Welcome to our latest e-newsletter.
Did you know Australia is in the midst of another Financial System Inquiry? If you're an investor or in business, one of the more interesting details from the inquiry's first interim report considers whether there may be a case for ending Australia's dividend imputation system.

We also provide a warning about a recent increase in so-called 'ransomware' computer attacks, and farewell Margaret who retired last month after 24 years with the Dewings team.

In this edition...

Australia's Financial System Inquiry

There is a Federal Inquiry into Australia's financial system being undertaken at the moment. A preliminary report **was issued by its Chair, David Murray, in July and makes for some interesting reading.**

Australia has had financial system reviews before. Most significantly, the Campbell Report in 1981 led to the floating of the Australian Dollar and the deregulation of the financial sector, while the Wallis Inquiry in 1997 resulted in the establishment of APRA (the Australian Prudential Regulation Authority) and ASIC (the Australian Securities and Investments Commission). The establishment of APRA and its regulatory oversight is often cited as one of the more significant reasons Australia was able to better withstand the financial turmoil of the GFC.

Since the Wallis Inquiry in 1997, the world has changed significantly. The superannuation industry has exploded, especially in the Self-Managed Superannuation Fund (SMSF) space, and there are far more investment products available. Many of these now have increased international exposure, which together with the general 'shrinking' of the world through a more interconnected global community, has meant that Australia's financial stability is more vulnerable than ever to international events.

The interim Murray Report concludes that as a whole, Australia's regulatory system is working and that there is little need for any wholesale changes. However, it does raise the possibility of a few tweaks, some of which have the potential for far-reaching consequences.

It finds, for example, that there is inadequate fee-based competition in the superannuation sector, which means that we pay a lot more for retirement planning than our overseas counterparts. It also suggests that creditors should bear more of the cost where a 'too-big-to-fail' financial institution is bailed out at taxpayer expense. The current system, it suggests, effectively creates an implicit guarantee for the large banks which reduces their incentive to minimise risk.

As accountants however, there was one aspect of the interim report that really caught our attention. The enquiry has suggested that there may be cause for a review of Australia's dividend imputation system. Put simply, dividend imputation passes on tax (or 'franking') credits to shareholders for the tax already paid by companies on the dividends they distribute. In essence, it ensures that company profits are not taxed twice - once in the company as profit, and again in the hands of shareholders when that profit is passed on as a dividend. Any tax due on the dividend in the hands of the shareholder is offset (in full or in part) by the amount of company tax already paid.

From the point of view of an investor, this is quite obviously a good thing. But it's also good for Australian companies and particularly small-medium businesses.

Believe it or not, the motivation for introducing dividend imputation in the first place was not to stop the Tax Office double-dipping (that may not come as a surprise). It was actually intended to correct an investment bias against Australian equities. Reducing the tax that would be paid by investors on income from Australian companies makes investing in Australian shares more attractive.

The introduction of dividend imputation also resulted in a reduction in gearing levels for Australian companies on the whole, because equity became relatively more attractive as a source of funding over debt. This in turn has helped to make Australia's corporate sector relatively more resistant to shocks, because when money gets tight or there is a significant financial crisis, Australian companies are less exposed to the impact of excessive borrowings.

The prevention of double taxation though is very important for small-medium businesses using a company in their structure. The overall tax burden for those in business is usually borne one way or another by the owners - it's simply a question of where tax is paid. Without dividend imputation, business owners will pay tax on income in a company and more tax again on the same income when they take profit out as a dividend. This will mean that paying salary becomes more attractive than paying dividends, which would mean an overall higher level of tax is paid. Long term, it will mean that small and medium business owners will use companies less, which reduces their level of personal asset protection.

The interim Murray report, however, argues that the benefits of dividend imputation have declined as the capital market has become more open, and further, dividend imputation results in an unreasonable bias towards Australian equities over, say, domestic corporate bonds. Essentially, it suggests that having tax credits attached to dividend income means that all investment options are not treated equally.

This is cause for significant concern for both investors and business owners. Dividend imputation has effectively been capitalised into share prices in the decades since it was introduced. Even the threat of removing it now could trigger a massive market adjustment if investors were to move away in significant proportions. For large corporate institutions, borrowings would become relatively more attractive as a source of funding which would increase vulnerability during economic downturns. For small-medium business owners who use companies as a part of their structuring, the outcome simply would be more tax to pay.

In his speech at the release of the interim report, David Murray said "*... we would like to emphasise that Australians and their national interest will prevail if we balance individual interests and the public good in the design of the financial system. That is how we sustain confidence."* It's likely that this is the hope of all Australians when it comes to the financial sector. The extent to which this balance will be achieved at the expense of small-medium business owners remains to be seen. We'll keep you posted.

Rise in Cryptolocker 'ransomware' attacks

Margaret retires

Last month we had our very first

While IT is not normally our speciality, the security of files and documents is something that is of particular interest in our work. That's why we thought it was worth highlighting the recent rise in so-called 'ransomware' infections.

Ransomware infections (technically called Cryptolocker) are introduced to your system through emails that appear to arrive from genuine businesses, including Australia Post, the major banks and the Australian Taxation Office. These emails will invite you to open attachments.

What happens next is a big problem. In the words of our friends at LeetGeek, "*The ransomware encrypts files and folders on computers running Windows and demands a ransom for their decryption.* ***There is no method of decrypting the files without a unique key*** *and the only recommended option is to restore from backup."*

There is every chance that if executed in a business environment, such an attack could potentially threaten not only your personal documents but critical business data. The only way to recover your files, once infected, is to either pay the ransom (which, even then, is not a guaranteed solution) or restore your files from backup.

It highlights again the need for a regular, rotating backup system for your critical files and folders, including off-site storage. Further, it's more critical now than ever before to be vigilant in your email activity. Unless you can be completely sure of the identity of a sender, and are expecting correspondence with attachments, **do not open email attachments**.

retirement.

Dewings has existed in one form or another for around 30 years, and for 24 of those we've been fortunate to have Margaret as a part of the team. Over that time Margaret had gradually cut back her hours until she was only working two days a week, but recently she decided that even that was too much! She made the decision to retire earlier in the year, and we farewelled her in September.

It was quite an emotional time as we realised how much a part of the place Margaret had become, and began to contemplate life without her for the first time. Things have certainly changed a lot since she started. For example, back then no one had a computer on their desk. Instead, we had a couple of central computers, and we would have to leave our desks and walk to another area in order to process entries. The rest of our work was done on paper. Of our current team, only Phil, Kathy, John and Kim were here at that time.

Margaret set the benchmark for work quality at Dewings. Everyone knew that picking up a 'Margaret job' was like reading a book, with every 'i' dotted and every 't' crossed. More than that though, Margaret has a huge heart (despite her diminutive stature!) which translates into a passionate concern for others. This made her client relationships close and personal, and it was always Margaret who was at the forefront of ensuring that all of her fellow Dewings team members were treated fairly.

Margaret often challenged us to look beyond the walls of the practice and do more for those with less. It was Margaret who encouraged us to take our

Incidentally, and on a brighter note, LeetGeek recently placed 15th on BRW's 2014 Fast 100 list - the fastest growing companies in Australia!

According to BRW, LeetGeek has experienced average annual growth of 123% over the last four years, which ranked it as the fastest growing company in South Australia and 15th in the nation.

Congratulations to Richard, Ben and the LeetGeek team.

traditional Kris Kringle celebration for Christmas and instead turn it into a food drive for the Hutt Street Centre. A frequent traveller, no overseas trip is complete for Margaret without pre-planning some contribution to the local people or a charity of some kind. Last year she single-handedly gathered kilos of kids essentials like shampoo and textbooks for the Green Gecko Project in Cambodia, and inspired members of the Dewings team to get on board and contribute.

Saying goodbye is never easy, but this one is particularly tough for us. To say that Dewings won't be the same without Margaret is a huge understatement. It is bittersweet though. While we will miss her, it's rare these days that a person should spend so much time with the one employer, and we know that we have been fortunate to have had that level of commitment and loyalty for so long. Plus, knowing how much she loves to travel, we're excited for her to be able to finally throw off the shackles and go whenever, and wherever, she likes.

We want to offer the most sincerest of thanks to Margaret for 24 years of hard work, faithful service and fun, and wish her all the very best for her retirement. We know she'll be making the most of it.