October 2011 Newsletter

+

Globe Accounting Pty Ltd

Address: 28 Palmerin Street , Warwick Qld 4370

Tele: 07 4661 4900

Fax: 07 4661 4011

Email: info@globeaccounting.com.au

Hello and welcome to the October edition of our client newsletter. The economic climate is front and centre of everyone's minds currently and this newsletter has some commentary on it.

On the local front, we welcome Scott Glasby and Russell Brodrick to our staff. Scott is working in our bookkeeping area and is currently studying for his business degree.

Scott has one of the more extreme pastimes, so check out his profile next time you are on our website, call in and meet him next time you are passing by. Russell may well be better known to most of you as Dale's other half, we welcome him as a bookkeeping and administrator in the Company Records area.

September BAS returns are coming in thick and fast, so don't forget to get your information in to us a soon as you can, so that we can ensure a timely processing.

We hope to catch up with you soon.

All the best

Peter, Pauline and all the staff at Globe Accounting.

How to sell your 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 once it has occurred. 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 first 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.

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

What you need to know in 2011/2012

While the economy is performing well, consumers are wary about parting with their cash. Part of the problem is that around 50% of Australia's growth is coming from 10% of the economy. For the rest of the economy, petrol prices are high, interest rates are likely to rise, and the rate of debt default is at record highs. Consumer sentiment shows that no one really feels as secure as the headline economic data indicates so discounting and long decision making processes are likely to continue.

For business, take the cash is king message to heart. Some very high profile and established businesses have dissolved recently so stick to your trading terms and watch your debtors or you may be caught out by someone else's problem.

What changed on 1 July?

Individuals

- A Flood levy of 0.5% now applies to individuals with taxable income between $50,001 and $100,000 in the 2011/2012 income year. The levy rises to 1% once your taxable income is above $100,000.
- The dependent spouse offset phases out for taxpayers with a dependent spouse born on or after 1 July 1971 (40 years of age or less).
- Minors will no longer be able to access the low income tax offset (LITO) to reduce tax payable on their unearned income, such as dividends, interest, rent, royalties and other income from property.
- The education tax offset extends to include school uniforms.
- The Low Income Tax Offset (LITO) delivered through regular payments of salary and wages will be increased from 50% to 70% of total entitlements. The remaining 30% is paid as a lump sum in the taxpayer's tax return.*
- Taxpayers will no longer able to claim deductions against government assistance payments such as Youth Allowance.*

Business

- Trust beneficiaries will be able to continue using the primary production income averaging rules and farm management deposit provisions even if the business is operated through a trust and makes a loss.
- The single statutory rate of 20% applies to determine the taxable value of car fringe benefits under the statutory formula method.
- Changes to R&D tax concessions will see a 45% refundable tax credit to companies with an aggregated turnover of less than $20 million and a 40% non-refundable offset to all others.*
- Company loss recoupment rules will be amended to make it easier for companies to satisfy the continuity of ownership test in certain circumstances.*

Superannuation

- Stricter compliance requirements apply to SMSF's holding investments in collectibles and personal use assets.
- Minimum payment amounts for account-based pensions reduced by 25% for the 2011/2012 financial year.*
- Individuals who breach the concessional contributions cap by up to $10,000 (for the first time) can request that these excess contributions be refunded to them to avoid payment of the excess contributions tax.*

Directors face greater scrutiny

Draft legislation released last month will see Director's become personally liable for the superannuation guarantee (SG) payments of employees. The change is part of a suite of reforms designed to target phoenix companies but the reforms, if enacted, will have a much broader impact.

The legislation, if enacted, will also give the tax office the power to pursue directors where PAYG and SG remain unpaid and unreported for more than three months beyond the due date.

- Change has been announced but has not become law.

Quote of the Month

"He who is not courageous enough to take risks will accomplish nothing in life"
Muhammad Ali

Preparing for the rollercoaster ride

Standards and Poors has downgraded America's AAA credit rating, local and international markets are volatile and easily spooked, picking changes in interest rates is more akin to crystal ball gazing, the carbon tax is coming, consumer sentiment remains tight and no one is feeling particularly confident. Welcome to the 2011/2012 financial year.

Over the next 12 months business will be working with a range of domestic and external influences that will cause uncertainty. But these swings can be a benefit as well as a headache – but only for strategically sound businesses.

Most SMEs are well downstream from major economic triggers. We don't cause the problems but are affected because of what is happening to larger businesses, the economy, and consumers. Some industries are more impacted than others.

Expecting business conditions to be 'more of the same' over the next 12 months is wishful thinking. If your business strategy is simply to turn up, work hard, and expect business to come to you then you are likely to be disappointed. If you have not already, it's time to do something different. When business gets tougher, 'me too' businesses come under pressure. A 'me too' business is one that simply replicates what everyone else in their industry or sector does. You work on the basis that there is a consistent and proven formula and if you follow the formula everything should work out. Sounds ok in theory (and says a lot about human nature) however the problem is that you are doing nothing to differentiate yourself in your market. This lack of differentiation may leave your customers with no compelling reason to continue doing business with you.

Business, and in particular small business, needs to be more strategic. The objective needs to be more than carving out some market share but to create a sustainable business. This is where your business strategy comes in. Your strategy should set the direction for your business and allow you to carve out a sustainable position in your market. In a buoyant market you can survive without a strong business strategy; there is plenty of business for everyone. Turn up, work hard, and you will pick up some market share. The challenge in the good times is generally supply rather than demand.

In a volatile market, demand can be patchy and in some cases depressed. Everyone is chasing business and if you don't have a clear business strategy then it is likely that you are trying to win business by chance or competing on price. Most SMEs are not equipped to compete on price. You don't have the capital reserves or the economies of scale to compress your profit margins. Go too far and you can trade yourself out of business.

Developing a business strategy takes time and hard work. You need to understand your industry sector, your market, where the opportunities lie, and how you can differentiate your position in that market. It's not easy but get it right and it will pay big dividends. As a starting point you need to identify what your current business strategy is. You should be able to clearly articulate it and write it down (in your head is not good enough). If you don't have one then accept reality and start working on one. Your strategy should flow into your business plan and then be reflected in your operating and cash flow budget for the year. Typically, your business strategy will contemplate your end game – be it a sale of the business or some other exit event.

Good businesses always have a clear strategy in place. For the coming year it will be more important than ever; it will separate the successful from the strugglers.

5 tips to differentiate your business?

Focus on the customer experience. What's it really like dealing with your business.
What do your customers really want and can you give it to them and still make a profit? Starbucks closed 61 stores in Australia by 2008 (73% of their stores). They misunderstood the sophistication of Australia's coffee market and no amount of advertising was going to make us change our barista.

Solve the problem. What is it that your business does for your customers? The more you can solve the problems they face and make life easier, the more likely it is that customers will choose you over your competition.

Know your product. Do all of your staff know your product or service and do they know what to say about it?

Not everyone wants to be your friend. Your customers are looking for different relationships with different businesses. Understand what it is they want from you and develop the relationship from there. If you make contact give them value - don't just talk at them about your product.

Got a question? Talk to us today about how we can make a difference to your businesses.

Quote of the month

"Price is what you pay. Value is what you get." *Warren Buffett*

What does the new R&D tax credit offer you?

For small companies with an aggregated turnover of less than $20 million, the R&D tax incentive provides a 45% tax offset for eligible R&D activities. The offset is refundable so the company will receive a cash refund even if they are in a tax loss position. Until 2014, the offset is processed through the company tax return. After 2014, small business will be able to access the R&D offset quarterly. So, for a small company with a turnover of say $4 million with eligible R&D expenditure in 2011/2012 of $500,000, the company would be entitled to a refundable tax offset of $225,000 when it lodges its tax return for the year.

For larger companies, a 40% offset is available for eligible R&D activities. The offset is non-refundable so if a company is in a tax loss position they will not be able to utilise the offset in that year but can carry forward unused offset amounts in future years.

Eligible R&D activities are now categorised as either 'core' or 'supporting' R&D activities. Core R&D activities are experimental activities where the outcome is unknown. The primary purpose of core activities is to create new knowledge (that might result in a product). Supporting R&D activities are activities that support core R&D activities. The test for supporting R&D activities is tighter than previous definitions and companies that currently claim R&D tax offsets will need to ensure that their activities still qualify.

Preparing for the rollercoaster ride

Standards and Poors has downgraded America's AAA credit rating, local and international markets are volatile and easily spooked, picking changes in interest rates is more akin to crystal ball gazing, the carbon tax is coming, consumer sentiment remains tight and no one is feeling particularly confident. Welcome to the 2011/2012 financial year.

Over the next 12 months business will be working with a range of domestic and external influences that will cause uncertainty. But these swings can be a benefit as well as a headache – but only for strategically sound businesses.

Most SMEs are well downstream from major economic triggers. We don't cause the problems but are affected because of what is happening to larger businesses, the economy, and consumers. Some industries are more impacted than others.

Expecting business conditions to be 'more of the same' over the next 12 months is wishful thinking. If your business strategy is simply to turn up, work hard, and expect business to come to you then you are likely to be disappointed. If you have not already, it's time to do something different. When business gets tougher, 'me too' businesses come under pressure. A 'me too' business is one that simply replicates what everyone else in their industry or sector does. You work on the basis that there is a consistent and proven formula and if you follow the formula everything should work out. Sounds ok in theory (and says a lot about human nature) however the problem is that you are doing nothing to differentiate yourself in your market. This lack of differentiation may leave your customers with no compelling reason to continue doing business with you.

Business, and in particular small business, needs to be more strategic. The objective needs to be more than carving out some market share but to create a sustainable business. This is where your business strategy comes in. Your strategy should set the direction for your business and allow you to carve out a sustainable position in your market. In a buoyant market you can survive without a strong business strategy; there is plenty of business for everyone. Turn up, work hard, and you will pick up some market share. The challenge in the good times is generally supply rather than demand.

In a volatile market, demand can be patchy and in some cases depressed. Everyone is chasing business and if you don't have a clear business strategy then it is likely that you are trying to win business by chance or competing on price. Most SMEs are not equipped to compete on price. You don't have the capital reserves or the economies of scale to compress your profit margins. Go too far and you can trade yourself out of business.

Developing a business strategy takes time and hard work. You need to understand your industry sector, your market, where the opportunities lie, and how you can differentiate your position in that market. It's not easy but get it right and it will pay big dividends. As a starting point you need to identify what your current business strategy is. You should be able to clearly articulate it and write it down (in your head is not good enough). If you don't have one then accept reality and start working on one. Your strategy should flow into your business plan and then be reflected in your operating and cash flow budget for the year. Typically, your business strategy will contemplate your end game – be it a sale of the business or some other exit event.

Good businesses always have a clear strategy in place. For the coming year it will be more important than ever; it will separate the successful from the strugglers.