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The financial news your business needs. Spring 2012

BUSINESS Bulletin

Tax Office Targets

Hot off the press, the Tax Office has announced the areas it will be targeting over the coming year. You should exercise extra caution when dealing in these areas:

Individuals

Over the coming 12 months, the Tax Office will be focusing on:

- Incorrect and fraudulent returns
- The work-related expense claims of:
  - Plumbers
  - Information technology managers and
  - Defence Force non-commissioned officers.
- Tax avoidance schemes, in particular those entered into by medical practitioners and other high income earners
- Omitted income such as:
  - Interest
  - Dividends
  - Capital gains, and
  - Foreign income earned by Australian residents.

Micro Enterprises

There are approximately three million micro enterprises in Australia. These are defined as businesses with an annual turnover of under $2 million, or superannuation funds with less than $2 million in assets. Many employers are micro enterprises. Over the coming 12 months, the Tax Office will be focusing on a number of areas:

- The plastering and café industries, with a particular focus on unreported and unrecorded transactions (i.e. the “cash economy”)

Reminder Dates

September 21
Due date for August monthly Activity Statements

October 21
Due date for September monthly Activity Statements

October 28
Due date for Superannuation Guarantee contributions

October 28
Due date for quarterly Activity Statements (if lodging by paper)

November 11
Due date for quarterly Activity Statements (if lodging electronically)

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- Employer obligations, particularly the timely remission to the Tax Office of PAYG withholding amounts from employee salaries, as well as the payment of superannuation. The correct classification of workers (as either employees or contractors) will also be a focus, with some employers attempting to circumvent their tax, superannuation and leave obligations by incorrectly classifying workers as contractors
- The incorrect (and sometimes non-reporting) of taxable Government grants and payments
- Fuel tax credit claims, particularly in light of the changes made since the introduction of the Carbon tax.

Small to Medium Enterprises

This group has turnover between $2 million - $250 million, 80% of which have a turnover of no more than $10 million).

Target areas include:

- **Trusts** - The Tax Office intends to contact around 1 000 trustees and beneficiaries about a range of issues including lodgment, correct reporting of trust distributions as well as compliance with the trust TFN withholding rules
- **Tax-free distributions of profits** - where these distributions are made to shareholders or their associates, you need to ensure you comply with Division 7A of the Tax Act
- Non-disclosure and incorrect reporting of capital gains
- **FBT non-lodgment** – if you have provided non-cash benefits to employees or their relatives, check with your advisor as to whether you need to lodge an FBT return.

Business Tip – Carbon Tax Cops

If your business has experienced increased costs since the introduction of the Carbon tax, while you are certainly entitled to pass on any increases to customers, be mindful that the ACCC has been given extra funding to act as a "consumer watchdog" to ensure that the tax is not used as an excuse by business to unfairly increase prices. The ACCC has the power to impose fines of more than $6000 if your Carbon tax price increase claim is false or misleading.

If your business inputs have increased at least in part as a result of the Carbon tax, consider the following:

- You are not required under the law to explain why your prices have increased. You don't need to give reasons to your customers by explicitly attributing blame to the Carbon tax for a price rise
- If you do wish to communicate to your customers that the Carbon tax has caused your prices to increase:
  - Be careful not to attribute the whole increase to the Carbon tax where there are other factors at play. For example, you may wish to advise customers that prices have increased due to the Carbon tax and "other price pressures".
  - Have at least some supporting documentation to justify any Carbon tax price rise claim. This could take the form of invoices showing the impact of the Carbon price on your supply chain, or information from your professional advisors or industry association showing the impact of the tax on your business inputs.

HR - Redundancy Pay

Aside from State public sector employees, the vast majority of employees are now covered by the Federal workplace system. A feature of the Federal system is the requirement (in certain circumstances) to pay redundancy when an employee is let go.

When employees finish up at your business, while most employers are aware that accrued annual leave and long service leave generally must be paid out, the Fair Work Act also in some cases imposes a requirement for a redundancy payment – calculated according to the age and length of service of the departing employee. Subject to some exceptions, redundancy may be payable where:

- The award/agreement that the employee is employed under contains such an entitlement, or
- Your business employs 15 or more employees and the departing employee has performed more than 12 month's continuous service.

In summing up, redundancy pay can be a very significant impost on your business (in certain cases amounting to 12 week's worth of an employee's ordinary salary when they leave). Therefore, for a range of reasons including the cashflow impact, it's essential that you're across your obligations in this area.

For more information view 'Termination' 'Redundancy' at www.fairwork.gov.au

Show me the Money!

Did you know that the average "debtor days" for a small business is in excess of 55 days (i.e. the time it takes from issuing an invoice to collecting the money). During this period, you are effectively acting as the bank for that customer.

To improve your cashflow, debt management processes that you can implement include:

- Regular review of your Accounts Receivable
- Staged discipline of debtors collection routines, such as:
  - Overdue account letter (attach invoices you have sent for work completed)
  - Cessation of services (don't continually do more work for a client unless debts are paid). This is a matter that should be clearly stated in your Engagement letter with the client
  - Collections phone call (often personalised reminders such as these are more effective than letters or emails)
  - Notifying and levying of late payment charges
  - Negotiated settlement agreements (repayment plans)
  - Debt collectors or legal action (State-based small claims tribunals are less expensive than you may think)
- Alternative payment methods such as BPay, direct debit etc.
- Set up financial management systems that report average debtor days (by customer).

So what if these processes could improve the collection rate of your money by just 10 days? This will add an extra $28 000 of working capital into your business (based on annual business turnover of $1 million).