DWFoxTucker Lawyers

2016

Spring Report

All in the Family

From the ruins of a burnt out old dairy farm to become one of Australia's most successful, award-winning, family wine businesses.

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CLIENT PROFILE

Paracombe Wines

Copreneurial passion

A relatively new term that perfectly describes one couple's strong desire to grow a successful family wine production business.

With no knowledge of the wine industry or grape growing, it takes a certain amount of bravado to establish a vineyard — especially when the State Government of the day were paying people to pull out their vines!

"People thought we were a bit crazy, but we were young and keen to give it a go," according to Kathy Drogemuller who, along with husband Paul, worked outside jobs while establishing their property and vineyard.

From their first plantings in 1983 following the Ash Wednesday bushfires, Paracombe Wines began its extraordinary journey from the ruins of a burnt out old dairy farm to become one of Australia's most successful, award-winning, family wine businesses producing 18,000 dozen wine annually.

But it's been a far-from-easy road for Paracombe Wines to get where they are today.

The decision to go from grape growers to winemakers happened in 1991 while dining with friends who were customers of Paul's grain and fodder business at the time and who were also wine producers.

After sampling a beautiful Laurent Perrier French Champagne, Paul asked, "How do you make this?"

From there, they bought a second-hand crusher and milk tanks, got a welder friend to help them make a basket press and started making wine in the tin shed on their property. Paracombe Wines launched in the homestead gardens in early November 1992.

"In those early days, I would drive around with my little children calling on restaurants and bottle shops selling Paracombe Wine."

Today, Paul and Kathy's hard work, passion and vision have paid dividends. They have expanded the vineyard, designed and built a state of the art winery, established underground cellars and a stunning cellar door. Son Ben works in the family business and daughter Sarah in hospitality.

"The fruit for Paracombe Wines is from our family vineyards and specialist local family growers and all our wines are made, aged, bottled, stored and distributed directly from the winery."

Sustainability and self-sufficiency in the winery, underpinned by environmental management practices, is one of the keys to producing ecologically-crafted, award-winning wines.

Paul and Kathy have invested in solar power technology and developed more efficient practices in the winery and vineyards for water usage, including installing large rainwater tanks to ensure the winery remains self-sufficient.

“We are constantly seeking, researching and implementing new ways to reduce our environmental footprint.”

This philosophy, along with dealing directly with the South Australian wholesale trade, building strong personal relationships, and delivering excellent service and a quality product has seen Paul and Kathy grow their business to be the success it is today.

Success which has seen Paracombe Wines expand not only into Australia’s major national liquor retail chains, but also into global markets including Sweden, Denmark, United Kingdom, Canada, Hong Kong, Singapore, Taiwan, Indonesia, South Korea and China (with the latter being the largest export customer).

“Breaking into the Chinese market is exciting, and it meant learning about a different culture, way of communicating and doing business.”

The Drogemullers seized an opportunity to participate in a fair in Guangzhou, China in 2010 with support from Austrade who provided a dedicated exhibition area, interpreters, meetings with buyers, business matching program, media exposure and networking events. The decision spring-boarded Paracombe Wines into this new and emerging market and proved to be a pivotal financial contribution to the business.

Further success came in 2013 when Paracombe Sauvignon Blanc won Best Still White Wine at the SIAL China fair in Shanghai against 320 winery exhibitors from 11 different countries worldwide — a huge accolade for Australian wine.

The awards and accolades kept coming for Paul and Kathy who have amassed many hundreds over the years, including the Paracombe 2014 Sauvignon Blanc — selected as one of just three wines served at the Swedish Royal Family’s annual ‘Sverigemiddag’ Dinner at the Royal Palace in Stockholm.

This year has also seen Kathy announced as a South Australian Finalist in the 2016 Telstra Business Women’s Awards in the Entrepreneur category.

Kudos aside, Paul and Kathy believe Paracombe offers great wine for a great price with a great story behind it. They also acknowledge the commitment, hard work and passion shared by their staff to produce world class wine.

”Paracombe Wines conveys the ‘family brand’ in a way that is inclusive so that our business associates, customers, and social media followers feel they are a part of the Paracombe Wine family.”

In a roundabout way, the ‘family connection’ has included DW Fox Tucker as their legal advisers.

“We were seeking professional assistance with applications for liquor licensing approvals to accommodate our exciting growth stage with cellar door and functions. Our Operations Manager, Ryan Giles, knew DW Fox Tucker’s Lisa Harrington personally and that they are specialists in liquor licensing. Lisa and her team have been great to work with and assisted enormously.”

It’s nice to be part of a great South Australian family.

FOR MORE INFORMATION ABOUT PARACOMBE WINES

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PARACOMBE

Adelaide Hills
Premium Wines

NEWS & VIEWS | **By Sandy Donaldson & Nick Wockel**

Wild Geese Wines: The Bird has Flown

Removal of Trade Marks for Non-Use

A recent decision of the Full Court of the Federal Court of Australia is the latest round in a longrunning fight in Australia and elsewhere between the owners respectively of the well-known WILD TURKEY bourbon whiskey brand (“**the Wild Turkey Interests**”) and WILD GEESE RARE IRISH WHISKEY (“**the Irish Whiskey Interests**”).[1]

Removal for Non-Use

The Australian *Trade Marks Act*[2] has “use it or lose it” provisions in relation to trade marks.[3]

Registered trade marks can be removed if the owner does not actively use the trade mark in Australia for a period of three years. If your trade mark has not been used by you, or by an *authorised user* on your behalf, it is possible for another party to apply to have your trade mark removed.

The Full Court in its judgment found that a mere right to control the use of a trade mark is insufficient to defend an application to have the trade mark removed for non-use. The decision may have serious implications for entities with trade mark licencing agreements.

The Story in Brief

On 21 June 2000, the Irish Whiskey Interests applied for, and obtained, registration of the word mark WILD GEESE in classes 32 and 33.

At around the same time, Mr Patrick O’Sullivan QC, a South Australian Queen’s Counsel and a winemaker, set up Wild Geese Wines Pty Ltd (**WGW**). WGW began operating a vineyard in the Adelaide Hills that sold merlot and later pinot noir under the label “WILD GEESE WINES”. The first vintage of Merlot was 2001.

WGW applied about 7 months after the Irish Whiskey Interests to register WILD GEESE WINES in a composite mark, but withdrew the application when the Trade Marks Office cited the Irish Whiskey Interests’ WILD GEESE mark.

Subsequently, in 2005, WGW sought to register the words WILD GEESE and WILD GEESE WINES as trade marks.

1 *Lodestar Anstalt v Campari Inc* [2016] FCAFC92
2 *Trade Marks Act 1995 (Commonwealth)*
3 *Trade Marks Act,* Section 92

If your trade mark has not been used by you, or by an authorised user on your behalf, it is possible for another party to apply to have your trade mark removed.

The Full Court decided the mere fact that WGW was licenced to use the trade mark was insufficient to establish that control had been exercised. The mere existence of a control clause is not enough.

It was apparent that the Wild Geese Whiskey had never been sold in Australia and therefore the trade mark WILD GEESE had not been used by the Irish Whiskey Interests. WGW accordingly made an application to have the trade mark removed for non-use.

The Wild Turkey Interests had also previously lodged an application to have the WILD GEESE mark removed for non-use.

Mr O'Sullivan contacted the Wild Turkey Interests and their initial response was to assert that WGW was infringing the WILD TURKEY mark. However, an agreement was eventually reached whereby WGW assigned all of its interests in its WILD GEESE trade marks, and its rights to apply for removal of the Irish Whiskey Interests' mark, to the Wild Turkey Interests.

WGW was granted a perpetual and exclusive licence to use the trade mark to manufacture and distribute its wine in Australia for a one-off fee of $1.00. The agreement included quality control conditions that required the wine to be of a sufficient standard to obtain export approval and gave the Wild Turkey Interests the right to request samples of the wine.

The Irish Whiskey Interests' trade mark for WILD GEESE was removed for nonuse after an earlier decision of the Full Federal Court.[4]

In 2007, the Irish Whiskey Interests began selling their whiskey in Australia and wished to use the mark WILD GEESE.

4 *Austin Nichols & Co Inc v Lodestar Anstalt (No 1)* (2012) 202FCR490

In September 2010, they brought an application to remove the Wild Turkey Interests' trade mark for WILD GEESE arguing that it had not been used by the Wild Turkey Interests.

Authorised use Argument

The Wild Turkey Interests did not use the mark, however, they argued that WGW used the trade mark to sell its wine as an *authorised user* under the licence agreement.

Section 8(1) of the *Trade Marks Act* provides that a person is an "*authorised user*" of a trade mark if the person uses the trade mark in relation to goods or services "*under the control*" of the owner. If there is *authorised use*, this is taken to be use by the trade mark owner. If the owner of a mark does not use the mark and relies on use by an *authorised user*, the owner must establish that use by the party that is asserted to be an *authorised user* is use that is *under the control* of the owner. Control is taken to be exercised if the owner:

- exercises quality control (section 8(3)); or
- exercises financial control (section 8(4)),

although these provisions do not limit the meaning of *"under the control of an owner"* (section 8(5)).

Obviously, the Wild Turkey Interests did not exercise *financial control* over WGW. The main question considered by the Court was whether the Wild Turkey Interests exercised *quality control*.

There was no doubt that the licencing agreement gave them a right to exercise quality control by testing the wine and requiring it to be of a sufficient standard. However, these control mechanisms were never actually enforced. There was no evidence of the Wild Turkey Interests monitoring WGW's use of the trade mark.

The Wild Turkey Interests did request a wine sample in April 2011. While the request demonstrated control over the quality of the product, it was made after the non-use application had been lodged and, therefore, outside of the relevant period.

In his judgment, Katzman J recognised that *control* is not limited to *financial control* or *quality control*, by reason of section 8(5), but said:

> *"The language used in the two sub sections strongly suggests that – regardless of the form that the control might take – it is the exercise of control that matters, not merely the right to do so."*[5]

The Full Court decided the mere fact that WGW was licenced to use the trade mark was insufficient to establish that control had been exercised. The mere existence of a control clause is not enough.

The Wild Turkey Interests applied for special leave to appeal the decision in the High Court, but the High Court has since dismissed the application stating there was no reason to doubt the correctness of the decision.[6]

5 Lodestar Anstalt v Campari America LLC [2016] FCAFC92 at para 169.
6 Campari America LLC v Lodestar Anstalt [2016] HCASL 312 (16 November 2016)

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NEWS & VIEWS | **By Sandy Donaldson & Nick Wockel**

Wild Geese Wines: The Bird has Flown

Potential Licensing Issues

The most frequent situations in which trade marks are used by a party other than the owner is in a company group, where trade marks or other intellectual property is often held in a separate holding entity. We do not consider that the decision will impact licencing arrangements between a parent company and its subsidiary as the necessary degree of control will exist. This was recognised in the judgment of Besanko J who said:

> *"The meaning of 'under the control of' in s 8 is informed by the principles stated by Aickin J in Pioneer[7], that is to say, that the trade mark must indicate a connection in the course of trade with the registered owner. The connection may be slight, such as selection or quality control or control of the user in the sense in which a parent company controls a subsidiary."[8]*

It is easy to see that a parent company will control a subsidiary. However, this may not necessarily be so if the owner of a trade mark and the user of the mark are companies in the same group, but not a holding company and a subsidiary. In many cases trade marks and other intellectual property may be held in a special purpose holding entity in a group, not the parent company. There may also be issues for franchise systems. Normally, there will be stringent quality control provisions in franchise licensing arrangements, but if control is exercised by an entity such as an area franchisor, not the owner of the franchised trade marks, there could be a risk of non-use.

In *Healthworld Ltd v Shin-Sun Australia Pty Ltd*[9] a trade mark owner was unable to prove that a related company was an *authorised user*. The two companies had different shareholders who were members of the same family. The companies shared a general manager who was the majority shareholder of one company. There were common directors of the companies, but only for a short period prior to an application for the removal of the mark for non-use.[10] There was no written agreement, and no evidence of any quality control or financial control.

7 Pioneer Kabushiki Kaisha v Registrar of Trade Marks (1977) 137 CLR 670, 683.
8 Lodestar Anstalt v Campari America LLC [2016] FCAFC 92 at para 95.
9 *Healthworld Ltd v Shin-Sun Australia Pty Ltd* [2008] FCA 100; Full Court [2009] FCAFC 14.
10 *Healthworld Ltd v Shin-Sun Australia Pty Ltd* [2008] FCA 100 paras 60-64.

Review of Licensing Arrangements

The *Wild Geese* decision seems to spell the end for "set and forget" licencing arrangements. Trade mark owners can no longer rely on the mere right to control a trade mark through the provisions of licensing agreements, although having an agreement with suitable provisions is a good start. The owner must establish that actual control is being exercised. To ensure that trade mark owners avoid losing valuable trade mark rights, we recommend that owners:

1. Review their licencing arrangements to ensure that adequate quality control provisions, or other relevant control provisions, exist.
2. Monitor use of the trade mark by licensees.
3. Enforce the control provisions contained in the licence.

The review of licensing arrangements, and the monitoring and enforcement of control provisions, should be undertaken both for licensing arrangements with third parties and with related or intergroup entities. DW Fox Tucker can assist with the review and preparation, where necessary, of suitable documentation for licensing and control of trade marks.

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NEWS & VIEWS | **By Kate Bickford**

China and SA Now

It is no longer a question of "why China", it is now the time to consider "how China". South Australian businesses need to be China ready. Thanks to China Southern Airlines, Adelaide will receive direct flights from Guangzhou, for the first time ever, bringing approximately 1000 Chinese tourists per week to our doorstep. The economic and cultural benefits of this to South Australia will be unprecedented.

We are aware that China's economic and geopolitical ambitions involve increasing offshore investment. The "One Belt One Road" initiative promoted by Chinese President Xi Jinping, involves building super road and sea routes across the globe to connect China with the rest of the world. This outward strategy gives rise to increasing positive inward absorption of international standards as currently reflected through dramatic changes in China's financial market regulation, taxation and corporate governance. Australia features in both plans. We have much to learn from and share with China. In addition to trade, tourism, investment and migration offerings, we can play an important stabilising role in China's global trade relationships. Our relative diplomatic and trading affability is likely to be heightened if the United States of America ramps up its protectionist trade and foreign policy.

In relation to local matters, achieving direct flights between Adelaide and mainland China is not a co-incidence but reflects long term policy and private investment success shared by China and Australia. The China Australia Free Trade Agreement, dedicated State government trade initiatives, Adelaide City Council's sister-city relationship and tourism initiatives and the growing number of successful private ventures, each serve to build and enhance South Australia's relationship with China. In 2016, Port Adelaide Football Club also made an outstanding contribution to raise South Australia's profile through sporting cultural diplomacy achieving high level sponsorship deals. Now that South Australia is directly accessible from mainland China, we can compete more equally with the traditional gateways of Australia's eastern seaboard.

Australia represents health and lifestyle to the Chinese consumer and tourist. In particular, South Australia is seen as a healthy lifestyle destination as well as a clean and green food bowl. Chinese people have confidence in the providence of our products.

From an investment perspective, we offer China the benefit of "frontier" markets in areas of key interest such as agribusiness, tourism, education, healthcare, property and energy and resources. Market entry is not as inflated, nor as competitive as elsewhere in Australia.

It is noteworthy that Chinese tourists typically travel abroad for not only a holiday but also for the purpose of considering education, migration and investment opportunities. Coupled with the Federal Government's plans to trial a 10 year multi-entrance tourist visa, South Australia must prepare for unprecedented increase in visitor numbers. Tourism growth will in turn lead to substantial increase in other economic sectors from which our whole State will benefit. The opportunities are equally beneficial to China, however there are many challenges involved in economic and cultural exchange. Local business and Chinese investors alike, need to be prepared to learn about the other in advance of entering into binding arrangements. Experienced, bilingual qualified professional advisors are essential.

Challenges

The future success of Chinese and Australian commercial ventures is largely contingent on the parties acquiring a "working" appreciation of the other's origin from both a cultural and compliance perspective. Through frank exchange of objectives and understanding of respective domestic requirements and restraints, all things are surmountable. The art of encouraging frank exchange is a role for experienced, specialist advisors.

The degree of exchange between the parties assists to inform financial structure and operational terms. In the absence of expert guidance, deals are likely to be dominated by contractual terms which lack flexibility to account for a Chinese party's requirements. Such ventures will invariably fail and/or become subject of protracted dispute. It is better to plan for success from the outset.

Recognition of Different Business Cultures

There are some fundamental regular features of each parties' country of origin which require early consideration. First, it is vital for Chinese investors to appreciate the different conventions of conducting business in Australia, wherein the rule of law is paramount.

Considerations for Chinese investors looking at Australia, include appreciation of each party having

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NEWS & VIEWS | **By Kate Bickford**

China and SA Now

independent advisors, the value of legal and financial due diligence, consideration of taxation consequences and the nature and role of relevant statutory approvals. The work required upfront to assess a deal can often be seen by Chinese and Australian parties alike as costly, time consuming and ultimately counter-intuitive to commerce. However, the better a project or deal is understood prior to negotiating and entering into rigid binding agreements, the greater its chance for success.

Independent Legal Representatives

In China, it is common to appoint a single legal representative to advise and support all parties jointly. In Australia, this rarely occurs. Australian legal professional conduct rules insist that practitioners must act at all times in the best interests of the client and this in turn, necessitates avoidance of any conflict of interest. As the parties to a transaction do not share absolutely consistent and common interests, it follows that independent advice is required by each party. An experienced legal advisor will be able to identify risk and assist to negotiate appropriate commercial terms. The value of good advice and representation should outweigh the costs incurred. As with due diligence, independent legal advice will contribute to a party's negotiating power and assist in the structuring of a deal. For investors, it will assist to determine whether to invest the entire business or simply components of it which offer the least risk and best returns.

Due Diligence

Due diligence is an essential tool used to identify issues prior to structuring and or entering a deal. In Australia, it is accepted as a valuable convention. Legal jurisprudence arising out of common law doctrines including the likes of "caveat emptor" or "buyer beware", coupled with a lengthy precedent on the enforcement of contractual rights means that the benefits of due diligence are widely recognised. In China, it is common for deals to be struck (either with or without documentation) before analysis of the assets and liabilities, or the means of the investing party, can commence. Failures are expected to be remedied by the responsible party, however this is difficult to enforce in circumstances where there is a power inequality between the parties and or a dispute arises.

The purpose and benefit of due diligence is to identify and manage risk inherent in the detail of a proposal. Due diligence is the process of forensic investigation which discovers aspects which may impact negotiation of the commercial or operational terms and structure of the deal. A proposal may look healthy at first glance, but there are invariably issues which can only be identified through close analysis. The resulting identification and assessment of a proposal serves as a useful negotiation tool. It not only provides a basis for a counter offer, but will help to avoid poor investments and/or structure good investments in a way to maximise success.

Taxation Consequences

Taxation advice is another vital component of the independent advice required by a party in consideration of a deal. The taxation obligations of a resulting new or restructured entity will be an additional and discreet issue to the taxation obligations of each of the parties to the deal. Again, taxation advice will assist to structure the deal in a compliant and advantageous manner. Australian companies should seek warranties to ensure that any inbound funds are compliant within the complexities of Chinese regulations. Some of the common issues that arise for Chinese investors include repatriation of profits made in Australia back to China, customs duty, goods and services tax on imports and mitigating the risk of double taxation. Specialist legal taxation advice should be sought to ensure that appropriate corporate structures are established from the outset.

Foreign Investment Review Board Requirements

Australia's *Foreign Acquisitions and Takeovers Amendment Act 2015* requires notification and review of direct foreign investment proposals on a case by case basis to ensure that each proposal is consistent with national interests such as national security, competition, government policies including taxation, impact on the economy and the community, and the investor's character. The Foreign Investment Review Board ***(FIRB)*** has broad discretionary power to block foreign investment and is not bound by precedent, nor required to provide detailed account of its reasoning. There is a degree of political and legal uncertainty in relation to some FIRB notifications which means parties will benefit from specialist advice.

FIRB cited "national security concerns" as the reason for recently blocking the sale of Australia's single largest pastoral lease holding of "S Kidman and Co", and State of New South Wales' electricity infrastructure giant, "Ausgrid", to Chinese investors. Seeking FIRB approval is a prerequisite to foreign acquisition of land including smaller proposals for the purchase of residential property in Australia.

FIRB related issues should be identified early in the due diligence process and all parties should take independent advice about options to structure the deal in a manner to ensure that either FIRB approval is given or not required at all. The triggers for the requirement of FIRB approval or the categories which are routinely approved without conditions, should be considered in property deals to assess the best way to secure an interest.

Foreign investment is generally permitted in the case of certain exceptions, such as new dwellings, where an exemption certificate is held by the developer, vacant land acquired for residential development, or in established dwellings purchased for the purposes of redevelopment, so long as the redevelopment increases the housing stock. Approval will be provided subject to conditions aimed at completion of redevelopments within four years and/or evidence that the project has been completed and the existing dwelling cannot be rented out during this period. Foreign non-residents are only able to purchase established dwellings in very limited circumstances, as they cannot purchase established dwellings as homes, for use as a holiday home or to rent out.

The restrictions mean that applications for permanent residency or other permissible means of acquiring security in assets may be worth considering. This underscores the importance of the parties having a mutual understanding of what they are each trying to achieve.

Conclusion

The future for South Australia and China is astoundingly bright. There are clear political, economic and cultural benefits for China and South Australia to seek out opportunity to work together. The upward trend of Chinese investment and joint enterprise will continue to increase exponentially. To overcome the many hurdles involved in such exchange, parties from both sides require local but expert professional support. The considerations must ensure satisfaction of all legal and regulatory requirements, but also include capacity for cultural exchange. Establishing the basis for strong cross-cultural rapport is essential to the enduring success of joint enterprise.

Our China team at DWFT provides business migration services and advice on all aspects of China related business, including tax, structuring and investment advice to inbound investors. We have the depth of local expertise and knowledge and a wealth of experience dealing with Chinese interests across many industry sectors. We provide all range of commercial legal services and business advice under one roof to local South Australian businesses and to Chinese investors.

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COMMUNITY

Light the Night ... to Support the Leukaemia Foundation

On 7 October 2016, we took part in the Leukaemia Foundation's annual "Light the Night" walk to help more Australians beat blood cancer.

It was an incredible feeling to walk in solidarity and help more families survive blood cancer and live a better quality of life.

We raised a total of $1,575.

As every $100 we raised will cover the costs of giving one family immediate emotional support after the shock of diagnosis, and one hour of life-changing blood cancer research, we have been able to help 15 families, and for that we are grateful.

DW Fox Tucker Lawyers would like to say a big THANK YOU to all their staff and clients who donated money and to those who walked with us.

NEWS & VIEWS | **By Lisa Harrington**

Planning Update - Where is SA at?

2016 has been a big year in the development sector. There has been:

1. the review of the 30 Year Plan initially released in 2010;
2. the passing of an entirely new legislative framework in the *Planning, Development and Infrastructure Act* 2016 (SA) (which saw the introduction of the new "urban growth boundary" and which all parties continue to wait for to receive more details of the budget and timing on the five (5) year implementation strategy); and
3. the ongoing push for infill development along transport corridors.

The year has culminated in relevant government departments undertaking reviews of the planning and development legislation which has included the provision of a report on housing affordability in the SA market and whispering of the introduction of apartment design guidelines.

Affordable Housing Review

Any market participant can't ignore that in the last 10 years the median house price for a detached dwelling in metropolitan Adelaide has increased from $280,000.00 in June 2006 to $450,000.00 in June this year[1]. Therefore, in an industry where market drive dictates not only the profitability of a dwelling, but the scope and design of dwellings within a project, and as "an affordable place to live" is one of the seven strategic proprieties in the South Australian Government's policy framework, affordability is a matter which cannot be ignored or pushed to one side.

The Renewal SA – People Partnerships Progress, Affordable Housing Review provided findings that the 15% target of affordable dwellings was exceeded with the year providing 5,490 new and committed dwellings across South Australia to provide 17.2% of eligible dwellings.

While the report did provide for areas of improvement, namely that the 15% policy focused on income factors rather than ensuring a diversity in products in all areas, the findings did provide a number of recommendations to assist with and drive diverse affordability into the future.

Apartment Design Guidelines

With the Government looking at the need for increased density in development across the State, and the need for joint focus between Councils and the Government to provide consistency in planning approvals, the introduction of a policy for apartment design guidelines is not unexpected and could provide a valuable tool for participants provided it is framed with SA specific focus.

While consideration has been given to WA and Victoria guidelines, and with various industry bodies working to provide submissions regarding the appropriate framework, it is clear that the system or guidelines adopted need to still provide for the system to require review of the merits of individual applications.

The year has culminated in relevant government departments undertaking reviews of the planning and development legislation ...

Given that the implementation of any such system or guidelines would affect all, market participants should get in contact with their local industry bodies to ensure that their view is (or can be) incorporated into the submissions being presented.

Irrelevant of next steps and timing of the implementation of the changes arising from the *Planning, Development and Infrastructure Act* 2016 (SA), it is clear that 2017 will reflect that the Government's focus on encouraging, promoting and assisting with greater density within the existing suburbs of metropolitan Adelaide as well as encouraging increased city living.

FOR MORE INFORMATION, OR IF YOU WANT TO BE PUT IN TOUCH WITH AN INDUSTRY BODY, PLEASE CONTACT:

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1 South Australian Government Data Directory, Median house sales by quarter, sa.gov.au

INSIGHT | **By Alex Bastian**

Making the Most out of a Producer's Licence

The basic Producer's Licence authorises a licensee to sell their **own product** either on licensed premises at any time for consumption off the premises or at any time through direct sales transactions. "Direct sales transactions" means when liquor is sold by mail, telephone, internet orders or other electronic communication.

However those holding a Producer's Licence should note that there is much more available under such a licence than those basic conditions listed above.

Planning approval permitting, a Producer's licensee can apply to the Liquor and Gambling Commissioner to have the following endorsements added to their licence:

- to sell or supply their own liquor as sample for consumption on the licensed premises or for the purposes of comparison with another liquor of the same type;
- to sell any liquor, not just the licensee's own product, at any time for consumption in a designated dining area with or ancillary to a meal; or
- to sell the licensee's product at any time for consumption on the licensed premises. This extends to a glass or bottle of the licensee's product rather than just a sample.

Multiple Licensed Premises

A Producer's licensee can be authorised to have up to two licensed premises approved under a single licence.

One premises must be at the licensee's "production premises", but the other can be elsewhere. So, for example, a licensee with a production premises may choose to have a retail outlet in a nearby town. While there are some restrictions on the locality of the second premises for example, in the case of a producer of wine, the second outlet must be within the same wine region the ability to have a second separate venue creates additional sales and advertising opportunities.

Producer's Event Endorsement

A Producer's licensee may also apply to the Commissioner to sell or supply their product at a site during an event specified in a "Producer's Event Endorsement". This endorsement allows the licensee to sell their liquor for consumption on or off the specific site. This has been used by numerous licensees in order to be involved in farmer's markets, Sunday markets, regional events and other specific events.

For endorsement, the licensee must have production premises and the Commissioner cannot be of the opinion that the endorsement should be covered by another licence category.

Joint Cellar Door

Another option for Producer's licensees is to enter into an agreement whereby multiple licensees operate at the same premises, which is known as a collective outlet. This is often used in conjunction with the authorisation mentioned above, whereby licensees having two licensed premises.

In many instances producer's will have a "shared" second premises at a collective cellar door in the main street of a nearby town. This allows smaller producers (or parties with marketing advantage) to share the costs of the second cooperative cellar door and still reap the benefits of that second venue.

IF YOU HAVE A PRODUCER'S LICENCE AND WOULD LIKE ANY FURTHER INFORMATION ON HOW TO AMEND YOUR LICENCE AND/OR APPLY FOR ANY OF THE ABOVE ENDORSEMENTS, OR YOU ARE LOOKING TO APPLY FOR A PRODUCER'S LICENCE, PLEASE CONTACT:

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NEWS & VIEWS | **Ben Duggan**

Standard Annualised Salary Contractual Provision Fails to Exclude Overtime Payment Under Modern Award

A recent decision of the Industrial Relations Court in Western Australia (the Court) has sounded a warning about the common practice of providing annualised salaries for staff covered by a Federal Modern Award.[1]

Background

The Court in this case dealt with a preliminary issue of whether a written contract of a former employee, Simone Stewart, (Stewart) excluded the overtime provision (and the provision for meal breaks) under the Federal *Clerks – Private Sector Modern Award* 2010 (Clerks Modern Award).

Stewart was employed as an administrative co-ordinator for a period of about two years for a residential building company Next Residential Pty Ltd (Next Residential).

She also entered enter into a written contract under which she was paid an annual salary which was $78,000.00 at the time of her termination from Next Residential.

A term of the written contract provided for the annualised salary in the following terms:

Your ordinary hours of work are from 8.00am to 5.00pm Monday to Friday with a one (1) hour lunch break. You are expected to work, on average at least 40 hours per week, however there will be times when you will be required to work reasonable additional hours as necessary to ensure that the requirements of the position are met. Your remuneration takes these additional hours of work into account and no further payment will be made for extra hours worked.

The Clerks Modern Award, which regulated the annualised salary arrangement, provides in clause 17 as follows:

17. Annualised salaries

17.1 Annual salary instead of award provisions

a. An employer may pay an employee an annual salary in satisfaction of any or all of the following provisions of the award:
    i. clause 16—Minimum weekly wages;
    ii. clause 19—Allowances;
    iii. clauses 27 and 28—Overtime and penalty rates; and
    iv. clause 29.3—Annual leave loading.

b. Where an annual salary is paid the employer must advise the employee in writing of the annual salary that is payable and which of the provisions of this award will be satisfied by payment of the annual salary.

17.2 Annual salary not to disadvantage employees

a. The annual salary must be no less than the amount the employee would have received under this award for the work performed over the year for which the salary is paid (or if the employment ceases earlier over such lesser period as has been worked).

b. The annual salary of the employee must be reviewed by the employer at least annually to ensure that the compensation is appropriate having regard to the award provisions which are satisfied by the payment of the annual salary.

17.3 Base rate of pay for employees on annual salary arrangements

For the purposes of the NES, the base rate of pay of an employee receiving an annual salary under this clause comprises the portion of the annual salary equivalent to the relevant rate of pay in clause 16—Minimum weekly wages and excludes any incentive-based payments, bonuses, loadings, monetary allowances, overtime and penalties.

The Position of the Parties

Stewart argued that Next Residential did not comply with clause 17 (1)(b) of the Clerks Modern Award in that her employer did not identify the specific provisions of the Clerks Modern Award to be satisfied in consideration for the provision of her annualised salary.

1 *Simone Stewart* v *Next Residential Pty Ltd* [2016] WAIRC 00756 (16 September 2016).

... the Court assessed that the words as contained in the final sentence of the annualised salary term created uncertainty ...

Her position was that the effect of the compliance failure was that she was entitled to overtime and lunchbreak payments not provided during her employment at Next Residential.

In response, Next Residential maintained a position that Stewart was not entitled to what she was claiming because she had explicitly agreed through an explicit term in her written contract to an annualised salary in accordance with the Clerks Modern Award.

Next Residential argued that the annualised salary term of the written contract was explicit with a clear intention that the salary provided for under it was to be 'inclusive of any award provision or entitlement that may be payable under the Modern Award.'

Decision of the Court

The Court acknowledged that the final sentence of the annualised salary term attempts in the broadest possible way to include within the annualised salary 'any' entitlements that may be payable under a Modern Award.

At the same time the Court assessed that the words as contained in the final sentence of the annualised salary term created uncertainty with respect to various issues, including the Modern Award to which it refers and the entitlements under a Modern Award that it purports to cover.

The Court also discussed the need for specificity in the annualised salary term in the context of the no disadvantage test, indicating that:

> *"The written contract of employment did not identify the applicable award nor did it provide which award provisions were to be satisfied by the payment of the annual salary. It lacked the type of specificity required by clause 17(1)(b) of the Clerks Modern Award. The requirement for specificity is crucial because a worker must be able to compare their annual salary to award entitlements so that the no disadvantage test can be properly considered. That could not be done in this instance."*

In conclusion the Court found that Steward's written contact did not exclude her claim because the annualised salary term did not 'clearly indicate that (Steward's) annual salary included those entitlements (overtime and lunchbreak payments) that she now seeks to recover' in her claim.

Comment

The decision of the Court highlights again the legalistic nature of Federal Workplace Laws.

Steward's claim dealt with a very common provision utilised by employers to exclude the operation of Modern Award terms, in particular, payment for overtime in return for an annualised salary.

A key lesson from the decision is that employers need to ensure that their annualised salary provision contained in their contracts of employment contains the necessary specificity required to achieve its objective of excluding the operation of overtime and other terms under the Modern Award.

DW Fox Tucker Lawyers is currently working with a number of its employer clients to review their annualised salary provision as contained in contracts of employment for their staff.

Contact our team if you would like us to review your contracts of employment.

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INSIGHT | **Amy Bishop**

Tax Implications of Structuring for Holding your Intellectual Property

When starting your business or embarking on your innovative journey your intellectual property may not be particularly valuable. However, it has the propensity, as is no doubt desired, to become significantly more valuable. Your intellectual property is also potentially taxable. The more valuable it becomes, the greater the potential tax liability is, meaning it is important to consider these issues earlier rather than when too late.

CGT or Depreciating Assets?

An item of intellectual property is defined in the *Income Tax Assessment Act 1997* (**Tax Act**) as consisting of the rights a person has under a law of the Commonwealth as:

a. the patentee, or a licensee, of a patent; or

b. the owner, or a licensee, of a registered design; or

c. the owner, or a licensee, of copyright.

Notably trade marks are not included in this definition. Their tax treatment is, therefore, often different than for other intellectual property.

Intellectual property within the above definition will be a depreciating asset. Consequently, a trade mark is not a depreciating asset. All intellectual property rights are CGT assets and each is a separate CGT asset.

Proposed Changes to Depreciation Regime

Certain intellectual property and other intangible assets are able to be depreciated and a non-cash deduction is available. This includes standard patents, innovation patents, petty patents, registered designs and copyrights or the licences to copyrights, but also other licences including spectrum and datacasting transmitter licences, telecommunications site access rights and in-house software. Of course, trade marks are not included since they are not a depreciating asset.

With tangible assets, a taxpayer can generally self-assess the taxable effective life of an asset; enabling better alignment with the actual number of years it is expected the asset will provide an economic benefit. However the number of years over which you can depreciate an intellectual property asset has in the past been fixed by the Tax Act.

Proposed changes to the Tax Act will from 1 July 2016[1] allow you to self-assess the taxable effective life of intellectual property in the same way tangible assets are able to be self-assessed. That is, pursuant to the provisions in section 40-105 of the Tax Act, a taxpayer may estimate the period the asset can be used by any entity for one or more of the following purposes:

- taxable purpose;
- the purpose of producing exempt income or nonassessable nonexempt income; and/or
- the purpose of conducting R&D activities, assuming that this is reasonably likely.

It will remain open to you, however, to continue to use the existing fixed statutory effective life to depreciate its intangible assets.

This will provide better flexibility for owners of these types of intellectual property and is a welcome change.

Allocation of Expenditure

At the early stages of creation of intellectual property, the question will often be asked: how is the expenditure to be treated, on revenue or capital account? The answer to this question necessarily turns on the purpose of the expenditure.

Expenditure incurred in establishing, replacing or expanding your intellectual property is more likely to be of a capital nature[2] and should be able to form part of your cost (where your intellectual property is a depreciating asset) or cost base (where, or to the extent, your intellectual property is a CGT asset). The cost of a depreciating asset is used to calculate the amount of depreciation allowable each year and is also used in calculating any assessable income or deduction on the eventual sale of that depreciating asset.

It can often be appropriate to hold your intellectual property in a separate entity from your trading entity to divide risk and ownership.

1 It has been announced that the changes will apply from this time although they are yet to be passed.

2 *Sun Newspapers Ltd & Associated Newspapers Ltd v Federal Commissioner of Taxation* (1938) 61 CLR 337;

Tax obligations incurred in restructuring can possibly reduce the tax obligations likely to be incurred on the eventual sale of intellectual property assets.

The cost base of a CGT asset is used in calculating any capital gain or loss upon a sale of that asset.

Where the expenditure incurred is in the form of a continual flow of working expenses[3] in the conduct of your operations, you would expect to be able to account for them as deductible under section 8-1 of the Tax Act in the income year in which they are incurred. The types of expenses you might include here are those incurred in obtaining a short term licence or right to use intellectual property for income producing purposes.

Moving into the Right Structure

It can often be appropriate to hold your intellectual property in a separate entity from your trading entity to divide risk and ownership. This can offer protection of your intellectual property in the event of a claim against the business, if claims can be limited to the trading entity.

While it is important to obtain appropriate advice and establish a structure to suit your business at the outset, there may be some avenues for relief if you later change your structure for holding intellectual property.

3 *ibid*;

Tax Relief

For businesses whose intellectual property comprises a trade mark or marks it might be possible to access roll-over relief under the *Tax Laws Amendment (Small Business Restructure Roll-over) Act 2016*. The small business roll-over relief can be used to allow small business entities[4] to restructure to incorporate a separate holding entity for intellectual property without incurring a capital gains tax liability. Specifically, any capital gains tax liability upon the undertaking of a genuine restructure of an ongoing business will be disregarded provided that the transaction does not materially change the ultimate economic ownership of the assets of the business. Roll-over relief will also be available for an intellectual property asset that is a depreciating asset and no income tax liability will arise where the conditions under these provisions are satisfied in relation to that asset.[5]

Where intellectual property is rolled-over by its transfer to a wholly-owned company in consideration for the issue of shares by the company to the original owner Division 122 and section 40-340 of the Tax Act should apply to allow the CGT event occurring on the transfer to be disregarded. Under Division 122 the market value of the shares received must be substantially the same as the market value of the intellectual property that was transferred but this is not problematic with a newly formed company which, immediately after the transfer, only holds the intellectual property. In addition the original owner of the intellectual property must own all of the shares in the company immediately after the disposal of the intellectual property and the original owner and the company must be Australian residents. This does create a problem for protection of the intellectual property asset as, in the example, the trading entity will hold all the shares in the company to which the intellectual property has been transferred, effectively leaving the intellectual property indirectly available to creditors of the trading entity. Further action will be needed to prevent this.

There will be no Stamp Duty on a transfer of an intellectual property asset from one entity to another.

Unrelieved Tax Costs

If you do not qualify for relief you could have significant income tax obligations upon transferring intellectual property assets to be held by a different entity:

For trade marks, there will be capital gains tax. Since there is often a minimal cost base for your trade mark, likely corresponding to its costs of registration, the capital gain could be significant if the trade mark has become considerably valuable as a result of its use. If you have held the asset for more than 12 months and are an individual or the trustee of a trust, the general 50% discount is likely to be available, as may be further discounts under the small business CGT concessions.[6]

4 As defined in section 328-110 of the Tax Act, namely where the annual turnover is less than $10 million, assuming the *Treasury Laws Amendment (Enterprise Tax Plan) Bill 2016*, which increases this from $2 million, is passed;
5 Item 8 of the table in section 40-340(1) of the Tax Act;

6 In Division 152 of the Tax Act;

continued overleaf...

...from previous page

These concessions are not available for other forms of intellectual property that are depreciating assets used wholly for taxable purposes and for which depreciation is claimed.[7] These will generally be subject to a balancing charge, the whole of which will be included in the assessable income of the transferor entity.[8]

Conclusion

In many situations it will be worthwhile incurring the costs to hold the intellectual property separately from other assets including those of ensuring that the ownership of any transferee entity is separated from the risks of a trading business. Retention of access to valuable R&D concessions will be an important consideration in any such restructure.

Tax obligations incurred in restructuring can possibly reduce the tax obligations likely to be incurred on the eventual sale of intellectual property assets. Incurring some tax now may reap a greater benefit in the future. For example, where you are able to make a disposal of an entity which holds intellectual property you may be able to apply the CGT general 50% discount and possibly the small business CGT concessions to the interests in the entity, whereas this would not be available on a disposal of the intellectual property itself as a depreciating asset.

This opportunity is enhanced if access to any of the roll-over relief is available on restructuring the intellectual property holding. Maybe the time is right for your businesses to strategise its intellectual property holding structure.

7 Under Division 40 or 328 of the Tax Act;
8 Some exceptions exist for gains resulting from CGT event J2 or Subdivision 40-F or 40-G of the Tax Act;

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News & Views | **Linda Scalzi**

Electronic Conveyancing

On 4 July 2016, some of the greatest changes to conveyancing since the introduction of the Torrens Title System in the 1800s came into effect. As the conveyancing world embraces modern technology, Electronic Conveyancing was officially introduced in South Australia.

So what does this mean for the consumer? Well for those of you who have an interest in real estate, the legal procedures surrounding property transactions have recently undergone extensive reform. The main changes can be summarised as follows.

Introduction of PEXA

Similar to how the Australian Stock Exchange moved towards an automated trading system in the late 1980s, conveyancing can now be conducted electronically as well as manually. The system that is used to transact property settlements electronically is called PEXA (Property Exchange Australia). At present, there are a number of restrictions to conducting settlements electronically as the system is still being developed. If your conveyance is able to be conducted electronically however, the main benefit for the purchaser is instant registration of their name on the Title (presently it takes the Land Titles Office around 4 to 6 weeks to officially register a purchaser's name from when settlement occurs). Meanwhile for the vendor, electronic conveyancing means instant access to your settlement funds (no waiting for cheques to clear). It does come at a cost though – around $107 per purchaser, vendor or mortgagee.

Verifying your Identity

Verification of Identity first became compulsory in 2014, but in a limited form (for example only when a name on the Title was being transferred or changed). Now it has been expanded so that your practitioner will need to verify your identity if you are a party to almost any property transaction, including caveats and leases. Some of the documents that your practitioner can use to verify your identity include your driver's licence, birth certificate and passport.

... the main benefit for the purchaser is instant registration of their name on the Title ...

... for the vendor, electronic conveyancing means instant access to your settlement funds (no waiting for cheques to clear).

Verifying your Authority

Along with verifying your identity, your practitioner will now need to verify your authority to deal with the land. Your practitioner will make you aware of the acceptable documents that they require to satisfy this requirement.

Client Authorisation

Once your identity and authority to transact have been verified, you will be required to sign a Client Authorisation form. The Client Authorisation form allows your practitioner to legally act on your behalf and sign specific documents to complete the transaction. Where a settlement occurs electronically, your practitioner will prepare the Land Titles Office documents online and digitally sign them on your behalf.

Priority Notice

Your practitioner is able to lodge a Priority Notice on your behalf at the Land Titles Office. The purpose of this notice is to protect your priority in an upcoming transaction and notify other parties that a transaction is pending.

Removal of Duplicate Titles

Probably one of the biggest changes to conveyancing is that the Land Titles Office will no longer issue the duplicate Certificates of Title.

In its place, a Confirmation of Registration notice is issued by email to your practitioner. This means that if you currently hold original Titles at home, they are no longer required to be produced at the Land Titles Office. If you have lost your Title it is no longer necessary to replace it. We recommend that you still retain your Title in a safe place as your practitioner can use the Title as proof of ownership when they verify your authority to deal with the land.

For those of you who are concerned about fraudulent activity on your Title, you can register your details on Title Watch via the government website www.sailis.sa.gov.au. When any activity is registered on your Title, it triggers the system to send you an email notification and hence warn you of any fraudulent activity. Title Insurance also protects you from fraudulent activities (plus other risks) and can provide you with further peace of mind. Your practitioner can provide you with more information in relation this.

More than ever, it is important that you seek legal advice whenever you transact in property. As increasing numbers of transactions are undertaken electronically, it is important that you engage a solicitor or conveyancer to act for you and ensure the protection of one your most important assets.

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INSIGHT | **By Sarah Annicchiarico**

Inheritance Disputes

Many people assume that what is written in a will is water tight and unable to be challenged. However, this is not the case.

It is an unfortunate, but all too common, scenario that upon the death of a family member – usually a parent – the spouse or children of that family member are left fighting over who should get what from the deceased's estate.

Many people assume that what is written in a will is water tight and unable to be challenged. However, this is not the case. Family provision legislation in each State enables a person who considers that they have not been left with their fair share of the inheritance to make a claim on the estate by asking the Court to vary a Will.

Specifically, the (*Inheritance (Family Provision) Act*) of South Australia allows the Court to make such provision as it thinks fit out of the estate of a deceased person for the maintenance, education or advancement in life of a claimant.

This places a moral obligation upon a parent to ensure that they make adequate provision for each of their children. This does not necessarily mean that a parent's estate should be divided equally amongst their children. Rather, when making a Will, a parent should give consideration to each child's needs and circumstances.

Who can make a Claim?

Most commonly, it is a spouse or child making a claim under the Act.

However, ex-spouses, dependant children of a spouse or domestic partner and even grandchildren parents and siblings can make a claim under the Act.

When Should the Claim be made?

Claims under the (*Inheritance (Family Provision) Act*) must be made within 6 months of the date of a grant of probate or letters of administration.

How are Claims Determined?

Applications under the (*Inheritance (Family Provision) Act*) are determined according to a two step test.

The first step is determining whether the claimant has been left with adequate provision for their proper maintenance, education and advancement in life. This requires a consideration of the claimant's financial position, the size and nature of the estate, the claimant's relationship with the deceased and the relationship between the deceased and other people who have legitimate claims upon the estate.

If the first step of the test is satisfied, and the Court considers that a claimant has been left without adequate provision, then a Court will assess what, if any, provision it should make. In doing so, the Court will consider what provision a just and wise parent would have made for their child in the particular circumstances.

- When applying the test, there are a number of issues which commonly arise, such as:

... when making a Will, a parent should give consideration to each child's needs and circumstances.

- whether a parent is required to make provision for their adult children;
- whether estranged or errant children have disentitled themselves; or
- whether a claimant has made any significant contribution to the estate of the deceased entitling that claimant to a larger share of the inheritance.

These are just some of the factors that are taken into account by a court.

What is important to note is that whilst there is no way to guarantee that your Will is water tight and unable to be challenged under the inheritance legislation, there are ways that you can minimise the chances of this happening and minimise the changes made to your wishes.

First and foremost – have your Will prepared by a lawyer. Whilst this might seem like a shameless plug for work, there are significant benefits that can be achieved from spending a little bit of time and money in putting your affairs in order.

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INSIGHT | **By Brett Zimmermann**

Taxation of Earnouts

In broad terms, a standard earnout arrangement is one where a vendor sells their business and receives for that sale consideration which includes a right to receive a future amount both contingent upon and calculated with reference to the future economic performance of the business sold for a defined period following the sale. Earnouts might also be referable to non-economic performance indicators, or work in reverse, whereby a vendor receives a gross amount but is under an obligation to repay to the purchaser an amount if, for example, the future economic performance of the business fails to meet agreed minimum thresholds.

As earnouts, from a legal perspective, are distinguishable from instalment sales (pursuant to which a vendor receives a right to a future sum of money in respect of the sale that is both certain as to amount and as to its receipt), the conventional taxation treatment of them has been problematic, inequitable and, as to the ATO's attempts to provide a level of clarity to the provisions' practical operation, uncertain. Consequently, whilst their use might assist to facilitate business sales where there is uncertainty in the value, such use has been inhibited by taxation considerations.

In response to the concerns, after almost 10 years of promise but in reality legislative vacuum, exposure draft legislation was published by Treasury in April last year, with final legislation passed in February this year introducing new Subdivision 118-I with effect back to this April 2015 date. Subdivision 118-I[1] seeks to legislatively adopt for qualifying arrangements a 'look-through' approach to the taxation of earnout payments pursuant to which, in broad terms, capital gains (losses) related to the creation of the earnout right are disregarded with the financial benefit under the earnout right instead being attributed (and taxed) as part of the underlying original CGT event happening to the business assets.

1 All references to the Income Tax Assessment Act 1997

... that the taxpayer satisfy the "maximum net asset value test" ...

continued overleaf...

INSIGHT | **By Brett Zimmermann**

Taxation of Earnouts

This note is not intended to explore in any depth the detailed operation of these provisions, and it is assumed that a broad understanding of the provisions operation is known.[2]

Instead, this is limited to the special rules when determining the "net value of the CGT assets" under the small business CGT concession in Div 152, in circumstances where there is an earnout right.

These rules were only inserted into the Bill after the exposure draft was published and on which consultation was sought.

Access to the Small Business CGT Concessions – the Maximum Net Asset Value Test

It is one of the basic preconditions of the small business CGT concessions, under Div 152, that the taxpayer satisfy the "maximum net asset value test" under s 152-15. This test requires a taxpayer to value their CGT assets, together with the CGT assets of any entities connected with them (or are affiliates of, or connected with affiliates of theirs). Necessarily therefore, this includes CGT assets that are an entity's earnout rights, because those assets are proprietary choses in action.

That this is required is notionally inconsistent with one of the key underlying purposes of the look-through earnout provisions, being to prevent taxpayer's from having to problematically value the earnout rights received by them. That value may indeed be crucial in determining whether a taxpayer is within or over the $6 million threshold.

Following submissions made after the release of the Exposure Draft, Treasury introduced specific provisions to, amongst other things, allow taxpayers when testing whether they satisfy the maximum net asset value test, to choose to take into account any financial benefits that may have been provided or received under the look-through earnout right after that time. However, this choice is only available to a taxpayer after the last of the financial benefits under the earnout right has been paid (or able to be paid).

2 Though detailed commentary is available for example, through *Thomson Reuters* legal tax commentary which the author was commissioned to write.

Therefore:

- the choice can only be made at the end of the earnout period and not at the time when the taxpayer first lodges their original income tax return for the income year in which the business assets were sold and the earnout right acquired;
- the choice will need to be made by retrospectively amending the taxpayer's original income tax return for the income year following the conclusion of the earnout period; and
- the taxpayer, when first lodging their income tax return for the year in which the business assets were sold, if they seek to apply any of the small business concessions, will need to determine their entitlement to those concessions (including the passing of the maximum net asset value test) by adopting a value for the earnout right.

Consequently, it may be that if a taxpayer is, for example, close to failing the maximum net asset value test but, after valuing their earnout right, they consider they satisfy the test and access the concessions (such as the small business reduction and retirement exemption), but that value is less than the total financial benefits subsequently received by them on satisfaction of the earnout right such that the maximum net asset value test is failed, then:

- the taxpayer on amending their income tax return and increasing the capital proceeds by the amount of the financial benefits received will not be entitled to small business relief; and
- by reason of that amendment have both an income tax shortfall and, if the taxpayer has made contributions to superannuation in order to access the small business retirement concession, a liability for excess non-concessional contributions tax. Unfortunately, with respect to the latter, although the new provisions dealing with earnouts allow a "*choice*" to be remade, a taxpayer cannot undo *actions* they have taken in the period. If a taxpayer has indeed made contributions to superannuation in order to access the retirement concession, they cannot withdraw these contributions now that the concession is no longer available.

Of significance, with respect to both the tax shortfall and possible excess non-concessional contributions tax, is that, whilst protection from the shortfall interest charge is available when that shortfall arises as a result of the increase in the capital proceeds a vendor taxpayer subsequently receives under the earnout[3], that protection does not extend to situations where a taxpayer might have in their original year accessed a concession for which they are ultimately not eligible, such as in the present context where the small business tax concessions are not unavailable to the taxpayer because of an increase in their capital proceeds, but rather because they fail the prerequisite eligibility conditions because the value of the net assets exceed the requisite threshold.

In practical terms therefore, taxpayers who, with their connected entities and affiliates, have worth close to the $6,000,000 threshold and who seek to rely on the small business concessions, need to pay attention to their choice of two competing alternatives:

1. not to claim the small business concessions in their original return for the income year choosing to 'wait it out'.

Then, at the end of the earnout period, the taxpayer with the benefit of being able to remake their choices:

- make a hindsight assessment as to whether they have satisfied the maximum net asset value test noting that they can at this time choose to adopt, as the value of the earnout right, an amount equal to the financial benefits received under the earnout right; and
- either:
  - o if eligible to claim the small business concessions; make a choice to do so and at that time make their contribution to superannuation, and (it would be expected in most cases) receive a refund for overpayment of tax (albeit without the benefit of any interest on that overpayment); or
  - o if not eligible to claim the small business concessions, breathe a sigh of relief that they didn't prematurely claim them and that they have no additional liability for shortfall interest charge on their increased income tax liability or excess non-concessional contributions tax.

3 As noted in the Explanatory Memorandum to the introduction of the provisions

2. zealously claim the small business concessions in their original return for the income year adopting a value for the earnout right which puts the net asset value less than the threshold.

Then, at the end of the earnout period the taxpayer:

- upon receipt of the final earnout payment, reassesses whether they have satisfied the maximum net asset value test given the then known value of the earnout right; and
- either:
  - o if eligible to claim the small business concessions; breathe a sigh of relief that they were correct in their original position, and they are able to additionally claim the concessions with respect to their final financial benefit; or
  - o if not eligible to claim the small business concessions, have to amend their assessment, pay a tax shortfall amount without the benefit of the concessions that they had previously claimed plus penalty shortfall interest and be unable to undo their contribution into superannuation, and potentially bear excess non-concessional contributions tax.

Not an easy choice!

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INSIGHT | **By Sandy Donaldson & Russell Jones**

Confidentiality

Why you need it, and how to get it.

Protecting important confidential information can be a key factor in the success of your business, which is why it is important to get the right tools to ensure a few leaks don't sink the boat.

The business world is a competitive environment.

With many different players all jockeying for their share of the market, any advantage (no matter how small) can mean the difference between prosperity and bankruptcy. As such, many businesses will go to great lengths to keep important information confidential and out of enemy hands.

International fast food chain Kentucky Fried Chicken ("**KFC**") is one such business.

The popular franchise tantalises the tastebuds of its customers with its famed recipe of "11 secret herbs and spices". This recipe is the foundation upon which the KFC empire is built, and provides a significant point of difference in a market place overrun with businesses providing pre-prepared poultry.

As can be imagined, KFC goes to great lengths to ensure that the recipe remains confidential.

To begin with, only one copy of the recipe exists – a hand written note made by the late Colonel Sanders himself - and is kept in a heavily guarded vault somewhere within KFC headquarters. However, as an additional safety net half the ingredients are mixed at one location, half at another, and they are both combined at a third location. To ensure complete secrecy, each step is even completed by a different company.

In between each of these steps, the people involved are also required to sign a confidentiality agreement with KFC – stating that they will not reveal any confidential information about the recipe to the public.

Now, while the KFC model may go above and beyond the needs of the average business, it is still a great endorsement that you can't be too careful.

It is important for every business owner to properly consider what security measures may be required to ensure that any information vital to the business remains confidential.

The most practical and common way of doing this is through a confidentiality agreement.

What is a Confidentiality Agreement?

As the name implies, a *"confidentiality agreement"* is an agreement which obliges a party to keep information confidential.

Unsurprisingly, they are therefore used whenever information of some nature is to be disclosed or made known by one party to another, and the party disclosing the information wishes to restrict the use or disclosure which may be made of that information.

This can extend to several situations ranging from an employee of a business being told trade secrets (such as the KFC recipe example above), to an inventor disclosing the details of their invention to a business partner, to a freelance writer pitching their story idea to a publication company. Essentially, whenever there is a disclosure of information that one party wants to keep regulated, a confidentiality agreement should be present.

It is important for every business owner to properly consider what security measures may be required to ensure that any information vital to the business remains confidential.

With many different players all jockeying for their share of the market, any advantage (no matter how small) can mean the difference between prosperity and bankruptcy.

A Rose by any Other Name …

"Confidentiality agreements" may have other names. There are several types of agreements that restrict and regulate how confidential information can be dealt with. They include:

- Confidential Disclosure Agreements;
- Non-Disclosure Agreements;
- Secrecy Agreements;
- Trade Secret Agreements.

While the circumstances in which each agreement operates may be slightly different, they all include the common element that information is required to be treated as confidential.

What Sort of Information can be Confidential?

Confidentiality agreements often relate to information which is technical or scientific. Confidential information, however, may be information of almost any sort.

It can be financial, or commercial, or personal. Common examples of information that is not technical are lists of customers, suppliers or trade contacts and pricing information.

Regardless of the type of information, as long as it is confidential in nature the agreement will be valid.

When is Information Confidential?

At law, information may be confidential information if it is "confidential" or "secret". These two terms are used somewhat interchangeably.

Secrecy is a somewhat relative concept, as to be completely secret, information would only be known to one person. In practice, this is seldom the case.

The concept is, generally, that information will possess the quality of confidentiality if it is only available to persons who are obliged to keep the information confidential or "secret" and not to use or disclose it except as may be permitted by the agreements or the person to whom the obligations of confidence are owed.

If information is within a category of information which the law recognises as confidential information, then the law may impose an obligation on someone in possession of the confidential information to keep the information confidential without the need for an express confidentiality agreement.

When will the Law Imply Obligations of Confidentiality?

The law will imply an obligation on the receiver of information to keep it confidential in certain types of legal arrangements or relationships between parties such as:

- Employer and employee;
- Principal and agent; or
- Professional adviser (e.g. a solicitor, patent attorney, or accountant) and client.

The obligation of confidentiality will also be implied in other non-specific relationships where the circumstances are such that it should be clear to the parties that information is imparted and accepted on the understanding that it is confidential. This is often the case where one party approaches the other to disclose a new idea or technology with a view to discussing possible commercial arrangements.

If There is Some Level of Confidentiality Implied by Law, is a Confidentiality Agreement Needed?

In many circumstances, such as a negotiation between parties for commercial arrangements, an obligation of confidentiality is likely to be implied without the need for a specific agreement.

continued overleaf...

INSIGHT | **By Sandy Donaldson & Russell Jones**

Confidentiality

Why you need it, and how to get it.

In most circumstances, however, it is desirable to have an agreement so that:

- there is no doubt that obligations of confidentiality apply, without the need, if disputed, to test this in Court;
- the nature and extent of the information that is to be confidential and the obligations relating to it can be clearly specified;
- the parties are aware of the obligations of confidentiality; and
- in appropriate circumstances, the range of obligations of confidentiality can be extended beyond those which would be implied at law.

As outlined above, it is usually wise to ensure that a confidentiality agreement is presented in advance without relying on the likelihood that a Court will imply an obligation of confidentiality.

How Long Does a Confidentiality Agreement Last?

Theoretically, in Australia the obligations imposed by a confidentiality agreement can continue forever provided that the information to which it relates continues to be genuinely confidential. If the information becomes public, however, then an agreement which purports to continue to restrict its use may be a restraint of trade and may be invalid if the period and extent of restraint is unreasonable.

Some confidential disclosure agreements have a fixed term, which is usually an arbitrary period such as 5 or 10 years. This is not necessary, but is often a requirement of parties receiving disclosures so that there is a finite limit on the obligation of confidentiality which is accepted. From the point of view of the party disclosing information, a time limit may not be appropriate if information which is disclosed is potentially valuable confidential information which may retain its value, if kept confidential, beyond the period of the restraint.

Is a Confidentiality Agreement Required to be Limited to a Particular Area?

Normally, a confidentiality agreement relating to information which is in fact confidential need not be limited in any way, and should not be so limited. If, however, the subject matter of the agreement does include information which is, or which could become, public then the area of any restraint is to be taken into account in considering whether the restraint is reasonable and enforceable.

IF YOU REQUIRE A CONFIDENTIALITY AGREEMENT, OR WOULD LIKE TO DISCUSS ANY ISSUE RELATING TO CONFIDENTIAL INFORMATION PLEASE CONTACT:

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COMMUNITY

Until There's a Cure, There's Care for South Australians with Motor Neurone Disease

Sarah Annicchiarico, a Senior Associate in the Commercial Litigation and Estate Disputes teams, has recently been appointed to the committee of Management of the Motor Neurone Disease Association of South Australia (MND SA).

In this role, Sarah will work with MND's Executive Director, Karen Percival, and other Committee Members to obtain the resources, funds and personnel necessary for MND SA to achieve its core objective – to provide a vital source of free support and services to all South Australians affected by Motor Neurone Disease.

Motor Neurone Disease is a terminal illness which can affect all of us – it does not discriminate. It is where the neurones controlling the muscles stop functioning correctly and, as the motor neurones fail, the muscles they control weaken which causes disability. Symptoms of Motor Neurone Disease are different for each person that is diagnosed. Some people need to use a wheelchair because they can't walk anymore. Others need to use an iPad to communicate because they can't talk anymore. The mind stays active while the body becomes paralysed.

There is no known cure or effective treatment for Motor Neurone Disease and the average life expectancy from diagnosis is just 27 months.

MND SA offers a range of information and support services for South Australian people living with Motor Neurone Disease.

It improves the wellbeing of people in all stages of the disease by helping them to live better for longer in a setting of their choice – no matter their postcode or age.

MND SA is a 100% not for profit organisation which is solely funded through donations, bequests and fundraising activities.

How can you help MND SA?

- **Donate** - All funds raised or donated remain in South Australia for people battling this dreadful disease right now!
- **Prizes** – MND SA needs prize items, services or experiences for MND SA to use in raffles or auctions.
- **Sponsor** - Can we partner with your business? Ask us about our workplace giving scheme.
- **Volunteer** – MND SA needs volunteers for events, fundraising, office support and community visits.
- **Events** - You can take part in an MND SA event or choose your way to fundraise. Give us a call if you would like to discuss your ideas and we'll help you get your event off the ground.

IF YOU WOULD LIKE TO ASSIST MND SA PLEASE CONTACT SARAH ANNICCHIARICO or MND SA DIRECT.

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SUITS OFF | **Staff Profile**

Hospitality Sweet

Alex Bastian Senior Associate

What makes a good hospitality lawyer? Alex will tell you it is someone who has worked in the industry and is still passionate about its people and places.

And that's what makes Alex different to other lawyers who specialise in hospitality.

Before 'turning lawyer,' Alex worked as a manager in hospitality in both Australia and Canada, and as such, has an inherent understanding of the industry.

"I like to support my clients, so I enjoy socialising and attending client venues — probably a little too much."

Alex believes this demonstrates to his clients that he is personally interested in what they do and what they are about, rather than just being interested professionally.

It's a sound philosophy that he has employed with all his clients which cover the gamut of the hospitality industry and include a multi-national wine spirit company, family restaurants, new start-up and pop-up operators — from festivals to weekend cellar doors, hotel chains and major Australian wineries.

"People these days, especially in hospitality, don't want a lawyer, they want a mate; someone they can bounce ideas off and be accessible to answer a quick question on the go.

A lot of clients also want someone to show some empathy when things aren't going in their favour."

Alex has helped many people over the years and advocates three things that make a successful hospitality business.

"One: innovation and originality — people like seeing or going to places that have never been done before;

Two: re-invention — some of the most successful venues are those that keep it interesting, whether it's a whole re-vamp of the premises, or regularly changing the wine list or menu; and

Three: friendly staff — the worst thing a place can do is think they are too good for their patrons. Good, friendly service costs nothing but makes all the difference."

"... My clients provide a vessel or a means for which people can forget about the negativity in life, have a couple of beers with their mates, and talk nonsense for a few hours."

A genuine passion for the industry and its plethora of sub-cultures gives Alex a good grounding to provide clients with real-world advice on issues relating to all aspects of liquor and gaming machine licensing.

"I was involved in an application for a small bar before the introduction of the Small Venue Licence. The application was the catalyst to new legislation being introduced because of all the hoops the applicant needed to jump through and the associated costs. The venue was a pioneer in Adelaide's small bar movement."

And in another pioneering moment, Alex relates his involvement in a controversial gaming issue.

"I am currently involved and providing advice on only the second application for a Gaming Machines Licence since the Social Effects Test was introduced some five years ago, so this is quite a contentious and hot topic."

On a lighter note, Alex notes that irony in certain cases can bring a smile to his face.

"I was involved in one application for an extension to a prominent Adelaide pub which attracted about 20 resident objectors, with an average age of about 70. The grounds for objection was that they thought if the application was granted it would create too much of a noise disturbance. At the start of the conciliation, the Commissioner began by introducing the parties when one of the senior objectors piped up and asked the Commissioner to speak up as 'they were all a bit hard of hearing'."

Alex's passion for hospitality, its culture and people is reflected in his belief that it is a 'positive' industry.

"It is always important to remember that licensed venues, wineries, and pop-ups are all places people go to enjoy themselves. My clients provide a vessel or a means for which people can forget about the negativity in life, have a couple of beers with their mates, and talk nonsense for a few hours."

We'll drink to that Alex. Must be your shout I reckon.

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