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NEWSLETTER

JUNE 2004

The Hard Sell

Over the next five years, thousands of small businesses will be up for sale. Many will not find a buyer.

A recent report from CPA Australia, Small Business Succession and Exits, estimates how many small businesses will be for sale over the next five years. The report surveyed 600 small businesses (those with fewer than 20 staff) and 105 accountants.

The number of small businesses coming on to the market is expected to affect all business sales and all industries.

In about 30% of the businesses surveyed, the owners were aged over 50, which amounts to about 500,000 small businesses across Australia. The survey found that over the next five years, about 40% of small-business owners plan to close, sell or pass control of their business to others.

Of those who plan to leave their business, 25% want to pass it on or sell it to their children, 7% hope for a management buyout, and 45% expect to sell it to others (who are not their children). Of these, 26% say they would advertise the business for sale and 19% would consider a trade sale to someone in their industry; 23% were not sure what they would do.

In effect, about 20% of small businesses could be put on the market within the next five years. This will affect the whole market. Anyone in their 20s or 30s who wants to turn their business over quickly is competing with the rest of the market place, which includes all the baby boomer businesses that will be put up for sale.

There will be a polarization between good and bad businesses. The good will still sell but the bad will struggle to sell and many businesses will not find buyers.

Small-business clients should invest in their businesses to maximize sales potential as the report shows that half of the owners plan to use the sale as the primary source of funding for their retirement.

We have noticed that the current purchasers of businesses are very reluctant to pay for goodwill at previous levels and recent business sale have been hard to clinch.

The lesson is to commence thinking about improving results, documenting procedures and being pro-active in your efforts to improve the saleability of your business now.



Flashback to 2003



Our **May 2003 newsletter** contained an article titled "Trends" regarding the real estate market written by **Jennifer Mead for BRW**. It is remarkable how accurate her predictions were.

She warned us to be careful.



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It aint so bad after all...

According to the annual Tax Misery Index by Forbes Magazine, Australia is ranked 42 out of 50 in the tax misery stakes. The results are based on a combination of corporate and personal income taxes, wealth tax, employer and employee social security and consumption tax.

In view of the fact that Australia's corporate income tax and personal income tax rates are up there with the highest in the world how can we be ranked so low on the scale? Well, Australians compared to other countries pay minimal employer and employee social security taxes and a smaller proportion of consumption tax.

The study finds the French endure most of the suffering from the tax man, trailed by Belgium, Sweden and China. On the other hand, the United Emirates, Hong Kong, Singapore and China barely feel the pinch.

So it isn't so bad after all as we suffer less of a tax burden than our counterparts in 41 other countries.

LAND TAX

There are a number of changes to the assessment of land tax for the 2005 tax year. Owners are liable for land tax where, at midnight 31 December 2004, they owned any legal or equitable interest in land in NSW.

Threshold abolished

From 1 July, 2004 there is no threshold. All land, which is not exempt, will be liable for land tax. The most common exemptions apply to the principal place of residence and land used for primary production.

Rates of tax

Taxable value of land owned	Rates of land tax payable
Not more than \$400 000	0.4 cents for each \$1
Between \$400,000 and \$500,000	\$1,600 plus 0.6 cents for each \$1 by which the taxable value exceeds \$400,000
More than \$500,000	\$2,200 plus 1.4 cents for each \$1 by which the taxable value exceeds \$500,000

Premium property tax

The land tax charged on a principal place of residence where the land value exceeded the Premium Property Tax threshold (\$1.97 million in 2004) is abolished from the 2005 tax year.

It's that time again and all taxpayers should review their tax position to minimize tax and maximize their deductions. Some ideas to consider are:

DEFER INCOME – Salaries, fees, bonuses, interest, dividends and rent are assessed when received. If possible, defer receipts of such income until after 30 June.

MAXIMISE DEDUCTIONS – Bring forward purchases of items and services to before 30 June. These could include stationery and consumables not included in stock on hand; subscriptions and maintenance contracts; travel tickets; repair and maintenance costs and donations to charities. Small businesses (<\$1 million turnover) in the STS regime and taxpayers incurring non-business expenditure may prepay expenses such as rent, interest, insurance, advertising and leases and obtain a full deduction. Ensure that there is a commercial benefit and that the prepayment is for a period not more than 12 months.

ASSET REGISTER – Review your asset register and depreciation schedule to identify any obsolete or unserviceable assets for disposal or scrapping prior to 30 June.

STOCK TAKE – Damaged or obsolete stock should either be separately identified and valued appropriately, or scrapped. Ensure that you maintain your physical stock count at year-end.

MEDICAL – Medical and hospital expenses should be paid prior to 30 June if already over or approaching the \$1,500 rebate level.

SUPERANNUATION – The maximum deductible contributions to a complying superannuation fund for 2003/2004 is \$91,149. To obtain a deduction for contributions in the current year, superannuation must be paid before 1 July.

Maximum deductible contributions are based on age:

Under 35	13,233
35 to 49	36,754
50 & over	91,149

Superannuation Guarantee Charge was 9% as of 1 July, 2002.

BAD DEBTS – To obtain a deduction in the current year bad debts must be written off prior to 1 July.

INVESTMENTS – There are various investment products and tax shelters which offer not only commercial benefits but also significant tax savings and include primary production operations, the film industry, leveraged equities, etc. These have varying degrees of risk, return and tax efficiency and should be carefully considered prior to commencement. If purchasing shares, consider whether they pay fully franked as opposed to unfranked dividends. While investment decisions should not be purely tax driven, the income tax liability should be considered as part of the overall decision.

MINIMISE NET CAPITAL GAINS – If capital gains were realized during the year it may be prudent to offset these by selling, before 1 July, assets that will realize a capital loss.

Please contact our office if you need tax planning advice.

2003/2004 CENTS PER KM CAR RATES

Up to 1600cc	51c
1601 to 2600cc	61c
Above 2600cc	62c



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A firm providing a high standard of performance and personalised service over a range of specialities.

62 Croydon Street Cronulla NSW Australia 2230 (PO BOX 465)
TELEPHONE: 61 (02) 9523 9911 FACSIMILE: 61 (02) 9527 3744
EMAIL: ACCOUNTANTS@GABRIELS.COM.AU