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HLB MANN JUDD
ADVISORY AND ACCOUNTING

IN THIS ISSUE

A CELEBRATION OF OUR NETWORK – 40 YEARS YOUNG

TONY FITTLER

CHAIR, HLB MANN JUDD AUSTRALASIAN ASSOCIATION

The ability to adapt and grow with a changing business environment has helped our firm commemorate 40 years of operation across Australia, New Zealand and Fiji.

The Mann Judd Association was established in the early 1980s and adopted the HLB name in 1993 to reflect its membership with HLB International, the global advisory and accounting network. HLB Mann Judd has been a part of the international network, HLB International, since 1988.

The milestone is testament to the fact we have evolved and grown with the broader accounting profession. Over the years, our firm has had to respond to a number of challenges, including economic downturns, volatility, and ongoing regulatory and legislative change – not to mention pandemics – but we have always remained focused on growing in a sustainable and sensible way.

Over our four decades of operation, HLB Mann Judd has remained committed to providing clients with quality advice and sound financial outcomes for their businesses and their families.

Across our Australasian network, we service a diverse range of sectors and industries – from property, hospitality, health and not for profits– as well as size of clients, from small businesses and high net-worth individuals to family offices and listed companies.

The firm was recently named Best Accounting & Consulting Services Firm ($50-$200 million revenue) at this year's Client Choice Awards. It is the eighth time HLB Mann Judd has won the category, and the third consecutive year of winning the award.

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The Client Choice Awards recognise best practice in the professional services industry across Australia and New Zealand, and are based on client votes.

At the heart of our success is our great people. They have the drive to use their expertise to help clients while keeping a friendly and supportive culture.

The Association will continue to focus on three strategic pillars – diversity and inclusion, the environment, and communities. It is an exciting time in the history of the Association, and our member firms are well positioned to grow over the coming months and years.

A sincere thank you to all our member firms, clients and associates for the continued support. Here's to another 40 years!

THE BENEFITS OF INVESTING IN AGRICULTURE

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Agricultural investments, as tangible or 'real' assets, form part of the alternative asset class and are increasingly in demand from investors.

Alternative investments are generally considered to be uncorrelated with more commonly held assets such as shares, cash, property and fixed income. This means there is no direct link between the performance of these markets and the performance of alternatives.

As a result, alternatives can be a powerful diversification tool which can be likened to an insurance policy, helping to smooth out the total return of a portfolio over time.

Agriculture and food production are fundamental to the function of society. The major global trends which are driving growth, innovation and opportunity for this sector include population growth, increasing demand for protein food sources, and technological change and sustainability.

The global population is expected to grow to 9.7 billion by 2050, an increase of 33 per cent from 2015. This growing population is expected to require 35 per cent more food by 2030.

Close proximity to high growth Asian markets and a reputation for clean, high-quality agricultural products makes Australia an important part of the global food supply chain, and well-positioned to help meet increasing demand.

The Australian agriculture industry has the capacity to produce food for 130 million people, thus supporting a population approximately five times larger than our own.

Over the long term, farmland - as a finite asset - has consistently appreciated in value. Agriculture is increasingly harnessing technology such as robotics, artificial intelligence and remote sensing, and sustainable land management practices, to reduce costs and improve productivity.

Investment in agriculture may produce returns in the form of both income and capital growth and is a proven tool to protect investment portfolios against inflation. With the current inflationary pressures caused by fiscal and monetary stimulus, supply chain disruption, and geo-political events, it is timely to consider assets which might offer inflation protection.

Access to agriculture investments has historically been limited to large scale investors and institutions. However, accessibility is now improving, with diversified managed funds offering exposure to horticulture, viticulture, irrigated or dryland crops, livestock, and fiber assets such as cotton, wool and timber.

An increasing menu of listed exchange traded funds (ETFs) allows investors to choose specific agricultural commodities, or diversified sectors such as food-related or agribusiness companies. Investors are also able to access agricultural infrastructure investments such as processing plants, and inputs to production including water entitlements.

The global themes of rising population and Australia's natural competitive advantages provide opportunities for investors looking to diversify their portfolios and protect against inflation via investment in agriculture.

Please contact your HLB Mann Judd adviser if you would like to discuss the suitability of this asset class as part of your investment portfolio.

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ATO FAMILY TRUST GUIDANCE – A WHOLE NEW BALLGAME?

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The ATO recently released a suite of four publications giving long-awaited draft guidance addressing their concerns on the tax consequences of common trust distribution arrangements.

The concerns relate to the fact some beneficiaries pay lower tax rates on the trust income distributed but may not actually benefit from the funds that were recorded as having been distributed to them.

The publications take a much more restricted approach when it comes to distributions by trusts to family members from different generations (such as adult children or retired parents), as well as tightening up the ATO's views on the appropriate treatment of trust distributions made to related companies.

There are clear statements that if the trustee wishes to continue to distribute to these beneficiaries, then the beneficiaries must receive and enjoy the economic benefits of the distribution.

Key to understanding the implications is the concept of a 'reimbursement agreement' and the anti-avoidance rule. The ATO has confirmed that it takes a very broad view of the range of situations in which this anti-avoidance rule should be applied.

In applying the rule, the trustee would be taxed on the income at the top marginal tax rate (47 per cent) instead of the beneficiary being taxed, with franking credits available to the trustee but no ability for the trustee to claim a refund of any excess franking credits.

The ATO has also canvassed the exclusion for 'ordinary family or commercial dealings', giving examples of situations it believes should reasonably fall within this exclusion and other situations where the ATO believes that it should not, and would therefore be subject to review and possible action.

The scope of 'ordinary family dealing' should, in the view of the ATO, be relatively narrow so it will in many cases be necessary to review current and prior years arrangements, although have still not spelt out exactly what they believe this term means.

One of the main conclusions from the ATO documents is that it will be more important than ever for families to document their family trust arrangements in real time, allowing them to clearly demonstrate what they are doing in terms of trust distributions and why.

The crux of the ATO's guidance demonstrates a follow-the-money remit, and there is certainly nothing wrong with distributing income from your family trust to your adult children, as long as you legitimately intend for them to receive the money.

The ATO says its guidance has been issued in response to appeals from tax advisers for greater clarity given the brevity and lack of clarity offered by previous guidelines released in 2014.

The game is not up just yet on the ATO guidance either, depending on whether any significant changes are made to the documents when they are released in final form.

In any case, it will be critical for taxpayers and their advisers to plan their distributions of trust income very carefully for the 2022 tax year, and to consider their situation for previous years.

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REFLECTIONS ON AUDIT SEASON

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December 2021 saw a return to the normal financial reporting deadline, with the month extension for COVID-19 no longer being available for most of HLB Mann Judd's clients.

The reinstated deadline, at a time when Western Australia faced its first wave of COVID-19, caused some concern.

The shortage of accounting professionals in the industry, and of audit professionals in practice, put further strain on the audit profession. Border closures and skills shortages throughout the pandemic period continue to have a flow-on effect in relation to the quality, quantity and timeliness of information provided by internal accounting staff to their auditors.

At the same time, the auditing profession is facing an unprecedented demand for its services. The strength of the local share market coupled with high commodity prices, in particular gold, copper, and lithium, has led to many new entities seeking to list on the ASX via an IPO.

Additionally, some of HLB Mann Judd's clients have spun off projects into new companies. Many of our established exploration entities have transitioned from the exploration phase to developing their projects for mining, which has increased auditing requirements.

In the last few years, the regulatory requirements for clients and auditors have increased. The new estimates auditing standard requires auditors to obtain greater levels of evidence; the ASX now requires auditors to compare our client's statutory cashflows to their quarterly cash flow reports for material errors; and ASIC expects the company's business model, strategies, key drivers of performance, future prospects, and business risks to be discussed in the operating and financial review ('OFR') section in their annual report.

For the upcoming reporting period, companies should engage with their auditors early, particularly if they have a transaction planned, or have identified a financial reporting issue. The sooner auditors can review and assess the issue and make an informed view, the sooner it's likely to be resolved.

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CYBER THREATS ON THE RISE FOR SMEs

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The majority of small to medium-sized Australian businesses still need to increase their awareness of cyber security threats, with the ongoing Russia/Ukraine conflict a catalyst in the reviewing of IT security systems.

While the working from home phenomenon of the past two years has elevated cyber security for many businesses, the war in eastern Europe has exacerbated the need to review and manage online risks.

Hackers are becoming increasingly sophisticated in how they target and attack and it's no longer a case of if a business should come under attack, but when. Cyber security is changing at a rapid pace, with cyber criminals able to devise methods to circumvent security controls quickly and easily.

Australia, along with the US, UK, EU and other governments, have condemned Russia's aggression towards Ukraine, including the imposing of sanctions. There is a significant risk Australian businesses could be caught up as collateral damage, particularly those with a presence in Ukraine or NATO countries.

A cyber-attack by Russian Military hackers known as NotPetya is considered to be the costliest cyber-attack in history. The destructive software was hidden in an update of popular accounting software used in Ukraine, but spread worldwide destroying the computer systems of thousands of companies and causing approximately $10 billion of damage.

Australian companies should now be taking steps to assess their preparedness in responding to any cyber security incidents and should review their incident response and business continuity plans.

Typically, larger organisations have more robust systems and processes to stave off the impacts of cyber breaches, but smaller businesses may not be as prepared. Therefore, business owners and senior management should seek to implement adequate security measures as a matter of urgency.

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WHY A SUSTAINABILITY STRATEGY IS KEY TO BUSINESS SUCCESS

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Climate-related financial risk disclosure will be mandated across the UK by 2025, and New Zealand has passed climate disclosure laws for financial firms to be effective by 2023.

Although Australia has yet to make climate risk reporting mandatory, it is only a matter of time before climate-related risk disclosure will be mandated here too.

Not limited to government requirements for a business to be compliant, the benefits to understanding and communicating your business' sustainability strategy include:

- Increased access to funding from investors with sustainability-focused mandates
- Attraction and retention of staff who are sustainability-conscious
- Increased competitiveness for tenders and proposals which require consideration of sustainability
- Long-term cost savings
- Increased brand and reputation.

Businesses who understand the need for adopting a sustainability strategy will be better positioned in responding to the growing demands of regulators, investors and consumers, thereby strengthening their competitive edge.

However, many business owners lack an understanding of how to devise and implement a sustainability strategy.

The following steps provide a good framework for considerations in developing such a strategy:

Baselining

The starting point is to assess your business' current position – what is the business' carbon footprint now and into the future? Understanding this will allow you to identify the opportunities in the business which can help to reduce carbon emissions and make appropriate short and long-term investments to improve this position.

Without baseline numbers, it is difficult to make strategic decisions to improve your business's sustainability position.

Business model realignment

The next step is to create a roadmap to incorporate sustainability into your current business model designed to promote a net-zero economy. Ways to reshape your business model may include procuring and sourcing materials differently, seeking better logistics and distribution opportunities, adopting leaner manufacturing processes, reducing waste and redundancies, and even developing new innovative product or service offerings.

Monitoring and reporting

It is critical to monitor and report your business' path to sustainability.

Stakeholders are increasingly demanding insights of sustainability progress. Ninety per cent of S&P500 Index companies have included corporate sustainability as a public report, which is an increase of 20 per cent from 2011.

It is important to set goals and KPIs which are periodically reviewed to ensure the sustainability strategy is acted upon and communicated to stakeholders.

To monitor and report your business' sustainability strategy, ask the following questions:

- What metrics are available to report on your business' progress against the plan?
- How are you measuring and reporting on your corporate social responsibility program?
- Which sustainability and reporting standards are best suited to report on your business activities and journey to net-zero?
- How can you best use your business' chosen sustainability and reporting standards to shape your sustainability reporting?
- How are you keeping track of the government incentives?
- What are the latest regulations affecting your sector around the environmental, labour and social spheres?

Acting neutral and taking no action in mitigating the risk arising from the changing climate is found to reduce the long-term profitability of a business.

Carbon neutrality will be the new normal and transitioning early to a more sustainable business is paramount. Following the steps as outlined provides a roadmap through this process.

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SMART WEALTH STRATEGIES FOR EOFY

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As global investment markets continue to experience volatility, investors should be using the approaching end of financial year (EOFY) to take stock of their financial plan.

A formal review of existing tax strategies, savings goals and retirement objectives should be conducted before 30 June, so that any new legislation can be factored into a wealth plan.

Some wealth strategies to review and also consider for the new financial year include:

Tax-effective philanthropic giving

One option for managing tax is to consider tax-deductible charitable giving. This can assist with year-end tax planning while making a difference to the lives of others. Depending on your circumstances, you may consider donating directly to a chosen charity, setting up an account within a Public Charitable Fund, or establishing a Private Ancillary Fund (PAF).

Add to your super – and claim a tax deduction

Super, for most of us, is a concessionally taxed investment. This means that returns on your super investments are generally taxed at a rate that is less than your marginal tax rate.

Earnings are taxed at up to 15 per cent in accumulation phase or 0 per cent in retirement phase, which is a great means of boosting savings.

If you contribute after-tax income or savings into super, you may be eligible to claim a tax deduction. This means you'll reduce your taxable income for this financial year – and potentially pay less tax.

Another way to invest more in your super is with some of your after-tax income or savings, by making a personal non-concessional contribution.

Although these contributions don't reduce your taxable income, you can still benefit from the low tax rate on investment earnings. This tax rate may be lower than that which would apply if you held the money in other investments outside super.

Get a super top-up

If you earn less than $57,016 in the 2021/22 financial year, and at least ten per cent is from your job or a business, you may want to consider making an after-tax super contribution. If you do, the government may make a co-contribution of up to $500 into your super account.

Boost your spouse's super and reduce your tax

If your spouse is not working or earns a low income, you may want to consider making an after-tax contribution into their super account. This strategy could potentially benefit you both; your spouse's super account gets a boost, and you may qualify for a tax offset of up to $540.

People do need to meet certain eligibility conditions before benefitting from any of these strategies. Please discuss with your HLB contact and we can help you decide which strategies are appropriate for you.

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BEWARE OF FOMO AS BUSINESS SALES AND MERGERS CONTINUE IN HIGH GEAR

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Companies and business owners should not rush into deals just because there is still a high level of merger and acquisitions activity in Australia, as fear of missing out – or FOMO - could lead to hasty decisions not necessarily based on sound business strategy.

Prospective purchasers and vendors need to be across everything from the deal structure through to valuations, tax implications and any onerous future obligations.

There is an increasing number of complex deal structures being negotiated, where the traditional onus on cash has been morphing into combinations including multiple cash instalments, contingent consideration, and future equity allocations.

Increased complexity also requires increased scrutiny from all parties. If there are different phases or triggers in a sale, there needs to be adequate due diligence on both the buy and sell side. Also, a rush to complete a deal means increased pressure, the potential for poor decision making, and a greater risk of mistakes.

A key area under increasing scrutiny in deal-making is the valuation of the equity or the underlying asset(s). Understanding the value of the equity or the underlying asset(s) may seem to be a fundamental principle.

However, depending on the equity/ assets being transferred, whether concessional tax treatments are being sought or an asset-for-asset swap being undertaken, how and when the value is determined is critical.

There have been times where it has effectively been up to the market to determine the value but this may not be appropriate where valuations needed to have been conducted at different times, or the valuation split between specific asset classes.

Over recent years, federal and state tax authorities have been increasingly questioning valuations which has seen buyers and sellers hit with significant post-deal tax liabilities.

A full understanding of all tax implications, including federal taxes and state duties, is critical, and just when that tax will be payable is equally as important.

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WINNER
2022
CLIENT
CHOICE
AWARDS

SPOTLIGHT ON... FIJI

WILLIAM CROSBIE
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FIJI

Fiji's reputation as a laid-back, carefree island nation contradicts the strength of the local HLB Mann Judd, which grew during the global pandemic and continues to attract demand across all service lines. Here, managing partner, William Crosbie, explains how the firm is positioned for future success.

Originally from London, I moved to New Zealand in 1978 and worked for a mid-tier firm in Auckland before venturing out on my own. By sheer co-incidence, I had been talking to an accounting firm partner who was looking to buy out a sole practitioner in Fiji, and I ended up passing over my clients to them and took over the management of the Fiji firm. That was 1991.

Three years later, we joined HLB International which gave us exposure and strength globally, and opened up referral opportunities which otherwise would not have been possible. In 2018 we joined the HLB Mann Judd Australasian Association. Being member of the Association means there's alignment with ethics and standards; the HLB brand carries such a strong ethics framework that it provides real weight to the work we do here in Fiji.

A year before the onset of COVID, I had been speaking with a Melbourne-based partner at a conference in the US, and we discussed the outsourcing of audit work. In hindsight, it was fortuitous timing as just six months later, the pandemic hit and the Melbourne firm was impacted by lockdowns and mandates. In Fiji, we were fortunate that the Covid rules were less stringent and subject to following certain health protocols our office, for the most part, remained open and staff continued to operate as normally as possible.

Tourism is unquestionably one of the main sectors of Fiji's economy and traditionally forms a large part of our business services work. While there was an obvious contraction in these engagements throughout the pandemic, the outsourcing work from the Australian firms made up for the deficit and, as a result, we were one of very few accounting firms in Fiji to experience growth. Working together throughout the pandemic is testament to the strength of the HLB Mann Judd network of firms.

Fiji coped with COVID differently compared to the rest of the world. Fiji's tourism took a massive hit and half of Fiji's population were out of work and sent home to their local villages. Fijians however are incredibly resilient; they went home to their communities, grew crops, helped and supported each other and survived.

Communities banded together and gave each other support and Fiji ultimately became an even better place to be and live. That sense of giving back is also reflected in our firm and HLB worldwide's ongoing commitment to those around us. We give back in many different ways; last year, we helped build a new house for a family who lost everything including their husband and father in a cyclone; we restored and painted a local community hall, our staff planted mangroves on the beach and others helped in local street clean-ups; and next month, we will be packing and handing out groceries to two local villages.

With the reopening of tourism, things have changed yet again. In the last few months, we've had strong enquiries from people looking to invest in Fiji so we are actively advising new businesses looking to establish operations here. We manage everything from their immigration requirements to investment approval, ensuring full regulatory compliances and setting up the necessary systems.

We also have a good working rapport with the Fijian government, and consult with them on new tax policy initiatives, for example. As a small jurisdiction, we're in a very fortunate – and unique - position to be able to have that direct dialogue. We recently engaged with the Ministry of Commerce on SOC 2 Compliance accreditation, which ensures client data is managed appropriately and secure from third-party cyber breaches.

At an operational level, the firm will likely grow its headcount over the remainder of 2022. With the ongoing outsourcing work, combined with the uptick in business services, we're anticipating the workforce to grow from 52 to 60 staff.

Currently, two-thirds of our staff are female and we have a number of nationalities within the firm. A diverse mix of skills and people is important to our firm, just as it is to all of Fiji – and we expect this to continue long into the future.

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