Client Information Bulletin

BDH & CO

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Contents

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Investment allowance, depreciation and capital allowances

The Government has issued a new $4.7bn economic package to stimulate business investment and encourage capital expenditure.

As part of this the Government has introduced the following 'capital investment allowances' in relation to 'depreciable assets' (plant, equipment and motor vehicles) acquired between 13 December 2008 and 30 June 2009. To be eligible the assets must be 'installed ready for use' by 30 June 2010. This means:

- 'Small businesses' (less than $2m revenue) acquiring assets costing more then $1,000 will be allowed an additional tax deduction of 30 per cent of the assets' cost; and,
- 'Other businesses' acquiring assets costing more than $10,000 will be allowed an additional tax deduction of 30 per cent of the assets' cost.

Before preparing financial statements and income tax returns there are some issues that need to be addressed as a single asset might be subject to various depreciation treatments and may or may not be allowed the 'investment allowance' claim.

These are some of the issues:

- The assets need to be 'new'
- The 'investment allowance' is available where the depreciation claim is prepared under the depreciation provisions of Div 40 of the *Income Tax Assessment Act 1997* (Cwlth)
- 'Capital works' do not qualify for the allowance (these claims are prepared according to Div 43 of the ITAA Act)
- A 'small business entity' which chooses to claim depreciation according to the 'simpler depreciation rules' (Subdivision 328-D of the ITAA Act) will not be able to access the allowance. Therefore a 'small business entity' will need to elect to use Div 40 of the ITAA Act in relation to these assets
- The investment allowance is not 'accounted for' in the financial statements. It is a deduction which is claimed only in the tax return. Therefore, there will be a difference between accounting profit and taxable income
- It is also possible for a business to maintain a depreciation schedule for accounting purposes and a separate depreciation schedule for tax claim purposes.

Note for car buyers

As only new cars are eligible for the new investment allowance, it may now be better to buy new business cars.

Tax bonus payment

Below is a brief guideline regarding the Government's tax bonus payments:

- If your 2007-08 taxable income was up to and including $80,000 the bonus is $900
- If your income exceeded $80,000 but did not exceed $90,000 the bonus is $600
- If your income exceeded $90,000 but did not exceed $100,000 the bonus is $250.

To receive the payment your 2007-08 income tax return ***must*** be lodged by 30 June 2009. The first round of payments will commence from April 2009. Those who have already had their returns assessed will be the first to receive their payments.

Tips to survive the current global financial crisis

During deteriorating economic conditions, businesses often experience reduced revenue as customers strive to limit their discretionary spending. It is critical for business owners to take steps now to minimise the damage to their business.

Here are some practical tips for recession-proofing your business:

1. Control costs

High performing businesses have a willingness to listen to everyone within their organisation. Employees often have powerful ideas and suggestions to cut costs and save money. The best time to implement these measures is during an economic slowdown, but make sure that these reductions do not impact revenue in a negative way.

2. Stay focused on your long term goals

Do not get unduly distracted by the present economic conditions, stay focused.

3. Control inventory

During harder times, the last thing you want to do is get stuck with excess inventory. Inventory on the shop floor is locked up cash.

4. Use effective marketing and communication strategies

The first and easiest reaction for many businesses is to cut marketing and communication expenditure. This can however have a detrimental effect on future revenue streams for the business. During a recession you need to re-assess your marketing strategies to make sure they are cost effective. If you are not seeing a good sales return from every dollar spent on promotions, then you are wasting valuable resources.

5. Maintain prices

During quieter times you may be tempted to slash prices to generate more business. Generally, this is a poor strategy, as it dilutes the value of your product or service and also reduces your profit margin in the process.

6. Deliver outstanding customer service

When money is tight, customers often expect more for their dollar. Taking a customer focused approach and adding value wherever possible will ensure you retain their business. The use of flexible payment arrangements is often regarded positively by customers. You may also like to conduct customer satisfaction surveys in order to make sure your customers' needs are being met.

7. Listen to your customers

During a downturn many of your customers will be feeling the pinch and they may have suggestions for your business. Take them on board, your customer’s suggestions could supply you with new product and service opportunities.

8. Invest in employees

During economic downturns some businesses lay off employees, but what needs to be remembered is that most economic downturns are short-lived. A better approach is considering reduced working hours or bringing forward holidays to ensure valuable and experienced team members are not lost to your competitors. You should also discuss such matters with your employees to help maintain morale and reduce any unnecessary stress.

9. Improve your cash flow

Delay purchasing any non-essential capital items. If liquidity is becoming a problem ask your suppliers for extended payment terms. This is also a time to enthusiastically pursue any outstanding debts. Having cash on hand will help your business meet commitments to staff and suppliers and facilitate the future growth of your business.

10.Streamline and systemise

Create processes and systems that keep your operations flowing smoothly to save time and money in the long run. A debt collection procedure is important to have in times of tight liquidity. A systemised collection procedure can stop slow paying customers from building up large unpaid accounts and will help reduce any pain if they become problem debtors.

11. Look for opportunities

In times of distress look for opportunities. Assuming your business is in a stable financial position look to take advantage of your history of good financial management. Such opportunities could be the acquisition of competitors, hiring of the top sales person in your industry or re-negotiating debt facilities to take advantage of lower interest rates.

If you are worried about the economic downturn and would like to 'recession proof' your business talk to Brad, Tas or Gede. The quicker you act, the quicker they can help you take action to position your business to not only survive, but prosper during the harder times.

Remember the words of one famous Hawthorn football coach who pleaded with his players when his team was faced with annihilation by the opposition: ‘Do something!’ Taking action in these times is essential to long term success.

Fuel tax credit rate change

There has been a change to the fuel tax credit rate for fuel used in heavy vehicles travelling on a public road. The rate to use when calculating claims will depend on when the fuel was acquired. This means:

- For fuel acquired from 1 January 2009 use the new rate of 17.143 cents per litre
- For fuel acquired before 1 January 2009 use the old rate of 18.51 cents per litre.

Purchase of business – Protecting your goodwill

It is not unusual for a business purchaser to find themselves substantially down the path of an acquisition and then realise there are key issues which were not contemplated either:

- During the early stages of their decision to acquire the business or
- Around the time the business is transferred.

The implications of these 'surprises' can range from being a temporary nuisance, through to having a disastrous impact on the goodwill and value of the business.

As such it is always a good idea to keep an adviser 'in the loop' throughout the process.

Having dealt with numerous business purchases and operating from experience, we can help ensure goodwill - which the buyer pays good money for - is protected. Discuss the following issues with Brad, Tas or Gede:

- **Key staff –** Key staff either remain with the business during the handover period, or transfer their knowledge over to the new owner. Fundamental staff retention issues should be addressed early in the transaction. They include the issue of who will be responsible for accrued leave entitlements.
- **Customers –** This might include providing sufficient time for the seller to introduce customers to the purchaser by organising introductory visits.
- **Stock –** Supply agreements should be identified and transferred across to the new owner.
- **Intellectual property –** Business name/s, slogans, copyrights, trademarks, licenses, agreements, systems and processes should be identified and transferred.
- **Advertising agreements –** Advertising agreements should be identified and transferred, including permission to use artwork and designs.
- **Passwords, logins and keys –** These items, including software, security and telephone information should be transferred.
- **Eftpos facilities –** This must continue to function uninterrupted.
- **Permits, accreditations, compliance certificates and approvals –** While these are frequently overlooked they must be considered.

  For example a rural corner store supplying postal services, fuel, gas bottles and alcohol involves:
  (i) Australia Post accreditation - a lengthy course, conducted in capital cities
  (ii) hazardous goods handling compliance
  (iii) liquor licensing accreditation.

  Once the premises are taken over, the buyer will possibly already be overstretched just settling in. Therefore to avoid business interruption, the best time to ensure everything is in place is prior to the business being transferred or during a handover period.
- **Documentation –** The old and new business owners need to follow through to ensure all documentation relating to the transfer is completed. This can include share transfers and/or business name transfers.
- **Restrictive covenant –** The new business owner needs to ensure the vendor does not set up and compete against the buyer. This usually involves a restriction which is:
  (i) to the extent of not participating within the industry
  (ii) geographical ('x km's distance')
  (iii) for a period of time ('x years from transfer')
  (iv) extends to associates of the vendor ('related persons and entities and present and former employees').

Talk to your Brad, Tas or Gede for more information.

The green office

There are considerable advantages to introducing 'green' procedures into your office. Not only do you make a small mark in relieving the stress on the environment but there is also considerable opportunity to save money for your business.

Consider introducing some of the following measures when printing and see immediate results:

- If you need to print or photocopy ensure that, unless there is a special reason, it is double sided
- If there is any waste paper from the printing ensure it is put in a paper re-cycling bin
- Ensure that coloured printing is kept to a minimum
- Ensure that photocopy machines are shut down at the power point at the end of each day
- Change the defaults on your printers and/or photocopies to accommodate the changes outlined above
- Examine if your toner cartridges can be recycled or safely reused by manually refilling them

- Collect usable scrap paper in paper trays next to all office printers/copiers for staff to use or have the scrap paper turned into pads
- Where possible, scan, convert and file documents as PDFs rather than printing them
- Prepare a '*Printing for Dummies*' book on how to save paper usage
- Perhaps include a generic statement on emails which states:
  'Think before you print, 1 ream of paper = 6 per cent of a tree and 5.4kg CO_2 in the atmosphere, 3 sheets of A4 paper = 1 litre of water'

Merits of a website

A website allows people to 'window shop' your business anonymously. Many consumers research products and business services online before purchasing. Having a website informs potential customers about your business. Consider the following:

- **First impressions count –** You need to see the website as an extension of your shop front. Is your shop front tired and unorganised or clean and bright? A professional looking website lets customers know your business is serious and is dedicated to their needs.
- **Design and layout is important –** Prospective customers make a judgement about your business based on the design of your website. People trust websites that look good.
- **Put your 'best' information first –** Try to get all the information on a single screen so there is no need to scroll down.
- **Keep content and navigation simple –** Put yourself in the position of a prospective customer. Does the website clearly inform them about your business? Do the headings make sense? Is it easy to find information about products and services? Are contact details available?

A website is a low cost, effective way to market your business. A website does not have a '30 second' time constraint so there is no rush to get the required information across.

Most importantly remember that having a badly designed, poorly laid out website can be more detrimental to your business than having no website at all.

Quality control in the accounting profession

Chartered Accountants are committed to ensuring professional standards are complied with for the benefit of their clients.

The community has increased its attention to the work undertaken by the accounting profession of late.

Quality control is a key feature of the self-regulatory framework supported by the accounting profession, and Institute of Chartered Accountants in Australia.

Quality control is a system of policies and procedures designed to ensure an accounting practice complies with set professional standards.

Such compliance is required in relation to:

- **Independence –** Being free from financial, business and family relationships with clients which may impair the ability to be objective with clients.
- **Client evaluation –** Anticipating potential problems with clients due to lack of integrity of client management, or an inability to undertake requested services.
- **Professional development –** Appropriate and sufficient training in order to keep up to date and abreast of new developments.
- **Ethical behaviour –** Members conduct themselves in a manner consistent with the good reputation of their profession.

Members of the Institute holding Certificates of Public Practice must be reviewed by an Accredited Quality Control reviewer every five years, (three years for a Registered Company Auditor).

These reviews ensure the members' professional standards attain a high level of compliance.

High levels of Quality Control benefit clients of the practice by:

- Increasing the quality of service clients receive
- Increasing reliability of the end product
- Increasing value for money from the accounting services.

Thinking about self-managed super

Managing your own super is a big responsibility. Super is meant for your retirement, so there are special rules about how it's managed and when you can get it.

The Australian Taxation Office (ATO) regulates self-managed super funds (SMSFs). The Australian Securities & Investments Commission (ASIC) regulate financial services and company laws to protect you.

The ATO and ASIC want to ensure anyone considering setting up or joining an SMSF has the information they need to make the right decisions.

If you want to manage your own super, there are many factors you need to consider. To work out whether an SMSF is right for you, it's important you take the following six steps:

- Consider your options and seek professional advice.
- Ensure you have sufficient assets, time and skills to manage your own fund.
- Follow the super and tax laws and understand the risks.
- Tailor your trust deed and investment strategy to suit the members of your fund.
- Be sure you can meet your record keeping and reporting obligations.
- Make sure you understand your annual auditing obligations.

There are strict rules that govern how you can use an SMSF and how you can invest your money. It can be difficult, so at times you might need to consult with professionals and advisers, which can add to the cost of managing your fund. You should consider if such costs and other regular fees and charges will affect the benefits you may get from having an SMSF.

Starting an SMSF is a very important decision, so we recommend you speak to our qualified and licensed professionals to help you decide if it's the right super fund for you.

Fringe Benefits Tax

What is fringe benefits tax?

Fringe benefits tax (FBT) is a tax paid on certain benefits employers provide to their employees or their employees' associates. FBT is separate from income tax and is based on the taxable value of the various fringe benefits provided.

The FBT year runs from 1 April to 31 March.

Basically, a fringe benefit is a benefit provided to an employee (or their associate) because that person is an employee. Benefits can be provided by an employer, an associate of the employer, or by a third party under an arrangement with the employer. An employee can be a current, future or former employee.

Some employers, including charities, will need to determine the status of workers. Many will be volunteers, some will be contractors and some will be employees. Generally, benefits provided to volunteers and contractors do not attract FBT.

The term 'benefit' is broadly defined and includes any rights, privileges, or services. For example, you provide a fringe benefit when you:

- allow an employee to use a work car for private purposes
- give an employee a cheap loan
- reimburse an expense incurred by an employee, such as school fees, or
- provide entertainment by way of food, drink or recreation.

Note
When deciding if a benefit is provided in relation to employment, ask yourself whether you would have provided the benefit if the recipient had not been an employee.

FBT Checklist

Are you liable for fringe benefits tax?

If you answer yes to any of the following you may be liable for fringe benefits tax:

Do you make cars or other vehicles owned by the business available to employees for private use including a car garaged at the employee's home?

Do you provide loans at reduced interest rates to employees?

Have you released an employee from an owed debt?

Have you paid for, or reimbursed, an expense incurred by an employee?

Do you provide a house or unit of accommodation to your employees?

Do you provide employees with living-away-from-home allowances?

Do you provide entertainment by the way of food, drink or recreation to your employees?

Are you a tax-exempt organization that has provided food, drink or accommodation to employees?

Have you provided property, either free or at a discount, to employees?

Do any of your employees have a salary package arrangement in place?

Have you provided your employees with goods at a lower price than they are normally sold to the public?

What is not subject to FBT

The following are not fringe benefits:

- payments of salary or wages

- shares acquired under approved employee share acquisition schemes

- employer contributions to complying superannuation funds for employees

- eligible termination payments (for example, a company car given or sold to an employee on termination), and

- certain benefits provided by religious institutions to their religious practitioners.

Exemptions from FBT

Benefits that are exempt from FBT are exempt for all employers, regardless of your organization type. Some of the common benefits that are exempt from FBT such as work-related items and minor benefits are:

- most minor benefits valued at less than $300 where it would be unreasonable to treat the benefit as a fringe benefit

- a notebook, a laptop computer or similar portable computer (one per employee per FBT year)

- a mobile phone or a car phone if the phone is primarily used in employment

- an item of protective clothing

- a calculator, or

- a tool of trade.

If you believe you may be liable for FBT please contact your client service manager.

BDH& Co News

We are pleased to advise that Melanie Cowie has gone on maternity leave and is expecting her second child in early April.

Mel will be on email contact through our office if required.

We are also pleased to announce that Susan Matthews [smatthews@bdhco.com.au] has joined the firm as a manager and will attend to Melanie's clients in her absence.

Susan has extensive experience in the medium sized tax and business services field having worked as a manager at KPMG for 6 years prior to joining BDH.

DISCLAIMER: The contents of this publication are general in nature and we accept no responsibility for persons acting on information contained herein.