal Court handed down a decision which should have profound implications for relations between big and small business in Australia.

The court found, by consent, that Coles Supermarkets Australia Pty Ltd engaged in unconscionable conduct in its dealings with certain suppliers. The Australian Competition and Consumer Commission (ACCC) had launched two legal actions against the supermarket earlier in the year.

In taking court action, the ACCC was concerned about Coles seeking payments and withholding money outside of the terms that had been negotiated with its suppliers. The reasons included participating in a supplier program and for so-called profit gaps, waste and markdowns, and short or late deliveries.

In her judgement, Justice Gordon said:

Coles' misconduct was serious, deliberate and repeated. Coles misused its bargaining power. Its conduct was 'not done in good conscience'. It was contrary to conscience. Coles treated its suppliers in a manner not consistent with acceptable business and social standards which apply to commercial dealings. Coles demanded payments from suppliers to which it was not entitled by threatening harm to the suppliers that did not comply with the demand. Coles withheld money from suppliers it had no right to withhold.

The court ordered Coles to pay total penalties of $10 million, as well as costs. Coles also provided a court enforceable undertaking to the ACCC to establish a formal process via an independent arbiter, Jeff Kennett, to provide options for significant financial redress for over 200 suppliers referred to in the proceedings.

The result has very important economic consequences. This is about smaller businesses being able to have faith in their contracts with larger businesses so they can plan and invest. The outcome also sends a clear signal to larger businesses about appropriate conduct in commercial dealings with smaller suppliers.

The new code

At the same time as the court case was unfolding, a new industry code of conduct was being developed to address unfair practices in the grocery sector.

In March 2015, the government introduced the voluntary *Food and Grocery Code of Conduct* to provide businesses that supply food or groceries to the major retailers or wholesalers with extra protections.

The code, which will apply to wholesalers and retailers who agree to be bound by it, complements existing protections for suppliers under the *Competition and Consumer Act 2010*, including the unconscionable conduct provisions. Among other things, the code:

- requires retailers and wholesalers to act lawfully and in good faith;
- sets out the requirements of agreements between retailers or wholesalers and suppliers, including that they be in writing;
- limits when retailers or wholesalers can unilaterally or retrospectively vary an agreement with a supplier, and requires any variation and the reason for it to be in writing;
- sets out a dispute resolution process.

The new code, together with the court judgement that Coles acted unconscionably, makes it clear that no matter how much bargaining power a retailer holds, they must deal with their suppliers fairly.

If you have a client in the grocery sector or in another sector experiencing similar problems, more information is available at accc.gov.au.

From clay to cloud

Moving to a cloud accounting solution is the natural next step in the connected adviser journey.

by James Solomons

James Solomons is head of accounting at small business software provider Xero.

The accounting world is moving to the cloud. More than two-thirds of Australian accounting firms already use online accounting software, and expenditure on cloud services is growing rapidly. The trend is clear and compelling, but when I talk with fellow accountants, they want more. Don't sell us on cloud stats, they say – articulate why we should shift our business and our way of working to the cloud.

So I talk about clay tablets and 7,000 BC.

> "The days of clunky business processes and the mad scramble at tax time can be over"

Some of you may know that several thousand years ago, accounting was heavily focused on crops and cattle. Babylonians, Sumerians and Mesopotamians needed to count bushels and cows. This is relatively easy when you're part of a small settlement but becomes more complex and difficult as civilisation grows. Imagine some poor Sumerian working a 16-hour shift, stomping around a muddy field yelling "there must be a better way!".

Our accounting ancestors – brilliant innovators, as all accountants are – developed solutions to their challenges. Clay tablets, strung beads and numerical and pictorial recording systems emerged. Counting capacity leapt from dozens to thousands. Professional hierarchies – effectively the first accounting firms – arose.

Technology shifts, then and now, start out by making existing things easier. Cloud integration lowers infrastructure costs, massively reduces data entry errors and futureproofs your business against the monetisation of compliance services. Basic functions get automated. The days of clunky business processes and the mad scramble at tax time can be over.

Just on those initial points, moving to the cloud offers compelling advantages, especially given that your competitors are doing it too.

But beyond that, once the basics are in place, the real possibilities open up. And this is what truly excites me about the shift our industry is facing.

Accounting didn't stay locked in the crops-and-cattle racket. As kingdoms grew and supply ecosystems exploded in variety and scope, the whole game changed. It turns out accounting isn't a primitive luxury but an absolute necessity if you're trying to do anything ambitious.

Technologies that had been developed in response to particular problems started to drive wider shifts in behaviour. There are strong arguments that the development of full-featured written languages by people such as the Phoenicians was driven by accounting requirements. Ancient accountants went from tabulating plants on their fingers to being masters of communication and connection, the glue that held empires and trade together.

That glue is us. That's what we can live up to. And the shift in behaviour that cloud integration supports is the way forward.

Modern accounting businesses are focused on providing value through knowledge, not just lower-level services. Cloud integration puts you in an ongoing relationship with your clients' financial positions, allowing you to add insight and help them perform better. Practices can now spot a significant cash flow issue as it arises or make more informed decisions as to when is the best time to pay debtors.

Because of the availability of data, practices can even model and test specific elements within the business, making for smarter structural choices. Bringing things up a level in this way opens a whole new world of more valuable and interesting work.

Cloud integration isn't just better automation of existing services – though it does that superbly – it's a range of new opportunities for your business and an enhanced role for you as a connected adviser. If you haven't already made the transition to the cloud, I encourage you to take the first step on this journey and embrace the many possibilities the cloud can bring to your business and the way you work with clients.

Perfect timing

Historically low interest rates have created an ideal environment for IT investment.

by David Markus

As accountants, you will understand the advantages of low interest-rate periods for business investment. Borrowing money to improve business productivity has never been cheaper, and the federal government is keen to see banks lending to build businesses, rather than continuing to inflate house prices.

Investing in improved IT systems and hardware is one such area that most businesses should be considering. Although our currency is not as strong as it has been and we have seen IT hardware prices rise, cloud offerings are still getting cheaper as more competition comes online.

Additional incentives

There is no question that updating systems or migrating to cloud platforms is an expensive proposition. However, there are compelling reasons to move to new technology. Security has become one of the key drivers. By now, we should all be aware that Microsoft's Windows 2003 server is end-of-life and should be replaced before July 2015 when support is withdrawn. If the business you work in is one of the thousands out there with one or more 2003 servers still running, you need to ensure it is replaced and shut down before it becomes a very big security risk.

The solution may be to move all of the old server functions to new cloud providers, such as Azure, Amazon Web Services (AWS), Microsoft Office 365, Dynamics CRM Online, NetSuite or Xero. Alternatively, you may need a hybrid solution of some cloud services and some traditional infrastructure, depending on the nature of your business and its applications. This action should have been planned last year and smoothly rolled out during the first half of this year. If you haven't done so, you will need to take some very swift action.

With the Aussie dollar still likely to lose ground, these solutions are likely to become more expensive the longer you wait. With the impact of the new budget set to drive the dollar lower to aid our manufacturing industry, there is even more motivation to invest sooner.

Reducing risk

Of course, in making this IT investment, there needs to be a clear benefit in the form of improved productivity in your business or reduced risk of loss.

The productivity gains will depend on your industry and how technology can aid what you do. That is always worth exploring, as a step change in technology can revolutionise or wipe out an entire industry.

The risks are also difficult to quantify. With crypto viruses, we all learned that data can be locked away and held to ransom. This is a very visual form of attack, but there are many other less visible forms of attack that go undetected until they have had a significant impact.

The risks are clearly growing, as evidenced by the co-ordinated attack on multiple banks in the US in August 2014, resulting in hundreds of millions of US dollars being pushed out of ATMs to waiting recipients.

The risks are around downtime and permanent loss of data and IP stored on computers, or direct theft and fraud. Don't wait to be a victim. Plan and execute your investment in technology while the financial conditions are right.

David Markus is founder and managing director of Combo (combo.com.au), a Melbourne-based IT service and support company. Contact him at info@combo.com.au

"Plan and execute your investment in technology while the financial conditions are right"

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Renovations … all on schedule

Ensure your client's depreciation claim is maximised when work is completed to a rental property.

Bradley Beer is the chief executive officer of BMT Tax Depreciation and has more than 16 years' experience in property depreciation and the construction industry. Call 1300 728 726 or visit bmtqs.com.au

by Bradley Beer

It's the end of financial year and with this comes the opportunity for investors to take advantage of rental property deductions.

Owners of income-producing properties are eligible to claim depreciation deductions due to the wear and tear on the structure of the building and the plant and equipment assets contained within it.

Many investors lack the knowledge to claim these deductions correctly, particularly if they don't seek advice. This can place investors at risk of a potential audit by the Australian Taxation Office and may even result in them having to pay cash back.

The ATO has warned property investors to be particularly vigilant when claiming rental property deductions this end of financial year. Common mistakes highlighted by the ATO include claiming rental deductions for properties not genuinely available for rent, incorrectly claiming deductions for properties only available for rent for part of the year and not claiming deductions correctly for any work completed to the property.

To help property investors avoid making incorrect claims, a depreciation schedule from a specialist quantity surveyor can often help.

A tax depreciation schedule makes life easier for accountants to lodge depreciation claims on behalf of their clients. A comprehensive schedule will outline all of the deductions available for structural items (for example, walls, doors, windows and roofs), as well as for depreciable plant and equipment assets (for example, carpets, hot water systems and air-conditioning units).

When renovating an investment property, a depreciation schedule becomes even more important. Here are some reasons why.

Reason 1: The new owner is entitled to claim deductions for renovations completed by a previous owner.

Depreciation deductions can sometimes get missed when a previous owner has completed a renovation to a property.

Often when an investor purchases a property, they will not be aware of all items that have been updated or replaced. This is particularly common for work that isn't visible, such as new plumbing, waterproofing and electrical rewiring.

Quantity surveyors also often see examples where some of the most common assets found within an investment property get missed – for example, garbage bins, door closers and smoke alarms.

When a specialist quantity surveyor completes a tax depreciation schedule, a site inspection must be organised. Visiting the property allows the quantity surveyor to act as an additional set of eyes for the accountant who, without visiting the property, might only be aware of the depreciable assets as described by their client. Seeing the property also helps to ensure that all depreciable items are documented appropriately, as the quantity surveyor takes detailed notes, measurements and photographs of all the depreciable items within the property.

A quantity surveyor will also use their expert knowledge to calculate deductions using methods such as immediate write-off and low-value pooling.

The site inspection, historical searches and the quantity surveyor's expert knowledge of depreciation legislation are all essential in determining the correct and maximum deductions for any investment property owner.

Reason 2: Any renovations completed may entitle the property owner to additional deductions.

If an investor is planning on completing any work to their property, it is recommended that they consult with a specialist quantity surveyor prior to starting renovations.

The owner may be entitled to claim a deduction for any assets that are removed and disposed of during the renovation. This process, known as scrapping, allows investors to claim any remaining depreciable value for items removed from the property within the financial year of their removal.

Speaking with a specialist quantity surveyor prior to commencing work can assist an investment property owner in two ways. First, a quantity surveyor can provide advice that may assist them when deciding which depreciable items to remove and which assets to install to help maximise future depreciation deductions. Second, it allows the quantity surveyor to perform a site inspection and complete a tax depreciation schedule prior to the removal of any depreciable assets. This schedule can also act as evidence should the ATO query any of the depreciation deductions claimed, including those for removed assets.

Reason 3: After work is completed, a depreciation schedule can be updated to outline deductions for any newly installed items.

Updating a depreciation schedule after any major work has been completed to an investment property is highly recommended to allow any new additions to be captured. The new schedule will outline all the deductions the property owner can claim for the remaining life of the property.

Crossing the threshold boundaries

Selling a business? A recent case highlights the dangers of artificially restructuring to meet CGT concession and asset-test thresholds.

by George Kolliou

George Kolliou FIPA is principal of Kolliou Tax Pty Ltd. He can be contacted at george@kollioutax.com.au

The small business CGT concessions (SBCGTC) provide valuable tax relief on the sale of a business. Readers will be aware from previous columns on this subject that the preconditions – the $6 million maximum net asset value test and the $2 million aggregated turnover test – must be satisfied before individual concessions are considered.

In order to satisfy these two thresholds and access the SBCGTC, some taxpayers consider restructuring, which may involve disconnecting entities or reducing assets or increasing liabilities. But, as the following case demonstrates, care must be exercised.

In Track & Ors v Commissioner of Taxation [2015] AATA 45, the Administrative Appeals Tribunal found that the anti-avoidance provisions in Part IVA of the *Income Tax Assessment Act 1936* applied to deny a number of taxpayers access to the SBCGTC. The case dealt with a number of other matters – such as which taxpayers should be assessed as a result of denying the group access to the SBCGTC – highlighting the complexity of issues arising when the SBCGTC are in play.

> "It is not enough to assert that asset protection is the dominant motive for undertaking a restructure"

The taxpayers comprised a group of trusts, companies and individuals who were involved in the sale of a business in July 2005 for $8,159,808. In June of 2005, on the advice of solicitors, a number of protection trusts were established and distributions were made to the protection trusts, with loan backs to entities in the group. The effect of the scheme was to reduce the net assets of the group to $3,812,063. The scheme and the facts of the case are very complex. Suffice to say, the intention was to reduce the net assets of the group in order to satisfy the maximum net value asset test and access the SBCGTC.

The commissioner of taxation determined that Part IVA of the ITAA 1936 applied to include the capital gain made on the sale of the business as assessable income without the benefit of the SBCGTC. In the tribunal hearing, the commissioner contended that the scheme had the object of enabling Track Co to obtain access to the SBCGTC, and the arrangements entered into reduced the trust assets and increased its liabilities to ensure that the trust net assets at the time of sale were less than the relevant threshold.

In finding against the taxpayers, the tribunal noted that there was no explanation about how the steps taken in the scheme and the establishment of the protection trusts contributed to the asset protection motive for the scheme, as asserted by the taxpayers. Further, the evidence given for the need for asset protection was also unconvincing.

It is not enough to assert that asset protection is the dominant motive for undertaking a restructure; the need must be real and supported by evidence. In the case before the tribunal, the complexity of the scheme and the timing of distributions pointed to the restructure having the purpose of obtaining a tax benefit by accessing the SBCGTC.

This case highlights that where arrangements are driven by a desire to access the SBCGTC and obtain tax benefits, and the arrangements are entered into prior to the triggering of a CGT event, the anti-avoidance rules may apply.

This is particularly the case where the arrangements are complex and artificial in nature and cannot be explained commercially.

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Auditing and the three Es

Efficiency, effectiveness and economy are three key criteria that should be addressed in an internal audit, to help organisations achieve their objectives.

Andrew Cox AIPA is the manager of quality services at the Institute of Internal Auditors in Sydney.

by Andrew Cox

While external audit is often mandated for organisations, internal audit is another assurance activity that can add significant value.

The Institute of Internal Auditors defines internal auditing as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

Internal audit work often focuses on compliance and financial auditing, with recommendations made to more effectively manage risks and address control deficiencies. This is valuable assurance work, but many boards, audit committees, CEOs and senior executives are seeking more.

Management feedback

A requirement of internal audit functions is to have an independent external assessment conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. This assesses conformance with the internal audit standards and the quality of internal audit services delivered.

In performing more than 70 quality assessments of internal audit functions in the corporate and public sectors, recurring themes I hear are:

- Why did we pay for an internal audit to tell us what we already know?
- Where are the insightful improvement actions that get to the real 'root cause' of an issue?
- Why can't internal audit deliver more value and help us improve the business?

The three Es

A good internal audit should assess and offer recommendations that address the three Es – efficiency, effectiveness and economy.

Efficiency is concerned with the relationship between goods and services produced (outputs) and the resources used to produce them (inputs). It's about getting the most from available resources. An example would be reducing the cost of providing healthcare over time.

Effectiveness is concerned with achieving predetermined objectives (specifically planned achievements) and having the actual impact (output achieved) compared with the intended impact (objective). An example would be where disease rates have fallen as a result of the healthcare provided.

Economy is concerned with minimising the cost of resources used (people, materials, equipment, etc) and considering the appropriate quality required – that is, keeping the cost of inputs low, without compromising quality. For example, are healthcare supplies or services of a specific quality purchased at the best-possible price?

Operational auditing

Any compliance or financial audit can also be an operational audit (it may be called a performance audit in the public sector). Operational auditing uses the three Es but it differs from compliance and financial auditing, as shown in the table, below.

The aim of operational auditing is to find out:

- whether business operations are

	Operational auditing	Compliance and financial auditing
Purpose	Does performance meet the three Es?	Is there compliance?
Focus	The organisation and its objectives	Transactions
Academic base	Not limited	Accounting
Methods	Methods vary from audit to audit	Standardised methods
Assessment criteria	Unique to each audit	Standardised criteria
Reports	Varying formats	Standardised reports

being managed in an efficient, effective and economic manner;
- whether procedures for promoting and monitoring the three Es are adequate;
- where improvements can be made.

Step by step

The sequence of an operational audit is likely to be:

1. Establish what should be done.
2. Establish what is being done.
3. Review efficiency, effectiveness and economy.
4. Compare 'what should' with 'what is'.
5. Investigate significant differences.
6. Assess the effects of the differences.
7. Determine the 'root cause' of the differences.
8. Develop audit findings and value-adding options and recommendations.

While most steps may not be different from a compliance or financial audit, the crucial, value-adding steps are numbers three, seven and eight. These are the difficult parts. Most internal auditors can work out whether there is compliance, but undertaking a review of efficiency, effectiveness and economy can be a more difficult proposition.

Most internal auditors can also work out an effect, but trying to isolate the cause can be much harder. Hence, many internal auditors find it easier just to

> "Many internal auditors ... avoid trying to identify the 'root cause' of an issue"

report on what is wrong and avoid trying to identify the 'root cause' of an issue. Often, an internal audit recommendation will be something like: 'employees should follow the procedure'. This is lazy internal audit work. Few employees will deliberately bypass a procedure unless it is a bad procedure or something else is preventing them from complying with it.

Collaboration

The real value in an internal audit report is in determining the cause of the differences between 'what is' and 'what should be', and developing audit findings and value-adding options and recommendations. By working closely with management at the conclusion of an audit to discuss improvement options – possibly using a facilitated workshop approach – a much better outcome can be achieved.

After all, the people doing the job know a lot more about it than the internal auditor.

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Wisdom from an oracle

Businesses and sales divisions could learn a thing or two from the twentieth century's most successful investor.

by Sue Barrett

Sue Barrett is founder and CEO of sales consultancy firm Barrett Consulting Group and salesessentials.com

Read this article online at **pubacct.org.au**

US businessman and billionaire Warren Buffett knows a thing or two about investing, and his insights and wise counsel hold true for building highly effective sales teams. Here are some of Buffett's famous quotes and how we see them in relation to building healthy and prosperous sales cultures.

"There are no bonus points for complicated investments. The truly big investment idea can usually be explained in a short paragraph."

A sales strategy should be easily understood by the business development team and the whole business. It should be expressed in simple language and clearly state the purpose of the business and its sales function, including which markets it is focusing on, the way it is going to go to market and what values and governance it will be held accountable to when engaging clients and team members. Go ahead and write a simple paragraph describing your sales strategy. Could your sales team follow it easily?

We have moved away from the obsessive one-eyed focus on reporting on the numbers and results alone (forecasting, pipeline, big data, etc.) at the expense of actually working with our sales teams to get them selling better and having better client interactions, based on value. You cannot coach results, you can only coach activities.

"Buy businesses that can be run by idiots. I try to buy stock in businesses that are so wonderful that an idiot can run them. Because sooner or later, one will."

Businesses can't rely on silver-bullet solutions to run and improve sales teams and operations. Instead, we need to start putting in place well-prepared sales operations frameworks and good sales strategies that allow anyone stepping into our sales world to have the best chance of getting out there and selling effectively.

We need to take sales management much more seriously and train sales managers to be effective sales leaders. They need the right resources to make sound decisions around sales strategy, market segmentation, account mapping, sales financials, people selection and development, how they lead and deploy their sales teams, and how they work with the executive team.

"Someone's sitting in the shade today because someone planted a tree a long time ago."

Businesses need well-prepared, ready-to-go and relevant sales operations frameworks, and effective induction and development programs that actually equip people from the get-go, making it easy for them to learn and earn quickly. We must desist from throwing new recruits in the deep end which, sadly, has been the standard approach to 'salesperson induction and development' for what seems like eternity.

"Time will tell. Time is the friend of the wonderful business, the enemy of the mediocre."

Developing an effective sales team takes time, dedication, leadership and courage in the face of short-termism and fads. For instance, after more than two years of working with the Barrett Consulting Group, using the Sales Essentials Learning Framework, sticking to the regular follow-up sessions with their salespeople and attending the managers' coaching sessions with us, one of our clients has successfully established a robust sales learning and coaching framework with their sales teams. The sales managers can now implement one-on-one and group coaching in the field and in sales meetings, and successfully facilitate sales workshops.

The retention rate of salespeople has improved and the business's clients now accept these salespeople as worthy consultants in the field, rather than simply product salespeople (still the standard in their industry).

The whole sales team has adopted the core elements of Sales Essentials in their daily work practices, making the sales process, standards and tools a nationwide standard that all teams adhere to. This is leading to increased sales results, better margins, happier clients and salespeople, and a marked competitive edge.

"Bad things aren't obvious when times are good. After all, you only find out who is swimming naked when the tide goes out."

How many businesses and their sales teams were caught short by the GFC and the many changes that followed in the marketplace? Too many. Why? Because too many were not geared for customer-centricity; they did not look ahead at what was changing, nor did they really listen to their clients and what they were wanting. The result? Too many businesses and their sales teams are in a pricing race to the bottom, because they do not know how to sell value instead of product, among other things.

Sales checklist

If more organisations followed Warren Buffett's wise counsel when building and leading their sales teams, business would be booming. Do you have the following sales elements in place?

- ***Sales strategy*** with the right market segments supported by the right sales messaging and go-to-market action plan.
- ***Sales structure*** with clear levels of accountability, including standards of behaviour and values, so you know how to achieve better sales results.
- ***Sales processes*** that can be easily taught and applied in the real world.
- ***User-friendly technology*** that helps people to sell and doesn't tie up staff in excessive administration.
- ***Sales managers*** who effectively lead, coach and support staff.
- ***Continuous learning environment*** that encourages regular reflection and practice, and keeps salespeople up to date.

Businessman and billionaire Warren Buffett.

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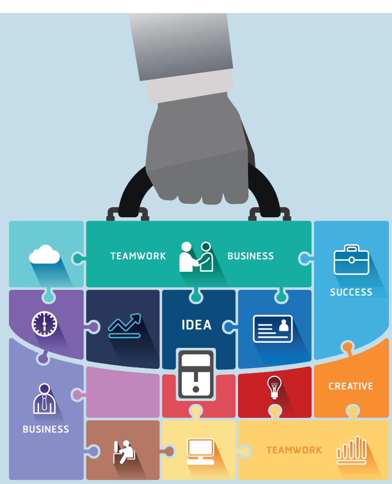

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HEAD SPACE

Stress is a part of everyday working life and is especially prevalent around EOFY, but it's important to get help if you find it escalating out of control.

by Tony Kaye

In Australia, the period immediately before and after 30 June is generally regarded in the accounting profession as the most stressful time of the year. Reporting deadlines are tight and the demands on your time are usually massive, requiring long hours during the week and often work on the weekends. But is it all getting too much?

If you are finding it hard to cope, you're certainly not alone.

Research by the Mentally Healthy Workplace Alliance and *beyondblue* estimates that, at any given time, 20 per cent of employees are likely to be experiencing a mental health condition. Furthermore, their research shows that untreated depression results in more than six million working days being lost in Australia each year, with the cost to organisations running into billions of dollars.

Supporting employee mental health is, therefore, a win–win for both businesses and employees. PwC research shows that every $1 invested in creating a mentally healthy workplace will generate $2.30 in productivity gains.

Frank Quinlan, chief executive of the Mental Health Council of Australia, says that it's important for organisations to be aware of mental health issues and how they can affect people, and to be prepared to intervene if there are concerns about an individual employee.

"Organisations need to be able to provide support directly, either through flexible working arrangements or through other ways, to ensure that people get the support they need through employee access programs and other initiatives that are available," he says.

"It comes back to the sort of culture that the leadership in an organisation might set. If the leaders within an organisation display an awareness of mental health issues and a willingness to take steps to actually ensure that people get the assistance they need, then that leadership culture is something that can extend into the whole organisation."

What that means essentially is that stress should not be a dirty word. If you are feeling stressed, don't ignore it. Seek out direct support – either from within your organisation or externally. In many cases, the best place to start is with your boss or manager.

If you feel that stress is having a serious impact on your mental health, beyondblue.org.au offers support and other resources.

Read this article online at **pubacct.org.au**

Stress less

Reducing workplace stress often starts with taking better control of your own personal and office habits. Here are some ways to help relieve the pressure.

HELP

Avoid bringing work home too often and restrict your overtime hours. This includes being willing to say no and to ask for help if you are being overloaded with work. It's important to preserve your work–life balance.

In the office, take regular breaks from your desk and make sure you don't skip your lunch break. Go for a walk if you can.

Explore opportunities to work from home or more flexible working arrangements that could reduce travel time or offer you a calmer, more focused work environment.

Prioritise tasks and set realistic timeframes for completion, to avoid committing yourself to too many tasks in any given day. If your days are well structured, you can generally be much more productive.

In the same way you diarise work meetings and commitments, allocate time to do the things you enjoy, such as exercising, meditating, reading, gardening or listening to music.

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