

5 things you need to know in 2010/2011

Stay cautious on the economy

Australia survived the global economic crises relatively unscathed but be wary, it might not be over yet as our economy is still susceptible to international conditions. We're predicted to grow at a comparably healthy 3.25% but that assumes that conditions remain reasonably consistent.

Not all that long ago a change in economic conditions in smaller European countries did not have a big impact on the international markets. However, economic conditions are fragile to the point where the defeat of an austerity plan in Portugal and Portugal's subsequent ratings downgrade had an immediate and significant impact on international markets (even though Portugal only represents around 1.89% of the Euro Zone economy). Of course the impact of Portugal followed Dubai's announcement in November 2009 that it was unable to pay its debts, followed by Greece's inability to pay its Euro 110b loan, then Spain. Dubai has friends willing to fund them but the same cannot necessarily be said for many of the European nations and they are not in a position to trade themselves out of debt with production in many countries seriously affected by the crisis. The fear is that there is no cash left (or anyone willing to lend to them) to get some countries out of debt so the slightest 'speed hump' in their recovery has a ripple effect across international markets.

In Australia, the economy is uneven. We're starting to see a slow-down in some sectors as the impact of the interest rate hikes (there was a substantial fall in new and used dwelling investment last quarter) and the end of the economic stimulus packages are felt (business investment was down 6% last quarter). Production within our economy is also slowing with a 0.9% fall in the March quarter. The strength of our economy continues to be driven by the mining sector and continued resource demand from China. Plus, with an election looming, everything slows down as the economy shifts into a 'wait and see' mode (except advertisers and media buyers perhaps!).

So, remain cautious and ensure that you plan for the next 12 months and keep a strong eye on performance.

Plan or perish

With a new financial year just under way you have the opportunity to financially map your business. If you get this financial mapping right, you reduce your risk and remove some of the surprises that can occur along the way.

Start by putting together an operating budget for the business. This should not be last years' figures adjusted by some percentage. Look at each line item and assess it critically. Start with your revenue and work up a reliable estimate of your income for the coming year.

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What changed on 1 July?

Superannuation pension relief extended

At the start of the financial crisis in 2008, the Government announced that they would halve the minimum pension payment amount - that is the minimum amount of pension that you have to take from your superannuation fund. This concession was extended through to the 2009 financial year. The Government recently announced that they will again reduce the minimum pension amount for the 2010/2011 financial year.

In practice what this means is that if you are say 65 years of age on 1 July and receive an account based pension from your superannuation fund, the minimum you have to withdraw is 2.5% of the account balance (instead of 5%). The continued relief means that retirees do not have to sell investments at an inopportune time simply to comply with the regulations.

New income tax rates

Taxable income \$	Rate %
0 – 6000	0
6,001 - 37,000	15
37,001 - 80,000	30
80,001 - 180,000	37
180,001 +	45

Superannuation clearing house open for business

If you are a small business with less than 20 employees, the Government run superannuation clearing house is now available. The clearing house is designed to ease the administration burden of paying multiple superannuation funds every quarter to manage your choice of super requirements. Payments are made by BPay to the clearing house. It's a free service. See www.medicareaustralia.gov.au/super/

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You should start to think about what marketing or other activities will be required to produce this income. Once you are comfortable with the income estimates have a look at your expenses and again work up your expenditure budget. Be tough on your costs. Can you manage them more effectively? Also allow for increases that are likely to flow through into the current year or any additional costs you will incur due to growth. Working through this exercise should allow you to produce your operating budget and identify your likely profit for the coming year. Once you have this figure then it might be an idea to do a couple of alternative estimates so that you understand the impact of changes in your assumptions.

Once you have your forecast profit position reduce that to a cash flow forecast. You need to know both your profit and cash position. Arriving at your cash position is about understanding the timing differences: How long will it take for your customers to pay you? How much stock will you need to hold? And, what are the payment terms required by your suppliers? With your cash flow, don't forget to allow for things like tax payments, loan repayments, dividends and any capital purchases that are planned. These can be 'big ticket' items and if you don't allow for them then you will get caught out.

As part of your cash flow forecast identify your capital expenditure requirements. Don't deal with these on a one-off basis as they arise, plan them in advance.

Once you have these in place you have your financial road map for the year.

Honeymoon over for SMSF

Over the last 12 months, there has been a myriad of new interpretations and legislative tinkering to ensure that no one can take their superannuation early or use it for a purpose other than retirement. The key things to watch out for are:

- Any scheme or plan that allows you to take your superannuation early.
- Make sure that you know what you can contribute to your super and how much you can contribute. If you accidentally put too much into your fund, you cannot simply take it back out. If you have a salary sacrifice agreement in place, make sure you review it for any salary changes so you don't breach the caps.
- Make sure any actions you take are supported by your trust deed. If you have not updated your trust deed lately you may not be able to take advantage of many of the options available. If it's not in the deed, you can't do it!

Mine or yours? Taking cash out of and into your business

The Tax Office has been very interested in the way business owners and operators distinguish between their cash and the cash inside a business.

Trusts are the latest in a long line of rules and regulations introduced over the last few years to pin down the flow of cash between different entity types and business owners and operators.

A common tool utilised by many businesses using a discretionary trust is to distribute income to a company, pay tax at the corporate tax rate but leave the distribution in the trust for use by the business owners. In effect, the distribution only occurs on paper. Owners then use the distribution as working capital to fund growth, or in some cases to fund personal assets. The Tax Office intends to tax any of these distributions that remain with the trust (called unpaid present entitlement) at the applicable marginal tax rate.

This change essentially leaves 3 main options:

- Ensure that distributions to corporate beneficiaries are paid in full before the company's lodgement day for the year in which the income is appointed;
- Put a complying loan agreement in place between the company and trust before the company's lodgement day for the year in which the income is appointed; or
- Look at restructuring to achieve the best result for the business or the business owners.

No more executive perks

If you've been one of the lucky few who have had private access to ski lodges, private boats and other assorted goodies owned by your company or a related company, the party is now over.

New rules introduced to the non-commercial loan rules crack down on these executive perks putting an end to them.