BWR Accountants & Advisers December 2011 Newsletter

Our continued commitment to the community… the team at BWR Accountants & Advisers support our community in many and varied ways. Through committee involvement, team participation in events and fundraisers, honorary work and monetarily through sponsorship and donations. We are proud to have been finalists in the Sir Henry Parkes Awards and to have won the Forbes Boscars Community Involvement Award in 2010 and 2011. With continued commitment to our community we will continue involvement and sponsorship for the coming year.

The business realities of managing Christmas

The Christmas season affects different businesses in different ways and can have a significant impact on you.

For some, it is boom times especially for our farmers busy with their harvest, but for others, a period of significant dislocation. Because of these differences, there is not a one size fits all answer to the best way to prepare and manage the season. You need to look at your business model and how the season affects your customers and suppliers. Armed with this information, what you need to be doing should be reasonably predictable.

Any period where operating conditions change means that there can be an impact on your profitability and cash flow. You need to look at both of these areas.

If you carry debtors, be aware that many of your customer's suppliers will be trying to collect their accounts prior to the Christmas season. And, of course, some of those customers may have a close down period or have people away over January who approve or authorise payments. Don't be last on the payment list. If you have customers who are cash flow stretched then it will be 'first in first served'. If you are too slow in chasing your accounts you may be waiting until February to collect your money. Get to them early and have a concerted follow up approach to get your cash in.

If you carry trading stock, you need to find a balance between ensuring that you have enough stock to satisfy demand during what may be a busy trading period and over-committing and finding yourself with surplus stock. Where your stock is either seasonal or time limited, this balance is critical. See if you can have a range of suppliers that can supply on short notice. If you can have your suppliers carry your stock for you or who will supply you on a consignment basis, this will significantly improve your cash flow position.

The sale signs are already over town and this will only escalate through January. Understand the impact of your pricing and the effect of any discounting you offer. We all want to make that extra sale but don't get sucked into discounting yourself into a loss. You need to get the balance right between pricing to be competitive and pricing that returns a profit to your business. Know your numbers and make informed decisions.

The Christmas period can bring an increase in operating costs. This can include additional wage costs and penalty rates, end of year bonuses and Christmas gifts. Where your business has a close down period over Christmas, the impact of these increased costs can be compounded by a reduction in revenue.

The key is to understand the effect of the period and build it into your budget - you need to do this at a trading level and also map the cash flow effect. Once you understand the impact, ensure that you can afford it and don't over commit your business. Too much Christmas spirit can be deadly.

Manage the festive period and your business will start the New Year fit and healthy.

The partners & staff of BWR Accountants & Advisers wish you and your family a Merry Christmas & a safe & happy new year.
We take this opportunity to thank you for your patronage throughout the year and look forward to serving you in 2012.
Our offices will close on Friday 23rd December & will re-open on Tuesday 3rd January 2012

The material & contents provided in this publication are informative in nature only. It is not intended to be advice and you should not act specifically on the basis of this information alone. If professional advice is required, please contact our office. Liability limited by a scheme approved under professional Standards Legislation.

Tax efficient gift giving

Giving to your team

- Christmas celebrations at your work on a working day are likely to be exempt from Fringe Benefits Tax (FBT).
- If you keep the cost of celebrations below $300 per person this will ensure the event is a minor benefit for FBT purposes and exempt from FBT (including meals, beverages, entertainment, etc).
- Keep any Christmas presents below $300 per person and ensure they are 'one-off' gifts. They need to be ad-hoc to be exempt from FBT.
- You can't deduct the cost of your Christmas celebrations for team members unless FBT applies.

Clients and Christmas

- Entertaining your clients at Christmas is not tax deductible. Sorry.
- Give a gift instead – gifts are deductible as long as the gift is given by the business with the expectation that the business will benefit (i.e. the gift is given with the expectation of generating revenue).

Buying a business: More than just the sale price

If you thought reaching an agreement on price was difficult, wait until you get to the fine details of buying or selling a business.

So you've reached an agreement on price. But, there are differences between the parties on how the sale price should be apportioned across different assets.

A solution that is sometimes proposed is to simply show the sale price on the contract and let both sides manage their own apportionment but this depends on what assets you are buying.

In a typical business you might be buying plant and equipment, goodwill and stock. These assets will have different tax treatments and this is why there are differences between the way a vendor and buyer wish to allocate the price.

The goodwill, if any, is a capital asset. The vendor will calculate a capital gain or loss on the sale of the business. Even with a capital gain they may be able to reduce the tax to nil using the CGT small business concessions. For the purchaser, there is no tax deduction on the purchase of goodwill; it becomes a capital asset and a tax offset will only be available if and when the business is later disposed of.

The plant and equipment is also a capital asset. The vendor will account for their tax position on these assets based on their written down value. Where the assets have been substantially depreciated there will be more of an income adjustment. For the purchaser, the plant is normally a depreciable asset and will be written off over its effective life. So you get a tax write-off but it takes time.

The stock is on revenue account. For the vendor, they will account for the stock in their assessable income in the year of sale. For the purchaser, the stock is deductible as it is sold.

With this mix the tendency is for vendors to want to push more of the sale price into the goodwill as it will create a better tax outcome for them. Purchasers will want to take full value in the stock and plant as this will give a faster tax write-off. For the purchaser, this may be about timing of the tax benefit; over time it may equalise, although there are circumstances where tax benefits can be lost.

Try to avoid the position where the contract is silent on the apportionment of the price and both parties make up their own minds. The Tax Office has a strong data matching capability and where they detect a difference between how the price was accounted for by the parties this is likely to trigger further investigation. The price should be apportioned on a fair market value basis and the ATO does have the power to allocate price where they believe there has been an artificial apportionment to achieve a tax benefit.

While they can do this even where the contract shows the apportionment, they are less likely to take this step where the parties are dealing at arms-length.

So it is worth working through an agreement on price. It could save some later tax headaches. We can help you with planning and evaluating the pros and cons of buying and selling your business plus the effective tax planning thereon. You just need to contact us in **advance** as it is much harder to help after the deal has been struck.

The material & contents provided in this publication are informative in nature only. It is not intended to be advice and you should not act specifically on the basis of this information alone. If professional advice is required, please contact our office. Liability limited by a scheme approved under professional Standards Legislation.

Are you an Employer?

As an employer you are responsible for keeping records for each of your employees which must include the following:

- The date the employee commenced work
- Type of employment e.g. part-time, full-time, temporary or casual
- Up to date details of all leave taken (including annual and personal/sick/carer leave) accrued and current leave balance
- The rate of remuneration including gross pay, allowances and any deductions ensuring you meet minimum Award or Fair Work Act Standards.
- Any penalties, loadings, bonuses, incentive based payments, non-monetary allowances or separately identifiable entitlements paid to the employee.

Did you know?
In accordance with the Fair Work Act 2009 you must also provide your employees with a pay slip that includes:

- The name of the employee and employer
- The employees job title or classification
- The date of payment and period to which the pay slip relates
- The gross and net amounts of payment
- Any deductions from the gross amount
- Any bonuses, loading, monetary allowances, penalties, incentive-based payments or other separately identifiable entitlements paid
- For employees paid on hourly rate – the ordinary hourly rate of pay, if overtime has been worked the overtime rate, number of hours worked at that rate and the amount of payment at that rate
- For employees paid an annual rate – that rate as at the latest date to which the payment relates, and
- If the employer is required to make compulsory superannuation guarantee contributions for their employee, the amount of each contribution the employer makes or is liable to make during the period to which the pay slip relates, and the name of the superannuation fund.

All pay slips should be issued to each employee within one day of the payment of wages.

As an employer it is your responsibility to keep these records and issue pay slips. If you would like assistance in maintaining and managing your employee records or would like a **free template** for recording employee leave history, please give our office a call.

How to sell your business

We're often asked the best way to sell a business.

There are two key components at play in the sale of a business: structuring the transaction; and positioning the business to the market. Both elements are important and can significantly impact your result.

Structuring the transaction covers things such as pricing the business, the terms and conditions attaching to the sale, key terms in the contract, and ensuring the transaction structure is as tax effective as possible. Much of the structuring is about ensuring the vendors secure the most efficient and effective outcome from the sale. It is about maximising vendor position.

Positioning the business for sale is all about ensuring that you achieve a sale and that you maximise your price. It covers areas such as ensuring there are no hurdles within the business that will limit its saleability, identifying the competitive position of the business within its market segment, ensuring that operating performance is as good as it can be, and that the business benchmarks well in its market. Positioning also includes identifying the best time to take the business to the market, how to take it to the market and who the most likely buyers will be.

Positioning is about doing everything needed to maximise the probability of a sale occurring whereas structuring is about getting the best outcome from a transaction. A lot of people make the mistake of spending most of their energy on the structuring of the transaction. It is important but it only becomes important if the sale is achieved.

Discuss structuring **in advance** with your advisers to help identify any key decisions that need to be made but put most of your effort into positioning the business.

To do this you need to get an objective assessment of how the business compares in its market, its competitive position, and what if any impediments to sale exist – all the things a buyer will look at and look for when they assess your business.

Most buyers believe that we are currently in a buyer's market and will try to drive down price expectations. Whether or not you are in a buyer's market depends on your industry segment but regardless of this, you are in a competitive market. Buyers may be comparing your business with similar businesses but also opportunities in other industry segments. Securing a sale at the best possible price is about having your business positioned for sale. For some business preparing the business for sale can take months, even years. So talk to us well in advance before putting your business on the market.

Thinking of selling your business? Talk to us today about how to achieve the best possible outcome.

The material & contents provided in this publication are informative in nature only. It is not intended to be advice and you should not act specifically on the basis of this information alone. If professional advice is required, please contact our office. Liability limited by a scheme approved under professional Standards Legislation.

Age limit on super contributions to be scrapped

The government has proposed that the superannuation guarantee (SG) should be raised from 9% to 12% of a worker's salary, and announced in the 2010-11 federal budget that this would be achieved incrementally from 2013 to 2019.

In early November it was announced that the age limit of making superannuation guarantee contributions will be scrapped. Australians aged 70 and over will get the benefit of superannuation if they continue working. The proposed change is due to commence on July 1, 2013.

Currently, employers are not required to pay superannuation towards workers aged over 69.

Regardless of age, compulsory superannuation payments are going up. The full 3% increase in the compulsory SG will operate from 2019, with incremental increases as follows:

- 2013-14; 0.25%
- 2014-15; 0.25%
- From 2015; 0.5% annual increase until 2019.

An employee aged 30 earning around $70,000 today will retire with an extra $108,000 in superannuation due to these increases to compulsory super contributions.

Estate Planning

Do you have a Will? Without a Will you suffer 3 problems– your assets are distributed by an act of parliament (The Administration Act), there is no tax planning– so the government becomes one of your beneficiaries via income tax, CGT and stamp duty. Plus the cost to administer your estate will also escalate.

A Will does not govern how superannuation is to be dealt with upon the death of a member, as payments of super death benefits are determined in accordance with the governing rules of the superannuation fund. However, preparation of a Will is still a vital step in planning for how your super benefits are treated upon death.

A Will is important because it identifies who the legal personal representative or executor will be. Where superannuation death benefits are paid to the deceased's personal legal representative they (the representative) will be subject to the terms of the Will.

A good Will typically provides that superannuation benefits are kept separately from other benefits in order to protect assets and achieved tax efficiency.

Nominating a reversionary beneficiary in your SMSF if you are in pension phase avoids the need for a lump sum payment to be made to beneficiaries. The ATO has **drafted** a ruling for when the recipient of a tax-free pension dies, and there's no reversionary beneficiary, the pension must be paid as a lump sum. If that involves the sale of assets, they will be subject to capital gains tax in the process on top of the 16.5% tax rate levied on all lump sum payments if paid to adult children.

The Carbon Pricing Initiative & Farming

It is early days for the Carbon Pricing Scheme. As a complimentary initiative to the introduction of the scheme the federal government has announced plans to support farming enterprises achieve a "clean energy future".

The Carbon Farming Initiative (CFI) is a carbon offset scheme designed for farmers and land managers to be able to generate credits that can then be sold to other businesses wanting to offset their own carbon pollution.

It is proposed that over $1.7 billion of carbon revenues will be invested in the agricultural sector. The Government will invest in new and innovative ways for Australian Land Managers to reduce carbon pollution and improve productivity. Farmers may be able to access direct support through the governments carbon farming futures program to demonstrate new and innovative practices that can reduce emissions and store carbon while improving farm sustainability.

We are in contact with companies offering "carbon planting schemes" to local land owners, this may be of use for some farmers while not so appealing to others. As it is early days for the implementation of the initiative we will be awaiting more information in the future and will keep you updated.

bwr
ACCOUNTANTS
ADVISERS

Contact us
Forbes Office
36 Templar Street
t: 02 6852 1855
f: 02 6852 4198

Parkes Office
136 Clarinda Street
t: 02 6862 1444
f: 02 6862 1990
We're on the web-
www.bwraccountants.com.au
Email:
info@bwraccountants.com.au

We take pride in our service and have a team of highly trained individuals to ensure you receive the high level of service that you expect.

Our team would like to take this opportunity to thank you for choosing our firm to take care of your business and we are looking forward to your continued support.

FYI: According to the Australian Financial Review on 17th October 2011 the average large super fund lost 1.9% in the 12 months to September 30, and it is worth around 7% less than where it was prior to the GFC.

The material & contents provided in this publication are informative in nature only. It is not intended to be advice and you should not act specifically on the basis of this information alone. If professional advice is required, please contact our office. Liability limited by a scheme approved under professional Standards Legislation.