CAPRARO CONSULTING

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Year of the Tiger: Roaring or Bellowing?

The 2022 Luna New Year, Year of the Tiger, is courage and bravery. It is a year to drive out evil and one of momentum and change. The message; walk boldly with courage. And it seems the Reserve Bank Governor is aligned with this sentiment.

The Tiger economy

At a recent speech to the National Press Club, Reserve Bank Governor Philip Lowe was optimistic about Australia's prospects in 2022. This optimism is driven by strong GDP growth that saw growth outstrip the RBA's forecast to reach 5%, and strong jobs growth with the unemployment rate at 4.2% - the lowest rate since the resources boom. Unemployment is expected to reduce further to 3.75% by the end of 2022, and if it does, it will be the lowest unemployment level since the early 1970s. Under-employment is also at its lowest rate in 13 years.
In addition, "household and business balance sheets are generally in good shape and wages growth is picking up."

The surprise inflation figures

While wages growth is "picking up", the forecast remains sluggish at 2.25%. Australia's wages growth has remained lethargic for a decade now, which will come as a surprise to many business operators competing for skilled workers as, on the ground, the opposite feels true. Combined with a surprise spike in inflation (CPI) well above expectations at 3.5% (+2% on RBA forecasts), pushed predominantly by a sharp increase in petrol prices (32% over the past year) and the cost of constructing new homes, the purchasing power of Australians has declined. There has also been a large increase in the price of consumer durables (cars, fridges etc.,) and less discounting in the face of strong demand as supply chain problems take hold.
Australia is not alone in this. The UK inflation rate jumped to 5.4%, 5.7% in the United States and 5.9% in New Zealand in the same period.

Supply woes

The sharp increase in interest rates comes on the back of, "very significant disruptions in supply chains and distribution networks," with labour shortages in particular dominating news coverage as businesses struggle to maintain momentum with staff impacted by either COVID-19 or isolation requirements. National Cabinet harmonised the definition of a 'close contact' at the end of December 2021 for most Australian States and Territories and reduced the isolation period to seven days (from 14).

With global staff shortages, come bottlenecks in the supply chain. For many businesses, estimating what stock they need has become a crystal ball exercise rather than a predictable science. Supply chain problems, both in Australia and globally, are not anticipated to normalise for another 12 to 24 months.

The RBA Governor's three takeaways are:

- *The economy has been remarkably resilient;*
- *The link between the strength of the real economy and prices and wages remains alive; and*
- *The supply side matters for both economic activity and prices.*

You could almost add, no one really knows, as a fourth point as an unexpected change, like a new virulent COVID variant, or further lockdowns, could rewrite the forecasts. But, there is plenty of room for optimism. What we have seen to date is that when there is an opportunity to rebound, to return to normal, the economy bounces back quickly and often much faster than anticipated. Afterall, health, not the economy, has been the catalyst for the crisis.

When will interest rates rise?

During his National Press Club address, Mr Lowe was asked the question "if it was your mortgage, would you be scrambling for a fixed rate or sticking with a variable?"
His response, "…make sure that you have buffers. Interest rates will go up. And the stronger the economy, the better progress on unemployment, the faster and the sooner the increase in interest rates will be. So, interest rates will go up."
A rate increase by the RBA would be the first since November 2010. Westpac and AMP Capital are both forecasting the first increase to occur in August this year, then a second towards the end of 2022.

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Westpac increased its fixed rates at the end of January and the CBA and ING (for new customers only) at the start of February.

But with households having accumulated more than $200 billion in additional savings over the past 2 years, the RBA is hopeful that any increase will dampen inflation pressures but not impinge on growth.

Are you personally liable?

Whether a director is liable for tax debts that were discovered during an Australian Taxation Office (ATO) audit goes back to the question of whether the original lodgment or lodgments made during the audited period were made on time.

If a director shows a history of ATO compliance, it is unlikely they will be the subject of the stronger action policy, which includes holding directors personally liable for company tax debts through the issuing of lockdown and non-lockdown director penalty notices (DPNs).

It is important to remember that from 1 April 2020, directors can become personally liable for company GST (including LCT and WET) debts as well as unpaid PAYG and SGC. This additional exposure to incur personal liability for GST places greater responsibility on directors to get their company returns ready and lodge with the ATO on time.

What triggers an ATO audit?
The reason for an ATO audit may also impact on whether a director is personally liable for any debt that arises. Triggers may include:

- Lodgment history including not paying on time, not paying the correct amount of superannuation, inconsistencies between a company's business activity statement and their tax return.
- Taxpayer's behaviour including failure to declare income, disparity between income and lifestyle as well as claiming an excessive amount of work-related deductions.
- Whether there was a tipoff or a complaint from a member of the public.
- A random review.

Also worth noting is that the ATO is enforcing accurate debt reporting. Therefore, the tactic of utilising a nil BAS as a holding off lodgment to avoid DPN liability is no longer regarded as compliance by the ATO.

Important upcoming dates

21 March 2022 – February 2022 monthly IAS due

TIPS FOR PROTECTING YOUR BUSINESS FROM RANSONWARE

Educate your employees:
Communicate the risk of ransomware attacks and the risk of clicking on web links/email attachments from untrusted sources.

Turn on automatic updates:
Make sure all IT systems and software have their automatic updates turned on so that the latest security patches and anti-virus updates are applied.

Establish a reliable back-up process:
To minimise the impact on your business operations, you need to be able to quickly restore critical data and systems from back ups that are regularly tested.

Enable multi-factor authorisation:
On top of a password for access, you can add authorisation through a one-time code. This is important because if a cyber criminal has stolen a password, they cannot acces your systems without the one-time code.

Source: Richard Bergman, EY Oceanic

Finance, Mortgages & Loans

In this new home loan environment, it's never been more important to get help from an expert broker who's fully across the new rules. No Fuss Home Loans strive to simplify the home loan process, listen to your needs and offer sound and friendly advice. No Fuss Home Loans will provide you with a FREE report outlining relevant lenders and products to suit your situation. There is no obligation to commit and there are no fees payable by you for our service. Contact our office or Kathy direct.

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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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