The Strategist March 2015

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Collins Hume
ACCOUNTANTS
BUSINESS ADVISERS

Economic picture still mixed across Australia

Low interest rates cause 'boom' in house construction, particularly in Sydney and Melbourne.

Reports have indicated that local councils are approving plans for new houses and apartments at a record rate of more than 220,000 a year. This is great news for a whole range of industries relating to new house and apartment construction – from builders to appliance sales businesses!

The weakening Australian dollar versus US dollar is also leading to some optimism within the tourism industry that more overseas visitors will holiday in Australia. This will be particularly evident in Queensland. The lower currency is also beneficial to every exporter. However, every imported product is costing a lot more when landed in Australia.

On the downside, the mining industry has retreated and has suffered substantial price reductions for iron ore, coal and other minerals. This downturn is significantly affecting some centres around Australia that are heavily reliant on mining.

Businesses will need to be vigilant on the amount of money that's invested in debtors, stock and work in progress during these difficult times, until consumer confidence improves.

During difficult times, it can be beneficial to have a discussion with your competitors on general economic matters affecting your business. As long as you're not getting too in-depth and looking at market forecasts, how you're handling negotiations with unions, government relations and government grants that might be a useful avenue to consider.

Even establishing a small benchmarking group, with some of your competitors, to compare your Key Performance Indicators (KPIs), will give you a better indication as to how your own business is travelling. Industry bodies often share YTD sales of their member businesses, but this only scrapes the surface.

Collins Hume can assist with business benchmarking services. Or, if you would like to review your forecast for 2015, phone us on 02 6686 3000.

Government grants for small and medium business

Research and Development Registration

If your business undertook research and development in the financial year ended 30 June 2014, you spent more than $20,000 (irrespective of the number of projects) on research and development, your turnover was under $20 million and you wish to claim the research and development rebate of 43.5% of expenditure (for turnovers over $20 million, a rebate of 38.5% applies), the registration deadline is 30 April 2015 or the date that the company's income tax return is lodged, whichever is the earlier.

The registration form has to be lodged with AusIndustry. Click here to read more about working with Collins Hume to obtain government grant funding or download our latest Grant Alert & Update.

!STOP PRESS!

We're running two very special free Xero accounting events in May. Turn over for all the details.

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Collins Hume presents Reduce your bookkeeping by 80%

Two free events in Ballina and Lismore

Running a business today requires accurate and real time business information.

Current software systems are not keeping pace with what business owners demand.

Right now, 400,000 businesses have discovered how to do it, using Xero cloud accounting.

In May, we're going to introduce you to Wayne Schmidt who launched Xero in Australia.

With Wayne heading our two very special events, learn how to:

- Stop customers saying, "I didn't get your invoice"
- Have your bank transactions fed directly into Xero
- Reduce the time it takes doing bank reconciliations
- Automatically have your receipts entered into Xero
- Automatically pay your staff superannuation payments, plus
- You'll be able to raise invoices, approve pay runs and even record expenses on any device.

You'll see how all these things help you dramatically improve profitability and cash flow within your business.

Feel free to bring another business owner or colleague along, but they'll need to register to secure a seat.

When, Where, RSVP

- Tuesday 19 May 2015
  5:30 PM to 7:00 PM
  Riverside Function Centre - Ballina RSL Club
  Register for free at https://collinsballina.eventbrite.com.au

- Wednesday 20 May 2015
  9:00 AM to 10:30 AM
  Lismore Workers Club
  Register for free at https://collinslismore.eventbrite.com.au

About our Guest Presenter

Wayne Schmidt, CEO and Founder of Addon Success, is a well-known and respected industry figure. Wayne has 25 years experience in the accounting software industry. He now manages and delivers seminars specifically on cloud accounting and Xero.

Wayne has recently finished working for Xero Australia, which he helped launch in 2009. Prior to this he worked at MYOB for seven years, in various roles from GM MYOB's UK Business Division, head of marketing and partner relationship manager. Wayne also worked for two years at Reckon, the distributors of QuickBooks in Australia as partner relationship manager. In 1988 he founded Tailored Solutions, which grew to be one of Australia's leading accounting software consulting businesses.

Please call Collins Hume if you have any questions about our upcoming events on 02 6686 3000.

Creating more wealth for your retirement

Superannuation and Einstein's eighth wonder of the world

Superannuation funds are a very tax effective investment structure. Super funds pay a lower tax rate than most other structures. The maximum tax rate being 15% but it can be even 0% for some people.

So, all things being equal, a person earning investment income at normal marginal tax rates of 34% can straight away save 19% by earning this income in a superannuation fund, which only pays 15% tax. Take for example if a person received $20,000 in net rent from a rental property the tax would be close to $7,000 if owned individually, however if owned by a super fund the maximum tax payable would be $3,000, thus saving $4,000 every year. This is magnified if the earnings are higher.

By structuring investments via a self managed super fund (SMSF) people can save tax and use this to increase their retirement savings.

In the example above imagine if we had a couple that is aged 40 with 25 years to retirement. They would have an extra $100,000 in cash just because of the yearly tax savings. This doesn't take into account if they reinvested the tax savings, meaning they would have even more.

By considering the correct structure in which to invest people can save considerable amounts of money.

And also consider this: Einstein's eighth wonder of the world is the power of compound interest, which is to say that money doubles every 10 years if invested at 7%. Therefore, using the same example, if our couple reinvested their yearly tax savings of $4,000 at 7% for the next 25 years they would have a staggering $270,000 extra on which to retire.

This doesn't take into account the original earnings of the investment. This is just the potential tax savings purely if they invest the tax savings of $4,000 every year.

To add to this, imagine if our couple still owned this property in 25 years when they retired at 65.

Let's assume that they bought it for, say, $500,000 and that the value of the property increased by 5% every year. After 25 years the property would be worth close to $1.7 million. But given they want to retire and enjoy the good life they need to sell the property to access the cash to pay for it. Guess what?

Capital Gains Tax!

Our retired couple would have a capital gain of about $1.2 million and, under current tax rates, would incur a tax bill of over $200,000.

However there is a solution! If you retire and commence a pension on your super fund assets the earnings become tax-free.

Imagine if our couple originally bought the property in a SMSF. They could retire, commence a pension, then sell the property and use a tax-free strategy to make sure they save at least another $200,000 in tax on the sale.

By purchasing this property in a super fund they could possibly have close to half a million dollars extra on which to retire.

And if they invested the tax savings of $4,000 every year at 7%, this would provide an extra $270,000. Then if they sold the property after retirement tax-free, they would save $200,000 in capital gains tax. Combined they will have an additional $470,000 extra for retirement, which is a much more favourable outcome.

These retirement planning principles apply to people at all ages, so the best time to act is now. But you need to speak with qualified superannuation specialists like Collins Hume on 02 6686 3000 to get your strategy right.

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Xero whitewashing long hours previously spent bookkeeping!

Brook and Scott Gibson's painting and decorating business in Goonellabah started as many Australian businesses do – as a micro business manned by a sole trader and operating from the kitchen table.

SCOTT GIBSON
PAINTING CONTRACTOR
PH. 0411588510

Gaining a reputation for great work, the business blossomed. Brooke and Scott employed staff and formalised procedures to take on more jobs. With growth, they upgraded the kitchen table for an office and stepped up their accounting procedures.

When Brooke became hands-on with the business she adeptly accounted for everything using a manual spreadsheet system, which worked pretty well. There was only one drawback; with Scott processing all the customer paperwork like quotes and invoices and Brooke organising the BAS and payroll, they felt they were still flying blind when it came to reconciling income and outgoings.

Cash flow was still an unknown quantity, so when Christopher Atkinson and Jamie Doyle suggested an alternative, Brooke and Scott were keen to know more.

"At the time I was manually processing the pays and superannuation for 10 staff on a weekly basis," says Brooke. "It was getting more complex and I was keeping up, but it was a struggle."

"We didn't know where we were up to with cash. We would get to the quarter end and ask why we only had so much left over."

As their payroll and bills increased as the business grew, Chris and Jamie suggested trying Xero to find out what was coming in and going out of the business. Brooke now feels that using Xero makes them more aware of their expenditure so they can spend and allow for fluctuations in their sales pipeline.

"We are just on top of things and Xero is such a time saver," says Brooke. "I'm only in the office one day a week so we took advantage of Collins Hume's Xero package to set things up properly."

"We started with some basic training where Jamie showed me how to do payroll. He set up the Xero data file from scratch and reconciled it with our bank accounts from the start of this financial year. We have been customising it by making rules which Xero recognises each time I use it."

Brooke, never having done any accounting, is in love with Xero.

"When Jamie showed me how to process our monthly BAS through Xero, I was blown away at how easy it was. I used to spend a whole day doing BAS manually – now it only takes 1 or 2 hours."

"Doing our payroll is just as easy. We set up Xero to email the payslips to our employees which takes minutes as I'm not prone to errors by double-handling the data manually or getting distracted."

Brooke also relies on Xero to pro-rate payslips for anomalies like half weeks worked. And she's about to set up Xero for paying superannuation.

"There are always other things to do in and out of the office, so Xero frees me up to get on with those. Jamie is always at the end of the phone or email if I have any questions about using it."

Brooke has already noticed the huge time-savings around invoicing clients, chasing debtors, paying employees and automating bank transactions – an estimated reduction from 10 to three hours per week spent bookkeeping.

"Changing to Xero was a natural conversation for us to have with Collins Hume," says Brooke. "Scott's parents were originally clients so Scott grew up with Collins Hume. We always have good conversations about our business with them – Chris and Jamie are always interested in what's going on."

"Using Xero is so good. I feel so much better with what I can do and being in control."

Meet Collins Hume Exec Assistant Carol

Many people know Carol Holton from when she ran the Collins Hume reception with a big smile and a warm welcome.

Since becoming an Executive Assistant four years ago, Carol works closely with John Collins to help keep his clients organised and his work flowing smoothly. She also forms part of the Collins Hume first aid response team, as well as carries out some very important social activities when team birthdays come around.

This year Carol celebrates her 14-year anniversary with Collins Hume.

"From my time as Collins Hume receptionist I know most clients personally," says Carol. "It makes it a whole lot easier when it comes to looking after their tax matters."

Inevitably, Carol brings her insight when dealing with the ATO for all manner of client tax queries.

"I predominantly deal with individual salary and wage earners, sole traders, partnerships and rental properties. It means we're on the ball handling all sorts of queries, setting up ABNs and Tax File Numbers, or chasing lodgements and tax refunds."

Carol already has this financial year-end set in her sights; the sheer volume of John's workload means his clients will start booking their June appointments in April, but Carol is ready.

Outside of work Carol is a crack social poker player; Texas Hold'Em is her poison and she's a familiar face amongst The Triple 8 and Ballina Golf Club sets having played at tournament and state level. But she loves nothing more than spending as much time as she can with her beautiful daughter and granddaughter.

Being an Executive Assistant means Carol is more hands-on with MYOB and QuickBooks. She also got her Certificate IV in Frontline Management under her belt when she started in the new role.

"I do miss being on reception to welcome all our visitors. The upside is that I get to work more closely with our clients and accountants," says Carol. "I'm always looking for smarter ways of doing things to improve how I work."

"And I'm very fortunate to work with a great group of people. The Collins Hume team is like family – they're there and they help and look after you. I love working here."

If you'd like to organise your FY2015 affairs, please call Carol on 02 6686 3000 so she can get you booked into John Collins' diary.

Developing your succession planning strategy

Listing all the possible questions to consider, as part of our succession plan review, will help determine a succession planning strategy for your business. Key questions to be answered include:

- What do you want to achieve from the business?
- Are you building the business for a lifetime of activity for yourself or for an exit in the near future?
- Have you identified any concerns with respect to succession planning?
- Have you thought about options for the existing business?
- Could a partner buy you out?
- Could you introduce a new partner into the business and then exit?
- Could you hand the business onto a family member?
- Could you appoint an external CEO/GM to run the business on behalf of the family, especially if you want to 'skip a generation' and retain the business within the family?
- Do you think the business is 'exit ready' or 'succession ready' at this stage?
- What are the greatest issues you have with operating your business?
- Can the business survive with less reliance on you?

If you would like to have a discussion about the development of your succession plan, please contact Collins Hume on 02 6686 3000 – the sooner the better.

The 1 April salary packaging trap

Why a tax on high-income earners will disadvantage many with salary packaging agreements.

In last year's Budget, the Government introduced a 2% 'debt tax' on high-income earners - the temporary budget repair levy. Unlike many other announced Budget changes, the debt tax bill passed Parliament in record time - 12 sitting days with no amendments.

While the debt tax itself only directly affects those with taxable income above $180,000, there are a number of other tax changes that came in with the debt tax that affect everyone else.

To prevent high-income earners planning around the debt tax, the Government increased the Fringe Benefits Tax (FBT) rate from 47% to 49% from 1 April 2015 - bringing it in line with the top marginal tax rate. Like the debt tax, the FBT rate change is temporary, with the tax scheduled to reduce back to 47% on 1 April 2017. The gross up rate for reportable fringe benefits also increases from 1 April 2015 – 2.1463 for type 1, and 1.9608 for type 2 (type 2 is used for employee payment summaries).

What does this all mean?

In general, the FBT rate change will make providing employee benefits more expensive and potentially less attractive over the next few years.

For those with salary packaging arrangements in place, review the details of those arrangements and ensure that they still achieve the intended goals:

- For **employers**, review all salary packaging arrangements and any expenses where you have a large FBT exposure.
- For **employees**, understand how these rate changes impact you. Changes to income and fringe benefits tax over the years have made salary packaging less effective in general and in some scenarios, you might be worse off. Employers may also seek to pass on the FBT rate increase, which will increase the amount you are sacrificing and reduce the effectiveness of the packaging.

If you receive family tax benefits or other assistance payments from the Government, review salary packaging arrangements as the changes may have a direct impact on any benefits you receive. This is because fringe benefits reported on your payment summary are taken into account for a number of family benefit

income tests. The FBT gross up rate used to calculate these reportable fringe benefits has increased and as a result, the reportable fringe benefits on your payment summary will also increase.

The FBT rate change will generally not affect not-for-profit entities and other tax exempt entities because the annual maximum value of the capped FBT exemption has also gone up – so employees of these entities should be no worse off than before the FBT rate change.

The material and contents provided in this publication 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.