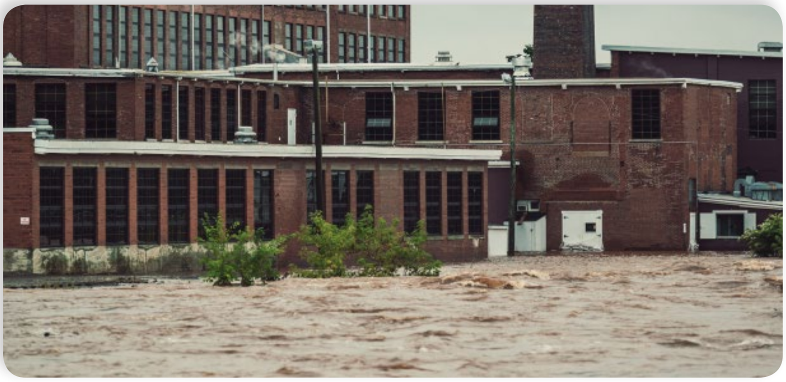
Business Matters

Strategies for managing your business



JOVIC ACCOUNTING
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Business interruption insurance

While many see the importance of car or home and contents insurance, many small businesses have not considered what they would do if something unexpected were to happen which would force their business to temporarily close.

With many small businesses being the livelihood of entire families, it is important for owners to consider taking out business interruption insurance in order to safeguard against financial loss experienced as a result of incidents such as fire, floods, damage and burglaries.

Business Interruption insurance provides cover against a loss of gross profit, and differs entirely from insurance covering business property, equipment and stock.

In the case of a fire for example, business interruption insurance can ease the burden of having to pay rent, electricity and staff while the business is closed for repairs.

Businesses have a range of policies to choose from, however these only cover permanent overhead costs such as rent, and not all of the costs associated with running a business.

For example, a clothing shop out of action will not have to buy new stock, pay casual staff, and pay for sale advertising, so as a result these cannot be factored into the policy.

Business interruption insurance is one way of protecting small businesses against unexpected risks and incidents, and is often overlooked in favour of property or equipment insurance.

However, business interruption insurance claims can be one of the more tricky types of claim faced by a business.

Some common issues include:

- The definition of 'damage' in the policy
- Whether the business losses claimed have been the result of the specified damage. If a business suffers a fire as a result of a burglary, then the policy will have to clearly define whether the business was 'damaged' as a result of the fire or the robbery
- How the losses should be calculated. Recent court cases have highlighted the complexity involved in calculating losses, with differing calculations between the insurance company and the business ultimately affecting the claim payout

Small business owners worried about insurance premiums should note that most premiums including those covering property, fire theft and loss of profits are tax deductible.

In this volatile economy, business interruption insurance may help minimise the risks and costs of running a business.

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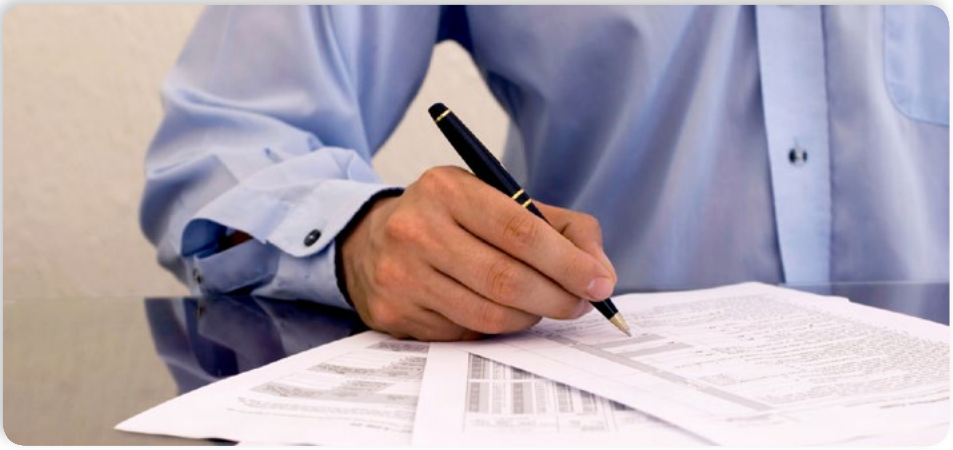
Changes in superannuation legislation



Three key changes have been made to superannuation law in the past year that will significantly impact small businesses.

Firstly, the Superannuation Guarantee (SG) rate will be raised from the current 9 per cent to 12 per cent by 1 July 2019 (2020 tax year.)

Announced by the Government last year, the rise will be implemented incrementally in order to soften the financial blow on businesses. The first rise will be 0.25 per cent which will come into effect 1 July 2013, with subsequent rises after 2014 increasing by 0.5 per cent until the 12 per cent target is reached. The changes were made in order to increase the retirement fund of employees, with the 3 per cent increase resulting in a significantly larger nest egg when Australians enter into retirement.

Secondly, from 1 January 2014, small businesses will be required to pay super contributions into either a MySuper default fund or into a fund that offers a MySuper product for employees who have not selected otherwise.

Funds that do not operate as default funds, such as self managed superannuation funds (SMSFs) or choice products, will not have to comply with the new MySuper rules.

Superannuation funds will start to offer MySuper products from 1 July 2013 and when fully implemented any employee will be able to elect to have their superannuation paid into a MySuper product. There will be a significant amount of administration work for small businesses as they will have to change the default super for their employees.

Small businesses with19 or fewer employees can utilise the Small Business Superannuation Clearing House. This is a free service that lets employers pay employees' super contributions in one transaction and can ease the administrative burden.

Lastly, the Government has abolished the upper age limit for super contributions, with the aim to encourage more mature age workers to stay in the workforce. As a result, from 2013 businesses will be required to provide the superannuation guarantee to employees aged between 70-75 years of age.

In order to remain compliant with the new laws, employers need to:

- Update their payroll and accounting systems to apply the appropriate changes
- Keep a record of all contributions made
- Pay super contributions into the employees' super fund or retirement savings account at least every quarter
- Be aware of any special reporting requirements that may apply to super payments made as fringe benefits or salary sacrifice

Borrowing money from your business

Business owners sometimes borrow money from their own company for a variety of personal and financial reasons.

However, there can be an issue with tax law compliance if the proper steps are not carried out in treating the transaction correctly. Division 7a is an integrity measure aimed at preventing companies from making tax-free distributions of profits to shareholders (or their associates). It comes into effect when there is a loan by a company to its owners and associates, i.e. the shareholders of the company. Associates is broadly defined and can include family members and other related entities. Specifically, this tax law covers any monetary benefits including:

- Payments made to a shareholder (or associate) by a private company, including transfers or uses of property for less than market value
- Loans made without specific loan agreements
- Debt forgiveness

These transactions may come under the Division 7a provisions and as such are treated as assessable unfranked dividends to the shareholder or associate, and are taxed accordingly. An assessable unfranked dividend means that there are no franking credits available to the recipient, so the franking tax offset will not apply and the recipient will have to pay tax on the dividends at the usual marginal rate.

However, there are instances where payments will be excluded from Division 7a provisions.

- If the payment is made to a shareholder or associate who is also an employee of the company, then the dividend may be treated as a fringe benefit instead
- Payments of genuine debts may be excluded in some circumstances
- If the loan is entered into formally with a written agreement outlining minimum interest rates and maximum term criteria. However, minimum yearly re- payments of the loan are required in order to avoid the amounts being treated as dividends arising in later years
- Payments or loans excluded by virtue of other tax provisions

Update on loss carry-back provisions

The latest loss carry-back provisions were introduced into Parliament earlier this year, and will be available for the 2012/13 income year.

The new provisions will allow businesses the choice of carrying back all or part of a tax loss from the current or previous income year, against an income tax liability for either of the two years before the current year.

However there is a transitional one-year-carry-back for tax losses from the 2013 income year, meaning businesses will only be able to carry back losses to 2011/12.

The Government considers the measure as a limited form of loss refundability, and is intended to be used to alleviate pressure on businesses operating in a patchwork economy and to help stimulate growth and investment.

The tax offset is calculated as the lowest of:

- The corporate tax rate (currently 30 per cent) multiplied by the amount of the loss the entity chooses to carry-back
- A companies' franking balance at the end of the loss year
- The entity's tax liability for the income year(s) it carries a loss back to
- A $1 million cap on the amount of losses able to be carried back

However, limits apply to the new rule:

- Only companies, and entities taxed like companies can benefit from the loss carry back scheme. Small businesses operated by sole traders or through trusts will miss out on the benefit of the new measure
- The carry back only applies to revenue losses only, capital gains losses are not able to be refunded under the measure
- There is a limit on carry-back refunds to the balance of a company's franking account. This means that businesses will need to consider this as part of their planning for the payment of franked dividends

The new loss carry-back measure brings the Australian tax system in line with a number of international tax systems, such as Germany, France, the United States, Canada and the United Kingdom.

Guide to successful business borrowing

In this current economic climate, many small businesses have seen a change in their ability to borrow funds from their bank.

With banks conducting careful research to determine a business' risk factor it is more important than ever for businesses to maintain a good relationship with their bank in order to safeguard their future access to funds.

Prepare a strong business plan

This is one of the first steps to ensure that the bank will identify it as a low risk business and therefore someone they are willing to give funds to.

A solid business plan highlights the viability of the business, information about the experience and success of the owners and managers, expenses which the loan will cover,as well as detailed sales expectations.

Establishing a personal relationship

Over time, an owner establishes key contacts within their bank that are familiar with their business and financial needs. Keeping these contacts informed of any changes to the business or cash flow projections before it comes as a surprise will build trust between the bank and the business.

Knowing your business inside out

By keeping themselves updated of their own financial status by obtaining credit reports and public records, business owners will know what research the banks will obtain when deciding on the amount, if any, to loan to the business.

Learn the banking language

Understanding banking terms such as credit ratings, cost of capital and other financial drivers will place business owners in a strong position when negotiating the terms of their loans.

Keep the adviser informed

Financial advisers are there to advise and will have an intimate knowledge of bank processes. Keeping them posted of any plans or changes will allow them to better advise the business on the best course of action,and ensure that the business will continue to prosper.

Getting customers to settle debts

Good credit management is an important business strategy to maintain cash flow and stable finances.

A cornerstone of managing credit is not only making sure an invoice gets paid, but gets paid on time. Before a debt recovery process commences, which may delay payment further and damage a relationship with a customer, it is worthwhile for businesses to put a few processes in place to avoid customer debt in the first place.

Prepare your customers

Making sure the customers understand their payment terms from the start is the first step in training them to keep track of outstanding invoices and payment due dates.

Keep detailed records

Businesses should keep all customer records such as payment term agreements, customer limits and outstanding sales to date.

Follow up regularly

Starting following up procedures once a payment becomes overdue will help speed up the process. It is also very important to know exactly who to speak to about payment matters, it may different to the person you had been dealing with during the transaction process.

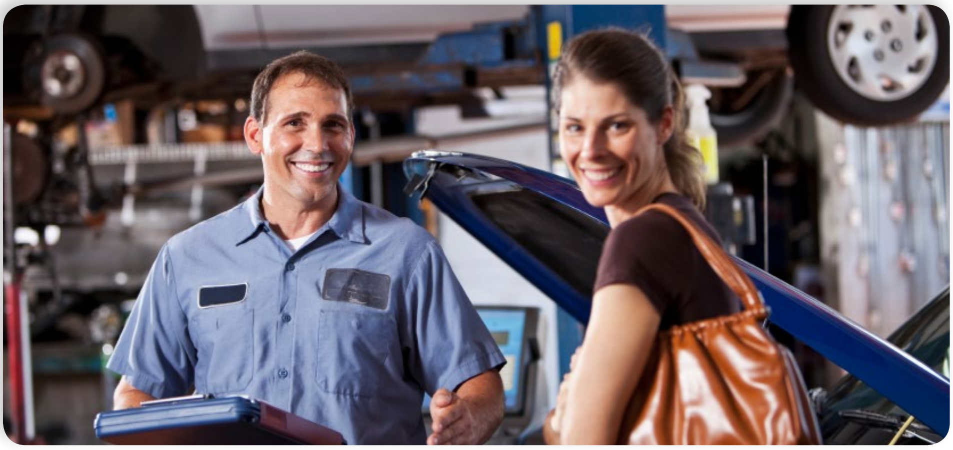
Implement payment-in-full

Most businesses adopt this policy in regards to payment procedures. This way the customer has a full amount to pay by a concrete due date.

Sometimes 'making it easier' for the customer by staggering payments and due dates can confuse and delay payments even further.

Upfront payments

For labour and time intensive work, some businesses ask for a part payment or deposit up front. This works as a way of showing that the customer is financially committed to the project. It also allows a business to better manage cash flow, knowing that there won't be months at a time when there are no payments coming in because of works in progress.



A great read

Ctrl Alt Delete: Reboot Your Business. Reboot Your Life. Your Future Depends on It.

Author : MITCH JOEL

Publisher: Business Plus

Year: 2013

Mitch Joel, one of the world's leading experts in new media, believes that the DNA of business has changed, thanks to technology, social media, smartphones and everything else. He states that the time has come to CTRL ALT DELETE-to reboot and to start re-building your business model.

In his new book, CTRL ALT DELETE, Joel explains the convergence of five key movements that have changed business forever.

The movements have already taken place, but few businesses have acted on them.

He outlines what you need to know to adapt right now. He also points to the seven triggers that will help you take advantage of these game-changing factors to keep you employable as this new world of business unfolds.

Along the way, Joel introduces his novel concept of "squiggle" which explains how you can learn to adapt your personal approach to your career, as new technology becomes the norm.

REMINDERS FOR YOUR DIARY

May

21 Monthly activity statement for April 2013.

26 Quarterly activity statement, quarter 3, 2012-13 -electronic lodgment (ELS, ECI, Tax Agent Portal or BAS Agent Portal and SBR).

28 FBT return- lodgment and payment.

Superannuation guarantee charge (SGC) statement - quarterlyfor quarter 3, 2012-13 (if required contributions were not made by the due date).

June

5 Tax return for non-taxable or refund as per latest year lodged as well as actual non-taxable or refund in current year - all entities with a lodgment end date of 15 May 2013 except large/medium business taxpayers and head companies of consolidated groups.

Tax return for individuals and trusts with a lodgment end date of 15 May 2013 provided payment is also made by this date.

Note: This is not a lodgment end date but a concessional arrangement where failure to lodge on time (FTL) penalties will be waived if lodgment and payment is made by this date.

21 Monthly activity statement for May 2013.

25 FBT return- lodgment for eligible tax agents with 25 or more FBT clients attached to their registered agent number as at 28 May 2013.

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.