BUSINESS BULLETIN SUMMER 2018

FINANCES – Working Capital Loans

Essentially these are loans taken out by small business owners for working capital purposes. For example, they could be used to purchase a piece of equipment, effect a repair to a critical piece of equipment, finance an abnormal stock purchase, creditor payment or even to pay the Taxman. Essentially the full gamut of working capital usage is in scope. These types of loans have the following features:

- Smaller in amount
- Unsecured
- Able to fund purposes that would be outside the norm for mainstream lenders
- Quick to approve
- Quick to draw down
- Low documentation to establish and a more informal process
- More lenient approvals than conventional lenders
- Have more flexible repayment structures
- Higher interest rates than conventional products.

Advantages

This style of loan has advantages over conventional bank loans in that they are quick, easy to establish, allow leniencies on the purpose of the loan and the borrower, and don't use security such as property. The downside of course is the higher credit charge, so you would not normally use such a facility for a conventional borrowing such as an investment property purchase. On the other hand, if you are a relatively new business and want to commit to importing a line of inventory quickly to take advantage of a price discount, for example, then it may be ideal, as you can do it quickly, without security, without documentation and without justifying the serviceability of your new business.

KEY DATES

21 DECEMBER

Due date for November monthly Activity Statements

21 JANUARY

Due date for December monthly Activity Statements

28 JANUARY

Due date for quarterly Superannuation Guarantee contributions

21 FEBRUARY

Due date for January monthly Activity Statements

28 FEBRUARY

Due date for quarterly (Oct-Dec) Activity Statements

FINANCES – Working Capital Loans Cont...

Who Does The Facility Suit?

- Businesses who have to move quickly
- Businesses with less than perfect credit scores
- Businesses that have insufficient conventional loan security
- Businesses that can justify the higher than conventional loan interest rates.

Please note that these facilities will not generally suit businesses with ample, low-cost credit lines at their disposal or where the purpose is outside business working capital purposes such as personal loans and property loans.

Lenders

There are a number of lenders in the marketplace including MYOB Loans (powered by OnDeck); Finstro; Capify; Reckon Loans (powered by Prospa); and First Class Capital. There are many more who you can source online or through a broker. Each of the providers will have their own unique way of dealing and variances in terms, rates and features. Some offer some wonderful add-on tools and additional resources. If you want to find out more you should start with their website and follow-up with a call.

BUSINESS ADVICE – Five Key Things When Starting Out In Business

Mistakes made when commencing business can be expensive to rectify later on. Existing business owners may also find the following tips useful.

1. Funding and Equity Decisions

There are a number of ways to fund a new business including:

- Bootstrap (essentially, building a business from personal finances or from the operating revenues of the new business)
- Family and friends
- Personal loans
- Business loans
- Asset loans
- Debtor financing
- Angel capital
- Venture capital
- Crowdfunding.

Your personal circumstances will typically dictate what's possible, but be sure to do your homework and take advice.

Another way of gaining funding is to take on a business partner. This leads to a discussion of the very slippery issue of equity. Taking on a partner or granting equity to another person in your business is not a decision to be taken lightly. Equity can be forever. Once a person has equity, you will forever be sharing profits and/or ownership with them, and forever reporting and accountable to them. You should think long and hard about who can offer genuine, long-term strategic value to your business and who is merely undertaking a task or filling a role. If it's the latter, that person should generally not be a candidate for equity. The key here is to reward value not time.

There are no "hard and fast" rules, but here are some questions to ask when considering whether someone is deserving of equity in your business:

1. Will they deliver long-term value and be instrumental to the business' success?

2. Will they take the business to heights it couldn't otherwise get to?

3. Will they solve a crisis that threatens the business' livelihood?

4. Will they cause greater damage by doing their own thing?

Having decided that someone is deserving of equity, the style of equity they should receive is then a separate consideration again. There are once more a number of options which include:

- Full equity
- Dividend (profit) participation but not capital participation
- Phantom equity (in other words, a bonus scheme of sorts)
- Vesting equity (i.e. equity that vests gradually over time based on targets being met).

2. Choice of Trading Structure

When we talk about "trading structures", we are referring to a decision between sole trader, partnership, trust or company. Every circumstance is different and the right answer will sometimes be a combination of more than one entity. Utilising the wrong structure and needing to rectify it later on can lead to significant disruption and transaction costs, including capital gains tax and stamp duty. It pays to seek professional advice to come up with a structure that suits your circumstances, and is scalable and effective.

Among the considerations when choosing a trading structure are:

- Income Tax effectiveness
- Capital Gains Tax (CGT) friendliness in the event of a future sale
- Asset protection (both personal and for the business)
- Liability
- Estate and succession planning
- Cost (establishment and ongoing)
- Complexity
- Ownership requirements.

It may be cheaper to avoid using a professional advisor, but a simple mistake when choosing your structure can mean paying a much higher price later on.

3. Understand Your Statutory Obligations

When you're starting out in business, the excitement and frenetic pace can sometimes mean that the more mundane tasks can be neglected.

It is important to understand which government identifiers you will need, which include:

- Tax File Number (TFN)
- Australian Business Number (ABN)
- GST & PAYG-W registrations
- Business name registrations

Similarly, you should develop an awareness of your reporting obligations and their timings. This refers to the likes of:

- Financial statements
- Monthly or quarterly Activity Statements
- Annual Income Tax Returns
- ASIC filings (companies only).

And then of course there is arguably the trickiest area of all – employing staff. This spawns a myriad of issues which you should seek expert advice on, including:

- Distinguishing Employees from Contractors
- Determining the status of employees, i.e. casual vs part-time vs full-time
- Ascertaining rates of pay (including Awards) – employees are generally speaking incredibly sensitive when it comes to any mistakes made with their pay
- Understanding leave entitlements
- Obtaining TFN Declarations and Choice of Super forms
- Making quarterly Superannuation payments
- Preparing Payment Summaries.

4. Embrace Cloud Accounting

Cloud accounting, sometimes referred to as "online accounting", serves the same function as accounting software that you would install on your computer, except it runs on hosted servers and you access it using a web browser or app. Your data is thus stored and processed "in the cloud".

Cloud accounting can carry with it a host of benefits to business owners, stakeholders and advisors, including:

- Real-time
- Reduced data entry
- Intelligent software
- No more filing

- Automatic back-ups
- One version
- Mobility and flexibility.

In the Australian market, most of the major software vendors have cloud accounting offerings.

5. Surround Yourself With Good Advisors

Being new to business is not for the faint-hearted. It can be a lonely and incredibly daunting space. You need to pick a good team and that includes professional advisors who understand your mission and passion, and want to take the journey with you.

Regardless of the space that they operate in – whether it be accounting, legal, financial services or any other – the aim should be to choose advisors who are as much your partners in business as they are your supplier of services. Sometimes it will take a while to settle on the right advisors, but you'll know when the time arrives.

TAX TALK – Rental Property Deduction Crackdown

For the many people who own rental properties, on 15 November 2017 legislation was passed into law which limits deductions for individuals who own rental properties.

The new law will see most owners of residential (as distinct from commercial) rental properties which are deriving rent from tenants living in the property denied deductions for travel expenses related to their properties. This law is backdated to any travel undertaken from 1 July 2017 onwards. The legislation is quite wide in scope and covers travel for all purposes including travel for the purpose of inspecting, maintaining, and collecting rent, as well as undertaking repairs and maintenance, and also for seeing your Tax Agent for advice or services in relation to the property. Furthermore, the travel expenses cannot be capitalised either. That is, they cannot be included in any element of the property's cost base or reduced cost base (and therefore cannot decrease your capital gain or increase your capital loss when you sell the property). Therefore, the travel expenses – such as airfares, accommodation and motor vehicle expenses – are disregarded altogether.

The key take-away points are:

- Only travel related to residential rental properties (as distinct from commercial properties) is denied a deduction and cannot form part of your cost base
- You can still claim a deduction for the cost of employing other parties to carry out tasks on your behalf (such as real estate agents for carrying out property management services such as inspections, or tradespeople for carrying out repairs). Indeed, where your travel expenses are significant, you may now wish to consider engaging the services of these other parties.
- The strategy of combining a weekend holiday with travel to your rental property, and apportioning the deduction is no longer allowable. None of the travel is deductible from 1 July 2017.

Year End

With the holiday season almost upon us, here's a few timely reminders before the Christmas break.

- Although generally you are not permitted to instruct an employee as to when to take annual leave, exceptions apply for firm-wide Christmas closures. Under the Fair Work Act, if your firm is shutting down over the break, then this will be compulsory annual leave for your employees – they won't have a choice. Appropriate notice of the close down should be given.
- If you are shutting down over Christmas, you may wish to notify major suppliers of your closure and re opening dates. On an individual level, staff should be setting auto-reply messages on their email, advising those who contact them while they are away of their return date, as this may vary from person-to-person within your organisation.
- If you account for Fringe Benefits Tax (FBT) under the actual method (this is the default method used by most employers) keep Christmas gifts and Christmas parties for staff and their partners to under $300 per head this Festive Season. By doing this, these gifts and celebrations will likely be exempt from FBT.

This information is provided by Australian Bookkeepers Network Pty

www.austbook.net

AUSTRALIAN BOOKKEEPERS NETWORK