

Your Knowledge March 2020

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Surviving a Crisis: Coronavirus and Beyond

Empty restaurants and retail stores were one of the first signs of the devastating impact the coronavirus on Australian business.

Within a few months, the virus, now called COVID-19, has gone from being a largely unknown medical condition to one that threatens to impair Australian and global economic growth.

We explore the impact on business and the importance of planning for setbacks beyond your control.

Whether it is the coronavirus, fire or flood, the fact is if you are in business long enough you will almost certainly have to deal with an external impact on your business – bushfires, drought, GFC, SARS, 9/11, we've seen a

few. The key is to react but not overreact.

Business continuity planning is essential.

It could be months before the virus reaches its peak and an effective vaccine is not expected in the short-term. Business continuity planning is essential.

Despite a much better result than predicted in Australia's December GDP figures with growth of 0.5 per cent, Australia's economy will be adversely impacted.

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The importance of China as Australia's largest trading partner has meant that much of the discussion to date has focussed on China's ban on live animal imports including seafood, and supply-side delays, at least until the Chinese manufacturing sector is able to regain momentum.

But the negative impacts stretch beyond manufacturing. The tourism and education sectors have been hit hard. In 2018-19, 1.4 million short-stay visitors were from China. With travel restrictions in place for mainland China, that number will dramatically decrease. Any business where the general public group together is likely to be impacted either as a direct

consequence of infection or out of a simple fear of contamination.

Australia's \$30 billion MICE businesses, those in the meetings, incentives, conferences and exhibitions sector, are bracing for the impact of the spread of the virus. Australia is a popular destination for corporate events. However, with a cloud over international travel for the foreseeable future, some events have been cancelled and others in jeopardy in what are rapidly changing conditions. Some countries have imposed bans on large gatherings of people to protect against wide scale contagion, Switzerland for example immediately banned public and private events with more than 1,000 people

until at least 15 March before reassessing.

For others, such as suppliers of basic necessities - manufacturers and distributors of foods with a long shelf life, toilet paper, and cleaning agents - the immediate problem is to ramp up production to meet demand as panic buying sets in, then to manage the inevitable decline when the panic is over and consumers have more long shelf life products than they need. While panic buying will stimulate a revenue spike and increase profit margins, some of these gains will be counteracted by low demand post the coronavirus panic.

Protecting your business in a crisis

There are practical steps businesses should implement into their business plan. Some businesses make the mistake of not responding at all while others make too drastic a change.

An appropriate reaction might be to offload trading stock if it is going out of date soon. But it might be an over-reaction to dismiss staff, when a better idea might be to reduce their hours. Contingency plans should be set in place. Try to have enough capital in reserve to see you through at least three months. Cashflow is critical in a crisis so it

should form a central part of the recovery business plan.

For the businesses that can deal with external threats such as coronavirus, there are huge opportunities. More money can be made in volatile times compared to when things are stable. If you have a competitive advantage, exercise that advantage. Businesses with limited scale in impacted industries will struggle and some will come onto the market as tuck-in acquisitions. For others, their customers and suppliers will be open to change if they cannot trade consistently with demand. Opportunities could also arise, such as key staff leaving a competitor or rival businesses losing market share.

To exploit those possibilities, however, it was critical to have a sound business plan to ride out the current turbulence and then move into the next growth phase.

Protecting your workplace and your customers

Law firm Clayton Utz recently shut down their Sydney office amid concerns that a team member had been exposed to the virus by his wife, whose grandmother was one of Australia's three deaths attributed to the virus. The wife was subsequently tested for the virus and cleared within 24 hours, enabling the office to

Business continuity planning

- Explore the potential end-to-end impact of the virus on your business
- Define risks and tolerances by product/service type
- Make informed decisions based on strategic assessments – labour, currency changes, costs of materials and logistics, potential disruptions and supply issues, demand variability.
 - Where weaknesses exist, explore alternatives. For example, MGM, Universal and the Bond producers postponed the release of the latest James Bond movie, *No Time to Die* until November to give the movie the best possible chance of success. Can your business reduce costs as demand falls? Can you increase production to take advantage of demand? Can you adjust procurement to take advantage of or protect against pricing fluctuations?
- Reduce debt and reassess projections for large investment hungry projects. You might delay a project or speed up time to market.
- Ensure that your team communicate changes they are seeing and develop a culture of initiative. Your frontline will hear and see impending changes well before management sees them.

resume operations. If the results were positive however, it might have meant a 14 day quarantine for the approximately 600 staff and potentially any other person they had come into contact with. Vodafone's head office and two Perth stores, and Cisco in Perth also closed temporarily after staff who had recently returned from overseas showed flu like symptoms.

Protecting your employees and customers from the risk of infection is essential. Businesses should assess the risk of transmission and put the appropriate protocols in place. It could be as simple as distributing the [Health Department's](#) guidance and

reviewing insurances for staff required to travel.

Individuals who have travelled to countries with travel restrictions (China, South Korea, Italy) in the last 14 days, or have direct contact to a confirmed case of coronavirus must self-isolate and should not attend work.

[Fair Work Australia](#) notes that, *"The Fair Work Act does not have specific rules for these kinds of situations so employees and employers need to come to their own arrangement."* If an employee is impacted and needs to be isolated, and cannot work from home effectively, then the time will

generally be taken as paid or unpaid leave.

\$1 billion to combat COVID-19

Managing the health costs of diagnosing and treating coronavirus is estimated to cost \$1 billion. This cost is being met 50-50 by the states and territories and the federal Government. This support will cover health services in public hospitals, primary care, aged care and community health expenditure, such as health related activities in childcare centres.

The Treasurer has also flagged the imminent release of a stimulus package to protect the economy including an investment allowance, a small business package and potentially some form of payment through the social welfare system.

The impact of COVID-19

As of 8 March 2020:

- Over 100,000 reported cases of COVID-19 globally and over 3,700 deaths
- Mainland China reports 80,655 cases (76% of all cases) and 3,097 deaths
- Italy has over 5,880 cases reported and over to 366 deaths
- 90 countries have reported cases. China, South Korea, Italy, Iran, France,

Germany, Japan, Spain, the Netherlands, and Switzerland currently have the highest volume of reported cases.

- The Diamond Princess cruise ship had approximately 700 cases and 8 deaths.

Australia has 74 reported cases of the virus (22 have recovered) and three deaths, 18 of those cases had not travelled overseas. The Prime Minister has announced the activation of the [Australian Health Sector Emergency Response Plan](#) for Novel Coronavirus (COVID-19).

COVID-19 does not transmit as efficiently as influenza but causes more severe disease – 3.6% of COVID-19 cases have died, by comparison, seasonal flu generally kills far fewer than 1% of those infected. Unlike the flu, COVID-19 can be contained.

WHO states there is a severe and increasing disruption to the global supply of personal protective equipment – caused by rising demand, hoarding and misuse. Prices of surgical masks have increased six-fold, N95 respirators have more than tripled, and gowns cost twice as much. Market manipulation is widespread. Globally, it is estimated that Pandemic Supply Chain

Network supplies need to be increased by 40 per cent.

The Reserve Bank of Australia states that the coronavirus outbreak overseas is having a significant effect on the Australian economy, particularly in the education and travel sectors.

Travel restrictions

Travel restrictions or increased advice levels are in place for a number of countries.

[Travel restrictions](#) are in place for China, Iran, and South Korea. Australian citizens and permanent residents are advised not to travel to these countries. Foreign nationals cannot enter Australia within 14 days of leaving these countries. Australians returning from these countries must self-isolate for 14 days.

Italy is considered “higher risk.” If you are returning from Italy and you work as a healthcare worker or as a residential aged care worker, you should not attend your regular work for 14 days.

Cambodia, Hong Kong, Indonesia, Japan, Singapore and Thailand are considered ‘moderate’ risks. [End](#)

FBT Hot Spots

With the start of the Fringe Benefits Tax year looming on 1 April, businesses are being urged to review their Fringe Benefits Tax (FBT) position.



FBT liabilities can trap unwary businesses, some of whom don't recognise that there can be a tax consequence from providing

benefits to staff such as entertainment.

It is important to understand there can be implications from seemingly straight-forward business activities across income tax and GST, as well as FBT.

For some smaller businesses, it can come as a surprise that business related activities can fall within the FBT system. While there are some exemptions in place, businesses need a clear understanding that many benefits could come under the scrutiny of the Australian Taxation Office (ATO).

The ATO's top FBT problem areas

- **Motor vehicle fringe benefits** - failing to report motor vehicle fringe benefits, incorrectly applying exemptions for vehicles or incorrectly claiming reductions for these benefits
- **FBT and income tax mismatch** - mismatches between the amount reported as an employee contribution on an FBT return compared to the income amounts on an employer's tax return
- **Entertainment claimed as a deduction but not recognised as FBT** - claiming entertainment expenses as a deduction but not correctly reporting them as a fringe benefit, or incorrectly classifying entertainment expenses as sponsorship or advertising
- **Car parking fringe benefits** - incorrectly calculating car parking fringe benefits due to:
 - significantly discounting market valuations
 - using non-commercial parking rates
 - not being supported by adequate evidence
- **Business you use personally** - not reporting fringe benefits on business assets that are provided for the personal enjoyment of employees or associates
- **Not lodging FBT returns** - not lodging FBT returns (or lodging them late) to delay or avoid payment of tax.

A small business owner might think it appropriate to take a good customer or supplier to lunch. It might also seem natural to take along a staff member to that lunch. But there could be an FBT liability that arises depending on the value of the food and drink on a per head basis and how

frequently staff members receive similar benefits.

Excellent record-keeping is fundamental. It is crucial at lunches for example to note who was there because the portion relating to staff members might be subject to FBT while the portion

relating to clients would not generally trigger FBT.

In addition to determining whether there is an FBT issue, these records will also generally be used to check whether the business can claim a deduction and GST credits for the expenses. The ATO's approach is very

evidence-based, there needs to be documentation to back up whatever the business is claiming.

That record-keeping can be difficult, especially if they do not have a dedicated internal accountant.

Motor vehicles are another key FBT issue. Many businesses provide cars to staff or allow them to take vehicles home but this can easily trigger an FBT liability -

although again, some businesses may be unaware of that.

While there are some exemptions that can apply to these benefits and it may be possible to reduce or eliminate the FBT liability completely, it is crucial that there is detailed record-keeping. For example, a car that is used solely for business purposes could still potentially trigger a significant FBT liability unless

there is a valid log-book in place.

There can be questions raised by the ATO if for example a business has substantial motor vehicle expenses, yet they do not lodge an FBT return.

You cannot avoid the FBT system by simply not claiming a deduction for expenses relating to a vehicle.

Super guarantee Amnesty: Now is the time to get payroll right

The superannuation guarantee (SG) amnesty provides employers with a one-off opportunity to “self-correct.” Now is the time to ensure that your payroll is correct and there are no hidden SG issues looming.

The amnesty applies from 24 May 2018 (the date of the original announcement) until 6 months after the legislation receives Royal Assent. Employers will have this period to voluntarily disclose underpaid or unpaid SG payment to the Commissioner of Taxation.

The amnesty applies to historical underpaid or unpaid SG for any period up to the March 2018 quarter.

To qualify for the amnesty, employers must disclose the outstanding SG to the Tax Commissioner. You either pay the full amount owing, or if the business cannot pay the full amount, enter into a payment plan with the ATO. If you agree to a payment plan and do not meet the payments, the amnesty will no longer apply. The amnesty only applies to “voluntary” disclosures.

Please contact us today if you would like a compliance review of your business undertaken or assistance to apply the amnesty.

Quote of the month

“This is not a drill.”

*World Health Organisation
Director-General Dr Tedros
Adhanom Ghebreyesus*