INSIDE

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FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

CORONAVIRUS IMPLICATIONS FOR AUSTRALIAN BUSINESS AND INSURANCE

Nine news reported that we have just endured the deadliest day of the crisis yet, news.com.au quoted an expert who said that it could be “impossible to contain”, and there are currently 14 confirmed cases in Australia while the second Qantas repatriation flight returned from besieged Wuhan over the weekend. It looks as if the outbreak of coronavirus, now global health emergency, is set to run for some time – so how will businesses, and their associated insurance, in Australia be affected by the spread of the virus?

A recently whitepaper by Crawford , the world’s largest independent claims management company, attempted to answer that. As noted in the paper, the main theme of its analysis is clear – “businesses affected by 2019-nCOV (coronavirus) are facing potentially significant costs and financial losses”.

Graham Peters, executive general adjuster at Crawford, explained to Insurance Business that the coronavirus emergency “will have a huge knock – on effect.” With a ban on Chinese nationals entering Australia, and lines of trade and movement of people severely disrupted, business from Melbourne to Darwin will be feeling the pinch. Peters gave one notable example of this fall of dominos, as he referred to the excess catchments of crayfish which are unable to be delivered to China.

“With fisherman suddenly unable to export crayfish, thousands go put back into the sea, “ he said. “What must the crayfish be thinking? What has happened – did we have an unexpected holiday?

This anecdote encapsulated the knock – on effect coronavirus has had on Australian business – but where does insurance come into equation? And what problems will the virus cause for the industry?

Crawford’s whitepaper explained that the remote nature of the virus, even with its local impact, will not only cause business losses but it will also be difficult to insure those losses. In Crawford’s experience, successful claims under business interruption coverage for infection are not common. Coverage for losses due to infection and its consequences very rarely incorporates anything far removed from incidents within, or in close proximity to, the global head of Crawford Forensic Accounting Services, agreed.

“General excess can sometimes cover other locations, “he said. “But generally speaking, for infectious disease cover, that infection has to occur on the premises itself to apply.”

It is for this reason, referred to by Miller as “a gap in the cover,” that businesses could sustain significant losses for events and implications far removed from their own office. This is set out in the whitepaper and will not make for comforting reading for businesses.

“Property insurance typically needs a trigger of physical loss or damage caused by peril, “the paper reads. And contingent extensions such as denial of access or loss of attraction as a prerequisite for coverage.

Source: Insurance Business Australia

Superannuation tax offsets you may be able to use

Tax offsets (sometimes referred to as rebates) directly reduce the amount of tax payable on your taxable income. In general, offsets can reduce your tax payable to zero, but on their own they can't get you a refund.

There are two superannuation – related tax offsets for which you may be eligible. The Australian super income stream tax offset for super contributions made on behalf of your spouse.

Australian super income stream tax offset

If you receive income from an Australian super income stream, you may be eligible for tax offset equal to:

- 15% of the taxed element
- 10% of the untaxed element.

The tax offset amount available to you on your taxed element will be shown on your payment summary (or income statement). However there is now a limit on the amount of tax offset you're entitled to on your untaxed element. This is generally limited to $10,000 and will not be shown on your payment summary.

You may be entitled to a tax offset on your untaxed element, and we can help you work this out by accessing the ATO's defined benefit income cap calculation tool.

You're not entitled to a tax offset for the taxed element by any super income stream you receive before you reach your preservation age, unless the super income stream is either a:

- disability super benefit
- death benefit income stream.

You're not entitled to a tax offset for the untaxed element of any super income stream you receive you receive before you turn 60 years old,

Unless:

- the super income stream is a death benefit income stream
- the deceased died after they turned 60 years old.

Tax offset for super contributions on behalf of your spouse

If you make contributions to a complying super fund or a retirement savings account (RSA) on behalf of your spouse (married or de facto) who is earning a low income or not working, you may be able to claim a tax offset.

You can claim the maximum tax offset of $540 if:

- you contribute to the eligible super fund of your spouse, whether married or de-facto. And
- your spouse's income is $37,000 and completely phases out when your spouse's income reaches $40,000.

Superannuation tax offset you may be able to use

You will be entitled to a tax offset of up to $540 per year if you meet all the following conditions:

- For income years prior to 2017-18, the sum of your spouse's assessable income, total reportable fringe benefit amounts and reportable employer super contributions was less than $13,800.
- For 2017-18 the sum of your spouse's assessable income, total reportable fringe benefit amounts and reportable employer super contributions was less than $40,000 and the contributions were not deductible to you.
- For 2018-19 and later income years, the sum of your spouse's assessable income (disregarding your spouse's First Home Super Saver scheme released amount for the income year), total reportable fringe benefit amounts and reportable employer superannuation contributions was less than $40,000 and the contributions were not deductible to you.
- The contributions were made to a super fund that was a complying super fund for the income year in which you made the contribution.
- Both you and your spouse were Australian residents when the contributions were made.
- When making the contributions you and your spouse were not living separately and apart on a permanent basis.

Source: Butler Settineri

Succession planning for family businesses

For most family businesses as well as private groups, succession planning (sometimes known as transition planning) involves considerations around the eventual sale of your business, or the passing of control of it to other family members when you retire. Depending on your circumstances, this may include realising assets and making other changes to ownership, but is certainly tied up with retirement planning and estate planning.

Adopting a sound tax governance framework can help you manage tax issues around succession planning before they present a problem. Though succession planning may not have an immediate tax impact, it's important to include tax considerations in your plan. This will avoid unexpected tax issues arising down the track when you implement your plan.

Transferring control of your business to family members may involve restructuring your business operations – changes to share structure, changes to the trustee and appointor of a trust, changes to partnership structures – or transferring assets to family members via the creation of trusts or other entitles. Remember that these types of events can have legal and tax implications that need to be carefully considered. A common assumption with business owners is that the transaction being considered is a single "sale" – that of the business – where as it is actually many sales of individual assets that need to be accounted for, possibly with different tax outcomes.

For example, when you dispose or transfer your business assets there will likely be capital gains tax (CGT) consequences. The sale of the business can also trigger liabilities in relation to GST and, where applicable - wine equalisation tax, fuel tax credits and excise duty.

Where pre – CGT assets are involved, you should also understand and document the tax consequences for you and your beneficiaries. Issues for consideration include whether changes in the business operations may affect the pre – CGT status of the assets or shares and the availability of carried – forward losses.

Any significant changes to your business structures or operations (including any asset disposals) should be fully documented, along with their tax impact. Ensure information on your assets (such as acquisition dates and cost base) is properly documented. This will also ensure that any subsequent disposals of the assets can be treated correctly for tax purposes. Different strategies will have different tax consequences for the owner and beneficiaries. Consider each strategy and identity (and keep records of) significant transactions.

Let's say, as the owner of a successful family business, you prepared a basic succession plan many years ago, but since then your business has expanded and your children have grown up. One of them may work with you in the business and you would like to see them take over when our retire. The decision you might have with your adviser would be how best to transfer the business and make the transition into retirement.

Whatever strategies you use to transfer your business onto the next generation, make sure your plans are documented and you seek advice for professional advisers where needed. This will reduce the risk of incorrect tax treatment and outcomes, and possibly consequent penalties..
Source : Butler Settineri

We are always available to discuss any questions or concerns you may have.

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