

Running a business in challenging times

The economy certainly has a number of contradictions at present.

- The Stock Exchange values are up
- Housing finance is up as are house prices
- Interest rates are still at a very low 2.5%. However, there's an expectation that the Reserve Bank of Australia would like to raise the interest rates to around 3.5%. However, they are reluctant to do so whilst the currency is at a high value.
- The unemployment rate is now at 6.1%
- One thing to watch is, if the currency starts to fall, there's an expectation that the Reserve Bank will move to increase interest rates to 3.5%.

As a business operator, what can you do? Money is still moving in the economy; some businesses are being creative to get a larger piece of the pie. Can you do the same? At this stage, some strategies to think about include:

- Should you be locking in interest rates in anticipation that interest rates are expected to move upwards in the next few months?
- Could the expenses of operating your business be reduced?
- Have you checked your labour budget to review the expenses being incurred?
- You could talk to your suppliers to renegotiate prices or negotiate special promotional/marketing assistance.
- When planning to be creative, remember to talk with your suppliers to see what assistance they might provide.
- What additional revenue could be generated within your business? This requires you to be creative and to look at throwing in a few 'gimmicks' that would appeal to your target market.
- Don't overlook the core business processes:
 - Value creation – find out what people want and need and create it.
 - Marketing – attract attention and build demand for the products and services you offer.
 - Sales – the challenge is to turn prospective customers into paying customers.
 - Value delivery and servicing – give your customers what you promised and ensure they are satisfied.
 - Finance – bring in enough money to keep going and make your efforts worthwhile.

Now is a good time to review your processes to keep your business strong. Call us on 02 6686 3000 to get started.



Tax update

Some aspects of the Federal Budget have passed through the Senate and are now law.

- For high-income earners, the top marginal tax rate, which now includes the 'deficit repair levy', is 49%.
- The Government has undertaken to review the imposition of the 'deficit repair levy' on 30 June 2017.
- From 1 April 2015, the fringe benefit tax will increase to 49%.
- The superannuation contribution rate for 2014/15 is 9.5%.



Congratulations to Collins Hume Partner and Business Strategist [Peter Fowler](#) who recently attained his Master of Business Administration (MBA) from Southern Cross University. Well done Peter!

Should you own your business premises?

Renting your business premises but missing out by not purchasing the asset and placing it in your SMSF?

Many business owners are unaware of the significant tax and financial advantages associated with operating their business from premises owned by their [self-managed super fund \(SMSF\)](#).

Those that do buy a building they may otherwise be renting have the potential to place themselves in a **stronger financial position** for the future.

There are a number of tax benefits by placing business premises into an SMSF. For example, property expenses, including interest expense and depreciation allowance are tax deductible, which means tax on income or SMSF contributions may be reduced. Additionally, property held longer than 12 months may only incur capital gains of 10% or become tax-exempt if the SMSF is in pension phase.

With a tax rate of only 15% there is also the possibility for significant tax savings on the rent you pay your SMSF, not to mention tax-free income if your commence a pension in your SMSF.

Under the SMSF recourse borrowing arrangements, up to 70% can be borrowed for business premises within your SMSF.

You can also potentially transfer business premises owned outside of super into your SMSF and save thousands on stamp duty and capital gains tax, and free up debt in your personal name.

Placing business premises into an SMSF makes smart business sense, however you need to [seek specialist advice](#) and ensure it's the best strategy for your business and personal needs.

Call Collins Hume today on 02 6686 3000 to ensure you minimise your tax and maximise your retirement savings.

Disclaimer: The content contained in this newsletter is of a general nature and should not be relied upon to make financial decisions. For tailored tax minimisation and wealth creation solutions [contact Collins Hume today](#) for an obligation free assessment of your business and financial needs.

Why the ATO mightn't think you're in business

A business isn't necessarily a business for tax purposes. And, having a company or other structure doesn't protect you.

If you earn income mostly from your own personal skill or effort, like many contractors, then you risk the ATO preventing you from accessing the 30% company tax rate and deducting some business expenses.

How do you know if you're caught? If you are the person responsible for the income produced by your business, and it's from your personal efforts – not the use of machinery or trucks, the sale of goods, etc – then you might be earning personal services income (PSI). The ATO then applies a series of tests to work out if you should be taxed like a business or more like an employee e.g. whether you work to achieve a specific result or are paid an hourly rate, if you have multiple clients or just one, if you have an apprentice, work premises, etc.

If you earn PSI but pass all the tests to be taxed like a business, there are still a few catches. For example, the ATO believes that when PSI is derived through a company or a trust, all income should generally be paid to the individual who performs the services as salary or as a distribution of profits. Call us on 02 6686 3000 if you're unsure.

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Tapping into grant funding breathes new life into doyenne of the entertainment industry

When Daniel and Justine Lucas decided to make a tree change and repair to the Northern Rivers, it was also an opportunity to refresh and update their business, Lucas Management.

Lucas Management is a 30-year-old business that manages actors, talent for TV, films and commercials plus print, voice-over and corporate training. Since 1985 the business has advanced considerably from its beginnings as a Sydney-based extras agency.

There was a boom period in the Australian film industry in the 90s and noughties but, "The global financial crisis changed everything," says Daniel. "We realised we needed to lower our overheads to be able to survive, and that we could relocate out of the city like many internet based businesses at the time. We also had a hankering to move back to the country to be closer to family."

"With the move, we changed the ways we handled our clients, streamlined our systems and e-enabled our business."

Naturally Daniel was also on the lookout for a local accountant. Following a referral from a [performing arts colleague](#), Lucas Management made the switch to Collins Hume.

"We needed some business help and didn't have very much input being a small agency with a very small team, which is why we chose Collins Hume," says Daniel. "We didn't really know anyone in local business so, through a process of elimination and a good endorsement, we found a firm that could deliver what we were after, especially in light of the economic downturn."

At the start of 2013, [Peter Fowler](#) suggested they look into government grant funding and found that they were eligible.

"Collins Hume helped us obtain grant funding for our business marketing and promotion," says Daniel. "Peter initiated the process, knowing that our long-standing business could benefit from an objective assessment and freshen up."

Daniel believes Collins Hume provides good perspective, and they're just starting to see the results.

"We're very excited about launching our updated website lucasmanagement.com.au,



which has come about thanks to our government grant. In a market where our competition has increased exponentially, we have a real opportunity to market our talent listings from one sophisticated portal, owned and managed by us."

As part of the government grant funding, Lucas Management also tapped into Collins Hume's [business budgeting](#) and [cash flow forecasting](#) services to improve their management reporting.

Collins Hume were also on hand when settling the family probate and dividing assets for estate purposes.

"Because Collins Hume take care of our personal and business tax throughout the year, we look to them when other matters arise."

Daniel and Justine say that after only a few years of using Collins Hume, they're already recommending them to friends and colleagues.

"Everyone's worried and unsure about the economy. You hear stories about someone's accounting going wrong so we tell our contacts about Collins Hume because they make running a business so much less complicated – their advice is rock solid."

Bitcoin and the ATO's rulings

Tax treatment of virtual currencies

'Bitcoin' is a new, hip and happening method of payment in lieu of normal currency and it appears that the Australian Taxation Office (ATO) is now taking this other crypto-currency seriously.

If you have a digital coin, is it real? And if it's real do you have to pay tax on it? According to the ATO, the answer depends on how you are using it and why.

The ATO released three draft rulings in which they set out their position, whereby the crypto-currencies are deemed to be either a capital gains tax asset or trading stock, depending on whether the taxpayer is a business or an individual.

- For individuals with 'bitcoins', any transactions will most likely have no GST or income tax implications if the 'bitcoin' is worth less than \$10,000.
- Businesses will have to treat the 'bitcoin' currency in a similar manner as to a barter transaction or as trading stock with the relevant GST issues.

So, what does all this mean?

Impact on businesses using bitcoin

If you are in business bitcoin, like the barter systems that sprang up a few years ago, needs to be treated in the same way as any other form of payment.

However, the additional work now required by business to administer bitcoin might be a major disincentive to continuing to use it.

If you receive bitcoin for goods or services you provide as part of your business, you need to record the fair market value in Australian dollars as part of your ordinary income.

If your business is registered for GST and you are paid for goods and services you supply using bitcoin, like any other transaction you need to add GST to the price of the goods and services.

If you pay for goods and services you receive using bitcoin and are registered for GST, you will have a GST liability in relation to bitcoin you used to pay for the goods and services. The other party to the transaction may be able to claim GST credits for the GST that relates to the use of Bitcoin to pay for the transaction.



Impact on individuals using bitcoin

If you use bitcoin for your own personal use there is no tax impact unless you make a gain on trading bitcoin.

If you make a gain on bitcoin, capital gains tax (CGT) can apply although there is no need to recognise the gain in your tax return if the cost of the bitcoin you used was \$10,000 or less.

With around 13 millions bitcoins in circulation at present and a reported cap of 21 million, the ATO's view is that bitcoin is neither money nor a foreign currency, and the supply of bitcoin is not a financial supply for GST purposes. However, bitcoin is a CGT asset.

The rulings are only draft at this stage and are still to be finalised. If you would like to discuss the proposed taxation treatment of 'bitcoin' currency, please contact Collins Hume on 02 6686 3000.

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Annalisa Bryen chalks up her first anniversary at Collins Hume

When you are young, people often tell you the sky is the limit.



This is the case for Annalisa Bryen who, after completing her Bachelor of Business degree with a double major in accounting (followed a brief stint over the border as a tax and super accountant), will take her qualifications to a higher level when she embarks on her CPA certification in 2015.

There is also a spring wedding to plan. So it's the proverbial heads down at the moment for Annalisa who is ploughing through the 2014 tax season.

Refocusing on a predominantly business tax workload is like falling off a bicycle.

Annalisa is proficiently mentored by [Shane Bartrim](#), [Christopher Atkinson](#) and Tony Wang (whom we interview next month) as she works her way through another tax season with Collins Hume.

"January seems a fair way off and a lot will be happening between now and then," Annalisa said. "For now I'm grateful that I can press on with as much client work to build up my technical knowledge."

Annalisa celebrates 12 months with Collins Hume this month. She picked the firm as her employer of choice for [the partners'](#) knowledge and the opportunity to bounce ideas in a professional environment.

She loves the benefits of getting [super funds](#) super organised and using [BankLink](#).

"BankLink is better from the auditor's perspective," she says. "With bank transactions automatically feeding into the account, double handling of data is minimised. It works very well for super accounts with a high volume of transactions."

With Collins Hume committing additional resources to further assist many business clients who have a lot to gain by taking some simple steps to the way they maintain and utilise their financial records, Annalisa is adding to the groundswell.

Multi award winning Collins Hume is a leader in small and medium business accounting. The strides and the direction being taken demonstrate a strong commitment to developing good talent, of which Annalisa is very much a part.

Refresher on rental property deductions for landlords

Deductions can be claimed if incurred in the period the property was rented or during the period the property was available for rent. This means your property must be tenanted or you are actively looking for one so a relationship exists between the money you make and the deductions claimed. Typical problem areas are:

Travelling to inspect your property If you fly interstate to inspect your property, stay overnight then fly home, you can claim the full cost of the trip. If the purpose of travel is only a holiday and the inspection is incidental to it, the trip is non-deductible except direct expenses and a reasonable portion of your accommodation.

Interest on bank loans Only interest on repayments for investment property loans and bank charges are deductible – not the actual loan itself.

Repairs and maintenance Expenses incurred for repairs and maintenance are deductible if they relate to wear, tear or damage through rental activities. If a repair improves a function or replaces an entire structure it's unlikely to be deductible but will depreciate over time as capital.

Overseas rental income For Australian residents, the ATO looks at your worldwide income i.e. if you own rental property overseas, you must declare any income earned in your tax return, even if you lodged a tax return and paid tax on the rental income in the country where the property is located.

Changes to Business Evaluation and Business Growth Grants

Last month, we looked at the Business Evaluation and Business Growth Grant, part of the Entrepreneurs' Infrastructure Program.

This month, the Australian government announced some significant changes to these grants. This resulted in the following industries being withdrawn from the eligible industries for support:

- Defence
- Energy, Water and Waste Management
- Tourism Sector
- Creative Industries
- Medical, Hospitals and other Health Care Services were withdrawn from industries eligible under the category 'Medical Technologies and Pharmaceuticals'

There were also changes made to the definition of an eligible business in remote locations. The revised list of eligible industries for the Business Evaluation program and the Business Growth Grant are as follows:

- Advanced Manufacturing
- Mining Equipment Technology and Services
- Food and Agribusiness
- Oil, Gas and Energy Resources
- Medical Technologies and Pharmaceuticals

Enabling Technologies and Services – this relates to businesses that provide enabling and supporting technologies or services to one or more of the five growth sectors, as listed above, from the following industries:

- Freight and Logistics
- Infrastructure Related Construction (including construction, energy, transport, water, communication and waste)
- Information and Communication Technology (ICT)
- Professional Services

If your business is from one of these four categories, you could be eligible, if you're working with one of the five growth sectors mentioned above.



Eligibility requirements for the listed industries are:

- Business must be operated by a company or by a company acting as trustee of a trust.
- Minimum turnover requirement is \$1.5 million (\$750,000 in remote and very remote locations) and maximum turnover is \$100 million.
- The business must have been operating for three years.
- Grants of up to \$20,000, on a 50/50 basis, are available to assist instigation of [business improvement strategies](#).

To explore the Entrepreneurs' Infrastructure Program for your business, to register your business for the Business Evaluation program and, subsequently, the Business Growth Grant, contact Collins Hume today on 02 6686 3000.

Export Market Development Grant

This grant assists with the development of exports by Australian businesses that have spent in excess of \$20,000 on eligible export market development activities so are able to claim 50% of that expenditure, up to a maximum of \$150,000. Applications close 1 December 2014.