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JAMES. W. MANN & ASSOCIATES ACCOUNTANTS

2015 Autumn Newsletter

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Easter was upon us early this year!

I am betting there were quite a few of you out there, glad of the Easter break as an opportunity to recover from the celebrations post the Aussie World Cup Cricket win!

With the interest rate cut early in the year, the property market appears to be full steam ahead, and the stock market seems to have a bit of a bounce back in its step as it absorbs the lower Aussie dollar and commodity prices.

We encourage you to call our office to get advice on any of the topic maters. We would love to hear from you, and have a network of resources available to assist you.

Hope you all enjoyed fine chocolates in moderation and had a healthy Easter break with family and friends.

How to Save on Small Business Taxes

Organising expenses receipts can save you money on business income taxes. Sounds too simple, but the truth is most people are not very organised when it comes to filing receipts and keeping records updated for tax purposes.

Here are four reasons you should start organising information for next years' tax returns, and how organising receipts can save you money:

1. You Will Do Your Taxes Sooner

Filing taxes on time can save you money because you will not have to pay penalties for filing late. You are more likely to keep putting off preparing your taxes if you do not have everything right in front of you. No one likes digging for receipts. Then there is always that nagging feeling that some receipts are missing and the temptation to put off filing to give yourself more time to find missing receipts. Here are some tips to getting better organised: file receipts as they come in; set aside time each day or week to enter receipts, and; mark them as they are recorded/entered.

2. You Will Save Money

For every expense receipt you cannot find, you will pay more in tax dollars. Many business expenses are tax deductible - for every one you miss, you pay more on income. If you ever get audited you must have the receipt to prove the expense. Give us a call, or book an appointment to see if you are taking all the deductions allowed.

3. You Have More Time To Budget For Taxes You Owe

If you owe taxes, and wait until the last minute when taxes are due, you have less time to set aside money to pay them. Many business owners are surprised at the end of the year when they discover they have to pay a lot more taxes than anticipated.

4. You May Get A Refund Sooner

Yes, it does happen sometimes. If you overpaid and are due a refund, the sooner you file your return, the sooner you will get your refund.

INNOVATION IN SMALL BUSINESS

The technology start-up industry has welcomed the plan to offer all small businesses tax cuts, plus significant improvements to employee share options administration.

The government was poised to slash company tax by at least 1.5 per cent in the May budget as part of a small business package but only for incorporated entities, but Small Business Minister, Bruce Billson, wants all small businesses, including sole traders, to enjoy the spoils - a move he believes will bring more entrepreneurs to the fore.

As recently reported in the Financial Review, Billison commented, "We are keen to make sure that the incentives of a tax cut reaches beyond incorporated businesses into businesses that operate under other structures."

In 2009, the law was changed to make employees pay tax before they received proceeds of their share sale. Under the new changes, options issued to employees will be taxed when they are converted to shares, not when the employee receives the options.

The new employee share option scheme that comes into effect on July 1 enables start-ups (less than 10 years old) with an annual turnover of under $50m to be eligible for the scheme. If a start-up gets funding from investors, that will not affect the eligibility threshold. And if they're acquired within three years, the original shareholders will still receive their 15 per cent tax deduction on the sale of the shares, according to the report.

Founder and CEO of Engagement Innovation, Tim Clover, has commented, "Start-up leaders can consider this a green light to inviting key employees to participate in an Employee Share Scheme (ESS) with little downside risk to the employee. Whilst founders will need to get the legal company structure right, an ESS can be an important stepping stone for evolving a culture of collaboration, accountability and innovation".

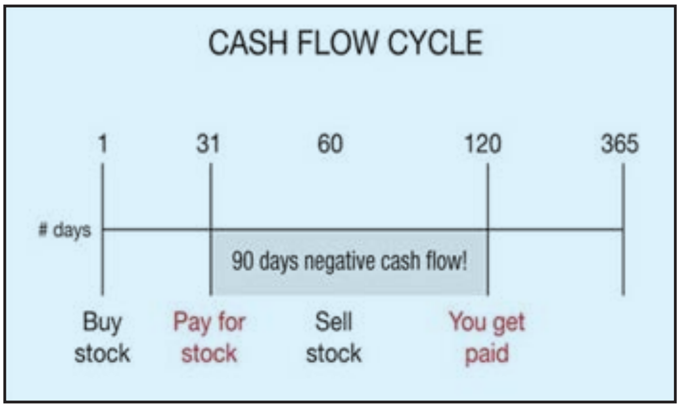
The concern which start-ups have had in the past was the need to prepay tax on a gain you may not make out of previous capital. Options are a great way to incentivise experienced staff to join your team and make the business successful, and ultimately if more companies are successful, the tax base will grow.

How More Sales can Cause Cash Flow Problems

A big boost in sales seems like a dream come true, but there can be a cash-flow sting in the tail. Here's how to manage increased sales growth like a pro.

An age-old question we get asked by business clients is "How come I've made more profit but I don't have any more cash?" The answer to this question can be found in the 'Cash flow cycle'.*

The 'Cash flow cycle' is an issue often overlooked by small business owners until business starts to grow and they begin to experience 'cash flow squeeze'.



The Cash flow cycle diagram shows:

- Before you can sell anything you have to buy something. For example stock or labour.
- Depending on your sales cycle i.e. how long the stock sits in store, you may hold onto stock for 60 days.
- Depending on the terms you get from suppliers you may have to pay for that stock after 30 days, which means you have 30 days negative cash flow.
- Depending on your accounts receivable management, you could wait 60 days to get paid, which adds another 60 days negative cash flow.
- This adds up to 90 days negative cash flow.

This means your money has been somewhere other than your bank account (i.e. in the bank account of your supplier or customer) for 90 days. This is referred to as 'funding the sale'. This is also known as 'working capital', which means you need to have a certain amount of money to fund sales all the time.

It's a tricky situation that causes a problem when growth occurs because the issue just gets bigger. If a business isn't working to minimise the number of days stock is in store and the number of days customers are taking to pay, then the problem becomes exacerbated as sales grow. This is why growth can often kill what appears to be a good business.

So before your business gets very focused on increasing sales, it's important to ensure the issues of stock movement and accounts receivable are not ignored.

If you operate a service-based business and think you're immune from the above, think again. Having a large chunk of 'work in progress" can cause cash flow squeeze if billing and payment terms are not well managed.

It pays to calculate a billing and payment program with customers that takes into consideration the payment for materials and labour on a job. Ideally you'd ask for a decent deposit up front to cover as much of material costs as possible, then schedule regular, progressive payments to cover labour.

If you are planning to grow your business it's important to get an understanding of the cash-flow process ahead of time as it's easier to avoid cash flow problems than it is to correct them!

A cash flow statement can be one of the most important tools in managing your finances. It tracks all the money flowing in and out of your business and can reveal payment cycles or seasonal trends that require additional cash to cover payments.

Give us a call or make an appointment to discuss how we can help you overcome potential cash flow issues before they become a problem in growing your business.

* *As explained by Sue Hirst on Flying Solo, flyingsolo.com.au is Australia's most comprehensive micro business blog, powered by a community of small business owners from every walk of life.*

WHAT'S IN A NAME?

How a spelling error destroyed a business and cost the UK $17m

It was a 124-year-old Welsh family business which took five generations to build up, yet a blunder over a single letter was all that was needed to cause its collapse, leaving the British government with a massive £9 million ($17 million) legal bill.

A British High Court ruling has found a government department liable for the demise of Taylor & Sons Ltd - all because of a typo.

Companies House, part of the Department of Business, Innovation and Skills, erroneously recorded that the Cardiff engineering firm Taylor & Sons Ltd had been wound up. In fact it was another, entirely unconnected, company - Taylor & Son Ltd - which had actually gone bust. By the time Companies House tried to correct its mistake three days later, it was already too late for the Welsh business.

"They [Companies House] had already sold the false information to the credit reference agencies," said Philip Davison-Sebry, 57, former managing director and co-owner of Taylor & Sons Ltd. "We lost all our credibility as all our suppliers thought we were in liquidation. It was like a snowball effect."

Mr Davison-Sebry, a father-of-three from St Fagans, Cardiff, said that within just three weeks, all of its 3,000 suppliers had been in touch to terminate orders and credit facilities were withdrawn.

"I was on holiday in the Maldives when I got a message to urgently contact Corus, one of our major clients. They said they weren't happy at all I was on holiday, asking how could I be on holiday at a time like this?" he said.

"They said we were in liquidation and that the credit agencies had told them. I rang the office to find out what was going on – it was like Armageddon. This was all on the day of my wife's 50th birthday. We will never forget it".

Despite desperate attempts to reassure customers and suppliers that there had been a mistake, the business, which was established in 1875 and had its roots in the 18th century, proved impossible to save.

It lost its best customer in Tata Steel, which had provided it with a £400,000-a-month income, and contracts to

construct three Royal National Lifeboat Institution stations never materialised, costing £3m in lost business.

The one-letter mistake was recorded on the companies register on 20 February 2009, and within two months the company, which employed 250 people, had gone into administration.

But after a four year legal battle, Mr Davison-Sebry has emerged victorious when a High Court judge ruled that Companies House was legally responsible for Taylor & Sons' catastrophic loss of business and ultimate collapse.

The administrative slip-up was the only one of its kind ever recorded at Companies House and Mr Justice Edis said: "That can only be because it was easy to avoid."

Whilst the amount of damages payable by Companies House has yet to be finally assessed but Mr Davison-Sebry's lawyers have valued his claim at £8.8m.

Here in Australia, ASIC is extremely strict on ensuring company names are correct at the time of lodging, including when lodged online through companies such as NTAA Corporate. Unlike other common mistakes which can usually be corrected free of charge, ASIC currently charge $377 to make any changes with them directly, and any company registration documents need to remain in the name that was originally registered.

If you are looking to register a company, we always recommended you provide us with written instructions as to your proposed company name, and to thoroughly check that all spelling is correct.

Self- Managed Super Funds and Insurance

***The Superannuation Industry (Supervision) Act 1993* says trustees must consider insurance for the members of the super fund.**

The Self-Managed Superannuation Fund (SMSF) laws clearly state the fund must be able to meet its liabilities, and one of the ways it can do this is through payouts from the members' insurance policies. Insurance, and the ability of the SMSF to pay out members' funds on death, or at least have the liquidity to do so, is a critical part of keeping the SMSF afloat.

The ATO can issue a breach when a SMSF cannot pay out members' funds on death. There are strict rules about insurances which can be held inside a self-managed super fund, with serious and expensive consequences for breaches by members. Trustees must fully understand the pros and cons of using a SMSF as the vehicle holding life insurances before deciding how best to structure them for individual circumstances.

Cash flow benefits are one of the main reasons why holding insurance and paying premiums from inside an SMSF can make sense, as policies owned outside SMSFs are paid in after tax dollars. An SMSF is a suitable vehicle for many insurances, as the premiums are paid from the funds within the SMSF, and therefore are usually up to date and current. Also, in the event of the death of a member, benefits may be paid tax free to a spouse or partner and any dependents under the age of 18, which can be a substantial advantage.

Typical insurances included within an SMSF include death, any occupation, total and permanent disability, and salary continuance cover.

Trauma or critical illness cover is only allowed in an SMSF if it was included in the fund before 1 July 2014, and pre-existing trauma cover is only allowed to continue within an SMSF after 1 July 2014 because it has been 'grandfathered', a term used by governments to protect existing policies.

Income protection insurance can also be included in an SMSF, although for those whose marginal tax rate is higher than 15 per cent, it is generally more cost-effective to hold this insurance outside an SMSF, as income protection premiums are tax deductible against your taxable income.

It could be argued that insurances that do not meet a condition of release – which means that the fund can distribute the pay out, rather than holding the benefit inside the fund – are better off being held outside an SMSF, in order that the member can immediately access the pay out as a result of the claim. These insurances include trauma or critical illness cover, and TPD own occupation cover. While there is precedent for a condition of release to be granted by the Australian Taxation Office for trauma or critical illness cover where the member has permanent ill health or severe financial hardship, it may be recommended to exclude this insurance from the SMSF.

As with everything to do with self-managed super funds, it's a wise idea to get proper advice from someone who knows their way around the SMSF laws to ensure you structure your insurances in the most beneficial way possible, and to make sure you stay inside the incredibly complex rules that govern this area.

Generation Y and Self-Managed Super Funds

With a self-managed superannuation fund viewed by some as a status symbol, an increasing number of Gen Ys (those born from the early 1980s to the early 2000s), are exploring the idea of running their own retirement fund. But is this really a good choice given they will need to lock their money away for decades?

Until recently, SMSFs have been the domain of people with significant super balances who are close to or in retirement. But this is changing, with a marked increase in Gen Ys establishing their own SMSFs. One reason for this is because people are now more engaged with their super, in addition to the set-up and ongoing costs for SMSFs having dropped in real dollar terms as SMSFs have become a more commoditised product. Rule changes that allow borrowing within an SMSF have also opened them up to people with lower super balances.

An SMSF is best suited to an investor who knows where they want to go and the tools they need to get there, and just because you haven't started to turn grey yet doesn't mean you cannot successfully manage your own superannuation and financial future. It's now possible to start an SMSF with a balance of about $100,000 if the member makes ongoing contributions to it. Investors should always consider the tax effectiveness of their investments and super is currently by far the most tax-effective investment, however, whether an SMSF is appropriate comes down to the individual's financial literacy.

Typically a young person will start his or her own fund to invest in an asset such as an investment property. If they want to manage their own money, but don't have the means to warrant starting their own fund, one option to consider is joining someone else's fund. Often children become members of their parent's SMSF, so the children have the benefit of economies of scale as the costs are paid mostly by the members with the higher balances – that is, mum and dad.

Investors must be aware that managing an SMSF comes with responsibilities, including making investment decisions and arranging for annual financial reports and tax returns to be prepared and audited each year. As a trustee, you are responsible for your SMSF complying with the law at all times.

Spring Clean your Business (in Autumn!)

You have been meaning to get your business systems in order, but you've been too busy.

These financial clean-up tasks will benefit your business, any time of the year:

1. Create and Maintain a Business Budget

No time to make a budget? Then how do you know you are operating your business effectively? A budget can show you where you are over-spending and help you determine the best way to maximize earnings.

2. Set up a Financial Record Keeping and Accounting System

The first, and most important part of setting up a record keeping system is to capture the information, but you then must keep it up to date and review it to make improvements. And, of course, you will need all this information to file taxes. You can set up a simple system for keeping records, either by hand, using financial software, online, or with a bookkeeper. It's one of your biggest responsibilities as a business owner.

3. Create a Debt Collection System to Maximize Collections

One of the most important things you can do make sure your business is profitable is to set up a system to collect money from customers. Remembering the first two rules of debt collection:

Rule #1 – the longer a bill is overdue, the less likely it is to be paid, and

Rule #2 – some people won't pay, no matter what you do.

Take the time to learn how to set up a system to monitor accounts receivable and collect on overdue bills, and also how to stay within the law on debt collection practices.

4. Plan for Business Disasters

Disasters of all kinds can happen to your business. Set up a plan to prepare for a disaster and recover from that disaster, including:

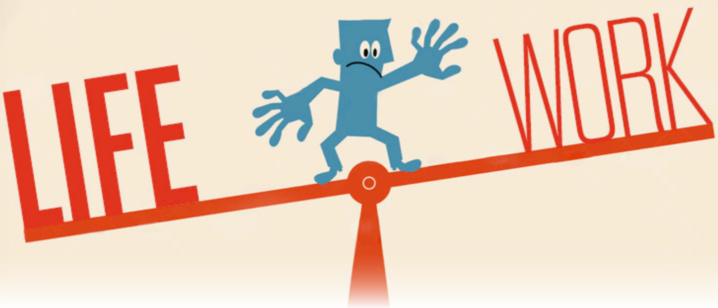
- Planning to keep business records safe;
- Planning for employee safety and minimizing damage to property;
- Getting a business valuation now, so you know how much your business was worth before the disaster;
- Learning about government loans and other disaster relief assistance; and
- How to recover business records after a disaster.

5. Get Your Payroll System in Order

Make sure you have your payroll system in order, including employee records, payroll records, and records of payroll taxes. Whether you do it yourself, use payroll software, an online payroll system, or a bookkeeper, you need to know what to do and when to do it - for withholding, paying, and reporting.

Creating Work-life Balance as a Business Owner

By Alyssa Gregory, *Small Business Information Expert*



Business owners are known to have busy schedules, with many different and often conflicting responsibilities, and a steady flow of important decisions to make. To remain successful long-term, you need to find a balance between your business and your personal life. Work-life balance refers to the quality of your life, and the satisfaction and enjoyment you get in proportion to the things you do. Your work-life balance goal should be to find ways to get satisfaction and enrichment from life that makes the work you do worthwhile.

To this end, here are five suggested ways to help you create a work-life balance.

1. Set Boundaries

The most important step for creating a balance is in setting boundaries with customers, employees, and vendors. Your need a clear idea of how you want your business relationships to be structured, so you can create habits that reinforce that vision.

If you think through the areas where you feel you need to create more structure, and be clear on how you want to communicate and interact with your business contacts, then you need to share those policies so you can create boundaries that honour your time.

2. Create Rules for Yourself

Just as you need to set rules that manage your contact with others, you also need to set ground rules for yourself. It is way too easy to take that late-night call "just this once," or give out your personal cell phone number to a trusted client. Make a list of unacceptable personal actions that contradict your boundaries, and keep the list in a visible place. Check it often to ensure you are respecting your own boundaries.

3. Develop an Emergency Test

Things happen in business that may cause you to have to bend your own rules from time to time - this is the nature of business. In the heat of chaos it can be difficult to remain objective about what qualifies as an emergency. If you create a checklist that outlines what factors should exist before a situation is classified as an emergency, it is easier to understand when and how your boundaries should be bent, as well as what you should do after the situation is resolved to restore the limits.

4. Be Consistent

Setting boundaries is all about creating habits, and the best way to create a positive habit is to do something consistently. If you give in once, or let something slide, you're going to have to work twice as hard to respect your own ground rules next time.

5. Allow Yourself to Take Breaks

Work-life balance requires that you dedicate time to focus on all aspects of your life. You cannot give your personal life focus without investing time in it. So if you are usually overscheduled with work, there will not be much of a chance you will be able to take a break, or do anything non-work related without shuffling your time and increasing your stress. One way to ensure you take time out for your personal life is by scheduling in the time as if it were another work responsibility. Over time, this will become second nature, and it will be one of the most valuable slots of time during your day.

Creating a plan that develops work-life balance will help you reduce stress, ultimately being a happier, and more successful, business owner.