

# Business Plus+



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## Issue Number 70 – October 2011

### Carbon Tax Preparation

The House of Representatives has passed the legislation for the introduction of a Carbon Tax from 1st July 2012. Small business operators need to start thinking about the impact that the Carbon Tax scheme will have on their business operation.

Whilst it is true that the price on carbon will be paid by the emitter, (this is basically restricted to about 500 corporations), the cost effect will affect every small business operator. This is because the carbon cost will be passed through the economy by the emitters in various ways. Higher power prices and production costs will be the main areas affected by the Carbon Tax but there will undoubtedly be others including local government rates. One of the real issues for SMEs to think about is - *if you have long term contracts, will you be able to adjust prices because of the extra costs that you will undoubtedly incur as a result of the Carbon Tax?* If you have long term contracts, then we suggest you discuss these contractual issues with your solicitor. Also, if you are the recipient of a long term contract from a supplier, does the contract allow you to reject an increased supplier cost based on the carbon tax? If you are in this category, we suggest you discuss this issue with your solicitor. The scope and coverage of the Carbon Tax means that some industries will have to pay the carbon tax and others will not, at least for now. The industries which will have to pay the Carbon Tax include:

- power generation;
- industrial facilities;
- mine emissions;
- some transport operations such as shipping, aviation and rail;
- non transport fuel use (eg. non transport LNG [liquefied natural gas] and diesel); and
- non legacy waste (after 2012).

The industries that are not included, at this stage, are:

- agriculture and land;
- biofuels;
- household transport and light commercials; and
- fuel used on land and international aviation.

The tax is generally paid by the producer of the emission, but the cost will be passed through the community. Households receiving taxable incomes of less than \$60,000 per annum will receive some inducements from the federal government. People earning over \$60,000 per annum will not have any adjustment.

### Personal Property Securities Introduction Delayed

The introduction of the Act has been pushed back to, no later than, 1<sup>st</sup> February 2012.

If you would like to discuss with us the implications of this legislation for businesses that supply goods on credit, subject to retention of title provisions (Romalpa Clause) lease goods, please contact us.

## Lifetime Value Of A Customer

Businesses need to ensure that there is ongoing education of their team on the lifetime value of a new customer.

Lifetime customers represent repeat business and repeat business equals profit. If you assume that the *lifetime value* of a customer is about 7 – 10 years on average, multiply the average sale by the number of times you expect to see that customer each year and then multiply the projected annual sale by the number of years expectancy for "*lifetime value*". This will give you an idea of what the customer is potentially worth to your business.

One of the most effective ways of marketing your business is to increase the number of visits that your long term customers make to your business as this will add to the *lifetime value* of your customer. To develop *lifetime value* of customers you could consider the implementation of a referral system where current customers are encouraged to refer new people to your business with an appropriate incentive being given to the referrer. This could be a weekly lucky prize or a discount of a product in your business.

### How do you develop *lifetime customers*?

- improve your referral system
- create outstanding service to all customers to encourage them to become lifetime customers
- create a database for customers and offer them outstanding service
- keep improving the level of service
- offer special event and promotions to your customers
- go the extra mile
- get them to say "wow"!



## Monitoring Economic Indicators

It is certainly a confusing economic landscape at present in Australia. Unemployment is now over 5.1%. The Reserve Bank has left interest rates at 4.75%. The Australian dollar compared to the US dollar is now about 97cents. Retail spending in stores is well down. Value of housing has dropped in most cities and, because of the uncertainty, people seem to be hanging onto their money.

Internationally the USA, Japanese and European economies are performing very poorly and certain countries have huge debt problems. All of this uncertainty affects Australians SMEs in various ways. Keeping an eye on the various economic indicators, thinking how these events might affect your business, is something you might consider doing every month or so. There are seven main economic indicators that may have some effect on SME operations in Australia.

### Activity Indicators:

1. Gross Domestic Product (GDP)
2. Consumer Price Index (CPI)
3. Producer Price Index (PPI)

### Inflation Pressure:

The Reserve Bank sets an inflation target each year and tries to use interest rates as a mechanism to control inflation.

### Interest Rates:

Interest rates are the main lever that the Reserve Bank has to control money supply within Australia. Basically, the Reserve Bank's decisions affect the pricing of loans, leases, hire purchase, debtors' financing etc, that is provided by banks.



### Exchange Rates:

The high Australian dollar, as compared to the US dollar rate, was probably warmly accepted by importers but it has caused severe problems to many exporters. In the last month the value of the Australian dollar -v- USA dollar dropped from \$1.07 to around 97c thus taking some of the benefit from importers and making life a bit easier for exporters. How does the movement in the exchange rate affect your business? Should you be taking foreign exchange cover to lock in a rate at the date of purchase or sale? The movement in exchange rates can affect market performance of businesses e.g. high exchange rates discourage international tourists from coming to Australia. If you are a manufacturer or supplier of products to tourism businesses, exchange rate movements can have a significant effect on your business.

### **Budget Policy:**

This is the Federal government's domain and obviously the Federal government can play a major role in economic activity by introducing special support programmes, government grants, change in taxation rates and introducing the Carbon Tax etc.

### **Industry and Environmental Policy:**

The government also controls this area and is obviously under pressure at present to produce some benefits for the manufacturing industry following Blue Steel's decision to sack about 1,200 employees. The political reality is that environmental policies are receiving additional government support at present. Individual SME operators find it difficult to attract direct government assistance, but if you are effected you should monitor whatever government assistance is offered.

### **Relevant Global Conditions:**

This is the last of the economic indicators. Australian banks have to borrow billions of dollars offshore each year therefore problems that are being experienced in countries like Ireland, Portugal and Greece and the poor economic performances in the USA and Japan all have a bearing on the pricing of money.

The extra pricing is reflected in the interest rates and banking costs that are imposed on small businesses in Australia.

Unfortunately, there is not much that SMEs can do to change the course of any of these indicators, but there might be some strategies that you can develop to minimise the effect that some of these economic indicators may have on your business.

## **Export Market Development Grant Application**

If you are an exporter and you have spent money on export market activities then you could be eligible to submit an application for an Export Market Development Grant. Applications must be submitted by 30th November 2011. If you would like to talk to us about the preparation of an Export Market Development Grant Application, please do not hesitate to contact us.

## **New R & D Scheme Has Commenced**

The Australian government's new research and development scheme, known as R & D Tax Incentive, commenced from the 1<sup>st</sup> July 2011 and applies to research and development expenditure incurred after that date.

The new tax incentive has 2 components - The first relates to companies with turnovers up to \$20 million per annum. These companies are entitled to claim 45% refundable tax offset for eligible R & D expenditure. Other companies are able to claim 40% non-refundable tax offset. Key changes that have been made to the previous R & D system include:

- Removal of the \$2 million cap on R & D expenditure for companies with turnovers of under \$5 million.
- Replacement of the 10% cap on the amount of overseas expenditure that could be expended as part of an R & D project.
- R & D plans are no longer required, but the legislation sets out the requirements for record keeping and we therefore suggest that companies continue to prepare R & D plans as part of their corporate record keeping to satisfy AusIndustry and the Australian Taxation Office that appropriate procedures have been adopted for each R & D project.

Registration needs to be made on an annual basis. This can be made up to 10 months after the end of the financial year, so the first deadline for registration, under the R & D tax incentives, will be 30th April 2013.

The legislation introduces the concept of companies being able to apply for Advance Findings. This is an application that goes to AusIndustry to enable them to issue a written finding as to whether a proposed R & D project is eligible expenditure under the R & D Tax Incentive. Advance Findings apply for the financial year in which they were given and to 2 subsequent financial years.

If you are conducting research & development in the current financial year, we recommend that you have a discussion with us in relation to the record keeping requirements of the R & D Tax Incentive and the possibility of applying for an Advance Finding.



## You Need To Plan To Start A Business

You would not go on a cross country holiday without looking at a road map to work out where you are going to stop and what sight-seeing activities are available on the way.

Planning the start of a business is no different. You need a plan that you have sat down and thought about and then preferably committed to writing. This plan should consider:

- how the business is going to operate;
- what the market is for the business' products and services; and
- strategies for how sales are going to be made with potential customers.



If you are planning to commence a business, we can assist you with a specially tailored business plan to suit your business objectives.

## What's It Mean?

### Growth-Sales

Measures the increase in the business from the previous financial year and indicates the business' increased market share. Factors affecting growth include:

- competition
- business presentation
- catchment area growth
- customer buying habits
- advertising etc



## Business Plans – Questions to Consider

### Research and Development

- What Research and Development programmes are you undertaking?
- What patents, plant patents, design registrations, copyrights etc has your business got?
- Have any special procedures been developed for the conduct of Research and Development activities in your business?
- Is someone responsible for insuring what registration is made with Aus Industry for R & D undertaken in the year ending 30<sup>th</sup> June 2011 by the date of lodgement of the company's income tax return or the 30<sup>th</sup> April 2012?
- Who is responsible for researching the requirements of the R & D Tax Incentive legislation which commenced from 1<sup>st</sup> July 2011?

There are over 50 questionnaires relating to the preparation of a Business Plan. In the next issue we will consider **Insurance**.

We would like to welcome two new members to our Nambour office team. Terry Frankling and Michelle Borchert have joined the accounting staff in Nambour. Both ladies are experienced in taxation and accounting and we look forward to introducing them to our clients. As usual our existing team members can be contacted at either our Nambour or Birtinya addresses below.

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### An Important Message

*While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.*

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