BUSINESS & TAXATION BULLETIN

SUMMER 2022

REPORTS NEWS ANALYSIS

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Tax Updates

NSW Stamp Duty Changes

The First Home Buyer Choice scheme for stamp duty is now law and effective from 12 November 2022.
This new scheme allows first home buyers purchasing a property up to $1.5 million to have the choice of paying upfront stamp duty or an annual property tax. The existing stamp duty concessions will remain for first home buyers of a property up to $800,000.
Any eligible first home buyer purchasing a home from 12 Nov 2022 to 15 Jan 2023 will be required to pay the full stamp duty on settlement and then apply for a refund when electing for the annual land tax. Any settlement occurring from 16 January 2023 will provide the option of an annual land tax at date of transaction.

Single Touch Payroll Phase 2

A number of the software providers are commencing their transition to Phase 2 of Single Touch Payroll (STP) . STP Phase 2 commenced on 1 January 2022 however most software providers obtained a deferral for implementation from the ATO.

The transition process may involve some re-classification of payroll categories, leave entitlements and allowances to ensure that all payroll items match into the categories specified by the ATO. Please carefully follow the instructions for each software provider and refer to the ATO website for a detailed list of payment types and their required category. It is also very important to identify any closely held employees within an organisation as there are three different reporting options being:

- Report actual payments on or before date of payment
- Report actual payments quarterly
- Report a reasonable estimate quarterly

The identification of closely held employees recognises that business owners do not always draw a regular wage in the same manner as arm's length employees.

Are you MoneySmart?

The MoneySmart website is run by ASIC to provide individuals with useful information and tools to assist them in basic financial decision making. This is a great resource to share with staff or family who do not currently have an accountant or financial adviser. To access the website go to moneysmart.gov.au

Are you MoneySmart?

If you have been impacted by the recent flooding in Eastern Australia, the ATO has automatically granted lodgement deferrals for all taxpayers who are in an Australian Government Disaster Recovery Payment declared LGA.
The lodgement deferrals are as follows:

- Individual income tax returns previously due 31 October are now due 31 January 2023
- Monthly BAS for Sept 22, Oct 22 and Nov 22 are all due on 18 February 2023
- Quarterly Sept 22 BAS is now due 18 Feb 2023

Please note that the lodgement deferrals do not extend to a deferral of payment. Payments must be made by the original due date in order to avoid General Interest Charge (GIC). However if you are having difficulty meeting your payment obligations, please speak to your DFK contact as soon as possible who can set up a payment plan with the ATO.

Fuel Tax Credits - significant changes

The calculation of fuel tax credits has changed again since the revision of the fuel excise to normal rates from 29 September 2022.
The fuel tax credit rates are changing regularly so it very important to keep good records to support your claim. For fuel used in heavy vehicles you are required to apply the applicable rate on the date you acquired the fuel.

Use of Fuel	Type of Fuel	From 1 Aug 2022	From 28 Sept 2022
Vehicle greater than 4.5 tonnes GVM traveling on a public road	Petrol, diesel or blended fuels e.g. E10	0 cents	18.8 cents
Specified off-road activities	Petrol, diesel or blended fuels	23 cents	46 cents
All other business uses including power to auxiliary equipment of a heavy vehicle	Petrol, diesel or blended fuels e.g. E10	23 cents	46 cents
	LPG	7.5 cents	15 cents
	LNG or CNG	15.8 cents	31.5 cents

Electric Cars exempt from FBT 1 July 2022

Legislation has recently passed which provides a Fringe Benefits Tax exemption for electric motor vehicles which were purchased or first held for use from 1 July 2022.

A second hand electric vehicle would also qualify if the car was purchased new after 1 July 2022. The exemption applies to battery cell vehicles, hydrogen cell electric vehicles and plug-in hybrid electric vehicles (PHEV).

The value of the car at the first retail sale must be below the luxury car tax threshold for fuel efficient vehicles (which is $84,916 for 2022-23 year).

Once an electric car qualifies for the FBT exemption, all associated cost in running the car will also be FBT exempt. It is important to note that PHEV's have a sunset clause on the FBT exemption, where the arrangement must be entered into by 1 April 2025.

GIC and SIC Rates

The ATO has published General Interest Charge (GIC) and Shortfall Interest Charge (SIC) rates for the second quarter of the 2022-23 income year.
The GIC annual rate for October – December 2022 is 9.31% and the SIC rate is 5.31%.

New Employees and Stapled Super Funds

A reminder that for any new employee commencing in your business there are obligations you are required to meet in respect of their superannuation contributions. The obligations are:

- Providing the employee with choice of super fund form
- If employee does not choose a fund, enquire with the ATO about an employees stapled super fund
- Only pay super contributions into your employer default fund if there is no stapled fund

The 'stapled super' system was introduced remove the occurrence of an individual opening a new super account each time they commence with a new employer.
Any requests for the details of a stapled super account can be made through ATO Online Services for Business once an STP event of TFN declaration has been lodged for the employer.

Upcoming Key Dates and Deadlines

1 Dec 2022	2022 Income Tax Payment required for Large and Medium taxpayers (lodgement is due 15 January 2023)
1 Dec 2022	2022 Income Tax Payment due for head companies of a large or medium consolidated group (lodgement due 15 January 2023)
1 Dec 2022	2022 Income Tax Payment due for companies and super funds when lodgement of the return was required on 31 Oct 2022
21 Dec 2022	November 2022 Monthly Activity Statement due for lodgement and payment
15 Jan 2023	Lodgement of tax return for large/medium entities
21 Jan 2023	December 2022 Monthly Activity Statement due for lodgement and payment except of businesses with turnover up to $10 million
28 Jan 2023	Super Guarantee Contributions for Dec 2022 quarter must be paid by this date
21 Feb 2023	December 2022 Monthly Activity Statement due for lodgement and payment for businesses with turnover up to $10 million
21 Feb 2023	January 2023 Monthly Activity Statement due for lodgement and payment
28 Feb 2023	Lodgement and payment of 2022 Income Tax Returns for non-taxable large and medium entities
28 Feb 2023	Lodgement and payment of 2022 Income Tax Returns for new registrants who are large or medium entities
28 Feb 2023	Lodgement and payment of 2022 Income Tax Returns for new Self-Managed Superannuation Fund registrants
28 Feb 2023	Oct – Dec 2022 Business Activity Statement due for lodgement and payment
28 Feb 2023	Lodge and pay Annual GST Return if taxpayer does not have an Annual Income Tax Return requirement
21 Mar 2023	February 2023 Monthly Activity Statement due for lodgement and payment
31 Mar 2023	2022 Income Tax Return due for individuals and trusts whose latest return resulted in a $20,000 or greater tax liability
31 Mar 2023	2022 Income Tax Return due for lodgement and payment for Companies and Super Funds with a turnover of greater than $2 million unless required to lodge earlier
31 Mar 2023	End of 2023 Fringe Benefits Tax year

Have you got a strategy for a financially stress-free holiday period?

Holiday breaks are a chance to recharge for the year ahead especially after the year we have had. We look forward to warmer weather and finally setting up an out-of-office email for the break. However, for business owners, this time is a stressful without careful cash-flow planning.

Even if you do continue to operate through the holiday season, your customers' financial behaviour may not remain the same. The strategies and tips shared below are generalised, however, we are here if you need to budget and prepare a cash-flow forecast. We can also help if you need assistance in applying for short term finance to get you through the break.

Why is cash-flow planning particularly important at this time of year?

Staff leave needs to be covered in addition to your normal fixed overheads like rent, creditors and tax compliance. The budget and forecasting process ensures you know your numbers and are prepared. If you are closing the doors for a bit, you won't be driving revenue during this period and sales may take time to get started again in the new year.

Need financial support?

If you can't make ends meet, now is the time to organise short term financial relief. Please let us know if you need any help with cash-flow forecasting, budgeting or finance applications.

Here are some simple strategies that can help

- **Decide your holiday break dates** – confirm these with staff, customers and suppliers.
- **Budget and plan for annual leave** – You may need to factor in temp staff.
- **Decide** - if you are going to pay out leave in full at the beginning of the break or continue to pay as usual throughout the break.
- **Review your work in progress (WIP)** - plan to complete jobs or services that can be invoiced and paid (remember if you don't invoice and get paid before the break, you may not see the money for another month).
- **Capacity planning** - There is often a rush to get everything done before summer holidays, whether it's the kitchen benchtop installed or the beauty treatment before the break, so make sure you have the capacity to maximise on this.
- **Stock-take** - Do you need to order in goods now to be able to complete work in progress? Check that there is stock on hand available.
- **Making an arrangement with the Tax Office** - if you find you can not make payments, it is possible to apply for an instalment arrangement. There are costs associated with this, however it may provide a solution that gets you through the holiday period. Talk to us, we can help.

Market Update

In this update we provide an update of inflation trends and outline the outlook for interest rates, company earnings and equity markets. Overall, near-term volatility is likely to persist until the US Federal reserve begins to slow the pace of interest rate rises. However, we suspect financial markets are near the point of maximum distress, with our base case that Central Bank rate increases are largely completed by late 2022 or early 2023.

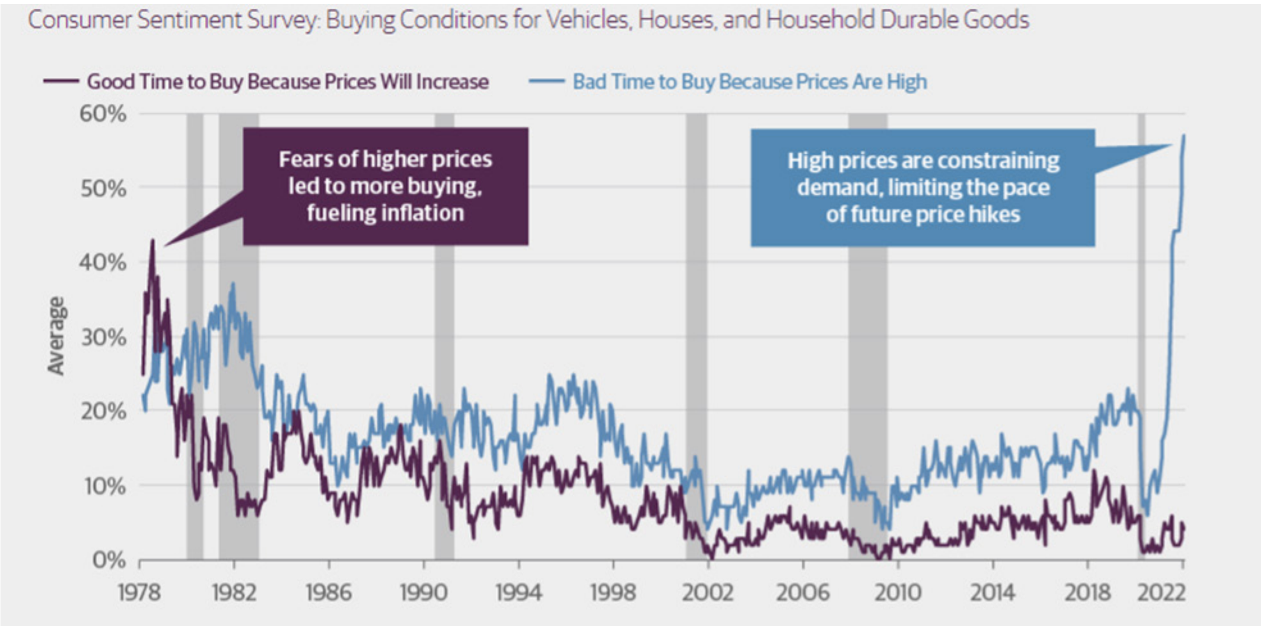
Back in our January Market Commentary, we referred to 2022 as being a year of transition. The speed that Central Banks have ratcheted up interest rates since March resulted in a sharp selloff in financial markets during the September quarter. In times of tighter liquidity, it is the more liquid equity and bond markets that see greatest selling pressure.

Less liquid assets such as property, credit products and alternative assets generally do not provide investors with easy access to funds. Through the September quarter, some of the weakness in the highly liquid US equity markets we suspect was attributable to tighter liquidity within the global financial system.

Inflation remains the priority and main risk

Central Banks quite rightly remain committed to bringing down inflation. Importantly, unlike the 1970's there has been no outbreak in inflation expectation – see Chart 1. In the 70's fears of higher prices lead to more buying resulting in inflation becoming embedded. To date high prices and aggressive rate increases are constraining demand, limiting the pace of future prices increases

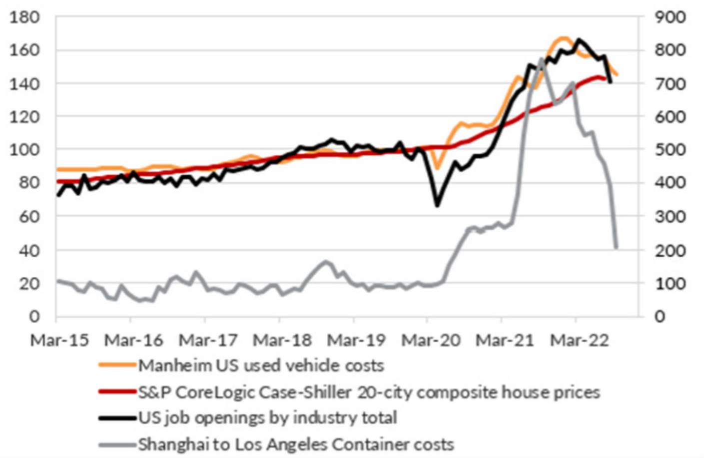
Chart 1- US Consumer Sentiment Survey Buying Conditions for Cars, Houses and Household Durable Goods.



Source – Guggenheim Investments US Consumer Sentiment Survey, University of Michigan

Increasingly there is evidence of inflation peaking in the US goods sector through a combination of lower commodity prices, food prices and lumber. Inventories also remain elevated in the US particularly. As bottlenecks ease, other indicators of inflation have already turned lower including shipping costs, house prices, used care and job openings. Chart 2 shows these rolling over.

Chart 2: Inflation indicators are slowing in many markets (indexed to 100 in Jan 2020).

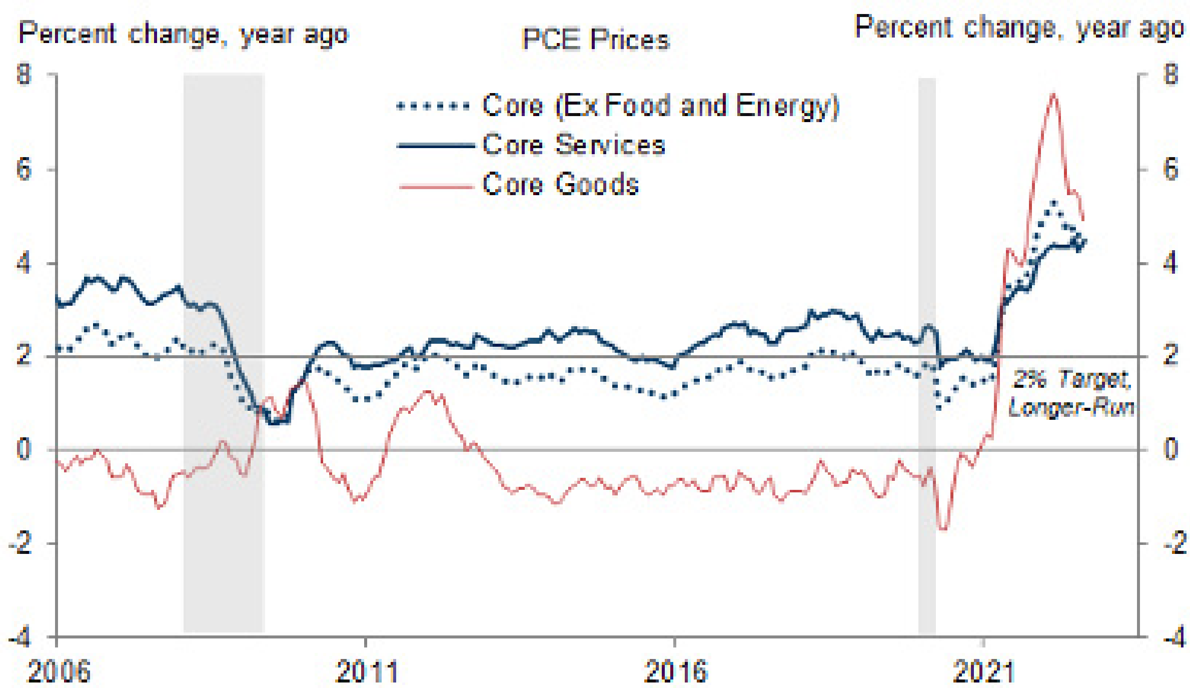


Source: Bloomberg LP, Oreana

The fate of the US interest rate cycle ultimately depends on core PCE inflation, which has fallen from a peak of 5.3% in February to a still-very-elevated 4.6%. See Chart 3. This is likely to be assisted in coming months by additional disinflation in core goods, particularly for used cars which are forecast to decline 10% year-on-year in December 2022 and 17% in December 2023.

However, Fed officials are unlikely to take much comfort if the much larger and more persistent core services grouping remains hot. Tight labour markets are seeing wages growth remaining robust, although the rate of change appears to be moderating. In July, core services rose 4.2% year-on-year, well above its 2.6% pre-pandemic pace (2017-19 average) and the roughly 3% pace consistent with the Fed's long-term PCE inflation target.

Chart 3 Core Goods Inflation Has Peaked, but Core Services Inflation Must Fall for the Fed to Achieve Its Target



Source: UBS

In Australia, Food and energy prices continue to drive near-term inflation, but services will drive inflation in 2023. With Australia's unemployment rate at 3.5%, immigration is vital to help resolve labour shortages and service inflation.

It is worth noting that 56% of Australia's long term economic growth (+2.9%) has been driven by population growth (1.6%), both immigration and natural population growth.

Outlook for interest rates

The RBA surprised markets by only raising interest rates by 0.25% in October. More rate hikes are set to follow over the rest of 2022. But the RBA's move to slower hikes makes it the first central bank to acknowledge that a recession is both unnecessary and avoidable. RBA Governor Phillip Lowe stated that the 'neutral' cash rate is somewhere between 2.5% and 3.5%. Furthermore, Lowe specified that the current 2.85% cash rate is "getting to that range of normal, but probably still on the low side".

UBS economists are forecasting the RBA to increase and bring the cash rate to a peak of 3.10% in December 2022. Markets are currently forecasting the RBA cash rate to peak at close to 3.85% in October 2023. A lower expected cash rate would be a positive catalyst for shares.

With two negative quarters of GDP growth in the US so far in 2022, leading indicators point to further slowing in the months ahead. We find it hard to see how Europe will avoid a recession along with the UK. China continues to experience minimal growth as it grapples with a property market decline and a zero COVID policy disrupting production. Against this backdrop, inflation is likely to moderate.

The bottom line for the US Federal Reserve is the 3.75% of rate hikes so far is already having a meaningful impact on demand. Near-term volatility is likely to persist until the Fed begins to slow the pace of rate hikes.

Market Prospects

We suspect financial markets are near the point of maximum distress. Given the rapid tightening process by Central Banks during 2022, early signs of backing off are now beginning to appear. The Bank of England completed a short-term bond buying program, the Bank of Japan is supporting the Yen, and the RBA has moderated the pace of rate increases. Our base case is for Central Bank rate increases to be largely completed by late 2022 or early 2023.

Whereas 2022 has seen interest rate trends the key driver of equity markets, we expect corporate earnings will feature more prominently in 2023. Through 2022, corporate earnings have proven more resilient than initially expected in both Australia and the US. A combination of full employment, rising wages, higher inflation (boosting nominal GDP) and high commodity prices (LNG, coal, lithium, iron ore) have supported earnings.

Investment Strategy - Stay Positive Longer Term Thematics

From an investment perspective, we believe it prudent to have portfolios structured to withstand a slowdown or recession. In practice that means maintaining a balanced portfolio across Defensive (infrastructure, consumer staples, logistics, and healthcare), Growth (secular, predictable) & Cyclical (select commodities & banks).

Within Growth, key holdings are Microsoft, and Apple. Healthcare core holdings are CSL, Resmed. Earnings risk in healthcare are seen as low. Resources exposure is primarily BHP. Defensives include consumer staples (Coles, Woolworths), infrastructure (Transurban), and waste management (Cleanaway).

Please let us know if we can be of any assistance, or if you would like to discuss.

Is your business focused enough on cyber-security?

We live in a digital world where our company's data and (crucially) our customers' data is under constant attack. Hackers are always looking for new ways to break into your systems and databases – and this has resulted in many significant data breaches in recent years.

When your security is breached, and your data is compromised, this isn't just an IT issue, however. It's a breach of trust between you, your customers and your suppliers – one that can be hugely damaging for your brand reputation and consumer's perception of the company.
So, why are so few companies taking cyber security seriously? And what can you do to enhance your cybersecurity and protect your valuable data?

In the 21st century, your data = your business

It's the customer information in your CRM system, the supplier details in your invoicing system and the financial data in your accounting software. It's your bank account details, your confidential client information and your company's secret intellectual property or hard-won R&D findings. If you lose your data, you damage the business too. So protecting the safety and security of your data and systems has to be a top priority for any business owner.

To boost your cyber security:

- **Make cyber security a company-wide concern** – if a data breach occurs, there's no use blaming the IT department after the fact. Cyber security has to be a concern for the whole business and something where you have clear advice, processes and training in place for. The better your people are prepared for protecting the company's valuable data, the less chance there will be of a security error or accidental data breach.
- **Keep devices and computing hardware secure** – where your employees are using laptops and work mobile devices, it's vital that they keep this hardware safe. Don't leave computers unattended in laptop bags in a coffee shop or bar, and don't leave your phone unsupervised on a hot desk. Offer secure lockers and desk drawers where laptops and devices can be secured and always think about the security implications of leaving your hardware anywhere other than in the office.
- **Use a secure network connection** – when connecting to work applications, databases and shared folders, always use the company network or an approved virtual private network (VPN). By using a secure network connection, you greatly reduce the chances of your data being intercepted and stolen, with VPNs allowing employees to log in securely when off-site or working at a client's premises.
- **Save important data in the right place** – you should have clear protocols regarding what kinds of data can be saved, and where this information should be stored. If employees are storing spreadsheets full of confidential client information on their laptop hard drives, you are only one lost laptop away from a security breach. Set up clear guidelines on which drives and folders to use, and make sure only the right people have access to any confidential folders and content.
- **Use proper authentication and encryption** – use two-factor authentication or even multi-factor authentication for access to all your cloud and SaaS tools. And make sure you have proper data encryption of any confidential information that's shared. By putting the best possible security steps in place, you greatly reduce the risk of a slip-up.
- **Factor in the added security threat of WFH** – with so many employees now working from home (WFH), there are extra threats to factor in. Good cyber security at home means using a secure VPN, keeping laptops safely stored, always using the latest versions of applications and not sharing passwords with family or flatmates etc.
- **Log all security breaches** – if the worst-case scenario does happen, make sure to log every single security or data breach – and be transparent about what's happened when communicating with customers, suppliers or employees who may have been affected. The sooner all your stakeholders are aware of the issue, the sooner you can work to resolve the problem and limit the potential damage.

Speak to IT security experts and protect your data

Keeping your data safe and secure is now a foundational need for any business. If you want to reduce your security worries, it's sensible to speak to a cyber security expert. They will be able to review your current systems, networks and security practices and advise you on the key actions that are needed to tighten up your security. Read more from the Australian Cyber Security Centre.

Meeting your goals during a global slowdown

Optimism among business owners was high coming into 2022. But a number of factors are now making things a lot more challenging:

- Global events are pushing up energy prices to astronomical levels.
- Ongoing supply-chain issues are making it difficult to source raw materials.
- A scarcity of talent is causing problems when it comes to staffing and hiring.
- Covid is still around and making trading more complex and difficult.

Faced with these hurdles, you might feel that your goals are no longer attainable. But is this true? Growth is likely to be a challenge, but not impossible.

Talk to us about your goal-setting for this year and beyond

The sooner you start revisiting your goals and business plan, the better prepared your company will be for the ups and downs of a recession. Come and talk to us about your financial position, your core strategy and your concerns about the next six to twelve months.

We'll help you set practical, attainable goals that will push your business forward.

5 Steps for meeting your goals during a slowdown

Moving forward during a period of economic recession is certainly more of a challenge. But what's needed is an updated plan with awareness of the major external threats.

Here are five steps to set you on the right path:

1. **Revisit your goals and see how realistic they are** – look at the numbers and make a call on whether they still make sense in the current business market. If necessary, update your goals and make them challenging. But, importantly, make any goals attainable during a time when cash and resources are in short supply.

2. **Get the best possible understanding of your financial position** – take a deep-dive into your finances and see how you're tracking against your budgets and targets. How is your cashflow looking? Do you have enough working capital to fund your growth? If additional funding is needed, where could it come from?

3. **Decide if you have the right team for the job** – Whatever your key goals, you need talented people on board who share your core aims for the business. Think about whether you have the team you need, or if there's a pressing need to hire new people. And consider if artificial intelligence (AI) and automation could fill some of the resourcing gaps and help you scale up.

4. **Assess the current situation in your sector** - You can't change the big external threats in your industry. But you can do your homework and find out what the immediate threats will be. Are there supply chain issues? Are prices going sky high? Get up to speed and look for ways to minimise the impact and rise to the top of the crop.

5. **Update your plan** – once you've looked over your numbers, goals and strategy, you're likely to need an updated business plan. Factor in the threats, set meaningful goals, but give your company a target that's realistic during a global slowdown. Successful small steps towards a goal are better than one giant leap; a leap where you may land flat on your face.

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