



Illingworth David
Accountants & Consultants

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Business Plus+
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Succession Planning Has To Be Planned!

Well managed businesses plan and budget for sales, expenses, cashflow and growth. At the same time businesses should be planning for, and anticipating, the various changes that do occur in businesses through death, disability or retirement of a key person or any other event that may cause problems within the business.

Research indicates that the vast majority of family owned businesses do not have a formal succession plan in place. Ignoring the consideration of financial arrangements and rearrangements that will be necessary for businesses in the event of the death, disablement or retirement of family members can dramatically affect the value of a business. In the worst case scenario, the business itself could collapse and the family left with immense problems.



Some of the items that can be planned relative to succession planning include:

- Setting up and reviewing plans for changes in leadership.
- Maximizing the value of the business.
- Installation of mentoring so as to ensure that skills are passed on.
- Having informed stakeholders.
- Documenting relationship agreements so that the details are known to successors.

Unfortunately, just as night follows day, retirement and then death, will occur to all business operators. After all the sweat and toil that has gone into establishing a business, some consideration should be given as to what would happen to that business if the current principals or key persons were no longer available. Succession planning is very important and it should start at the very beginning of the life of the business.

If you would like to receive a “**What Would Happen If?**” questionnaire on succession planning, please contact us.

R and D Registration Deadline

If you are operating as a company and wish to claim an accelerated deduction or a rebate relative to Research and Development expenditure for the year ended 30th June 2010, then the latest date the company can register with AusIndustry is 30 April 2011.

If you have any queries on the R & D system, please contact us.

Annual Leave Loading

New back pay headache.

By Adrienne Unkovich, MD, Workforce Guardian

A new approach being taken by the Fair Work Ombudsman (FWO) on leave loading has the potential to leave you facing back-pay claims. The new approach being endorsed by the FWO requires annual leave loading on accrued annual leave balances be paid out when employment ends - **even if a Modern Award does not require the loading to be paid**. Essentially, the reasoning behind this is that employees should be not disadvantaged for not taking their accrued annual leave before their employment ends.

The new advice has come about after the Commonwealth Government sought advice from the Australian Government Solicitor. The advice states that the National Employment Standards (NES) - which guarantee minimum work entitlements - provide that upon termination any accrued annual leave entitlements must be paid at the rate they would have been paid had they taken the annual leave whilst still employed.



So while a Modern Award may expressly stipulate that leave loading is not payable on termination, that particular provision is meaningless. The NES overrides terms in Modern Awards and agreements that are less generous.

Essentially, what this means is that if your Modern Award provides for leave loading on accrued annual leave, then you must pay leave loading on termination or resignation. To make matters worse, the FWO has indicated that employers should pay out leave loading retrospectively to 1 January 2010. It's this retrospective nature of the ruling that has the potential to hit employers hard and, at the end of the day it's simply neither fair nor reasonable for employers.

If you have not paid leave loading on accrued holiday pay to exiting employees (because the Modern Award provisions indicated otherwise) then you are now exposed to back pay claims from every one of those employees who want to recover the unpaid annual leave loading.

103 out of a possible 122 Modern Awards affected

With only 19 of the total of 122 Modern Awards unaffected by this new advice, there's a high probability that your business may be affected.

What you need to do now is:

- Review the terms for annual leave loading in the Modern Award(s) for your employees;
- Review whether you've paid leave loading on accrued annual leave to any exiting employees;
- If yes, you are compliant with this new advice;
- If not, alert your financial team that you'll need to set up a contingency to cover any unpaid amounts in this year's account.

Of course there's nothing you could have done to prepare your business for this and, while it may be reassuring to know that the FWO is unlikely to penalise your business for this underpayment, you will still be required to pay the loading.

Self Education Expenses

The Australian Taxation Office has recently released a Decision Impact Statement in regards to "Self Education Expenses and Youth Allowance". In prior years, the ATO has always been of the position that deductions cannot be claimed against Youth Allowance, however this was overturned in the Anstis Case decided in late 2010. The ATO now states that eligible full time students are eligible to claim self education expenses against their Youth Allowance income.

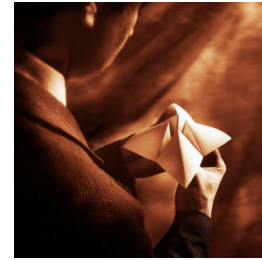
The ATO has advised that it will be contacting all taxpayers who declared Youth Allowance in their 2007, 2008, 2009 and 2010 income tax returns and advising taxpayers that they will be entitled to an automatic \$550 income tax deduction each year without the requirement for any substantiation and that the ATO will automatically amend these returns on the taxpayers behalf.

If you have any queries on this please contact us.

Key Aspects To Achieve Business Success

In most cases business success will not occur unless the Small Medium Enterprise operator has undertaken some detailed planning and introduced systems which have enabled:-

- Financial analysis on a regular basis so that the business performance can be compared against budgets and benchmarked against industry standards.
- Preparation of performance indicators and reviewing KPIs against preset targets and other organisations against which the business is being benchmarked.
- Analysis of resources so as to enable the assessment of the capabilities of the business and determination of the improvement required.
- Marketplace review so as to ensure that the business has recognised the opportunity and is also aware of threats in the marketplace.
- Development priorities – this is where you list what you are going to achieve over the next 3, 6 or 12 months as part of a business plan.
- Business plans for businesses are like “maps for tourists”. One of the key ways of developing a business plan is by conducting isolation planning meetings every 6 months.



This will include an analysis of:

- What action is required?
- Who is going to do it?
- What is the targeted completion date?

These strategies should be written down and reviewed on a regular basis to ensure that implementation has been achieved. Please contact us for a discussion if you would like assistance regarding developing your business strategies.

Business Plans - Questions To Consider

Taxation - Have adequate systems been implemented for recording transactions relative to Income tax?

- Pay As You Go installments?
- Pay As You Go withholding amount (withheld from salaries and wages)?
- Pay As You Go withholding amounts from payments to businesses which have not quoted an ABN?
- Fringe Benefits Tax?
- Goods and Services Tax (GST)?
- Has your system been reviewed to ensure that your organisation would be able to satisfy a taxation audit?
- Is your business conducting a research and development activity? If so, is the business operated as a company?
- Have adequate systems been implemented for recording transactions relative to income tax?
- Has the business instigated systems for a proper recording of research and development?
- Have you had a review undertaken of any trust deed to ensure that the trust deed is up to date and still applicable with current laws and interpretation of the laws?
- Has a complete review been made of all benefits that the business is paying staff, to ensure that the Fringe Benefits Tax return is being accurately prepared?
- Are all employee packages properly documented so that you are aware of all fringe benefit requirements?
- Has staff been made aware of their responsibilities relative to completing their motor vehicle log books, proper recording of expense claims, documentation of travel expenditure, documentation of entertainment expenditure, documentation of overseas travel expenses, recording of annual kilometers on the odometer on the 31 March each year?



There are over 50 questionnaires relating to the preparation of a business plan, in the next issue we will consider Periodic Financial Accounts.

What's It Mean?

Break Even Sales

Is the level of sales necessary to cover all fixed and variable expenses (i.e. no profit or loss).



Example: If the fixed costs were \$722,000, the variable costs were \$319,000 and the business was achieving a gross profit of 48%, the calculation of the break even sales would be:

$$\frac{\text{Total of Fixed and Variable Costs}}{\text{Gross Profit}} \times \frac{100}{1} = \text{Break Even Sales}$$

Example:

$$\frac{\$1,041,000}{48} \times \frac{100}{1} = \$2,168,750$$

Proof:

Sales				<u>\$2,168,750</u>
Gross Profit: 48%				\$1,041,000
<u>Less: Fixed Cost</u>	-	\$ 722,000		
<u>Less: Variable Costs</u>	-	\$ 319,000		<u>\$1,041,000</u>
Profit/Loss				<u>NIL</u>

Management should be aware of the break even sales figures for their business, or individual operation, so as to assist in the strategies being prepared for the business for individual business operation.

Fringe Benefits Tax

At the 31 March every business that is paying Fringe Benefits Tax should have recorded odometer readings of each motor vehicle. Fringe Benefits Tax is payable on fringe benefits made available to employees including car, loan, debt waiver, expenses payment, housing, board, airline transport, living away from home allowance, entertainment, car parking (in some cases), property and residual fringe benefits.

There are 13 categories. If a benefit does not fit into any of the other 12, it will be classified as a Residual Fringe Benefit. The Fringe Benefit Tax year runs from 1 April to 31st March each year.

Fringe Benefits Tax returns have to be lodged by the 28 May (if the return is being prepared by accountants and taxation agents). If you believe you are paying fringe benefits and have not previously lodged a return, or you would like to have a discussion with us relative to Fringe Benefits Tax, please contact us.

REMINDER: End of Year Tax Planning

- Strategies to Reduce Tax
- **Personal Tax Planning**
- Investment Property considerations
- **Income Protection**
- Superannuation & Tax planning
- **Salary Packaging & Tax planning**

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An Important Message

While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.



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