



LANTERI  
PARTNERS GROUP

WEALTH MANAGEMENT

Here for the future...

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# E-invoicing is on its way

Along with a more automated exchange and processing of invoices, e-invoicing also promises reduced payment times and better cash flow.

## About this newsletter

We are very proud to announce our monthly Newsletter!! It is intended for you, our clients, as well as future clients of Lanteri Partners Group. You will be informed on the latest news and announcements regarding changes to legislation mainly within financial planning and wealth management industry. Each issue will have significant contributors including our Managing Director, Michael Lanteri and other key individuals who are specialists in their areas of expertise. We hope you find this newsletter of great value. Thank you.

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The headline above may give the impression that electronic invoices are a futuristic concept, but of course even today there is a version of e-invoices – think PDFs and other electronic documents with the information that a standard tax invoice is required to display.

But what the ATO is working towards, and what it means by electronic invoicing (or e-invoicing) is more than a mere PDF. It is the automated direct exchange transmission of invoices between the software systems used by buyers and suppliers. E-invoicing removes the need to create paper-based or PDF invoices, scan, post or email them, and manually enter them.

*continued overleaf* ➡

### **E-invoicing is on its way *continued***

E-invoicing is an automated process of submitting and processing an invoice in a digital format, integrating the supplier's accounts payable solution with the seller's accounts receivable solution. This process often includes validation of invoice information, acknowledgement of receipts and some specific business rules.

E-invoices can be sent directly to a customer's software if both systems are using the same standards, even if the buyer and supplier are using different software. For Australian use, the ATO is working with the local software industry to use what is known as the Pan-European Public Procurement On-Line (PEPPOL) standard, which is internationally established and is a proven approach used in over 32 countries to foster international trade.

E-invoices are received directly into the business's financial systems, minimising the risk of fake or compromised invoices. E-invoices are sent between the sender and receivers chosen service providers and software. The invoice doesn't transmit via the ATO's systems.

### **What the ATO says about it**

The ATO says that e-invoicing is more than a discretionary choice, but is rather a necessity, especially given that Australian small businesses are collectively owed \$26 billion in unpaid invoices at any given time. Of all late payments, the ATO says that over 20% are due to errors on invoices, and of those more than 20% are due to the invoice being sent to the wrong recipient following manual data entry.

With more than 1.2 billion invoices exchanged in Australia annually, the ATO has estimated that savings to the economy from a better and more efficient invoicing system would be around \$28 billion over 10 years.

While e-invoicing brings efficiencies through simplifying and automating the exchange and processing of invoices, the biggest benefits to business are expected to be reduced payment times and improved business cash flow. ■

### **What you can do to get your business ready for e-invoicing**

- ☑ Contact your software provider to see if you are digitally ready and if they plan to offer e-invoicing.
- ☑ Ask your software provider about how they will offer e-invoicing and what you need to do. For example, you may need an update to your existing software, or add an additional service.
- ☑ Find out what support they will offer you in making the transition.

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This information has been prepared without taking into account your objectives, financial situation or needs. Because of this, you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation or needs.

# Personal services income explained



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The personal services income (PSI) rules apply to income that is earned mainly from the personal efforts or skills of a person. It does not matter whether the income is earned by the individual in their own name or through an entity such as a business. The rules do not apply to income earned from being an employee.

## A BUSINESS STRUCTURE

This can be a confusing concept. It does not mean that you conduct a business through an entity such as a company or a trust.

The term “business structure” is used to define a business (operated through any structure) that is large enough for it to be concluded that the income of the business is not being earned from the individuals in the business. Rather, the income is being earned by the “business structure”. This can still apply to quite small businesses.

## THE TESTS

### The results test

This is an important test. If you pass the test, the PSI rules do not apply to you. An individual passes the results test if in relation to at least 75% of the individual's PSI:

1. it is for producing a result, and
2. the individual is required to supply the equipment or tools of trade needed to perform the work, and
3. the individual is liable for rectifying any defect in the work.

### Unrelated clients test

This test is passed if:

1. the PSI is gained from providing services to two or more entities that are not associates, and
2. the work has been gained by making invitations to the public or a section of the public.

### Employment test

Broadly, this test is passed if:

1. one or more entities are engaged (other than associates) to perform work, and
2. those entities perform at least 20% by market value of the principal work. The test is also passed if an apprentice is engaged for at least half the income year.

### Business premises test

Broadly, this test is passed if business premises are maintained:

1. at which the PSI is mainly gained, and
2. of which there is exclusive use, and
3. that are physically separate from premises the individual or associate uses for private purposes, and
4. are physically separate from premises of customers or associates of customers.

## PERSONAL SERVICES DETERMINATION

The ATO can give you a ruling that the PSI rules don't apply to you in certain circumstances. For example, there could be “one-off” changes in your circumstances that cause you to fail the PSI tests. You can apply to have the PSI rules ignored by the ATO. If the ATO rules in your favour, this is called a “personal services determination”.



See the following page for a Personal Services Income flowchart.

## Personal Services Income flowchart

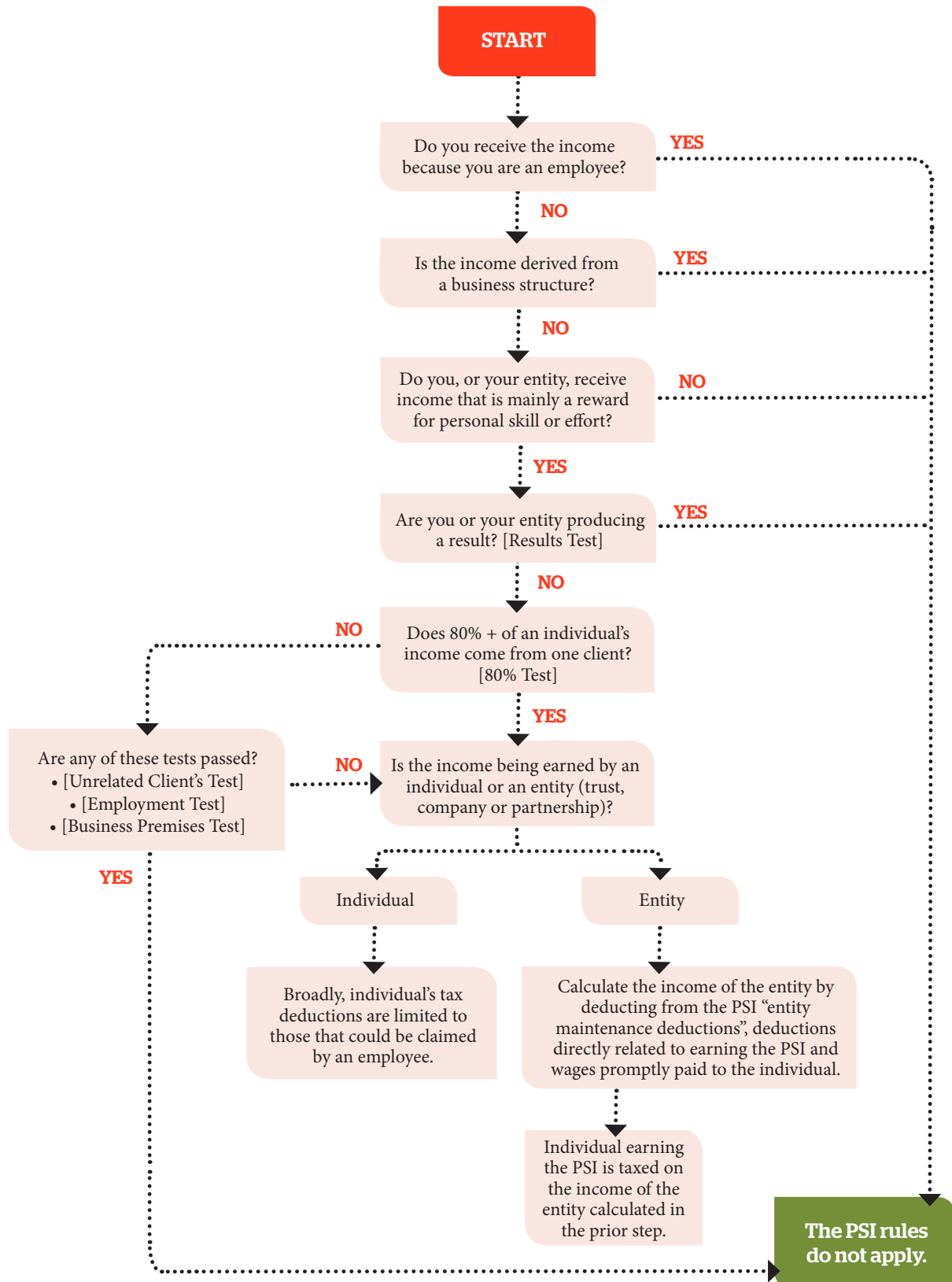




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## CGT CONCESSIONS: Does your business qualify?

Wondering if you're eligible to claim the small business CGT concessions can be settled by answering a few basic questions.

In addition to the capital gains tax (CGT) exemptions and rollovers available more widely, there are four additional concessions that allow a small business to disregard or defer some or all of a capital gain from an active asset used in the business:

- 50% active asset reduction – where you can reduce the capital gain on an active asset by 50% (in addition to the general 50% discount if you've owned it for 12 months or more, except for companies).
- Retirement exemption – capital gains from the sale of active assets are exempt up to a lifetime limit of \$500,000. If you're under 55, the exempt amount must be paid into a complying super fund or a retirement savings account.
- 15-year exemption – if your business has continuously owned an active asset for 15 years and you're aged 55 or over and are retiring or permanently incapacitated, you won't have an assessable capital gain when you sell the asset.

- Rollover – if you sell an "active" asset, you can defer all or part of a capital gain for two years, or for longer if you acquire a replacement asset or incur expenditure on making capital improvements to an existing asset.

### The threshold tests

These concessions are available when you dispose of an active asset and any of the following apply:

- you're a small business with an aggregated annual turnover of less than \$2 million
- your asset was used in a closely connected small business
- you have net assets of no more than \$6 million (excluding personal use assets such as your home, to the extent that it has not been used to produce income).

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## **CGT concessions: Does your business qualify? continued**

### **To start with, answer these questions**

Many aspects of applying the CGT small business concessions can still create confusion for many small business owners – especially as no taxpayer needs to deal with them on a regular basis. They can be, as someone once put it, like taking a trek through the bush and never being able to find the same path twice.

There are however a small set of basic questions that should always be asked in order to get your bearings right from the start, and which should then enable us to help you to navigate the complex and intricate paths of the concessions more easily.

These questions are:

- what is the asset on which a capital gain has accrued?
- who owns the asset on which the capital gain is made?
- what is the “CGT event” (see box below) involved?

Why the above three questions? It is important to have these basics answered in the first place so that the sometimes unforeseen complexities of this key, and at times lucrative, area of small business tax concessions can be better applied.

### **Asset on which a capital gain has accrued**

To start with, let’s look at the first — what is the asset on which a capital gain has accrued? This is important because:

- the asset must be an “active asset” to be eligible for the CGT small business concessions (which usually means that it must be used, or held ready for use, in the course of carrying on the business);
- an active asset can include shares and trust interests where specific conditions are met; and

### **WHAT IS A CGT EVENT?**

A CGT event, simply put, is a defined transaction that may result in a capital gain or loss — the simplest such transaction is selling an asset, but there is also shares becoming worthless if a company fails, for example, or the creation of contractual rights, and more.

- certain CGT assets are not eligible for the small business concessions (for example, assets whose main use is to derive rent).

### **Taxpayer who made the gain**

The second question — who owns the asset on which the capital gain is made — is important in order to determine the “connected entities” and “affiliates” of the taxpayer. This needs to be ascertained because:

- an asset of the taxpayer that is used in a business carried on by a “connected entity” and/or an “affiliate” can also qualify for the CGT small business concessions;
- whether a taxpayer meets the “small business threshold” tests (that is, \$6 million maximum net asset value or \$2 million annual turnover), as the turnovers or net assets of “affiliates” and “connected entities” are taken into account for these purposes; and
- legal personal representatives, beneficiaries and surviving spouses and joint tenants can qualify for the small business concessions for a CGT asset owned by a deceased taxpayer if certain conditions are met.

### **The relevant CGT event**

As to the last (what is the CGT event involved?), this is important because:

- the concessions are not available for capital gains arising under all CGT events (eg under CGT event K7 where a capital gain arises from the partial non-business use of an asset);
- some of the concessions are not available for capital gains arising after certain rollovers come to an end (for example, the 15 year exemption is not available for gains “reinstated” under the small business roll-over); and
- a capital gain arising under CGT event D1 (ie when creating contractual or other rights) has additional conditions to be met.

### **Ask the right questions!**

As you can see, when considering whether the valuable small business CGT concessions are available for your own business, settling a few basic questions first will give a clear indication (before you put in the effort) about whether or not you are in a position to pursue them. Having answered them will put you on the right track from the start to more readily and effectively apply the concessions to a specific situation. ■

# If you're in business, you need to know about the PPSR

There is a simple step that many businesses can take to better manage the risk that can attach to certain assets.



Not so many years ago, a new scheme was introduced, which also established a national register, that could affect anyone who answers “yes” to any of the following scenarios — are you in business, and do you:

- sell goods on retention of title terms?
- hire, rent or lease out goods?
- buy or sell valuable second-hand goods or assets?
- want to raise finance using stock or other assets as collateral?
- work as an adviser to clients who conduct these activities?

As you will gather from the very wide-ranging scenarios listed above, the scheme (the Personal Property Security Register, or PPSR) can potentially cover a significant proportion of Australian business.

Many Australian businesses are not familiar with the practical implications of the PPSR. But potentially you may be putting your business at risk when buying, selling, leasing or hiring out goods, or selling valuable goods on consignment. For example, do the goods you are buying have money owing on them? Or will you get your goods or money back if your customer goes broke?

You can't avoid these common transactions, but you can protect yourself.

For example, someone may try to sell you used goods, such as a van or piece of machinery, without telling you they still have finance owing on it.

If they stop making payments on the loan there's a very real chance the finance company can turn up on your doorstep and take those goods away, without paying you a cent for your loss. The PPSR lets you check that goods you want to buy are likely to be free of financed debt, and safe from repossession.

## HOW CAN I PROTECT MY BUSINESS?

This single, national online noticeboard (the register) can show you whether someone is claiming an interest against goods or assets.

You can also make a registration, so others know when you have retained an interest in goods you are supplying. This means that if your customer doesn't pay, or goes broke, you are in the best position to get your goods, or their value, back.

## EXAMPLES OF PERSONAL PROPERTY

The PPSR is a national register of security interests in personal property. “Personal property” is a legal term for any property that is not land, buildings or fixtures. Examples include:

- crops, cattle and other livestock

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## **If you're in business, you need to know about the PPSR *continued***

- stock in trade, artworks and equipment
- motor vehicles, boats or aircraft
- other goods, new or second-hand, whether owned by businesses or individuals
- intangible property, such as patents, copyright, commercial (not government-issued) licences, debts and bank accounts
- financial property such as shares, cash or cheques.

The register offers your business risk protection, and can also be a tool that can help you raise finance using your business goods and assets.

### **WHEN BUYING GOODS**

Searching the register lets you know if the valuable goods you are interested in buying are being used as security for a debt or other obligation. The register won't tell you the value of the obligation, but it lets you know who the obligation is owed to so you can find out more.

### **WHEN SELLING GOODS ON RETENTION OF TITLE OR CONSIGNMENT**

Making a registration shows searchers that you are claiming an interest in the goods or assets you are selling on retention of title terms, or have consigned to someone else to sell on your behalf. This interest means the goods or assets secure the debt or obligation that someone owes you. The registration protects your interest in the goods or assets should the customer default or go broke.

If you don't make a registration on those goods or assets and your customer goes broke before they have fully paid you, your assets may be sold to pay secured creditors first. If you are not registered, you will be an unsecured creditor in any insolvency settlement, and may not recover much, if anything, of what you are owed.

If you register as early as possible, you stand the best chance of being first in line over other creditors. It also helps you to protect your interest even if the goods or assets are sold on, mixed or installed onto other assets.

### **WHEN LEASING, RENTING OR HIRING OUT GOODS**

If the lease or hiring arrangement was entered into on or after 20 May 2017 and is for at least two years, or an indefinite period that will last for more than two years, then this applies to you.

Note that some lease and bailment arrangements are considered "security interests" and can be registered on the PPSR.

### **THINK YOU'RE ALREADY COVERED WITH A CONTRACT?**

A retention of title clause (indicating that title remains with you until goods are paid for in full) in your contract or invoice may **no longer** protect you on its own.

If you don't make a registration, it may not be certain that your retention of title clause is going to stack up against others when you need to rely on it. In other words, someone else who **has** registered an interest is ahead of you in the queue should your customer default or go broke. ■

Only optional,  
but prudent

Using the register  
is optional, but many  
businesses rely on it as an  
effective risk management tool.  
Ask this office to find out more.

