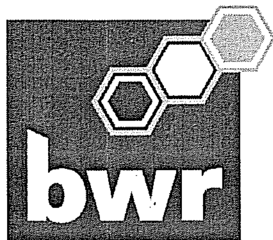
DECEMBER 2008



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BROKEN: WHY BUSINESS INSOLVENCY IS RISING

With the economy slowing down, this report is a timely warning to everyone in business. If you are chewing cash without a strong strategy and results in place, then the financiers are unlikely to support you; they have their own problems and the level of loans against deposits is one of them.

On top of that, debtor management is essential. We know from debt recovery companies that payments are slowing down the cash flow cycle for many businesses. Your business does not need to carry someone else's risk, particularly when the return for your good faith is less than 10 cents in the dollar.

Strategically, managers need to be on top of their numbers to identify and manage problems before they get out of hand. If you do not know what the key drivers of your business are - the things that make the difference between doing well and going under - then it's time to find out.

The top three reasons why businesses fail are unlikely to surprise you:
Poor strategic management
Inadequate cash flow or high cash use
Trading losses

The simple answer to why managers fail to see or read the warning sign is that they are not close enough to the financial position of the business. Without the right information, many make the wrong strategic decisions.

Here's our top ten list of the reasons why businesses fail.
1. Significant below budget performance.
2. Substantial increases in fixed costs without an increase in revenues - Fixed costs are those costs that you incur irrespective of your business activity level. When fixed costs go up they have a direct impact on your profitability.
3. Falling gross profit margins– the margin between your sales, minus cost of goods sold. Every dollar you loose in gross profit is a dollar off your bottom line.
4. If your business is funded almost exclusively by debt, you're on shaky ground.
5. Falling sales - If sales are falling, it is going to have a ripple through effect on your business, reducing profit contribution and inhibiting growth.
6. Delaying payment to creditors.
7. Issuing cheques in excess of current banking facilities.
8. Poor financial reporting systems.
9. Growing too quickly - You're making more sales than your business can sustain.
10. Substantial bad debts or 'dead' stock - Customers who won't pay their accounts and stock that you can't sell.

EXCEPTIONAL CIRCUMSTANCES PAYMENTS

Exceptional Circumstances payments (EC) are being paid until 31st March 2009 for people who live within the areas covered by the Molong, Forbes and Condobolin Rural Lands Protection Boards.

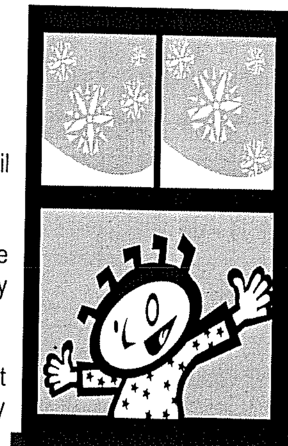
INTEREST RATE SUBSIDY

The Interest Rate Subsidy is also available for the period 1 October 2008 to 31March 2009.

Our office will be closed from 4pm on 24/12/08 and will reopen on 5/01/09.

The Partners & Staff of BWR
Accountants & Advisers wish you a safe & happy holiday season.

THE TOP 3 CHRISTMAS BUSINESS TIPS



The big squeeze: to discount or not to discount
Discounting; everyone's doing it to keep revenue flowing.

Gerry Harvey, Harvey Norman's eclectic Chairman is upfront about the current conditions stating that the retail giant has suffered a 32% drop in profits in the three months to September.

"In all the time I've been around, electrical and computer margins have never been hit as hard as they are at the moment, because you have so many retailers out there just trying to survive on a day to day basis," Mr Harvey said.

For smaller players, particularly in the retail sector, it is a case of 'damned if you do and damned if you don't'. At the very least, you need to understand the impact on your profits. Essentially, by discounting you are giving away some or all of profits. The key is to understand the impact and just how far you can go.

Consider the following example – a business with a 30% gross profit margin who offers a 25% discount (certainly nothing unusual about that in today's market) requires a 500% increase in sales volume just to maintain the same position – and in almost all cases that's just not going to happen. The result generally is that the business trades below its breakeven point and generates losses. And, you can only do that for a limited amount of time.

Put the time in to review your debt
The December Reserve Bank of Australia rate cut announcement brought the official interest rate to its lowest level in six and a half years. Official interest rates are now at 4.25%.

Typically, we take on debt at different times and it is often linked to a major purchasing decision or event. As a result, it is not uncommon to be carrying multiple debt commitments. If you take a moment to have a look at your various debts you are likely to find that they are quite different from each other. Interest rates, the life of the loan, whether you are repaying the principal of the loan or only the interest costs, the ability to accelerate repayments – all of these may be different and the difference may not be to your advantage.

Much of the focus at the moment is on official cash rates but what about the rates for other forms of debt? Investment loans can be 6-10%, overdraft rates around 10% and credit card debt 12-20% with store debt sometimes 20% plus. When you utilise these forms of debt you may find that your cost of borrowings escalates quickly. If you have a mix of business and personal debt then chances are that most of your business debt is charged in the 8-12% range. Put into perspective, for every $100,000 of borrowing you have, you may be paying up to $6,000 per annum more than you need to.

One way of improving your debt position is through debt consolidation; reducing the number of individual debts you have and merging them into a larger single debt or changing your debt mix so it is in line with your current business needs.

Debt consolidation is about getting the right mix between debt cost, term of repayment and your present cash flow availability. If you have not had a banking review done for some time, now is the time to do it.

Contact us today for assistance and we'll put you in touch with specialists who can work with us to reduce the cost of your cash while we ensure that any change takes into account your business and taxation needs.

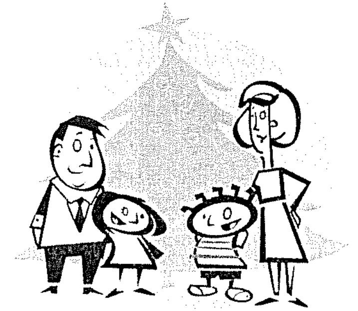
Market like mad!
Marketing is normally the first thing to go in a bid to control costs, or, and potentially worse, businesses start spending up big for the sake of 'doing something'. Marketing is more important than ever to stimulate spending and bring in customers and clients but it needs to be closely reviewed and monitored for effectiveness.

The effectiveness of any campaign is directly related to how well you target it. Direct mail campaigns have around a 3% take up rate, but you can improve your conversion rates with improved targeting. It could be as simple as making the most of your existing market by staying in contact with your customers. Specifically, understand why your customers come to you rather than someone else and capitalise on it.

Plus, think about what products you're marketing and ensure that the focus is on those with the highest profit margins. Even if these products are not the big sellers, you can always use strategies such as packaging to 'piggy-back' off high volume/low profit items.

Staff training is also more important than ever. Poor customer management will cost you dearly in a market where there are few purchasers. Make sure everyone understands what is being sold and understands any offers or packaging incentives.

UNPLANNED SUCCESSION: HOW TO MAKE YOUR BUSINESS SURVIVE YOU



At some stage nearly every business is likely to be affected by death or ill health.

What happens if an event of trauma, critical incident, illness or death occurs to the business owner, a partner or key director? Any one of these experiences can trigger an "unplanned succession" event. These events can change the profile of the business and drastically affect its value. Even where the disruption can be managed, how do you fund the unexpected need to buy out a partner or shareholder?

What can you do to protect your business from unplanned succession? Having an agreement in place supported by an insurance policy is the best way to address unplanned succession. The key issues are to define the trigger events, agree upon the valuation and then have an agreed process to manage the transaction. Most commonly these agreements are in the form of a buy/sell agreement or an option agreement. The more prescriptive you can be with these agreements, the better.

Funding a buy/sell agreement is normally managed through specialist insurance cover. How insurance contracts are structured has a big impact on the tax deductibility of the premiums, the tax status of benefits and the flexibility of how the agreement can be structured. The final amount received in the payout may differ substantially if the amount is subject to tax.

Capital gains tax & Fringe Benefits tax implications should also be considered. This area requires careful review & advice; the best structure will depend on your particular individual circumstances.

Succession agreements are a must for any entity where you have unrelated parties as shareholders, unit holders or partners. Done properly, these agreements ensure the business won't be put at risk if an accident or illness does occur. They protect the surviving shareholders from having to find large amounts of money with little notice, and also pay out the estate for an agreed value of their share in the business. All of the stakeholders can have certainty on the outcomes if something unexpected occurs.

Managing unplanned succession can be confusing; however 4 key steps can make your succession planning easier.

1. Work out what you would like to achieve.
2. Understand the tax impacts and the options you have.
3. Consider what needs to be in your buy/sell agreement & have that prepared.
4. Arrange appropriate insurance that meets the requirements of the agreement and your tax objectives.

HANDY INFO

& A FRIENDLY REMINDER

For individuals, partners' in a partnership and unit holders in trusts you should update your motor vehicle log books every 5 years.

Is yours up to date?

A succession plan is about understanding how to maximise the potential of the investment you have made in your business and knowing how to extract that value when you are ready. For assistance with mapping your business future and how your business fits into your overall investment strategy, talk to us today.

WHY THE SELF EMPLOYED ARE NOT PREPARING FOR RETIREMENT

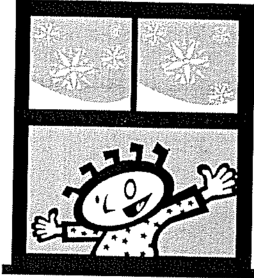
While the self-employed sector makes up over 10% of the paid labour force, it has relatively low levels of superannuation. Around 28% of the self-employed sector has no superannuation, while a further 53% has super balances of less than $40,000. And, despite tax incentives, only around one in four self-employed people will make a tax deductible super contribution in any given year.

A common problem is that many self-employed people believe that if they invest everything in their business, the business will be their superannuation. For this strategy to be a success it assumes that you have a clear succession path and that when it comes time to sell or succession the business, you will readily be able to extract your capital. However, many self-employed businesses are so tightly linked to the owner that they cannot be sold.

But not everyone who is self-employed ignores super. Those people who are self-employed with higher than average superannuation savings tend to be more generally well-prepared with their other finances. This sub-sector usually has higher than average business net worth, more investment properties, and higher holdings of shares, and other investments, outside superannuation.

Your business is an asset like any other and those who manage their business in this way, in conjunction with other investments, succeed.

From 1 July 2007, the self-employed gained access to two new superannuation benefits that make investing in superannuation more enticing. These are: ***full deductions for contributions,*** most self-employed people are able to claim a full deduction for contributions they make to their super until the age of 75; and ***Access to the superannuation co-contribution*** providing you satisfy the eligibility criteria. This requires that 10% or more of your total income (not reduced for business deductions) is earned from eligible employment, carrying on a business or a combination of both. For the 2008/09 income year, your total income needs to be below $30,342 to receive the full co-contribution and a maximum of $60,342. Under the co-contribution scheme the government provides $1.50 for every $1 of personal super contributions up to a maximum of $1,500.



SMSF INVESTMENT STRATEGIES– A NECESSARY EVIL

The ATO expects SMSF trustees to be able to justify all investment decisions & show how they are consistent with the fund's investment strategy & stated investment objectives. Therefore every fund must have this "necessary evil".

An investment strategy documents the investment aims & objectives for the fund & sets rules & guidelines for making investment decisions. The investment objectives should be based on the concept of achieving the highest expected return for an acceptable level of risk. The objectives should also take into account an acceptable level of diversification. If there is little diversification the investment strategy should make a statement outlining its understanding of the risks of lack of diversity & a mitigation strategy for these risks.

Two specific investment objectives that are widely used include: *expectations for investment returns* which are expressed as an average percentage above the Consumer Price Index. *Asset allocating ranges*– these state the minimum & maximum percentages of the funds balance that can be invested in each asset class. It is also beneficial to include a benchmark target for the fund's performance.
Investment strategies should include an appropriate risk management statement to ensure compliance with superannuation law. They also need to be reviewed & updated on a regular basis.

If you have a SMSF & are needing to devise an investment strategy for you fund, or you are looking to update an existing investment strategy, come in and see the staff at BWR Accountants & Advisers, we will be more than willing to help you develop an appropriate investment strategy for your fund.

FUEL TAX CREDITS

Fuel tax credits were introduced on 1/07/06 & eligibility was expanded on 1/07/08. FTC provide business with a credit for the fuel tax (excise or customs duty) included in the price of fuel they use in business activities, machinery, plant, equipment & heavy vehicles.

Fuels that are not eligible for fuel tax credits are: Aviation fuels, alternative such as liquefied petroleum gas, compressed natural gas, liquefied natural gas, ethanol & bio-diesel, and fuels used in light vehicles of 4.5 tonnes GVM or less travelling on a public road.

You can claim **18.51 c/L** for fuels eligible from 1/07/06 you use in vehicles with a GVM >4.5 tonnes travelling on a public road.
38.143 c/L for fuels eligible from 1/07/06 used in specific activities, e.g. agriculture, mining, marine & rail transport.
19.0715 c/L for fuel acquired from 1/07/08 used in all other activities e.g. manufacturing, construction, wholesale/retail & landscaping. This rate is 50% of the full 38.143 c/L.

You must be registered for GST & Fuel Tax Credits to be able to make a claim on your BAS. You are entitled to make energy grants credits scheme claim for eligible fuel you purchased before 1/07/06 that you have not already claimed. You can claim this at any time but you must attribute that claim to a tax period that occurs before 30/06/09.

FIRST HOME SAVER ACCOUNTS

There are several benefits to opening a first home saver account. The more money you save, the more the government will contribute (up to a certain limit each year). There's a tax incentive to save money for you home because you don't pay tax on any earnings on the account. Earnings are taxed at 15% but your account provider is liable to pay it.

You can use the money you save as a deposit and to meet other costs incurred when buying or building your first home. If you decide not to buy or build your first home, the funds in your savings account have to be put towards your super.

To open a first home saver account you need to:
Be aged over 18 & under 65 years.
Have a tax file number you can quote in your application.
Have never owned a home in Australia that has been your main residence.
Have never previously had a first home saver account.

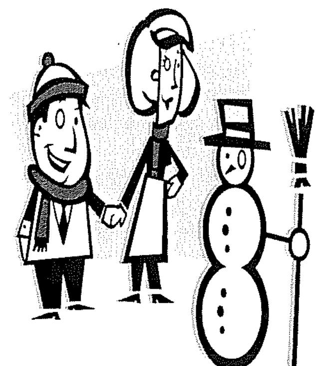
After each financial year, you will receive a government contribution based on your personal contributions during that year. When you're ready to buy or build your first home, you withdraw the funds & close your account.

EDUCATION TAX REFUND

Under the government's ETR, eligible families will be able to claim:
- A 50% refundable tax offset every year for up to $750 for each child undertaking primary school (a refund of up to $375 per child, per year)
- A 50% refundable tax offset every year for up to $1,500 for each child undertaking secondary school (a refund of up to $750 per child, per year).

Those entitled to Family Tax Benefit Part A in respect of children undertaking schooling for the relevant financial year are eligible to the ETR. Eligibility is also extended to parents with school children, undertaking studies, who would be eligible for FTB Part A purposes, but for the fact that the child receives certain payments or allowances, e.g. Youth Allowance, Disability Support Pension etc. Home schooled students are also eligible to claim if they are registered with the relevant State/ Territory Government.

For families that have shared care arrangements, the ETR will be shared just as FTB Part A is shared.



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