Q3 2020

BUSINESS MATTERS

Strategies for managing your business

INSIDE:

Lee & Lee
Better Advice • Better Future

What to do when you can't pay your tax on time

Businesses who cannot pay their taxes on time can set up an agreed payment plan with the ATO to avoid late payment penalties. This may be especially useful for businesses during the post COVID-19 period.

In response to the economic effects of COVID-19 on businesses, the Australian Government has provided cash flow support as part of their stimulus package. However, support measures such as JobKeeper, cash flow boosts, and the Coronavirus SME Guarantee Scheme are set to end in September 2020. As a result, businesses relying on Government support may find themselves struggling financially when October arrives. It is therefore important that businesses are prepared for this period, and one way to do this is by setting up a tax payment plan.

A payment plan allows businesses to pay off their tax debt in instalments when they are not able to make a complete payment by the due date. Businesses with a debt of $100,000 or less can propose a payment plan through the ATO's online Business Portal or through their tax agent or BAS agent. For debts over $100,000, businesses must contact the ATO directly to discuss their options. Businesses wishing to go on a payment plan are still required to lodge their activity statements and tax returns on time to avoid penalties.

Interest will generally continue to accrue on unpaid debts even when a business has made a payment plan. However, a 12-month payment plan free of interest may be available for small businesses with an activity statement debt. This will require businesses to pay their debt through direct debit within 12 months. To be eligible, businesses must:

- Have an annual turnover of less than $2 million.
- Have a recent activity statement debt of $50,000 or under that was paid within 12 months of it being due.
- Have no overdue activity statement lodgements.
- Have had a maximum of one payment plan default within the last 12 months.
- Be unable to obtain finance, such as a loan.
- Meet all of their other tax payment and lodgement obligations.

The ATO may require businesses to demonstrate their viability for a payment plan. This assesses the business' ability to meet their ongoing financial commitments by considering factors such as gross margin, cash flow, liquidity, and asset/liability position.

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ATO increases car expense deduction rate

Small businesses with low annual travel distances will benefit from the ATO's new increased cents per kilometre rate for cars, from 68 cents to 72 cents. The new rate has been effective since 1 July 2020.

What is the cents per kilometre method?

You can claim car deductions using the cents per kilometre method if you are a sole trader or partnership. The cents per kilometre method is calculated using a set rate for each kilometre travelled for business purposes. This rate takes all of your vehicle running expenses (including registration, fuel, serving and insurance) and depreciation into account, and currently sits at 72 cents per kilometre for 2020-21.

Claiming requirements

The ATO allows you to claim a maximum of 5000 business kilometres per car in a year and does not require written evidence to show the exact distance travelled. However, the ATO may ask you to show how you worked out your business kilometres, for example, with diary records.

To make sure your claim is eligible, records you need to keep include:

- Details of the kilometres travelled for business and private use.
- Receipts for fuel, oil, repairs, servicing and insurance over.
- Loan or lease documents.
- Tax invoices.
- Registration papers.
- Details of how you calculated your claim.

Keep in mind that the cents per kilometre method is only applicable when using a car. According to the ATO, a car is a motor vehicle designed to carry both a load less than one tonne and a maximum of nine passengers.

How to market your business for free

The fundamentals of any business today is a strong marketing strategy. However, not all businesses have the resources to pay for elaborate marketing initiatives.

Instead, consider using these simple and free marketing tips before sinking finances into an expensive campaign.

Email Signatures

Add an email signature with links to your website, email and social media accounts in all your communications. Stamp your brand name and website on all your products to improve visibility.

Improve your website

Add extensions to your web browser which work by constructing page titles and description tags for your web content. These tags then ensure that your website is visible within the first few results of an organic Google search. This is an effective way to maximise traffic, or interaction, with your website.

Set up and claim your Google My Business Profile

This is an easy, cost-effective way to make sure that your community is aware of your business. When customers search for a particular service on Google, results include contact details, photos and reviews of nearby businesses that offer that service. By claiming this listing, the accuracy of this information is improved and local customers are more likely to engage with your business.

Managing employee morale through company change

Change and adaptation is integral to business survival. However, not all employees may be receptive to change, so it is up to business owners to learn how to manage employee morale.

Whether it is introducing new employment policies, management systems, or day-to-day business procedures, it is important to address your upcoming business changes with your employees. Sudden and major company changes can lead to uncertainty and distrust amongst your employees. To keep employee morale up, here are some strategies to implement when introducing changes to your business.

Emphasise team-building

Major workplace changes can cause confusion and team disconnection, subsequently causing productivity and work quality to suffer. When implementing your company changes, ensure you are also involving your employees in the process and encouraging communication between your employees. A great way to involve your employees is to initiate team-building activities.

Give your employees a break from their usual work routine and plan some fun and relaxing team-bonding exercises to improve the atmosphere. Reinforcing a supportive workplace community will help your employees adapt to any changes you are implementing into your business.

Ensure open communication

Open and honest communication is key to boosting employee morale and eliminating feelings of uncertainty and stress. To avoid the rumour mill and keep employees focused, inform your staff members about the changes taking place as quickly as possible. Include details such as how and when changes will be implemented or addressed to ensure employees are ready for the changes. Communicating openly with your employees will build long-term trust as they will appreciate your efforts to keep them involved and alleviate their concerns. Employees will also feel valued, boosting company loyalty.

Provide extra support

Adapting to change is not an easy feat and some employees are bound to struggle with it more than others. As a result, it is important to provide vulnerable employees extra support to embrace the changes you plan to introduce. Offering counselling and therapy services, educational resources, or even emotional support in the form of time and space can boost employee morale and motivation. Be sure to encourage regular employee feedback and have open discussions between management and employees to better connect with your employees' concerns and desires.

How COVID-19 may affect your tax return

The ATO has released a range of methods to make tax time easier for businesses and individuals under COVID-19 circumstances.

Working from home

The ATO has introduced a new 'shortcut method,' which applies from 1 March 2020 to 30 September 2020. Under this new method, employees working from home as a result of COVID-19 can claim expenses incurred at a rate of 80 cents for each hour worked from home. Employees must keep a record of the hours they worked from home as evidence to support their claim.

Deductible running expenses include:

- Utilities such as heating, cooling and lighting.
- Cleaning costs for your work area.
- Mobile or landline phone expenses for work calls.
- Internet connection.
- Computer consumables and stationery.
- Repair costs for home office equipment and furniture.
- Depreciation of home office equipment, computers, furniture and fittings.

Small capital items such as a computer (purchased for the purpose of working from home) can also be claimed if they cost under $300. If the cost exceeds $300, the decline in value can be deducted.

COVID-19 protective equipment

Occupations that require public interactions may be able to claim personal protective equipment (PPE), including face masks, sanitiser, anti-bacterial spray, and gloves. This would typically apply to industries such as healthcare, retail and hospitality. Many workplaces now have this PPE available for employees, however, employees who pay for their own COVID-19 PPE without reimbursement will be able to make a claim.

JobKeeper

Sole traders receiving JobKeeper payments on behalf of their business are required to include these payments as assessable business income in their individual tax return. Businesses that are a partnership, trust or company receiving JobKeeper do not have to include it as assessable income in the business owner's individual tax return. However, these businesses will need to report JobKeeper payments as business income in their partnership, trust, or company tax return.

Employees under the scheme will have their JobKeeper payments automatically filled out in their tax return, and will not have to do anything differently. The payments will be included as salary and wages, or an allowance that appears on the regular income statement or payment summary provided by employers.

Government cash flow support

The support received by employers as part of the Government's COVID-19 boosting cash flow for employers scheme is tax-free as it is considered non-assessable non-exempt (NANE) income. Cash flow boost amounts should be included in tax returns in the same manner as other NANE income. Employers under the scheme will still be entitled to a deduction for the PAYG withholding paid.

Businesses may also be able to accelerate their depreciation deductions on the purchase of certain new depreciable assets if they have an aggregated turnover of less than $500 million. This applies to eligible assets that were held and first used, or installed and ready to use from 12 March 2020 to 30 June 2021.

What to consider before opening another business location

Expanding your business to open in multiple locations can offer more opportunities and profitability. However, it is crucial to examine and prepare for the implications of opening up a second store.

Managing one business location can be challenging enough; here are some considerations that business owners need to keep in mind before deciding to open up a new branch.

How successful is your current business?

Before opening up multiple stores, your current business should be stable and successful. If your business is struggling in key areas such as cash flow, sales, employee skill sets, and customer retention, then it's a good idea to address these needs first. Consider whether your current store's shortcomings will also put new locations at risk.

What are the characteristics of the new locations?

Choosing the right location plays a key role in the success of your business. Research potential locations and consider how selected areas could affect your new branch due to factors such as busyness, competition, demographics, transport accessibility, rent prices, and attractiveness to employees. Assess whether the differences between your current and potential new locations will require you to make any changes to your business - perhaps you will have to adjust your marketing strategy, prices, or products/ services depending on your new demographic.

Do you have the resources to expand?

Expanding your business will require extra financial commitments for rent, utility bills, more inventory and equipment, employees, insurance, and extra advertising. While your income may increase with your new location, it may take months to make the returns required for expansion. Financial security is important when opening up a new store to avoid overextending your funds and putting your business at risk. If you don't have the assets required, a business loan is an option, provided that you can prove your financial ability to repay the loan.

Opening up a new location also means that you will have to manage your time between the two branches. This may require delegating business responsibilities, hiring managers, or promoting current employees to management positions. To keep your new business on track and identify early risks, you may also have to initially spend more time at your new location.

We are here to help

Make use of us! This guide is merely a starting point, designed to help you identify areas that might have a significant impact on your personal and business planning.

We are always pleased to discuss matters with you and advise in any way we can.

Are you eligible for the small business income tax offset?

The small business income tax offset can be used to reduce the tax you pay by up to $1,000 a year. Also known as the unincorporated small business tax discount, the offset is worked out on the proportion of tax payable on your business income.

The rate of offset is 13% for the 2020-21 financial year and 16% for the 2021-22 financial year and onwards. The offset is only available to entities with an aggregated turnover of less than $5 million (from 2016-17 financial year onwards) and is capped at $1,000.

The ATO will work out your offset based on your income tax return and uses your:

- net small business income you earned as a sole trader, or
- share of net small business income from a partnership or trust.

Conditions for sole traders

The offset is calculated based on net small business income for sole traders (which is the sum of your assessable income from carrying on your business, minus any deductions). Sole traders are not entitled to the offset in the event that their net small business income is a loss.

Income and deductions that you need to include in your net small business income include:

- farm management deposits claimed as a deduction,
- repayments of farm management deposits included as income,
- net foreign business income related to your sole trading business, and
- other income or deductions such as interest or dividends derived in the course of conducting your business.

Conditions for partnership and trust distributions

You may be eligible for the tax offset if:

- you have a share of net small business income distributed from a partnership or trust that is a small business entity,
- you were a partner or beneficiary of that small business partnership or trust,
- the business income was derived by the small business partnership or trust from carrying on its own business activities, or
- your assessable income includes a distribution or share of net income from that partnership or trust.

The critical steps to a successful partnership

It is a tall order to ask for a business owner to manage everything alone, much less lead their business into success. This is why many successful businesses are born from partnerships.

Partnerships can be advantageous to business owners looking to balance their complementary talents and personalities. Sharing the experience of running a business can make the whole process more enjoyable, especially with a partner who is liked and respected.

However, partnerships are not without their disadvantages. Disagreements are bound to happen over time so it is important to formally structure the relationship. To ensure business success and the longevity of your relationship, there are a few important steps to take when laying out the groundwork for your partnership.

Sort out the basics with your partner first

Be sure to cover issues such as:

- Business ownership division. Who owns what per cent?
- Decision-making processes. How are business decisions made? Who has final authority? How are disagreements settled?
- Partnership responsibilities. What are each partner's responsibilities? How much time and money will each partner contribute? Can partners work in other positions at the same time?
- Partnership breakdowns. What happens when a partner wants to sell? What happens when a partner dies or becomes disabled? What happens if you want to bring on an additional partner?

Draw up a written partnership agreement

Solidify all the key issues that you have discussed in a legally binding contract. This is to ensure that parties involved are held accountable to the agreed-upon terms of your partnership. Also make sure that contract is drafted with professional legal advice and assistance.

Choose an appropriate business structure

Discuss with an accountant what legal form your partnership should take. This is important to determine your level of involvement in a partnership. For example, a simple partnership does not provide protection for any party's personal assets.

Consider a buy-sell agreement

A buy-sell agreement acts as an insurance policy for partnerships in the event that a partner dies or becomes disabled, wants to sell their share of the business, or leaves the business. Buy-sell agreements can resolve disputes or differing goals by transferring business ownership and reducing the risk of business failure after a partner leaves. Always seek professional advice before drafting a buy-sell agreement to ensure all situations are covered and the contract is neither too advantageous or disadvantageous for one party.

Important tax dates

21 AUGUST

Lodge and pay July 2020 monthly business activity statement.

28 AUGUST

Lodge and pay quarter 4, 2019–20 Superannuation guarantee charge statement – quarterly if the employer did not pay enough contributions on time.

21 SEPTEMBER

Lodge and pay August 2020 monthly business activity statement.

30 SEPTEMBER

Lodge PAYG withholding payment summary annual report if prepared by a BAS agent or tax agent.