Wave of tax-time dread

BUSINESS OWNER
CLAIRE HEANEY

THE rise of the gig economy means more first-time small business operators will be struggling to get their affairs in order as the end of the financial year looms, experts say.

Patrick Harrison, a director at business software company Solo & Smart, said that, as the ranks of the nation's sole traders swelled, more people would be worrying about a big tax bill in the countdown to June 30 if they had not put money aside.

"Most solo operators waste huge amounts of time and energy dreading tax time when it can be completely painless if the money is there," Mr Harrison said.

He suggested the discipline of automatically putting away money over the year would save stress in the long run.

Research from software group Xero also pointed to businesses failing to put aside cash for their tax bill.

Xero Australia head Mathew Prouse said mistakes were common among first-time business operators with one in four saying they made errors in their first annual business tax return.

Nearly half of those admitting to making mistakes said failing to keep records and expenses was a problem. Of the 500 small businesses surveyed by Xero, 47 per cent said they did not put aside enough cash to meet their tax obligations.

More than a third said putting in their first tax return as a business was among the most stressful things they had to do in running their business.

Nearly 70 per cent said they would prefer to have dinner with their in-laws than do their taxes.

Despite these concerns, 72 per cent of business owners said they would rate their understanding of tax obligations as good or excellent.

"However, this reduces to less than three in five when it comes to understanding of language used in business tax documents, including one in 10 that admit their understanding is 'poor'," Mr Prouse said. He said 37 per cent of small business owners did all the work for their tax return themselves with no external help.

"But of those that do seek support through a qualified accountant or tax professional, the overwhelming majority (98 per cent) of small business owners believed it made tax time much less stressful for them," he said.

Technology was regarded as a great help at tax time by 84 per cent of businesses.

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FOR THE LOVE OF LANGUAGE

CLAIRE HEANEY

AFTER having to learn to talk and walk again following a devastating ski accident in 2001, Annie McAuley has a unique insight into language development.

Reflecting on her own struggle, Dr McAuley discovered she only started showing improvement when she was in a familiar and stress free environment.

"I spent a year wasted in rehab. I could not learn in a stressful environment." she said.

This insight has underpinned the development of the home based TalkiPlay application, designed to help children struggling with language development.

Dr McAuley initially was reluctant to talk about her injury, fearing it would be detrimental to her career.

However, she realised her own experience had only enhanced the credibility and understanding of the app, which will be released later this year.

TalkiPlay came about when Dr McAuley observed that her then eight-month-old daughter's language development had stalled.

Her daughter, now 3½, was struck down with ear and throat infections that left her sick, miserable and uncommunicative.

"She was mumbling when she was four months old and by the time she was eight months old there was nothing," Dr McAuley said.

While her daughter had excellent clinical care, the process of engaging her in learning sounds and developing her speech was problematic as she had lost the motivation to speak because it was painful.

"I had to find a way of getting her to talk and bring her out of her shell."

Dr McAuley, from Alphington, in Melbourne's inner north east, came up with the immersive TalkiPlay app. While it is an app, it does not involve screen-based learning for children.

"I made our house come to life so it exposed her to language that was relevant to her," she said. "It went from there — from one-word language into sentences."

The app turns a home into a "smart house" with plastic disks, called "Talkis", placed on objects for children to find. "You just try, explore and increase the opportunity to be exposed to language."

Dr McAuley has just completed a six-month intensive training course at tech incubator Blue Chilli.

She will head to New York and San Francisco at the end of the week as part of the Blue Chilli SheStarts Accelerator Program for female start-ups. TalkiPlay is undergoing beta testing and almost 50 children have used the program with favourable results.

"I will be open to investors but they would have to be a really good fit," Dr McAuley said. "I am going to get the opportunity to pitch to some amazing people in these big tech businesses and learn from women who are doing it well in business."

Creator of the TalkiPlay app Annie McAuley.

It's feeding time on Shark Tank

A FEEDING bottle that cost a Melbourne couple nearly $600,000 to develop has scored a $120,00 injection on television's *Shark Tank*.

Featured in *Business Daily*'s The Pitch series on start-ups, Subo is a non-squeeze feed bottle.

Glen and Julie-Anne Mayer initially designed the bottle to feed their young family homemade food on the run but they also see applications for older people and those who, through illness or disability, can't feed themselves.

The Mayers did a deal with entrepreneur Steve Baxter, who receives a 12 per cent share in the Subo business for his $120,000 investment.

The inspiration came from a pump pack toothpaste container.

Subo allows children to feed themselves with a platform moving up and down inside the bottle.

The couple was able to win significant grants to help commercialise the product.

The couple juggled the development of the business with their day jobs but late last year, Mr Mayer quit his day job to concentrate on developing the business full time.

Subo is available online and from some stockists, and retails at $29.95.

Shorting hurt at first but bank fears are now being realised

THE SHORT CUT
with ROGER MONTGOMERY

IT IS perhaps unique to the Australian stockmarket that four banks have such a heavy influence.

The Commonwealth Bank, Westpac, National Australia Bank and ANZ explain 27 per cent of the ASX 200 and, in 2016, it pained us greatly to be significantly underweight as they rallied.

Of course, value investors are often early to the party and early to leave, and what we could see back in 2016 is now coming to pass.

Our underweight position — we hold less than 7 per cent of our domestic portfolios in the banks — is now paying off as the market begins to catch up with the idea that a weakening property market and heavily indebted consumers will limit the banks' ability to grow their mortgage books as quickly as they have in recent years.

And that's even before we take into account the impact from the banking royal commission.

In response to the 2014 Financial System Inquiry report, the Australian Prudential Regulation Authority imposed new capital requirements for the big four banks to have more capital.

That's a bit like me telling you to write a cheque for millions of dollars to put back into your business without expecting any additional profit to be made. In 2014, APRA also acted to tighten standards for interest-only loans, and mortgages more generally, requiring serviceability assessments for new loans to be more conservative, and added an interest rate "buffer" of at least 2 percentage points above the relevant benchmark rate.

And the test had to include other existing debt. Borrowers needed to be able to afford a substantial rise in interest rates to qualify for a loan.

And when APRA tightened loan serviceability requirements, it also limited the growth of investor lending, to 10 per cent annually.

This lending growth cap has since been removed, however mortgage commitments to investors have slipped to the lowest level since January 2012.

In July 2015, APRA also announced, with effect from July 2016, changes to the treatment of residential mortgages for banks that are able to use the internal ratings-based approach to credit risk for capital adequacy purposes. In essence, for every dollar of equity the banks hold, they simply cannot lend as much to residential mortgages.

In early 2017, APRA further tightened standards on interest-only lending, requiring banks to limit new interest-only lending to be no more than 30 per cent of new mortgage lending. Two years prior, that was at 45 per cent.

It is clear that it has become much tougher for property buyers and investors to obtain a large loan. And one of the largest drivers of mortgage book growth is "churn".

Churn is the growth in the total value of loans that comes from a smaller and older mortgage being paid off and replaced with a bigger, newer mortgage.

When circumstances for house price growth are tougher, churn-driven growth can dry up and severely dampen growth for the banks.

The royal commission has uncovered that banks were loose in their application of income and expense assessments before granting new mortgages. More stringent assessments are being executed and more applications being rejected (30 per cent versus just 5 per cent last year).

And don't forget the foreign investment slump from 40,149 approvals in 2015-16 ($72.4 billion), to just 13,198 approvals, ($25.2 billion) in 2016-17. Meanwhile, higher short-term global interest rates and the migration of interest-only mortgages to lower-margin principal-and-interest loans will ensure lower net interest margins for the banks as well.

Unsurprisingly the banks have seen their shares fall.

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