BRIEFINGS

WATERHOUSE
CHARTERED ACCOUNTANTS

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Five Things that will Make or Break your Business's Christmas

The countdown to Christmas is now on, and we are in the midst of the headlong rush to get everything done and capitalise on any remaining opportunities before the Christmas lull. Busy period or not, Christmas causes a period of dislocation and volatility for most businesses. This dislocation and volatility mean that it is not "business as usual", and for many businesses it is the change that causes the problem.

Most business owners cope well with consistent trading conditions, where trading and business conditions are predictable as are the solutions to issues that arise, but it is a different story during periods of disruption. Here are some things to watch out for:

1. Ho, Ho, No – the Trading Stock Headache.

If business activity spikes over the Christmas period and you sell goods then there is a temptation to increase stock levels. That makes sense as long as you do not go too far. Too much stock post the Christmas period and you will either be carrying product that is out of season or you will have too much cash tied up in trading stock. Try to work with suppliers who can supply on short notice. Better yet, see if some of your suppliers will supply you on consignment where you only pay them once the stock is sold. It might be better to miss a few sales than carry a trading stock headache into the New Year.

Managing your trading stock is not just about managing cost. Consumers will go online if they cannot find what they need instore. Some savvy retailers are capitalising on this with opportunities to purchase online while instore if stock is not available or providing free shipping codes.

2. The Discounting Trend

Consumers now expect a bargain, and can generally find one. The attraction of the Black Friday sales is that stock is generally available. Those waiting for bargains in the week immediately prior to Christmas can only choose from what is left.

If you choose to discount stock (or the market forces you to), it is essential to know your profit margins to determine what you can afford to give away. A business with a 30% gross profit margin that offers a 25% discount (certainly nothing unusual about that in today's market) needs a 500% increase in sales volume simply to maintain the same position. The result generally is that often businesses trade below their breakeven point and generate losses.

So think carefully about your strategy and what you can sustain.

3. The Christmas Cost Hangover

Costs tend to go up over Christmas. More staff, leave costs, downtime from non-trading days, as well as increased promotional costs all mean that the cost of doing business increases. Keep an eye on them. It is great to get into the Christmas spirit as long as you do not end up with a New Year hangover.

Many businesses also bring on casual staff. It is essential that you pay staff at the correct rates and meet your Superannuation Guarantee (SG) obligations. Under the Retail Award, the rates for adult casuals (21 and over) start at $26.76. There is also a three hour shift minimum for all casuals regardless of whether you send them home early. Check the pay calculator to find the correct rates.

4. New Year Cash Flow Crunch

The New Year often leads into a quieter trading and tighter cash flow period. The March quarter tends to be the toughest cash flow quarter of the year. You will need a cash buffer going into the New Year. Do not over commit yourself in the run up to year end and end up in trouble in the New Year.

5. Take a Lesson from Scrooge

If you work with account customers, start your debtor follow-up now. If your customers are under any cash flow pressures, the

Christmas period will only increase that pressure. The creditors who chase hard and early will get paid first. Do not be the last supplier on the list; the bucket may be empty by then.

Christmas is a great time of year. Just do not get caught up in the rush and let things get out of control.

Bushfire Relief from ATO Obligations

The ATO has provided relief from lodgement compliance and payment obligations for those impacted by the bushfires. An automatic two month deferral for activity statement lodgements and payments due has been provided to victims.

Taxpayers can also call the ATO directly to request further assistance, such as requesting extra time to manage tax debt or lodgements, help finding lost documentation such as tax file numbers, reconstructing tax documentation, fast tracking refunds, interest-free periods, and remittance of penalties or interest charged during the crisis.

Superannuation Guarantee Opt-Out for Employees with Multiple Employers

Employees with multiple employers can now opt out of SG from all but one employer.

Employers are required to pay 9.5% SG for all eligible employees. But what happens if you are an employee with multiple employers? Until recently, these compulsory payments meant some employees risked unintentionally breaching their concessional contributions caps. New laws, however, provide a potential solution.

Legislation that passed Parliament late last month allows an employee to apply to the Commissioner of Taxation for an *employer shortfall exemption certificate* to opt-out of the SG system for specific employers. This certificate prevents their employer from having a SG shortfall if they do not make superannuation contributions for the period covered by the certificate.

It is important to note that the exemption certificate does not require the employer to stop paying SG; it merely protects them if they fail to make SG payments. The employer may choose to continue paying SG – either because they could not reach an agreement with the employee on their total remuneration package once SG is removed, or the administration required to exclude an individual employee is too onerous.

The Commissioner will only issue an employer shortfall exemption certificate where:

- The taxpayer is likely to exceed their concessional contributions cap for the financial year (just because you have multiple employers does not mean you can opt out of SG); and
- At least one employer is paying SG for the employee.

The Commissioner might deny the certificate if it is not appropriate, the application would significantly reduce the amount of SG by an amount larger than necessary (e.g. opting out of SG from the largest of the multiple employers), or where there is a contrived arrangement to take advantage of the new rules.

The due date for the employer shortfall exemption certificate is 60 days before the first day of the quarter to which the application relates.

Before applying for a certificate, it is important to understand the impact of opting out of SG. You will need to negotiate your total remuneration package with your employer and the impact of this on your tax position, understand the tax outcomes if you do nothing and exceed your contributions cap, and the impact on your retirement savings over time.

Superannuation Guarantee Timing Trap for Employers

Some employers are being caught out by the timing of SG payments.

Employers can generally only claim a deduction for superannuation contributions in the income year in which the contribution is made. Superannuation contributions are made when the payments are **received** by the trustee of a complying superannuation fund.

It is not uncommon for employers to be caught out by timing problems, many in the belief that the contribution has been made at the point the payment is made rather than when it is credited to the superannuation fund provider's account. Many forms of electronic transfer, however, are not guaranteed to be automatic or next day. BPay, for example, may take up to two days, a delay that is often not factored in.

A new practice statement from the ATO highlights the problem created by the use of clearing houses.

There is a specific element of the law that enables payments made to the Government's Small Business Superannuation Clearing House (SBSCH) to be accepted as contributions when the clearing house receives them rather than when the trustee of the superannuation fund has received the contribution. The SBSCH is only available to small businesses with 19 or fewer employees, or with an annual aggregated turnover of less than $10 million.

Private clearing houses are treated differently and, as such, employers need to allow sufficient time for their superannuation contributions to be received, processed and paid by the clearing house to the superannuation fund before their SG obligation is discharged.

Take the example of an employer who brings forward superannuation contributions before 30 June to be able to claim the tax deduction in that year. If a private clearing house was used and time was not allowed for the clearing house to process the payment, and as a result, the payment was not received by the trustees before 30 June, then the deduction cannot be claimed until the next financial year.

Land Tax Implications for Trusts

The NSW Government recently introduced a bill whereby virtually all discretionary trusts may be deemed to be foreign trusts, regardless of whether they have any foreign connection or not.

This has two significant consequences:

1. If the trust purchases any residential property in NSW, it will pay a surcharge of 8% on top of the normal stamp duty paid on a purchase; and
2. While NSW residential property is held by the trust, the trust will pay a land tax surcharge of 2% per year, in addition to the normal land tax payable.

However, **<u>these changes will not apply if the trust deed is amended prior to 31 December 2019</u>** to provide that there can be no distribution to a foreign person, and to provide that such prohibition cannot be revoked.

Unless the amendment is made to the trust deed prior to 31 December 2019, the bill means that, forever into the future any purchase or holding of residential property will be subject to the surcharges. Even if your trust does not currently hold residential property, it may do so in the future, as trusts usually last for many years.

We therefore recommended that your trust deed be reviewed, and amended if necessary.

Performance of Equity Markets

Australian Markets

The ASX200 is up 26.13% for the calendar year.

Global Equity

- Global equities continued to gain in November 2019, up 2.5% during the month, as measured by the S&P Global BMI. 30 of 50 included country indices gained over the period.
- The S&P 500® (up 3.6%) outperformed global equities during the month, and posted its biggest monthly gain since June, amid optimism that trade issues will resolve amicably.
- The S&P Developed ex-U.S. BMI likewise gained (up 1.3%), as New Zealand (up 7.0%) and Ireland (up 5.1%) were up most, while Hong Kong (down 1.7%) fell most amid continued political turmoil.
- The S&P Emerging BMI underperformed global equities, gaining only 0.1%. Latin America (down 4.0%) led declines amid political unrest in Chile (down 12.2%) and Colombia (down 5.2%).
- 9 of 11 S&P Global 1200 sectors gained during the month. Information Technology (up 5.0% in November; 41.3% YTD) benefitted most, while Utilities (down 1.8%) led declines.

Office Closure

Our Mona Vale office will be closed from 12 noon on Friday, 20 December 2019 and will reopen at 8.45 am on Thursday, 2 January 2020.

Our Sydney office will be closed from 4 pm on Friday, 20 December 2019 and will reopen at 9 am on Monday, 13 January 2020.

Waterhouse Chartered Accountants will make a donation to the NSW Farmers' Drought Relief Fund in lieu of sending Christmas cards.

We wish you and your family a safe and happy holiday season and look forward to working with you in 2020.

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