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WINTER 2014

Australian know-how *powers Asia's growth*

By Andrew Clugston
Melbourne

and

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Melbourne

Australia's industry knowledge, skills and services are highly valued in Asia and a wealth of opportunities are opening up right across the Asian region for Australian businesses.

To succeed in the intense global competition for Asia's markets, Australian businesses must benchmark themselves against international players who are also galvanising their business, government and community sectors to seize these opportunities.

Asia is not just an export market

Our companies need to see themselves as part of the regional Asian economy and not just the Australian economy. They must also make a shift from seeing themselves as 'exporters' into Asia to becoming Asia-Pacific companies that are physically and culturally embedded in the region.

Australian Boards and management must ask, "Do we have a capability in Australia that would be highly valued in Asia?" Companies like Linfox and Leighton Holdings, for example, were early movers into Asia and are reaping the rewards.

Riches are in the niches

Given the high cost of labour it is clear that Australia needs to compete on quality rather than scale. A key source of advantage will lie in the ability to identify niches, create flexible supply chains and drive process innovation.

A good example of overcoming the cost disadvantage comes from Germany, a country that has done very well in China, despite its high cost.

Success in Asia will only come with a contemporary understanding of the region – for which a widespread mindset shift is required across all segments of Australian society, not just in pockets of business and academia. From the boardroom to the factory floor, Australian companies need to turn traditional thinking about Asia upside down – or risk the consequences of superficial engagement and anachronistic thinking.

Fundamental within this shift is a respect for Asian counterparts. This involves building an accurate understanding of the core strengths and capabilities of Asian management and workforce.

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Business operations in Asia must be developed under the active leadership and engagement of the Asian workforce who possess deep insight into 'the way business is done' in their country.

Countries across Asia have unique norms, customs and traditions which must be well understood and respected.

Local Asian competition is strong and must not be underestimated. There are more English-speaking graduates in engineering, technology and sciences coming out of Asia than the Western world.

A key risk is under investing in research into Asian markets and failing to understand local Asian cultures, history and ways of nurturing relationships that underpin business.

Australian skills and services highly valued

"The Lucky Country" is yesterday's tag line. Australia's future will lie in our ability to leverage our services' know-how to power Asia's growth.

Businesses with deep services' expertise such as consulting engineers, architects, designers, project managers, environmental specialists and aged care professionals should look towards Asia for opportunities over the next decade.

Australian project management skills on complex infrastructure projects, for example, are considered world class and highly sought after on Asian projects.

This century is also marked by growing water, environmental and food security concerns. Australia's advanced expertise in water management and environmental sciences places the country in a strong position in solving some of the global environmental challenges.

While many believe we are well poised to become the Food Bowl of Asia, some critical capacity issues will need to be addressed before this dream turns into reality. We recently co-hosted an event with the Australia-Malaysia Business Council where the Hon. Peter Walsh, Minister for Agriculture, Food Security and Water in the Victorian State Parliament explored some of these issues. The Minister presented on the government's Food to Asia Action Plan which provided some great insights into what the government believes is required to capitalise on opportunities in Malaysia.

Geographic advantage

It is too simplistic to think that geographic proximity alone will help Australian businesses win markets – they need to focus on differentiation and being experts within a niche. Although, being in the same time zone does produce enormous efficiencies and creates the backdrop for greater sustainability in our investment and trading relationships.

Australian companies need to invest appropriately in the region from a financial, cultural and emotional perspective. Successful companies build highly localised organisations with a local workforce.

Asia knowledge in Australia

Australia also enjoys the benefit of large ethnic communities, whose in-built insights into the region and capability can be engaged and drawn upon when developing policies and strategies.

Australian businesses can step up to meet opportunities and challenges presented by the Asian Century through better utilisation of existing human resources within our communities and with the help of Asia-savvy advisors.

Australian businesses need to seek opportunities and vehicles for promoting their businesses to key Asian audiences.

Events, such as the Malaysian Property Seminars run jointly with Baker Tilly Pitcher Partners in Australia and our partner firm Baker Tilly Monteiro Heng in Malaysia, are a prime opportunity to do just that. Or the Asia Business Leaders Series held in Melbourne – a moderated Q&A forum between an experienced panel of practitioners and companies with an interest in specific Asian markets.

To find out about doing business in Asia contact Rohini or Andrew.

FEATURE

Get in shape *for the tax run*

By Alexis Kokkinos
Melbourne

The end of the financial year is here again! Meaning it's time to make sure your business is in the best shape it can be, for today and for the future.

While many of you may find this time of year particularly taxing, especially in light of regulatory and compliance changes throughout the year, there is help at hand.

Pitcher Partners clients can access a comprehensive year-end tax planning toolkit to assist in their year-end tax planning. The toolkit provides a checklist of tax planning and compliance considerations for the 30 June 2014 income year, subdivided into meaningful categories that either relate to a specific type of taxpayer or to specific tax topics.

Knowing your business and understanding exactly the income you have generated and what deductions you are eligible to claim is crucial to ensuring you pay the correct amount of tax. But tax planning also involves the consideration of whether all of your compliance is in order. As a business you are entitled to claim expenses incurred as part of carrying on that business. However, there are also many industry-specific expenses that can be claimed that many taxpayers may not be aware of, or that require special conditions to be satisfied by a certain time.

The preparation and maintenance of appropriate documentation and up to date records results in many business benefits beyond having an easier run at tax time – and is an essential element for the effective forward planning of your tax affairs.

The toolkit is just such a useful tool, designed to assist in ensuring you have consideration of your tax requirements and have planned appropriately for tax preparation at the year-end. If you have not already done it for this year, then make sure you start the new financial year off in the right way and ask your Pitcher Partners advisor for a copy of the toolkit or access it on our website **www.pitcher.com.au**.

FEATURE

A budget to build on

By David Knowles, *Melbourne*

As always, budgets are a balancing act – taking from Peter to pay Paul – and this year's Federal Budget is no different. Money from health and welfare has been redirected to fund nation-building infrastructure projects and here we look at why this strategy was adopted and what it means for business.

Mining Investment has fundamentally supported economic activity in this nation over the last 10 years and with the end of the mining investment boom in sight, the government needed a strategy to combat the expected drag on the economy. While mining now accounts for 10% of GDP, it accounts for less than 2% of jobs. So, the government was faced with the challenge of stimulating and growing industries to develop employment.

It selected road investment, and to a lesser extent rail, as its preferred driver of economic activity, and it hoped when combined with the infrastructure budgets of the state governments and other private interests, to catalyse $125 billion of infrastructure investment in order to generate thousands of jobs, starting immediately.

This is not a new approach. In days gone by, major infrastructure projects such as national railways, the Snowy Mountains Scheme, major investments in defence budgets and even the NBN have been used for exactly this purpose.

During the GFC, spending programs for the sake of spending were initiated in order to stimulate demand but most of these had less than optimal outcomes and lacked enduring benefit. By contrast, investment in infrastructure is nation building and should add to Australia's balance sheet.

This spending will have impacts right across the country for the feeder businesses that supply into the construction sector and provide countless opportunities for SMEs to leverage this activity. Importantly it kick starts the money merry-go-round that drives activity in even unrelated industries.

Managing the flow of money into infrastructure is tricky and stop-start investment has the potential to drive up costs. We saw in recent years that the massive capital investment into mining required large numbers of workers in specific regions and the supply and demand imbalance resulted in large increases in wages to those who were in the right place with the right skills at the right time. A potential exists for similar imbalances to occur again if the investment in infrastructure over the next decade is not well coordinated.

The government estimates that this infrastructure program alone will add 1% to GDP but the down side risks relate to controlling wages in this environment.

Given the geographic breadth of investment planned it is hoped that the problems that led to the two-speed economy from the mining investment will not recur.

Only time will tell whether the government, in its first budget, got the strategy right and did what was best for Australia, and just what the impact to the nation's businesses has been.

Chalk and cheese:

The secrets to McDonald Jones' success

CLIENT PROFILE

By Greg Farrow
Newcastle

At the turn of the century, NSW's most popular builder, McDonald Jones Homes was a well-established homebuilding company with a substantial footprint in the Hunter region. Today it is an industry juggernaut, on a trajectory to become a household name across the nation.

The company builds well over 1,000 homes a year across the state and even into Canberra and southeast Queensland, plus winning HIA Hunter's Professional Major Builder of the Year for five years running.

The secret to their success is in the partnership between two men, "chalk and cheese", as one of them jokes during an interview in the company's boardroom in its head office at Thornton near Newcastle.

Bill McDonald, a carpenter by trade, was one of the company's founders back in 1987. More than a decade later, in 2000, the company underwent a major transformation, opting to focus on building single-storey project homes. At his side by this time was Andrew Helmers, an accountant by profession – the quiet, astute half of a very determined duo – the "chalk" to Bill's "cheese".

McDonald Jones, through innovation, has redefined the project home market, blazing a trail that competitors have been scrambling to follow. After revolutionising the project home industry by introducing their TRUECORE steel-frames – using the patented Supaloc precision-engineered steel building system – McDonald Jones enlisted world-renowned architect, Stuart Everitt, to design a portfolio of affordable architect-designed homes that were within reach of the average Australian family.

Helmers' eye for presentation was instrumental in the company's display homes setting the benchmark for mixing style and functionality, and according to McDonald, it was Helmers, now Managing Director, who recognised the importance of ensuring their display homes looked and felt the part without coming across as ostentatious.

But the McDonald Jones' story is not just about a handful of people, it's about a team of really good people, with all the skills and expertise to create something together.

"Bill and I are just the facilitators. We have the job of being out front, but all the nuts and bolts, all the good stuff, happens with others," Helmers said.

What's clear when talking to these two men is their vision coupled with sheer determination. Maybe it's the rare combination of "chalk and cheese" moments of not letting go of the past but still being willing and open to embrace the future and have the courage to be creative and pioneers, that sets McDonald Jones apart. Their commitment to traditional values coupled with a relentless thirst for innovation. All done to the mantra of building the best quality products they can.

In the future, the company hopes to consolidate in Queensland and Canberra, as they have already done in Sydney. Victoria will also be on the radar, and in six or seven years the company may well be building at least two thousand homes a year.

Pictured from left to right:
Andrew Helmers (Managing Director),
Scott Cam and Bill McDonald (Director)

Advocacy
– Budget forces Div 7A amendments

By Greg Nielsen
Melbourne

Division 7A is responsible for some of the highest compliance costs faced by small to middle market business taxpayers and recent Budget announcements will add to this, unless critical reform measures are taken.

Pitcher Partners has lodged a 70 page submission to the Board of Taxation (Board) on behalf of our clients in response to proposed reforms for Div 7A measures and reduced compliance costs.

The Board released its recommendations in the form of a discussion paper to address concerns raised as a result of the Budget announcement reducing corporate tax rates and increasing top marginal tax rates for individuals. It is expected this will place further pressure and compliance costs on Div 7A where trusts interact with companies.

The main proposal contained in the Board's report is to allow business trusts to access a corporate tax rate, provided they do not access capital gains discount concessions (other than in relation to the sale of a business).

We have long been advocating for small to middle market business taxpayers and our submission outlines practical ways in which we believe the proposals can be implemented, without diminishing the integrity of Div 7A measures.

We submit that a business trust should have the ability to access the corporate rate for business profits. The Board's proposals will help taxpayers invest in their business working capital using profits taxed at the corporate rate. The proposals will support business growth in the middle market, at a much needed time.

By encouraging the development of these measures, we are hopeful we can assist the Board in fast tracking the introduction of these important changes.

We support the Board's important recommendations, which are long overdue and urge the government to consider these important reform measures as soon as possible.

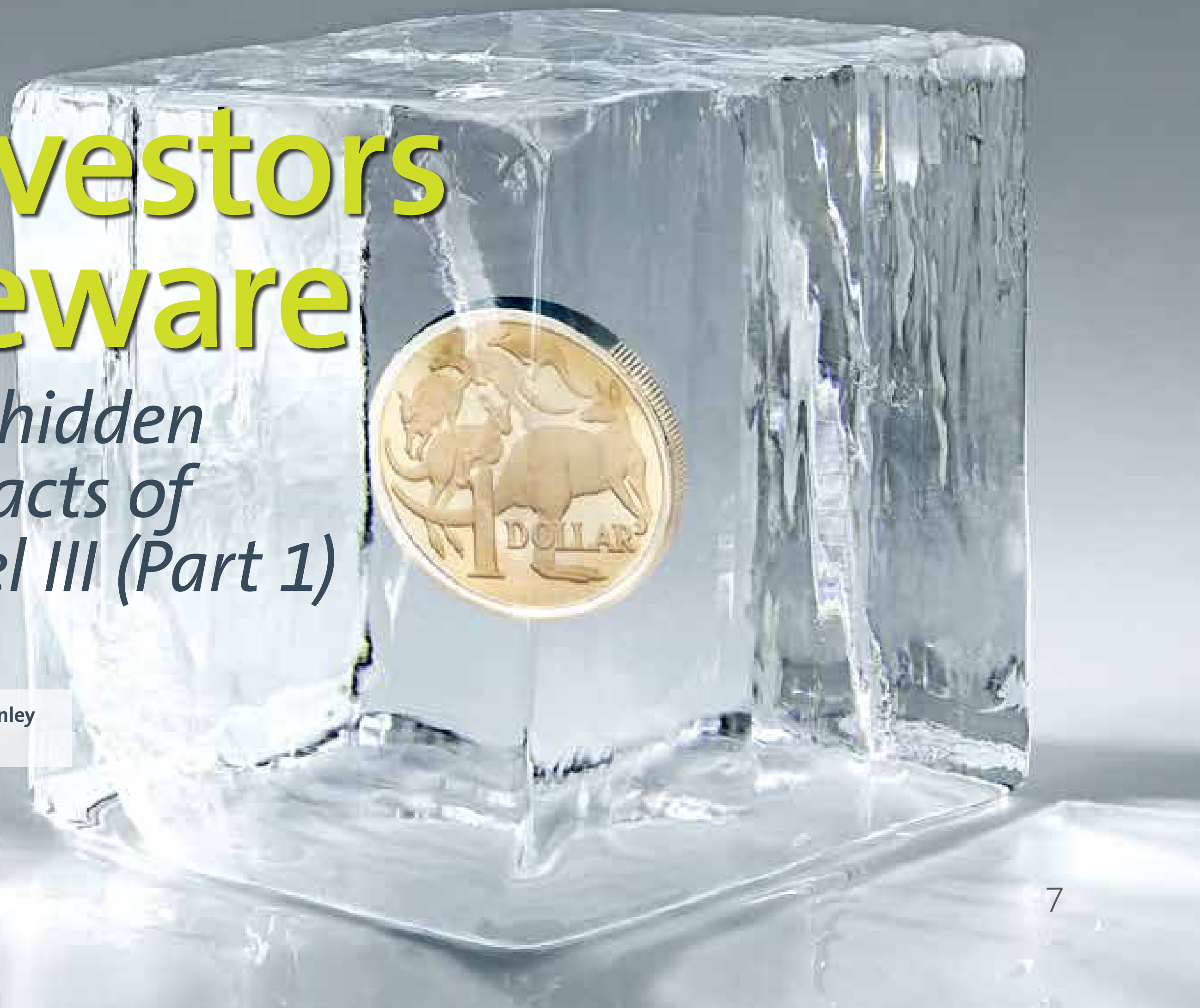
A full copy of Pitcher Partners' submission to the Board can be found at our website **http://bit.do/pitcheradvocacy**.

Investors beware

The hidden impacts of Basel III (Part 1)

By Adam Stanley
Melbourne

FEATURE



A new APRA prudential standard APS 210 – Liquidity, due to be introduced from 1 January 2015, may result in lower interest rates for some term deposits. We explore the impacts of this new standard on investors who have funds in term deposits.

The Basel Accords are global, voluntary standards on bank capital adequacy, stress testing and market liquidity risk. The next instalment of the Basel Accords addresses bank liquidity, with the aims to strengthen bank capital positions by increasing bank liquidity and decreasing bank leverage.

Simplistically, the new standard requires Authorised Deposit-taking Institutions (ADI's) to classify term deposits into categories to reflect the likely liquidity (to the ADI). The classification will impact pricing or depositor return, with a discount being applied to deposits likely to be more liquid or transient.

The categories an ADI will be required to classify deposits into are:

- Stable 'retail' deposits
- Less stable 'wholesale' deposits, which are likely to receive a much lower interest rate, possibly between 1% and 1.5% lower than the comparable 'retail' rate, and
- Run off deposits

Under these changes, wholesale investors, likely to receive a lower deposit rate, are expected to include:

- Those where the sum of the term deposit exceeds $2 million
- Charitable and educational institutions, unions, professional bodies, other not for profit organisations and corporate entities no matter how small the term deposit.

Funds placed through intermediaries may also be treated unfavourably as they are considered highly liquid and subject to flight.

To make things a little more complex, varying run-off rates will apply to deposits based on the combination of a number of factors, such as time to maturity, guarantee limits, whether the accounts are online, the existing customer relationship with the ADI and whether the deposit is heavily rate-driven. 'Run-off rates' are determined by ADIs making them subjective, possibly leaving a number of investors confused about why they are being offered different rates by different ADIs.

Under transitional measures an interim retail cap will also be introduced between now and 1 January 2015, at which time the new retail cap of only $2 million for total term deposits takes effect. The interim retail caps for total term deposits will be applied at a 'per entity' level and may range anywhere between $2 million and $50 million, depending on the ADI. Where these interim caps are breached we believe all term deposits will be treated as wholesale funds (not just the amount over the threshold) and will therefore be subject to wholesale rates.

And then there are some traps to avoid. In assessing whether total term deposits for any entity exceeds the thresholds, the depositor needs to be aware of any ADI that operates multiple brands under the one banking licence. For example, Bank of Melbourne, BankSA and St George are all part of the Westpac brand stable and they all operate under the one licence. Bankwest is now a full subsidiary of Commonwealth Bank. Adelaide Bank and Delphi Bank are subsidiaries of Bendigo Bank.

Grandfathering will apply to any term deposits placed before 1 January 2015 and therefore deposits between $2 million and the ADI's current threshold can be put in place before this date.

For larger wholesale investors, the impact of the higher run-off rate will diminish over longer term deposits.

Going forward an ADI may begin to offer two types of term deposits, those that are unbreakable (Tier 1) and those that are breakable but as a result are treated as Tier 2 and receive a lower interest rate. These rules will be strictly adhered to.

The inability to break term deposits may lead to investors holding higher levels of liquid at-call funds – essentially foregoing some interest to retain flexibility. If breakable Tier 2 term deposits are developed we might also expect to see a mix of Tier 1 and Tier 2 deposits to enable investors to retain surplus or emergency funds.

Larger investors with term deposits greater than $2 million in aggregate with one ADI are expected to be the most impacted by these changes. One partial solution will be to diversify term deposits across a range of ADIs. But all factors need to be carefully considered and expert advice should be sought before making any final decision.

In response to these changes we expect to see a number of product innovations, such as deposits that feature a 31 day or greater notice period, unbreakable deposits paying higher rates than a breakable version (with standard penalties), multiple terms within the one deposit, deposits with fixed rate and floating rate options and inflation linked deposits.

The need to match funding with lending is also likely to lead to the development of a number of longer term (greater than one year) term deposit opportunities. We may start to see ADIs offering interest rate premiums for term deposits as far out as ten years.

In the next edition of Contact we will discuss the potential impact of these changes on the debt markets and client investment strategies.

What's **New**

For comments on this edition or if you wish to be removed from the Contact mailing list please email us at **editor@pitcher.com.au**. You can view Contact electronically at **www.pitcher.com.au/Contact-Newsletter**.

Tax diary

14 Jul 2014	• PAYG Payment Summaries to be provided to employees, company directors and office holders.
21 Jul 2014	• Lodgement and payment of June monthly BAS/IAS. • Lodgement and payment of fourth quarter PAYG instalment activity statement for head companies of tax consolidated groups. • Taxable payments annual report – building and construction industry.
28 Jul 2014	• Lodgement and payment of fourth quarter superannuation guarantee contributions. • Lodgement and payment of the fourth quarter BAS/IAS.
31 Jul 2014	• Franking account return for June balancer where there is an amount payable. • Quarterly TFN report for closely held trusts for TFNs quoted to trustees by beneficiaries between 1 April 2014 to 30 June 2014.
14 Aug 2014	• Lodgement of PAYG Withholding Payment Summary – Annual Report.
21 Aug 2014	• Lodgement and payment of July monthly BAS/IAS.
21 Sep 2014	• Lodgement and payment of August monthly BAS/IAS.
30 Sep 2014	• Annual TFN Withholding report – due date for lodgement where a trustee of a closely held trust has been required to withhold amounts from payments to beneficiaries.

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