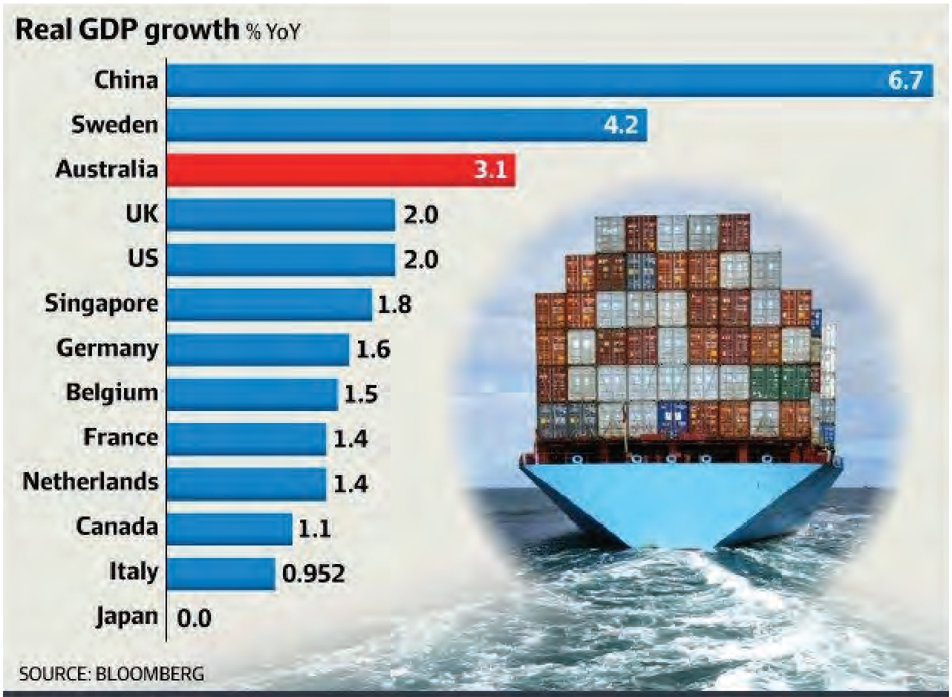
Newsletter 15 JULY 2016

It's hard to remember a time so consumed by politics, economics and markets.

A Federal Budget, followed by a Federal Election (they're still counting the votes, why does it take so long!), the rise and rise of Trump and of course the Brexit shock - It has been a time of uncertainty for business big and small, domestically and abroad. None-the-less amidst all the volatility Australia continues to swim strongly and given the headwinds, that's a performance to be proud of.

The Australian economy accelerated to its fastest pace in four years during the first quarter. Annual growth in GDP increased to 3.1% with exports and household consumption being the major contributors.

Australia now finds itself in a position of growth and low inflation, jobs growth has slowed (after a strong finish in 2015) but indicators are pointing to improvement later this year. As much as the media would have us believe that economic armageddon lies just one data release around the corner, the reality seems somewhat different.



Real GDP growth

WHAT'S INSIDE

At a local level

SA Insights (1st Quarter Data)

South Australia does best on population growth and equipment investment (both fourth when measured against the other States & Territories) but does not fair so well on the other economic indicators. This reflects the ongoing lack of confidence with the demise of car manufacturing and more lately Arium troubles. The defence contracts have helped to boost the mood of consumers and businesses and nominal retail in trend terms seems to be rising (up 0.3% as of May 2016). Source Commsec & Labour Economic Office (LEO) Reports.

Key categories	Level this quarter	Compared with decade average
Dwelling commencements	2,488	-7.5%
Unemployment	7.2%	25.0%
Population growth	0.73%	-26.0%
Economic growth	$25,643m	7.6%
Equipment investment	$657m	-5.0%
Housing finance	3,610	-1.8%
Retail spending	$4,661m	6.5%
Construction work	$2,447m	5.2%

NT Insights (1st Quarter Data)

The NT rank fourth (up from fifth) as Australia's best performing economy and remains in top spot for economic growth and construction work done. However, the territory economy is losing momentum and is now ranked last on population growth, business investment and housing finance. *Source Commsec.*

Key categories	Level this quarter	Compared with decade average
Dwelling commencements	432	10.0%
Unemployment	4.5%	11.4%
Population growth	0.34%	-80.4%
Economic growth	$6,741m	13.2%
Equipment investment	$126m	-36.4%
Housing finance	320	-19.3%
Retail spending	$754m	9.5%
Construction work	$2,091m	97.1%

2016/17 South Australian State Budget

Late last week The Hon. Tom Koutsantonis released the 2016/17 South Australian state budget. A budget aimed at "transforming South Australia into a modern, high technology and globally competitive economy - which will create more jobs for South Australians". As expected it is a fairly benign budget with the government still focused on the successful implementation of last year's many measures.

This year the new business initiatives focus on much needed job creation and, together with the extension to exisitng payroll tax rebates announced a few weeks ago and the stamp duty reductions announced last year, we hope the measures will deliver a much needed confidence boost to SA business.

Refer to page 5 for our key take-outs.

Food News

Country of Origin Labelling

Australia's new country of origin labelling ('CoOL') scheme has commenced as of 1 July 2016. The scheme has a two-year transition period to allow businesses to adapt to the new requirements, with full compliance required by 1 July 2018.

The new laws introduce the use of a kangaroo logo for products of Australian origin and a bar chart indicating the percentage amount of Australian ingredients in a product. Labelling requirements are lessened for products considered to be 'non-priority'. An online tool (visit bit.ly/2a6CCv7) has been developed to assist food producers in determining what label can be displayed on their product.

How to get new labels

Your business will have two years until the new labels are mandatory. You can start designing your own new labels now, or use the Country of Origin Labelling online tool to generate labels for you -

To design your own new labels, you'll need to:

- Use the 'Information Standard 2016' to determine the correct label for each food product, which can be found here: bit.ly/2au9vqc
- See how your label should look and be applied to your product using the 'Country of Origin Food Labelling Style Guide' which can be downloaded from bit.ly/297102B
- Download the relevant label parts from the Country of Origin Label Library, visit bit.ly/2avZXrB

For a copy of the above resources please contact Director Tim Sargent; tsargent@moorestephens.com.au or phone (08) 8224 3300.

For more information head to: bit.ly/297102B

Brexit – An opportunity for Australian food?

Brexit has a long way to run but from an Australian agricultural perspective there's cause for some optimism alongside the strong case for caution. There is no precedent from which to paint a path of expectation for Australia's commodities under a Brexit type scenario, however the situation could create a number of opportunities (note: The EU currently accounts for 62 per cent of UK exports and 70 per cent of UK imports of agri-food products).

In the following article, Innova Insights provides a look at the 'Brexit Impact On Food and Agriculture' (cont. overleaf).

Brexit Impact On Food And Agriculture – Innova Insights

24 June 2016 — The UK exit from the European Union will lead to immediate questions for the food industry in terms of tariffs, quotas and farmers' support. Any "divorce" from EU systems will take time, of course – even the most generous timescales say this will be over at least 2 years. However, the impact on investment, should this decision be confirmed and ratified, will be immediate.

The effect on the exchange rate (£ to $ as well as Euro) can already be seen. The pound has already dropped 8% since it became clear that a Brexit vote would occur, with the value at its lowest rate since 1985.

"Overall it is clear that since the UK food industry is a large exporter to Europe, a lower exchange rate will be beneficial short-term. However, this also means that dollar-denominated raw materials will be that much more expensive, as will imports – and the UK is one of the biggest import markets in Europe," notes Innova Market Insights London-based analyst Heather Johnston.

"Tariffs and quotas will not change immediately but any negotiation is highly unlikely to bring better terms than previously as a member of the EU, and of course if the UK wants to sell within the EU, CE standards and all the other food safety, quality and nomenclature rules will still apply," she adds.

"Farmers are well aware of their dependence on the Common Agricultural Policy (CAP) so the voting results in Scotland and Northern Ireland were undoubtedly influenced. Global pricing is bad news for dairy, and not very good news for anyone else. There are many places that can produce food more cheaply than the UK and it would take the erection of some very stiff trade barriers (and a big increase in food prices) to prevent imports doing to British agriculture what they did in the 1930's. There's a reason so many UK houses were built then – agricultural land had no value," she notes.

The impact of Brexit on the food industry is likely to be profound. According to the UK Food and Drink Federation, 71 percent of its members voted to stay. Overall most believed it is preferable to remain with the status quo, with a Brexit meaning they will have to agree to EU food regulations should they want to export to the EU, but will have no role to play themselves in how regulation is formed.

Ian Wright CBE, Director General at the trade body, the Food and Drink Federation (FDF) responded to the vote to leave by stating: "In March we released the results of a poll of our members which showed 70% support for Britain to remain in the EU. It's inevitable in the light of those results that the majority of FDF members will regard this as a disappointing result for the food and drink industry." "Now FDF will work on behalf of our members and all those across our industry to find a way through this very challenging period that we face. We'll focus on working with the Government to understand what this means for trading, market access and regulation to secure the best outcome for British food and drink manufacturing business and their customers."

In a detailed comment following the result, British Retail Consortium CEO, Helen Dickinson, said: "Keeping the cost of goods down for consumers and providing certainty for businesses must be at the heart of the Government's plans for life outside of the EU."

"Now that a decision has been made to leave, it is important that the Government moves quickly to explain the process of disengagement from the EU. Without clarity, retailers, other businesses and hence the economy will suffer from a prolonged period of uncertainty."

"We are already seeing the commencement of a period of considerable volatility as financial markets react to any emerging information that might indicate how the new relationship to the EU might be shaped. Retailers should be prepared for the possibility of significant swings, particularly in the exchange rate and consumer confidence."

"In order to keep prices down and to deliver the best possible choice for consumers, retailers' top priority in the short term will be to ensure the continued ease and minimum additional costs of importing EU goods into the UK for sale to customers. A prolonged fall in the value of the pound will impact import costs and ultimately consumer prices, but this will take time to feed through. In its exit negotiations the Government should aim to ensure that the trade benefits of the Single Market (i.e. the absence of customs duties) are replicated in the UK's new relationship with the EU."

"However, it is important for us all to remember that, even if the government serves notice to leave the EU tomorrow, the process of leaving the EU will take a couple of years, during which time the UK remains a member and EU rules over free movement will continue to apply. Retailers will continue to focus on serving and delivering for their customers day in, day out in a highly competitive market as they do today," Dickinson noted.

"In addition to goods traded with the EU, the Government will need to define the rules that will apply to goods traded with other countries. The BRC stands ready to advise them on this. In the slightly longer term, it's important for the Government to explain how it will handle legislation that was previously the responsibility of the EU. This is likely to be a time-consuming and resource intensive process affecting a wide range of stakeholders. We are sure the Government will put in place a clear and effective process for consulting interested parties as it reviews these regulations. The British public has opted to leave the EU and it is now up to the Government in conjunction with our EU neighbours to make the most of that decision," the statement concluded.

The business of food employs approximately 400,000 people in the UK and is Brits' largest manufacturing sector, according to The Guardian. Of those workers, around 38 percent are foreign-born immigrants, a key point being raised by supporters of the Brexit who would like to see much stricter immigration policies throughout their nation.

Since joining the EU, the common policies held for agriculture, trade, and movement of goods have been key to the UK's food system. The Common Agriculture Policy itself swallows up 40 percent of the total EU budget. In turn, the other nations of the European Union have been integral trade partners for Britain, and have been the UK's primary export market. Additionally, the British people depend on their fellow European states to provide a quarter of what they consume every year.

Because of these deep economic ties, many British leaders who oppose the Brexit fear the trade repercussions the food industry could face. Elizabeth Truss, the Secretary of State for environment, food, and rural affairs warns that a leave vote would be a risky "leap in the dark" that could endanger the livelihood and success of the nations' farmers and food distributors.

Last month Truss said that the food and farming industry could benefit from an extra €360 billion in EU funding to help SMEs and larger processors grow their businesses. She pointed out that between 2011 and 2015, dairy companies in the UK invested just €468m in their businesses, compared to €1.4bn in Germany and €785m in Ireland – highlighting the opportunities that additional funding could bring to the UK industry.

Environment Secretary Elizabeth Truss said: "Unlocking access to our share of €360 billion of European funding will help unleash the talent and ambition across our world-leading food and farming industry, from supporting punchy start-ups to developing the very latest technology in production methods."

"Last year our dairy exports hit £1.4 billion so we know there's a growing appetite for quality British dairy products. The funding will help innovative businesses produce more high-demand products such as yogurts and cheeses in the UK, creating more jobs, increasing productivity and making the sector more resilient."

But the vote has gone the other way and now the true impact will be heavily assessed. "The UK's role as a centre of production for international companies operating across the EU will end, unless specific trade agreements are negotiated, or very generous 'sweeteners' are given to the companies," says Johnston.

"There are some 'half-way house' options, notably the European Free Trade Agreement (EFTA). But all options require case by case negotiation. The economic blowback is likely to be strong, over the summer and a general election becoming a strong possibility in the short term. The point about ratification is that we have no tradition of rule by referendum in the UK, and Parliament could 'make haste slowly.' The next couple of weeks will be crucial," notes Johnston. "The worst-case scenario is the break-up of the United Kingdom – Scotland to remain in the EU, Northern Ireland to join Republic, also in the EU, and an England split irrevocably between London and the rest," she concludes.

Few fellow EU markets will be more impacted by the decision than the Republic of Ireland. According to Bord Bia (the Irish Food Board) the decision by the UK to exit the EU represents a significant challenge to Ireland's agri-food industry. Speaking this morning, Aidan Cotter, Chief Executive, Bord Bia pledged that Bord Bia would continue to support and work with industry to maintain and build on this vital trading relationship against the background of any new trading arrangements that will be negotiated.

"The UK is Ireland's largest customer for food and drink. Despite its continuing and expanding global reach, the UK has continued to represent a growth opportunity for the Irish food and drink industry, driven by a strong economy and an increasing population. The UK is a net importer of food and Ireland as an exporter is considered a perfect match. The immediate focus of food and drink exporters concerns the development in the sterling versus euro relationship and how to manage the increased volatility that has emerged following the vote. The resilience of the Irish food sector, the longstanding and strong trading relationship between Ireland and the UK, and the close ties between both countries will help the Irish food industry navigate through these uncertain times."

"Our London office is in close engagement with Ireland's leading customers across the UK and we will work closely with industry and with the Department of Agriculture, Food and the Marine as negotiations commence," concluded Cotter.

Finally, the fallout from the UK's exit from the EU will also be felt in the product development space. "Other EU markets are the leading destination for UK food products and uncertainty about potential tariffs returning could impact exports," notes Lu Ann Williams, Director of Innovation at Netherlands headquartered, Innova Market Insights. "But the UK has traditionally also been a leading beacon for new product innovation in the food industry, often driving trends in convenience and premiumization, through its highly developed on-the-go market," she adds. "With more isolationism occurring at the result of the Brexit and potentially reduced exports, it's possible that we will see less creativity spread through to the continent too."

By Robin Wyers
Chief Editor, Innova Market Insights

Key Take-Outs For Business

1. Job Creation Grant Scheme

Job creation grants will be made available for every new employee hired and maintained for two years by businesses with a total national payroll of $5 million or less.

- A Job Accelerator Grant of up to $10 000 ($5000 each year for two years) per new full-time equivalent (FTE) job created for businesses liable for payroll tax in SA with total Australian wages of $5 million or less.
- A Job Accelerator Grant for Small Business & Start-ups of up to $4000 ($2000 each year for two years) per new job created is available for most businesses that are not liable for payroll tax. This includes businesses with Australian wages below the payroll tax free threshold (currently $600 000) and most organisations that are exempt from payroll tax (e.g. public benevolent institution).

Businesses that increase their number of SA employees will be eligible to receive a grant for each additional worker employed by them in a new position between 1 July 2016 and 30 June 2018. The grant will be paid at the first and second anniversary date of employment.

Businesses must register a new employee within 90 days of the employee's commencement date.

The number of employees in a business will comprise:

- For the Job Accelerator Grant:
  The total number of full-time employees plus the total number of hours worked in the preceding pay week by all South Australian part-time and casual employees, divided by 35 (the full-time hours definition used by the Australian Bureau of Statistics); and
- For the Job Accelerator Grant for Small Business & Start-ups:
  The total number of full-time employees plus the number of South Australian part-time and casual employees that worked more than 22 hours in the past pay week.

2. Extension of the current Small Business Payroll Tax Rebate

The small business payroll tax rebate introduced in the 2013–14 Budget will be extended for a further four years to 2019–20 at a cost of around $10 million per annum and provide a benefit of up to $9800 each year to an estimated 2300 businesses. The scheme provides a payroll tax saving for employers with taxable payrolls less than or equal to $1.2 million.

Once the rebate payments have been made, eligible employers with a taxable Australian payroll of up to $1 million will have effectively paid payroll tax at a level equivalent to 2.45 percentage points lower than the statutory rate of 4.95%.

Rebate payments phase out for eligible employers with a taxable payroll of between $1 million and $1.2 million.

The rebate payment for eligible employers who have taxable wages below $1.2 million is determined in accordance with the difference in rates shown in the table below (Source Revenue SA). (Cont. overleaf).

Annual Taxable Payroll ($)	Statutory Tax Rate (%)	Rebate Rate (percentage points)
600 000 to 1 000 000	4.95	2.45
1 000 001 to 1 050 000	4.95	1.95
1 050 001 to 1 100 000	4.95	1.45
1 100 001 to 1 150 000	4.95	0.95
1 150 001 to 1 200 000	4.95	0.45
Above 1 200 000	4.95	-

Key Take-Outs For Business cont.

3. Gig City Campaign

$4.7 million over four years has been pledged to make Adelaide part of the global Gig City network. This will involve giving businesses access to SABRENet, a high-speed, optical fibre network currently used by the state government and universities (10 times faster than the NBN). The program will connect up existing innovation spaces to create an entire ultra-high speed broadband innovation network, building an environment for start-ups and existing businesses to compete on a global scale. The roll out of the Gig City network to Adelaide is expected to start at the end of the year.

4. Choose South Australia Campaign

The government will provide $2 million for a 12-month "Choose South Australia" campaign to be run by Brand South Australia. The campaign aims to raise the awareness of South Australian made goods and services enabling the public to identify and purchase products and services that support South Australian jobs. A grant was made to Brand SA in 2015–16 to undertake this program, which will be launched in 2016–17

5. Innovation

- The government will establish a $50 million South Australian Venture Capital Fund to partner with private sector financiers to support innovation and help build high growth companies in South Australia.
- The State Government has also set aside $10 million to assist early stage businesses progress to the job creation stage, as well as $7.5 million for UniSA's Future Industries Institute to foster innovation and collaboration.

6. Stamp Duty

- Stamp duty concessions for off-the-plan apartments extended and expanded outside Adelaide. Concessions of up to $15,500 were due to run out at the end of June but will instead be extended until the end of June 2017. They originally applied only to apartments in Adelaide's CBD and some inner suburbs but will now apply to any new apartments built anywhere in the state.
- Phased abolition of stamp duty on non-residential real property transfers introduced in last year's budget. Duty rates reduced by 1/3rd from 7 December 2015, reduced by a further 1/3rd from 1 July 2017, abolished from 1 July 2018.

If you are buying or selling property over $2 million - New rules now apply

From July 1 2016, all Australian residents, selling property with a market value over $2 million (GST exclusive) will need to get a clearance certificate from The Australian Taxation Office (ATO).

From 1 July 2016, a 10% withholding tax will apply when foreign residents sell certain types of Australian property. If you are selling Australian property, the new rules assume you are a non-resident unless you have a clearance certificate from the ATO. Without this clearance certificate, the purchaser must withhold 10% of the purchase price and pay this to the ATO.

While the intention of the legislation is to ensure that any foreign resident vendors comply with their obligation to pay Australian tax on the realisation of Australian assets, the practical effect is that all Australian resident vendors will need to comply with the prescribed regime prior to settlement in order to receive the full proceeds at the time of settlement.

What type of 'property' is affected by the new rules?

The new withholding rules apply to:

- Taxable Australian real property – such as residential property, commercial property, land etc., situated in Australia as well as certain mining, quarrying or prospecting rights;
- Indirect Australian real property interests (i.e., shares in a company or units in a trust where certain conditions are met). This is generally where most of the value of the company or trust relates to real property holdings in Australia; and
- Options or rights relating to the above.

What are the rules if there is more than one purchaser?

The market values of all of the interests to be acquired need to be aggregated to determine whether the $2 million threshold applies. For example, if two investors are buying a property as joint tenants with a total market value of $2 million, the rules could be triggered even though their individual interest in the property is only worth $1 million each.

How to obtain a clearance certificate

The vendor may apply for a clearance certificate at any time they are considering selling property. This can be before the property is listed for sale. The clearance certificate will be valid for 12 months and must be valid at the time the certificate is given to the purchaser prior to settlement.

The ATO is implementing an 'automated' process for issuing a clearance certificate. This would involve:

- The vendor (or their agent) completing an online 'Clearance certificate application for Australian residents' form;
- The information on the application being automatically checked against information held by the ATO to assess if the vendor should be treated as an Australian tax resident for the purposes of the transaction; and
- The automatic issuance of a clearance certificate which removes the need for the purchaser to withhold the 10% from the sale proceeds.

In straightforward cases where the ATO has all the required information, it is expected that clearance certificates will be provided within days of being submitted.

However, where there are data irregularities or exceptions, some manual processing may be required and the clearance certificates will be provided within 14 – 28 days. Higher risk and unusual cases may also require greater manual intervention which could take longer.

Where a vendor is not entitled to a clearance certificate, either the vendor or the purchaser can apply to the ATO for a variation to the amount required to be withheld, for example if the vendor will not have a capital gains tax liability as a result of the sale because the land is being sold at a loss.

Who does a purchaser pay?

Where an amount is required to be withheld, a purchaser will be required to pay the amount to the ATO at or before settlement.

To do so, the purchaser must complete an online "Purchaser Payment Notification" form which requires disclosure of the details of the vendor, purchaser and the asset which is the subject of the transaction. The purchaser can then pay the relevant amount to the ATO by electronic funds transfer or cheque (at a post office or sent directly to the ATO).

There are penalties for purchasers failing to pay the amount on time.

What you need to do

If you are selling property with a market value of $2 million or above:

- Australian residents - need to obtain a clearance certificate from the ATO, and provide it to the purchaser prior to settlement. Online forms are available at ato.gov.au/FRCGW.
- Foreign residents - may apply to the ATO for a variation to the 10% non-final withholding tax, and provide this notice to the purchaser prior to settlement. The amount remitted to the ATO will be allowed as a credit against tax assessed in that year's tax return.

If you are purchasing property with a market value of $2 million or above:

- You need to withhold 10% of the purchase price and pay it to the ATO unless the seller provides you with a clearance certificate.
- You may vary down the 10% non-final withholding tax if the seller provides you with a variation notice from the ATO prior to settlement.

For more information please contact Director Ross Sicuro; rsicuro@moorestephens.com.au or phone (08) 8224 3300

Back Office News & Reminders

SuperStream Reprieve

The Government has extended the SuperStream deadline for small employers (19 employees or less) to 28th October 2016. A small reprieve yes, however we strongly advise (if you have not already) that you comply now to ensure you meet this new deadline.

Remember solutions to ensure compliance include; upgrading your payroll software, using a super fund's online system, or using a clearing house.

TFN Declaration Forms Now Available to Download

You spoke and the ATO listened… You no longer need to order TFN declaration forms and wait for 'snail mail' to deliver them. Now available to download from bit.ly/2ap5IYq Even better the document is editable or 'fillable' on screen.

New Award Wages & Allowances

From July 1, 2016 The Fair Work Commission has announced a 2.4% increase to minimum wages. The increase will apply from the first full pay period starting on or after 1 July 2016. The new national minimum wage will be $672.70 per week or $17.70 per hour.

The good new is, its now faster and easier to get these pay rates, penalties and allowances.

See the Pay calculator here: bit.ly/2akFl7z

New credit card surcharge rules

Do you have a surcharge for credit card payments? Then pay attention.

After 1 September 2016, you may not be able to implement those surcharges anymore.

For more on what you need to know head to bit.ly/1YfnL5X

Early Stage Innovation Tax Incentives

From 1 July new tax incentives come into play, providing concessional tax treatment to eligible investors who invest in 'Australian early stage innovation companies with high growth potential'.

These tax incentives are designed to connect companies with investors that have the funds and experience to help them grow.

To find out if your company qualifies as an early stage innovation company head to bit.ly/2a8oXV1

Taxable Payments Annual Report

A reminder for those of you in the building and construction industry that paid contractors in 2015-16, your Taxable payments annual report is due 28 August 2016.

For more information head to bit.ly/2au8GxL