Business Matters

News & Information from Marisa Gonzalez - Accountant - Registered Tax Agent

1st Quarter 2008

Kick-start your year of success

What do you want to achieve this year? How much money do you want to make? It's wise to develop an annual plan each year, and, now is the ideal time for you to sit down and create one for 2008.

Most people don't like planning, they prefer dreaming: thinking up great schemes and imagining great success. But planning is a lot more uncomfortable – it requires making decisions, sometimes tough ones. How to proceed...

Annual planning doesn't have to involve a long, drawn-out process. Even sitting down for a few hours or a half-day – ideally with key employees, if you have them – can help you be more successful in the coming year.

Here are a few questions and ideas to help you to kick-start your annual planning process:

1. What is your financial goal for this year? Put down a specific dollar figure of the amount of gross revenue you'd like to achieve. Be realistic. Don't be overly aggressive. If you are, you and your employees will inevitably be frustrated when you can't reach your target. But don't be too conservative, either. Stretch yourself a bit.

2. If you have different product or service lines, different locations, or different distribution channels, set specific financial goals for each of these.

3. What do you see as the biggest challenge in reaching the financial targets you've just set? Acquiring new customers? Increasing revenue from the customers you already have? Adding staff? Adding products or services? List the issues you'll have to address if you want to be able to achieve your financial success.

4. What are the steps you and your staff need to take to deal with those challenges? If you need to acquire new customers, does that mean you have to increase your advertising, exhibit at trade shows, increase referrals? Think through some of the major activities you're going to have to do to expand, add, or contract to enable you to achieve your financial goals.

5. With each of the actions you've outlined in Step Four, put a dollar figure of estimated costs and also an estimate of other resources each will take: staff time, your time, equipment and so on.

6. How are you and your staff currently spending your time? Are you using your time in ways that make it possible to achieve your 2008 goals? How can you restructure your time to enable you to take the actions outlined in Step Four?

7. How are you currently spending your money?

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IN THIS ISSUE

Are there ways you can reduce current expenditures to free resources for new activities?

Now, look at the total picture. You have a list of the activities you'd like to add and the activities you're currently involved in. You've indicated the costs – in terms of time and resources – for each. Go through the list and give each activity a priority. Then ruthlessly eliminate low-priority, overly costly, or unrealistic items.

Finally, turn these priorities into a plan-of-action. Put target dates and staff assignments with each. Input your financial needs and targets in your accounting software program so that you can measure your progress each time you review your financials. At the very least put it on paper. There, you have your 2008 annual plan!

Personal services income

Several recent cases have highlighted the need to clearly understand the issues relating to personal services income.

Definition

Personal services income, is defined by the ATO as income that is mainly a reward for an individual's personal efforts or skills. It does not include income that is mainly: for supplying or selling goods, or generated by an income-producing asset, or for granting a right to use property, or generated by a business structure.

Only individuals can have personal services income. If personal services income is received by a company, partnership or trust (known as a personal services entity), it is still the individual's personal services income for income tax purposes.

Objective

The personal services income tests are designed to prevent individuals assigning income generated from personal services through another entity. Income is considered to be personal services income if it is mainly a reward for an individual's personal efforts or skills.

If you are conducting a personal services business (that is, you satisfy one of the personal services business tests), you still earn personal services income.

If you are a contractor or consultant, and you are uncertain as to whether the personal services income rules affect you, please contact our office.

Personal Services Business Test

The ATO uses four tests to determine if a business will be affected by personal services rules. In order to be outside the personal services income measures, an entity must satisfy certain tests as outlined below:

Results Test

A contract is measured by an outcome or product, and the contractor is liable to rectify any problems; or no more than 80% of the business income is derived from a single source AND you satisfy *one* of the following:

- **Unrelated Clients Test**
you derive income from two or more unrelated clients and advertise available services; or
- **Employment Test**
you engage an individual(s) to perform 20% or more of the principal work; or
- **Business Premises Test**
you exclusively use business premises that are physically separate from your home, or from the premises of the person for whom you are working.

The consequence of failing the tests is that the income of the company becomes that of the individual. In addition, deductions may be limited.

When an employee leaves

Having to replace someone who has retired, or simply decided they want a change, can be a challenging experience for the owner/manager. As owner/managers typically rely on their key employees, the transition may even have a detrimental impact on operations.

To ease the stress and raise the odds that you will find the right replacement employee, here are a few tips on hiring correctly.

Involve others

The first rule of thumb is not to conduct the entire interview process on your own. Not only are owner/managers usually too busy to carry out the interview and selection process for every position, other employees will benefit from the opportunity to develop their interviewing skills. As the selection of the new employee will affect most of the people in the business, have supervisory staff conduct the initial interviews to narrow the selection to the best candidates. Make hiring a team decision, by encouraging their input before you make the final selection.

Understand the job

A failure to match prospects with the position often results when management does not have a clear understanding of the job function. You need an in-depth understanding of the work and the required skills to be able to attract the right candidate. Consider that quality candidates looking towards future opportunities within the company may shy away from a position if the job definition is lacking or unfocused on their chosen career directions.

The best practice is to complete an in-depth review of the job function when an employee gives notice. Discuss every aspect of the job. Once you assess the current job, you can set out the education, skill and training requirements more accurately.

Rethink the position

When an employee leaves, this is an opportunity to rethink a job position. The longer employees are in a position, the more their tasks and responsibilities may broaden and develop. A combination of new technology, a changing market, and the experience and skills of other employees could make all, or part, of the old position redundant. Or, the function may have evolved to the point where you need a person with more experience and training.

Look for the correct fit

The majority of people who leave their jobs cite a key factor was "bad chemistry". Selecting the right replacement is not simply a matter of finding someone with the right job skills. Often an excellent source of candidates are the people who already work for you. Since they already have many of the attributes that your company values, they may know someone who has similar characteristics and the right job skills. Use staff meetings and job postings to let your employees know that the company is looking for staff. Some businesses offer cash incentives to the employee who recommends a candidate who is ultimately hired. When you consider the cost of advertising or a placement agency, this incentive could actually save working capital. In addition, employee rewards encourage them to recommend a good fit, which also helps narrow the selection process.

Consider temporary staffing

When a business is picking up, labour costs can often outstrip the revenue stream. If you are reluctant to hire permanent staff, consider temporary staffing until you are better able to assess the company's needs. You could also consider hiring a contract worker or part-time employee to fill the position during the time it takes to find a full-time replacement. Hire students part-time, or join a local secondary school, or university co-op program to give students an opportunity to learn about your business. If the position requires more experience and skills, or your employees are too busy to provide the necessary training, consider the wealth of experience that a retired worker can offer.

A transition period will give you more time to find the right candidate as well as provide opportunities for your staff to train and supervise others. Covering labour shortages for a short term may be fine, but if the situation continues, you risk exhausting your valuable employees who must handle the additional responsibilities.

Succession planning

Perhaps the greatest shortfall in managing a company's staffing needs is not planning for the inevitable loss of employees. Plan not only for the inevitability that some employees will decide to move on, but also the career development of valued employees who need an opportunity to move up the ladder of responsibility, and be rewarded for their gains in skills, knowledge and performance. Good management looks at the long-term future of the organisation to determine how the company can develop the strengths of the people already on board.

Hire right the first time

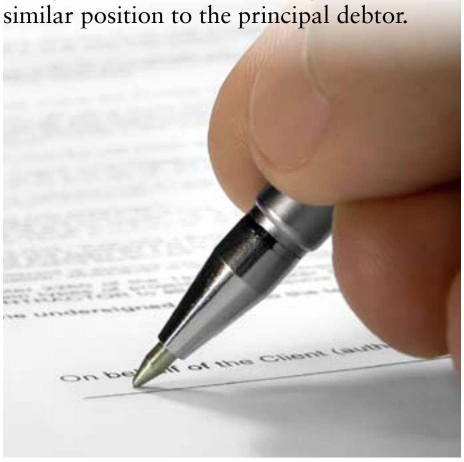
Smaller organisations need individuals who are strong in specific job skills but also have the flexibility, creativity and desire to learn new skills and work co-operatively with the entire team. The key to a successful, consistent work force in small business is making sure that employees are the right fit for your company and that includes a positive attitude about their jobs, fellow employees and the organisation.

Directors guarantees; the devil is in the detail.

It is common for suppliers of goods to seek personal guarantees from company directors. This normally occurs as part of the credit application and approval process.

The purpose of a guarantee is to provide the supplier with additional security in the event that the debtor becomes insolvent and is unable to settle their account.

A guarantee imposes separate contractual obligations on the guarantor (usually a company director) and as such subject to the normal terms of a contract. The effect of a guarantee is to place the guarantor in a similar position to the principal debtor.



Interestingly, the guarantor is expected to find out if the debt is being paid and there is no obligation for the creditor to notify the guarantor if the debtor is in arrears.

In addition, a guarantee cannot be avoided simply because the guarantor did not consider the implications of the guarantee, or signed the guarantee on the say so of a spouse. Similarly, a guarantee cannot be avoided because it was never explained to the guarantor or no time was taken by the guarantor to think before signing the guarantee.

Despite this frightening aspect, it is not uncommon for director's guarantees to be set aside due to simple carelessness. Attention to detail and some basic understanding of the principal of contracts may prevent this from happening.

Communication

It is common practice for suppliers to send credit applications accompanied with a standard guarantee to prospective customers, thinking that an offer has been made by the supplier and return of the required forms are considered to be acceptance.

Sending forms to a prospective customer is actually an invitation to conduct business on specific terms. The offer comes from the customer and only occurs once they complete and return the forms to the supplier. Once the offer has been accepted the supplier should acknowledge that acceptance, ideally by returning a duly executed copy of the forms.

Undue influence

This is when a supplier, in a position of strength, forces a guarantor to sign when they may not have the mental capacity to reject the guarantee.

Unconscionable conduct

This may occur where the guarantor has a disability such as illiteracy, or old age, or emotional vulnerability. If the guarantor knowingly takes advantage, without receiving independent legal advice, the guarantee may not be enforced.

Implications

It is generally a good idea to obtain legal advice when drafting or signing a guarantee. Many credit providers will insist that guarantors get independent legal advice. Ensure that all communication is in writing, particularly if the terms of the arrangement is varied in any way, such as payment terms or credit limits imposed and that the consequences for breaches are also clearly understood. It is also advisable to suggest all forms are witnessed by an independent third party, preferably a solicitor or an accountant.

Greater flexibility for family trusts

In the 2006-07 Budget, the Government announced that it would increase flexibility for family trusts. Tax Laws Amendment (2007 Measures No. 4) Act 2007 brings these changes into effect.

The amendments will allow family trust elections and interposed entity elections to be varied or revoked in a broader range of circumstances. In addition, the definition of 'family' will be broadened to include lineal descendants and distributions to former spouses, widows/widowers and former step-children will be exempt from family trust distribution tax. Specified individuals may also be varied in certain circumstances.

The changes will also mean that distributions to former spouses of family group members and to former widows/widowers and former step-children are not subject to family trust distribution tax by including them within the definition of the 'family group'.

The changes to the trust loss measures (Sch 2F to the ITAA 1936) to further increase flexibility for family trust and interposed entity elections, are in addition to the changes made in 2005.

WEB WATCH

ESSENTIAL SITES FOR BUSINESS OWNERS

INSEAD: The Business School for the World http://www.insead.edu

As one of the world's leading and largest graduate business schools, INSEAD brings together people, cultures and ideas from around the world to change lives and transform organisations. This website provides a great source of easy-to-read, slightly academic business material.

McKinsey & Company http://www.mckinseyquarterly.com

Quarterly articles, written by McKinsey consultants, offer practical ideas based on the Firm's experience with the world's leading companies. The site contains a wealth of detailed resources for businesses of any size.

REMINDERS FOR YOUR DIARY

JANUARY

16 Income tax - Due date for lodgment of income tax returns for companies, superannuation funds and trusts which were taxable large/medium business clients in the prior year and are not required earlier.

21 Activity statements - December 2007 monthly activity statements: final date for lodgment and payment.

21 Activity statements - Quarter 2 (October - December 2007) activity statements containing a monthly GST obligation: final date for lodgment and payment.

28 Superannuation - guarantee contributions for Quarter 2 2007-8: contributions to be made to the fund by this date.

FEBRUARY

21 Activity statements - January 2008: final date for lodgment and payment.

28 Superannuation guarantee charge statement – quarterly (if required contributions were not made by the due date) for quarter 2 2007–08 (1 Oct – 31 Dec)

28 Activity statements - Quarter 2 (October – December 2007) activity statements: final date for lodgment and payment, including electronic lodgments.

28 GST - Annual GST return or annual GST information report: final date for lodgment and payment (if required) if you do not have an income tax return lodgment obligation.

28 PAYG instalments - Quarter 2 (October – December 2007) instalment notices – forms R and T. Final date for payment and, if varying instalment amount, lodgment.

28 GST instalments - Quarter 2 (October – December 2007) instalment notices – forms S and T. Final date for payment and, if varying instalment amount, lodgment.

28 Income tax return lodgment and payment due date for companies and superannuation funds which were not due at an earlier date.

28 Income tax return lodgment and payment due date for companies and superannuation funds which are new registrations.

28 Income tax return lodgment due date for large/medium business trust clients that were non taxable in the prior year (includes new registrants).

MARCH

21 Activity statements - February 2008: final date for lodgment and payment.

A Great Read

Title: Selling to Anyone Over the Phone

Author: Renee P Walkup with Sandra McKee
(AMACOM Books)

This clear, informative book provides the tips professionals need to effectively engage their customers. With over twenty years of experience in sales and sales management, Renee P. Walkup shares her knowledge and performance tips for successful telephone sales.

Customers now have less time than ever and are more selective about how they make their purchases. *Selling to Anyone Over the Phone* explores key ways to develop successful telephone skills to win reluctant customers, build effective relationships and gain more sales.

The telephone is an important, undervalued sales tool in business. Walkup investigates four customer and salesperson personality types and suggests strategies to close sales with each. Characteristics for each personality type are given so they can be easily identified over the telephone.

Another chapter explores how to reach the sale when various "gatekeepers" stand in the way. Included are scripted examples of greetings with receptionists and emphasis on the importance of tone.

The principles provided in this book are essential to all salespeople. Walkup discusses a "Tell Me" approach to telephone conversation which allows salespeople to connect with their customers through improved listening skills.

The importance of planning, organisation and strategy are key elements of success that are repeatedly focused upon throughout the book. These tools will give you the confidence and skills needed to have meaningful interactions with clients over the phone.

Business and personal planning need not be left until the end of the tax year - talk to us now about tax and financial strategies for you and your business.

We are sometimes asked if we are able to help additional clients. We are a growing firm and do appreciate your referrals. We consider it a compliment when you recommend us to your friends and business contacts.