

'Digital Disruption' still a major concern

Clear warning issued at Australian Technology Showcase for Accountants (ATSA) Conference last month that 'digital disruption' is now starting to affect many industry groups.

Mid-last year we raised the issue of [Digital disruption – short-fuse, big bang?](#) predicting that six different industry sectors will encounter 24% to 43% of revenue becoming 'disrupted' over time due to major leaps in technology and the way we do business.

'Disruption' doesn't mean revenue is gone. However, there will be a need for the affected industries to [develop strategies](#) on how to respond to changing market conditions.

Consider, for example, the changes that have occurred over recent years to businesses such as video stores and the flow-on effects that were then felt by property investors and shopping centres where other tenants missed the customer drawing power that the video stores used to generate. There's a flow-on effect from one business closing down to others in the location.

'Digital disruption' forecast highlights significant changes to occur.

The changes can creep up on you. It's the same as the 'rear vision mirror' of your car – it doesn't show you how close the vehicle behind you is to your car. The market forces that are going to require changed strategies within the six affected industries in 'short-fuse, big bang' are a lot closer than they appear to be.

One of the prime examples of what can happen, if a business does not respond to changing technology is what happened to Kodak, who had the first patent of digital technologies, but were happy with their existing model. The company went into bankruptcy because they rested on their laurels.

If you would like to have a discussion about developing a strategy to combat 'digital disruption' for your business, please contact Collins Hume today on 02 6686 3000.

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.



Byron Bay office back in business

Many Collins Hume clients recall our Byron Bay office closure following fire and water damage at the Lawson St premises earlier this year. Following extensive renovation, we are thrilled to announce that it's business as usual in Byron Bay. Call us on 02 6686 3000 to make an appointment.

Nimbus client portal changeover now complete

To confidentially transmit files or securely access your financial data and reports from Collins Hume's secure server, please [contact us](#) or call 02 6686 3000 to request your new login and password.



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Top SMSF property investment mistakes

Former Prime Minister Paul Keating suggested that [Self Managed Superannuation Funds \(SMSF\)](#) should be restricted from investing in residential property.

Mr Keating told the Financial Review, "If I was treasurer today, I would be looking very hard at the whole entitlement or availability of debt to SMSFs. They have gearing - available to them and, of course, many of them are taking the option of buying residential property."

According to the latest Australian Taxation Office (ATO) SMSF statistics, real residential property represents 3.5% of the value of all assets held in SMSFs. This level of investment has been consistent since 2009 with the bulk of properties worth between \$200,000 and \$1 million. SMSF investment in commercial property is around 12%. However, what has changed is the number of investors with an average of 1,200 new investors using their SMSFs to purchase residential property each year. And, the explosion in limited recourse borrowing arrangements, which have increased 1,758% between June 2009 and June 2014.

For many SMSFs however, there are some very big risks if the borrowing arrangements and property purchases are not put in place correctly. If your SMSF breaches its compliance obligations, it is at risk of being deemed non-compliant and losing its concessional tax status and the trustees also risk being fined personally under the ATO's new penalty powers that came into effect on 1 July 2014. Here are the top SMSF property issues:

Should your SMSF buy property? Liquidity, diversification and cash flow.

The Superannuation Industry (Supervision) Act (SIS Act) requires trustees to take heed of these elements when making any investment. When an SMSF invests in real property, there is a risk that the trustees are putting all of the fund's 'investment eggs' in one basket and the rate of return will not be enough to meet the fund's obligations.

Funds in, or entering, pension phase need to meet the minimum pension drawdown requirements. The question is, will the rental yield meet the ongoing expenses of the fund including pension payments? Funds are required to increase the minimum pension drawdown over time: 4% at age 64, and 6% at age 75. That's an increase of 50% in draw down obligations. Will rent increase by 50% to keep pace?

But if a member wants a lump sum and not a pension, where will the immediate cash come from? What about when a member dies? How will the benefits be paid out from the fund? You can't sell one room of an investment property.

Can my SMSF purchase my investment property?

A common question is, can my SMSF buy a residential rental property, holiday home, or house from me or someone related to me? The answer is no, not unless the property is business real property (a property used wholly and exclusively for business). And, in most cases, residential property will not meet the requirements to be business real property. Bear in mind that the penalty for breaching the related party investment rules is up to 12 months in jail.

Improving a property

If your SMSF has borrowed money to purchase a property, it cannot use any part of those borrowings to improve that property. Also, a SMSF cannot borrow money to repair an asset it already owns outright.

However, a SMSF can use its own money to improve or repair a property acquired with borrowings, as long as the improvements do not result in the asset becoming a different asset. For example, the trustees could not change a residential property into a childcare centre. Or, turn a vacant block of land into an investment property.

Getting the essentials wrong

The common problem areas for SMSF trustees are often down to rushing or simply poor structuring.

Superannuation law is a delicate area, but we are specialists and can assist in establishing a SMSF that will effectively allow you to reach your financial retirement goals. 02 6686 3000

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Building, business, babies and being on the same wavelength

Quadracon Building in Byron Bay is an exciting new business with big ideas and bigger aspirations. But when it comes down to it, Quadracon's Jennie Freedman considers the new business as her baby. As a busy mum of four, the business is in very good hands!

Formerly working in a corporate role, husband and Director David could see the potential to offer something better and took the bold step to do something about it.

But they weren't alone. When Jennie heard good things about [Collins Hume](#) and [Peter Fowler](#), they soon changed up their accountants to a firm who was on their wavelength. With local support and humble beginnings, the idea of Quadracon germinated with careful thought and preparation.

"I'm fairly conservative when it comes to taking risks, so won't jump without proper planning," says Jennie. "We needed an accountant who shared our values, which Peter is. He is quite dynamic; we find him supportive, especially when it came to starting a business."

At [Quadracon Building](#) Jennie and David strive to take the unnecessary stress out of build projects. Their strategy is simple; cost competitive, delivering results without compromise to safety, quality or the environment.

When it came to starting their own business, they sought the same approach to minimising stress from Collins Hume. Part of the planning process was to set up the company and a trust for their new business and then put in place solid measures for asset protection, [tax planning](#) and wealth creation.

"We needed a broad outlook when it came to superannuation, investing, wealth creation, diversity, and asset protection," says Jennie. "When Peter recommended that we read *Who Ate My Cheese* it really set us on a path to establishing business practices that were pivotal to our decision making."

Managing such a diverse range of building projects across aged care, health, local council, state government, retail and private education sectors, Quadracon needs to stay on the front foot. They do that by using Collins Hume as their Chief Financial Officer – called a 'Virtual CFO' – to help plan quarterly targets, financial and non-financial key performance indicators (KPIs), devise their business scorecard, their one-page performance strategy and hold accountable all parties till the next quarter comes around.

The whole Virtual CFO relationship was highlighted by a strategic planning workshop recently facilitated by Peter. Whilst David focuses on his client facing and project management activities, working with Collins Hume has emphasised the need for Jennie to engage her own corporate talents by streamlining the backend, formally documenting policies and procedures and giving overall structure to their venture.

Future planning is never far from sight.

"Initial talk of [succession planning](#) was a bit overwhelming when we just wanted to generate revenue by getting the first contract under our belts," says Jennie. "We were better positioned once the first contract got underway. So when tax planning came around this year, it made much more sense to discuss succession then."

"We also set up our self-managed super fund thanks to Collins Hume, and got their help obtaining finance to buy a commercial office warehouse within our SMSF, [which we can rent to our business](#)."

"As well as having a property asset for the future, it means we are employing more options now which are benefiting us for the future," says Jennie. "It gives us diversity and room to grow."

From the time they met Peter Fowler to starting their own business from scratch, Jennie and David have accomplished a great deal.

"It's been a blur – extremely busy and fast-paced to say the least, so it's good to have Collins Hume on hand. Now that we're established it's a matter of getting our systems properly embedded over the next few years. Our first six months in business were especially full on and now that Quadracon is rock solid, we want to keep it slow cooking for a while."

"Without Collins Hume's input, we're not sure we would've set up our new business to optimise opportunities and ensure that any potential risk was in hand."

More at <http://www.quadracon.com.au/>.

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Debt recovery – an ongoing task

In these difficult times, many businesses have needed to extend credit to customers and potential customers.

The key to offering credit terms is to manage the credit you're offering. The objective to managing credit effectively is ensuring you've implemented an appropriate system.

Have you got a written system that includes the following components?

- **Application Form** for all prospective new customers. In it indicate that, if the customer is in default, you will elect to transfer the debt to a collection agency or legal firm and the customer will be responsible for all associated fees.

If a potential customer is a private company, ensure that a director's guarantee is received and filed, so the guarantee is available if you ever require it.

Decide if you're also going to register any customers on the [Personal Property Securities Register \(PPSR\)](#).

Ensure each credit application form is checked, referees are contacted and a decision made on what credit limit and terms of payments are to be offered to each prospective new customer.

- **Welcome Letter** is an effective way to summarise your terms of trade and to confirm the credit limit and payment dates set for each new customer. Ask them to sign a copy of the letter and return the signed copy to you.
- **Debtors' System** where tax invoices are promptly raised and dispatched to customers, making sure there are no errors on the tax invoices. Statements should be prepared promptly each month-end and sent within 48 hours of that deadline.
- **Debt Recovery Process** should trigger a prompt follow-up by email or SMS to a customer advising that their payment is overdue. If the customer doesn't pay within seven days, a further follow-up should then be made. If that request is again ignored, it's time to transfer the debt to a debt recovery organisation. If you continue to give credit to that customer, it will probably end up as 'bad debt'.

Debt recovery is an ongoing task if you're going to keep on top of your finances within your business. If you would like our assistance in the establishment of a debtors' system manual or documenting formal procedures for your business, please contact us on 02 6686 3000.

Bank relationships are important

At present, the majority of bank lending is for property investments.

Banks are saying this is where the demand is, and lending for property is easier than lending for small business.

To have a successful relationship with your bank, implement a bank strategy including preparation of a [budget](#) and [cash flow forecast](#), showing you have a profitable business and the ability to repay the loan. Prior to approaching the bank, think about what their questions are likely to be and formulate answers. Questions might relate to previous discussions you've had with the bank and quite possibly include:

- Are you running a profitable business?
- Do you have the cash flow to repay the loan?
- What security are you offering?
- How are you running a sound business in terms of [KPIs](#) for your customers, debtor management, etc.
- Do staff undergo adequate training?
- How is your ATO relationship e.g. are you in arrears or up to date?

Also build a [cash flow buffer](#) for your business, so that you're able to negotiate the difficult conditions, which most businesses around Australia face at present. Call us on 02 6686 3000 for our [help on all fronts](#).

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Accountant Sumant Datta CPA has always hankered to know business better, and the people behind it

At the heart of Sumant's expertise is his strong compliance capability comprising financial statement preparation, Business Activity Statements, income tax returns, tax planning and general business advice.

And Sumant is across using a number of cloud accounting solutions for business including MYOB, [Xero](#), Quickbooks and SAASU.

Despite completing both a Bachelor of Business Admin (Finance) and a Master of Accounting, Sumant wanted to dig deeper into the underlying issues of the financial statements to understand what the numbers were really saying. So, when opportunities arose to study finance further, these only precipitated his move into public practice and working directly with business owners.

A move to Collins Hume allowed him to further his career interests working across a range of industries.

Sumant brings his experience and insight having worked for the world's leading index provider of independent credit ratings, Standard & Poor's in India, as well as a penchant for corporate and business governance.

A lot of business owners have the misconception that governance is only a matter for big business," says Sumant. "But more and more it applies to small and medium size business to really to understand harmony and how a business works in terms of risk and asset protection."

Seeking a healthy work / life balance, he says, after being in the smog for 25 years, Sumant got to know Northern Rivers when visiting family and fell in love with it!

He is crack shot [snooker player for Ballina RSL](#) competing most weekends throughout the region. He is also a middle order batsman in [Ballina Bears Cricket Club](#) and is in line for training to become a volunteer ethics teacher in our local schools.

"I find working for Collins Hume a nice change," says Sumant. "I'm fortunate to be able to work with clients who want to be looked after and who want to look after you, which gives me drive and motivation to do well every day."

"When you've had a full-on day and someone asks how your day was, I feel really privileged by the unique client interaction that comes with working for Collins Hume."



Tapping into Collins Hume

Business health checks

Business health is very important for the long-term, successful operation of it. As your accountants, we can assist you by preparing a number of reports and reviews to measure your business health, including:

- **Break-Even Calculation** is the amount of sales needed to be made each week or each year, so your business is neither trading at a loss nor failing to create a profit. The key components of the break-even calculation are your overhead expenses and GP percentage.
- **Working Capital Evaluation** Analysis of amounts owing for sundry debtors, investment in stock, investment in work in progress, owing to creditors and bank accounts will assist in the calculation of the excess of current assets over the current liabilities or working capital.

Call us on 02 6686 3000 to talk more about conducting a health check on your business.

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New grants to help build the next generation of Australian manufacturing

Are you planning to set up or expand a high value manufacturing business in South Australia or Victoria? You may be eligible for a grant under the new \$60 million Next Generation Manufacturing Investment Programme.

The programme is a joint initiative between the Australian Government and the Victorian and South Australian State Governments.

This programme is part of the [Australian Government's \\$155 million Growth Fund](#) to drive the development of new industries in high growth sectors in South Australia and Victoria.

The programme provides grants to encourage manufacturing investment in South Australia and Victoria.

The grants support capital investment projects in areas of high-value manufacturing.

The grants:

- range from \$500,000 to \$5 million
- are capped at 50% of eligible project costs
- support projects for up to a 3-year period.

What are high-value activities?

'High value activities' can include activities that:

- focus on niche manufacturing
- require a highly skilled workforce
- compete on quality, uniqueness, reliability and prestige
- use innovation
- use new composites and high performance materials such as bio-based sources
- use new technology in production processes such as computer-aided design and manufacturing.

Who's eligible?

To be eligible, your business must:

- Be incorporated in Australia
- be registered for GST
- provide evidence that confirms your business can undertake the project
- provide evidence that confirms your business can fund its share of the project costs.

Eligible projects must take place at a manufacturing site in South Australia or Victoria, and can include:

- buying, installing and commissioning new machinery and equipment
- altering or extending your premises to accommodate new machinery and equipment acquired through the project
- training to use and maintain new machinery and equipment acquired through the project.

For more on who can apply, and project eligibility, speak with Collins Hume on 02 6686 3000 today.

Or [click here](#) to read about how Collins Hume helps businesses to tap into the growth that government grant funding can provide.

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