Australia embraces Black Friday and Cyber Monday

The Black Friday and Cyber Monday sale concepts have well and truly arrived in Australia with retailers embracing this latest retail event to stimulate what has been an economically lack lustre year.

Why ‘Black Friday’?

For many Australians, Black Friday is just confusing – shouldn’t Black Friday be on Friday 13th? In the US, the Black Friday sales follow Thanksgiving in a similar way to the Australian Boxing Day sales. The Black Friday sales also lay a clear runway to Christmas, stimulating consumer spending.

The story behind the name Black Friday is hotly contested. In the US, the use of the name ‘Black Friday’ was first used for the gold market crash on 24 September 1869. The crash was engineered by financier Jay Gould and railway magnate James Fisk amongst others, when an attempted play to drive up the price of gold unravelled. The pair sought to corner the market in loose gold using political influence to keep Government gold off market, driving up the price from $100 to $163.50. However, when the Government recognised the scheme, it placed $4 million in-specie on the market. The price of gold plummeted to $133 with the ensuing panic spreading to the rest of the market. Gould, who secretly sold much of his gold stocks on the high, did better than Fisk who lost much of his investment.

The widespread use of Black Friday in a retail context appears to have come out of Philadelphia, where the police used the term for the general craziness created by the crowds swelling the city’s population for the post-Thanksgiving Day sales and in preparation for the Army-Navy football game on the Saturday. Stretched to their limits the police could not take the day off and worked long shifts, thus it was a black day on their calendar.

The widespread use of Black Friday to describe a shopping sales event was at some point in the 1980s with PR spin turning the story into a positive economic event. The story goes that struggling retailers went from being ‘in the red’ throughout the year to ‘in the black’ following the boost in sales in the period between Thanksgiving and Christmas. When accounting was documented by hand, the black in black Friday was said to be from the black ink staining the fingers of the accountants.

And now Black Friday is in Australia, adding another event to give consumers a reason to spend. We now jump from one retail event to the next with Easter eggs and hot cross buns appearing almost immediately after Christmas, with a quick foray into Valentine’s Day in between, then a sea of pink for Mothers’ Day before the big red signs come out for the EOFY sales. Post the last minute sales rush of the end of financial year, we have Fathers’ Day, now Halloween, before the Christmas decorations go up and the Christmas carols go on a 24/7 rotation.

From a retail perspective, and to hijack Voltaire’s famous quote, if Christmas did not exist, it would be necessary to invent it.
The rise and rise of online shopping
Black Friday and Cyber Monday are online focussed events (although anyone who fought the shopping centre on Friday, 29 November would hotly contest this).

Australia Post’s recent 2019 eCommerce Industry Report states that in 2018, the five weeks from 11 November to 15 December accounted for almost 15% of all eCommerce transactions. The peak for this period was Black Friday / Cyber Monday, which was the biggest online shopping week in Australia’s history, recording strong growth of over 28% from the previous year.

In general, more than 73% of Australian households shopped online in 2018. Group CEO Christine Holgate said, “Almost three quarters of all Australian households are now shopping online and we expect that around 12% of all consumer spending will be conducted online by 2021.”

eCommerce in Australia is growing rapidly, with online spend reaching 10% of total retail sales in 2018, two percentage points higher than the previous year. Australians spent $27.5 billion buying goods online, an increase of 24.4% year on year.

The number of online purchases grew by more than 13% year on year in every State and Territory, with the national average growing over 20%.

Services such as Afterpay have also taken away the pain point for consumers deciding whether or not to make a purchase (without the debt loading of traditional credit card arrangements). Afterpay reported $4.3 billion in underlying sales through its platform in 2018-19 with a loyal client base entrenching the service as a habit.

While the rise of eCommerce sounds impressive, this growth does not necessarily represent economic growth. Much of the expansion of online shopping is an alternative to physical shopping and a reflection of a market shift towards consumer preferences. Growth in retail spending has been steady at a low rate, but rising prices have implied that the volume of retail sales declined over the year to the September quarter.

5 things that will make or break your business’s Christmas
The countdown to Christmas is now on and we’re in the midst of the headlong rush to get everything done and capitalise on any remaining opportunities before the Christmas lull. Busy period or not, Christmas causes a period of dislocation and volatility for most businesses. This dislocation and volatility mean that it is not ‘business as usual’ and for many businesses, it is the change that causes the problem. Most business owners cope well with consistent trading conditions, where trading and business conditions are predictable as are the solutions to issues that arise, but it is a different story during periods of disruption. Here are some things to watch out for:

1. Ho, Ho, No. The trading stock headache.
If business activity spikes over the Christmas period and you sell goods, then there is a temptation to increase stock levels. That makes sense as long as you don’t go too far. Too much stock post the Christmas period and you will either be carrying product that is out of season or you will have too much cash tied up in trading stock. Try to work with suppliers who can supply on short notice. Better yet, see if some of your suppliers will supply you on consignment where you only pay them once the stock is sold. It might be better to miss a few sales than carry a trading stock headache into the New Year.
Managing your trading stock is not just about managing cost, consumers will go online if they cannot find what they need in store. Some savvy retailers are capitalising on this with opportunities to purchase online while instore if stock is not available or providing free shipping codes.

2. The discounting trend
Consumers now expect a bargain and can generally find one. The attraction of the Black Friday sales is that stock is generally available. Those waiting for bargains in the week immediately prior to Christmas, can only choose from what’s left.

If you choose to discount stock (or the market forces you to), it’s essential to know your profit margins to determine what you can afford to give away. A business with a 30% gross profit margin that offers a 25% discount (certainly nothing unusual about that in today’s market) needs a 500% increase in sales volume simply to maintain the same position. The result generally is that often businesses trade below their breakeven point and generate losses. So, think carefully about your strategy and what you can sustain.

3. The Christmas cost hangover
Costs tend to go up over Christmas. More staff, leave costs, downtime from non-trading days, as well as increased promotional costs all mean that the cost of doing business increases. Keep an eye on them. It’s great to get into the Christmas spirit as long as you don’t end up with a New Year hangover.

Many businesses also bring on casual staff. It’s essential that you pay staff at the correct rates and meet your Superannuation Guarantee obligations. Under the Retail Award, the rate for adult casuals (21 and over) start at $26.76. There is also a 3 hour shift minimum for all casuals regardless of whether you send them home early. Check the pay calculator to find the correct rates.

4. New Year cash flow crunch
The New Year often leads into a quieter trading and tighter cash flow period. The March quarter tends to be the toughest cash flow quarter of the year. You will need a cash buffer going into the New Year. Don’t over commit yourself in the run up to year end and end up in trouble in the New Year.

5. Take a lesson from Scrooge
If you work with account customers, start your debtor follow up now. If your customers are under any cash flow pressures, the Christmas period will only increase that pressure. The creditors who chase hard and early will get paid first. Don’t be the last supplier on the list; the bucket may be empty by then.

Christmas is a great time of year. Just don’t get caught up in the rush and let things get out of control.

Bushfire relief from ATO obligations
The ATO has provided relief from lodgement compliance and payment obligations for those impacted by the bushfires. An automatic two month deferral for activity statements lodgements and payments due has been provided to those in affected postcodes.

Taxpayers can also call the ATO directly to request further assistance, such as requesting extra time to manage tax debt or lodgements, help finding lost documentation such as Tax File Numbers, reconstructing tax documentation, fast tracking refunds, interest free periods, and remittance of penalties or interest charged during the crisis.
Super guarantee opt-out for employees with multiple employers

Employees with multiple employers can now opt-out of superannuation guarantee from all but one employer.

Employers are required to pay 9.5% superannuation guarantee for all eligible employees. But what happens if you are an employee with multiple employers? Until recently, these compulsory payments meant some employees risked unintentionally breaching their concessional contributions caps. New laws however provide a potential solution.

Legislation that passed Parliament late last month allows an employee to apply to the Commissioner of Taxation for an employer shortfall exemption certificate to opt-out of the SG system for specific employers. This certificate prevents their employer from having a superannuation guarantee shortfall if they do not make superannuation contributions for the period covered by the certificate.

It’s important to note that the exemption certificate does not require the employer to stop paying SG, it merely protects them if they fail to make SG payments. The employer may choose to continue paying SG – either because they could not reach an agreement with the employee on their total remuneration package once SG is removed, or the administration required to exclude an individual employee is too onerous.

The Commissioner will only issue an employer shortfall exemption certificate where:

- The taxpayer is likely to exceed their concessional contributions cap for the financial year (just because you have multiple employers does not mean you can opt out of SG), and
- At least one employer is paying SG for the employee.

The Commissioner might deny the certificate if it’s not appropriate, the application would significantly reduce the amount of SG by an amount larger than necessary (for example, opting out of SG from the largest of the multiple employers), or where there is a contrived arrangement to take advantage of the new rules.

The due date for the employer shortfall exemption certificate is 60 days before the first day of the quarter to which the application relates.

Before applying for a certificate, it’s important to understand the impact of opting out of SG. You will need to negotiate your total remuneration package with your employer and the impact of this on your tax position, understand the tax outcomes if you did nothing and exceed your contributions cap, and the impact on your retirement savings over time.

The Super Guarantee timing trap for employers

How employers are being caught out by the timing of superannuation guarantee payments.

Employers can generally only claim a deduction for superannuation contributions in the income year in which the contribution is made. Super contributions are made when the payments are received by the trustee of a complying superannuation fund.

It’s not uncommon for employers to be caught out by timing problems, many in the belief that the contribution has been made at the point the payment is made rather than when it is credited to the superannuation fund provider’s account. Many forms of electronic transfer however are not guaranteed to be automatic or next day. BPAY for example may take up to 2 days, a delay that is often not factored in.

A new practice statement from the ATO highlights the problem created by the use of clearing houses.
There is a specific element of the law that enables payments made to the Government’s Small Business Superannuation Clearing House (SBSCH) to be accepted as contributions when the clearing house receives them, rather than when the trustee of the superannuation fund has received the contribution. The SBSCH is only available to small businesses with 19 or fewer employees, or with an annual aggregated turnover of less than $10 million.

Private clearing houses are treated differently and as such, employers need to allow sufficient time for their superannuation contributions to be received, processed and paid by the clearing house to the superannuation fund, before their SG obligation is discharged.

Take the example of an employer who brings forward superannuation contributions before 30 June to be able to claim the tax deduction in that year. If a private clearing house was used, and time was not allowed for the clearing house to process the payment, and as a result the payment was not received by the trustees before 30 June, then the deduction cannot be claimed until the next financial year.

HANCOCK & ASSOCIATES – What’s Been Happening

Welcome back Helen Englezos who has returned from maternity leave.

From all the partners and staff of Hancock & Associates we wish you all a very Merry Christmas and prosperous New Year.

Our office will be closed for the Christmas period from 1.00pm Friday 20th December 2019 and will reopen 8.30am Monday 6th January 2020.

Our Partners: Malcolm Katon, Shalesh Prasad & Kyle Sinclair
Our Accounting Team: Sandra Button, Helen Englezos, Danni Katon, Divyesh Rana, Minh Nguyen & Tasmia Afsari
Our Admin Team: Theresa Ferris, Sarah Vibert & Carley Pou

Have you visited our website? www.hancockassoc.com.au
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