

Bulletproof your Business...

By Victor Jarmusz CA



The full impact of the current economic turmoil on Australian is as yet unknown. Though, as a business owner, it does provide an opportunity to review your current situation.

There are a multitude of articles available on the internet and other media on how to survive tough times (try googling recession proof business). Many bits of advice may seem contradictory, but ultimately, any solution needs to be unique for your business and customer base.

Some of the more popular strategies are:

Cashflow Management

Typically, everyone wants their customers to pay quickly, but at the same time, drag out payments to suppliers.

Improving payment from customers can be helped with effective management of debtors, such as chasing payments as soon as they are overdue, making credit checks on larger customers, putting new customers on COD terms, and offering early payment discounts. A major key is constant communication.

On the other hand, when it comes to paying late, watch out for penalties or interest. One common creditor businesses put off is the Tax Office, but their interest rates on late payments are far higher than what you would pay on a normal bank loan.

Banking Relationship

It is important to keep your credit rating high, and stay close to your financiers. Business plans preparing for your cash flow requirements into the future are a useful tool, and always keep your accounting and financial records up to date. Deadlines set by your financier should be met.

Pricing Strategies

It is important to maintain profit margins, as undercutting competitors to win sales can be a false economy. An interesting example about pricing comes from the great depression:-

The highly successful Fortune magazine was founded in February 1930, four months after the wall street crash of 1929. The article "How the World really Works" in the 19 September 2005 issue of Fortune Magazine, states that "it seemed an unpropitious time to start a magazine about business-much less a magazine priced at a staggering \$1 an issue, when you could buy the Sunday New York Times for five cents."

Human Resources

There are many headlines about large organisations laying off workers. However, it is thought that staff morale should be kept high as there may be a "brain drain" of your best and most productive employees. Other considerations are:

- In less busy times, there are opportunities for businesses to have more time to invest in training, or getting staff to use up accumulated leave.
- Staff laid off in lean times means that new staff needs to be hired (and trained) when things pick up again.
- If employees are being laid off by competitors, there may be good talent available

Know Your Customer

In times of change, the needs of customers may also change. It is important to be aware that this may happen. Sometimes an "exit" interview with customers who have gone to a competitor may be revealing.

An example from the great depression about meeting changing customer needs era is the iconic Vegemite brand, which survived those difficult years. According to the "vegemite" website, it was launched in 1922 in a 57 gram jar. In 1931, it was available in a numerous sizes "so there was a vegemite for every size appetite".

Diversification

The jury seems to be out on this one – do you expand goods and services to reach more customers, or do you cut back to your core business and keep doing what you do best?

Stock Management

Stock control should be tight. There are dangers of carrying too much stock (or too much of the wrong type), slippage and obsolescence. There may also be opportunities to review alternate sources of supply, storage, or renegotiate contracts.

Personal Financial Checklist

Here is a quick guide to work out your financial stress level – the more "yes" answers, the higher the financial stress...

1. Are you using more and more of your income to pay your debts?
2. Do you make only the minimum payments due on our loans and credit cards each month?
3. Are you near, at or over the credit limit on your credit cards?
4. Are you paying your bills with money intended for other things?
5. Are you borrowing money or using credit cards to pay for things you used to buy with cash?
6. Do you often pay your bills late?
7. Are you dipping into your savings to pay current bills?
8. Do you put off visits to the doctor or dentist because you can't afford them?
9. Has a collection agency called recently about overdue bills?
10. Are you working overtime or holding a second job to make ends meet?
11. If you or your spouse lost your job, would you be in financial trouble right away?
12. Do you worry about money a lot?

Investment Allowance... by Vicky Tzirtzilakis CA

it's back!

Tax Break for Australian Businesses

On 13th December 2008, Australian businesses saw the return of the Investment Allowance, a tool first introduced in 1975 and then amended in various forms in the early '80s and again in the early '90s.

As part of a short term stimulus to the economy, the Federal Government has announced further action to boost economic activity and support jobs with a 30% temporary investment allowance for new assets purchased, ordered or constructed prior to 30 June, 2009.

This will come in the form of an additional tax deduction, equal to 30% of the cost of the eligible asset. This tax break has been introduced to encourage Australian businesses to undertake capital investment.

Who is Eligible? What assets are Eligible?

- This investment allowance is available to businesses for assets acquired, held under a contract or constructed after 12.01am AEDT 13 December, 2008 and before 30 June, 2009. The assets need to be installed and ready for use by the end of 30 June, 2010.
- For eligible assets acquired from 1 July, 2009 to 31 December, 2009, and additional 10% deduction can be claimed where they are installed by 31 December, 2010.
- A minimum expenditure of \$1,000 will apply to small businesses. These businesses must have a turnover of \$2 million a year or less.
- A minimum expenditure threshold of \$10,000 will apply to all other businesses.
 - The investment allowance only applies to tangible assets which qualify for capital allowances (depreciation) under Division 40. Motor vehicles are not disqualified from the allowance. However, assets for which a tax deduction cannot be claimed under Division 40 do not qualify (e.g. software development pools).
 - The assets must be used in carrying on a business.
 - Expenditure on capital works such as buildings, expenditure on trading stock, intangible assets and rights are also excluded.
 - Expenditures above the threshold which are capitalized into an existing asset as a second element of cost will qualify.
 - Assets previously used or held for use are excluded.

Claiming the tax bonus

This allowance can be claimed through the income tax return in which the first capital allowance is claimed for the asset. The applicable tax deduction (30% or 10%) is on top of the tax deductions currently allowed under the capital allowances (depreciation) provisions.

Worked Examples...

Purchased prior to 30 June 2009

▶ A landscaping business entered into a binding contract to acquire a new backhoe on 20 May 2009 at an all inclusive cost of \$60,000. The backhoe is delivered and ready for use on 20 June 2009 and has an effective life of 9 years.

As it is installed, ready for use before the end of June 2010, the business would be able to claim a deduction of \$18,000 (being 30% of \$60,000), in their 2009 income tax return.

The business is also entitled to a tax deduction in 2009 for depreciation under Division 40 for \$365 (based on diminishing value method).

Purchased after 30 June 2009

▶ A small business buys and installs a \$2,000 computer in July, 2009.

A tax deduction of \$200 (being 10% of \$2,000) can be claimed in its 2010 tax return. The business is also entitled to a tax deduction in 2010 for depreciation under Division 40.

Businesses need to assess the benefits that may accrue from the tax incentives of this allowance.

Contact our office for additional information.