STRAIGHT TALK

What now?

Like many small or medium-size businesses right now, you've probably been thinking about what the future may hold for your business as our economy moves into challenging times.

No two businesses are the same and each will have their own unique challenges. However, here are a few ideas to help ensure the sustainability of your business:

- Maintain a strong core and understand your competitive advantage. Make sure it is still relevant and focus on doing what you do well more often. For many businesses these areas are also their most profitable.

- Cash is king so dispose of any non-core assets such as slow moving inventories, pursue outstanding debtors and review the interest rates and terms of your loans to improve your cashflow. Evaluate new initiatives in terms of their cashflow contribution to the business.

- What are your key performance indicators? They usually evolve from your primary profit drivers. For example;
    - Break-even point,
    - Gross profit percent,
    - Number of customers,
    - Their average spend,
    - Stock turnover days etc.

  Monitor these closely and compare to your budgets and goals.

- Manage key risks. Are your key staff, customers and suppliers all happy and trading sustainably? Most businesses can survive the first setback but often it is the second or third that can be disastrous. Insure your ability to earn income and your assets against loss or damage. Protect your business and yourself so you can live to fight another day.

- Work on you. Living within your means goes without saying, so you may need to adjust your own lifestyle for a period of time. Also be sure to maintain a strong work ethic, learn new skills, get smarter at what you do and be proactive, not reactive.

- Seek advice. If you are not sure or certain about an issue in your business then professional help could be the best investment you make. Don't be an ostrich. Issues need to be dealt with and managed.

Finally, talk to us! If you have any concerns about surviving in the current economic climate we can assist in a number of ways.

Whilst these times are trying, the expertise and knowledge we have throughout the group means many of our people have probably worked with similar issues to what you're experiencing!

We have access to a broad range of tools and tips to assist (including lending and finance options) and also have a consulting arm that will be running seminars throughout Australia on "Downturn Readiness".

These seminars will offer advice to identify appropriate actions and also arm you with appropriate tools in planning your next steps. If you are interested in attending a seminar or receiving more information, please discuss with your adviser to ascertain whether the seminar is appropriate for your needs.

Anthony Loone, Principal, WHK Garrotts (Tasmania)

Time to review Business Debt

During the previous 12 months, operating conditions for Small to Medium Enterprises have been arguably the most testing in recent times. In this period, the Reserve Bank of Australia has reduced the Cash Rate Target from a high of 7.25% in March 2008 to a new seven - year low of 3.25% in February 2009.

Whilst the focus in our financial markets tends to concentrate on what interest rate reductions lenders are passing on in the area of home loans, there seems to be some reluctance amongst the major lenders in regards to passing on the interest rate reductions to those clients who have existing or new small business loans.

Historically, lending to Small Businesses has been viewed as a higher risk than home lending due to the larger number of potential risks that would impact on a businesses ongoing viability. To counteract this "higher risk", lenders generally subject the small business to a more rigorous application and approval process, which includes amongst others, a thorough analysis on three key fundamentals:

- Cash flow or the businesses capacity to service proposed debt
- Collateral available to secure the loan
- Character of the business and the principals behind the business

It is quite common for lenders to apply a "risk margin" which is added to their interest rates to reflect a higher risk, if appropriate. The basis in which this risk margin is derived upon and calculated is sometimes not clearly understood by the borrower and perhaps not explained in sufficient detail by the lender.

As we enter a period of reducing interest rates an important strategy that should be considered by those Small Businesses who are considering applying for finance/ or have existing finance in place is to review their existing debt structure for opportunities to reduce their current interest rates or restructure their current finance arrangements to better suit their cash flows.

Such a review should not be limited strictly to business debt, but should also include Personal, Investment and Equipment finance arrangements. Please speak with your local Lending and Finance adviser for a free assessment.

Article by: Tony Rossi, State Manager, WHK Capital Finance, Tasmania

Salary Sacrifice into Superannuation

Important Changes from 1st July 2009

The Federal Government announced in the May 2008 Budget changes that will come into effect from 1st July 2009 in relation to salary sacrificing into superannuation. Changes will be made to the income tests used to determine a range of Government financial assistance programs.

Currently, amounts salary sacrificed to superannuation will reduce an individual's assessable income, which may permit an individual to be eligible for, or increase their entitlement to a number of Government benefits, including:

- Social security pensions and allowances
- Family Tax Benefits
- Government Co-Contribution
- Commonwealth Seniors Health Card

Legislation will be introduced to amend income tests from 1st July 2009 to include salary sacrifice amounts to superannuation.

Social Security Benefits

Under current arrangements, a person under Age Pension age can salary sacrifice into superannuation to reduce household income which may assist their partner to be entitled to increased benefits. For example, a working spouse under age 65 may salary sacrifice to superannuation to increase Age Pension benefits for their partner that is already 65 years of age. From 1st July 2009, the salary sacrifice amounts will be assessed under the income test.

Family Tax Benefits

Currently salary sacrifice to superannuation will lower a person's adjusted taxable income to qualify or maximise Family Tax Benefits. From 1st July these amounts will be included in their assessment.

Government Co-Contribution

Salary that is sacrificed into superannuation currently reduces an individual's assessable income. This may assist individuals to qualify or maximise their eligibility for Government Co-Contribution should they make a personal after-tax contribution to superannuation of up to $1,000.

From 1st July 2009, the salary sacrifice amount will be included in an individual's total income for the purpose of determining eligibility for Government Co-Contribution.

Commonwealth Seniors Health Card

Self funded retirees may currently be eligible for the Commonwealth Seniors Health Card which is only based on a person's Adjusted Taxable Income. Currently salary sacrifice amounts into superannuation and income received from a superannuation income stream are not assessed.

From 1st July 2009, an individual's Adjusted Taxable Income will be calculated as the sum of:

- Taxable income
- Employer provided benefits
- Net rental property loss
- Income from superannuation income streams with a taxed source, including any lump sum withdrawals
- Income that is salary sacrificed into superannuation
- Net financial investment loss
- Target foreign income.

Actions

1. If you are currently salary sacrificing to superannuation to become eligible, or maximise any of the above benefits, you should discuss with your adviser appropriate actions to take as from 1st July 2009 - this may affect your household income.
2. If you are not currently salary sacrificing to superannuation, you may be missing out for the 2009 financial year. Action should be considered now as leaving until the end of the financial year may restrict your wealth maximisation opportunities.

A new tax deduction

Investment Allowance

(only available until 30th June 2009)

The investment allowance will be in the form of an additional tax deduction up to 30%# of the cost of an eligible asset. The allowance will be applicable to most new tangible depreciating assets* - which includes most items of plant and equipment - over $10,000 which are acquired or ordered by the end of the current financial year.

This means a business can receive an additional 10 per cent tax deduction - available immediately - for investment brought forward and in place by 30 June 2010. In practical terms, this is an added incentive for businesses to proceed with their investment plans in this difficult environment.

The investment allowance will be available for businesses who start to hold or start to construct the asset after 12.01am AEDT 13 December 2008 and before the end of June 2009. Assets must be ready for use by the end of June 2010.

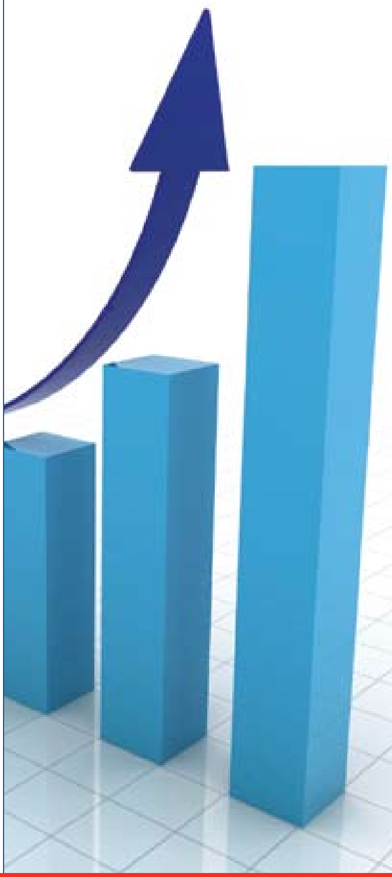
A minimum expenditure threshold of $10,000 will apply. Where an asset is partly used for private or non-taxable purposes, only the portion that is used for a taxable purpose in carrying on a business will count toward meeting the threshold.

As always there are certain restrictions, please speak with your accountant before proceeding.

#Depending on turnover.

*Land and trading stock are excluded from the definition of depreciating assets, and will not qualify for the investment allowance.

Note: Assets to which Division 40 does not apply will not qualify. Give us a call for further information.



10 Best Investment Ideas

Each year we produce our 10 Best Investment Ideas. Whilst markets behaving somewhat irrationally makes for tough predictions some of the special points of interest in the report include:

- Over time economies and investment markets will return to normal as government spending rises and interest rates fall.
- 2009 will likely be a sluggish year with recovery most likely occurring towards the end.
- Maintaining liquidity to weather the storm should be the first priority of those invested.
- Quality investments are available at low prices that will reward patient investors.

To obtain a free copy of the full report "10 Best Investment Ideas for 2009" please contact your adviser.

Did You Know?

WHK Group is the fifth largest Accounting group in both Australia and New Zealand.

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Fringe Benefits Tax

Don't forget that the Fringe Benefits Tax (FBT) end of year is upon us.

It is starting to get close to the end of the FBT year (1 April to 31 March) so you should be looking to see if you have an FBT liability for benefits provided to employees. Or starting to look to the new year to see what you wish to offer employees to package.

Fringe benefits tax is a tax on the employer for non-cash benefits provided to employees. The tax rate on a fringe benefit is currently equivalent to the highest marginal rate plus medicare (46.5%).

So why would you provide a fringe benefit to your employees? You want to reward an employee with higher pay, but after tax some of the shine is taken off the pay increase.

One method is to provide a benefit to the employee rather than additional income. The challenge is to provide a benefit that will not attract tax to the employee or FBT to the employer

Some benefits are exempt from FBT or in the case of cars the application of the legislation provides for generous discounts.

These benefits can be provided to your employee as part of a salary package to reduce the overall tax paid by the employee without increasing the cost to the employer. The salary of the employee is reduced by the cost of the benefits provided by the employer. Importantly only salary not yet earned can be sacrificed.

Providing a combination of salary and other benefits to achieve the most cost and tax effective outcome is often referred to salary packaging.

Superannuation:

Superannuation contributions by an employer are exempt from FBT, however the contribution will taxed at 15% in the hands of the super fund. For example:

John is currently on a salary of $100,000, he enters in an arrangement to be paid only $80,000, with the employer paying $20,000 into his super fund. John has reduced his tax rate from 41.5% to 15% on that $20,000.

Expense payments:

No FBT applies on expense payments, paid for or reimbursed by the employer, that the employee could have obtained a tax deduction. The expenses don't have to relate to the employee's employment. The benefit to the employee is the short term cash flow and it does remove the claims from the close scrutiny of the ATO on the individual's salary and wage return. However documentary evidence and an employee declaration is still required to be kept.

Examples of these include:

- Trade and journal subscriptions
- Airport lounge membership
- Uniform & Protective clothing
- Travel and self education expenses
- Union fees
- Rental property & investment related expenses

Work related benefits:

The following items can be purchased by the employer and be exempt from FBT providing they are used primarily for work:

- Laptop computer
- Personal organiser/PDA
- Mobile phone
- Brief case
- Calculator
- Tools of trade

Other FBT exemptions/concessions:

- Relocation and recruitment costs – travel & relocation costs to move to a new work location.
- Long service awards (>15 years) $1,000 plus $100 for each year above 15 years.
- Food and drink consumed on business premises during normal working hours (not being food or drink provided at a party reception or other social function)
- Taxi travel (that begins or ends at the employee's place of work and is infrequent)
- Safety awards ($200)
- Car parking - for small business entities and those where there is no commercial parking station within 1 km who charges more than $7.07 per day (2008/9 year).
- Living away from home allowance – is exempt for reasonable accommodation expenses and reasonable food allowances above the statutory food amount ($42/wk Adult & $21 child <12).
- Remote area accommodation

There are additional benefits that can be provided that may be subject to FBT, but at a concessional amount. One of the most common benefits where this applies is a car fringe benefit.

Car fringe benefit:

A car fringe benefit is where a car is made available for an employee for private use.

If the car is garaged at the employee's home it is considered to be available for private use. Home to work travel is considered private travel. Not all motor vehicles are considered cars for the purposes of the FBT act, but may be caught under other provisions of the FBT act. The following types of vehicles (including four-wheel drive vehicles) are cars:

- Motor cars, station wagons, panel vans and utilities (excluding panel vans and utilities designed to carry a load of one tonne or more)
- All other goods-carrying vehicles designed to carry less than one tonne, and
- All other passenger-carrying vehicles designed to carry fewer than nine occupants.

There are two different methods for calculating the value of a car benefit, the employer can choose either method for the year:

- The statutory method (best when high private use)
- The operating cost method (best when high business use)

The above information is general information, should you require assistance or more detailed information then please do not hesitate to contact us.

WHK (North Queensland)