CAPRARO CONSULTING

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The rise of central bank digital currencies

With the use of physical cash in decline, the world's central banks are working fast to create digital versions of national currencies. What implications does this have for the world of finance?

At a glance

- Central banks around the world have been fast-tracking the process of developing digital versions of official national currencies.
- The development of central bank digital currencies is driven by major advances in electronic payment systems that have led to declining use of physical cash.
- The Bank for International Settlements estimates that, over the next three years, central banks representing a fifth of the world's population are likely to issue their own general purpose digital currencies.

In the midst of the COVID-19 pandemic, there has been a seismic shift in the way many people around the world are approaching financial transactions. Concerned about virus transmission, many consumers and businesses have moved away from paper money towards electronic payments.

Rather than using cash, consumers are preferring to use their mobile phones to tap and pay for just about everything. This is why a large number of central banks around the world are leveraging technologies to fast-track the development of digital versions of official national currencies.

Once launched, central bank digital currencies (CBDCs) – fully backed, administered and regulated by their respective national governments – are expected to reduce the number of physical bank notes and coins that need to be manufactured and kept in circulation.

CBDCs will also be going head-to-head with the plethora of unregulated and volatile cryptocurrencies already in operation, such as Bitcoin and Ethereum.

On a very basic level, CBDCs will work in the same way as any legal tender and enable individuals to transact electronically using their domestic currency. What governments are still grappling with is how CBDCs will function in cross-border transactions involving other digital currencies.

Some financial commentators have pointed out that the potential for rapid adoption of CBDCs could lead to large amounts of money being withdrawn from banks and other financial institutions, which rely on holding large cash reserves to fund business lending, mortgages and other types of finance.

The Reserve Bank of Australia (RBA) announced in November last year that it was partnering with CBA, NAB, Perpetual and ConsenSys Software to explore the potential use and implications of a wholesale form of a CBDC using distributed ledger technology.

Joni Pirovich, special counsel tax, blockchain and digital assets at law firm Mills Oakley, says it will be important to create policy settings to support Australian innovation that can compete with global trends in digital assets and payments.

"We need a supportive digital assets framework to encourage innovation and to bring Australia up to speed with all of the mainstream and increasing adoption of digital assets that we're seeing across Europe, China and the US," she says.

Pirovich also sees CBDCs working in tandem with other digital currencies such as Bitcoin, which would evolve into an alternative asset class used to store wealth.

"All of the criticisms against them, that they're not good for payments, is a 'furphy' –the increasing use of Bitcoin and Ethereum as a store of value that may become the digital equivalent of owning your own home," she says.

By Gary Anders, CPA In the Black August 2021

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ATO reminder to property investors

Beware data matching

The ATO is reminding property investors to beware of common tax traps that can lead to an audit.

It said that the most common mistake rental property and holiday homeowners make is neglecting to declare all their income (including capital gains).

The ATO also emphasised that it was expanding the rental income data it receives from third-party sources such as sharing economy platforms, rental bond authorities and property managers.

Check your donations this tax time

The ATO has issued a notice to make sure taxpayers have a record of any donation you are claiming this tax time. Last year nearly two-thirds of charitable claims were adjusted because the taxpayer could not prove they had made the donation.

Work related depreciating assets

If the taxpayer uses a depreciating asset for both work and private purposes, you need to keep records to determine their work and private use. Claims can only be made for the work-related use of the depreciating asset.

A case for changing Australia's tax system: The Tax Institute paper

The Tax Institute (TTI) on 16 July 2021 released a paper, The Case for Change, to prompt a discussion for the future of the Australian tax system. Andrew Mills, Director of Tax Policy and Technical at TTI, said tax compliance costs are now likely to be over $50bn per year.

Mr Mills sets out 5 pitfalls of the current tax system:

1. GST could be crucial to revitalising the economy
2. reliance on the wrong kind of taxes
3. a failure to explore more efficient options
4. tax law is not "fair" anymore and mistrust of the system comes with a hefty bill and regulators "paper over" complexity, leading to bigger problems.

Important upcoming dates

July 2021 monthly IAS due 21 August 2021

June 2021 quarter BAS due 25 August 2021

Taxable Payments Annual Report due 28 August 2021

5 ASPECTS OF BUSINESS RESILIENCE

Resilience is a key component of many organisations' outlooks. Prospering in a post-pandemic world depends on it. What does resilience entail?

1. Agility

The need for agile leadership has never been more acute, yet almost half of the participants in a poll conducted by EY (*How do you reshape your business with agility and build resilience?)* say they are either passive or reactive when it came to responding to disruptors in their industry.

Business leaders need to ensure their organisations are structured to allow for quick and agile responses and communicate with stakeholders when change happens.

2. Financial

Organisations need to adapt their cash flow models to take uncertainty and disruption into account, with regular revisions and short-term cash forecasts to underpin resilience strategies and determine response priorities.

3. Human capital

It is of little surprise that people are a key aspect of business resilience. Workers need a leadership team that is compassionate and their mental needs met, which includes allowing them to work differently and more flexibly, based on their individual needs.

4. Supply chain

Covid has severely disrupted global supply chains, highlighting Australia's vulnerabilities. Firms need to understand the nature of potential disruptions and the impact to their supply chains.

5. Technology

System crashes, outages & service-level disruptions have spiked over the past few years as businesses adopt new technologies. Organisations need to develop tools & expert networks to speed incident response.

Financial planning

We have an association with Mia Taylor from Evalesco (part of the Australian Advice Network) whom can assist with all your financial planning needs. They provide a more personal service and empower Clients not only in terms of wealth strategies but are also mindful we need healthy and happy lives.

Feel free to contact our office to arrange an initial appointment.

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