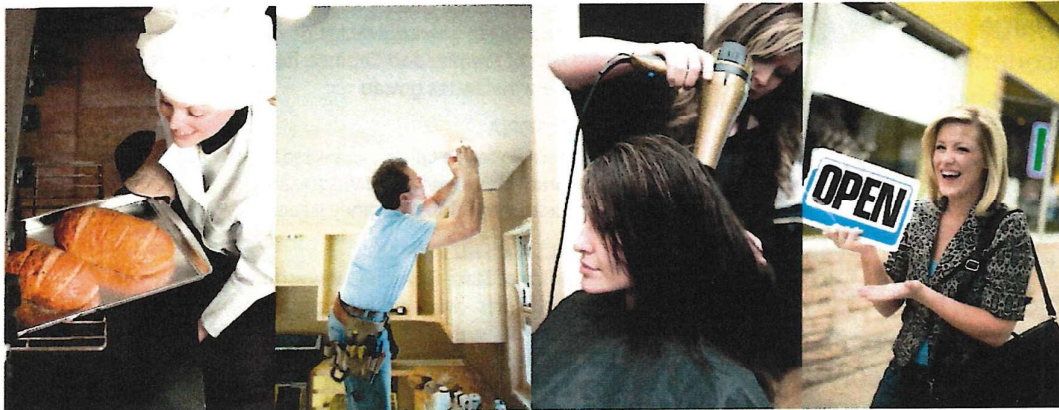


# Starting Or Buying A Small Business



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Recommended  
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## Starting a Small Business

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Pat's focus is now practice management where he is dedicated to helping accountants improve their practice efficiency, profitability and value. He is a well respected presenter at a number of accountant's seminars and conferences and continues to develop his passion for small business through the development of tools and booklets to help accountants and their clients.

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This booklet makes specific references to purchasing a property in Victoria, however, if you are purchasing an investment property in another State or Territory then the corresponding websites are listed below.

Queries relating to Land Tax, Stamp Duty and the First Home Owners Grant should be directed to State and Territory Revenue Offices. The Land Titles Office is for referencing Land Transfer Fees whilst Residential Tenancies looks at issues such as renting the property including bonds, tenancy agreements etc.

#### ACT

Revenue Office - [www.revenue.act.gov.au](http://www.revenue.act.gov.au)  
Land Titles - [www.rgo.act.gov.au](http://www.rgo.act.gov.au)  
Dept of Justice and Community Safety: Residential Tenancies - [www.ors.act.gov.au](http://www.ors.act.gov.au)

#### NSW

Office of State Revenue - [www.osr.nsw.gov.au](http://www.osr.nsw.gov.au)  
Land Titles - [www.lands.nsw.gov.au](http://www.lands.nsw.gov.au)  
Office of Fair Trading: Residential Tenancies - [www.fairtrading.nsw.gov.au](http://www.fairtrading.nsw.gov.au)

#### QUEENSLAND

Office of State Revenue - [www.osr.qld.gov.au](http://www.osr.qld.gov.au)  
Land titles - [www.nrm.qld.gov.au/property/titles](http://www.nrm.qld.gov.au/property/titles)  
Residential Tenancy Authority - [www.rta.qld.gov.au](http://www.rta.qld.gov.au)

#### SOUTH AUSTRALIA

Revenue SA - [www.revenuesa.sa.gov.au](http://www.revenuesa.sa.gov.au)  
Land Titles - [www.landservices.sa.gov.au](http://www.landservices.sa.gov.au)  
Attorney-General Dept: Residential Tenancy - [www.legislation.sa.gov.au](http://www.legislation.sa.gov.au)

#### TASMANIA

State Revenue Office - [www.treasury.tas.gov.au](http://www.treasury.tas.gov.au)  
Land titles - [www.dpiwe.tas.gov.au](http://www.dpiwe.tas.gov.au)  
Dept of Premier and Cabinet: Residential Tenancy - [www.thelaw.tas.gov.au](http://www.thelaw.tas.gov.au)

#### VICTORIA

State Revenue Office - [www.sro.vic.gov.au](http://www.sro.vic.gov.au)  
Land Titles - [www.land.vic.gov.au](http://www.land.vic.gov.au)  
Consumer Affairs: Tenancy Issues - [www.consumer.vic.gov.au](http://www.consumer.vic.gov.au)

#### WESTERN AUSTRALIA

Office of State Revenue - [www.dtf.wa.gov.au](http://www.dtf.wa.gov.au)  
Land Titles - [www.dola.wa.gov.au](http://www.dola.wa.gov.au)  
Dept't of Consumer and Employment Protection: Residential Tenancy - [www.docep.wa.gov.au/ConsumerProtection](http://www.docep.wa.gov.au/ConsumerProtection)

#### NORTHERN TERRITORY

Territory Revenue Office - [www.revenue.nt.gov.au](http://www.revenue.nt.gov.au)  
Land Titles - [www.nt.gov.au](http://www.nt.gov.au)  
Dept of Local Gov't and Housing: Residential Housing - [www.territoryhousing.nt.gov.au](http://www.territoryhousing.nt.gov.au)



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## Introduction

Starting a business can be like a game of chess, to succeed you need to make the right opening moves. It necessitates risk, research, passion and planning and the harsh reality is that enthusiasm, money, talent or a great idea is not enough to guarantee success. In fact, the latest figures from the Australian Bureau of Statistics suggest that **42%** of new businesses won't be around in **3** years time.



The business evaluation and establishment phases can be periods of great anxiety due to a combination of excitement, uncertainty and financial risk. Remember to keep your emotions in check because you need to make some very important business decisions in this period.

This booklet contains valuable information about starting a business that you can absorb at your leisure, rather than in meetings with us where you pay an hourly rate. It covers a number of topics including your choice of business structure, the various tax and GST registrations plus protection of your business or company name. Given that so many small businesses fail due to poor record keeping, the requirements and software options are examined in some depth. As your business grows and you look to employ staff there are also sections that review the employment issues and processes.

There is an old saying, 'people don't plan to fail, they just fail to plan.' This is both valuable advice and a warning for people intending to start a business. A business plan that incorporates a marketing plan and projected cashflows will not only help you raise finance but should also be the blueprint for your business' future. At the rear of this booklet we have included some guidelines on the preparation of a business plan incorporating a cash flow budget and a projected Profit & Loss Statement. We can help you prepare some 'what if' financial scenarios to assess the viability of your business and identify your finance requirements.

Too often people starting a business simply end up creating a 'job' that denies them the freedom and flexibility they set out to achieve. Successful businesses have clear objectives, produce quality products or services, understand their market, manage their money properly and are good employers. They also keep quality records and have a close relationship with their accountant. When establishing your business it's important to seek sound professional advice from qualified accounting and legal sources.

We are here to support and guide you along the challenging but rewarding small business journey. Having previously assisted so many clients in your situation we would like you to benefit from our experience. Working together we can combine our knowledge and experience to help you make the right opening moves and create a solid foundation for success.

We are not your average accounting firm that just keeps the score. Our clients enjoy a 'business coach' relationship and we work on your business to develop strategies, systems and processes to ensure your marketing generates a better return and repeat business. We use tools and techniques to monitor sales, productivity and make your financials more meaningful.

Your business success is important to us because **Small Business is Our Passion.**

Regards



## Buying An Existing Business

There is a sense of security that comes with buying an existing business, however, that sense of security does come with a price tag. You don't have to build the business from the ground up because a certain amount of customer loyalty and goodwill is already in place. You can expect some immediate business and income but there are a lot of questions you need to ask before committing to the purchase.

There are a number of legal and financial issues you need to consider when buying a business and we urge you to seek professional advice.

### Checklist for Buying a Business

- Establish the reasons why the business is for sale – Is it in decline?
- Decide whether the type and size of the business suits your needs, skills, experience, financial capacity and future plans
- Obtain historical details of the business' sales, costs, profits and assets.
- Research current and potential competitors. It may be prudent to consider placing restrictions in the contract of sale on the future trading activities of the vendor
- Inspect contracts for current and future work with customers
- Review the draft purchase agreement with your solicitor and carry out the necessary searches
- Investigate the WorkCover claim record of the business
- Review the lease terms on the business premises

Whether you want to acquire a service, retail, manufacturing or wholesale business be sure to analyse the industry as well. Examine the current industry trends and consider the implications of an economic downturn.

### Checking the Financials of the Business

#### Sales & Operations

- Check monthly and yearly sales patterns – Identify seasonal peaks and troughs
- Compare sales trends with industry trends
- Determine if the business is expanding, in decline or flat lining
- Examine cashflow and review customer credit terms
- Breakdown of sales – cash and credit
- What is the business' credit rating?
- Value existing stock – is it old, obsolete or unsaleable and are levels sufficient
- Identify the percentage of sales from key customers (Pareto Principle **80/20** Rule)
- Determine where each of the business products are in their respective life cycles
- Determine whether you'll be able to increase sales with current resources
- Find out if you are able to continue to buy from existing suppliers and their terms of trade
- Find out if there are any local developments that may impact on future trade

#### Costs

- Identify all fixed and variable costs
- Factor an interest expense where you need to borrow to buy the business
- Review the costs and identify potential savings
- Obtain historical cashflow statements
- Lease agreement rental review – Next rental increase?
- Immediate repairs and maintenance needed?

## Profits

- Analyse financial reports including profit & loss statements and identify profit margins
- Does the business generate sufficient profits to service your debt and reward you for your efforts
- Consider the impact of increased or decreased sales on your profit
- Compare gross profits with industry benchmarks

## Assets

- Identify all the assets included in the sale and cross reference them to an asset register
- Determine book value, market value and replacement value of fixed assets
- Identify any current leases or finance on fixed assets
- Ensure equipment is in good working order

## Staff

- Determine whether existing staff will continue employment
- Identify key staff and review salaries
- Assess any outstanding holiday pay and/or long service leave liabilities

## Advantages of Buying a Business

- An existing customer base and existing contracts
- Existing suppliers and established credit terms
- Existing staff, management and systems
- Existing plant, equipment, stock and materials
- Knowledge of the business from the current owner
- Established premises with phone numbers, website and email addresses
- Goodwill associated with the name and location of the business
- Financiers will more readily lend to an existing business with a trading history

## Disadvantages of Buying a Business

- Customers may associate the goodwill of the business to the previous owner
- Staffing problems
  - Some staff may leave when the new owner takes over
  - Some staff may be unsuitable for the job they are doing
  - Some staff may resent the change in ownership
- Plant and equipment may be obsolete or faulty
- The business may have a poor image which can be difficult to change
- The cost of acquiring the business and goodwill may be overpriced

## The Purchase Agreement

Based on your due diligence and the risks involved you then need to decide if you are comfortable with the purchase price of the business. The draft purchase agreement needs to be closely reviewed in conjunction with your solicitor including the clauses in the agreement that:

- Detail all the assets and liabilities to be transferred
- Specifies the date when the business is to be taken over
- States whether the offer is conditional on:
  - Obtaining finance
  - Inspecting all records and a due diligence process
  - Receiving necessary licences and rights
  - Minimum trading levels being met during a trial period
  - The Vendor continuing to work for a 'handover' period





## Legal Issues

- The Purchase Agreement including terms of sale
- Council and other searches to ensure there are no plans or council orders that could disrupt the business or result in a decline in sales
- Draft restraint of trade terms for the vendor dealing with existing customers or conducting a similar business within a geographical radius of the business
- Transfer of Business Name, Trademarks etc
- Industry specific legislative requirements

## Sale of the Business and GST

The supply of a business as a going concern is GST Free if the following conditions are met:

- The purchaser and the vendor must both be registered for GST
- The business is actually for sale with money changing hands
- The vendor must carry on the business until the day of sale
- All things required for continued operation of the business must be supplied
- Both parties must agree in writing that the business is a going concern.

## Buying A Franchise

### What is Franchising?

Franchising is not a business itself, but a systemised way of doing business. It is essentially a marketing concept – an innovative method of distributing goods and services with consistency and uniformity across all aspects of the business. It is also an extremely successful and rapidly growing part of Australia's economy, contributing \$128 billion per annum.

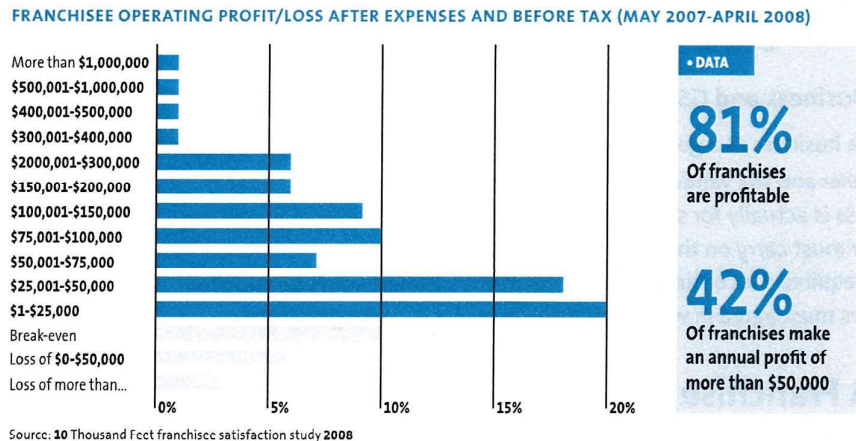
Franchising is a business relationship in which the franchisor (the owner of the business providing the product or service) assigns to independent people (the franchisees) the right to market and distribute the franchisor's goods or services and use the business name for a fixed period of time. The franchisor provides ongoing guidance, systems and assistance in return for periodic payment of fees and/or purchases. As a franchisee you will be obliged to run the business in accordance with the franchisor's system and to a large extent your success will depend on the success of that system.

The current statistics on franchising include the following:

- An estimated **56,200** franchises operate in Australia from **960** different franchises
- Of the **960** franchise systems operating in Australia, **93%** are Australian based
- Australia has the highest number of franchised businesses per capita in the world
- The growth rate of franchise systems in Australia between **2004** and **2006** was **12.9%**
- The majority of franchising activity occurs in NSW (**34%**) followed by VIC (**24%**) and QLD (**20%**)

## Profitability

It is important to remember that there are no guarantees of success in any form of business. Even though franchising is considered to be the most successful form of small business, it still carries the same risks as any other business venture. As illustrated below, profitability varies dramatically between franchises. Not only that, the chart indicates only **81%** of franchises are profitable with **3%** generating a loss of more than **\$50,000**. Closer analysis reveals **58%** generated a profit of less than **\$50,000** per annum.



The causes of franchise failure are mixed but just like any other type of business they include the lack of business management skill on the part of the franchisee, poor location and marketing plus bad management decisions by the franchisor. In the past, franchising was largely the domain of small lifestyle based investors, retirees looking for an ongoing income stream or middle managers looking for a change in career. Not anymore. The '10 Thousand Feet Franchisor Expansion Study 2007' indicated **47%** of franchisees work at least **6** days per week and **86%** work at least **5** days per week. Combine these statistics with the profitability figures above and you can see that buying a franchise is no 'get quick rich' scheme.

Market forces will always mean certain types of franchises and industries will outperform others and some locations and systems will produce above average returns. Within a franchise there are also members who will out perform their counterparts due to their entrepreneurial skills which allow them to make the most of their opportunities.

## Buying a Franchise

In Australia there is a franchise operating in almost every type of business category with varying levels of complexity and cost. It is essential that anyone considering buying a franchise receive adequate professional advice from lawyers and accountants with franchise experience. It is also prudent to ensure that you have adequate borrowing capacity, including working capital to successfully establish the business.

The 'commercial marriage' between franchisor and franchisee is ultimately a legal relationship with the full obligations and responsibilities of both parties outlined in a highly detailed franchise agreement. Much care should be given to the contents of the agreement because it contains the rules and regulations from which your future income will result.

As a guide, prior to buying a franchise the following information should be obtained:

- What is the cost of the franchise and what does it include?
- The fees involved, both upfront capital and percentage of takings which you have to pay to the franchisor for the continuing right to operate the business.
- What training is provided – the duration, location and is it available to your staff and at what cost?
- A complete description of the business and what is on offer by the franchisor in regards to the name, product, reputation, site location, advertising budget and support
- What level of gross profit margin should you expect plus what level of turnover will create a break even position and how long should it take to achieve that level?



- Demand in the marketplace for the goods or service
- What is the reputation of the product and supplier?
- Evidence of the franchisor's strategic plan (i.e. the direction of the business)
- The track record of the current franchisor and how other franchisees are faring
- Is there an Operations Manual? Every member of the franchise, although independently owned, must work within the rules and there should be no room for misunderstandings
- Territorial rights i.e. exclusive or otherwise
- Is the business seasonal and what level of working capital is required?
- What point of sale promotional material and advertising is supplied?
- Sale terms for goods supplied by the franchisor and can you buy stock from outside sources
- Obligations on both parties when the franchise is terminated, the number of agreements terminated recently and the reasons

### **Advantages of Franchising**

- Easier access to finance with the support, systems and track record of the franchisor
- Direct benefit from the franchisor's advertising and buying power
- Use an already established business name and brand
- Management and industry knowledge, experience and support
- Training, marketing materials and refined proven systems and methods
- Reduction of business risk

### **Disadvantages of Franchising**

- Ongoing payment of fees and/or percentage of turnover
- Loss of some independence through franchisor control of management techniques
- Unreliable or difficult and demanding franchisor
- Over-dependence on the franchisor who may make mistakes
- Franchise reputation may be affected by factors beyond the franchisee's control
- Potential restrictions on sale or transfer of a franchised business

### **Tax Implications of Franchising**

- The initial franchise fee and any renewal fees are generally capital in nature and not tax deductible
- An agreement to purchase a franchise often contains provisions covering the ongoing payments to the franchisor of royalties or levies. These can be deductible in the year that they are incurred
- Fees paid for on-going training provided by the franchisor will generally be tax deductible
- Interest paid on loans to fund the franchise fee or buy equipment may also be tax deductible

### **The Franchising Code of Conduct**

The code has been prescribed under the Trade Practices Act (1974) and the Australian Competition and Consumer Commission (ACCC) has the responsibility of enforcing the code. It applies to franchises made, renewed, transferred or assigned after October 1998. For an agreement to be classified as a 'franchise agreement' it must contain all of the following:

- an agreement (this can be written, oral or implied)
- an existing 'system' or a suggested marketing plan that is controlled by the franchisor
- The business must be operating and be associated with a symbol or trade mark and
- A fee has been paid, or has been agreed to be paid, to the franchisor.

A franchisor is not permitted to enter into, renew or extend a franchise unless it has received a written statement from you that you have received and had a reasonable opportunity to understand the Code and the disclosure document.

## Disclosure Requirements

Before a franchise agreement is signed, a franchisor must:

- Provide a 'Disclosure Document' and a copy of the Code to a prospective franchisee at least **14** days before the agreement is made or renewed
- Annually update the Disclosure Document
- Receive from the franchisee a signed statement that they have received advice about the proposed agreement from an independent legal or business advisor or independent accountant

## Disclosure Document

The standard Disclosure Document includes:

- The franchisor's qualifications and the last ten years' business experience, including anyone likely to have management responsibilities
- Any litigation that is pending and details of serious convictions for certain Company officers
- Details of all company owned and franchised operations, and any franchises that have ceased to operate, transferred or otherwise terminated
- Details of the exclusivity or non-exclusivity of territories
- Terms and conditions upon which the franchisee is required to purchase or supply goods and services, and details of stock requirements
- How the franchisor chooses sites for new franchises
- Details of marketing and other combined funds and their administration
- All establishment costs
- A summary of the obligations of franchisee and franchisor
- A statement of the franchisor's solvency (ability to pay debts)
- A summary of the relevant terms of the franchise agreement
- A summary of any related agreements that the franchisee or its directors must sign, such as leases and equipment leases
- In some circumstances, a profit and loss statement for the franchisor's last two years of operation.

## Further Information

For franchising matters in general contact the Franchise Council of Australia Pty Ltd by visiting [www.franchise.org.au](http://www.franchise.org.au)



## Choosing the Right Business Structure

Your choice of business structure is a very important decision. Before you start your business you should be mindful of the fact that your business can affect:

- The Safety of Your Personal Assets
- Your Tax Position
- The Continuity of the Business Upon Change of Ownership and
- What Registration Process You will Need to Take

Your selection will depend on a number of factors including the type of business you are setting up, if and how many others are involved in the business, how you want profits (or losses) to be shared and who is going to be legally liable for the debts of the business. Other considerations include the anticipated profitability of the business and the relationship, financial and tax positions of all the people involved.

When evaluating your choice of business structure you should look to:

- Maximise the Protection of Your Assets
- Minimise Tax Exposure
- Allow for Admission of New Partners or Investors
- Comply with all Legal Requirements
- Take Advantage of the Potential Future Application of the Discount Capital Gains Tax and Small Business GST Concessions

Experience tells us that in most instances, your business structure will be some form of compromise. It may even involve multiple entities in an attempt to balance the objectives of asset protection, income tax, flexibility of income distribution or capital gains tax. You should also be aware that under the anti-avoidance provisions of the Income Tax Assessment Act, the Commissioner of Taxation can challenge your business structure where the arrangement was undertaken for the sole or dominant purpose of obtaining a tax benefit. In such a case, the relevant tax benefit may be cancelled and penalty tax imposed.

Your choice of business structure can be of critical importance to the success or failure of the business. It can be expensive to switch structures and it could also have significant tax implications.

Before you select a business structure, commence operating and prior to signing any legal contracts it is imperative that you consult with our office and possibly seek legal advice. We can discuss your need for limited liability, explain how your choice of structure will affect the availability of finance and advise whether there is any specific legislation relating to the type of business you intend to operate. We will make sure that adequate planning and consideration is given to your choice of business structure given your individual circumstances.

In Australia, there are a number of alternative business structures including:

- Sole Trader
- Partnership
- Limited Liability Company
- Discretionary Family Trust
- Unit Trust
- Cooperative
- Incorporated Association

This booklet is all about business start ups and the chart on the next page provides a brief description of the various structures and their tax implications.

Structure	Description	Tax Implications
<b>Sole Trader</b>	<ul style="list-style-type: none"> <li>You're in business by yourself which is the simplest form of business structure</li> <li>Establishment costs are generally low</li> <li>Personally entitled to all profits and capital growth</li> <li>There is no legal separation between you and the business and your liability for business debt is unlimited and could extend to your total personal assets</li> <li>Relatively easy to cease operations and as the business grows you can progress to another type of structure</li> </ul>	<ul style="list-style-type: none"> <li>Profit from the business is treated as the owner's personal income</li> <li>Owner does not have to complete a separate tax return for the business</li> <li>Your personal income tax return is used to report your business income and expenses</li> <li>Business losses can be offset against your other income (e.g. Salary and Wages)</li> <li>Your personal Tax File Number is also used for income tax purposes</li> </ul>
<b>Partnership</b>	<ul style="list-style-type: none"> <li>Two or more people start a business and share the costs, profits and losses</li> <li>Allows two or more partners to combine their different skills and resources</li> <li>Liability for business debt is unlimited and could extend to the personal assets of the partners</li> <li>To avoid future disputes between partners, a formal 'Partnership Agreement' should be drawn up by a Solicitor</li> </ul>	<ul style="list-style-type: none"> <li>A partnership is not a separate legal entity and does not pay income tax</li> <li>Each partner pays tax on their share of net partnership profit. Losses can be claimed in the partner's individual tax returns</li> <li>Need to complete a Partnership tax return showing the partnership's income and deductions, and how the profit (or loss) was shared</li> <li>Must have its own Tax File Number</li> </ul>
<b>Limited Liability Company</b>	<ul style="list-style-type: none"> <li>Shareholders own the Company and Directors are appointed to run the business</li> <li>Shareholders can also be Directors and employees, as in a family business</li> <li>Allows you to distance yourself financially from the business and limits the liability for debts to the business assets - not your personal assets</li> <li>Director(s) have additional legal and financial reporting obligations</li> </ul>	<ul style="list-style-type: none"> <li>Is a separate legal entity that pays income tax on its profits at the 30% Company tax rate, while the owner is taxed on their salary and/or Directors fees</li> <li>Compliance costs are generally higher and record keeping regulations are more onerous</li> <li>'Personal Services Income' rules may apply if you're a consultant or contractor</li> <li>Must have its own Tax File Number</li> </ul>
<b>Trust</b>	<ul style="list-style-type: none"> <li>The business is transferred to a third party (trustee) who has legal control and duty to run the business for the benefit of the beneficiaries</li> <li>Holds property (capital) for specified beneficiaries</li> <li>Trust Deed sets out the Trust's powers and formalises its administration</li> <li>Can be difficult to dismantle</li> </ul>	<ul style="list-style-type: none"> <li>Lodges its own tax return</li> <li>Has its own Tax File Number</li> <li>Beneficiaries are entitled to distributions of income and/or capital</li> <li>Beneficiaries pay personal income tax on their income distributions from the Trust</li> <li>Flexibility of income distributions</li> </ul>



## Registering Your Business or Company Name (Victorian Example)

Business names are registered with Consumer Affairs Victoria (CAV) <sup>and</sup> Company names are registered with the Australian Securities and Investments Commission (ASIC). It is common for a Company to register a business name to be used as a trading name.

### Choosing Your Business Name

Unless you plan to run the business under your personal name or your business partner's name (like Tony Smith), or initials and surname (like T. Smith), you need to register a separate business name. Your business name will be important for identifying and promoting the business so you should consider choosing a unique name that distinguishes you from your competitors.

When deciding on a business name you should consider:

- Whether you want to be at the top of the alphabetical listings (AAA Plumbing)
- Clever contractions like Vodafone (from voice, data & telephone)
- Catchy names (Drips Plumbing, Blockbuster Video)
- Foreign Words – Reebok (an African Antelope)
- Make up a word (Coca-Cola)

Your next step is to check the availability of the business name. The quickest way of doing this is an online check with the following separate authorities:

- ~~Consumer Affairs Victoria (CAV) Victorian Names Register to check that your business name is not registered in Victoria~~
- Australian Securities and Investments Commission (ASIC) National Names Index to check that your name is not registered in Australia as a Company
- IP Australia - Australian Trade Marks Online Search System to check that your name is not infringing a registered or pending trade mark

To register your business name online, go to 'Business Names' on the <sup>ASIC</sup> ~~CAV~~ web site, follow the prompts and pay the fee with your credit card. Alternatively, we can do this for you. Note that the business name fee is not a one-off payment. To stay active you need to renew it ~~with CAV~~ every three years.

### Choosing Your Company Name

You should follow the same guidelines as choosing a business name. In other words, it should be unique and stand out from your competitors. In addition, a company name must indicate the:

- Legal status of the Company - 'Proprietary' simply means a company which is not listed on the stock exchange as a public company. A proprietary company name must include the word 'Proprietary' or its abbreviation 'Pty'.
- Liability of Company members - Liability is usually limited so the name must include the word 'Limited' or its abbreviation 'Ltd'.

You cannot use a name that is already registered as a Company, so you need to check the availability of your name with the following separate authorities:

- Australian Securities and Investments Commission (ASIC) National Names Index, to check the name is not registered in Australia as a Company
- IP Australia - Australian Trade Marks Online Search System, to check your name is not infringing a registered or pending trade mark
- ~~Consumer Affairs Victoria (CAV) Victorian Names Register to check that your business name is not registered in Victoria~~

We can carry out the registration process for you. Note that the Company name registration fee is not a one-off payment. To stay active it needs to be renewed with ASIC on an annual basis.

## Your Australian Company Number (ACN)

When you register your Company, you will be issued with a 9 digit Australian Company Number (ACN). This is your unique identifying number to be used when the company deals with other businesses, individuals and Government agencies. The ACN must be displayed on all your public documents, such as invoices and receipts.

NOTE: Your ACN is not the same as your ABN and they should not be confused. Your ABN is explained in the 'Taxation Registrations' section below.

## Protecting your Business or Company Name & Web Address

When you start a new business, register a new name or develop a new product you should give consideration to protecting your intellectual property (IP). Even though a new business name has been registered with ~~Consumer Affairs Victoria~~, if it is not protected, a competitor can still legally register:

- a similar Company name with ASIC
- a similar Trade Mark with IP Australia
- the same Business Name in another state or territory
- a similar Domain Name

The three main ways of providing Australia-wide protection are:

- **Trade Mark Protection** - Registering your business or Company name as a trade mark gives you legal ownership rights to the name across Australia and prevents others from trading under it. A trade mark can be a letter, word, phrase, number, sound, scent, logo or image. It can be an effective marketing tool, making a business stand out from the competition. To find out about the trade mark application process, go to 'Trade Marks' on the IP Australia website.
- **Domain Name Protection** - The domain name is the main part of a web address (URL) that follows 'www' and is used to identify the location of the website. Note that just because you have registered a business name, Company name or trade mark does not mean you can automatically use it as a domain name. You may also not be able to stop someone using a domain name that is the same as your business name, company name or trade mark. For more information and guidance through the domain name registration process visit the Australian Domain Name Administrator website ([www.auda.org.au](http://www.auda.org.au)).
- **Interstate Protection** - To give your business name interstate protection, you need to register the name in each state or territory where you intend to operate. Your first step is to check the register of business names in each relevant state or territory. Your business name will not be accepted if it is too similar to an already existing name. A full list of all business name registers and their contact details are available on the Business Victoria website. Type 'Interstate Business Name Registration' into the homepage search.

\*This booklet contains a number of specific references to Victorian based resources and websites. If you are starting a small business in another State or Territory the corresponding websites are:

### New South Wales

[www.business.nsw.gov.au](http://www.business.nsw.gov.au)  
[www.smallbiz.nsw.gov.au/smallbusiness](http://www.smallbiz.nsw.gov.au/smallbusiness)  
[www.workcover.nsw.gov.au](http://www.workcover.nsw.gov.au)  
[www.fairtrading.nsw.gov.au](http://www.fairtrading.nsw.gov.au)

### South Australia

[www.business-sa.com](http://www.business-sa.com)  
[www.ocba.sa.gov.au](http://www.ocba.sa.gov.au)  
[www.workcover.com](http://www.workcover.com)  
[www.safework.sa.gov.au](http://www.safework.sa.gov.au)

### Tasmania

[www.businesstasmania.com](http://www.businesstasmania.com)  
[www.consumer.tas.gov.au](http://www.consumer.tas.gov.au)  
[www.workcover.tas.gov.au](http://www.workcover.tas.gov.au)

### Queensland

[www.businessqueensland.com.au](http://www.businessqueensland.com.au)  
[www.smartsmallbusiness.qld.gov.au](http://www.smartsmallbusiness.qld.gov.au)  
[www.consumer.qld.gov.au](http://www.consumer.qld.gov.au)  
[www.fairtrading.qld.gov.au](http://www.fairtrading.qld.gov.au)  
[www.workcover.qld.gov.au](http://www.workcover.qld.gov.au)

### Western Australia

[www.liswa.wa.gov.au](http://www.liswa.wa.gov.au)  
[www.sbdc.com.au](http://www.sbdc.com.au)  
[www.docep.wa.gov.au](http://www.docep.wa.gov.au)  
[www.workcover.wa.gov.au](http://www.workcover.wa.gov.au)

### Northern Territory

[www.nt.gov.au/business](http://www.nt.gov.au/business)  
[www.worksafe.nt.gov.au](http://www.worksafe.nt.gov.au)  
[www.consumeraffairs.nt.gov.au](http://www.consumeraffairs.nt.gov.au)



## Tax Registrations for New Business Owners

The most common Tax Registrations required by new business owners are:

**Tax File Number (TFN)** is a basic requirement for completing your annual Income Tax Return. Sole traders can use their personal TFN for both their business dealings and their personal dealings with the Tax Office. Partnerships, Companies and Trusts are required to have a separate TFN. This can be obtained at the same time as you apply for an Australian Business Number (ABN).

**Australian Business Number (ABN)** is compulsory for all businesses and you need an ABN to:

- register for GST, PAYG Withholding, Fringe Benefits and other taxes
- deal with other businesses where your ABN must be quoted
- avoid having amounts withheld from payments to you from other businesses

We can apply for an ABN and TFN on your behalf. Alternatively, go to the Australian Business Register website and follow the directions. If you are a registered Company with an Australian Company Number (ACN), your ABN will usually be your ACN with two extra digits at the beginning.

### Do You Need to Register for GST?

You are required to register for GST if either of the following apply:

- your current or projected annual turnover is **\$75,000** or more (As soon as you know your turnover is **\$75,000** or more, you have **21** days to register.)
- you are a Taxi or Hire Car Operator, regardless of your annual turnover

Like your ABN and TFN applications, registering for GST can be completed through our office or at the same time on the Australian Business Register website. Your ABN will also be your GST registration number.

Registering for GST means you are required to complete a Business Activity Statement at the end of each tax period. Small businesses generally lodge quarterly, but you can choose to report monthly to the Tax Office.

### Do You Need to Register for PAYG Withholding?

If you have employees you must register for PAYG Withholding and withhold amounts including:

- Income Tax for employees (including working Directors of a Company)
- Withhold **46.5%** from payments to suppliers who cannot quote an ABN

Before you withhold any payments, you need to register for PAYG Withholding. Like your GST registration, this can be completed at the same time and means that you will have either quarterly or monthly reporting requirements.

If you are a Sole Trader or Partner, the Tax Office does not regard you as your own employee. You 'draw' money from the business to live on but this is not technically seen as normal 'salary and wages'. As such, there is no need to register for PAYG Withholding and withhold amounts from your drawings unless the above examples apply.

### Selling or Ceasing Your Business

If you cease carrying on a business or change the legal structure of your business, you may need to:

- cancel your ABN and other registrations
- make certain GST adjustments on your final Activity Statement
- lodge final tax returns

You must apply to cancel your GST registration within **21** days of ceasing to carry on an enterprise.



## The Importance of Keeping Good Business Records

There are a number of reasons for keeping good business records including the fact that it is a legal requirement. By law, the Tax Office requires you to keep business records:

- for five years after they are prepared, obtained or the transactions completed (whichever occurs later), and
- in English and in Australian dollars or in a form that tax officers can access and understand in order to determine your tax liability.

You should keep records for a longer period if you use information from those records in a later tax return (e.g. claiming a loss carried forward from a business activity in an earlier year) – the records should be kept until the end of any period of review for that later return.

There are penalties for not maintaining the required records and failing to keep them for five years. Other regulatory bodies may have different record keeping requirements from the Tax Office, particularly concerning how long you need to keep records.

Other reasons for keeping good business records are to:

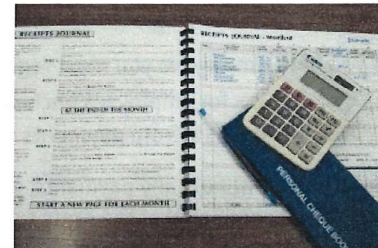
- make it easier to complete your Activity Statements and prepare your annual Income Tax Returns
- monitor the health of your business and be able to make sound business decisions by keeping track of your debtors, creditors and cash flow
- demonstrate your financial position to banks and other lenders and also to prospective buyers of your business, and
- make best use of your Accountant. Rather than paying us to sort through a shoebox of paperwork, providing well prepared records lets us focus on growing your business profits and value.

### Should you Keep Electronic or Manual Records?

You can issue and store records in either paper or electronic form.

The advantages of an electronic record keeping system include it:

- helps you record your business transactions (including income and expenses, payments to workers plus stock and asset details)
- automatically tallies amounts and provides ready made reporting
- can produce invoices and provide summaries and reports for GST and income tax purposes
- keeps up with the latest tax rates, tax laws and rulings
- allows you to report certain information, such as your Activity Statement to the Tax Office electronically (if the package meets Tax Office requirements)
- requires less storage space
- allows you to back up records and keep them in a safe place in case of fire or theft
- enables you to use your time more efficiently.



On the other hand, an electronic record keeping package is more expensive to set up. You also need to know how to operate a computer and use the software. Depending on the program, you might also need to be familiar with accounting principles to understand how the software automatically stores and calculates the information.

There are a range of commercial accounting software packages available and we urge you to consult with our office before making your choice.

## Frequency of Record Keeping

Some statistics suggest that up to **80%** of businesses fail within the first **5** years. To make informed business decisions you need up to date and accurate financial records and reports. Each business and their owner(s) requirements are different and you should discuss your situation with us.

The attached chart supports the fact that regular reporting can impact on your survival rate.

## Survival and Frequency of Accounting Reports

Frequency	Survival Rate %
At least monthly	<b>79.7</b>
Quarterly	<b>71.5</b>
Half-Yearly	<b>49.9</b>
Annually	<b>36.0</b>

*Source: Williams, A.J., A Longitudinal Analysis of the Characteristics and the Performance of Small Business in Australia.*

Many businesses also report quarterly in line with their requirement to lodge their Business Activity Statements (BAS). The BAS is a single form that allows you to report and pay several Commonwealth administered taxes. The quarterly BAS periods and lodgement dates are as follows:

- **1 Jul – 30 Sep** due by **28 Oct**
- **1 Oct – 31 Dec** due by **28 Feb**
- **1 Jan – 31 Mar** due by **28 Apr**
- **1 Apr – 30 June** due by **28 Jul**

## Business Records You Need To Keep

### Goods and Services Tax (GST)

If you are carrying on a business (enterprise) and your GST turnover is **\$75,000** or more (**\$150,000** or more if you are a non-profit organisation), you must register for GST. You can elect to register for GST if your turnover is below these thresholds.

If you are registered for GST:

- you must remit to the Tax Office one-eleventh of the price of most goods and services you sell and
- you can claim a credit for the GST included in the price of the goods and services you purchase for your business.

You account for your GST and claim the GST credits on your Activity Statement. Depending on your reporting cycle, this could be every month, quarter or annually.

### GST Records You Need To Keep

You need to keep records of all your sales and purchases to prepare your Activity Statements. To claim GST credits you must have 'tax invoices' that record your purchase of goods or services and you need to retain these invoices for five years.

You must have a Tax Invoice to claim a credit for the GST included in the price of any goods and services you buy for your business that cost more than **\$82.50** (including GST). If you sell goods and services that include GST and a customer asks you for a tax invoice for sales of more than **\$82.50** (including GST) you have to provide one within **28** days of the request.

In most cases, the business selling the goods or services issue the Tax Invoice. In some special cases, a tax invoice may be issued by the business buying the goods and services (this is called a 'recipient created tax invoice').

## Information to Include on Tax Invoices

Tax Invoices you issue to your customers or receive from your suppliers must contain certain information to be valid tax invoices. The information required to be shown on tax invoices varies according to whether the tax invoice is for an amount less than \$1,000, or for \$1,000 or more.

Tax Invoices for amounts *less than \$1,000* must include:

1. The words 'Tax Invoice'
2. Suppliers Name
3. ABN of Supplier
4. Date of Issue
5. Description of each Item Supplied
6. Total Price, including GST, and
7. Statement that Total Price includes GST (or GST shown separately)

Tax Invoices of \$1000 or more must have all the above plus:

8. Purchaser's Name
9. Purchaser's ABN or Address, and
10. Quantity of the items supplied

## Claiming GST On Imports

You don't need a tax invoice to claim GST credits for taxable importations. However, you must have documents from the Australian Customs Service showing the amount of GST paid on imports.

## If You Don't Use A Cash Register

- avoid printing your invoices on thermal paper wherever possible as the print can fade
- avoid small font sizes as they can be difficult to read, and
- avoid issuing tax invoices on paper that is smaller than A5 or larger than A4 as this can create storage difficulties.

## What If You're Not Registered for GST?

If your business is not required to be registered for GST and you have chosen not to register:

- you don't collect GST on your sales or claim GST credits on your purchases. Your business issues normal invoices – it must not issue Tax Invoices. Normal invoices don't include the words 'Tax Invoice' or indicate that the invoiced amount includes GST, and
- you can claim the full cost of your business purchases (including any GST) as a tax deduction on your income tax return. GST registered businesses cannot include the GST component when claiming income tax deductions because they claim the GST credits through their Activity Statements.
- If you receive an invoice from someone who is not registered or required to be registered for GST, it is not a 'tax invoice' and you can't claim a GST credit on the goods or services supplied.
- If you're not sure that a business you deal with has quoted a correct ABN on its tax invoices or is registered for GST, visit the ABN Lookup website at [www.business.gov.au](http://www.business.gov.au) to check it out.

**1 Tax invoice**

**2** Windows to Fit Pty Ltd  
ABN: 32 123 456 789 **3**

**4** Date: 1 March 2001

**5** To: Building Company  
254 Burshag Road **9**  
Festler NSW 2755

15 Burshag Road  
Festler NSW 2755

Qty	Description of supply	Value	Total
<b>10</b> 500	Window frames <b>5</b>	\$15.00	\$7,500
	GST	\$1.50	\$750
<b>7 TOTAL PRICE INCLUDING GST</b>			<b>6</b> \$8,250 <b>6</b>



## Keeping Records & Source Documents

The records you are required to keep for reporting to the Tax Office include the following:

### Records relating to Income Tax and GST

#### Sales/Income Records

- sales invoices (including tax invoices)
- sales vouchers or receipts
- cash register tapes, credit card statements, and
- bank deposit books and account statements.

#### Purchase/Expense Records

- purchase/expense invoices (including tax invoices)
- purchase/expense receipts (which include an ABN)
- cheque butts and bank statements
- credit card statements, and
- records showing how you calculated any private use component.

#### Year End Income Tax Records

- motor vehicle expenses
- debtors and creditors listings
- stock take sheets
- depreciation schedules, and
- capital gains tax records.

#### Records Relating to Payments to Employees

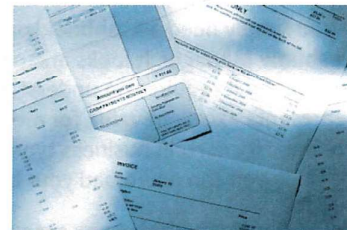
- tax file number declarations and withholding declarations
- withholding variation notices
- worker payment records
- PAYG payment summaries
- annual reports
- superannuation records, and
- records of any fringe benefits provided.

#### PAYG Withholding Records relating to Business Payments

- records of amounts withheld from payments where no ABN was quoted
- a copy of any PAYG withholding voluntary agreements
- records of voluntary agreement payments
- PAYG payment summaries and ETP payment summaries, and
- annual reports.

#### Records Relating to Fuel Tax Credits

- records of fuel acquired
- records of eligible and ineligible fuel use
- records of claim calculations, and
- records of any loss, sale or disposal of fuel.



**PAYG payment summary - Individual non-business**  
Year ending 30 June 2008

**Payee details**  
Mrs Kylie Bennett  
5 Quaker Rd  
FREELING  
5118  
SA

**NOTICE TO PAYEE**  
If this payment summary shows an amount in the 2008 tax column, you must include this amount in your 2008 tax return. If you are not required to lodge a tax return, you must still include this amount in your 2008 tax return. If you are not required to lodge a tax return, you must still include this amount in your 2008 tax return. If you are not required to lodge a tax return, you must still include this amount in your 2008 tax return.

Period of payment: 1/01/2008 to 31/12/2008  
Payee's tax file number: 045 512 211

TOTAL TAX WITHHELD \$ 1206	
Gross payments \$ 6450	A \$ 6
CEEP payments \$ 0	B \$ 0

## Accounting Software For Small Business

One of the most important decisions you need to make when starting a new business is your choice of accounting software. One of the biggest mistakes small business owners make is that they purchase accounting software beyond their business needs and level of accounting skill. This can lead to considerable frustration and records that amount to nothing more than a 'computerised shoebox'.

With so many software options available it is easy to become confused. They range in functionality and sophistication with a price tag to match. To assist you we provide the following guidelines:

- If you don't understand double entry accounting (i.e. debits, credits and journal entries) then avoid sophisticated accounting software programs. If you need to use such a program then consider a training course at a local TAFE that runs for around **14-20** hours at a cost of around **\$350**.
- Don't buy software beyond your business needs. If you don't need inventory or a fully integrated general ledger system don't buy a 'Mercedes' when you only need a 'Holden'.
- Your software should be compatible with our general ledger system to allow easy transfer of electronic data. This can save time, money and assist with meeting the various lodgement deadlines.

~~Let's briefly have a look at one of the simplest and most popular accounting software programs in Australia — Cashflow Manager.~~

~~If you simply need a 'cashbook' program to track your receipts, payments and GST we strongly recommend **Cashflow Manager**. It looks and operates like a manual cashbook complete with a spreadsheet or column layout and it requires no understanding of accounting, debits, credits or journal entries. At around **\$249** it represents excellent value for money. The program provides business templates that automatically establish columns for certain business types and reconciling your bank account(s) is also very simple. If you have internet banking you can download your bank statements and import the data to save even more time.~~

~~You can have multiple bank accounts in a single business and the comprehensive reports explain your business results and make preparation of your BAS very easy. The program includes the debtors side of 'Invoice Manager' that lets you generate Tax Invoices and track your debtors and produce Customer Statements. If you have staff you can add 'Wages Manager' to process pays, print payslips, Annual PAYG Payment Summaries and also track staff entitlements.~~

~~MYOB and QuickBooks are also very popular programs and could be ideal if your business needs stock control, a full general ledger or point of sale solution. Both MYOB and QuickBooks offer a range of packages each with different features.~~

~~The **MYOB** product range stretches from Business Basics to powerful multi-user products such as Premier and Enterprise. Business Basics gives you the ability to track job costings and profitability, prepare your BAS and automatically reconcile your accounts. You can also customise the content and look of reports to suit the needs of your business. Other packages in their extensive product range include Accounting Plus, Retail Ready and Retail Manager.~~

~~Similarly, **QuickBooks** offers an extensive range of programs including general ledger, invoicing, basic stock control and a report generator. QuickBooks EasyStart is their entry level program and although the word 'easy' is part of the product name you might find that you need to have some basic book-keeping or accounting knowledge to use the program. Their product range includes Quickbooks Accounting, Plus, Pro, Premier, Retail Point of Sale and Retail Starter Kit.~~

~~If you prefer assistance with your bookkeeping, **BankLink** offers a service that provides your bank transactions and data in an electronic format for processing. After uploading the transactions you will then need to complete a coding report.~~

~~We urge you to contact this office regarding your choice of accounting software because the wrong choice can prove both frustrating and costly in the long term.~~



## Insuring Your Business

Insuring your business premises and your assets is a critical part of establishing a business. For new starters, insurance can seem like a costly addition to an already long list of expenses, however, if your business is uninsured you may not recover financially from a disaster, burglary, vandalism, fire or storm.

Before you start out in business speak to us about your specific business insurance needs and make sure you are covered for the unexpected. The size and nature of your business will generally determine the type of coverage you need. It is important not to let your coverage fall behind as your business grows or diversifies. A periodic review of your policies is also recommended to ensure your business is adequately insured.

Your insurance premiums will depend on such factors as the location of your business and the goods and services you handle. If required, we can recommend an experienced insurance broker who can match your business needs with the range of insurances available.

As well as insuring your business premises and assets, some or all of these additional insurances could be required depending on your circumstances:

- Public liability to cover customers, clients and visitors
- Cover for contents, equipment, stock, furnishings and fixtures
- Professional indemnity insurance if your business is in a service industry
- Product insurance if your business is in a manufacturing industry
- Motor vehicle insurance if your vehicle is used for business purposes
- Personal injury and/or income protection, particularly if WorkCover is not applicable to your business (see WorkCover Insurance under the 'Are You Going To Employ Staff' section).

While business insurance requirements vary greatly, the following is a guide to the most common types:

### Personal Injury - Income Protection Insurance

Insurance industry statistics tell us that on an average day in Australia:

- **214** people are diagnosed with some form of cancer
- **41** people undergo coronary artery by-pass surgery
- **35** people between the age of **35** and **69** will survive a heart attack



In addition, more than **25%** of the population will be disabled for more than three months before turning age **65** and **60%** of Australians will be disabled for more than one month during their working life.

Income Protection Insurance provides a replacement income if you are unable to work at full capacity, or at all, due to sickness or injury. Personal Injury and Income Protection Insurance is often appropriate for sole traders and partners and is a vital link in providing you and your family with a regular income stream during times of illness or injury.

You can be insured worldwide, **24** hours a day, seven days a week. There are a number of variables that will impact on the premium you pay:

- **Monthly Benefit** – Is the monthly amount of replacement income you will be paid. The maximum is **75%** of your monthly gross income (i.e. before tax)
- **Benefit Period** – Is the length of time your replacement income will be paid for any one uninterrupted claim. Benefit periods can be **2** years, **5** years or to age **65** years. The longer the benefit period the higher the premium.
- **Waiting Period** – Is the length of time you must wait before your replacement income will commence. Choices of waiting period are **2** weeks, one month, two months, three months, six months, one year or two years. The shorter the waiting period the higher the premium.





Other factors affecting the cost of Income Protection Insurance include:

- **Type Of Work** – Manual/Labour work will attract a higher premium than office type work
- **Male Or Female** – There are variances between the male and female premium costs
- **Your Age** – The older you are the higher the premium cost
- **Smoker** – People who smoke attract a higher premium than non smokers

**Pre Existing Medical Conditions** – If you have a pre-existing medical condition, this may affect the cost of insurance. Depending upon the actual condition and the severity of it, you may be considered at normal premium rates or the Insurance Underwriters may deem you to be a higher medical risk. Therefore they may offer you a loaded (increased) premium or they may offer you cover at ordinary rates but exclude anything connected to your pre-existing condition, or they may decline your application for cover totally.

Employees may be entitled to a limited amount of sick pay from their employer but worker's compensation only covers you for work related injuries – a small percentage of the causes of disability. On the other hand, an income protection policy will pay you up to **75%** of your income (salary plus super and any other benefits) allowing you to maintain your lifestyle and keep paying your mortgage and other debts. As soon as you are medically defined as being able to return to work, your Income Protection benefit will cease.

## Life Insurance

No one likes to think about the worst case scenario but statistics tell us that serious illness does not discriminate based on age or gender. The reality is that most Australians are under insured or not insured at all which is alarming given the fact that over **36,000** Australians die of cancer every year. Unfortunately, too many people don't realise the importance of life insurance until it's too late.

Life insurance protects those who depend on your income such as your spouse or children. When considering life insurance the most important question is, can you afford to live without it? Running your own business is an even bigger reason to consider life insurance as it can provide ongoing income to your dependents as well as provide emergency support for legal, medical and funeral costs. It is important to review your insurance cover to ensure that both the financial future of your business and your family is secure.

Most people have financial commitments no matter what stage of life and there are several types of policies:

- **Death cover (term life)** pays a lump sum to your dependants if you die unexpectedly (cover often ceases once you turn **65**)
- **Total & Permanent Disablement (TPD)** pays a lump sum if you suffer an illness or injury that permanently prevents you from working (e.g. Losing both hands)
- **Trauma cover** pays a lump sum if you suffer any range of specified illnesses such as heart attack, stroke or cancer.

Some people think because they have life insurance cover within their superannuation it is adequate. The question then becomes is it adequate to cover your changing circumstances such as the new business overdraft facility or extra mortgage on an investment property. In such a case you may need to consider a 'top up' or separate life insurance policy.

## Key Person Insurance

Most business people are aware of the need to insure against loss of property or assets through fire or theft but they often overlook their most important asset – key people.

What would happen to your business if a key person (partner or principal) was permanently disabled or died? There are a number of possibilities including:

- A profitability decline due to the loss of key sales or production staff
- Money would need to be outlaid to find a suitable replacement
- Pressure would be placed on remaining staff and/or family members
- Credit may be affected if the bank becomes aware of the impact on the business
- The remaining employees might feel that their future is insecure



In the event of the death of a partner, the remaining partner may find that there are insufficient funds for a buy out. Any undue financial stress can turn an amicable relationship with the deceased's family into a hostile one. Insurance arranged on the life of your key employees is owned by the business and would provide a cash injection in the event of the death or disablement of the specified employees.

If a major income generator is diagnosed with a 'trauma' medical condition but does not die the policy can also cover this scenario. Key person insurance can provide funding for the business to continue while the key person recuperates or is replaced.

### **Business Insurance Life Plan**

A life insurance plan will provide the cash required to repay a business loan on the death or disablement of a principal. Such loans are usually secured by a charge over the business assets and the guarantees of the principals. Cash provided by life insurance will discharge the business's liability, protecting the business assets and the estates of the guarantors.

### **Public Liability**

A public liability insurance policy covers your business against a third party claim, in case of bodily injury or permanent damage caused to the third party (or their property) by you. The third party can claim the compensation from you, firstly, if they have suffered a direct loss, as a result of your negligence. The loss could be physical damage of their property or death of any third party person.

Secondly, they can claim the compensation if your business is directly affecting them to loss. You are liable to pay the compensation claimed by the third party. If you are not able to pay the compensation, the court can approach your personal assets such as your home and car.

### **Product Liability**

Covers damage or injury caused to another business and/or person by the failure of your product or a product you are selling. You may also be held responsible for products that are either modified by you, form part of another product or are imported by you. It is advisable to seek advice about this insurance policy as you may be able to have your public liability policy endorsed to also cover product liability.

### **Professional Indemnity**

This protects you from legal action taken as a result of breach of professional duty through negligence, error or omission. This type of insurance is critical for people who provide professional advice.

### **Material Damage**

This covers the assets of your business such as buildings, stock, plant and equipment against physical loss, destruction or damage. When arranging insurance, you may cover buildings and plant for their full replacement cost and allow for seasonal increases in stock values

### **Burglary**

Covers loss of or damage to stock, plant, equipment and other contents caused by burglars. You select the amount of protection required which can allow for seasonal increases in stock value. In addition, the policy automatically provides cover for damage to premises sustained in a burglary, costs of temporary security following a break in, and replacement of locks should keys be stolen.



### **Glass Breakage**

This enables you to insure against breakage of fixed external and internal glass and other nominated breakable objects such as signs. The policy automatically covers damage to frames, replacing sign writing and ornamentation, damage to stock, and costs of temporary shutting.



## Money

This provides protection for money while in transit, on your business premises during and outside normal business hours, while in a locked safe, and while in the private residences of authorised persons. Damage to safes and strong rooms may also be covered and seasonal increases in money held may also be allowed for.

## Electrical Mechanical Breakdown

This allows you to insure nominated items of electrical and mechanical plant against sudden and unforeseen physical damage. In addition, refrigerated stock may be covered against deterioration following damage to insured refrigeration equipment.

## Computer and Electronic Equipment

This insures nominated computers and electronic equipment against sudden and unforeseen damage. Cover may also be arranged to meet data media restoration costs following loss of information and the increased costs of maintaining a substitute data processing system after an insured equipment breakdown.

## Special Risks – General Property

Covers specified property anywhere in Australia against accidental physical loss, destruction or damage. Valuable plant and equipment items taken away from your business location should be insured under this section.

## Motor Vehicle

Covers specified motor vehicles against accidental damage and theft plus your legal liability for damage insured vehicles may cause to the property of others.

## Goods in Transit

Gives you a choice of insuring nominated property while in transit by land or air against either:

- Accidental damage; or
- The more limited risks of fire, flood, collision, or overturning of the conveying vehicle

## WorkCover Insurance

Refer to the section 'Are You Going to Employ Staff'.

## Attention Builders

If you are a builder or operate in the construction industry, insurances should be on top of your list. As an example consider the following scenarios:

- You are half way through a **\$300,000** project and it burns to the ground. Can you afford to re-purchase the materials? (Construction Works Insurance)
- If you were sued for **\$750,000** by a third party who is injured on one of your sites (Public Liability)
- Decking collapses at a party due to incorrect or faulty screws some **5 years** after you completed the works. Ten people are injured and they seek compensation from you and potentially any subcontractors who worked on the job (Products Liability Insurance)



## Legal Issues

There are a number of key areas where a solicitor can assist you such as contracts and agreements, negotiating the lease, insurance claims and representing your interests in dispute resolutions with authorities or other businesses. If you require a solicitor please contact our office for a referral.

### Contracts

A contract is a binding legal agreement, which is created when there has been an offer, an acceptance of the offer, consideration (usually the price of goods or services supplied) and an intention by the parties to enter into a legal relationship. There are many types of contracts that will affect your business. Not only will you contract with your customers but you will potentially also enter into agreements concerning contracts:

- For the purchase of a business
- for the lease of your business premises
- for the supply of financial services such as an overdraft facility
- with suppliers and customers including the terms of trade
- of employment with your employees
- for the supply of telephone, internet and utility services



With customers, it is important to establish a system that records your terms of agreement or trade so that you avoid disputes later on. It can help with the collection of bad debts and the system could be as simple as providing a quote that the customer accepts by signing. Commonly the terms of agreement are often specified on the back of quotations. Remember, if a contract has not been signed it does not necessarily mean that there is not a legal contract. A binding legal agreement may have been established by other means, such as the conduct of the parties and what was said between them.

### Leases



A lease is a special type of contract between the lessor (the owner) and the lessee to use the property. A lease can relate to land and buildings or to personal property such as motor vehicles, photocopiers and telephone systems. Where the lease relates to land and buildings the owner is called the 'landlord' and the lessee is called the 'tenant'.

The terms of the lease are generally negotiated between the landlord and the lessee and the main issues that need to be addressed in the lease include the term of the lease, the amount and frequency of the rent, details of the tenant's responsibility for the property outgoings, permitted uses of the property, the option if applicable and the bond or bank guarantee if applicable. It is advisable to consult with a solicitor to assist you in negotiating the terms of your lease.

Most leases hold the lessee responsible for keeping the premises, fixtures and fittings in good repair. Many leases provide for payment of all or a portion of the rates, insurance, maintenance and so on. Make sure these are clearly stated as they are additional to your base rent. If you vacate the premises before the lease expires you may still be liable for payment of rent and ongoing costs if a new tenant cannot be found.

Before signing the lease the lessor must provide the lessee with a signed copy of the lease. If the lease is for a retail shop, the lessor is also required to provide a Disclosure Statement to the lessee at least seven days before the lease is entered into. Both parties should make sure that they speak to their solicitor, accountant, the local council (to be sure there is approval for the use) before they sign the lease.

## Do You Need A Will?



Making a Will is something we all know we should do, but like exercising daily and eating a balanced diet, it's something many of us never get around to until it's too late. It is one of the most important documents you will ever sign because you are 'giving away' almost everything you own. It is therefore important to ensure it reflects your current wishes and distributes your estate in the most beneficial and tax effective way. You must be **18** years of age and be of sound mind, memory and understanding to make a Will.

A Will is the foundation of good estate planning. It's critical to obtain competent legal help in drafting your Will because a poorly drafted Will can be the cause of endless trouble for your surviving family and beneficiaries. Dying without a Will can be costly and creates added stress for your family at a time that is already difficult. In addition, you risk your estate being distributed according to strict government requirements rather than your wishes. This makes your estate difficult to administer and it will take longer to be finalised, resulting in increased costs. You may also lose the choice of who benefits from your estate.

### What do you need to consider?

- Do you have an effective, current Will?
- Do you believe you may require the creation of more complex trusts within this Will?
- Do you have beneficiaries with special needs?
- Are you concerned there won't be enough money to satisfy your family's needs in the future?
- Do you need to consider any tax or other implications of your estate planning arrangements?
- Who is to benefit from your Life Insurance and Superannuation?
- Do you have property held as tenants in common?
- Does anyone but you know where your tax records and supporting tax documents are located?
- Does anyone know who your Accountant is? Your Lawyer? Your Broker?

We recommend you review your Will every couple of years, or whenever your circumstances change such as starting a business. Call our office if you would like to discuss any aspect of your Will or require a referral to a Solicitor to draft or review your Will.



## Permits & Registrations

### Are you in the Right Zone and Will you Need a Planning Permit ?

If you're setting up a new business, undertaking land or building development, or changing the purpose of a property, your first step is to apply for a planning permit from your local council. The planning permit provides evidence that the council has given approval for you to go ahead with the development. Make an appointment with a council planning officer who will take you through the application process. You will be advised on the zoning of your land and any other local planning conditions that apply to your development.

To get contact details for your local council, use the Find Your Local Council search at the Department for Victorian Communities website.

### Does your Business Involve any Building Work?

If building work is involved, particularly structural work, both a planning permit and a building permit will probably be required. The planning permit gives council approval for your development to go ahead, while the building permit gives a registered building surveyor's permission for your building work to go ahead and ensures that building regulations are followed. The most common reasons for building permits are to:



- construct a new building
- demolish all or part of a building
- alter or extend an existing building
- remove all or part of a building
- change the use of an existing building

Contact the municipal building surveyor at your local council. Alternatively, visit the Building Commission website to find a private registered building surveyor.

### Do You Need Licences, Permits or Registrations?

The licences, permits and registrations you need are mainly dependent on:

- the type of business you are running
- what activities you want to include in your operations

For example, a restaurant may need the following permits:

- To prepare and serve meals – a planning permit and a council food premises registration
- To sell and serve alcohol – a planning permit from the local council and a general liquor licence from Consumer Affairs Victoria
- To play recorded music – a background music licence from the Australian Performing Rights Association
- To have tables and chairs on the footpath – a permit to establish an outdoor eating facility from the local council

The easiest way to identify the range of local, state and federal licences, permits and registrations you will need is to go to [www.business.vic.gov.au/BLIS](http://www.business.vic.gov.au/BLIS). Click on 'Search the Victorian Business Licence Information Service (BLIS)', choose the type of BLIS report you want and follow the steps. BLIS will then create an online report that provides you with:

- the local, state and federal licences, permits and registrations you will need for your business set up, such as a planning permit and GST registration
- downloadable application forms, or links to online registrations for those licences
- contact details for your local council and the other relevant authorities

\*This booklet contains a number of specific references to Victorian based resources and websites. If you are starting a small business in another State or Territory the corresponding websites are:

<b>ACT</b>	<a href="http://www.business.act.gov.au/businesslicences">http://www.business.act.gov.au/businesslicences</a>	<b>SA</b>	<a href="http://sa.bli.net.au">http://sa.bli.net.au</a>
<b>NSW</b>	<a href="http://blis.fairtrading.nsw.gov.au">http://blis.fairtrading.nsw.gov.au</a>	<b>TAS</b>	<a href="http://www.blis.tas.gov.au/BLIS/prod/info">http://www.blis.tas.gov.au/BLIS/prod/info</a>
<b>NT</b>	<a href="http://www.bli.net.au/nt">http://www.bli.net.au/nt</a>	<b>WA</b>	<a href="http://www.licence.sbdic.com.au/index.html">http://www.licence.sbdic.com.au/index.html</a>
<b>QLD</b>	<a href="http://www.sd.qld.gov.au/dsdweb/htdocs/slol">http://www.sd.qld.gov.au/dsdweb/htdocs/slol</a>		

## Running Your Business From Home

Research suggests that there are nearly **1,000,000** home based business owners in Australia and your first step is to contact your local council's planning department to get a copy of their specific guidelines for home-based businesses. To contact your local council, use the 'Find Your Local Council' search at the Department for Victorian Communities website.

Generally speaking, you can run a home-based business if:

- the home is your main place of residence
- you employ no more than one person who does not live there
- the total floor area used in the business is not more than **50** square metres, or one third of the total floor area of the home
- the business does not use more electricity, gas or water than normal domestic usage and it does not decrease the attractiveness or value of the neighbourhood (e.g. by creating an excessive amount of noise)
- nothing is offered for sale, except goods made or repaired on the site
- no goods are displayed so that they are visible from outside the site
- no vehicle is fuelled, serviced or repaired on the property
- only one commercial vehicle, not exceeding two tonnes capacity and registered to a resident, is present at any time

### Tax Deductibility

As a general rule, expenses associated with your home are private and you can't claim them as a tax deduction. However, in circumstances where you run your business from home you may be able to claim deductions for some of the expenses relating to the area you're using for business purposes. The expenses cover two broad categories - occupancy expenses and running expenses.

- **Occupancy Expenses** are related to ownership or rental of the home and are not affected by income earning activities. These expenses are incurred regardless of whether or not you are carrying on a home-based business. Occupancy expenses include rent, mortgage interest, rates and house insurance.
- **Running Expenses** relate to the use of facilities within the home including electricity, cleaning, depreciation and repairs to furniture and equipment in the office. These expenses would be less if you didn't run the business from home.

### What is Required?

Where you have an area set aside exclusively for business activities it must have the character of a 'place of business', including being:

- Clearly identifiable as a place of business (e.g. a sign at the front of the home)
- Unsuitable to be used for private purposes in association with the home (e.g. not suitable for someone to sleep in)
- Used almost exclusively for carrying on a business; or
- Regularly visited by clients.

Common examples are:

- Small business operators' main office
- Tradesperson's home workshop
- A Doctor or Dentist's surgery or consulting rooms



### How Much Can You Claim?

Generally you can claim the percentage of occupancy expenses (rent, interest, rates, insurance) that relate to the area you use for the business. Commonly the claim is based on the floor area used for business, as a percentage of the total floor area of the home. Utility expenses must also be apportioned. If the apportionment is not based on floor area you will need to clearly document the basis of calculation.

A telephone used exclusively for business can be claimed (i.e. rental and calls) but not the installation costs. If this phone is used for business and private use then the business portion is deductible, based on an itemised account. If an itemised account is not available you would need to keep a record for a 'representative' four-week period to establish a pattern of use for the whole year.

### **Travel Expenses**

Generally, travel between your home and place of work is considered a private expense. If your home is your principal place of business then you can claim the costs of trips between home and other places as a cost of running your business.

### **Capital Gains Tax Consequences**

Generally you don't pay Capital Gains Tax (CGT) on the sale of your principal place of residence. However, if you use your home as a place of business and claim a tax deduction for some of your mortgage interest then you will have to pay CGT if you make a capital gain on the sale of your home. The exposure to CGT will be based on the proportion of your home that is used for business purposes.

### **Insurance for Home-Based Businesses**

As a home-based business you need to make sure you have the correct type and level of insurance to protect you and your assets. It is an alarmingly common misconception among home-based business operators that their business is adequately covered by a standard home and contents insurance policy. It's important to also note that many policies don't cover tools of trade, office furniture or computer equipment used for your business unless you have specifically advised your insurer.

For home based business owners there are several types of insurance to consider:

- Public liability cover for persons visiting your business at home (e.g. customers and suppliers)
- Workers compensation for any employees working from your home - see employing staff section
- Fire, storm and theft cover for the loss of any stock and equipment
- Professional indemnity insurance (especially the service industry or contracting to Government)
- Personal income protection insurance – see insuring the business section
- Costs arising from interruption to your business

### **Public Liability**

If your business requires your customers or the general public to visit your home you should consider taking out a separate public liability insurance policy.

There is no legal requirement to have public liability insurance, however, one claim could put you out of business. You may also find that, depending on the type of work you do, some clients insist that you have public liability insurance as a term of your contract.

You can obtain public liability insurance via your insurance broker. It is very important that you discuss with your broker all the risks arising from your work activities so that a policy covering the main issues can be obtained. For example, if your business involves maintenance or modification to your clients' premises you will need cover for any damage caused, which may not be a standard part of all public liability policies.

**Burglary Insurance** policies cover theft of property and damage by burglars, following forcible entry to your premises. Under some policies you can also claim for business interruption. This type of policy does not cover theft by a shoplifter or staff.

**Business Interruption or Loss of Profits** insurance provides cover if your business is interrupted through damage to property by fire or other insured perils. It ensures your anticipated net profit is maintained and pays your employee's wages, ongoing costs and additional working costs if alternative facilities are necessary. Normally, payment of a claim under this policy is conditional on your business being re-established.



## Financing Cars & Equipment

When starting a business you may need to finance a car, light commercial vehicle, truck or piece of equipment or machinery. You might even need to fit out a shop or office. The obvious advantage of financing the item is that you don't have to pay for the item upfront from your savings or capital. By financing the item you only need to fund the monthly repayments which can help preserve your capital.

There are a number of different ways to finance vehicles and equipment for your business including leasing and chattel mortgage. Each of these finance options potentially have different taxation, GST and FBT implications. They can also have a varying impact on your profit and cashflow.

As your accountants we are committed to saving you money and giving you the most tax effective advice including claiming back any upfront GST with your next BAS. When you decide to finance a motor vehicle, truck or piece of equipment for your business or farm simply call us as we have access to a vehicle and equipment service that provides up to 6 quotes from a panel of major lenders who provide wholesale rates of finance. It is a relatively simple application process because we already know your financial position. The chart below provides a brief summary of the various finance options.

Question	Hire Purchase	Chattel Mortgage	Lease	Novated Lease
Trade in or cash deposit can be used to reduce the amount financed	✓	✓	✗	✗
How is GST applied to the finance	GST Inclusive price financed. No GST on repayments	GST Inclusive price financed. No GST on repayments	GST Exclusive price financed. GST applicable on rentals	GST Exclusive price financed. GST applicable on rentals
Can client claim full GST on next BAS	If client is on cash for GST, claimed over term of contract. If on accruals for GST, can be claimed on next BAS	✓	GST on monthly rental is claimable	GST claimable by employer during term of the novation
Documentation Fee	✓	✓	✓	✓
Registration Fee	✗	*See Note	✗	✗
Balloon/Residual value at the end of the term	Usually to maximum value allowable under ATO Guidelines for Lease	Usually to maximum value allowable under ATO Guidelines for Lease	Based on ATO Guidelines. GST payable on residual	Based on ATO Guidelines. GST payable on residual
Fix Interest Rate	✓	✓	✓	✓
Fixed Payments/Rentals	✓	✓	✓	✓
Client Tax Deduction for Depreciation & Interest	✓	✓	✗	✗
Client Tax Deductions for Rentals	✗	✗	✓ (Fixed Deduction each month)	✓ (Employer Claims)
<p>*ASIC Registration fee payable if a Company. Does not apply to individuals.  <b>Disclaimer:</b> The above table is produced for information purposes only. We do not provide, and the above table does not constitute, financial, accounting or taxation advice. We recommend that you and/or your client review the relevant documentation and form your own opinion or seek independent advice.</p>				

### Fleet Discounts

Through our association with a major discount car buying service we can save you hundreds (if not thousands) of dollars when buying a new car or light commercial vehicle. Discounts are available from over 20 different manufacturers and all you need to do is provide the precise specifications of the car you intend buying (including any non-standard extras) and we can get you an on-road price for the car.

## Claiming Motor Vehicle Expenses

With Motor Vehicle Expenses we urge you to contact us for professional advice tailored to your individual circumstances. This summary is provided only as a guide because there are a number of other issues to consider including:

- The guidelines do not apply to vehicles other than cars - for example, utility trucks or panel vans with a carrying capacity of one tonne or more, vehicles with a carrying capacity of 9 or more passengers or motorcycles.
- If you operate your business through a Company or Trust structure you might be able to claim all your motor vehicle costs but private usage may be subject to Fringe Benefits Tax (FBT).



If you use your car for income producing purposes, you could be entitled to claim a tax deduction for motor vehicle expenses. Examples of tax deductible motor vehicle usage include the following:

- You carry work tools or equipment that could not be left at the workplace
- If your home is your employment base, travel to a secondary workplace
- You have various places of employment and you regularly work at more than one site each day before returning home
- You use your car to travel directly between two separate places of employment (e.g. you have a second job)
- You travel from your normal workplace to an alternative workplace, such as a clients' premises

Once you have established your entitlement to claim your motor vehicle expenses, you can then select one of the four methods below and apply the one that provides the highest possible tax deduction.

**Method 1 - Cents Per Kilometre** - Your claim is based on a set rate for each business kilometre depending on your vehicle's engine capacity. Based on a reasonable estimate of travel you can only claim a maximum of **5,000** business kilometres and you do not need any written evidence to substantiate your claim.

**Method 2 - 12% Of Original Value** - Your claim is calculated at **12%** of the original value of your car (subject to Luxury Car Price Limits). Your car must have travelled (or would have) travelled more than **5,000** business kilometres in the income year and you do not need any written evidence to substantiate your claim.

**Method 3 - One Third Of Actual Expenses** - Your claim is based on one-third of your car's actual expenses. Your car must have (or would have) travelled more than **5,000** business kilometres in the income year and you need written evidence or odometer readings for fuel and oil costs. For all other car expenses you need written evidence.

**Method 4 – Logbook** - Your claim is based on the actual business use of your motor vehicle. You need to keep a vehicle logbook for **12** continuous weeks that documents your odometer readings for the start and end of each business trip. You can claim fuel and oil costs based on odometer records but you will need written evidence for all other car expenses.



## Employing Staff

You and your employees have certain obligations to each other under common law. You also have obligations under Federal and State Territory laws, industrial awards and agreements, tribunal decisions and employment contracts.



### Do You Need to Register For PAYG Withholding?

If you have employees you must register for PAYG Withholding and withhold amounts including:

- Income Tax for employees (including working Directors of a Company)
- Withhold **46.5%** from payments to suppliers who cannot quote an ABN

Before you withhold any payments, you need to register for PAYG Withholding. Like your GST registration, this can be completed at the same time and means that you will have either quarterly or monthly reporting requirements.

If you are a Sole Trader or Partner, the Tax Office do not regard you as your own employee. You 'draw' money from the business to live on but this is not technically seen as normal 'salary and wages'. As such, there is no need to register for PAYG Withholding and withhold amounts from your drawings unless the above examples apply.

### Do You Have to Pay Superannuation for Employees?

The Superannuation Guarantee Scheme, administered by the Taxation Office, requires all employers to provide a prescribed minimum level of superannuation support for each employee, subject to limited exemptions including:

- You paid a salary or wage of less than **\$450** in a month, or
- The employee is Under **18** years of age and worked less than **30** hours a week, or
- The employee is Aged **70** years or over

Employers must make the superannuation contributions on at least a quarterly basis. Payments must be made within **28** days of the end of each quarter.

- **1 Jul – 30 Sep** due by **28 Oct**
- **1 Oct – 31 Dec** due by **28 Jan**
- **1 Jan – 31 Mar** due by **28 Apr**
- **1 Apr – 30 June** due by **28 Jul**

If you fail to pay the minimum level of support (**9%\***) by the prescribed deadline you are liable for the superannuation guarantee charge which is equivalent to the amount of the shortfall plus an interest component and an administrative charge.

\*For superannuation guarantee purposes, the definition of an employee is broad and in some instances you may have to pay superannuation on contractors.

### Choice of Superannuation Fund

Since **1 July, 2005** employees can choose which superannuation fund their employer superannuation contributions are to be paid into. As an employer there are three steps you need to follow in order to meet your obligations:

#### Step 1: Identify your eligible employees

Your employees can generally choose their super fund if they are:

- Employed under a federal award
- Employed under a former state award, now known as a 'notional agreement preserving state award'
- Employed under another award or agreement that doesn't require superannuation support
- Not employed under any state award or industrial agreement (including contractors paid principally for their labour)



## Step 2: Provide a standard choice form to new employees who are eligible to choose a super fund

You need to provide your employees with a Standard Choice Form (NAT 13080) which can be downloaded from the ATO website. This needs to be done within **28 days** from the day they start work. They are not required to complete the form if they don't want to nominate a fund but you do have to give them the choice if they are eligible.

If an employee does not choose a fund you must pay the superannuation contributions for that employee into the fund you have identified as your employer nominated fund (default) fund. You need to make sure that the Standard Choice Form includes your employee's tax file number so that any contributions you pay are not returned to you by the super fund.

## Step 3: Act on your employee's choice

Once your employee chooses a fund you have two months to arrange to pay contributions into that fund. You need to start paying superannuation contributions to your employer nominated fund if:

- An employee does not choose a fund after **28 days**
- You have not accepted their choice of fund because they have not yet provided all the information you need.

## What is an employer nominated fund?

Your employer nominated (default) fund is the fund you pay an employee's superannuation guarantee contributions to if they do not choose a fund. The superannuation fund you choose must be a complying fund and from **1 July, 2008** it must also offer a minimum level of life insurance. The insurance cover must comply with the following requirements:

- A premium of at least **\$0.50** per week for those under **56** years of age
- The level of insurance cover must equal or exceed that shown in the table below, or
- If the contributions are made to a defined benefit fund on behalf of a defined benefit member the cover must equal or exceed that detailed in table below.

Age Range	Minimum Level of Insurance Cover
0-19	Nil
20 to 34	\$50,000
35 to 39	\$35,000
40 to 44	\$20,000
45 to 49	\$14,000
50 to 55	\$7,000
55 +	Nil

It is illegal for a superannuation fund to provide benefits to you as an incentive to use their fund as your default fund.

## Keeping Records

You must keep records that show you have met your obligations including:

- Records showing that a Standard Choice Form has been provided to all eligible employees
- Details of employees who do not have to be offered a choice of super fund
- Receipts or other documents issued by the super fund showing you have made superannuation contributions to an employees' chosen fund
- Records confirming your employer nominated fund is a complying fund and meets the life insurance requirements.

## WorkCover Insurance

- As well as your business insurances, you are also legally required to have workplace injury (WorkCover) insurance if your business falls into one or both of the following two categories:
- you pay or expect to pay more than \$7,500\* in wages, benefits and superannuation for employees
- you employ apprentices or trainees

If neither of those categories apply to your business, a workplace injury insurance policy is not a legal requirement. However, you should be aware that WorkCover has different classifications for 'employee' and 'contractor' and this can determine whether you need a policy or not. A quick visit to the Victorian WorkCover website should clarify this issue. Type 'workplace injury insurance' into the homepage and do a search. We can assist you in registering for WorkCover and have a preferred insurer.

\* Current rates as at the date of publication.

## Workers Compensation

If an injured worker applies for compensation, you must complete your section of the Compensation Claim Form and return it within **10** days of:

- knowing about the injury or
- having the injury reported to you or
- the relevant authority requesting this information from you.

You must also take all reasonable steps to help with rehabilitation and suitable duties while a worker is receiving compensation.

## Workplace Health & Safety

Each state has legislation regarding workplace health and safety. This legislation places an obligation on every employer to ensure workplace health and safety of their workers and any other person at a workplace. This includes people like visitors, salespeople and passing pedestrians.

## Documents Relevant to Recruitment

Documents that are related to the recruitment process may in fact be crucial to the operation and enforcement of laws relating to recruitment. Some of the numerous documents relevant to the recruitment process and the legal issues associated with these documents, include:

- Advertisements - employers must be careful not to breach equal opportunity laws
- Instructions to Employment Agencies - employers should put their instructions in writing to avoid confusion over what is required and the authority of the agent
- Application Forms - equal opportunity laws should not be breached and certain personal information should be carefully handled
- Employment Offers should be carefully worded. Once the offer is made and accepted, then a contract is formed and certain rights and obligations arise
- References - written references require careful handling. Defamation of an individual is possible if these documents are not properly handled.

## Records You Need to Keep

- Records relating to payments to Employees
- tax file number declarations and withholding declarations
- withholding variation notices
- worker payment records
- PAYG payment summaries
- annual reports
- superannuation records, and
- records of any fringe benefits provided.

The image shows a sample of a 'Tax file number declaration' form from the Australian Government. The form is titled 'Tax file number declaration' and includes a barcode. It contains several sections for the taxpayer to complete, including 'What is your tax file number?', 'Do you have a tax file number?', 'Do you have a tax file number?', 'Do you have a tax file number?', and 'Do you have a tax file number?'. The form is designed to be completed by the taxpayer and includes instructions for each section.





## The Business Plan

### “No business plans to fail – it simply fails to plan”

In this section, we are going to take you through the process of preparing a business plan. If you are starting a new business your business plan will need to consist of the following components:

- **A Contents Page:** Details of what is contained in your plan
- **Executive Summary:** This should be the first document in your business plan but it is the last one you prepare. It should not be much longer than a page and it simply summarises what your plan entails. It is intended to give the person reading your plan a broad overview.
- **Business Objectives:** A detailed description of the business strategy and objectives, i.e. what you are going to do and your mission statement.
- **Product or Service Profile:** A detailed description of the product or service you will be offering. If there is any machinery or equipment involved, supply extra details.
- **SWOT Analysis:** A list of your business Strengths, Weaknesses (and how you will deal with them), the Opportunities that your business will take advantage of and the Threats you have identified (and how you will deal with them).
- **Marketing Plan:** Marketing strategies, projections and sales forecast, including market analysis, supplying as much information as possible about the state of the marketplace you will be entering, details of competition, historical information on growth of the overall market, what area of the market you are targeting and any advantages or disadvantages you have over your competitors.
- **Financial Plan:** A detailed financial plan for the business, both short term (one year) and a longer term projection (say two to three years). Projecting beyond this period is probably pointless, especially in a new business.

### Preparing a Business Plan to Raise Capital

Poor cashflow is one of the major reasons why small businesses fail and raising finance for a new business with no history or track record is not easy.

If you require finance such as a bank loan or an overdraft facility, you must prepare a detailed business plan. Generally financial institutions will not even consider lending money without one and the more detail you can provide in your business plan, the more chance it will be successful.

In the projected cash flow you need to list details of the capital required to both start up and run the business. Your plan should also detail the intended use of the capital you want to borrow. For instance, will it be used for working capital or for the purpose of acquiring plant, equipment and machinery.

When calculating your start up costs you need to consider expenses such as:

- Accounting & Legal Fees
- Licences & Permits
- Insurances
- Office Equipment including printers, faxes, phones and a scanner
- Office Furniture including desk, chairs, filing cabinets, shelving
- Stationery such as letterhead and business cards
- Software
- Installation of Phone Lines
- Marketing including brochures, yellow pages listing and a website

It is also preferable to have a projected profit and loss statement and balance sheet, especially if you are going to seek a substantial amount of money. These are fairly complex documents and you should seek our help with their preparation.

## Managing Your Cash Flow

While the main reason most people prepare a business plan is to raise finance, your business plan should also be a blueprint for your business's future. It should also be a way of checking the viability of your business venture.

An integral part of the financial plan is the cash flow budget and a positive cash flow is an absolute necessity if your business is to succeed. Positive cash flow just doesn't happen - it needs to be planned. That's why we strongly recommend the preparation of a **12** month cash flow budget before you start the business. In fact, any business that fails to accurately forecast its cash flow in the first **12** months is headed for trouble because without realistic cash flow projections, management is unable to identify future cash shortages.

The cash flow budget is based on a number of assumptions regarding the expected future performance of the business. The assumptions must be realistic and supported by research, available data plus known facts such as rentals or forward contracts.

The information in your cash flow budget is designed to:

- forecast your likely cash position at the end of each month
- identify any fluctuations that may lead to potential cash shortages
- plan for your taxation payments
- plan for any major capital expenditure, and
- provide prospective lenders with key financial information.



Of course, positive cash flow alone is not enough. The business must be returning a profit and the long term trend for both must be positive. You will not only need to make sure your business is profitable, you also need to make sure you have enough cash available at the right time to pay all the bills. In particular, you must be able to pay your suppliers, staff and meet your tax and statutory liabilities including:

- **GST** – the GST you collect does not belong to you – you just collect it on behalf of the Tax Office. You must be able to pay this money (less any GST credits you are entitled to) to the Tax Office by the due date. Depending on your reporting cycle, this could be monthly, quarterly or annually.
- **PAYG Income Tax Instalments** – most small businesses make quarterly payments to provide for their end-of-year income tax liability. These payments are due when your activity statement is due. In your first year of operating a business, you will generally not have to pay quarterly PAYG instalments to provide for your income tax. Instead, you will have one income tax payment for the whole year so it's vitally important that you plan for this one-off lump sum payment.
- **PAYG Amounts Withheld from Employees' Wages** – under PAYG withholding, you must withhold tax from salary or wages to employees and payments to Company Directors. Most small businesses have to remit these amounts to the Tax Office each quarter with their activity statement. Don't ignore the fact that if you run your business through a Company structure, you are probably an employee of the company and will be captured under this section.
- **Fringe Benefits Tax** – if you have to pay Fringe Benefits Tax, you may have to pay quarterly instalments of your annual tax payable when your Activity Statement is due.
- **Superannuation** – Except in limited circumstances, if you have employees you will also have to make superannuation contributions on behalf of the staff. You must make sufficient superannuation contributions to a complying superannuation fund or retirement savings account for your eligible employees each quarter.

Being a financial tool, accuracy is important but this can be difficult with forecasting. For this reason we recommend you produce three different cash flow budgets based on best and worst case scenarios plus the most likely scenario.

We can assist you with the preparation of your cashflow budget using computerised spreadsheets that allow us to produce forecasts based on a number of 'what if' scenarios.

If you would like a copy of an 'electronic cashflow worksheet' similar to the template on page **40** of this booklet please contact our office.

## Preparing Your Cash Flow Budget

To prepare a cash flow budget follow these four steps:

- 
- |          |                                 |   |
|----------|---------------------------------|---|
| <b>1</b> | <b>Prepare a Sales Forecast</b> | If you're already in business, you can use previous sales figures as a starting point. If you're starting a new business, you'll have to use realistic estimates. Don't forget to take into account any seasonal fluctuations and consider looking at best and worst case scenarios.. |
|----------|---------------------------------|---|
- 
- |          |   |   |
|----------|---|---|
| <b>2</b> | <b>Estimate Cash Inflows (Receipts)</b> | For each month, only show the cash you expect to actually receive. This could be money from your customers, loans received, assets sold off or money you put into the business. |
|----------|---|---|
- 
- |          |  |   |
|----------|--|---|
| <b>3</b> | <b>Estimate Cash Outflows (Payments)</b> | Show only the money you expect to actually pay out in that period. This may be payments to your suppliers, staff wages, loan repayments, assets you expect to buy and money you take for your own use (drawings). Don't forget to include irregular payments such as insurance, rates, subscriptions and remember to allow for the tax payments listed above. |
|----------|--|---|
- 
- |          |   |  |
|----------|---|--|
| <b>4</b> | <b>Calculate Your Cash Balance at the End of the Period</b> | <p>The final step in preparing a cash flow budget is to estimate your closing cash balance:</p> <p>Cash on Hand at Start of Period</p> <p>+ Estimated Cash <b>Inflows</b></p> <p>– Estimated Cash <b>Outflows</b></p> <p>= Estimated Ending Cash Balance</p> <p>Your ending cash balance for the period becomes your opening cash on hand at the start of the next period.</p> |
|----------|---|--|
- 

### Using the Information in your Cash Flow Budget

After you have completed your cash flow budget and you're confident that it actually reflects your predicted position, you should be able to identify if you're likely to need an injection of funds to support the business. Careful planning might let you restructure the timing of certain payments to prevent the cash shortfall occurring. If this can't be done, you may need to consider where you can obtain finance to tide you over until your cash flow position improves.



## Projected Cash Flow

The Projected Cashflow Statement is probably the most important part of your business plan. Cashflow is the lifeblood of a business and the lack of it will kill the business very quickly. Put simply, the cashflow statement is a record of when all income is received by the business and when all payments are made by the business including tax. Your statement needs to start at the set up stage with a zero bank balance and initial cash injection to ensure that the true cash requirement for your business is tracked from the very beginning.

Month	1	2	3	4	5	6	7	8	9	10	11	12
<b>Cash Balance at the Start of Each Month</b>												
<b>RECEIPTS</b>												
Cash Sales												
Bank Loans												
Collections from Debtors												
Owners Contributions												
Investment Income												
Other Receipts												
<b>Total Cash In for the Month</b>												
<b>PAYMENTS</b>												
Stock Purchases												
Accounting Fees												
Advertising & Promotion												
Bank Charges												
Heating & Lighting												
Equipment Purchases												
Furniture & Fittings - Purchases												
Insurances												
Interest												
Loan Repayments												
Leasing												
Motor Vehicle												
Printing, Postage & Stationery												
Rent												
Telephone - Office												
Telephone - Mobile												
Salary & Wages												
Superannuation												
PAYG Tax												
Income Tax												
Other Expenses												
<b>Total Cash Expenditure for the Month</b>												
<b>Net Difference in Cash In and Cash Out</b>												
<b>Cash Balance at the End of the Month</b>												

## Projected Profit & Loss

For a new business, the profit and loss statement for the first twelve months should be calculated on a monthly basis and should include the establishment costs as previously mentioned plus non-cash items such as 'depreciation'. It is an important document as it will be used to calculate any projected tax liabilities for your cash flow budget section. We can assist you with the preparation of the profit & loss statement.

Month	1	2	3	4	5	6	7	8	9	10	11	12	Total
<b>SALES / INCOME</b>													
Less Cost of Goods Sold													
<b>GROSS PROFIT</b>													
<b>LESS EXPENSES</b>													
Accounting Fees													
Advertising & Promotion													
Bank Charges													
Depreciation													
Heating & Lighting													
Insurances													
Interest													
Leasing													
Motor Vehicle Expenses													
Printing, Postage & Stationery													
Rent													
Telephone - Office													
Telephone - Mobile													
Salary & Wages													
Superannuation													
Other Expenses													
<b>TOTAL EXPENSES</b>													
<b>NET PROFIT</b>													
Provision for Tax													
<b>PROFIT AFTER TAX</b>													

## Projected Balance Sheet

The main aim of your balance sheet is to identify the net worth of the business owner(s). It feeds off the results of both the profit and loss statement and the cashflow statement. For new businesses, the most common cause of failure is insufficient equity and for this reason we strongly suggest you get a snapshot of your equity at start up, at six months and at twelve months.

BALANCE SHEET	Start Date	Six Months	Year End
<b>ASSETS</b>			
Cash			
Debtors			
Stock			
Capital (plant & equipment)			
Other			
<b>TOTAL ASSETS</b>			
<b>LIABILITIES</b>			
Loan			
Overdraft			
Creditors			
Provisions			
<b>TOTAL LIABILITIES</b>			
<b>NET ASSETS</b>			
<b>SHAREHOLDERS EQUITY</b>			
Capital (shares)			
Retained Profits			
<b>RETAINED SHAREHOLDERS EQUITY</b>			



## This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

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