
Client Information Bulletin

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Investment allowance, depreciation and capital allowances

The Government has issued a new \$4.7bn economic package to stimulate business investment and encourage capital expenditure.

As part of this the Government has introduced the following 'capital investment allowances' in relation to 'depreciable assets' (plant, equipment and motor vehicles) acquired between 13 December 2008 and 30 June 2009. To be eligible the assets must be 'installed ready for use' by 30 June 2010. This means:

- 'Small businesses' acquiring assets costing more than \$1,000 will be allowed an additional tax deduction of 30 per cent of the assets' cost; and,
- 'Other businesses' acquiring assets costing more than \$10,000 will be allowed an additional tax deduction of 10 per cent of the assets' cost.

Before preparing financial statements and income tax returns there are some issues that need to be addressed as a single asset might be subject to various depreciation treatments and may or may not be allowed the 'investment allowance' claim.

These are some of the issues:

- The assets need to be 'new'
- The 'investment allowance' is available where the depreciation claim is prepared under the depreciation provisions of Div 40 of the *Income Tax Assessment Act 1997* (Cwlth)
- 'Capital works' do not qualify for the allowance (these claims are prepared according to Div 43 of the ITAA Act)
- A 'small business entity' which chooses to claim depreciation according to the 'simpler depreciation rules' (Subdivision 328-D of the ITAA Act) will not be able to access the allowance. Therefore a 'small business entity' will need to elect to use Div 40 of the ITAA Act in relation to these assets
- The investment allowance is not 'accounted for' in the financial statements. It is a deduction which is claimed only in the tax return. Therefore, there will be a difference between accounting profit and taxable income
- It is also possible for a business to maintain a depreciation schedule for accounting purposes and a separate depreciation schedule for tax claim purposes.

Note for car buyers

As only new cars are eligible for the new investment allowance, it may now be better to buy new business cars.

Tax bonus payment

Below is a brief guideline regarding the Government's tax bonus payments:

- If your 2007-08 taxable income was up to and including \$80,000 the bonus is \$900
- If your income exceeded \$80,000 but did not exceed \$90,000 the bonus is \$600
- If your income exceeded \$90,000 but did not exceed \$100,000 the bonus is \$250.

To receive the payment your 2007-08 income tax return **must** be lodged by 30 June 2009. The first round of payments will commence from April 2009. Those who have already had their returns assessed will be the first to receive their payments.

Tips to survive the current global financial crisis

During deteriorating economic conditions, businesses often experience reduced revenue as customers strive to limit their discretionary spending. It is critical for business owners to take steps now to minimise the damage to their business.

Here are some practical tips for recession-proofing your business:

1. Control costs

High performing businesses have a willingness to listen to everyone within their organisation. Employees often

have powerful ideas and suggestions to cut costs and save money. The best time to implement these measures is during an economic slowdown, but make sure that these reductions do not impact revenue in a negative way.

2. Stay focused on your long term goals

Do not get unduly distracted by the present economic conditions, stay focused.

3. Control inventory

During harder times, the last thing you want to do is get stuck with excess inventory. Inventory on the shop floor is locked up cash.

4. Use effective marketing and communication strategies

The first and easiest reaction for many businesses is to cut marketing and communication expenditure. This can however have a detrimental effect on future revenue streams for the business. During a recession you need to re-assess your marketing strategies to make sure they are cost effective. If you are not seeing a good sales return from every dollar spent on promotions, then you are wasting valuable resources.

5. Maintain prices

During quieter times you may be tempted to slash prices to generate more business. Generally, this is a poor strategy, as it dilutes the value of your product or service and also reduces your profit margin in the process.

6. Deliver outstanding customer service

When money is tight, customers often expect more for their dollar. Taking a customer focused approach and adding value wherever possible will ensure

you retain their business. The use of flexible payment arrangements is often regarded positively by customers. You may also like to conduct customer satisfaction surveys in order to make sure your customers' needs are being met.

7. Listen to your customers

During a downturn many of your customers will be feeling the pinch and they may have suggestions for your business. Take them on board, your customer's suggestions could supply you with new product and service opportunities.

8. Invest in employees

During economic downturns some businesses lay off employees, but what needs to be remembered is that most economic downturns are short-lived. A better approach is considering reduced working hours or bringing forward holidays to ensure valuable and experienced team members are not lost to your competitors. You should also discuss such matters with your employees to help maintain morale and reduce any unnecessary stress.

9. Improve your cash flow

Delay purchasing any non-essential capital items. If liquidity is becoming a problem ask your suppliers for extended payment terms. This is also a time to enthusiastically pursue any outstanding debts. Having cash on hand will help your business meet commitments to staff and suppliers and facilitate the future growth of your business.

10. Streamline and systemise

Create processes and systems that keep your operations flowing smoothly to save time and money in the long run. A debt collection procedure is important to have in times of tight liquidity. A systemised collection

procedure can stop slow paying customers from building up large unpaid accounts and will help reduce any pain if they become problem debtors.

Fuel tax credit rate change

There has been a change to the fuel tax credit rate for fuel used in heavy vehicles travelling on a public road. The rate to use when calculating claims will depend on when the fuel was acquired. This means:

- For fuel acquired from 1 January 2009 use the new rate of 17.143 cents per litre
- For fuel acquired before 1 January 2009 use the old rate of 18.51 cents per litre.

Purchase of business – Protecting your goodwill

When buying a business, protecting the goodwill of that new business is very important. Issues that should be considered during the negotiations and included in contracts include:

- **Key staff** – Key staff either remain with the business during the handover period, or transfer their knowledge over to the new owner. Fundamental staff retention issues should be addressed early in the transaction. They include the issue of who will be responsible for accrued leave entitlements.
- **Customers** – This might include providing sufficient time for the seller to introduce customers to the

purchaser by organising introductory visits.

- **Stock** – Supply agreements should be identified and transferred across to the new owner.
- **Intellectual property** – Business name/s, slogans, copyrights, trademarks, licenses, agreements, systems and processes should be identified and transferred.
- **Advertising agreements** – Advertising agreements should be identified and transferred, including permission to use artwork and designs.
- **Passwords, logins and keys** – These items, including software, security and telephone information should be transferred.
- **Eftpos facilities** – This must continue to function uninterrupted.
- **Permits, accreditations, compliance certificates and approvals** – While these are frequently overlooked they must be considered.

For example a rural corner store supplying postal services, fuel, gas bottles and alcohol involves:

- (i) Australia Post accreditation - a lengthy course, conducted in capital cities
- (ii) hazardous goods handling compliance
- (iii) liquor licensing accreditation.

Once the premises are taken over, the buyer will possibly already be overstretched just settling in. Therefore to avoid business interruption, the best time to ensure everything is in place is prior to the business being transferred or during a handover period.

- **Documentation** – The old and new business owners need to follow through to ensure all documentation relating to the transfer is completed. This can include share transfers and/or business name transfers.
- **Restrictive covenant** – The new business owner needs to ensure the vendor does not set up and compete against the buyer. This usually involves a restriction which is:
 - (i) to the extent of not participating within the industry
 - (ii) geographical ('x km's distance')
 - (iii) for a period of time ('x years from transfer')
 - (iv) extends to associates of the vendor ('related persons and entities and present and former employees').

Blaze Acumen can provide assistance if you are considering buying your first business or expanding a current business via acquisition.

Merits of a website

A website allows people to 'window shop' your business anonymously. Many consumers research products and business services online before purchasing. Having a website informs potential customers about your business. Consider the following:

- **First impressions count** – You need to see the website as an extension of your shop front. Is your shop front tired and unorganised or clean and bright? A professional looking website lets customers know your business is serious and is dedicated to their needs.

- **Design and layout is important** – Prospective customers make a judgement about your business based on the design of your website. People trust websites that look good.
- **Put your 'best' information first** – Try to get all the information on a single screen so there is no need to scroll down.
- **Keep content and navigation simple** – Put yourself in the position of a prospective customer. Does the website clearly inform them about your business? Do the headings make sense? Is it easy to find information about products and services? Are contact details available?

A website is a low cost, effective way to market your business. A website does not have a '30 second' time constraint so there is no rush to get the required information across.

Most importantly remember that having a badly designed, poorly laid out website can be more detrimental to your business than having no website at all.

Quality control in the accounting profession

Chartered Accountants are committed to ensuring professional standards are complied with for the benefit of their clients.

The community has increased its attention to the work undertaken by the accounting profession of late.

Quality control is a key feature of the self-regulatory framework supported by the accounting

profession, and Institute of Chartered Accountants in Australia.

Quality control is a system of policies and procedures designed to ensure an accounting practice complies with set professional standards.

Such compliance is required in relation to:

- **Independence** – Being free from financial, business and family relationships with clients which may impair the ability to be objective with clients.
- **Client evaluation** – Anticipating potential problems with clients due to lack of integrity of client management, or an inability to undertake requested services.
- **Professional development** – Appropriate and sufficient training in order to keep up to date and abreast of new developments.
- **Ethical behaviour** – Members conduct themselves in a manner consistent with the good reputation of their profession.

Members of the Institute holding Certificates of Public Practice must be reviewed by an Accredited Quality Control reviewer every five years, (three years for a Registered Company Auditor).

These reviews ensure the members' professional standards attain a high level of compliance.

High levels of Quality Control benefit clients of the practice by:

- Increasing the quality of service clients receive
- Increasing reliability of the end product
- Increasing value for money from the accounting services.



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