Welcome to our last newsletter for 2008!!

We have recently welcomed 2 new members of Staff. Mark Brunt has joined us as a full-time coder (bookkeeper) and Rebecca Mundey will be assisting us part time in Accounting. Kelly is now a fully qualified CPA – Well Done!

We are also sad to say goodbye to Maureen who retired last week. Maureen is looking forward to getting more use out of her motorhome. We wish her all the best in her retirement. The adventure begins!

As you know, the end of the year is fast approaching and we would like to take this opportunity to thank you for your custom over the last 12 months. We have certainly enjoyed working with you and look forward to continuing the relationship. We wish you and your family a safe and happy festive season and a prosperous New Year.
In keeping with pervious years, we will be closing over the Christmas/New Year period. The office will close on the Monday 22nd December 2008 and will re-open on the 5th January 2009.

Maternity leave: what you need to know
Australia is set to introduce a paid maternity leave scheme with the release last month of the Productivity Commission's draft report.

What would paid maternity leave look like?
Primarily taxpayer funded, the paid maternity leave scheme would provide 18 weeks of paid postnatal leave set at the adult minimum wage (currently $543.78) regardless of pre tax incomes. Employers would fund and make superannuation payments to the employee while on paid leave.

The leave can be shared by eligible parents with an additional 2 weeks of paternity leave reserved for the father on a "use it or lose it basis". The scheme would apply to employees with "a reasonable attachment to the employer", the self-employed, contractors and casual employees.

The leave payments would be subject to income tax. Those on paid leave would be ineligible for the new maternity allowance (the old baby bonus) and will have no access to family tax benefit B while on the scheme.

Implications for employers
Similar to the UK system, employers would act as paymasters for the Government, paying the leave as part of their normal payroll function. An employer would initially pay employees the statutory paid parental leave entitlements in the way they would other forms of payment. The Government would then reimburse employers in the subsequent withholding period, by reducing withholding payments to the ATO by the amount of paid parental leave paid out (and would provide credits if necessary). All others eligible for the scheme would be paid directly by the Government through the ATO or other non-welfare agency.

To manage any potential cash flow implications for small business, the Commission is recommending that businesses that do not remit withholding payments at least monthly be excluded from the scheme. The employee would directly interact with the ATO instead, as would the self employed and some contractors are also likely to interact directly with the ATO.

Family trust changes abandoned
The Federal Government has reluctantly abandoned its proposed changes to restrict who can be included in a family trust. Stymied by the Senate, the measures sought to restrict the definition of who is family and remove the ability to make a one-off variation to the test individual. The changes would have reversed the Howard Government changes made last year.

Under the current rules, family of the test individual includes:

- The individual's spouse;
- A parent, grandparent, brother or sister of the individual or their spouse;
- A nephew, niece, or child of the individual or individual's spouse;
- Any lineal descendant of the individual or spouse's child, nephew or niece (e.g. great grand children);
- The spouse of any person listed above;
- Former spouses of either the test individual or a member of their family group before a marriage breakdown;
- Former widows/widowers of either the test individual or a member of their family group, and who has a new spouse that is not a member of the test individual's family; and
- Former step-children of either the test individual or a member of their family group, before a breakdown in the marriage of the test individual or the member of the test individual's family group.

Starbucks: knowing when it's time to close shop

"Starbucks Coffee International, a wholly-owned subsidiary of Starbucks Coffee Company today announced plans to restructure its business in Australia through a geographical refocus on three core cities and surrounding areas: Brisbane, Melbourne and Sydney. This decision will result in the closure of 61 locations throughout the country by August 3, 2008."

The decision announced on 29 July to close 73% of the Australian stores was just a part of a broader strategy by Starbucks to 'transform' the underperforming business. The first closures, announced at the end of January, spoke of 100 store closures and a sharp curtailing of the US store openings after the company posted what the New York Times dubbed "anaemic growth" of just 1% in its new stores (opened less than 12 months); the worst quarterly performance in the company's history.

At the same time, Howard Schultz (previously Starbucks CEO and chairman of the Board) was reappointed as CEO to lead the company's transformation. Schultz started in the company as Director of Operations and Marketing in 1982 when Starbucks had only four stores. In 1987, he purchased Starbucks, driving its growth and expansion. In 1992, Starbucks became the first specialty coffee company in the US to go public.

It's not unusual to see rapidly expanding businesses return to core principles during economic tough times. For Starbucks, the US consumer's appetitive for pricy lattes dropped as times got tougher, and so did Starbucks' profit. Starbuck's suffered with its share price plummeting by 40% in 2007. The company posted a net loss for the June quarter of $6.7 million (which incorporates the costs associated to the closures estimated to be up to $348USD million including severance pay).

The Starbucks example raises a question about knowing when to pull back, or close underperforming operations. Here are a few rules from the Starbucks' experience that apply to all businesses:

1. **Can you really afford to carry a loss to achieve growth?** Many companies provision for loss to aggressively pursue market share. However, many also fall into the trap of overestimating the positive and being consumed by the loss. Focussing purely on sales revenue is a common trap but if the product, service (or store) is not producing a profit, then you need to look seriously at why you are supporting it. If the cost is outweighed by the strategic advantage, cull and cull hard.

2. **Symbiotic or parasitic: what areas deliver the best results**? New products and initiatives always carry risk and the potential of reward. Existing products invariably have a life cycle that will undermine even the best performers over time. It's important - particularly as times get tougher and there is a potential for revenue to decline - to assess the profitability of what you sell and identify underperformers. The problem often becomes one of identifying the point at which a product has passed the 'point of no return'.

3. **Bloating the product choice and range**. When times are good it's common for business operators to expand their range to take advantage of the excess cash in the economy. If consumers tighten their belts, premium priced items are often difficult to sustain if you do not have a dedicated niche market. In addition, an expanded range (particularly where premium products overlay a market driven off core products) can subtly alienate your customer base. If the premium market collapses, it's important to ensure that the core market is protected.

If you have not completed a profitability analysis across your business operations for a while, talk to us today about recession proofing your business.

Why the self-employed are not preparing for retirement

Well over a quarter of all self-employed Australians have no superannuation, recently released research by the Association of Superannuation Funds in Australia (ASFA) reveals.

The retirement picture painted by the report for many self-employed is dim with around half currently receiving some Age Pension when they retire, with 30 per cent on the full Age Pension. In addition, the average income of the recently retired self-employed is only $24,500 a year, well below what is needed to support a comfortable retirement.

While the self-employed sector makes up over 10 per cent of the paid labour force, it has relatively low levels of superannuation. Around 28 per cent of the self-employed sector has no superannuation, while a further 53 per cent 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.

Many self-employed people believe (either deliberately or by default) 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. In addition, with the baby boomer generation of business owners reaching retirement age, selling is becoming much harder with demand dwindling. As a result, the businesses that sell are those performing in the top quartile of their sector.

From 1 July 2007, the self-employed gained access to two new superannuation benefits that make investing in superannuation more enticing. These are:

- **Full deduction for contributions -** Most self-employed people are to claim a full deduction for contributions they make to their super until age 75; and
- **Access to the superannuation co-contribution -** The super co-contribution was extended to include the self-employed, providing you satisfy the eligibility criteria. For the 2007/2008 income year, your total income needs to be below $28,980 to receive the full co-contribution and a maximum of $58,980 (the co-contribution tapers between $28,980 and $58,980). Under the co-contribution scheme the government provides $1.50 for every $1 of personal super contributions up to a maximum of $1500.

You can read a copy of ASFA's report, The Self-Employed and Saving for Retirement, on their website.

Unplanned succession: How to make sure your business survives you
Life challenged. Unplanned succession. Any way you put it, death is still a subject most of us would rather avoid. Statistically though, it's hard to avoid.

Smart business owners are spending more time on their succession planning. Their business represents a valuable asset and effective succession planning will maximise the value of that asset and the capital that can be realised from it. But what happens if something happens to the business owner, a partner or key director? Death, trauma or critical illness, all trigger an 'unplanned succession' event. Any one of these events can change the profile of the business and drastically affect its value. Even where the disruption to the business can be managed, how do you fund the unexpected need to buy out a partner or shareholder? And, how can this can be done in the most tax effective way, providing certainty for all sides and removing the risk to the business?

At some stage, nearly every business is likely to be affected by death or ill-health. This issue, left to chance, increases the risk for the business and also for the business owners. So what can you do to protect your business from unplanned succession?

Unplanned succession is best addressed by having agreements in place supported by an insurance funding mechanism that allows for an orderly transition. Most commonly these agreements are in the form of a buy/sell agreement or an option agreement. The agreements do not necessarily have to be complex. The key issues are to define the trigger events, agree the valuation mechanism and then have an agreed process to manage the transaction. Generally, the more prescriptive you can be the better. The objective is not to simply make a statement of intentions but to remove any uncertainty and have a clear agreement that all parties can work with.

Funding a buy/sell agreement is normally managed through specialised insurance cover.

How insurance contracts are structured (who the owner is, who 'pays' the premium, whether the policy is held inside or outside the superannuation system, etc.) has a big impact on the tax deductibility of the premiums, the tax status of the benefits and the flexibility of how the arrangement can be structured. Whether or not the proceeds of an insurance payout are subject to taxation can have a significant impact on the final amount received.

For example:

- Trauma polices cannot be held inside the superannuation system.
- If key person insurance is structured to replace a revenue stream, then the insurance premiums will generally be tax deductible and the benefits will be taxable. However, if the key person insurance is structured to replace capital (to repay a business loan, say) then the insurance premiums will not be tax deductible and the benefits will usually not be taxed (except for trauma cover).

Managing unplanned succession can be confusing and too often it is not managed because it is too hard. There are a clear series of steps that need to be followed.

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 and have that prepared
4. Arrange appropriate insurance that meets the requirements of the agreement and your tax objectives.

For advice and assistance to manage your business succession needs (planned or otherwise!), talk to us today.

ATO reveals its targets

Last month, the Australian Taxation Office released its compliance program for 2008/2009 which highlights who the ATO will focus on and why.

Superannuation is a focus with the rapid growth in Self Managed Superannuation Funds (there were 33,000 new funds registered in 2007/2008 alone). Around 380,000 SMSFs currently hold more than $285 billion in assets - about 25% of all assets in Australia's superannuation system. The ATO will be looking closely at contributions to and withdrawals from superannuation funds to ensure they comply.

For employers, superannuation guarantee payments are in the spotlight. Last year, more than 800,000 employers withheld and paid more than $110 billion to the ATO on behalf of their employees (about 43% of net tax revenue). Employees are being encouraged to report employers who fail to meet the requirements.

Company directors and executives can expect closer attention as well. The focus is on under-reported income (particularly where shares and options have been received as part of a remuneration package), executives and directors of private and foreign-owned companies, and finally, those involved in takeovers.

If you receive partnership or trust distributions you can also expect to come under scrutiny. In fact, the ATO are already underway with a datamatching program that compares the distributions and dividends declared on partnership and trust tax returns with the amounts declared by the recipients of those distributions.

Finally, as always, the cash economy is a highlight. Particular attention is being given to building and construction, restaurants and cafes, and some parts of retailing. This financial year, the ATO will undertake 5,000 cash economy reviews and audits. Data matching is the primary way the ATO are identifying who to pursue with information provided to the ATO from insurance providers, shopping centre operators and regulatory authorities.

Data matching is also used to identify people who appear to be living beyond their means - where their reported income is inconsistent with their spending. For example, they match tax return data against information from government licensing bodies on luxury cars and boats.