

Q1 2019

BUSINESS MATTERS

Strategies
for managing
your business



INSIDE:

- Common FBT errors employers make
- Supporting a grieving employee
- Are your business practices ethical?
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Make 2019 your best year ever

Coming out of the holiday period is usually a slow time for businesses but there's never been a better time to get on top of things.

The New Year brings business owners great motivation and opportunity to bring their business to greater heights. Whether you want to get on top of your business' finances, relationships, policies, or whether you want to finalise your business plan for the year, setting your 2019 business resolutions allow for greater organisation, clarity, and sense of direction. Many studies show that identifying goals increases the likelihood of achieving them.

Here are three business resolutions:

Review your supplier relationships

While you review your budget for the year, consider if your suppliers are the most competitively priced for their quality of service. Take the time to research alternatives against your performance indicators. If you don't have any already, establish a system to track and evaluate the performance of your suppliers as it is crucial to the efficiency and profitability of your business. While it is important to cut underperforming suppliers, it is just as essential to maintain good relationships with your suppliers to begin with. This includes

actively involving your suppliers in strategic meetings that involve them to help with any negotiations further down the track.

Improve your branding

Developing and protecting your brand is essential to differentiate yourself in a competitive market. Start by reviewing your marketing strategy and get to know your market by gathering consumer data and conducting customer surveys. Make the effort to consistently improve and update your website at regular intervals and strategically utilise social media channels for a strong digital presence. Consider hiring a marketing consultant that can help guide your brand.

Update your business goals regularly

Setting your goals is one matter, but following them through requires commitment. Consider making your goals and plans by the quarter instead of the year. By reviewing your business plan, budget, and goals regularly with your team, your goals will be more specific and relevant to the business and will give you greater motivation to achieve them. Another tip to stay motivated with your goals, is to build an emotional attachment with them. Motivation to 'make more money' could be increased when you consider how that will affect your family and loved ones.

Supporting a grieving employee

Losing a loved one is a deeply painful, yet inevitable experience, which is why your business should be prepared to support a grieving employee.

In difficult times, your workplace should treat mourning staff members with as much compassion and sensitivity as possible. Sometimes this is easier said than done as fulfilling the needs of a distressed employee cannot compromise your business' productivity.

Common FBT errors employers make

The end of the FBT year is fast approaching and the ATO has revealed certain areas of concern for employers.

Living-away-from-home allowance (LAFHA)

An allowance to compensate employees living away from home to work, employers are susceptible to claim reductions for ineligible employees, not obtaining the required declarations from employees, and claiming deductions for exemptions (such as invalid accommodation and food components)

Provided motor vehicles

Employers are reportedly not declaring the use of employer-provided motor vehicles on FBT returns, resulting in inconsistent exemption applications and additional compliance costs. A car benefit can be taxable even if the employee has not driven the car – it only has to be available for their private use.

Employee contributions

The ATO has identified that employers are often not able to show the employee's obligation to make an employee contribution. Without an agreement in place with the employee, employers are unable to offset an existing liability. It has also been reported that employers have been taking advantage of excess employee contributions from one fringe benefit type to offset an FBT obligation relating to another fringe benefit type.

Follow these steps to make sure you can help a grieving employee get back on their feet while keeping your business on track.

Have a face to face

Once your employee is able to make it back into the office, you should call them in for a face-to-face chat. You can offer your condolences, show empathy for their suffering and give them the chance to vent in a safe and private space. This meeting also gives you the opportunity to check in on how your employee is doing and assess whether or not they are ready to continue working.

Offer time off

Your employee may need a break to get their affairs together, manage funeral arrangements, and process their emotions. Your full time and part time employees are entitled to two days of paid bereavement leave after the death of a close family member. Keep in mind that the grieving process takes time and your employee may need to take extended leave.

Adjust their workload

If your employee returns to work shortly after their loss, ensure their workload is manageable.



You may need to relieve them of some of their responsibilities and limit client facing tasks.

Get your staff on board

Your staff should be notified of your employee's loss so they are treated with sensitivity. Encourage your employees to take on extra work and provide emotional support to assist your grieving team member in their time of need. Consider organising a fundraiser to help with funeral costs or make a donation to a relevant charity to show your office support.

Proposed tax changes to Division 7A

Small to medium businesses are to be affected by proposed tax changes to the Shareholder Loan rules in Division 7A. The changes are expected to apply on 1 July 2019.

Perhaps the most notable proposed change is the introduction of the 10-year loan model to replace the existing 7-year and 25-year loan models. The current rule, first introduced in December 1997, is that if a private company provides a benefit to a shareholder or their associate, the recipient would be taxed as if they were dividends. This is applicable when the loans are funded from profits taxed at the company tax rate.

But there are a number of exceptions to the rule. One is when the value of the benefit is converted to a loan and is considered a complying loan (according to the requirements in Division 7A). Interest charges and principal repayments over a 7-year period (for an unsecured loan) or a 25-year period (for a secured loan) are also exempted.

Loans entered before December 1997 are also currently exempted from the general rule but the

proposed changes are to see that these previously exempted loans are not only to be subject to Division 7A, but also require a 10-year fixed term for repayments. Experts say businesses who have loan agreements for decades will now be forced to find the money to pay them off faster.

The new loan model will have a variable interest rate and payments of both principal and interest in each income year.

The Treasury is still reviewing the policy.



Are your business practices ethical?

Safeguarding your ethical business practices and introducing new ones could be the best thing for your business.

Do ethics matter for your business?

In short, yes. Living in the 'Information Age' has meant that employees, businesses, and the general public have access to more information than ever before. Not only are your business' public behaviours increasingly scrutinised, but also your employees'. Combining this with the recent growth in consumer activism and the increase in litigation related to corporate social and environmental behaviour, it doesn't take long to realise that a single action of unethical behaviour can take down a company. Fortunately, the converse is also true - actions supporting ethical behaviours are given a greater focus and have bigger impacts for businesses when promoted.

Even without increased scrutiny, public perceptions of business practices and the costs of criminal and civil liability are simply the reflection of society's concerns. A recent university study found that 86% of millennials find it a priority to work in companies that are socially responsible and ethical. What's more, a 2018 study saw that less than half of millennials believe businesses behave ethically. Ethical practices not only affect

whether your business attracts new talent but also whether your business has the potential to thrive in the future with increasing competition. In essence, good ethical and sustainable practices mean for good business too.

Recognising ethical and unethical behaviour in your organisation and industry

Although defining whether something is ethical is highly subjective, this article judges ethics along these indicators:

• **Corruption and fraud:**

Ethical businesses do not engage in fraud and corruption in any and all areas of their business. This includes supply chain, operations, employment, marketing, accounting and finance. Unethical behaviours can include exploitation, manipulation, misrepresentation, inaccurate financial reporting, hiding losses, embezzlement or unethical investing. By not engaging in corruption and fraud, you are recognising that these actions can not only cause harm to your business but also the society and environment as well.

• **Sustainability:**

Engaging in sustainability practices requires long term thinking and considers the needs and rights of future generations. Sustainable practices value diversity in natural, economic,

and cultural systems in all areas of business. These include supporting sustainable development, having social or environmental objectives (rather than just purely economic objectives), and improving supply chain management. By engaging in sustainability practices and showing corporate social responsibility, you are recognising the importance of uplifting other businesses, societies, and environments. It is the recognition that your own business is part of an interrelated system.

Ensure your operational practices and systems support ethical behaviour

It only takes a single employee to commit an unethical act that could ruin the reputation of the business. Make certain all your employees practise ethical behaviours in the workplace. Recognise how and when your organisation or industry culture motivates unethical behaviour. Ensure and promote that your operational policies, procedures, KPIs, budgets, and incentive systems support ethical behaviour.

Ensuring and adopting ethical practices not only protects your business, but allows it to be competitive, motivates employees, and attract the best new talent. It allows your business to operate sustainably and thrive well into the future.

Cash flow management tips for small businesses

Small businesses with cash flow problems put themselves at risk of failing or suffering financial hardship.

Cash flow provides a business with stability so they are able to pay employees, avoid loan defaults and pay the overheads necessary to keep their business up and running. Follow these tips to boost your cash flow so you can secure your business' future.

Perform a business health check

Preparing financial statements will give you an objective insight into the health of your business. Identifying if you have a cash flow problem is the first step to coming up with solutions. Looking into the following reports will allow you to see if your cash flow is up to scratch.

- A balance sheet will tell you what your business is worth on any given day. The value of your business is calculated by subtracting your liabilities from your assets.

- Profit loss statements reveal if your income is meeting your expense requirements. If your profit is dipping below your expenses it is time for a change.

- Cash flow reports reveal the money that is going in and out of your business over a set period and identify peak and off-peak periods

Use a business budget

After analysing your cash flow situation, is your cash flow cyclical? Creating a yearly budget is not only imperative to receive financing in future, but will also help you identify the best months to save to cover the quieter months. Where applicable, business owners can consider flexible rostering, whereby employing casuals and using a flexible roster can help you cut back on hours when you need to improve your cash flow in quiet periods.

When you have identified your quieter periods of

the year, try to find additional revenue streams for when cash is low. Is there a product or service that could be introduced? Work with your team for new ideas to cover low cash months.

Get on top of your accounts receivable

Allowing late repayments jeopardises your cash flow and can put you in a tight financial spot. Avoid being out of pocket by implementing some of these credit policies:

- Collect debts on time
- Offer an early bird discount to incentivise early repayments
- Set credit limits and payment terms
- Make credit applications and carry out credit checks on all new customers
- Penalise late payments with interest
- Consider cutting down on inventory
- Request upfront payment or a non-refundable deposit where viable, especially when dealing with large orders

Single Touch Payroll to include all businesses in 2019

On 1 July 2018, the Australian Tax Office (ATO) rolled out Single Touch Payroll (STP).

This changed the way employers with 20 or more employees reported their employees' tax and super information. Generally through payroll or accounting software that offer STP reporting (or through a third-party service provider), employers are expected to report information on withholding amounts, superannuation liability information or ordinary times earnings (OTE) and salary, wages, allowances and deductions.

The STP currently affects businesses with 20 or more employees, but just last month, the Senate passed a Bill for the STP to include all Australian businesses (including businesses with 19 employees or less), affecting at least an additional 700 000 businesses. Although the amendments to the STP are

currently being reviewed by the House of Representatives, the change is expected to be implemented on 1 July 2019.

Businesses with 20 or more employees

If you do not have STP reporting already, it's not too late to get started. Alternatively, you can apply for a deferral.

If you are unsure if your software has STP reporting, the ATO recommends talking to your software provider or tax professional.

Businesses with 19 employees or less

The effects on these businesses vary.

For now, businesses that already have digital payroll software are encouraged to talk to their software service provider to update their software if they want to start STP reporting now.

The ATO says businesses without such software will not be forced to purchase it, and different STP reporting options will be available by 1 July 2019 including:

- Exemptions if you have unreliable or no internet connection.
- Micro employers can report quarterly, rather than every time you run your payroll.
- Low-cost STP reporting options will include simple payroll software and mobile phone apps at or below \$10 a month for micro employers.

Adjusting to digital payroll software is a lengthy process, so take the time now to research different cloud-accounting software. However, also consider that the ATO is still finalising low-cost cloud-accounting solutions for micro employers.

Improving your niche marketing strategy

Improve your niche marketing strategy to stay ahead of the game.

A niche marketing strategy is one that targets a specific subset of a market and is not a strategy that is ideal for every business. However, if you have determined that a niche marketing strategy is right for your business, here are some things for you to consider to distinguish yourself from the rest.

Knowing and serving your customer

In a niche market, it is not only enough to just know your customers' demographics but also their beliefs, behaviours and desires. In doing so, you can better cater to their needs in your products or services and add more value to what you are selling. Customer service is especially essential for online businesses as there are no physical spaces to produce an

in-store experience. Serving your customer digitally can involve the customisation of a product or service, promptly responding to queries, or packaging the product in a way that aligns with your brand.

Storytelling

An emotional connection with a product or service can influence a customer's purchasing decision - storytelling is one of the most powerful methods to draw an audience in. Changing the 'About Us' section to 'Our Story' on a niche family business website may be effective, but it's just as important for the story to reflect the brand. Some business stories are told through their employees' or customers' testimonials and successes. Niche retail businesses may tell the story of their product's symbolism, unique features, designer, artist, or maker.

Be selective with your advertising platforms

Using social media is one way to gain visibility and to have a digital presence, but social media channels are often saturated with competitors and other distractions. Depending on your product or service, some customers may prefer to visit industry-related websites or use a search engine directly, rather than clicking on an advertisement on Facebook. Other customers would prefer to trust their friends and to gain knowledge through word of mouth. These businesses may gift an item to a circle they want visibility in. Ensure your marketing channels are cost-effective for your business.



Important tax dates

31 JANUARY

Lodge TFN report for closely held trusts if any beneficiary quoted their TFN to a trustee in quarter 2, 2018–19.

21 FEBRUARY

Lodge and pay January 2019 monthly business activity statement.

28 FEBRUARY

Pay quarterly instalment notice (form R, S or T) for quarter 2, 2018-2019.

21 MARCH

Lodge and pay January 2019 monthly business activity statement.