Business Matters

STRATEGIES FOR MANAGING YOUR BUSINESS

A challenging year ahead

With 2013 shaping up to be an unpredictable year, it is worthwhile to use this time in setting up an effective business strategy to deal with any financial uncertainty.

Sentiment among business owners remains pessimistic, with many struggling to keep their heads above water in this fluctuating economy.

Reducing costs is one way business owners can get themselves into a financially stable position in the year ahead.

- Look at forecasting sales ahead of time. With foresight, businesses may be able to negotiate better prices for bulk quantities of goods or packaging.
- Businesses can manage margins by regularly looking at the percentage of cost of goods, (COGS) and keeping track of when it might be a good idea to re-negotiate or seek alternative suppliers.
- Check industry benchmarks to see what the top performers are achieving and investigate how these businesses achieve their margins.
- Reduce materials on the job by managing wastage and write-offs. Seek to review ordering methods and introduce systems like job cost sheets to track the costs of goods used on jobs.
- Try implementing a quoting and estimating system and measure the actual end cost for each job against the estimation. Compare how accurate the quotes were and work out where it varied and why.
- Businesses that outsource work should look at having just one person manage the jobs who will have a good understanding of the status and progress to ensure all jobs get finished efficiently.
- Maintain a high level of quality control to avoid re-working tasks. Businesses can utilise checklists and templates to maintain high standards.
- Key Performance Indicators (KPI's) can be an efficient way of tracking the successes and goals of the business, by comparing the number of quotes issued versus the number of jobs won and lost.
- Businesses should be wary of extending bank credit if it is not necessary and should remain vigilant with debtor management in order to avoid bad debt.

With the 2013 financial year shaping up to be one of paradoxes, business owners have an opportunity to kick-start the new year by making simple, yet effective changes that will cut costs and increase profitability.

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ATO debt collection options

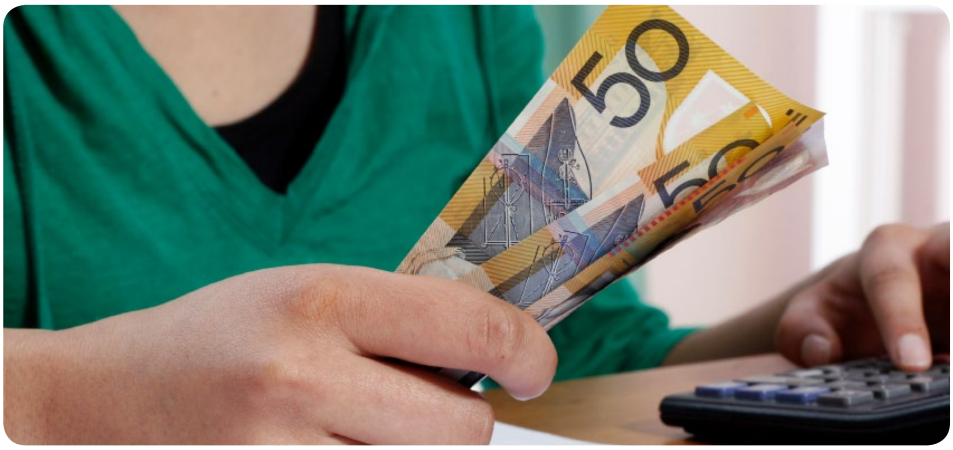
While the ATO is generally fair in its treatment of business debt, it does use tougher measures which can have a significant impact on the future of a small business.

A Statutory Garnishee Notice is one option available to the ATO to collect outstanding company taxation debts if other more usual avenues, such as debt negotiations, have failed to repay the owing tax liability.

The Commissioner issues the notice to a third party, such as a bank, compelling it to pay funds held on a taxpayer's behalf to the ATO to recover a tax debt.

A business may encounter a Garnishee Notice for any debts owing including SGC, penalties and GST, and is commonly issued in the following circumstances:

- To any bank accounts in the taxpayer's name. A Garnishee Notice will also remain in place for any investment accounts that have not matured.
- Debtors who owe or may later owe the taxpayer money.
- Any superannuation funds, although the Notice will not be effective until the benefit is payable.
- Life insurance policies, where the Notice will not become effective until the monies become payable.



- A company in which the taxpayer has shares (the dividends may be targeted).
- The taxpayers solicitor, for money held in a trust account on the taxpayer's behalf.
- A third party, for money paid to the taxpayer before the notice was issued.

A Garnishee Notice has the potential, for many reasons to cause considerable problems for small business owners.

1. The Notice is usually issued without warning- often the taxpayer's bank will have received the notice before the taxpayer is aware that their available funds are gone.
2. The ATO sends out a Garnishee Notice when the matter has gone out of the normal recovery process and has entered into the Legal Division of the Taxation Office. At this point negotiation options tend to be limited and usually indicate the start of legal recovery proceedings including winding up or property seizure.
3. The taxpayer's bank may react by re-thinking their financial commitment to the business and may freeze bank accounts as a response.

Garnishee Notices can have severe implications for both businesses and individuals, and cause serious cash flow problems for small businesses dealing with an already stressful financial situation.

ATO tax compliance targets

Leading up to the end of the financial year, the ATO has highlighted a number of areas that it will focus on in its compliance activities for small businesses.

The ATO has divided the small business sector into three segments:

1. Individuals with an estimated worth of $30m+
2. Individuals with an estimated worth of $5m to $30m
3. Small businesses with turnover of $2m to $250m

Characteristics that attract the ATO's attention are:

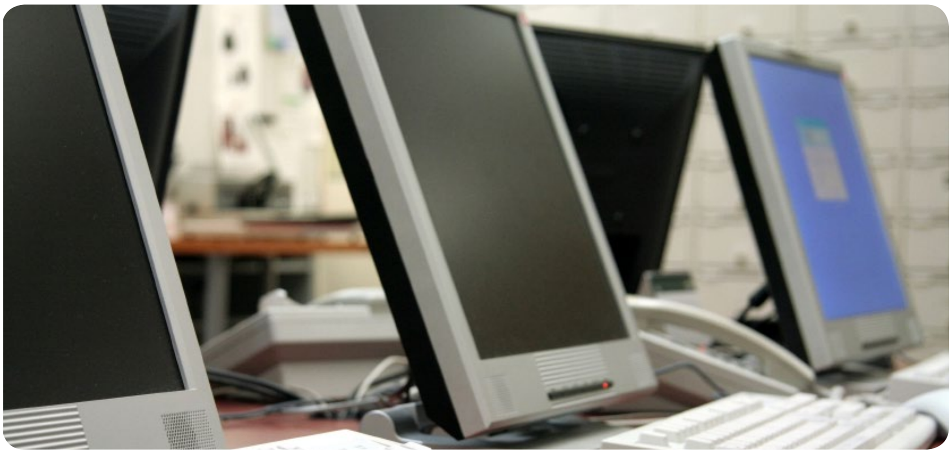
- Incorrect claims for work related expenses. Taxpayers must keep written records of all their work related expenses if their claims are more than $300.
- The ATO is stepping up its use of third party information such as information from suppliers, to identify under-reporting of income.
- Incorrectly treating employers as contractors.
- Analysing the treatment of private company profits, particularly in relation to loan arrangements.
- Superannuation obligations of employers.
- Tax results varying significantly from reported business results.
- Inconsistencies in BAS lodgment claims or spikes in refund claims.
- Sizeable one off transaction amounts.
- Tax and business performance varying significantly from similar businesses in the same industry.
- Unexplained losses.
- A history of aggressive tax planning.
- Weaknesses in compliance structure or processes.
- Tax outcomes inconsistent with the intent of the law.
- Lifestyle not supported by recorded after tax income.
- Business assets used privately and vice-versa.
- Overseas dealings and having complex systems of inter group structures.
- Poor company governance and risk management.
- Performance which falls outside of small business benchmarks.

That ATO's main tool for detecting non-compliance is matching information reported to it by taxpayers and third parties, such as financial institutions both in Australia and overseas.

This financial year, the ATO expects to match over 600 million transactions.

Protecting business assets with PPSA

With record businesses going into administration, small business owners should look to safeguard their assets and protect their finances under the Personal Property Securities Act.



The Personal Property Securities Act (PPSA) came into effect this time last year. The aim of the Act was to improve the ability of individuals and businesses, particularly small to medium sized businesses to use more of their property to secure lending.

Prior to the PPSA reform, the rules for registering security interest over personal property were different in every state and territory- this has now been streamlined to a national register, the Personal Property Securities Register (PPSR).

The PPSA is very broad and covers both tangible and intangible assets such as equipment, motor vehicles, intellectual property and licences, interests in all property except land and interests granted by all entities.

The Act has practical implications for businesses which have to ensure they register the 'security' of their assets; otherwise they may end up having no claim over the asset in an insolvency scenario.

This is particularly the case for businesses who lease out equipment or supply goods to other businesses on delayed settlement.

In a simplified example, imagine a business that leases out computer equipment to offices. One of the lessees, an IT company, goes into administration. In theory, the computers can be sold to payback the IT companies creditors, unless the computer equipment business has registered an interest in their assets.

The PPSA gives priority to a secured creditor who has registered his or her security interest, over a creditor who has not taken such a step.

Businesses which may be affected are those that:

- Borrow or lend money
- Purchase or sell goods on agreement, assignment or credit
- Grow crops or raise livestock
- Own/lease machinery or vehicles

Understanding the PPSA is difficult and time consuming, and business owners should consult a financial advisor to see whether the PPSA affects their small business.

Small business tax concessions

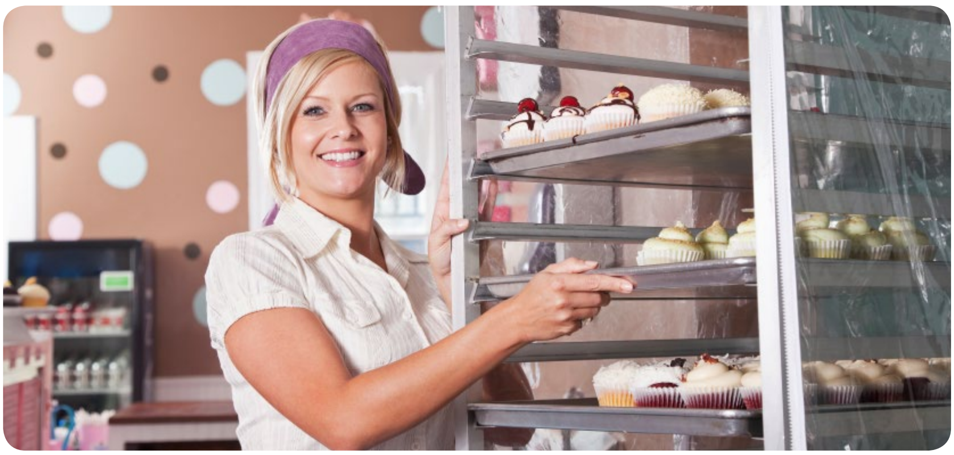
With the 2012-2013 financial year almost half over, now is a good time to plan ahead and take advantage of the small business tax offsets.

The tax concessions, announced by the Government in last years Federal Budget, may increase the depreciation deduction for small businesses, which in turn may reduce the taxable income in a high profit year. There are three primary changes that small businesses will benefit from.

Firstly, is the increase to the small business instant asset write-off. From the 2012-2013 income year, small businesses can immediately claim an outright deduction for most depreciating assets purchased for less than $6,500 each, which is an increase from the previous amount of $1,000.

For example, a business that buys 3 pieces of equipment at $6,000 each will get a tax deduction of $18,000 in the first year. Furthermore, sole traders who are on a higher marginal tax rate may receive a bigger tax saving.

Apart from the immediate financial benefits from the changes, the measures also mean less red tape for small business owners who have had to monitor the depreciation of their assets over several years.



The second change is to the pooling system, under which small businesses making purchases over the $6,500 limit, can allocate the depreciating assets to the general small business pool which is depreciated at 15 per cent in the year of allocation and 30 per cent in other years irrespective of the assets effective life.

Previously, companies had to allocate depreciating assets either to the long-life small business pool or general small business pool depending on the assets effective life.

Lastly, small businesses that buy a motor vehicle for use in their business can claim an immediate deduction of up to $5,000.

This will come as a great relief for many small business owners whose business relies on the use of vehicles. The remainder of the vehicle's cost will be deducted through the general business pool at 15 per cent for the first year and 30 per cent for later years.

Small businesses should look into howthey can reap the full benefits of these concessions before the financial year is over.

Getting a sales edge in 2013

With the end of year sales rush over comes a great opportunity for businesses to do a comprehensive review of their sales plans and consider how best to maximise their profit in the second half of the financial year.

There are many straightforward yet often overlooked sales techniques that can help businesses get back on track in 2013.

Identify key customers

Review the target demographic and audience and place the focus on those customers buying the most products and services.

Customer satisfaction

In order to gauge customer sentiment, consider sending the top 50 most loyal customers a customer satisfaction survey. Businesses should incorporate this valuable feedback into their sales process.

Make customers and clients priority

Keep loyal customers coming back by offering them a particular service – whether by connecting customers to each other or giving them information or materials they would find interesting.

Offer something different

Business owners should compare their business to the competition and offer something extra. Look at training staff in order to offer a more personalised level of service, so that customers will feel more satisfied about their decision.

Collect a customer database

Businesses should not underestimate the value of a client database, which should show how often people are returning. For those who are not, offer them an incentive to return, perhaps a sale offer or a credit on a future purchase.

This could also take the form of an email marketing campaign.

Consider a rewards program

This could be implemented whereby return customers are offered discounts for returning, or for introducing a friend to the business.

The 80/20 rule

Businesses should concentrate on the 20 per cent of products that bring in 80 per cent of the profit.

Make sure these products are always available, or focus on the key services that customers are giving the most attention.

A great read

Execution: **Think Twice: Harnessing the Power of Counterintuition**

Author: Michael J. Mauboussin

Harvard Business Review Press. 2012

No matter your field or industry, as a leader you make crucial decisions every single day. The truth is that the majority of decisions—no matter how good the intentions—are mismanaged, resulting in problems within organisations and employees.

So why is it so hard to make good decisions? In Think Twice, Michael Mauboussin argues that we often fall victim to mental routines that prevent us from coping with the complexities in making important judgment calls.

In this engaging book, Mauboussin shows us how to recognise and avoid common mental missteps. These include not considering enough alternative possibilities in making a decision, and relying too much on experts.

The author presents memorable rules for avoiding each error and explains how to recognize when you should "think twice"—adopting decision-making strategies that are far more effective, even if they seem counterintuitive.

REMINDERS FOR YOUR DIARY

February

21 January 2013 monthly activity statement - final date for lodging and payment.

28 Lodgement and payment of the second quarter 1012/13 BAS/IAS.

Lodgement of 2012 income tax returns for all non-taxable large/medium business taxpayers – all entities except individuals

Lodgement and payment of 2012 income tax returns for new registrant large/medium business taxpayers (companies, trusts and partnerships).

Lodgement and payment of 2012 Annual GST Return or information report if taxpayer does not have an income tax return obligation.

Lodgement and payment of 2012 income tax returns for new registrant self-managed superannuation funds.

March

21 February 2012 monthly activity statement - due date for lodging and paying.

31 Income tax return for companies and super funds with total income in excess of $2 million in the latest year lodged.

Lodgement of income tax returns for individuals and trusts with a tax liability of $20 000 or more.

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.