

Don't pay more tax than you need to

If you are finalising your financial year-end accounts and calculating your position, there are still options available to save you tax

One of these options impacts on the valuation of your trading stock and if stock is a material asset in your business, you should most certainly consider it. This option provides you with different valuation methods that can be applied to your trading stock.

The majority of businesses value their trading stock at cost and in many cases this is the right valuation approach. However the Tax Act gives you the choice of valuing your stock at the lower of cost, market, or replacement value.

Your trading stock is an asset that is recorded on your balance sheet. In most cases it should be tax neutral to you. The cost of purchasing stock is expensed in your profit and loss account and is offset by the value of the stock asset, until you sell it. So, while the amount of stock you are carrying will impact on your cash position, because you have your funds tied up in it, there is no direct impact on your profits or taxable income until you sell that stock. However, if at June 30 some of your stock is worth less than its cost price, you have the option to value it at the lower figure and take the tax write off now, rather than wait until the stock is sold. This reduction in your stock value will produce a tax saving for you.

There are a range of reasons why stock values may be less now than at the time you purchased the stock. For example, stock becomes out of date, obsolete, damaged or changes in demand mean that the stock can only be realised at a discounted price. Other than when you sell your stock, your tax return gives you a once a year opportunity to adjust your stock values and realise on any losses.

You don't have to use the same valuation method for all of your stock as the trading stock valuation options can be taken on an item by item basis. So, you can elect to use different methods for different stock items. In many cases cost price will be the appropriate valuation method. You would normally consider using market value or replacement value for stock items only where there has been a fall in value.

It will be important to have sufficient documentation to both record what action you have taken and also to justify the value you arrived at. If you are subject to a tax audit you will need to be able to substantiate the value being used. This means having your stock count and also the itemised values for each stock item. Where the value being used is not cost price there should be a clear basis for the amount used.

Where you have experienced a fall in stock values it normally makes sense to take the tax write off now. We all know that cash is king at the moment and the tax saving will help to cushion some of the loss so talk with Collins Hume on 02 6686 3000.

2011/12 ATO targets

The Australian Taxation Office has announced its targets

Our summary relates to the Taxation Office's indicated targets for individuals, micro-businesses (turnover up to \$2M), and small/medium enterprises (turnover \$2M to \$250M). Key areas that the ATO are closely examining are:

- work-related expenses including claims for home office expenses, internet connection, mobile telephone costs
- overseas income (the ATO has very sophisticated systems to track money moving overseas)
- split loans (business and private loans are attracting greater attention)
- correct PAYG Withholding Tax deducted from wages
- superannuation payments made
- 'sham' contracting i.e. if someone is working for your business full time, it's very difficult to establish that they're a bona fide contractor
- internet trading
- cash businesses, and
- in all cases, the ATO is comparing micro and SME businesses to the benchmarks they've established for various industries

The ATO is also concerned about Phoenix Company activities where a company is liquidated and then commences business under a new name the next day. The ATO is also monitoring shareholders' loans and small business capital gains tax concessions. **Call us on 02 6686 3000 if you have any concerns and see our audit insurance article on page 4.**

What is the purpose of your business?

The end of a financial year is an appropriate time to do some thinking and planning as to what is happening in your business

How much do you want to earn? How many hours are you prepared to work? What is your overall objective? Are you trying to build up the business to sell it? Do you want to franchise or open other similar offices/stores in other locations? Do you want to build a lifestyle whereby you can employ managers to run the business, but you don't have to be there every day? Are you operating a business that you want to operate for the rest of your life... because you absolutely love what you're doing in your business?

The strategies you develop to operate your business will be determined on which of these questions you've answered positively. If you're building your business so you can franchise it or replicate it in other locations, then it's very important that you create very detailed systems, manuals and strategies so that the business can be easily replicated and managed by other people.

If you're building a business to sell, it's also necessary to ensure that systems are in place, that your team is adequately trained and that the business can run without your day-to-day presence, as a potential purchaser might not want to work in fulltime and will want to know that the team can continue to operate the business without you. Have you recorded everything that's in your head? Have you documented the business' intellectual property system?

If you want to build a lifestyle business, you also need to introduce systems so that the business can operate effectively without you being involved on a day-to-day basis. You need to have systems that you can review weekly to satisfy yourself that the business is on target. This will require a system of controls built around the preparation of:

- a weekly profitability estimate
- key performance indicators; and
- having internal staff who can produce accurate information assisted by Collins Hume acting as Chief Financial Officers to produce detailed monthly financial accounts

If you'd like our assistance in implementing appropriate systems and controls and conducting internal reviews of your business' systems please contact us on 02 6686 3000.

The material and contents provided in The Strategist are informative in nature only. It is not intended to be advice and you should not act specifically on the basis of this information alone. If expert assistance is required, professional advice should be obtained by calling Collins Hume on 02 6686 3000.

Carbon Tax Planning

Whether you agree with the carbon tax or not, the reality is that the government has said it will commence in one year's time, so all small/medium enterprises need to get ready

It will be a good idea to review your costs of operation to isolate the items which might increase because of a carbon tax. These will primarily relate to fuel prices and electricity, but in some instances, could be affecting other cost inputs for your business.

There may be an opportunity for you to change your fuel/electricity usage to reduce costs in this area.

The government is very confident that it can pass the legislation to commence from the 1st July 2012, **so now is the time to call us on 02 6686 3000 to discuss how best to review all of your operations to see what the extra cost inputs might be and to determine whether you're able to offset those costs by other cost reductions or will you be able to pass on the extra costs to your customers.**



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Payroll tax rebate for creating new jobs

Apply to get a payroll tax rebate for employing more staff

A new scheme by the NSW Government gives employers a payroll tax rebate of up to \$4,000 per employee (equivalent to the annual payroll tax bill for one employee on an average wage). So, if you added five new team members in new jobs that could be \$20,000 less to pay in payroll tax over the next two years. The rebate is paid on the first and second anniversaries of the team member's employment and, as always, there are provisos:

- The new team member needs to be employed between 1 July 2011 and 30 June 2013 and also needs to maintain their employment for at least two years.
- Each new team member must be registered with the Office of State Revenue (OSR) within 30 days of the job starting.
- The job must be a new job (not just a replacement or change in business structure or transfer of business). At the time of registering the employee, you need to let the OSR know how many full time equivalent (FTE) staff you had prior to registering the new team member and maintain or increase that level of FTEs for two years to qualify for the rebate. If the number of FTEs falls below the level required for the rebate for more than 30 days at any time during the year, the Chief Commissioner may refuse to pay the rebate.
- The employer needs to be paying payroll tax and the employee's wages need to be subject to payroll tax (no exempt employees). Like any other special offer, the rebate cannot be used in conjunction with any other State Government scheme in relation to that employment. So, if subsidies are already available for that job then the rebate will not apply.
- The rebate amount cannot be more than the employer's net payroll tax liability for the year in which the claim is made.

The rebate is available to full time, part time, and casual employees. For part time and casual employees, the rebate is calculated on a pro-rata basis on the hours of employment. The rebate is only available for the first 100,000 new jobs created under the scheme. Of those 100,000 jobs, 40,000 are prioritised for non-metropolitan areas (find a listing on the Office of State Revenue's website) and the rest in metropolitan areas. You have nothing to lose by being a part of the scheme. If you cannot maintain the level of employment required, then you either lose the rebate or will have to pay it back.

How to claim the rebate

Register your new employee on the Office of State Revenue website at www.osr.nsw.gov.au/taxes/payroll/job_scheme/information/ within 30 days of employment. You will need to know how many FTE staff you have so phone us on 02 6686 3000 for assistance with this calculation. For full time staff (assuming you maintain the level of staff required) the first \$2,000 is paid on the employee's first employment anniversary and the second \$2,000 on the second anniversary.

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Social media winner announced!

FREE business health check to lucky social media friend

In June, we invited you, our Strategist readers, to connect with our firm on Facebook, Twitter or LinkedIn.

After extending the invitation, we conducted our lucky draw and are delighted to announce our winner, **Byron Bay Brewery**.

Byron Bay Brewery will receive a free business health check (for themselves or a friend) valued at \$495.

Thanks again to everyone for connecting with Collins Hume in the social media space! We were so delighted with the response and enthusiasm of all participants that we have decided to extend the offer and will make another lucky draw next month, so tell your friends and watch this space for another announcement!

We look forward to utilising social media to keep you up to date on key business issues.



Surf the Wave to Success Nov 2011

BOOK NOW for Collins Hume's exclusive International Business Development Conference this November 2011 in the Telos Islands at

www.collinshume.com.au/services/events



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Cover yourself with audit protection insurance

The ATO continues to announce significant increases in their audit activity

Now, more than ever, individuals, businesses and self-managed superannuation funds are at risk of being selected for random audit. The announcement of the ATO's targets for 2011/12 (see The Strategist p1) confirms that their investigative efforts are more focussed than ever!

Unfortunately the instigation of a random audit or investigation by the ATO (or indeed by any federal or state revenue agency such as WorkCover or Payroll Tax) **will result in costs to you**. Even if there are no adjustments to the return, there would still be costs associated with the preparation of material for the ATO or agency involved, and managing the response process.

For this reason we have taken out audit insurance (Audit Shield) in Collins Hume's name to cover the professional fees incurred by preparing all relevant documentation and responses to the ATO or any government agency conducting an audit, review or investigation. Our Audit Shield policy covers these costs up to a prescribed limit and any audits, reviews or investigations to the current year's returns, and all previous years.

You should be aware that this cover does not automatically extend to you in the event of an audit, review or investigation. However we can add your account (upon payment) to the list of our clients already participating in this service. In the event that you are subsequently subjected to an audit, review or investigation, we will then seek to claim our fee from the insurance company and up to the maximum sum insured. We emphasise that there is no compulsion and that each client decides whether or not to participate.

If you wish to participate, please contact your Client Service Advisor on 02 6686 3000 and request an invoice to be sent to you. Once you pay the invoice, your cover automatically commences. Your participation in our audit protection service then commences the next business day after we receive your payment and expires on 31 July 2012 which is the common expiry date of the service.

Our intention is to offer audit insurance cover to all Collins Hume clients on an annual basis and your payment is tax deductible.

More information including frequently asked questions about Collins Hume's audit insurance can be found at www.collinshume.com.au/audit_insurance. Collins Hume's Audit Shield policy is underwritten by Vero Insurance Ltd.

5 tips...

To differentiate your business

In our article 'Preparing for the rollercoaster ride with Collins Hume' posted on our blog this month we wrote, "... 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. Here we list a quick five to get you thinking about your own differentiation strategy:

1. Focus on the customer experience - blind test or mystery shop from all angles and fix the weaknesses
2. Ask what your customers REALLY want - can you provide it and still make a profit?
3. Solve the problems customers face and make dealing with you easy
4. Know your product / service / offering and make sure your staff do as well as you
5. Realise that not everyone wants to be your friend but that they do expect to receive value from your business (and defer to point 2 above if in doubt)

Subscribe to our blog to learn more on this topic and select **Subscribe to RSS** at www.collinshume.com.au/client_tools/blog.

Quote of the month

"I love seeing clients succeed and helping them to do so— finding ways to improve their businesses and lifestyles."

Shane Bartrim, Partner

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