



BUSINESS & TAXATION BULLETIN

WINTER 2020

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Navigate some potential options which may be available to businesses concerned about their present and future status.



Commercial Rental Assistance - A Landlord's Guide

Understand the steps you will need to consider before granting any rental concessions to your tenants.

HR Return to Work Plan

Checklist of steps to take to ensure a safe Return to Work for all your employees and clients.



Impacts on Your Dividends

PWS Paul Israel shares his expertise on which portfolio structures currently work best during the COVID-19 environment.

IMPORTANT: Information contained in this newsletter is not advice. Clients should not act solely on the basis of material contained in this bulletin. Items herein are general comments only and do not constitute or convey advice per se. Also, changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. The bulletin is issued as a helpful guide to our clients and for their information.

PARTNER OVERVIEW



RONELLE WILSON
Partner, CA

Welcome to our Winter Bulletin. We've given this issue a refreshed design and our aim is to bring you more stories around the important topics for business success, share insights from experts spanning a range of industries, as well as continue to bring you all the need-to-know information around taxes and business finance.

The start to 2020 has been unbelievably challenging for us all. The lockdown introduced in response to the Coronavirus pandemic has hit hard for a lot of businesses. We at CIB have been quite busy assisting our clients to understand and register for the stimulus packages, as well as managing their cash flows and strategies for their workforce. Our move to working from home has been very successful.

In this issue, we have featured several articles pertinent to the COVID-19 situation, discussing guidance for businesses that have been severely impacted, a guide for landlords who are faced with rental assistance requests and a detailed article from our Private Wealth Adviser, Paul Israel on the impacts to the economy and how Australia is placed.

With the fast-paced circulation of Government updates and changes, all our articles are relevant at the time of printing this issue.

As restrictions are gradually easing, we also look at the return to work plans we have in place, following the government regulations.

You may also notice a new QR code feature we have added in this issue. To ensure we can bring all the latest updates and resources in a timely manner, these codes have been placed throughout the bulletin. Scan the QR code and it will take you to our COVID-19 resources webpage with all the updates. Instructions on how to scan a QR code is below, along with the code to our main resources and news page.

From everyone at CIB, we trust you are all keeping safe and well. Please do not hesitate to reach out to us if needed.

Introducing QR Codes -

Delivering News Directly to Your Device





TAX UPDATES

TAX AND WORKING FROM HOME: WHAT YOU NEED TO KNOW

Due to COVID-19, a large portion of employees have been required to work from home increasing their household expenditure. In recognition of this, taxpayers are able to claim a personal tax deduction for the costs incurred while working from home.

To claim a deduction, you must have actually incurred expenditure that is directly related to earning your income, you have a record to prove the expenditure and the cost was not reimbursed by your employer. Expenses that may be included are:

- electricity costs associated with heating, cooling and lighting;
- cleaning costs of dedicated work area;
- phone and internet expenses;
- computer consumables and stationery;
- home office equipment and electronics up to \$300 (items over \$300 must be depreciated).

You cannot claim rent, mortgage costs or rates when working from home, nor the cost of tea, coffee or general household items that may have otherwise been provided by your workplace.

Calculating your expense claims can be done in 3 ways:

- **Shortcut Method** – a flat 80 cents per hour you worked from home during the COVID-19 pandemic period.
- **Fixed Rate Method** – 52 cents per hour you worked from home during the COVID-19 pandemic for electricity, cleaning and furniture depreciation, while claiming actual portion of work-related phone, internet and computer depreciation
- **Actual Cost Method** – the actual work-related portion of all home office running expenses calculated on a reasonable basis for the period that you worked from home during the COVID-19 pandemic.

An individual is required to keep a diary of the number of dedicated hours working from home.

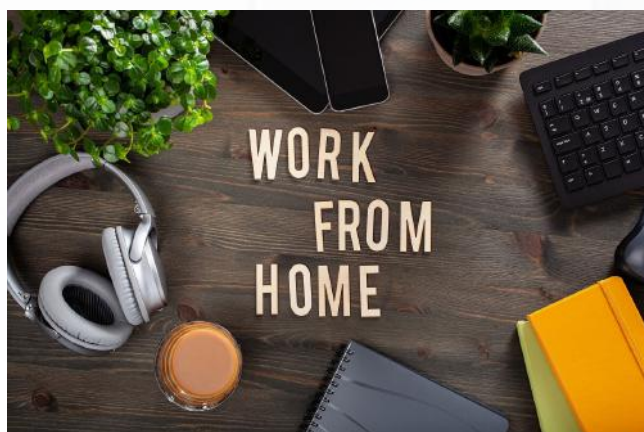


Scan this QR Code to download
the full Work From Home
guide

SINGLE TOUCH PAYROLL (STP) FOR CLOSELY HELD EMPLOYEES

The Tax Office has extended the exemption for small employers with 'closely held' employees from the requirement to register for Single Touch Payroll from 1 July 2020 to 1 July 2021. If your business only has directors, shareholders and their families as employees, they are not yet required to report wages through Single Touch Payroll. A family business may still choose to report wages through this system prior to this date.

Businesses who have applied for the JobKeeper Payment are encouraged to have STP to help drastically streamline the entire process.



NSW PAYROLL TAX

The NSW payroll tax threshold from 1 July 2020 will increase to \$1,000,000 with a steady tax rate of 5.45%. If a business operates in more than one state in Australia, the threshold amount in each state is proportionally reduced. The new annual threshold translates into the following monthly thresholds:

DAYS IN MONTH	THRESHOLD
28 days	\$76,712
30 days	\$82,191
31 days	\$84,931

Once grouped business wages exceed the above monthly thresholds, a business is required to register for and pay NSW payroll tax.



SUPERANNUATION GUARANTEE AMNESTY

A Superannuation Guarantee Amnesty is in force until 7 September 2020. During this period, a business may report and pay any unpaid superannuation from a prior quarter without incurring administration charges or penalties.

Any Superannuation Guarantee paid during this time will also be eligible for an income tax deduction. The Tax Office has advised that it will consider payment plans if a business reports during the amnesty period but is unable to pay its outstanding Superannuation Guarantee liabilities. Note that only payments made during the amnesty period are tax deductible.

If your business has any old unpaid superannuation liabilities, the amnesty is the only opportunity to correct mistakes, otherwise penalties of 100% to 200% will be applied to any Superannuation Guarantee shortfalls. The Tax Office has advised that there will be no extension of the amnesty period beyond 7 September 2020.

YEAR-END TO-DO LIST



In these uncertain times, it is easy to forget the normal and regular tax planning which should be considered before the end of every financial year.

Here are a few tasks which must be ticked off before 30 June 2020 to help minimise your 2020 income tax position.

INDIVIDUALS

- Pay personal superannuation contributions to a complying super fund. The 2020 concessional contributions cap is \$25,000 which includes any superannuation guarantee amount paid by your employer
- Make donations to tax-deductible recipients

BUSINESSES

- Ensure all employee superannuation contributions, including salary sacrifice arrangements, are made to receive a tax deduction. Any contributions paid after 30 June 2020 will not be deductible until 2021
- Businesses with a turnover under \$500 million may wish to purchase business assets with a cost less than \$150,000 to claim an instant asset write off (note that the asset needs to be installed and ready for use by 30 June 2020)
- Write off any bad debts and dispose of unsaleable stock
- Consider prepaying any expenses, such as rent, insurance of up to 12 months
- Ensure minimum repayments for Division 7A loans (loans to shareholders or associates) have been received

TRUSTS

- Ensure that resolutions have been made regarding the distribution of profits to eligible beneficiaries for 2020 financial year have been passed and are made in accordance with the trust deed

SUPERANNUATION FUNDS

- Ensure that minimum pension payments (if required) are made before 30 June 2020 to retain the tax concessions on pension income. Note the minimum pension rates have been reduced by 50% for the 2020 and 2021 financial year.



TAX OFFICE INTEREST RATES

If you have overdue unpaid tax liabilities or there is an excessive shortfall in an incorrectly varied or estimated income tax instalment, you will be required to pay General Interest Charges (GIC).

If your tax return has been amended and your liability has increased, an interest will be applied to the shortfall amount known as the Shortfall Interest Charge (SIC).

GIC and SIC rates are reviewed and updated quarterly.

The rates for the fourth quarter of the 2020 financial year is 7.89% for the General Interest Charge whilst the Shortfall Interest Charge is set at 3.89%.



INSTANT ASSET WRITE OFF

Since 1 July 2011, there has been 8 changes to the Instant Asset Write Off threshold and as such, it is important to consider current & future thresholds when considering asset purchases for your business.

The current threshold of \$150,000 was due to reduce to \$1,000 on 1 July 2020, however, on 9 June 2020, the Treasurer announced that the current threshold would be extended to 31 December 2020.

Legislation is expected to be introduced during the week of 15 June and if passed, the thresholds that would apply during the 2020 and 2021 financial years will be as follows:

APPLICABLE PERIOD ¹	ELIGIBLE BUSINESSES AGGREGATED TURNOVER	THRESHOLD ²
7:30PM (AEDT) 2 April 2019 to 11 March 2020	Less than \$50M	\$30,000
12 March 2020 to 31 December 2020 ³	Less than \$500M	\$150,000
1 January 2020 onwards	Less than \$10M	\$1,000

¹ dates when asset first used or installed ready for use

² motor vehicle cost limits apply

³ for businesses with aggregated turnovers from \$10M to less than \$500M, the \$150,000 threshold applies to assets purchased after 7:30PM (AEDT) on 2 April 2019 but not first used or installed ready for use until 12 March 2020 to 31 December 2020

Scan the QR code to keep up to date with the latest tax updates!



COVID-19



FEATURE SECTION

**GUIDANCE FOR
DISTRESSED
BUSINESSES**

**COMMERCIAL
RENTAL
ASSISTANCE - A
LANDLORD'S
GUIDE**

**HR RETURN TO
WORK PLAN**

**IMPACTS ON
YOUR DIVIDENDS**



COVID-19: GUIDANCE FOR BUSINESS DISRUPTION

Joint Advice with Hogan Sprowles

It's important for businesses to put in a regime that will allow them time to understand the impact of the current environment and to adequately assess their options and plan. Time is a key success factor for weathering the Coronavirus disruption.

The best thing directors can do is to act early at the first signs of financial stress. Taking early and appropriate action to deal with a company's financial difficulties will put the company in the best position to turn a company around and avoid administration and/or liquidation, as well as to trigger safe harbour protection.

Practical Guidance

Determining the correct response for businesses will be dependent on each business's own financial situation. The available options vary dependent on whether the business is sufficiently capitalised or undercapitalised. Here are some of the potential options which may be available to businesses concerned about the current and future impacts of the COVID-19 pandemic to their business.

1. Capital Injections

Many business owners will be considering the deployment of capital from personal resources into their businesses. We recommend, after the consideration of any financial covenants (AFSL, Bank or otherwise) that directors / shareholders consider the use of senior secured debt as the preferred method of capital injection.

Senior secured status can be achieved by lodgement of All Present and Acquired Property ("ALLPAAP") on the Personal Property Securities Register (PPSR).

2. Safe Harbour Provisions (Avoid Liability For Directors)

Directors need to start considering the safe harbour provisions when there is a reason to suspect their company is approaching insolvency, that is to say, when a company is approaching a state of financial distress and risks being unable to pay its debts as they fall due.

The safe harbour defence is aimed at encouraging directors to keep control of their company during times of financial distress and allow them to focus on the needs of the company rather than their own potential personal liability for insolvent trading. The intention being to seek to explore and implement appropriate available steps which result in a better outcome than immediately placing the company into administration or liquidation.



“ Many business owners will be considering the deployment of capital from personal resources into their businesses”

3. Informal Restructuring

3.1 Stand Down Employees

Under section 524 of the Fair Work Act 2009, there is an ability to stand down employees where there is stoppage of work for any cause for which the employer cannot reasonably be held responsible. For example, if the government tells an industry to shut down the engagement of, this provision may be appropriate.

Careful assessment of all relevant circumstances is required. Prior to considering a stand down, the employer needs to consider:

- What are the causes and do they justify a stand down.
- What work of value is available (cost of performing work vs benefits).
- Are there alternatives (can employees take leave or other entitlements).
- Is there any other available information (causes of stoppage and evidence to support stand down).

3.2 Renegotiation Of Lease Terms

Often one of the largest fixed overheads in a business, the current economic climate is a good time to start negotiating with your landlord. Many businesses will be unable to comply with the terms of the lease and there will be focus on landlords to "sympathetically" deal with tenants.

Landlords will be required to negotiate as there will likely be a diminishing market for new tenants. Negotiations would take the form of rental abatement, rent-free periods and rent deferment and possibly exiting the lease without costs.

3.3 Standstill Agreement / Facility Restructure

Businesses that have secured debt facilities and which may be in breach of financial covenants and likely to be in monetary default should approach their financier to negotiate the ongoing terms of the facility.

The banks will often preserve their rights and provide support through a standstill agreement which may also incorporate structural changes to the facilities such as interest only, interest capitalisation or deferment of amortisation.

3.4 Undrawn Debt Facilities

While existing debt facilities, and in particular any undrawn term / revolving credit (RCF) facilities, are the most obvious place to turn for liquidity, COVID-19 may cause defaults (including but not limited to MAE) - and those defaults could act as a draw-stop to accessing these facilities.



“ Businesses that have secured debt facilities and which may be in breach of financial covenants.”

3.5 Contractual Force Majeure

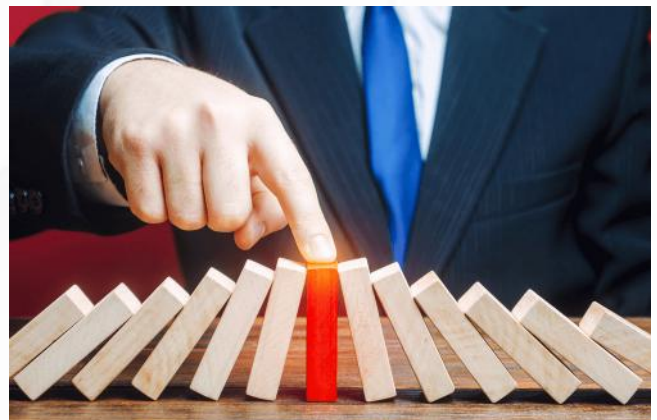
Clients who may now be under onerous contractual obligations should review their contracts for force majeure provisions which may be included in a contract to remove liability for natural and unavoidable catastrophes that interrupt the expected course of events and restrict participants from fulfilling their obligations under a contract.

3.5 Common Law Concept Of Frustration And Frustrated Contracts Act 1978

For those contracts that do not contain an agreed concept of force majeure, parties may also need to consider whether the parties' obligations under the relevant contract have been frustrated by recent events.

A frustrated contract is a contract that, subsequent to its formation, and without fault of either party, is incapable of being performed due to an unforeseen event (or events), resulting in the obligations under the contract being radically different from those originally contemplated by the parties.

“ Formal Restructuring methods would be appropriate for businesses that don't meet safe harbour requirements”



4. Formal Restructuring

These methods would be appropriate for businesses that don't meet safe harbour requirements and the business may already be insolvent or likely to become insolvent.

4.1 Voluntary Administration

Voluntary administration should be considered if the company is insolvent and unlikely to return to solvency unless a deal can be brokered with creditors for the compromise of their claims (usually a cents in the \$ return) which is done during the administration via what is known as a Deed of Company Arrangement (“DoCA”).

Voluntary administration is designed to resolve a company's future direction quickly. An independent and suitably qualified person (the voluntary administrator) takes full control of the company to try to work out a way to save either the company or its business. Typically, a voluntary administration lasts between 25 to 30 business days.

4.2 IPSO Facto & Moratorium Protection

On 1 July 2018, the 'IPSO Facto' reforms to the Corporations Act 2001 (Cth) (Corporations Act) took effect. These reforms amend the Corporations Act to prevent a party from exercising certain contractual rights, or 'IPSO Facto rights', that are triggered by certain types of corporate insolvency events.

These moratorium provisions are designed to allow sufficient time to investigate, consider and implement appropriate steps by the company in administration advance the objection of Part 5.3A to maximise the chances of the company, or as much as possible of its business, continuing in existence.

These reforms are intended to protect companies experiencing financial difficulties that are undergoing a genuine restructure. IPSO Facto clauses may operate to reduce the chance of a successful restructure, destroy the value of the business and prevent its sale as a going concern. By staying the operation of IPSO Facto clauses, a genuine restructure is more likely to succeed.



“By staying the operation of IPSO Factor clauses, a genuine restructure is more likely to succeed”

4.3 Holding DoCA

A holding DoCA is a type of Deed of Company Arrangement.

A holding DoCA can provide additional breathing space to keep staff employed and the business trading with creditors agreeing to wait or defer their claims until this pandemic passes. The DoCA uses the moratorium provided in the VA and essentially extends this to creditors through the DoCA.

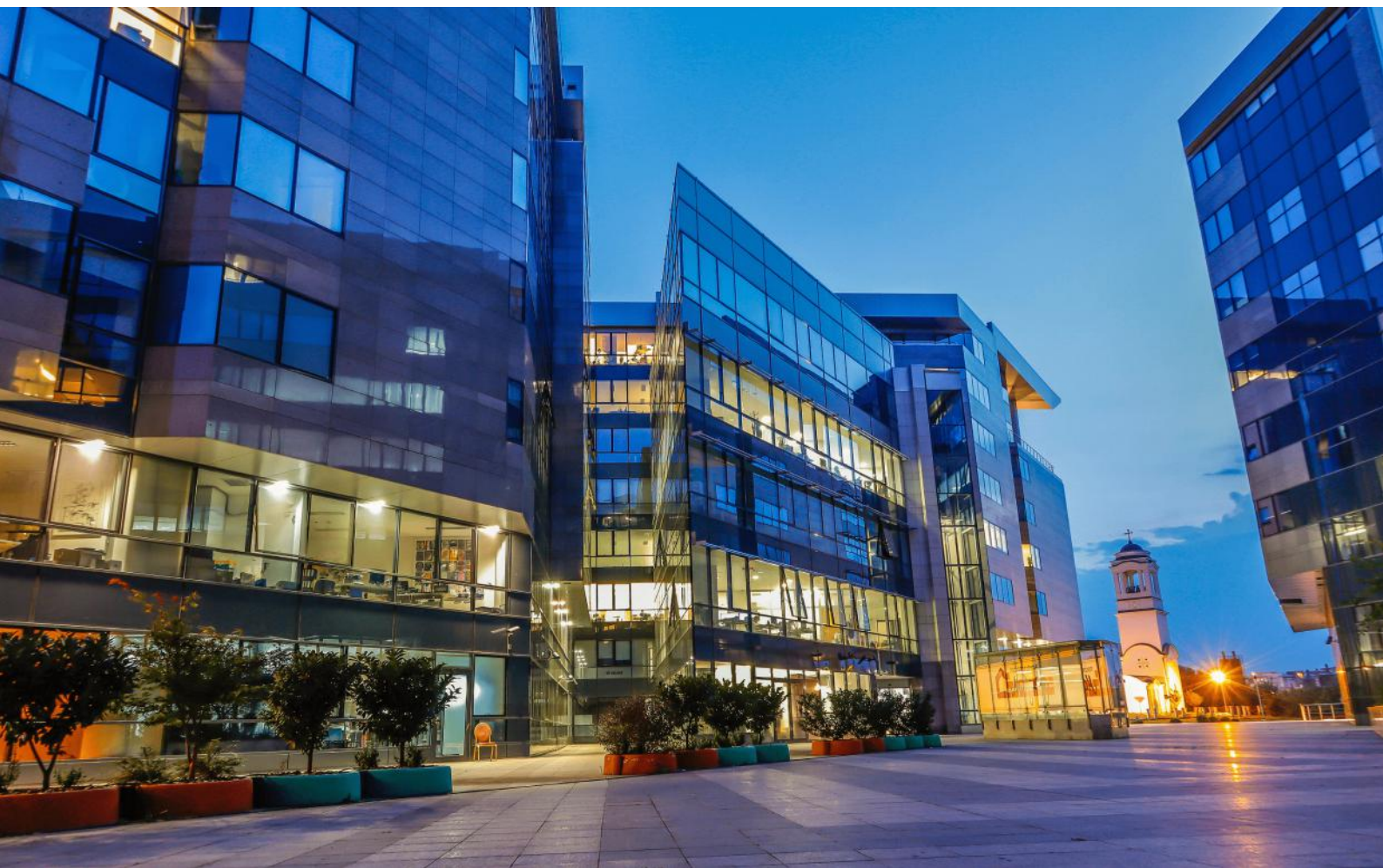
The holding DoCA allows the company and deed administrator time to put a proposal to creditors that contemplates the full impact of the coronavirus, which may not be known for some time. The extension is provided without the need for court order extending the convening period or 60-day adjournment resolution. For instance, a holding DoCA could extend creditor moratorium for 6 – 12 months.



This article has been created to share the various possibilities that are available to assist your business through this time of crisis. We advise speaking with your CIB Business Adviser and accounting professional to review your accounts and help you in choosing the correct plan.



Scan this QR Code to download the full guide



COVID-19: COMMERCIAL RENTAL ASSISTANCE - A LANDLORD'S GUIDE

By Bradley Ross, Partner

Even the most ardent sceptics would have to admit that the Coronavirus is more than just another cold. The impact on business and the wider community is unprecedented and we are seeing a range of outcomes for our clients, but what is common amongst it all is the uncertainty of the situation.

This uncertainty is requiring businesses to assess all their spending habits and where possible seek reductions in high cost compulsory expenses. One of the major expenses for businesses apart from inventory and wage costs is rent and we are seeing an increasing number of enquiries coming from landlords about requests from tenants for rental assistance.

On 7 April 2020 the National Cabinet issued the Code of Conduct for Commercial Tenancies (the Code) outlining a set of good faith leasing principles to be followed by both tenants & landlord. The objective of the Code is for tenants & landlords to share, in a proportionate and measured manner, the financial risk and cashflow impact during the COVID-19 pandemic period, whilst seeking to appropriately balance the interests of tenants & landlords. The Code only applies to small-medium size business tenants (those with annual turnover of up to \$50 million) and are eligible to participate in the JobKeeper programme. All States and Territories have now passed laws to mandate compliance with the Code.

Whilst the Code is only applicable to small-medium size business tenants who are suffering financial stress or hardship as a result of the COVID-19 pandemic, it is expected that landlords will work with all of their tenants to develop a tailored, bespoke and appropriate temporary rental assistance packages on a case by case basis.

Whether the Code applies to your tenants or not, there are a number of things that need to be considered before granting any rental concessions:

- any request from a tenant should be in writing, even if it is a related party;
- does the lease allow for the terms to be modified mid-way through its term;
- has the tenant actually been significantly impacted by the Coronavirus;
- what is the relationship like with the tenant – have they always paid their rent on time, do they keep the property clean & tidy, have they generally been complying with the terms and conditions of the lease, how long have they been a tenant, etc.;
- what is the impact of providing the requested support – will it impact your ability to service loans and meet other financial obligations;
- what is the impact of not providing the request – will you lose the tenant, what will be the lost revenue in the short and medium term whilst a new tenant is found, what concessions you would have to give to your new tenant, how long is remaining on the lease, etc.;
- does the request for rental assistance include a request to adjust outgoings if the tenant is liable for them;
- are there alternatives to what the tenant is proposing that may provide them with some rental relief but also allow cash to continue to keep coming in.
- for self-managed superannuation fund landlords, will providing the rental assistance impede the fund from being able to meet their financial commitments;
- for self-managed superannuation fund landlords, is the property leased to a related party.



In formulating and enacting temporary rental assistance, packages for small-medium size business tenants that have been significantly impacted by the COVID-19 pandemic the landlord and tenant must follow the leasing principles outlined in the code.

These include:

1. not terminating the lease due to non-payment of rent during the COVID-19 pandemic period;
2. the tenant must remain committed to the terms of their lease, subject to any temporary amendments made during the COVID-19 pandemic period;
3. landlords must offer tenants proportionate reductions in rent payable in the form of waivers and deferrals, based upon the reduction in the tenant's trade during the COVID-19 pandemic period and a reasonable subsequent recovery period;
4. unless waived by the tenant, no less than 50% of the total reduction in rent payable under principle 3 should be provided in the form of the rent waivers;

5. unless otherwise agreed, the recovery of rent deferrals must be amortised over the greater of the balance of the lease term or 24 months;
6. any reduction in statutory charges (e.g. land tax, council rates) or insurance will be passed onto the tenant in the appropriate proportion applicable under the terms of the lease;
7. a landlord should seek to share any benefit it receives due to the deferral of loan payments provided by a financial institution;
8. landlords should, where appropriate, seek to waive recovery of any other expense payable by the tenant under the terms of the lease during any period that the tenant is unable to trade. Where this occurs landlord's are entitled to reduce services;
9. if the temporary rental assistance package arranged in accordance with the Code necessitate repayment, this should occur over an extended period so as to avoid placing undue financial pressures on the tenant;
10. no fees, interest or other charges should be applied with respect to rent waived in principles 3 or 4 and no fees, charges or punitive interest may be charged on deferrals provided in principles 3, 4 or 5;

“ Unless otherwise agreed, the recovery of rent deferrals must be amortised ”



Whilst the Code does not apply to business tenants whose turnover is greater than \$50 million or who are not eligible for the JobKeeper programme, it's fundamentals should still be applied to negotiations with those tenants – namely to work with the tenant to develop a tailored, bespoke and appropriate temporary rental assistance package.

Once you have determined whether to agree to their proposal, decline it, or put forward an alternative solution, you should communicate this to the tenant in writing.

When you and the tenant have agreed on the temporary rental assistance to be provided this should be documented in writing, or where applicable documented in a lease variation agreement, which should be signed by both parties. The legal fees associated with drawing up this agreement should be negotiated with the tenant before any costs are incurred (again preferably in writing).

It is essential for self-managed superannuation fund landlords who lease property to related parties that the rental relief that you provide is no more favourable to the tenant than they would have received had they leased the premises from an unrelated party. Documenting the process undertaken, what information was relied upon in arriving at the decision, what support other landlords have provided to tenants in a similar situation, what professional advice you sought or relied upon will be of paramount importance in demonstrating that you have provided the support on an arm's length basis and that you have tried in all material respects to comply with the superannuation laws.

Scan this QR Code to download the full guide















COVID-19: HR RETURN TO WORK PLAN

By Krystina Wildman, HR Manager

In preparation for employees that are returning to the office, we have developed a Return to Work Plan to ensure businesses are doing everything they need to do to support a safe return for everyone.

Our processes and protocols have been formulated to accommodate the required hygiene and social distancing measures in our office and to comply with guidelines issued by Safe Work Australia, public health authorities and Federal and State governments.

	<p>WORKING FROM HOME</p> <p>For vulnerable workers, we suggest you to continue supporting them to work from home until such times as the Government communicates that it is safe for them to return to normal activities.</p>
	<p>STAGGERED SHIFTS TO AVOID PEAK TIMES AND ASSIST IN SAFE MOVEMENT</p> <p>To transition employees from working from home back into the office, you need to have determined that the physical presence on site will be limited at any one time to comply with the 4 square metre rule.</p> <p>An option could be to publish shifts for employees.</p> <p>Each employee's circumstance should be considered on a case by case basis..</p>

	<p>TEMPERATURE CHECKS – CONTACTLESS THERMOMETERS</p> <p>Upon arrival into the office, staff must take their temperature and record in the log provided. Contactless thermometers should be located in the reception areas for both employees and guests or contractors.</p>
	<p>HAND SANITISER</p> <p>Alcohol-based hand sanitiser must be provided in the common areas of the office including reception, kitchen and in each team area. Everyone should be extremely diligent in ensuring they use hand sanitiser as often as they can.</p>
	<p>CLEANING</p> <p>Additional cleaning services should be provided and businesses should also provide alcohol-based wipes for all employees to use daily to wipe down the equipment and surroundings before and after use.</p> <p>Common area cleaning should be regular, with an increased frequency of cleaning on high touch point areas of the office.</p>
	<p>COMMUNICATION</p> <p>Businesses should immediately advise employees of any confirmed cases of COVID-19 in the office and also have a plan in place for any confirmed cases that may occur.</p>
	<p>SEATING</p> <p>Planned or assigned seating should be in place to ensure that safe distancing occurs every day throughout stages 1-3 of the Government's return to work plan. This information should be readily available from the HR Manager.</p> <p>In common areas such as meeting rooms and kitchen areas, guidance should be provided as to the maximum people allowed in each area.</p>
	<p>MEETINGS</p> <p>All onsite employees should continue to engage with clients and suppliers virtually, minimising the need for face-to-face conversations by holding video conference and video calls.</p>
	<p>AIR CONDITIONING</p> <p>Check that your AC systems are operated to best practice standards and in line with health advice, regularly allow in fresh air from outside.</p>
	<p>SOCIAL DISTANCING</p> <p>Everyone should work together to ensure social distancing measures are maintained within the workplace.</p>





COVID-19: IMPACT ON YOUR DIVIDENDS

By Paul Israel, Investment Manager

Dividend cuts are currently a hot topic for investors.

Consensus earnings forecasts ASX 200 payouts to fall about 30% this year. While some companies have cut or deferred payments, not all are.

The impact of Covid-19 has varied widely across stocks and sectors.

Some businesses such as international travel, airports, tourism, hospitality, casinos were shut down overnight. Some have seen little change in activity, including, essential services, construction, mining and agriculture. Others have been net beneficiaries, such as supermarkets, hardware, telecommunications, IT related businesses, data centres and retailers selling IT goods.

Unsurprisingly, performance across sectors has been more varied than usual.

Looking ahead, some sectors that have suffered on the way down should bounce back relatively quickly. Domestic tourism, toll road traffic, discretionary retail, elective surgery should improve quickly. International tourism, business travel, hotels and crowd-based entertainment will take much longer.

The 'Digital Disruption' and its impacts

Digital Disruption has been accelerated rapidly by Covid-19. Growth in ecommerce, online retail, teleconferencing, tele-health, virtual conferences, on shoring of overseas call centres, working from home have seen 3-5 year trends occur in 2-3 months.

The impact of these rapid changes will cause surprise in the months ahead. Demand for office space, retail space, supply chain logistics, migration to the cloud, upgrading of telecommunication networks and investment in pandemic proofing the healthcare system are likely to feature.



“ Digital Disruption has been accelerated rapidly by COVID-19 ”

So which portfolio structures work best?

When investing, it is critical to have a well-diversified portfolio of shares paying sustainable dividend yields. Look for stocks that have a reliable track record of growing those dividends and are supported by a strong balance sheet.

In this environment, we continue to favour a balanced portfolio structure across Growth, Defensive and International.

Companies with strong balance sheets that we feel their yield can be relied on include:

1. Consumer staples with a defensive earnings profile (Coles, Woolworths)
2. Well-capitalised overseas earners (Macquarie Bank, Magellan)
3. Companies benefiting from the lockdown and the shift to online delivery (Domino's Pizza)
4. Global industrial property and logistics group exposed to the shift to ecommerce (Goodman Group) and
5. Mining stocks with growing cash piles (BHP, Northern Star).

When the dust settles, investors will wake to the reality that the RBA has an official rate of 0.25% which means that deposit rates will be 1.25% (at best). The result after inflation and tax, investors will receive a return of negative 1%.

Under this scenario it is highly likely there will be an inevitable migration out of cash back into equities, in particular those with an above-average and 'sustainable' dividend yields.

“ When investing, it is critical to have a well-diversified portfolio ”





CIB PRIVATE WEALTH: MARKET UPDATE

By Paul Israel, Investment Manager

In this update we examine the completed quarter, lesson from SARS, why Australia is well placed relative to most global peers, and what the new normal looks like, post the Coronavirus or COVID-19.

March Quarter

A recap of the March quarter.:

- Up until mid-February, financial markets adopted a measured response to the Corona virus, as China remained the epi-centre. Once Corona gathered momentum outside China, financial markets commenced discounting increased risks of a recession, and downgraded growth expectations.
- The ASX 200 Accumulation Index finished down 23.1% for the quarter. The market peaked on the 20th February. The market fell 38% from top to bottom and some of the banks 56%, more than they fell in the GFC, in just a month. At the time of writing the market is up over 16% from its lows on the 23rd of March.
- Historically, event-driven downturns, like COVID-19 have ended sooner than cyclical or structural downturns. Although they are often sharper, they generally passes faster. In contrast the Global Financial Crisis (GFC) was a structural downturn, and took longer to recover, as banks needed to deleverage and recapitalise post 2008.
- Policymakers have significantly stepped up actual stimulus over the past month, reducing the risk of a credit meltdown. In addition the actions by Global central banks has made sure that when the "All Clear" sounds the era of ultra-low interest rates will continue and the stock market will price that in.

Lessons from SARS

COVID-19 has had a larger impact on the world and markets than SARS, but we think some of the general principles from SARS also apply.

The SARS correction was short and sharp, with a low 4 months before the World Health Organisation said the crisis was over. Stocks rose 26% in the year after the low. By the time the WHO said the SARS crisis was over, ASX stocks were up 12% and global stocks 20%.

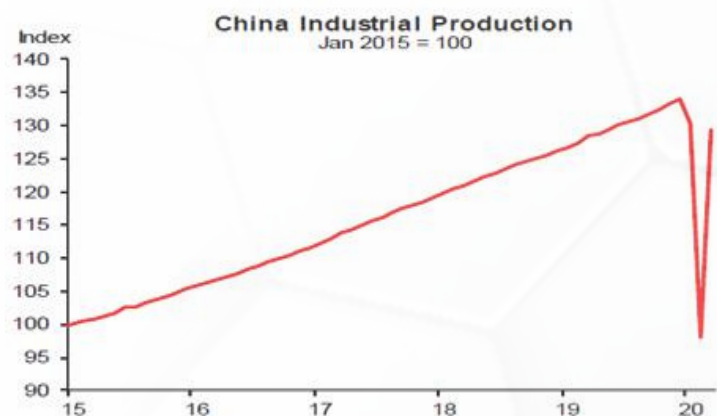
Event driven bear markets such as this one, given the backdrop of low interest rates, low inflation and fiscal stimulus don't normally have long duration.

Australia well positioned relative to Global peers

Our initial assessment of how the pandemic would evolve was based on the Asian experience. China, South Korea and Taiwan moved quite quickly to lock down the movement of citizens and close borders. This resulted in a month or so of disruption followed by a gradual return to business as usual. The breakout in Wuhan started in January and by late April the situation appears to be normalising.

Chart 1 - Chinese GDP fell dramatically in Q1, but the recovery is already underway, with industrial production up 32% in the month of March

Source: Macrobond, Macquarie



Coal consumption and traffic congestion suggests the Chinese economy is back to 90% of pre COVID – 19 levels. China's experience suggests manufacturing, finance, construction, real estate, online sales, farming and auto sales are rebounding. However, the hospitality industry, airlines and mass transportation are slower in their return.

It's worth noting that it is far easier to enforce a strict lockdown in more authoritarian political structures. In advanced western democracies, it has proved much more challenging to enforce the social distancing required to bring the coronavirus under control.

As a very infectious disease, once it is allowed to gather momentum, it has proved challenging to bring under control. Healthcare systems in many countries have been shown to be incapable of dealing with the scale of the problem. Testing standards have been inadequate, as demonstrated by Italy, Spain, the UK and most significantly, the United States.

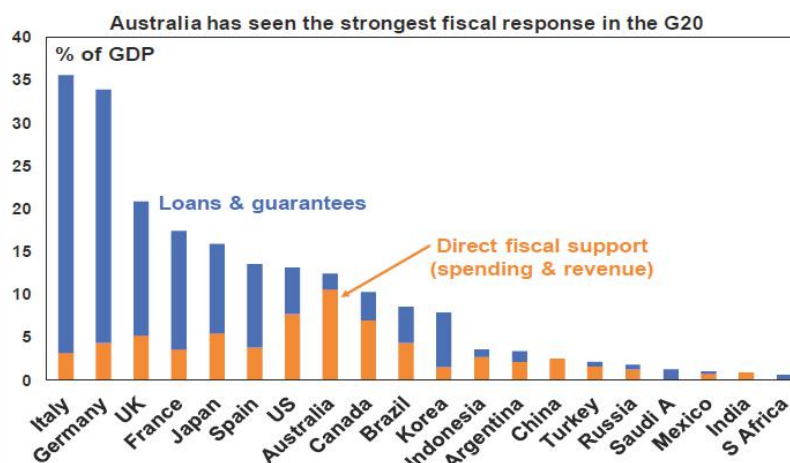
Pleasingly, Australia seems to be a good chance of following the Asian model. By implementing a lockdown relatively early, enforcing social distancing and undertaking a comprehensive testing program, the signs are that within a month or so, the corona virus will be brought under control. From there, things can begin to normalise.



“Coal consumption suggests the Chinese economy is back to 90% of pre COVID – 19 levels”

Chart 2 – Australia has seen the strongest fiscal response in the G20.

Source: IMF, AMP Capital



At a high level, it seems to us that those countries that have gone hard and early will have a distinct advantage over those that haven't. The Asian region generally, including Australia, seem likely to emerge from this relatively unscathed. In contrast much of Europe and especially the US appear likely to suffer far more human and economic damage. As in the GFC, Australia finds itself in a good position with our economy firmly tied to Asia and China.

There are a number of reasons why we feel Australia is well positioned relative to global peers:

- Australia's major trading partner, China, is now moving into recovery mode. The impact of this should not be under-estimated on the outlook for the Australian economy
- The Australian Government has acted earlier in taking measures to contain the spread of the virus.
- Australia has seen the strongest fiscal response in the G20. Loans and guarantees are helpful but they leave businesses more indebted, whereas actual fiscal stimulus provides a direct boost. So actual fiscal support is a better measure and on this front Australia at 10.6% of GDP has provided by far the strongest fiscal stimulus of G20 countries.
- Influential Westpac economist Bill Evans said the jobseeker package would have a profound effect on unemployment. So much so that he has slashed his prediction of a jobless rate of 17% to 7% by the end of the year.

The next 3 to 6 months will be an economic, social and emotional roller coaster. Substantial increases in unemployment, decreases in economic activity, implementation of the vast stimulation programs will continue to impact daily lives. Financial markets are likely to continue to reflect this volatility.

“The next 3 to 6 months will be an economic, social and emotional roller coaster”



What will the new normal look like?

We would not expect the new “normal” to be the same as the old “normal”. Trends that have evolved during the lockdown phase could reasonably be expected to remain. Working from home, teams working together remotely, online education, online shopping are likely to remain in place. International travel, especially the cruise ship industry, will take time to recover with longer term consequences for the tourism industry. The retail sector seems destined to structural change with consequences for the property sector.

The winners will include parts of the technology sector. Growth in use of the cloud, connectivity, movement of data are long term trends. Healthcare, on a global basis, will surely see substantial attention and investment in the aftermath of the corona virus. For Australia, our economic linkage with Asia continues to underwrite the long term success for our resources and food sectors.



“Growth in use of cloud, connectivity, movement of data are long term trends”

Investment Strategy

In the current uncertain and volatile time we find ourselves in, capital preservation is the main priority. From a stock selection perspective that involves being invested in companies where there is reasonable earnings visibility and predictability, and a solid financial structure.

Sectors that have a relatively high degree of sustainability include healthcare, consumer staples, food and beverage, utilities, some infrastructure and technology.

The present market volatility is also providing us with the opportunity to add to some of our core holdings at very attractive entry points. Some core holdings have traded 50% down on recent highs over the last month or so, including REA, Aristocrat, Macquarie Bank, Magellan.

As things stabilise, we are likely to reduce some exposure (not all) to some of the more defensive names that have performed well during the downturn (e.g. Resmed, CSL, Coles) and recycle funds into some of stocks that have seen a much bigger fall.

Finally, we continue to like resources, including BHP, and Northern Star. The combination of China in recovery mode, relatively high iron ore and gold prices and a low \$A underpin corporate earnings.

“In the current uncertain and volatile time, capital preservation is the main priority”



CIB CLIENT CORNER

In this issue we congratulate Beata Kade from Art of Multimedia for celebrating 20 years in business.

Beata and Art Kade began their story telling journey in 1986 when they started a wedding photography studio. They embraced new technologies to become a successful digital design agency.

How did it start?

"Multimedia came on the scene, and it gave us extra creative and function freedom, so we up-skilled our team and delivered our content on interactive CDs. That was also when we incorporated and re-branded to reflect our new direction and so became Art of Multimedia" Beata recalls.

Your most memorable projects?

The cultural and built heritage projects. "We love this space." She explains.

"We feel we spend our time well on projects that positively impact our community, as they educate, connect and inspire us and our audiences".

Art of Multimedia has won the National Trust and Interpretation Australia Excellence Awards numerous times.

What makes Art of Multimedia so successful?

"I think the reason Art of Multimedia is successful is our flexibility and client focus. It is also our appreciation for the creative process".

Top tips for running a successful business?

1. Striving for the best possible quality achievable
2. Willingness to keep learning
3. Learning to play well with others

CIB has been privileged to work with Beata and her team for over 15 years. For more about Art of Multimedia, scan the QR code.



CIB STAFF CORNER

- Congratulations to Jody Huynh, her husband and daughter Huy and Audrey on the arrival of baby boy Henry.
- Congratulations to Gia Nguyen and her husband John on the arrival of their baby boy Eaden.
- For International Women's Day, we took the time to celebrate the amazing women that help CIB to succeed. Thank you for your leadership and hard work.



UPCOMING KEY DATES AND DEADLINES

21 June 2020	May 2020 Monthly Activity Statement due for lodgement and payment
25 June 2020	2020 Fringe Benefits Tax Return required for lodgement and payment
30 June 2020	2019 Annual Returns for Self-Managed Superannuation Funds due for lodgement and payment
30 June 2020	Payment of all superannuation contributions prior to this date to be considered 2019-2020 contributions
30 June 2020	End of 2020 Financial Year
7 July 2020	Last day for monthly business declaration for JobKeeper Payment. Reporting actual June GST turnover and projected July GST turnover
14 July 2020	Single Touch Payroll finalisation declaration due for employers with 20 or more employees
21 July 2020	June Monthly Activity Statement due for lodgement and payment
21 July 2020	Quarterly PAYG Instalment Activity statement due for lodgement and payment for head companies of a consolidated group
28 July 2020	NSW Payroll Tax Annual Reconciliation due for lodgement and payment
28 July 2020	Superannuation Guarantee Contributions due for payment for Apr – June 2020 quarter
28 July 2020	Apr – June 2020 Business Activity Statement due for paper lodgement and payment
31 July 2020	Single Touch Payroll finalisation declaration due for employers with 19 or less employees
31 July 2020	TFN Report for closely held trusts for TFNs quoted by beneficiaries of the trust
7 Aug 2020	Last day for monthly business declaration for JobKeeper Payment. Reporting actual July GST turnover and projected Aug GST turnover
21 Aug 2020	July 2020 Monthly Activity Statement due for lodgement and payment
25 Aug 2020	Apr – June 2020 Business Activity Statement due for electronic lodgement and payment
28 Aug 2020	Taxable Payments Report due for lodgement with ATO for Building and Construction Industry, Cleaning Services, Couriers, Road Freight, IT Services or Security Services
7 Sep 2020	Last day for monthly business declaration for JobKeeper Payment. Reporting actual Aug GST turnover and projected Sep GST turnover
7 Sept 2020	Last Day to lodge under Superannuation Guarantee Amnesty
21 Sept 2020	August 2019 Monthly Activity Statement due for lodgement and payment