Byfields Newsletter

October/November 2018

Audit Insurance

Our firm has noticed a significant increase in audit activity from the ATO and other Government agencies (such as the Department of Finance) in the last couple of years in matters such as activity statement audits, GST refund audits and payroll tax audits.

Should you be subject to an audit by the ATO or a Government agency, the professional costs incurred can be significant.

Byfields can offer an audit insurance arrangement to cover professional costs such as accounting and legal fees incurred (up to a prescribed limit) as a result of these agencies undertaking an audit.

The arrangement can cover individuals, businesses and self-managed superannuation funds.

If you are interested in learning more about the audit insurance arrangement, please contact your accountant for further information.

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Key ATO Dates for October & November 2018

OCTOBER

September monthly BAS due	22 October
September quarter SG due	29 October
September quarterly BAS due (if you lodge this yourself)	29 October
September quarter PAYG instalment due	29 October

NOVEMBER

October monthly BAS due	21 November
September quarter SG charge statement due	28 November

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Why a Business Cashflow Budget is so Important

A detailed and realistic cashflow budget is one of the most important tools for guiding your business and providing the information necessary to operate within your means, handle upcoming challenges, and ultimately turn a profit.

Without a budget, it can be like shooting in the dark. A solid budget identifies currently available capital, estimates expenditures, and anticipates revenues. You should continually refer to your business' budget as a way of measuring performance against expectations.

Planning

A budget is a planning tool necessary for building a framework for your business and its finances. Combining past trends with realistic forecasts for the year, a budget provides a detailed view of assets, realistic revenue expectations, and how those balance against your anticipated expenses.

Budgets also help with setting goals and establishing priorities. A budget should detail where cashflow will come from to meet ongoing expenses and also how much cashflow that can be generated by adopting different strategies. The line items that command the most funding or generate the most revenue are high-priority items, and that can serve as a good reminder of your overall strategy when making decisions.

An effective budget should break down revenue and anticipated expenses by month or by quarter, and depending on the size of your business, it should include separate budgets for each department.

Businesses that rely heavily on seasonal sales revenue serve as a good example of why a budget is so important. If June, July, August, and December typically generate 75 per cent of your business' revenue, your budget allows you to plan so that you'll have the best strategy for distributing that revenue most effectively over the course of a full year.

Planning also should account for long-term needs. For example, if you anticipate a large expenditure one or two years down the road for computer upgrades, it's a good idea to start budgeting for that expense in advance.

Evaluation

In addition to being an important part of the planning process, budgets are necessary for evaluating the performance of your company over the course of the year. Part of budgeting responsibly is tracking actual revenue and expenses and comparing them to what was budgeted. This helps to assure that your business is sticking to its plans, but budgeting also offers an important means of identifying problems and opportunities.

For example, if sales in the first quarter are lower than what you budgeted, you'll know that you likely will have to find expenses to cut later in the year to stay profitable. A more positive example might be sales of a new product that exceed expectations. By tracking this trend and comparing it to what was budgeted, you'll know you have the additional revenue to perhaps revise the budget with plans to increase production or hire additional staff to handle the extra business.

Financing

A history of writing sound, detailed budgets and sticking to them can help show lenders or potential investors that you know how to develop a business plan and make it work.

Lenders and investors certainly will want to dig much more deeply into your finances and history, but if they don't see evidence of strong budgeting practices, that might be enough of a red flag to turn them away.

If you are opening a new business and have little or no history, you need to make up for that lack of a track record with detailed support for your budget. This means doing research into the marketplace and showing how past trends or perhaps a void in the industry supports the numbers you are presenting. This kind of attention to detail can help you gain serious consideration from lenders or investors.

Staffing

Even small businesses with only a few employees need to make sure they are staffed properly by writing and maintaining a budget. If, for example, you own and operate a small cafe, you might have a unique menu and a reputation for quality customer service, but that doesn't mean you are a financial professional.

New Rules on the Reduced Corporate Tax Rate

Legislation has recently been passed by Parliament that changes the rules for accessing the reduced corporate tax rate of 27.50% for the 2018 and subsequent tax years. Basically, a company must be a "base rate entity" to be eligible for the reduced corporate tax rate. Under the new rules, a company is a base rate entity if the following requirements are met:

1. no more than 80% of the company's assessable income for that income year is "base rate entity passive income"; ***and***
2. the aggregated turnover of the corporate tax entity for the income year is less than the aggregated turnover threshold ($25 million in the 2017-18 income year; $50 million from the 2018-19 income year).

Base rate entity passive income basically refers to income earned from various investment activities, such as dividends (but not non-portfolio dividends, see below), franking credits, non-share dividends, interest, royalties, rent, a gain on a qualifying security, a net capital gain, a trust distribution or a partnership's share of profit where the underlying trust's or partnership's income is also passive income.

A dividend is a non-portfolio dividend where the company shareholder has a 10% or more voting interest in another company that pays the dividend. Therefore, a dividend paid by a wholly owned subsidiary to its parent company is a non-portfolio dividend and will not be counted toward the 80% passive income test.

Importantly, under the new rules, companies are no longer required to be carrying on a business to be a base rate entity that accesses the lower corporate tax rate. Therefore, it is the nature of the income the company derives and not the activities it undertakes that determines whether it can access the lower tax rate.

Where a company qualifies as a base rate entity, the maximum franking credit rate is generally the reduced rate of 27.50%. Therefore, this will have an impact on companies that declare or pay franked dividends during the income year. Depending on the circumstances, the shareholders may have to pay more top-up tax or receive less in tax refunds due to the reduced imputation credits attached to the dividends.

The new rules will apply from the 2017-18 income year.

Youth Jobs PaTH Internship

If you are looking for staff, you can work with an Australian Government employment services provider and a young person to design an internship placement of between four and 12 weeks at no cost to you. The provider will support you and the intern through the duration of the internship.

The internship is an opportunity to see how a young person fits into your team and if they are suitable for employment with your business. You should be confident that if the intern is the right fit, you have a reasonable prospect of being able to give them a job.

Instead of receiving a wage from employers, the Government will provide interns with an additional $200 a fortnight on top of their income support payment.

Employers will receive a payment of $1,000 to help cover the costs of hosting an intern.

All interns are insured for the length of their internship.

If you decide to hire the young person, you may be eligible to receive a wage subsidy of up to $10,000 (GST inclusive).

If you would like more information (whether as an employer or a young person looking for an internship), visit www.jobactive.gov.au/path.

Grammarly

Grammarly is an English-language writing-enhancement app that automatically detects potential grammar, spelling, punctuation, word choice, and style mistakes in writing and suggests context-specific corrections for grammar, spelling, wordiness, style, punctuation, and plagiarism.

The free version of Grammarly is much more sophisticated than Word and can capture a bevy of errors you might miss.

For Grammarly Premium users, the Grammarly keyboard will also suggest style improvements and vocabulary enhancements. The user can see the suggestions along the top of the keyboard and can accept a change just by tapping it.

The Grammarly Keyboard is integrated within the typing service and supports only English keyboards. It allows users to choose spelling auto-correction and suggestions according to 4 English dialects – American, British, Canadian and Australian.

Grammarly is available via a browser extension for Chrome, Safari, Firefox, and Edge and is also available as an app for both iOS and Android. It is compatible with both Microsoft Word and Outlook as well as Gmail, Facebook, Twitter, LinkedIn, and nearly anywhere else you write on the web.

Pricing starts at $16/month for a single license paid as an annual subscription of $194.

You can try Grammarly for free by visiting www.grammarly.com.