INSIDE

OCTOBER 2020

FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

- COVID-19 Payments and some issue's for Companies and Trusts
- Fit for Life: It's more than money
- Improve Financial resilience during COVID-19

COVID-19 Payments and Some Issue's for Companies and Trusts

With many having received cash flow boosts and JobKeeper payments, there can arise some unique issues where these amounts are received within a trust or company.

The cash flow boost and JobKeeper payments have been flowing to eligible businesses for some time now. These stimulus payments have differing tax treatments, which are:

- the cash flow boost is paid as a credit and is non-assessable non-exempt income, and also free from GST (because it does not represent consideration for a supply)
- the JobKeeper payment is paid directly into a recipient's nominated bank account on completion of monthly reporting obligations. JobKeeper is assessable income, not subject to GST, and not included in activity statements.

Trust Distributions

What constitutes trust income is determined by the trust deed or by the trustee where permitted under the trust deed.

It is a common misconception that the trust income available for distribution is equal to the taxable income of the trust. However, this will only be the case where the trust deed defines trust income to equal taxable income, or the trustee, where discretion permits, determines that to be the case.

Cash Flow Boost

When considering payments received under the cash flow boost, if the trust deed or the trustee determine that non-assessable non-exempt income does not form part of trust income, the cash flow boost will not be distributable.

However, where such overt restrictions are not present, or where the trust deed or the trustee determine that non-assessable non-exempt income can be distributed, the cash flow boost may be available for distribution to the beneficiaries.

JobKeeper

JobKeeper payments will form part of the taxable income of the trust and would be expected to also be trust income as may be defined by the trust deed or the trustee.

Where JobKeeper is received for eligible employees, the amount paid to the employees, and therefore the associated expense/deduction must be equal to or more than the amount of JobKeeper payment. Therefore, no net trust or taxable income would arise.

However, JobKeeper amounts received for eligible business participants do not need to be paid to the eligible business participant, as the wage condition does not apply. Therefore, the amounts could be retained within the trust and form part of the trust income distributed at year end.

Franking Credits

As the cash flow boost amounts are non-assessable non-exempt income, no tax arises on these amounts and it follows that no franking credits will be generated by these amounts. Whether the boost amounts can be paid out as a franked dividend by the recipient company will depend on the balance in the franking account of the company involved and the amount of its accumulated profits.

Company Beneficiaries

A key plank of the JobKeeper payment is that a minimum of $1,500 per fortnight amount must be paid to employees (which is then reimbursed to the employer at month-end).

However, where the recipient of an amount is an eligible business participant, there is no requirement for the amount to be paid to that individual. Instead, it can be retained in the company or trust as the case may be. Where a trust does retain the amount, it will then form part of the trust law income to be distributed by the trust to any beneficiary at year-end.

Where a trust receives JobKeeper payments and distributes these amounts to a company beneficiary, this can have consequences as to whether that beneficiary then qualifies as a base rate entity for the purposes of qualifying for the lower company tax rate. To recap, to qualify as a base rate entity, a company must not only have an aggregated turnover of less than $50 million, but no more than 80% of its assessable income can be base rate entity passive income. This income consists of the following:

a) corporate distributions and franking credits on these distributions
b) royalties and rent
c) interest income (through some exceptions apply)
d) gains on qualifying shares
e) net capital gains, and
f) an amount included in the assessable income of a partner in a partnership or beneficiary of a trust, to the extent that it is traceable (directly or indirectly) to an amount that is base rate entity income under categories (a) to (e).

Trust distributions received by corporate beneficiary need to be dissected into their base rate entity component, and their non-base rate entity component. In this case of cash flow boost, it would not count as assessable income in any case and therefore would be disregarded for the purpose of the 80% test. On the other hand, JobKeeper is assessable income, but not passive income for the purposes of the 80% test.

Therefore, the JobKeeper component of trust distributions to a company will improve the chances of the company meeting the 80% test (because it will be assessable income, and not base rate entity passive income). It will therefore qualify the company as a base rate entity for the purposes of accessing the lower 27.5% corporate tax rate (decreasing to 26% from 2020-21).

Source: Butler Settineri

FIT FOR LIFE: It's More Than Money

All of us have been affected by the COVID-19 pandemic. Perhaps due to the loss of a job or even the loss of loved ones. Certainly because of the loss of our former lives. Nothing seems stable.

Even the most fortunate may have had sleepless nights worrying about "what if?". We've watched the graphs, seen the plight of those who in some way through illness, employment, housing, etc; have fallen victim to the virus. There is plenty of heartache to go around.

That is where resilience plays a vital part.

Resilience is not about ignoring problems, but about remembering that something can be done, even if that something is only getting through the worst times. It's about finding strength. It's about discovering hope.

Adapting, working through difficulties, and developing new managing strategies are all part of resilience.

Mindfulness

It's easy for the mind to become hooked into obsessive thinking in times of crisis. It becomes harder to see possibilities and more difficult to connect with others. The daily realities of the pandemic can play into some of our worst fears and increase the sense of isolation.

These mental responses to crises are very natural. But may cause more distress and block solutions. So how do you move past them?

Firstly, a lot of evidence suggests mental resilience can be built through mindfulness. A number of meditation apps can help you clear your mind of stress and visualise more positive outcomes.

Don't forget that the body is connected to the mind. Deep breathing helps calm the central nervous system. Daily exercise is a natural stress reliever. Get out for walks or try a streamed exercise class. Prioritise sleep, healthy eating and exercise.

Talk to Others

Work on building a support network of empathetic and compassionate people, including your family and friends, colleagues and people who share similar interests and passions. This is a time to find new ways of connecting. Think of the chalk written messages on footpaths and the teddy bears in windows.

Remember you're not the only one brought low by the virus and its effect on our daily lives. There's been a lot of change to deal with at once. The emotional impact is huge and unexpected.

Its ok to admit that we don't always feel in control of our lives.

Back on Track

The horizons of our daily lives and our ability to travel & interact freely have suddenly been limited. Anxiety and distress are normal responses to such extreme circumstances. But there are ways to move beyond those emotions and find strength.

Money

Money is a source of much stress, even in 'normal' times. The most valuable thing you can do in the face of COVID-19 is focus on control. Work out your finances. Work out the things you can and can't do without. You might be surprised. There's also value in reassessing not only expenses, but lifestyle choices. Are there new and better (and maybe cheaper) ways to find joy?

Source: MLC

Improve Financial Resilience During COVID-19

The COVID-19 outbreak has turned the world's economies on their head. Thinking about your finances can seem daunting when many people have lost jobs and stock markets have been volatile. But there are many steps and strategies that you can take to improve your financial well-being.

When things are going well, it's easy to just let things keep going as they have been, but in difficult times, such as the COVID-19 pandemic, many entrenched habits need to change. Now might be a good time to try and improve your financial resilience.

1. Control Your Finances

A budget is simply a spending plan that considers both current and future income and expenses. Having a budget can keep your spending in check and make sure you are saving for the future. It also gives you oversight of any major expenses coming, alleviating any stress when a big bill comes in. You don't need to think about your budgets as restrictive; it's not a money diet. It's a way for you to figure out your long-term goals and work towards them.

A lot of people have become used to spending money they don't have and often don't always realise they're overspending until they're drowning in debt. However, if you create and stick to a budget, you won't find yourself in this precarious position. You'll know exactly how much money you earn, how much you can afford to spend each month and how much you need to save. Building a budget helps you get perspective on your spending habits. You may notice spending habits on things you don't need, and don't even enjoy. Importantly, your budget should always include an emergency fund that consists of at least three to six month's worth of living expenses. The extra money will ensure you don't fall into excess debt in the event of a life crisis, or an economic/health crisis such as a pandemic. No one knows how long a pandemic or crisis will last, so it's important to have a contingency plan.

2. Insurance

The ongoing global health crisis has compelled us to reset our lives and drawn our attention to finances and savings. Regardless of your income, on one can predict what the future holds.

Now is a good time to look at your insurance in super arrangements and check they are fit-for-purpose. Consider the value of income protection insurance, which can replace some or all of your income if you're unable to work due to illness or injury.

Income protection won't protect you if you become unemployed though (that's what your emergency fund is for) but it can protect you in plenty of life's other adverse situations.

Life, total and permanent disability and trauma insurance also have a role to play to ensure you have a financial safety net.

3. Manage Your Debt

Owing money or falling behind on repayments can be stressful. The good news is there are steps you can take to relieve the financial pressure.

a) Know what you owe

Make a list of all your debts showing how much each debt is and what the monthly/weekly/minimum repayment is.

Include credit cards, loan repayments, unpaid bills, fines and any other money you owe. Then add up all the debts to see how much you owe in total. It may be confronting but remind yourself that you're taking charge of your money and that's a good thing.

b) Work out what you can afford to pay back

The next step is to work out how much you can afford to pay towards your debts.

Compare all the money you have coming in and all the money you have going out. The easiest way to do this is to do a budget (see above).

List all the money you have coming in each month (income), such as salary or investment income. Then list all the money going out (debts and expenses), for things like food, rent or mortgage, credit cards, electricity, phone, internet and transport cost. Once you have done this, you will be able to compare money in and money out

If your income has dropped due to COVID-19, you may be eligible for extra Government Financial Assistance.

c) Prioritise your debts

You should work out which debts are your priority debts and try to pay them first if you can. Priority debts include:

- rent or mortgage
- council rates and body corporate fees
- electricity, gas and water
- car repayments – if you need your car for work or essential travel

Paying off your priority bills first can help alleviate stress as these larger items are harder to avoid paying or deferring.

Source: MLC

Should you wish to discuss any aspect of the information contained in this document, please contact your Financial Planner

Phone: 1300 375 357

Email: admin@corefinancialservices.com.au

Perth: 45 Ventnor Avenue,
West Perth WA 6005

Melbourne: Level 23, Collins Street
Melbourne, VIC 3008

Sydney Level 24, Three International Towers
300 Barangaroo Avenue
Sydney NSW 2000

CORE FINANCIAL SERVICES