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SUMMER 2016/17

Fostering a *start-up culture*

EDITORIAL

Michael Minter
Newcastle

In every major city around Australia, we're seeing a dramatic rise in co-working hubs and start-up incubators. Innovation centres are springing up across the country, from Perth to Newcastle and everywhere in between.

As part of its National Innovation and Science Agenda, the Turnbull government has announced a range of measures that improve the technological infrastructure and connectivity capacities of state capital cities and regional hubs. State governments are also coming to the table with significant investments for innovation hubs and digital precincts.

Pitcher Partners is right at the forefront of the innovation economy. All the firms in our network recognise start-ups as a critical source of growth – for Australia, and for Pitcher Partners!

In Newcastle, we're supporting the Hunter Business Chamber in calling for greater investment into start-up infrastructure in the Hunter region. In Brisbane and Adelaide, Pitcher Partners is involved with local start-up hubs, sponsoring and mentoring local entrepreneurs, while in Sydney, Melbourne and Perth, Pitcher Partners is leading the way in providing innovative managed funds advisory services to the emergent fintech industry.

For much of Australia, including regional centres like Newcastle that have historically relied on strong manufacturing and mining activity, innovation culture is critically important to future growth.

This focus on start-ups fits right within Pitcher Partners' philosophy that we're advisors over the whole business life cycle. From start-up phase all the way through growth, expansion and potential acquisition, Pitcher Partners is in it for the long haul.

As our start-up client base grows, we need to keep pace with the sort of innovative thinking and entrepreneurship that our clients expect – and not for just our start-up clients.

As the government has signalled its commitment to innovation, it's not just microbusinesses that are looking to take advantage. The mid-market, the engine room of economic growth in Australia, is also shifting its mindset towards agility and revolutionary thinking within the confines of existing business structures.

To this end, Pitcher Partners has developed award winning initiatives, including the Pitcher Partners International Institute of Entrepreneurship to help us guide, support and challenge our clients. We're investing in skills development, self-improvement and attitudinal change that results in better models, thinking, tools, and systems.

The ability to think innovatively is increasingly demarcating the best advisors from the rest of the pack. Pitcher Partners is proud to be leading the way.

Brad Twentyman
Melbourne

Superannuation budget changes become law

The Government's superannuation tax changes, announced in the 2016 May Federal Budget, have finally been passed by both houses of Parliament and will become law.

The new rules mainly apply from 1 July 2017 and broadly mean people with pension balances greater than $1.6m will pay more tax on the excess investment earnings (at the concessional 15% fund tax rate) and there will be reduced opportunities to make contributions in the future with lower contribution caps to apply.

The new rules do not change the way superannuation payments are taxed personally, i.e. capital drawdowns by way of a pension or lump sum on or after age 60 will continue to be tax exempt for most people.

The new rules are complex, and with complexity comes risk that inadvertent errors or mistakes may result in tax penalties for non-compliance. If you are potentially impacted you should consider the new rules in the context of your circumstances and the adjustments you will need to make leading into 30 June 2017.

The major changes are as follows:

- The current system of non-concessional contributions will largely continue, but with lower annual caps and exclusions. The standard annual non-concessional contributions cap will be reduced to $100,000 from $180,000 from 1 July 2017. If you have a super balance above the pension transfer balance cap amount of $1.6m at 30 June 2017, you will not be eligible to make non-concessional contributions thereafter.
- The concessional contributions cap will be reduced to $25,000 from 1 July 2017, down from the $30,000/$35,000 caps that currently apply.
- There will be a $1.6m cap (the transfer balance cap) on the amount of capital that can be transferred into retirement products such as superannuation pensions and annuities. The transfer balance cap applies from 1 July 2017.
- The rules include CGT relief for those who will be required to unwind existing pension arrangements, but the rules are particularly complex, requiring consideration on an asset by asset basis and written elections within prescribed time limits
- Transition to retirement pensions will not qualify for any earnings tax exemption from 1 July 2017, i.e. all earnings/profits on transition to retirement pension assets will be taxed at the standard fund tax rate of up to 15%.
- For the purposes of the $1.6m pension cap (transfer balance cap), defined benefit pensions (e.g. lifetime pensions historically received in the public sector and some private sector legacy pensions, such as market linked pensions) will be subject to special valuation rules.

Impact of Pension Changes

The immediate impact will be on individuals with existing pension balances in excess of $1.6m, and on recipients of transition to retirement pensions, who will pay more tax on investment profits/earnings in the fund going forward. However, other aspects will broadly remain the same.

If you are likely to be impacted you should commence reviewing your circumstances with your Pitcher Partners advisor to determine what needs to occur before 30 June 2017.

For most we believe the required actions will be reasonably modest, such as stopping enough pension to fit within the $1.6m cap and considering the CGT relief provisions.

Commencing new pensions into the future will be a more complex exercise as you will need to consider where you sit against the pension cap before taking any action.

Also there are likely to be impacts in the future on the death of a spouse where combined balances exceed the $1.6m pension cap.

Common Questions

There is currently a lot of discussion on the best approach in response to the upcoming changes. We outline our thoughts on some common questions for your reference below. Please note these comments are not intended to be advice and they will not have application in all circumstances. It is critical that you seek specific advice before finalising any actions in response to the new rules.

Should I sell my assets before 30 June 2017 while the tax rate is still 0%?

Probably not the best approach in most circumstances as the CGT relief provisions may achieve the same outcome without incurring transaction costs.

There is complexity in the CGT relief provisions that may mean people nevertheless choose to sell assets as an easier approach. However, you would need to ensure tax avoidance rules would not apply if you did prefer selling.

Should I take my money out of super?

Again, probably not the best approach in most circumstances. While the rule changes are complex and increase the tax take out of super, a superannuation fund is still a tax effective investment structure. Profits/earnings in super are generally taxed at a maximum of 15%, compared to an average rate of say 30% and above where investments are held outside super.

Should I open a second SMSF and separate my pension/non pension balances?

Possibly. There may be an opportunity to maximise access to the 0% tax rate on profits/earnings by having your higher achieving investments in a special purpose pension fund. Also we expect some people may just prefer to separate pension money from non-pension money. Operating a second fund will result in setup costs and ongoing running costs, which need to be considered.

I have a transition to retirement pension, what should I do?

As a general rule, there will be little incentive to continue running transition to retirement pensions. Unless you need the capital to meet expenses, we believe most people will probably be better off stopping a transition to retirement pension.

It is likely many people will not know if their pension is a transition to retirement pension. If this is the case, you should discuss your circumstances with us.

What is required for the CGT relief rules to apply?

The CGT relief rules are very complex. Key issues will be ensuring you can value current pension assets at 30 June 2017 and making sure you make the necessary elections for the CGT relief to apply before your super fund's 2017 income tax return is due.

Broadly, the new rules constitute a significant change in the superannuation landscape. We will be making contact with clients affected as well as conducting information sessions in the near future.

What can we expect from President Donald Trump?

Andrew Aylward
Melbourne

While it's too early to say exactly what Donald Trump's economic platform will look like in office, his surprising victory in the US Presidential election could signal some substantial economic policy changes that would have a profound impact on global markets, and Australians with US interests.

Donald Trump's election victory has, so far, had less impact on financial markets than most anticipated. But how equity markets react over the medium term will depend on how much Mr Trump moderates his policies from some of the more strident stances he took during the campaign after taking office.

The Republicans will control both the Senate and the House and therefore should be able to enact legislation. Some of Mr Trump's policies are in line with the traditional Republican values such as tax reform, defence spending and infrastructure spending.

At present the biggest issue is that markets – and indeed the general public – do not have many details on Mr Trump's policies. And the extent to which the more controversial elements of his election platform are retained is open to debate.

Towards a more populist and fiscally isolationist approach?

From an Australian perspective, arguably the most significant potential policy change flagged by Mr Trump is an increase in trade barriers, particularly those aimed specifically at China. In addition to imposing import tariffs, Mr Trump has expressed opposition to specific trade agreements, including the Trans-Pacific Partnership, which Australia is a party to.

As a relatively export reliant economy, actions to curtail global trade would have negative implications for Australia and, in particular, our mining companies.

During the campaign, Trump also declared China a currency manipulator and flagged the imposition of tariffs of up to 45% on imported Chinese goods. While the implementation of tariffs is a popular policy among Trump's base, it has the potential to trigger a trade war as impacted countries impose retaliatory tariffs and import duties.

If such a trade war is enacted, domestic production in the US may increase, but so will inflation as input and labour costs increase potentially leading to higher interest rates. The first order consequence of such a trade war is likely to be lower global growth and a second order consequence could be a slowdown in Australian commodity exports to the Asian region as less inputs are needed due to their lower export output.

Trump has also signalled plans to lift infrastructure spending, which could be positive for economic growth. Although some reduction in non-defence spending has been flagged, it is likely that the combined effect of the revenue and spending measures will represent an expansion in the size of the US government deficit – in the initial years at least.

Both the expansionary fiscal policy and the increase in tariffs do increase the probability of higher inflation. The fact that the US economy is currently operating at close to full employment (at least under traditional measures of unemployment) suggests that policies designed to create additional economic activity could see both wages and inflation rise.

Tax implications

Again, it remains to be seen how much of Trump's pre-campaign rhetoric makes its way into policy, but here are the details of what's been said so far, and may potential arise:

- Reducing the corporate tax rate from 35% to 15%
- One time deemed repatriation tax of 10% on US corporate profits held offshore
- Lowering the top marginal rate for individuals from 39.6% to 33%
- Rationalising lower income tax brackets for individuals, resulting in an overall reduction in rates across the board
- Removing the 3.8% Net Investment Income ('Obamacare') Tax
- Eliminating the Alternative Minimum Tax

Most of these policies are likely to provide the greatest benefit to people just like Mr Trump.

A reduction in US personal income tax rates may actually have little impact for anyone caught in the US tax regime. The effective tax rate is generally the higher of the two jurisdictions – and Australia already levies a higher rate of personal tax than the US.

On the flipside, a reduction in personal income tax rates could possibly have a positive impact on other tax inefficient arrangements, especially relating to taxation of trusts and superannuation.

For corporates with significant US interests, cutting the corporate tax rate to 15% is a clear incentive for Australian companies considering the establishment or expansion of a business into the US.

One thing the Trump election has resulted in is increased volatility. Volatility by itself is not something to be fearful of as it brings opportunity. It does however mean we all need to be far more vigilant and ready to react as those opportunities and threats emerge.

If you have direct or indirect US interests, now's a good time to be talking to your Pitcher Partners advisor about what the future might have in store.

Risk management and opportunity creation

Michal Jozwik
Melbourne

More often than not, when most of us think about risk, we consider the negative consequences. We naturally anticipate the things that can hurt us and try to put in place protection measures.

However, this is not the only way to view risk and the broader practice of risk management.

As a risk services professional, I reframe risk management for my clients in terms of opportunity creation. For anyone who's familiar with foresight and futures thinking, the principles that underpin the practice of futurism are directly applicable to risk management.

A commonly practiced risk management approach focuses on: ***putting in place protection measures for the things that can hurt us in the future***.

A futurist's view on risk management is quite different and in many ways more relevant. Specifically it focuses on: ***what do we want our future to be and what do we put in place to make sure that it happens?***

Taking the futurist's view of risk management, it is much easier to apply risk management principles to strategic planning processes and in turn identify opportunities. We can use common risk management concepts such as likelihood and consequence (both positive and negative) in assessing and prioritising investments, and determining which ones best supports the overall company objectives.

Going a step further, risk management can then be applied to helping identify opportunities that may not be immediately apparent.

To help demonstrate the link between risk management and opportunity creation, and to highlight the problems associated with only looking at the negative side of risk, we can look at two historic and well-known corporate examples.

First, let's consider Apple and the opportunities created through the conception of the iPhone. The iPhone was a great strategic move for Apple, but in many ways it was a product of risk management. It was a move to help protect the company from the ever-increasing threat to the iPod posed by mobile phones beginning to play music. A famous quote from Steve Jobs is highly relevant to strategic risk management: *"If you don't cannibalise yourself, someone else will"*.

A contrasting example is that of Kodak. In the mid 1970s one of Kodak's engineers, Steve Sasson, invented the digital camera. The company heads realised that this technology was a considerable risk to the highly successful photography film business. In this example, Kodak only saw the negative side of risk: it chose to hide the technology and invest in protecting the film business. This was one of the fundamental issues that led to the company's demise decades later.

Considering both the upside and downside of risk allows organisations to derive far greater value from the risk management process. It allows risk management to evolve from being an operational level practice to an enterprise wide process that works hand in hand with strategic planning practices.

If done well, risk management can help turn companies and employees into futurists who are proactive and focused on the future that we want to create. It helps us to be better entrepreneurs and to better manage the entrepreneurial process at a corporate level.

Innovation in skincare **leads to a plethora of awards**

CLIENT PROFILE

Theo Sakell
Melbourne

Proud second generation Australian owned, Ego Pharmaceuticals has led the way in the development, manufacture and marketing of innovative skincare products for 60 years. A quiet achiever, the business is now being acclaimed domestically and internationally, winning a swag of awards for years of commitment to the health and wellbeing of families, most recently:

- Governor of Victoria Export Award for Health & Biotechnology category 2015 and 2016
- Governor of Victoria Exporter of the Year 2016
- Australian Export Award for Health & Biotechnology category 2016
- Australia-Taiwan Chamber of Commerce Excellence in Business in Taiwan award 2016

> *"Our aim: make a positive difference for the lives of people."*

We had the opportunity to discuss the evolution of Ego with managing director, Alan Oppenheim.

WHAT DRIVES YOUR BUSINESS?

Ego exists to help improve the skin health of people. My wife, Jane, and I believe that if we do that really well, then the consumers will continue to employ us.

We use strong science in everything we do to ensure our products do what we claim. We educate consumers and healthcare professionals about our products and advice on treating and protecting skin. We thrive on communications that we receive from people who found that our products made a difference for them.

I recently visited a pediatric ward in a hospital in Hong Kong, where the dermatological pediatrician introduced me to a 10 year old boy who had been in hospital for 5 days due to his eczema. Our products improved the life of this child and his parents; if we have helped to give this boy his childhood back, then we have made a difference.

Every SunSense sunscreen 50+ we sell is reducing the risk of people getting skin cancer. Preventing just one skin cancer is a huge improvement in life quality for that person.

We recently launched QV Self Check Breast Cream, with the aim of inspiring women to catch any breast cancer early and so improve their lives. This product includes a donation to the McGrath Foundation.

Our aim: make a positive difference for the lives of people.

HOW DID YOU BUILD YOUR BUSINESS?

Organically. All products we sell, we researched and developed. We run a constantly growing pipeline of new products which is an investment in science for the future.

We have a great professional inspired well-trained team driving growth in Australia through pharmacies.

Looking forward we have a strategy for 50% of the business to be international (export from Australia).

WHAT'S BEHIND YOUR SUCCESS?

Egozites, as we call ourselves, live the Ego values every day.

These values come from our family heritage. The values are embedded in the business. Experience has told me that living the values, especially when things get tough, helps and strengthens the business in the long term.

Our values include quality in everything we do, ethics, innovation and service.

WHERE WOULD YOU LIKE TO SEE YOUR BUSINESS IN 10 YEARS?

Even bigger, helping yet more people in more nations and making a difference for their lives.

WHAT MAKES YOU PROUD?

Making a difference for people:

- improving the quality of life for every user of our products, especially for families touched by chronic skin disease like atopic eczema
- employing 500 wonderful people across 27 cities in 12 nations in a company living the values and helping to improve their lives
- taking the little company that my parents created and nurturing it with my Scientific & Operations Director and wife, Dr Jane Oppenheim, to be the icon that Ego is today in multiple nations

WHAT WOULD YOU LIKE YOUR LEGACY TO BE?

Better skin on more people. Lives improved. Skin cancers prevented. Lives saved. Staff challenged, developing and satisfied. Sustainable, high technology manufacturing in Australia, owned by Australians.

Left to right Damien Smith (non exec Board of Director for Ego), Dr Jane Oppenheim (Scientific and Operations Director) the Hon. Steven Ciobo MP, Minister for Trade, Tourism and Investment, Alan Oppenheim (Managing Director), Barry O'Gorman (non exec Board of Director for Ego)

Andrew Beitz
Adelaide

Data storage and security: *what businesses need to know*

As businesses come to rely more on cloud technology for their operations, issues of data storage, data security, and data sovereignty are coming to the forefront of risk management within businesses.

For small to medium sized businesses, cloud services can be of huge value. For one thing, it's cheaper and more efficient to host your company's data in an offsite location. It's also often safer, from a security point of view, but also from a physical asset point of view. Insurance companies are beginning to offer lower premiums for companies with offsite servers – there's less likelihood of them overheating and inflicting serious property damage if they're in a dedicated server storage facility, rather than in a cupboard in your office.

When it comes to talking about the cloud, many business decision makers and C-suite executives are in uncomfortable territory: it's hard to know what you don't know and to ask questions about it. But it's imperative that senior decision makers cultivate technological literacy with regard to data storage – the implications are too significant for the issue to be left solely in the province of the IT department.

When it comes to offsite data storage, businesses have a few options. Public cloud services, like Amazon Web Services, house your data on server infrastructure owned by AWS that could be anywhere in the world, and your data is stored with other people's data.

By contrast, with private cloud services, businesses own the infrastructure that stores the data, or at least they have effective control of infrastructure leased through a third-party infrastructure as a service provider. That server infrastructure can be physically located and serviced by a dedicated data storage site, but ultimately, the business owns whatever data is stored in its private cloud server.

The question of who owns the data, and hence who is allowed to access it, is a critical one for business. For example, data hosted by Amazon Web Services is effectively owned by AWS. And since the enactment of the USA PATRIOT Act in 2001, any data storage physically housed in the US can be accessed by US government authorities.

So businesses – and their customers – want to know that their data is stored safely, and locally. And aside from the security impacts, if cloud server infrastructure is housed relatively close by to a business, latency, or the time it takes information to travel between the server and the business' computing equipment, is lower – so there's less likelihood of an annoying lag when trying to access data.

When it comes to trying to get answers out of your IT department on where your data is physically stored, it can be difficult to get clear answers. But CFOs and COOs have a responsibility to lead on data storage and security considerations – and any ISO accredited business will need to prove where its data is.

There are some key questions that should be asked of your IT departments:

- Get IT to draw a map of your network, showing interaction between the computing equipment in your business and your data servers.
- Find out where the servers are, where the data is stored and through whom, and whether it's in Australia.
- You need to know you what your obligations are in terms of disclosing where your data is held. Do customers and clients expect their data to be stored in Australia?
- Find out who has the maintenance contracts for your data storage facilities.

Perhaps most importantly of all, if the server systems fail, business leaders need to know what their company has in the way of backup and disaster recovery, and how long it will take the business to get back online.

The problem is that no one tends to think about server failure until it happens. But like any form of insurance, it's significantly cheaper to house your data in purpose-built facilities, with proper redundancies and failsafes, than to wait for something to go wrong.

Senior leadership and boards can often fail to see the need to invest in this sort of infrastructure as it's not immediately visible, and it can be hard to explain how it impacts the business. But in a time when customers expect to be able to access your products and services online at any time and your business depends on that reliability, it's not good enough to turn a blind eye to the question of data storage.

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/insights/contact-magazine**.

Pitcher Partners wins accounting excellence awards

Pitcher Partners was presented with four awards at the AccountantsDaily Accounting Awards 2016, including the Professional Development Program of the Year, New Partner of the Year for Melbourne partner Dean Love, and Executive of the Year and the AccountantsDaily Excellence Awards both awarded to Sydney managing partner Rob Southwell.

We were also finalists for Partner of the Year (Melbourne's Kylee Byrne), Graduate Program of the Year, Marketing Program of the Year, and Firm of the Year (< $1 billion revenue).

Baker Tilly named Network of the Year

As part of the Baker Tilly network, Pitcher Partners is delighted that Baker Tilly International was named International Network of the Year by International Accounting Bulletin recently.

The Baker Tilly International network gives all our clients access to highly experienced advisors in 161 firms across 137 countries. Whether you're looking to expand, or need some local knowledge, Pitcher Partners can put you in touch with the right people to grow your business

The Network of the Year award is presented to a network that has demonstrated the execution of profitable growth strategies during the past 12 months and have excelled in a number of key strategic and operational areas. The winner is also recognised by the industry as a reputable brand that consistently delivers high quality professional services.

Thinking differently

A dynamic workplace is one that is challenged by different ways of thinking. Embracing an unconventional approach to problem solving and management can lead to a truly innovative environment, and innovative environments invite people and ideas to flourish.

With a Masters in Entrepreneurship and Innovation, Melbourne partner Vicki Macdermid has undertaken a research project into what horses teach us about leadership at an emotional and spiritual level. It's a topic that could be considered an outlier in terms of a professional environment, but in her paper Macdermid expounds a range of findings that could easily be applied to leadership in the workplace:

- Confidence, or at least no fear, requires...self-awareness and self-regulation, the first two tenants of the five components of emotional intelligence
- Being conscious of adjusting our own behaviours to effect the best from those around us is empathy
- If...we cannot force people to conform or perform, how would a leader have them behave or contribute in a way that is positive?

Other methods for encouraging different types of thinking in the workplace include intrapreneurship (disrupting internal processes or cultural norms), embracing employee freedom in the workplace, and senior/junior role reversal. While some of these examples may not be suitable for your workplace, it's worth thinking about alternative ways of creating innovation in your business.

To find out more, visit pitcher.com.au/PPIEI

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