

# BUSINESS & TAXATION BULLETIN

AUTUMN 2021

REPORTS

NEWS

ANALYSIS

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**IMPORTANT:** Information contained in this newsletter is not advice. Clients should not act solely on the basis of material contained in this bulletin. Items herein are general comments only and do not constitute or convey advice per se. Also, changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. The bulletin is issued as a helpful guide to our clients and for their information.





# TAX UPDATES

## JobMaker Hiring Credit

Due to the planned conclusion of the JobKeeper scheme at the end of March 2021, the Federal government has introduced the JobMaker scheme which targets the employment of young people aged between 16 to 35 years who have recently received income support payments such as JobSeeker, Youth Allowance or Parenting Payment.

Through JobMaker, eligible employers may receive payments of up to:

- \$200 a week for eligible additional employees aged 16 to 29 years old
- \$100 a week for eligible additional employees aged 30 to 35 years old

The scheme commenced on 7 October 2020 and runs until 6 October 2021.

For an employer to be eligible for the scheme, they must operate a business in Australia, have an ABN, be registered for PAYG Withholding and report wages through Single Touch Payroll (STP). A business is unable to claim JobMaker for any fortnights in which JobKeeper has been claimed. The first claim period closes on 30 April 2021 and can include a claim for any eligible employees hired after 7 October 2020. There are three steps to claiming JobMaker:

1. Register for the JobMaker scheme through the ATO portal and provide a baseline headcount and payroll amount
2. Nominate additional employees by running payroll events through STP
3. Claim payments through ATO Business Portal or through tax agent

There are very specific requirements for who is an eligible employee for the JobMaker scheme with certain individuals being ineligible such as close associates or individuals previously engaged other than an employee. An individual can also only complete a JobMaker declaration for one employer if they hold multiple jobs.

## Time to review PAYG Instalments

The March 2021 quarter is a good time to review your personal or company PAYG income tax instalments to

ensure they reflect the estimated tax position at the end of the income year.

Due to the ever changing economic climate, it may be that your business is paying too much (or too little!) in quarterly tax instalments. The PAYG instalment amount or rate can be varied on your next Activity Statement and the variation will remain for the rest of the financial year, unless another variation is lodged.

It is also important to remember that if any Activity Statements are lodged or varied online, no further paper statements will be issued, as the ATO will direct all correspondence via an electronic means.

## NSW Payroll Tax and JobKeeper

There has been a Commissioner's Practice Notice issued in respect to JobKeeper payments and NSW Payroll tax.

The amount of 'top-up' payments, where an employee received an additional wage amount in order to satisfy JobKeeper requirements, will be exempt from wages for NSW Payroll Tax purposes.

Additionally, where an employee has been 'stood down' but received JobKeeper payments for the relevant period, these wages will also be exempt from NSW Payroll Tax.

If the amount of ordinary and paid wages is higher than the JobKeeper amount, the total amount of wages paid will continue be included in wages for Payroll Tax calculations.



## Lower Company Tax Rate

The company tax rate for a 'base rate entity (BRE)' will further reduce from 1 July 2021. The tax rate for companies is 30% unless the companies qualifies as a BRE with the following conditions:

- Aggregated turnover of less than \$50 million
- Passive income (e.g. interest, dividends, rent and capital gains) cannot exceed more than 80% of the company's total assessable income

The company tax rates for a BRE are as follows:

- 27.5% 2018 to 2020 income years
- 26% for 2021 income year
- 25% for 2022 income year onwards

## Single Touch Payroll – Changes are coming

There are two major changes coming to Single Touch Payroll (STP) over the coming months.

Firstly, employers with only closely held employees must start reporting wages and PAYG withholding through STP from 1 July 2021. The STP reports must be completed at least once a quarter by reporting actual wages or a reasonable quarterly estimate based on the prior year. The annual finalisation declaration of wages for closely held employees will be due the same day as the payee's individual income tax return. For all arm's length employees, the finalisation declaration is due on 14 July each year.

Secondly, STP Phase 2 which was announced in the 2020 Budget will commence on 1 January 2022. The key changes as part of Phase 2 are reporting of additional information to the Tax Office such as employment conditions, salary sacrifice, lump sums and child support. There are no current actions required for the implementation of Phase 2, as the Tax Office will liaise with STP providers. There may be some requirements to update the reporting codes and categories of income within your payroll software prior to Phase 2 rollout.

## Fringe Benefits Tax – Benefits provided during COVID

The Fringe Benefits Tax (FBT) year concludes on 31 March 2021 and employers should be reviewing all non-cash benefits provided to employees or their associates during the year.

Due to COVID, the number and type of benefits provided by be significantly different from prior FBT years. Generally, you will not have to pay FBT for:

- Items provided to employees to enable them to work from home, including payment of phone and internet expenses
- Emergency accommodation, food and transport, including flights, quarantine costs and expenses incurred due to travel restrictions
- Emergency healthcare including flu vaccinations and COVID tests

There are other possible adjustments to FBT due to COVID including:

- No work car parking benefit is provided when the office is closed
- No car benefit is provided if during the COVID period the employee returned the vehicle to the business premises and had no access to the car
- New car logbooks may be required due to significant change in the usage of the car due to COVID



## Stimulus Vouchers – What's Assessable Income?

There are currently various state based vouchers which subsidise activities such as dining out, entertainment and accommodation. In NSW, these vouchers are accessible through Services NSW 'Dine and Discover' Program.

Each NSW adult is able to apply for two \$25 Dine NSW vouchers and two \$25 Discover NSW vouchers which can be redeemed at participating dining and entertainment businesses between March 2021 and 30 June 2021.

If your business is participating in the program, the receipt of government assistance is assessable income,

as it is part payment for the goods and services provided. Additionally, GST is required to be paid on the total amount of voucher payments received. There are no tax consequences for the individual redeeming the voucher and obtaining a subsidised purchase.

## GIC and SIC Rates

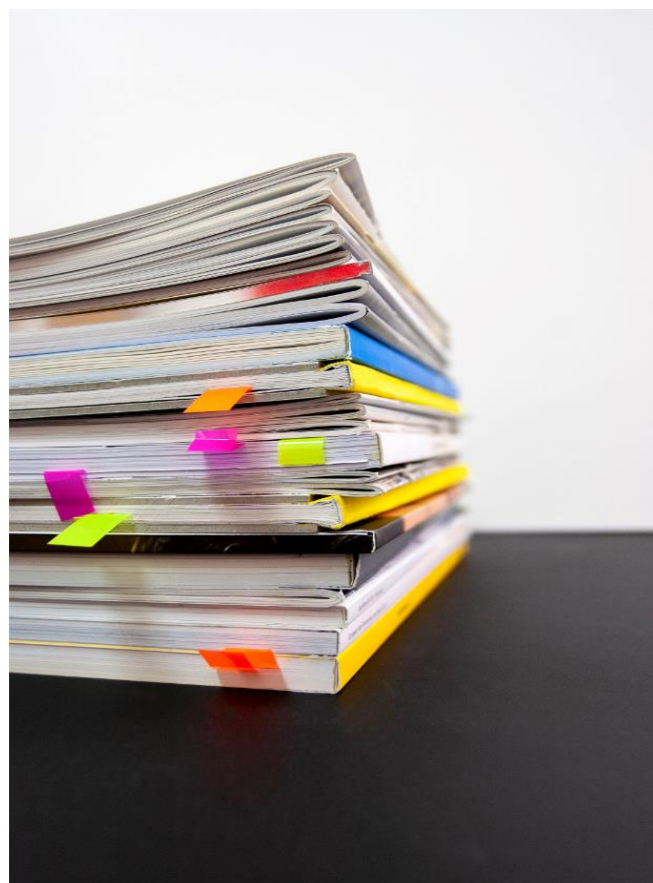
The ATO has published General Interest Charge (GIC) and Shortfall Interest Charge (SIC) rates for the final quarter of the 2020-21 income year.

The GIC annual rate for April – June 2021 is 7.01% and the SIC rate is 3.01%.

## Upcoming Key Dates and Deadlines

28 April 2021	Superannuation Guarantee Contributions due for payment for Jan – Mar 2021 Quarter
30 April 2021	End of first claim period for JobMaker Hiring Credits
15 May 2021	2020 Income Tax Return lodgement required for all entities not required earlier. Companies and super funds required to pay 2020 Income Tax.
21 May 2021	April 2021 Monthly Activity Statement due for lodgement and payment
25 May 2021	Jan – Mar 2021 Business Activity Statement due for electronic lodgement and payment
5 June 2021	2020 Income Tax Return lodgement for all entities who are non-taxable or due a refund in prior and current year
5 June 2021	2020 Income Tax Returns for individuals and trust due for lodgement and payment if not lodged earlier
21 June 2021	May 2021 Monthly Activity Statement due for lodgement and payment
25 June 2021	2021 Fringe Benefits Tax Return required for lodgement and payment
30 June 2021	Ensure all minimum pensions are paid from Self Managed Superannuation Funds

30 June 2021	Payment of all superannuation contributions prior to this date to be considered 2020-2021 contributions
30 June 2021	End of 2021 Financial Year
14 July 2021	Single Touch Payroll finalisation declaration due
21 July 2021	June Monthly Activity Statement due for lodgement and payment
21 July 2021	Quarterly PAYG Instalment Activity statement due for lodgement and payment for head companies of a consolidated group
28 July 2021	NSW Payroll Tax Annual Reconciliation due for lodgement and payment
28 July 2021	End of second claim period for JobMaker Hiring Credits



# TAX PLANNING

Tax planning should be done throughout the year but it is always smart to review it at this time of year before 30 June for all small-to medium businesses. Some areas to consider are:

- Review business performance
- Instant asset write-off and depreciation
- Super Contributions
- Timing of Income and Expenses



## Review Business Performance

While businesses should periodically review their business performance, it is essential to have up to date data at this time of year. This will help the business and we estimate the full-year performance as part of tax planning for this year and planning for the business.

## Instant Asset Write-Off and Depreciation

In the past 12 months, the government has changed the instant asset write-off and depreciation rules so that they apply now to more businesses. The instant asset write-off thresholds and aggregate turnover thresholds that they apply to are:

Eligible Businesses	Date Range	Threshold
<\$5 billion aggregate turnover	6 October 2020 to 30 June 2022 for first-use assets	No limit for business usage amount
<\$500 million aggregate turnover	12 March 2020 to 30 June 2021 is first use asset is purchased by 31 December 2020	\$150,000
\$10 million to <\$50 million aggregate turnover	6 October 2020 to 30 June 2022 for second-use assets	No limit for business usage amount

The government is also allowing small businesses (<\$10 million aggregate turnover) to write-off the balance of their small business pool in the 2021 year.

The above can result in significant tax savings in the 2021 year.

## Super Contributions

It is important to remember that in order to claim a tax deduction for a superannuation contribution, the contribution must be received by the super fund by 30 June. Please check with your super fund to confirm when is the cut-off date.

It is important for business owners and individuals looking to make additional personal concessional contributions that they are aware of the superannuation contribution limits for the 2021 year and the contributions that have been made already for the year.





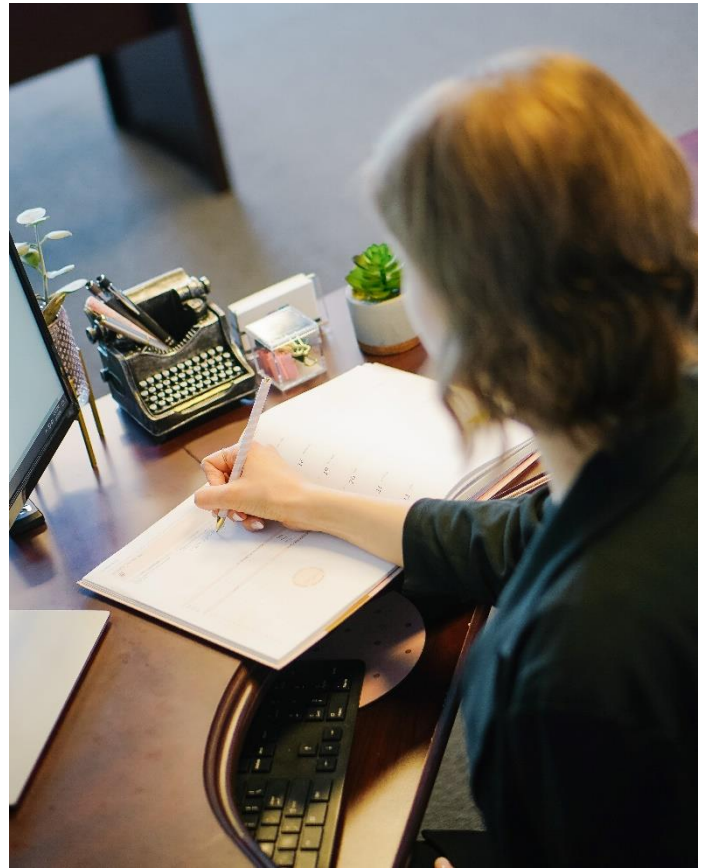
## Timing of Income and Expenses

A consideration should be made to determine if any income has been received in advance and bringing forward expenses into the current year.

Depending on the industry, a review of the supply contract might be required to determine if any income received during the year should actually be carried forward and recognised as income in the next financial year. It is also a good time to review your accounts receivable list to determine if there are any customers that will not have the capacity to pay and should be written off as bad before 30 June.

Expenses are only tax deductible when incurred and thus accruals and provisions are not deductible. If applicable to the business, a review of stock of the business should be done to ensure that any obsolete stock is written off.

The above are just a few areas and examples of tax planning opportunities. If you want to discuss the tax planning matters for you and your business please contact your DFK Nugents Advisor.



*“A consideration should be made to determine if any income has been received in advance and bringing forward expenses into the current year.”*





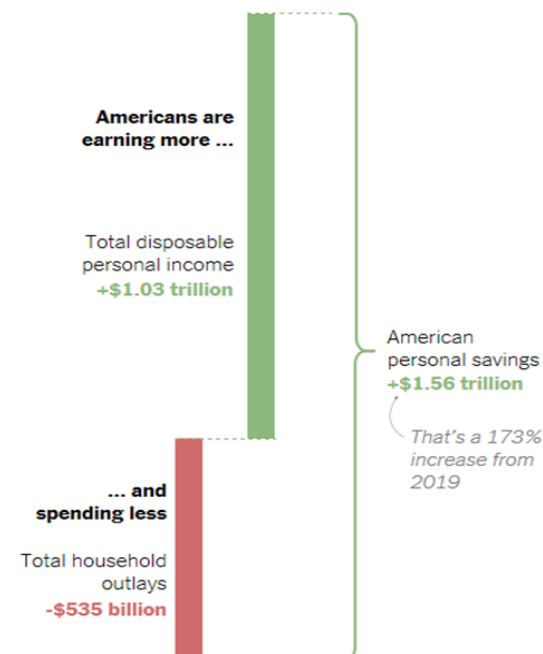
# MARKET UPDATE

In this update we examine why markets were so strong, factors driving the rebound, and the outlook for the year ahead.

## Why Markets Boomed in a Year of Human Misery

The New York Times recently published a very interesting article providing some further insight into why equity markets were so strong in 2020. It was not just the US Federal Reserve cutting interest rates or government stimulus. The rise in savings among white-collar workers created a tide lifting nearly all financial assets.

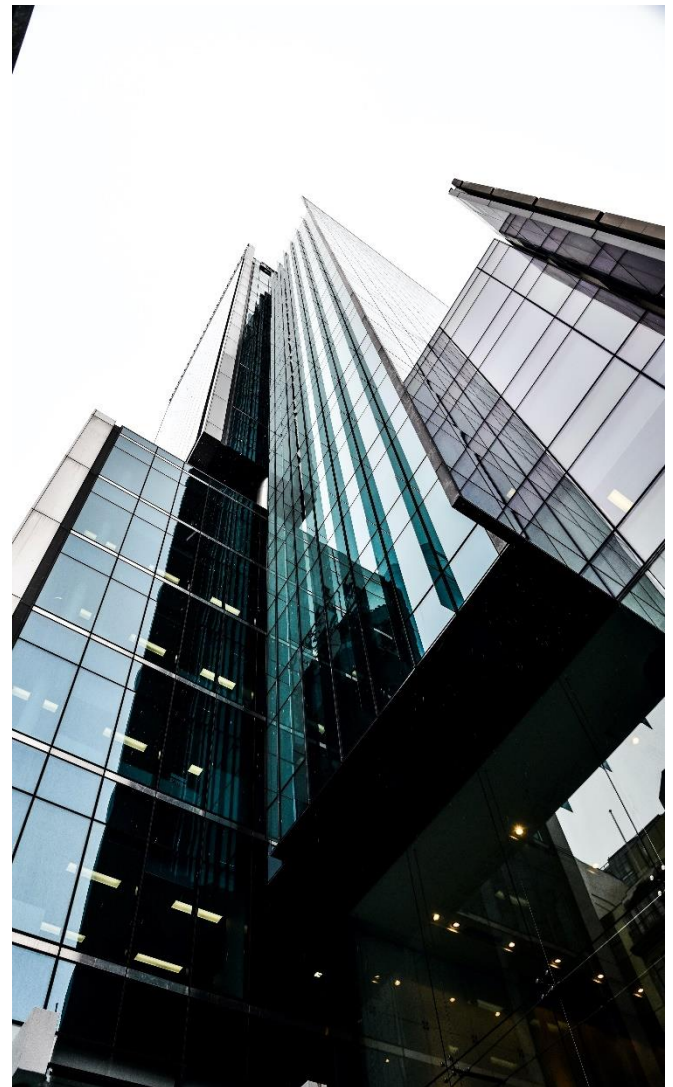
### Chart 1 - A combination of soaring income and falling spending pushed the US savings rate through the roof.



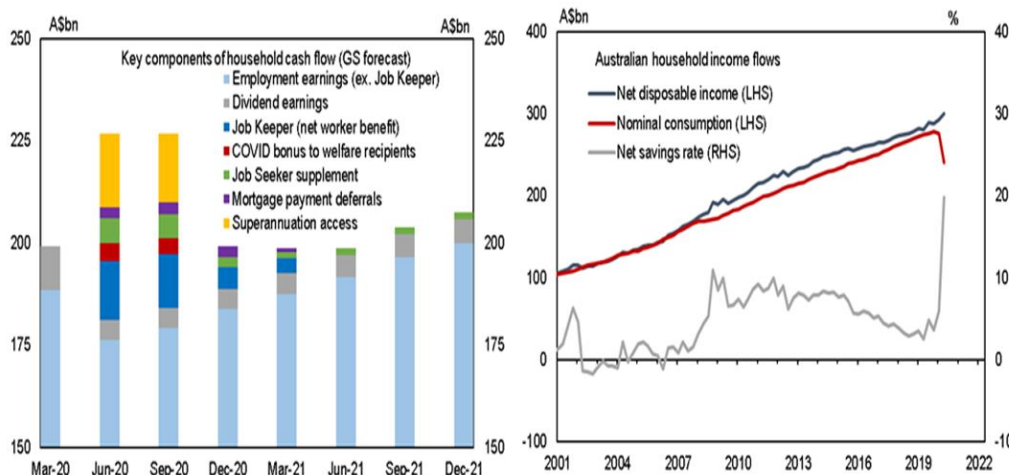
Data: From March to November 2020 compares to the same period.

Source: US Bureau of Economic Analysis

From March through to November, personal savings was \$1.56 trillion higher than in 2019, a rise of 173 percent. The savings rate spiked to 33.7 percent in April, its highest level on record dating to 1959. Even as millions of individuals faced great financial hardship this year, Americans in aggregate were building savings at a startling rate. As Chart 2 shows Australian personal savings rates are also highly elevated.



## Chart 2 – Australia experienced a similar combination of rising household cashflow and falling spending pushing the savings rate to record levels.



Source - Goldman Sachs Global Investment Research, ABS, Haver Analytics

These savings had to go somewhere. In an ultra-low interest rate world, it is only natural that shares attracted some of these funds.

### Factors Driving the Cyclical Rebound and Trends Supporting Commodities

In our October Market Commentary, we highlighted a rebound in Leading Indicators were pointing to a stronger economic recovery than initially expected. As the quarter evolved, the data increasingly supported the case for a strong recovery in late 2020 and into 2021. Overall economic activity has held up better than expected. This likely reflects greater flexibility within services based, digitised economies. The rebound has been supported by early approval and release of several vaccines across the globe.

Based on this we have been increasing exposure to cyclical stocks on a selective basis. What we did not anticipate was the strength of the rebound. With cyclical stocks such as REA returning more than 34% over the quarter, BHP returned 20%, Fortescue 43%, James Hardie and Aristocrat more than 13% (despite a 10% increase in the \$A). More stunning was the very strong rally in Bank stocks, admittedly after a long period of underperformance. ANZ increased 34% for the quarter, CBA 29% and Westpac up 17%.

One of the early beneficiaries of the Cyclical upturn has been commodities. The combination of strengthening demand against a backdrop of low levels of investment

in exploration and new capacity is likely to remain supportive of prices.

### Political Fog Clears in the USA, Thickens in China

Resolution finally as the US elections has been settled with a clean sweep to the Democrats. This is now the first time since 2010, that one party has controlled the White House, Senate and Congress. Markets have responded positively to this outcome, reflecting increased stimulus in the short term, supporting the already strong recovery during 2021. The longer-term negative of rising taxes, increased regulation may well be partly offset by increased spending finally on infrastructure and renewable energy.

In contrast, political risks have ramped up in China. While enjoying a mild impact from COVID-19 and a strong economic recovery, there appears to have been a change in the political landscape. Events such as the crackdown on Hong Kong, stopping the Ant Financial IPO and a multitude of trade spats with several countries including Australia are concerning. From an investment perspective none of the companies we are holding have been directly impacted to date.

## Australian Outlook Favourable but a Strong Dollar is a Headwind

From the depths of the recession experienced in the March and June quarters of 2020, the Australian economy returned to growth in the September quarter. Since then, it appears that momentum has continued to build. Consumption spending has been very strong as travel budgets have been re-allocated to domestic consumption.

There has been a strong recovery in housing approvals, setting the stage for an increase in construction activity through 2021. Infrastructure spending remains at historic highs, with a large backlog of work to be done. Commodity prices have been strong, especially iron ore. The rural sector has seen the drought and bushfires of a year ago turn into a bountiful grain harvest, and recovery in pastoral land with La-Nina delivering high rainfall.

Australian employment rose 29,000 in February, with the unemployment rate falling to 6.4%. The outcome supports the view that Australia's labour market can recover rapidly as economic activity normalizes. Australian consumer sentiment rose +4.1% to 112pts in December, reaching its highest level since 2010. The increase was supported by positive news around vaccine development, as well as Australia's stronger-than-expected 3Q2020 GDP

As the COVID-19 vaccine is rolled out during 2021 some of the laggard sectors such as tourism and education should begin to see some recovery. In summary, Australia is entering 2021 in good economic health.



Major risks include the possibility of a stronger \$A, and a further deterioration in relations with major trading

partner China. Having touched a low of \$0.57 in March 2020, the \$A recently traded above \$0.78, up 37% and up over 10% in the December quarter. Such a rebound in the \$A is unhelpful for companies with significant overseas earnings.

## Investment Outlook

As we enter 2021 the outlook for equities appears favourable. Interest rates are anchored at near zero or lower in most of the developed world. Resolution of the US election provides the first opportunity in a decade for an administration to get things done, although acknowledge a very polarised country. The financial system is full of liquidity. Consumer savings rates are at record highs, suggesting significant pent-up demand. 2021 forecasts see global growth of more than 5% in 2020, paving the way for strong growth in corporate earnings.

While we expect a solid start to 2021, how the year evolves will be highly dependent on some of the factors such as longer-term interest rates, inflation and trends in liquidity being provided by Central Banks and Governments. The three most obvious risks in our view are rising interest rates, rising inflation, and reducing levels of liquidity being provided by Central Banks and Governments.

Globally most Central Banks have committed to holding short/medium term interest rates at close to zero for the next 1-2 years. The RBA again re affirmed that they do not expect to be increasing the cash rate for at least three years.

Low and stable inflation have been supportive of financial markets over the long term. Trends towards De-Globalisation, rising cost of capital, higher commodity prices and potentially higher wage costs could reverse some of these historically favourable trends.

## Portfolio Strategy

At a high level, equities generally are not cheap, but represent much better value than other asset classes particularly cash and term deposits. Equities are at the beginning of a strong economic recovery and earnings forecasts are in upward revision mode. There are pockets of markets that appear overvalued.





Some research by Citi Group shows that most major markets are currently trading above 15-year averages based on Price to Earnings Ratios, though interest rates and inflation are also near 15-year lows.

Current valuations are also being distorted by a strong recovery in corporate earnings. Over CY21, Citi are forecasting 19.8% earnings growth and a PE of 19.1. The point is that while the overall PE number may appear historically high, earnings growth, interest rates and inflation are supportive of this.

Shares remain vulnerable to further short-term volatility given uncertainties around coronavirus, economic recovery, and China tensions. But on a medium-term view shares are expected to see reasonable total returns helped by a pickup in economic activity and stimulus.

We retain our portfolio strategy based around holding companies that have reasonable earnings predictability, sustainable cashflows, strong balance sheets and management capable of generating consistent returns on capital. Our focus is on sectors with attractive, sustainable growth prospects including healthcare (CSL, Ramsay, and Resmed), retail (Coles, Woolworths, and Wesfarmers), infrastructure (Transurban, Sydney Airport) and resources (BHP, Northern Star, and Fortescue).

*“Current valuations are also being distorted by a strong recovery in corporate earnings.”*

# DEVELOPMENTS IN PERSONAL INSURANCE

*David Campbell, Blueleaf Consulting*

## The personal insurance industry has undergone significant changes over the past few years.

With concerns over the industry's ability to sustain itself after experiencing significant losses, in early 2020 APRA introduced a sustainability measure which mandated that Insurers can no longer offer 'Agreed Value' (AV) income protection policies. An AV policy provides a guaranteed benefit at the time of claim. For those policyholders whose income fluctuated, such as the self-employed, an AV policy could prove beneficial. The alternative, and now the only option available, is an Indemnity policy, which requires that the policyholder have their income assessed at the time of claim, and the benefit paid out is based on this amount. This can prove to be an issue for someone whose income changes year-to-year.

## So what is the take out from this?

If you have an AV policy in force, we strongly suggest you do not cancel or change it without first discussing the consequences of doing so with your Adviser. Given the increasing cost of premiums (I'm getting to this next) it is understandable to consider cancelling or reducing cover. Depending on your circumstances, particularly income stability from year to year, an AV policy can be like gold and is irreplaceable once cancelled so get advice before acting.

Another significant change in the industry is the rapid increase in premiums rates across all forms of insurance. The rates of increase vary depending on the

insurer and type of insurance – generally, the largest increases we have seen have been on Critical Illness and Income Protection policies. In fact, one insurer has increased their level, Agreed Value premiums (to age 65) by 72.5%! This is an extreme increase but gives you an idea of how much the established insurers are hurting.

A key reason for this increase is the Insurers attempt to recoup their losses from adverse claims experience. A flow on effect of these increasing premiums is naturally an increase in lapse rates – where people just do not pay their due premiums and let their policies lapse. A real shame after paying premiums for potentially many years prior.

It sounds a bit doom and gloom but the difficult environment for the established players has created an opportunity for new entrants who do not have the legacy claims experience.

We are finding that new entrants into the market are providing competitive premiums and terms. Changing insurers will not be an option for everyone, as it does require going through the underwriting process, but it is worth asking for advice on your options if you have experienced a significant increase in premiums.

The catch cry for 2020 was the ability to be agile and 'pivot' to adapt to a changing world and this is what we are seeing in the world of personal insurance. Fortunately, there are some options to pivot to.

The information and any advice in this article does not take into account your personal objectives, financial situation or needs and so you should consider its appropriateness having regard to these factors before acting on it. When considering whether to acquire a financial product, before making any decision, you should obtain the relevant product disclosure statement.



# WANT A HOME LOAN?

## Be a model spender for three months before you apply

It's important to understand the game has changed when it comes to borrowing.

It's changed for everyone from first home buyers to investors refinancing fixed interest loans or home owners swapping banks for lower rates.

It used to be an easy process to move from principal and interest to interest-only or vice versa, or to change from a fixed rate to a variable rate loan. However, the regulator now expects banks and other lending institutions to undertake a serviceability assessment whenever there are material changes to the current or originally approved loan conditions.

While these serviceability assessments were brought in months ago, mortgage brokers are only now understanding the impact the changes are having on clients. For anyone looking to change their lending or enter a new borrowing arrangement, it's important to understand what you need to do today to ensure you're in the best position to obtain or change your arrangements.

One example is living expenses. Last year it might have been perfectly adequate to estimate income and expenses, for the purposes of assessing an applicant's capacity to repay. The higher of the household expenditure method (HEM) or customer-declared living expenses was accepted in serviceability assessment. Sho

There are now 12 categories of living expenses that borrowers must provide a detailed response on.

A rough estimate of living expenses is not acceptable.

Lenders are expected to be extra vigilant when it comes to verifying borrower's living expenses. Expenses declared are being verified with a mandatory three months of the lender's most recent bank transaction account and credit card statements.

If there were items in the statements that did not support declared living expenses, borrowers would be questioned and would need to provide justification.

An example was one of our earns about \$90,000 a year. She is single, has no dependents and lives in a three-bedroom apartment in Sydney's eastern suburbs. The clients declared living expenses are not marginal but the bank had been relentless in validating her living expense declaration.





After providing three months' worth of bank and credit card statements, the bank came back querying several items. One was a \$467 per month payment to a course provider. The transaction was a final payment of an evening course that was completed in May 2018. We had to obtain confirmation the course was paid in full, even though the cost did not appear on bank statements in later months. The client also declared clothing expenses of \$200 per month, yet because a \$500 debit from David Jones appeared on her credit card, she had to provide sufficient justification to prove that it was a one-off transaction. Parking and fitness taken out of her pay pre-tax meant the clients employer was asked to confirm these were discretionary expenses that could be stopped if required.

*"If you know banks will be looking at three months' worth of transactions, then start looking at your spending now".*



Historically this loan would have been approved within 48 hours but it took 10 days to get it approved.

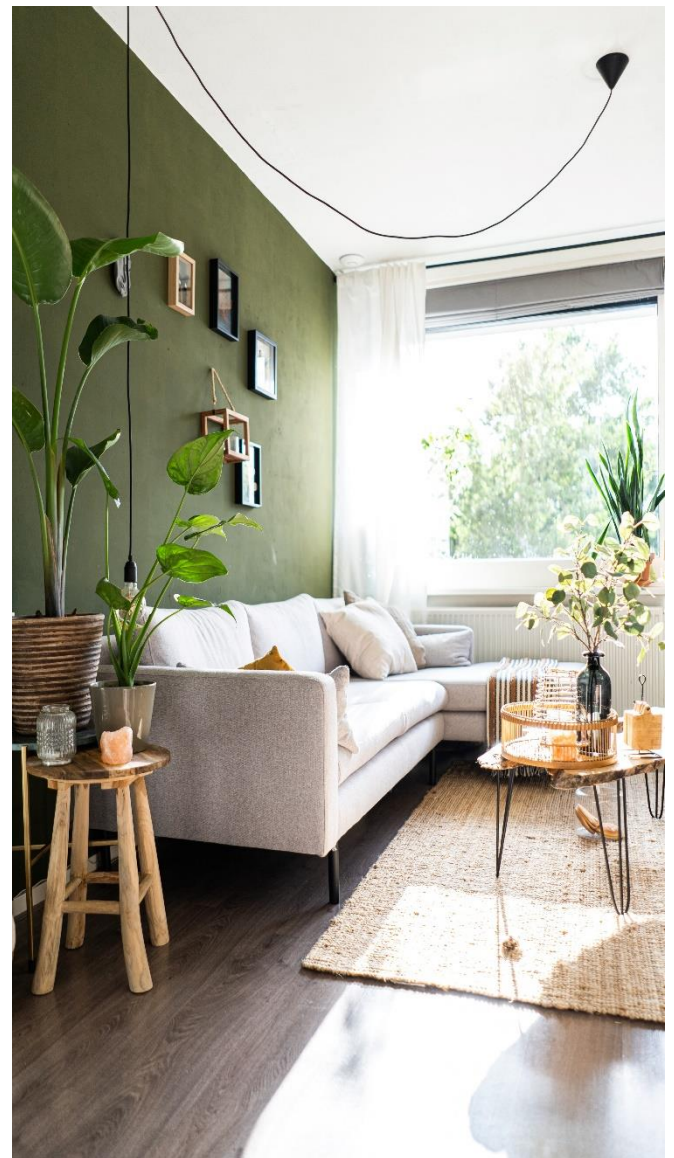
Delays like this can be countered if borrowers understand the regulations and how they're going to affect them when it comes to applying or refinancing.

If you know banks will be looking at three months' worth of transactions, then start looking at your spending and make conscious choices about whether your purchases will affect your ability to secure a loan. If they will, then consider either deferring your spending or choosing to go without. It will make it so much easier to apply for the loan, knowing you have a spending history that the banks will be happy with rather than having to justify individual purchases that don't match up with what you're declaring as your spending pattern.

Besides, if it forces you to evaluate your spending and become a more mindful and conscious spender then surely that's a benefit.

If you're even considering a rate change, a loan swap, comparing banks, buying an investment property or purchasing your own home it's important to understand we're in new era of responsible lending.

More than ever, it means working with us, perhaps months beforehand, to understand the changes and to ensure that not only your income and assets, but your spending, aligns with the criteria required for you to obtain funding.



# ATO WARNING: WATCH OUT FOR TAX AVOIDANCE SCHEMES

## *Tax planning or tax avoidance – do you know the difference?*

Tax planning is a legitimate and legal way of arranging your financial affairs to keep your tax to a minimum, provided you make the arrangements within the intent of the law. Any tax minimisation schemes that are outside the spirit of the law are referred to as tax avoidance, and could attract the ATO's attention.

The Tax Office has outlined some common features of tax avoidance schemes, and we can help you to steer clear of them. While it's not always easy to identify these schemes, the old adage of

*“if it seems too good to be true, it probably is”*

is a good rule of thumb.

Tax avoidance schemes range from mass-marketed arrangements advertised to the public, to individualised arrangements offered directly to experienced investors. Other schemes exploit the social/environmental conscience of people or their generosity. As different as these schemes are, the common threads involve promises of reducing taxable income, increasing deductions, increasing rebates or entire avoidance of tax and other obligations.

Schemes may include complex transactions or distort the way funds are used in order to avoid tax or other obligations. They may also incorrectly classify revenue as capital, exploit concessional tax rates, or inappropriately move funds through several entities including trusts to avoid or minimise payable tax.

Currently, the ATO has its eyes on retirement planning schemes, private company profit extraction and certain problematic financial products.



*“ Any tax minimisation schemes that are outside the spirit of the law are referred to as tax avoidance.”*



# DIRECTORS RESPONSIBILITIES

DFK Australia New Zealand

## What is a Director?

The director of a company is responsible for managing the business affairs. If your company has a constitution, it will most likely set out the powers, functions and duties

of directors that apply to the company. A private company must have at least one director, who must ordinarily reside in Australia. A public company needs a minimum of three directors, with at least two of the directors residing in Australia.

As director, you should ensure that you are actively involving yourself in meetings, inquiring into ongoing or proposed actions, their effect on the company and seeking both internal and external advice concerning various aspects of the company. You should also endeavour to conduct yourself in a responsible, dutiful and honest manner, which is in the best interest of the company.

## What are Director's responsibilities?

The *Corporations Act 2001* details the legal obligations of a director conducting business in Australia.

You must ensure that in your capacity as a director, you do not have material personal interests in the decisions of the company. You should assess the future impacts of decisions made within the company and you stay actively informed about its financial position and performance. If a director acts in any way that is deemed to contravene their duties under the Corporations Act 2001, civil or criminal penalties may be imposed upon them and/or the company itself.

## What is an annual review?

The annual review of your company takes place each year on the anniversary of the company's registration.

Once the annual review date has passed, the Australian Securities and Investments Commission (ASIC) will issue an annual company statement and invoice. The annual company statement will contain all company details. The purpose of the annual review is to ensure

details of a company are current and that the company pays its annual fee to ASIC, as well as ensuring the company makes a solvency resolution that they are in a position to pay their debts when they fall due.

As a director, it is important to note that a solvency resolution must be passed within two months of your annual review date.

## ASIC form 484

A Form 484 is lodged with ASIC when a company's details require updating. These changes can include addresses, the appointment or cessation of company officeholders, a change to the share structure, the transferring of shares and also changes to the ultimate holding company.

When changes to company details occur, the company has a maximum of 28 days from the date of change to notify ASIC. Failure to comply with this timeframe will result in monetary penalties consisting of different amounts, depending on when the change is lodged.

## Registered agents

A registered agent has the ability to make lodgements to ASIC on behalf of companies. A Form 362 must be lodged with ASIC to notify them that the company has appointed a registered agent. We can act as a registered agent and therefore an intermediary between your company and ASIC.





# HOW MUCH WILL THE BANK LEND YOU?

DFK Australia New Zealand

## Calculating your Loan to Value Ratio (LVR)

Over the last few years, regulations in the banking industry have been constantly changing.

After the tightening of rules following the Royal Commission, we are now grateful to see the winding back of Responsible Lending laws. Meantime – Best Interest Duty legislation comes into effect Jan 1, 2021.

With all the changes in the market – everyone wants to know:

- What do the banks want?
- How much will the bank lend me?
- How can I make my application more appealing?

When it comes to your loan and its chance of approval – your **Loan to Value Ratio** is a huge factor.

Loan to value Ratio (LVR) and Lenders Mortgage Insurance (LMI)

LVR and LMI – two acronyms that go hand in hand when you're taking out a loan.

Let's start with LVR. LVR is calculated by comparing how much is being borrowed against the total value of the property. So, in simplistic terms, if the property is worth \$500,000 and you have a \$400,000 balance then the LVR is 80% ie \$400K divided by \$500K. (And, your equity in the property is 20% ie \$100K divided by \$500K.)

The bank will obtain a valuation for the property to determine its value. It is important to note that when seeking finance to buy a property, the bank will then compare the valuation to the contract price and use whichever is the LOWER amount as the value.

It is also important to note that the property value is then increased by ALL costs including stamp duty, legals etc AND LMI. So, for example, if you want to buy a \$500K

If your equity is less than 20% of the lender-assessed value, it means you have a Loan to Value Ratio of more than 80%.

This is where **Lenders Mortgage Insurance (LMI)** comes in. LMI is insurance that you have to pay for – but it only protects the bank if you default on your loan.

Different lenders have their own rules about when LMI is required – but it is generally needed when you have a Loan to Value Ratio of greater than 80%.

The actual cost of LMI can be difficult to estimate because it is a risk-based charge. So, the more you borrow – and the higher the LVR – the higher the risk – the higher the cost of the LMI.

As an example – For a \$475K property loan at 95% LVR inclusive of LMI the LMI could be around \$15k. A 95% loan at \$660k could result in LMI of about \$30k. LMI is always capitalised into a loan amount.

Loan to value Ratio (LVR) based on loan type

Want to know how much the bank will lend you? You need to work out what LVR there is.

*The LVR accepted by financial institutions depends on the type of security and purpose of property, is it owner occupied or Investment.*



## Residential Property Loans

For a **residential loan**, the allowable LVR is higher than for commercial & rural properties. Keeping the LVR below 80% to avoid the cost of LMI is always a preferred option. But in some cases, the banks will allow up to 98% LVR. (Inclusive of LMI.)

With the increasing popularity of Tiny Homes, it's important to note a property loan usually requires the house to be fixed to the ground.

Getting loans on transportable homes is more difficult and generally means that the LVR cannot exceed 80% AND the property usually has to be fixed to the ground before a lender will fund any of the loan requested.

## Rural Property Loans

If you are looking at buying or refinancing a **rural property**, the LVR can range widely, depending on the circumstance – and the size of the property.

Properties up to 2.5 acres are generally treated as “rural residential”, so the LVR could be up to 90 – 95%.

Properties of up to 25 acres are usually classed “rural lifestyle” which means the LVR can usually go to 90%.

Rural blocks between 25 and 100 acres can occasionally be classed as “lifestyle blocks”.

When we head into the ‘above 25 acres’ territory, we see the field narrow quite a bit, with only a handful of lenders interested in providing finance and they can limit the LVR to 65 – 80%.

For these size blocks, you would need to provide details of how the property will be used and maintained. You would also need to detail why it is a ‘lifestyle’ property.’ This means there can be no mention of income producing activities – or it gets classified as “commercial”. Zoning of the property is also important here.

It is the lender's discretion as to whether they will provide finance for these types of blocks. Their decision will be largely based on valuation – and how the Valuer has risk scored the property.

Hot tip: the time the properties in the area have spent on the market is a great indicator of risk. Properties that have longer than 6 months score very poorly and tend to be rejected by lenders. (That is, unless the LVR is very low.)

Properties above 100 acres and ones used for commercial purposes eg primary production usually require a 50-65% LVR. However, the lender's appetite to do the deal depends greatly on the particular property:

- Where it is
- What it does
- What your tax returns are like e.g. other income sources. Are they up to date? Is there any tax debt?

## Commercial Property Loans

The world of commercial lending is different, yet again.

In the main, any commercial lending starts at around 65% of the purchase + costs. Some lenders will go to 80% – usually only if there is either an owner occupied home or investment home used as security against the commercial property loan (with enough equity in it to cover that difference between 65 and 80% as well as that property's own borrowing remaining below 80%.)

As a general rule, commercial lending requires a repayment term of 15 years. However, some of the bigger lenders have recently moved some of their terms to 30 years.

This greatly depends on the type of commercial property. So we're looking at what it is used for and what it could be used for.

## The Right Loan for You

As you can see, the **Loan to Value ratio guidelines** change between each loan type which is why it is important to get the right advice, so you can apply for a loan that suits you.



# LOCAL KNOWLEDGE NATIONAL CONNECTIONS GLOBAL REACH



For further information or enquiries about any of the latest business and taxation topics discussed in this newsletter, please contact the Directors and team at DFK Nugents

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