Business Matters

STRATEGIES FOR MANAGING YOUR BUSINESS

ATO encourages R&D for small businesses

Last year, the ATO unveiled incentives for businesses to invest in research and development (R&D).

However, many businesses are overlooking these incentives due to complicated conditions inherent in the benefit.The R&D Tax Incentive applies to all R&D activities and expenditure from or after 1 July 2011. These incentives were designed to provide financial motivation to encourage more companies to carry out R&D activities.

Eligible R&D activities are categorised as either 'core' or 'supporting', and are conducted for the purpose of acquiring new knowledge (including knowledge or information concerning the creation of new or improved materials, products, devices, processes or services).

The ATO recognises that a company may require new information and may conduct experiments whose outcome may be determined by applying a systematic progression of work that:

- Is based on principles of established science.
- Proceeds from hypothesis to experiment, observation and evaluation, and leads to logical conclusions.

To be considered for the concession, the outcome of the project must not already be known or exist as previous knowledge.

Businesses with revenue under $20 million may be eligible to claim up to 45 per cent as a refundable credit. The R&D Tax Incentive has two core components:

- A 45 per cent refundable tax offset (equivalent to a 150 per cent tax deduction) to eligible businesses with a turnover of less than $20 million per annum.
- A non-refundable 40 per cent tax offset (equivalent to 133 per cent tax deduction) to all other eligible entities.

R&D activities do not include things such as market research, management studies or efficiency surveys, research in social sciences, or the commercial, legal and administrative aspects of patenting or licensing.

Since last year there has been an increase in the number of small businesses making claims for the R&D offset. Given the number of changes in R&D tax breaks in recent years, businesses that may be able to take advantage of them now, should look at possibilities before any concessions disappear.

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Property Investors
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Managing profit fluctuations

During the holiday break business owners should take some time to reflect on the past year, to try to understand what has worked and identify areas that need improvement. With this in mind solid sales plans can be made for the next 12 months.

The aim is to manage seasonal fluctuations, and maintain positive cash flows throughout the year. Once businesses have clearly identified their yearly peaks and lows they can create a stock management guide.

Prior to beginning the planning process, business owners will need to analyse what has worked well in the past. Compiling and then using accounting information from each month in the previous year will aid this. The following are considerations in developing a seasonal management plan.

Managing seasonal demand

For businesses which have a peak period, managing inventory becomes a demanding and time consuming task. Without careful planning, inventory can get out of line, resulting in heavy markdowns due to overstocks and serious cash flow problems.

Marketing plan

In addition to advertising and direct mail, the Internet has opened up a wealth of new ways to reach customers. Keeping a manageable list of customer emails allows businesses to regularly inform their customers about promotions, new stock or general changes to the business.

Differentiate your business

One common issue for many small businesses is how to remain competitive with national chains. Small business owners should ask themselves, “What makes me distinctive? “What do I offer that they do not?”

Often the level of service provided by small businesses is what makes them more attractive to customers.

Hours and staffing levels

Determine the need for seasonal staff. Work with staff to stagger schedules so that the business is fully operational during peak periods, which may involve more nights.

Review the previous year history

Make allowances and adjustments for unusual events, such as weather and one off promotions. Based on current market share, make profit estimations taking into account the busiest and slowest periods.

Capital gains tax concessions revisited

The capital gains tax allows businesses to sell their capital business assets and reduce the tax payable on the sale. Small businesses with a turnover of less than $2 million are eligible for the tax concession.

Utilising this incentive, business owners stand to save considerably. Reductions are available of up to 50 per cent for businesses, individuals and trusts that qualify.

There are a number of requirements that the assets must meet in order to receive the concession. The asset must be classified as an ‘active asset’, i.e an asset which is essential to business operations, such as the business premises and necessary equipment.

Passive assets, such as an investment property cannot claim the concession. Only capital gains tax assets are eligible for these concessions.

Assets such as trading stock, office furniture and computer equipment would not qualify.

Some assets that are owned by business affiliates but are connected to the business may also qualify for these concessions.

The following is a breakdown of the different categories for capital gains tax concessions.

50% active asset reduction

This concession allows individuals and trusts to get an additional 50% reduction to their capital gains. Individuals and trusts who are entitled to both the general 50% discount and small business 50% reduction can effectively reduce their assessable capital gain by 75%. Sales of shares in a small business may also be able to access this reduction.

Business rollover

Where an asset is disposed and the proceeds to aquire a new active assetor improve the condition of an existing active asset, the tax may be deferred to the sale of the new asset.

15 year exemption

This exemption allows the business owner to bypass the entire capital gain tax made on disposal of an asset. To be eligible for this concession, the asset must have been owned for at least 15 years. The owner must also be over the age of 55 and the disposal needs to happen in connection with retirement.

Retirement exemption

Owners under 55 who make a capital gain from the sale of business assets, must contribute the profit into a complying superannuation fund in order to obtain the concession. Those over the age of 55 are not required to contribute profit to a complying fund, provided that the disposal is connected with retirement.

How effective is cloud computing?

Small businesses are finding ways to streamline their business operations by moving away from traditional on-site servers to internet based servers, a process known as 'cloud computing.'

Cloud computing refers to the storage of information, applications and other business tools online. The hardware used for this information is stored in a remote location and managed by a third party. The information is delivered over the internet, making it accessible anytime, via any device with internet connection. The users rent the 'cloud' from the provider, effectively reducing technology costs.

Before making the decision to move business operations to the cloud, owners should weigh the positives and negatives of cloud computing.

Positives of cloud computing

Reduction of cost

Cloud computing reduces paperwork, lowers transaction costs, and minimises investment in hardware (and the resources to manage it). Moving a business to 'the cloud' also reduces the need for IT staff.

Pay for usage

Like electricity and water, some cloud computing services allow businesses to only pay for what they use. As the business grows, more server space can be added.

Levels the playing field

Cloud computing providers offer small and mid-size businesses access to sophisticated technology at lower prices. Sharing IT resources with other companies reduces the cost of licensing software and buying servers. New cloud-based and mobile technologies mean smaller companies can now access cost-effective tools, such as a 24/7 online FAQ-style support centre that allows them to match the scale and capabilities of big business.

Easier collaboration

Since services in the cloud can be accessed anytime, anywhere from any computer, it is easy and convenient to collaborate with employees in different locations.

Negatives of cloud computing

Privacy

One of the main questions businesses should be asking is, how much data cloud companies are collecting and how that information might be used.

Availability

As with all internet technology, the cloud service can go down unexpectedly, leaving businesses without important information for hours.

Data mobility and ownership

Deciding to stop using the cloud service means some data may be lost. Businesses cannot be certain that the service provider will destroy all data once the service has been cancelled. Having access to technology features previously only the preserve of bigger organisations is levelling the business playing field. Small businesses that embrace cloud computing are the real winners in today's fast-changing technology scene.

Telecommuting – a new way to work

The Federal Government staged National Telework Week in November in a bid to highlight the benefits of working from home, for both businesses and employees.

Teleworking or telecommunting is a work arrangement whereby an employee is able to work from home one or two days per week instead of commuting to the office.

Flexible working arrangements are gaining momentum in Australia and teleworking is becoming increasingly popular.

With any new work agreement, businesses need to weigh up the positives and negatives and see whether this fits in with their company structure.

Positives

Expanded supply of skilled labour

Both businesses in the city and in regional centres may benefit from teleworking as it allows them to select employees from a larger geographical pool, giving them the best candidate for the job regardless of the postcode.

Keeping employees loyal

By offering the option of telecommuting, business owners are able to offer flexibility to their staff, giving employees with busy home lives an incentive to stay on in the business, thereby retaining valuable staff for longer.

Saves on costs

Companies can also save on office overheads if they have one or many of their team working from home, which means smaller offices and cheaper rent and electricity
and so on.

Environmental

Many businesses may wish to keep their impact on the environment minimal. For them, teleworking ensures their employees are driving less to work, using less fuel and having a smaller impact on the environment.

Negatives

Lack of productivity

Companies may be wary of how productive employees may be at home, when faced with numerous distractions such as family, food and television.

Communication

Some business owners may find it is harder to communicate with their employees at home, even if they host regular skype meetings and email conversations. For some nothing beats face to face contact.

Fostering office culture

The office culture and team environment may suffer if key members are not there on a daily basis to collaborate and communicate with other employees.

Extra organisation and administration

Businesses may also find teleworking adds to their administration paperwork by having to set up online timesheets, and answering endless emails and calls.

ATO crackdown on vehicles FBT

The ATO is monitoring employers who have purchased a vehicle during the 2011–2012 year to make sure they are aware of, and meeting their Fringe Benefit Tax (FBT) obligations.

Motor vehicles are the most common fringe benefit provided. In the past year the ATO has identified many errors in FBT audits relating to motor vehicle fringe benefits. The following are the most common issues:

- Errors when applying the statutory formula
- Motor vehicles not being declared as being "available for private use" when garaged at home (e.g. whilst the employee is travelling)
- Failure to keep adequate records (log books, purchase costs, maintenance/ running costs etc.)
- Incorrect use of the depreciation 'cost limits' when calculating the taxable value of motor vehicle fringe benefits
- Lack of records kept in relation to employee contributions, including unreimbursed expenses paid by employees
- Incorrect assumptions of business use percentages

As well as the above, ATO Auditors have found many employers incorrectly claim tax deductions in respect to motor vehicles for the "non-business" use. Vehicles provided as fringe benefits (subject to depreciation cost estimates) are deductible to the employer where a motor vehicle fringe benefit is provided.

Using data matching technology, the ATO is able to obtain information from motor vehicle registration bodies. This is done in a bid to identify employers who have purchased a business registered vehicle but have not registered for FBT.

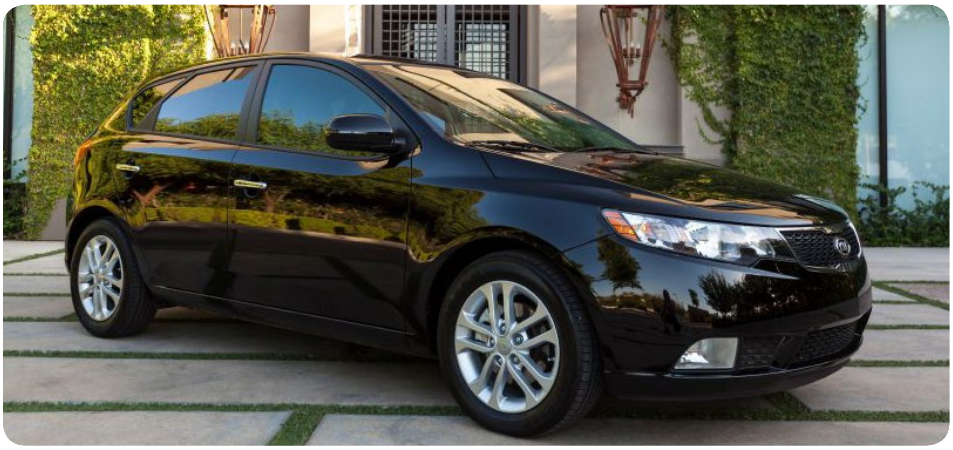
The ATO will be writing to 5,000 employers to ensure that they understand what car fringe benefit is and what their obligations are in relation to this.

Who has an FBT liability?

Employers that make a car available to employees for private use may have an FBT liability. The ATO stipulates that FBT occurs when:

- a car is garaged at home, and is taken to be available for private use
- a vehicle is used for travel to and from work, which is considered private use

FBT laws in relation to vehicles are varied and complicated. If you are unsure if your businesses vehicles are subject to FBT, make an appointment with our office to discuss your circumstances.



REMINDERS FOR YOUR DIARY

November

11 Quarter 1 (July – September) activity statements lodged electronically – final date for lodgment and payment.

21 October 2012 monthly activity statements – final day for lodgment and payment

December

01 Income tax payment due date for companies that were taxable medium to large businesses clients in the immediate prior year.

Income tax payment due date for companies that were required to lodge by 31 October 2012

21 November 2012 monthly activity statements – final day for lodgment

25 Happy holidays!

31 End of calendar year

January

15 Due date for lodgment of income tax returns for companies and trusts that were taxable medium to large business clients in the prior year and are not required to lodge earlier.

21 December 2012 monthly activity statements – final date for lodgment and payment.

28 Due date for super guarantee contributions for quarter 2 (1 Oct – 31 Dec 2012). Contributions to be made to funds by this date

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.

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