

Important

This guide is designed to help you understand some of the issues relating to starting or buying a business.

The following steps will also help you towards establishing and running a successful enterprise.

- ✓ Utilise all resources available to you
- ✓ Set up a Business Team:
 - Business Enterprise Centre Business Facilitator
 - Accountant
 - Bank Manager
 - Financial/Business Advisors
 - Mentors
 - Solicitor
- ✓ Complete a Business Plan

Acknowledgements & Disclaimer

This document has been developed utilising various resources used throughout the New South Wales Business Enterprise Centre network. The original version was a result of the 1998 Innovation in BEC Service Delivery projects funded by the Department of State & Regional Development. Particular recognition goes to the BEC's located at Lithgow, Bathurst, Albury and Taree and to KPMG Peat Marwick who have worked closely with Albury BEC.

Whilst every endeavour has been taken to provide a comprehensive guide to starting a small business, no responsibility is taken for decisions made utilising the guide. The material is copyrighted to the BEC network and Department of State & Regional Development. All rights reserved.

Information contained herein is current as at 1 July 2000 and may be subject to change.

Contents

1 AVOIDING SMALL BUSINESS FAILURE	1
Avoiding Financial Pitfalls	1
Other Pitfalls	2
2 SUPPORT SERVICES	3
Your Business Team	3
Other Avenues of Support	4
3 BUSINESS STRUCTURE	5
Overview of Structures	6
4 LEGAL RESPONSIBILITY	7
5 BUYING A BUSINESS VERSUS ESTABLISHING A BUSINESS	9
Appraising a Business Purchase	9
6 LICENSES & REGISTRATIONS	13
7 RECORD KEEPING & FINANCIAL MANAGEMENT	14
8 TAXATION	17
9 FINANCIAL REQUIREMENTS	26
10 WORKING FROM HOME	27
11 LEASING PREMISES	28
12 BUSINESS INSURANCE	30
Compulsory Insurance Policies	30
Non Compulsory Insurance Policies	30
13 MARKETING A BUSINESS	32
14 EMPLOYING STAFF	35
APPENDIX 1: TYPES OF TAX INVOICES	37

1 AVOIDING SMALL BUSINESS FAILURE

Avoiding Financial Pitfalls

In today's economic environment it is becoming increasingly difficult to keep your small business head above water. Many small businesses drown even before the celebration champagne corks have stopped popping. Whilst success in a business requires a lot more than just good financial practices, the chances for success are enhanced by avoiding the pitfalls outlined below.

➤ **Insufficient Capital at the Start**

Avoid under-estimating the amount of capital needed at the start. Often overlooked is the need for capital to cover the time between the expenditure of money and collection of revenue. You must allow time to develop customers. Also consider:

- Time needed to get the organization to work;
- Time to implement ideas and produce products;
- Cash is needed to buy supplies and equipment; and
- Contingencies to offset unexpected events which can affect a business's financial position.

➤ **Insufficient Capital for growth and expansion**

Make sure the capital base of the small business is sufficient to meet growth and expansion. It is better to grow slowly, concentrating on serving existing customers and manage gradual or planned expansion when enough funds are available.

➤ **Dependence on Debt**

Avoid over-dependence on debt capital or borrowings as a source of capital. This can cause problems particularly if things go wrong and lenders or creditors are not prepared to wait for management to get itself out of its financial difficulties.

➤ **Inadequate Financial Planning**

Planning is crucial for small businesses. Due to the preoccupation with daily problems, many small businesses fail to give adequate attention to their financial future until a severe problem develops. Clear-cut financial objectives are imperative as is a financial plan for raising the necessary funds as the business grows and progresses. The plan should be detailed for one year in advance and in a general form for an additional four years. As well one must take into consideration the cash flows and planning that will be required for GST payments every three months and the waiting time before Input Tax Credit (ITC) is received.

➤ **Inadequate Cash Management**

Ensure the cash position of the business is known on a day-to-day basis. Know the anticipated position for the next few months at least and preferably 12 months.

➤ **Emphasising Volume at the Expense of Return on Investment**

Understand that more volume does not automatically mean more profit. The name of the game is return on investment and this will depend on the mark-up of goods sold or manufactured. Pricing errors and under-estimating costs are frequent faults of small business managers and it is important to ensure that business overheads are included in the total costs when determining an accurate selling price.

➤ **Taking too much Money out of the Business**

Avoid withdrawing all the profits of the business. Leave sufficient funds to strengthen the financial position of the business and help if there is a downturn in the economy.

➤ **Confusing Cash and Net Income**

Avoid confusing cash and net income. Profits seldom stay in the form of cash as this is used for inventory, investment in building and equipment and also to fund debtors. It is imperative that businesses watch their *cash flow* to make sure funds are available to pay maturing debts and other obligations, especially tax.

➤ **Inadequate Bank Relations**

Avoid the mistake that some small firms make in not keeping their financiers fully informed on their financial situation and any new developments. Bankers do not like borrowers who withhold information, even if this is inadvertent.

➤ **Liberal Granting of Credit & Inadequate Billing System**

Avoid the belief that profit can be made by selling to any customer who asks for the product or service. This would be true only if all buyers paid cash. Similarly ensure that bills for services/products sold are kept up-to-date and given maximum priority. Remember, you are in the business of providing goods or services – others are in the business of providing credit e.g. banks, VISA and Mastercard. The fees and commissions charged by the banks and credit providers (Visa, Mastercard etc) are small by comparison with costs of chasing slow payers or those customers which avoid paying.

➤ **Inadequate Information System**

Have a system which provides information a business needs in order to know where it stands. The system should provide at least the following:

- A daily updated picture of the cash position;
- An accurate and up-to-date accounts receivable report;
- An up-to-date accounts payable report;
- An efficient customer billing system;
- An adequate system identifying bills to be paid;
- A record of your GST commitments;
- For manufacturers & service businesses, an adequate system for getting cost data ASAP and where applicable, an adequate inventory system; and
- Periodic accounting reports to show how the business has performed.

➤ **Other Pitfalls**

Other pitfalls identified include the following:

- Poor management skills;
- Poor bookkeeping;
- Poor understanding of taxation issues;
- Lack of training;
- Lack of suitable preplanning;
- Slow reaction to danger signals;
- Lack of proprietor experience;
- Inventory mismanagement;
- Poor location; and
- Unplanned expansion and growth.

2 SUPPORT SERVICES

There are many avenues of assistance to you. These will vary from State to State. In New South Wales those detailed below may help. Assess what they are offering and utilise their services as appropriate. This also will vary according to your business size, age, activity, etc. Contact details are provided on the Useful Telephone Numbers list included in the Start-Up Kit

Your Business Team

Business Enterprise Centres (BEC) – Business Facilitators

Your local Business Enterprise Centre is a community based organisation and is a company limited by guarantee whose objectives are to provide free, independent, confidential, competent advice and other practical assistance to foster viable local enterprises and businesses in order to boost sustainable economic development and employment. Services are delivered by trained and accredited Business Facilitators and include but are not limited to:

- free practical advice;
- referral to specialist advisers;
- introductions to government departments, local established business networks and other advisers;
- business workshops;
- business information;
- problem solving;

Across NSW, 50 BEC's are located in both regional areas and major cities. Each BEC is independent and is driven by a focus which is in keeping with the local economic development needs of the business community.

Accountants

Accountants provide a range of financial services for small businesses including accounting, tax and audit work. In addition they provide non-financial services such as management information/advice on matters including: leasing, loan applications, computerisation, staff recruitment, estate planning & property transactions.

Bank Managers

Your Bank Manager can give advice on a range of concerns relating to business and finance. Advice can be sought in areas such as: needs analysis; Superannuation; lines of credit; also setting and planning financial goals.

Financial/Business Advisers

Advisers to small business include business brokers, marketing specialists, bookkeepers, computer specialists etc. Ask your local Business Enterprise Centre for advice regarding suitable consultants for your specific concerns.

Solicitors

Advice may be sought in areas such as: registration procedures; forms of business structure; contracts; conveyancing; leases; partnership agreements; and employment agreements.

Mentors

A Mentor is someone you can refer to, to discuss various aspects of your business and your involvement. Every Mentor is different, but they need to be someone you trust, respect and feel comfortable when discussing all aspects of your business, including your strengths and weaknesses.

Other Avenues of Support

Department of State and Regional Development (DSRD)

DSRD is a New South Wales Government Department whose objective, among other things, is to promote, encourage and stimulate enterprise development and employment growth by providing access to free advice to small business. There may be subsidies available to eligible businesses for the use of management consultants. Contact your local DSRD office for further information.

Technical and Further Education (TAFE)

Through TAFE, business owner/managers may choose to undertake accredited courses specifically developed for small business owner/managers through full-time, part-time and external study programs. Contact your local TAFE Administrative Office to obtain a brochure on courses available.

Chambers of Commerce and Industry

Chamber's of Commerce and Industry are independent, non-profit organisations that act as peak employer associations, and are effective as a voice for free enterprise. They provide a wide range of services for members.

Industry Associations

There are numerous Industry Associations which are set up to assist their members. Included are the Retail Traders Association, Australian Business Limited (formerly the Chamber of Manufactures), Motor Traders Association. You will need to locate the appropriate association for your industry, obtain details of membership and decide whether there is a cost benefit for you at this stage.

Innovation Advisory Centres

There are five Innovation Advisory Centres in NSW also supported by the Department of State & Regional Development. They offer assistance to inventors through a self-assessment computer software program, business advice and referral and low cost Technical Assessments giving an objective assessment of inventions.

New Enterprise Incentive Scheme (NEIS)

This federally funded scheme is designed to help unemployed people into self-employment. It may provide a six week intensive business training course and up to 12 months income support to eligible applicants.

BizLink

This program provides information on State and Federal Government assistance programs for small business. You can access BizLink through your local BEC or the Internet - www.business.gov.au.

3 BUSINESS STRUCTURE

The choice in determining a suitable business structure depends on the type of business and the number and relationship of persons involved in the business. The common types of business structure available are detailed below. Every individual's situation and business is different, therefore it is essential that you consult widely on your options.

Sole Trader

An individual in business, with or without a business name.

Advantages:

- Easy and inexpensive to set up (and to wind up);
- Losses from the business can be offset against other taxable income of the sole trader;
- Total control of the business and sole entitlement to capital and profits; and
- Individual proprietor lodges only one tax return.

Disadvantages:

- Sole trader is personally responsible for every business debt or loss, thus a creditor has a right to claim against personal assets to enforce repayment;
- PAYG Tax is payable on the taxable income; and
- The business has a limited life - if the sole trader dies or retires or suffers permanent disablement, there may be difficulties in maintaining or selling the business. Ownership of the business cannot be transferred.

Partnership

A relationship between two or more (up to twenty) individuals or Companies who pool their resources to engage in business together as a partnership. Each State has its own Partnership Act and most States require written evidence of a partnership, if it is expected to continue for more than 12 months.

Advantages:

- Easy and inexpensive to establish - often a Partnership Agreement is prepared between the partners to outline their duties, rights and obligations, and
- Losses from the business can be offset against other taxable income of the partners.

Disadvantages:

- A Partnership is not a separate legal entity, separate from the individual partners. Partners are personally liable for all debts/losses of the partnership;
- Partners are jointly liable for contracts made by any one Partner and are jointly & severally liable for torts/wrongful acts committed by any one Partner;
- PAYG tax is payable on the taxable income of the Partnership; and
- The business has a limited life - if a Partner dies, goes bankrupt or retires results in dissolution; or suffers permanent disablement, there may be difficulties in maintaining the business.

Proprietary Company

A proprietary limited Company registered by the Australian Securities Investment Commission (ASIC) is restricted to between 1 and 50 shareholders.

Advantages:

- Easy to establish, costs approximately \$1,000 to acquire from the "shelf";
- Liability of shareholders for company debts is limited, either to the

amount outstanding on their shares or the amount of guarantee of each member;

- The company tax rate will move from 36% to 34% for the 2000/2001 income year; and further reduce from 34% to 30% for the 2001/2002 and later income years. and
- A Company is recognized as a separate legal entity in its own right and continues to exist in the event of death, bankruptcy or retirement of any of its shareholders.
- Greater superannuation benefits are available because owners of the company can become employees.
- Disadvantages:
- Statutory obligations and common law duties and responsibilities are imposed on Company Directors;
- One of the most expensive structures to establish and operate – extra reporting requirements necessitate more record keeping;
- Financial & certain other information must be filed with ASIC for public record;
- Compliance with the requirements of the ASIC is time consuming and carries an administrative cost;
- Capital Gains tax may be an issue with company structures;
- Lenders and Creditors often seek personal guarantees from Directors which reduces the value of limited liability; and
- Losses in a Company are not distributable to the shareholders and therefore cannot be offset against their other income.

Other Structures

Other structures that you might like to consider and discuss with your accountant and/or solicitor include: Limited Company; Holding Company and Trust.

Overview of Structures

Sole Traders or Partnerships are the simplest and cheapest structures to implement and administer and are quite satisfactory except where there are substantial financial risks in the business activity, or where the proprietors are seeking a higher degree of protection in their relationship with each other.

In such cases, a proprietary Company provides some measure of protection. However, it must be considered whether or not the additional cost and complexity is justified. If there are a large number of proprietors and the nature of the business involves a lot of paperwork and legal requirements, the existence of a Company avoids the necessity for all proprietors to individually execute such documents. You should note that capital gains tax may be a significant problem in either a Company or Unit trust structure, unless careful planning is undertaken when establishing the respective entity.

Having decided which structure:

Once you have decided which legal structure, you should ensure that all legal requirements have been attended to, including :

- the registration of the business name in all States in which the business trades - if using trading under a name other than your own name;
- the preparation of a partnership agreement; and notification to the ATO.
- the lodging of company details for registration by the Australian Securities Investment Commission (ASIC)
- the appointment of company directors, secretary, registered office, shareholders and public officer, establishment of company registers, and investment of share capital funds and funds from trust settlement and units issued.

4 LEGAL RESPONSIBILITY

There are many laws that impact on business. As a business operator you are responsible to ensure that you operate within these laws. “Not knowing” is not an excuse. Your business team will be able to help you so make sure you use them.

Examples of the legal areas of operating a business which may apply to your operation are listed below and more detail is provided in the following sections.

The Corporations Law

When setting up your new business, you will need to make a decision in relation to your business’ legal structure as described in the previous section.

Licences, Regulations & Registrations

You will need to consider a number of legal issues regardless of the business structure you have chosen. The best source of information can be obtained from the Business Licensing Information Service (BLIS) on 1800 463976. This service will provide advice about licences, permits, approvals and registrations.

You will need to register your business name with the Department of Fair Trading. The cost for this service is \$114 – note there is no GST on this registration.

Your local Council will advise you in relation to regulations which may affect your business in the following areas: zoning; approved business use; licences/permits; health regulations; signs; access; landscaping; parking requirements; and building permits.

Certain State and Commonwealth Government restrictions may apply if you are operating a business especially a shop or factory. These restrictions apply to:

- Anti-discrimination;
- Consumer Protection Laws;
- Discharge of Waste;
- Environment;
- Gas, electricity and water;
- Health regulations;
- Industrial awards (relating to staff);
- Leases;
- Occupational Health & Safety;
- Signs;
- Telephones;
- Trading hours;
- Weights & Measures;
- Zoning;

Agreements/Contracts/Leases/Agencies

As a small business owner, you may need to enter a number of contracts. These may include: contracts with customers; lease of plant & equipment; contracts with suppliers; agency agreements; and lease of business premises. Before entering into any contracts it is recommended that you contact your Solicitor or Business Consultant. If taking over an existing business, contracts signed prior to December 1998 may be subject to changes in Tax Reform. Contracts signed after that time are subject to GST as applicable.

Employment

In selecting staff, choose carefully as the success of your business will be affected by the productivity, motivation and competence of your staff. Issues involved in employment, are covered in Section 14.

Trade Practices

The Trade Practices Act is administered by the Australian Competition and Consumer Commission. Components which may relate to your business involve:

- Anti-competitive practice;
- Unfair practices;
- Unconscionable conduct;
- Action against manufacturers/importers;

Consumer Protection

When selling goods or services to the public, the small business owner must be aware of the requirements of the consumer laws. Through the Trade Practices Act, the consumer is protected from false and misleading claims and conduct by suppliers of products and services. Heavy fines apply where this occurs.

Occupational Health & Safety

A Code of Practice has been developed by the National Occupational Health and Safety Commission in the following:

- provision of practical guidance to employers in meeting certain standards in their workplace;
- prohibition of certain activities in the workplace;
- maintenance of the workplace as safe; and
- for those that undertake business in another State be aware that there are different OH&S laws in every State, albeit similar.

Taxation

As a small business owner you will need an Australian Business Number (ABN). As well you will need a Tax File Number (TFN) if your business

- is lodging its first tax return;
- is a fringe benefits payer;
- makes or receives payments under the Pay As You Go (PAYG) system;

By law you must keep your transaction or other records, source documents, diaries, log books and books of accounts for at least five years. Records relating to fringe benefit tax must be kept for seven years. Refer to Section 8.

Insurance

Insurances relevant to small business may be placed in three categories:

- Compulsory;
- Essential;
- Useful;

Whilst it is very important that you consider your insurance needs, it pays to shop around as premiums can vary considerably between companies. Refer to Section 12 for more information.

Banks

- Whilst there is no legal compulsion to have a bank account, certain registrations (such as GST) will require bank account details.
- If you are a registered business or a company the bank will require your registration details as well as 100 points and a Tax File Number of the registered proprietor/s or company director/s.

5 BUYING A BUSINESS versus ESTABLISHING A BUSINESS

When entering business, many people look at purchasing an existing business. While doing your own extensive research, purchasing an existing business is a complex activity. Make sure you obtain appropriate legal and financial advice.

Some advantages in buying an existing business are:

- An existing customer base which increases the likelihood of success;
- Cash flow and income may be generated immediately;
- Credit lines are already established;
- Experienced staff may wish to stay on;

Some questions to ask:

- Is the price fair or is there too much 'goodwill'?
- When will the fixtures and fittings, plant and equipment need replacing?
- Will the business perform as promised under your new ownership?
- Is the business based on a passing fad or trend which may change?
- What would it cost if I set up a brand new shop in a different location?

Before commencing any new business venture or purchasing an existing business, you need to decide whether or not you are:

- A self starter, enthusiastic and self confident?
- Able to make decisions while 'standing on your feet'?
- Prepared to work long hours with limited holidays?
- A good manager and experienced in your chosen field?
- Healthy and have the support of your family?

Appraising a Business Purchase

Big business calls this process "Due Diligence" and it involves thorough checking of all aspects of the business being considered for purchase. Some issues which the intending small business purchaser must consider:

1 Vendor Analysis

- ⇒ Why is the vendor selling the business and do they have the authority to sell?
- ⇒ Make enquiries of the vendor and if a Company perform a Company search?
- ⇒ Obtain, from the vendor, customer information and a list of suppliers, any relevant mailing lists.
- ⇒ Can the vendor work with you in the business after takeover for training purposes?

2 Financial Assessment

Undertake a financial assessment of the proposed business including:

- Review the trade history – past – three years, present and future. Inspect the vendor's books of account.
- Determine that the business will provide a reasonable salary to working proprietors.

- Is there sufficient return on invested capital?
- Will the business maintain the original investment in goodwill, fixtures & fittings, equipment & stock during the economic life of the business?
- Have you arranged sufficient funds necessary to finance the purchase of the business including working capital?
- Compare to establishment/start up costs.
- Assess the current unpaid invoices and money owing to the business. If you purchase their business and their unpaid invoices, define a time limit for collecting unpaid invoices – these should be referred back to the previous owners (from whom you buy the business).

3 Staff

Identify key staff and revise salaries, employment packages and Fringe Benefits Tax implications. Will existing staff continue employment? Decide which of the staff you want to keep or which of the staff you don't want on your books. Ensure any terminations/changes are done prior to sale of the business.

Assess any outstanding holiday pay or long service leave liabilities. Ensure you receive any cash accruals for these amounts.

What, if any, are the Award(s) under which they are working?

What, if any, are the private agreements, under which they are working?

4 Valuation of Assets

- ⇒ Obtain a current independent valuation of fixtures, fittings and equipment and ensure that no other party has an encumbrance or interest in them.
- ⇒ Do a stock take for valuation and ensure there is no hidden obsolescent stock, also confirm that no one has a claim on the stock.
- ⇒ Check any work in progress and agree to a value.
- ⇒ Inspect contracts for current and future work commitments with customers.
- ⇒ Check hire purchase or lease arrangements on any equipment and negotiate whether the purchase price includes these liabilities & the right of assignment.
- ⇒ Determine if any capital expenditure is imminent.

5 Industry and Local Demographics

- ⇒ Collate information to enable inter-firm and inter-industry comparisons to be made.
- ⇒ Assess the economic life of the business and the stage of the business within that cycle, e.g., check the lease, competitive products, competitive businesses.
- ⇒ Ascertain the key factors which contribute to the success of the business:-
 - Products;
 - Popularity of the proprietor;
 - Techniques or skills of the proprietor; and
 - Location.
- ⇒ Check industry developments or location changes which will impact on the performance of the business, how reliable is future trading?
- ⇒ Do an appraisal of the opposition.
- ⇒ Does the business have a good reputation & satisfied established customers?
- ⇒ What are Council's present and future intentions?

6 Lease of Premises

- ⇒ Refer to Section 6 for a detailed checklist.
- ⇒ Check with relevant authorities [e.g. Council] as to permitted use of property.
- ⇒ Inspect the lease agreement and determine the right of the vendor to assign the lease, term of lease, options for renewal and rent review provisions.
- ⇒ Clarify responsibility for outgoings, cleaning and insurance provisions.
- ⇒ Do you need to negotiate a new lease with the landlord rather than the assignment of the current one.

7 Formal Searches

- ⇒ Search the Business Name and do a title search on the premises.
- ⇒ Check any Landlord outgoings e.g. Security, garbage, merchandising; rates and land taxes; and business registrations.
- ⇒ Do the buildings and activities conform to local and other government requirements including Environmental Protection Authority?
- ⇒ Inspect current licences, permits, business name registration certificate, patents, copyright, trademarks etc, are they being transferred?
- ⇒ Have a '*restraint of trade*' clause included in the contract of sale to ensure a 'no compete' arrangement with the vendor.

If a company structure is being purchased will the vendor provide adequate indemnity for undisclosed liabilities including capital gains tax liability?

8 Items to Assess when Purchasing a Franchise

What is Franchising?

Franchising is a relationship within business which assigns to independent people who are known as Franchisees, the right to:

- market the Franchisor's products or services;
- use the Franchisor's trade mark or logo;
- use the Franchisor's business systems for a pre-determined period.

Definitions

Franchisor

As the owner of the licence of a proven method of doing business (business systems), the Franchisor may grant franchises to independent franchisees for the purpose of making profits from the product or service.

Franchisee

The Franchisee pays an upfront fee for the privilege of using the Franchisor's Trade Mark and business system. An on-going royalty and/or management fee as well as advertising charges also apply.

How does Franchising Work?

The following steps apply:

- A potential Franchisee wants to own and operate a franchised business.
- An initial fee for the right to operate the franchise is paid to the Franchisor.
- The Franchisee secures the rights to operate the business for a set period.
- The Franchisor trains the Franchisee and supports in an ongoing way. The Franchisee receives advice and assistance in the stages leading up to opening of business.
- The Franchisee pays the Franchisor an ongoing levy.

- The Franchisee pays an advertising levy, which is pooled with other Franchisee contributions to be used by the Franchisor to advertise the group of Franchises.

Success Rate

According to the Franchising Code Council, the success rate of franchises in the first 5 years of business is 88% compared to 20% for small business in general.

Code of Conduct

A Franchising Code of Conduct has been issued by the Department of Workplace Relations and Small Business from 1 July 1998. It is a mandatory code which must be complied with by all franchise systems.

How to Choose a Sound Franchise

The basic element of a successful franchised business are:

- A proven and profitable franchisor whose product/service is widely known and professionally presented;
- Suitable location;
- A well structured Franchise System;
- To work successfully, there must be financial rewards for both the Franchisor and the Franchisees.
- Speak to several past and present franchisees in the franchise you wish to purchase.

Whom to Contact for Advice

An intending Franchisee may contact a Franchise Development Organisation who specialises in recruitment and selection of franchisees.

You will find contacts in the Yellow Pages, alternatively you may contact a Business Consultant or your Accountant for advice.

9 Transferring Ownership

On the transfer of the operations of an existing business, there are a number of procedural issues which need to be attended to. These include the following :

- ✓ Transfer of registration of business name;
- ✓ Transfer of all Intellectual Property such as copyright, trade marks, designs and patents;
- ✓ Transfer of business permits or licences & assignment of lease on premises;
- ✓ Notification to finance organisations for transfer of assets on lease or hire purchase;
- ✓ Obtain all keys to premises and consider changing locks; and
- ✓ Notify all suppliers & customers of the change in the ownership of the business.
- ✓ Transfer of phone or new phone connection including fax/answer system and listing in white and yellow pages;
- ✓ Transfer electricity/gas & Post Office box;
- ✓ Transfer, or establishment, of bank accounts with new signatories.
- ✓ Transfer of any lease, hire purchase or commercial finance deals.
- ✓ Transfer of any outstanding debts or of any debts owed to the business.

6 LICENSES & REGISTRATIONS

Some businesses require special licenses or registration to operate. Business License information Services (BLIS) - Tel. No. 1800 463 976 will provide you with information on any licences required for your specific business,

It is your responsibility to ensure you have relevant licences, approvals and registrations in place.

The following may need assessing:

- **Local Government requirements:** Health, building, location, infrastructure. For information contact your local Council.
- **Intellectual Property protection:** Copyright, Logo, Trade Mark, Design, Patent Registration. IP Australia is the Government instrumentality responsible for various registrations of intellectual property. There are also an increasing number of firms specialising in assisting small business to protect their rights.
- **Specific Licences/Permits to operate:** Some businesses require qualified, licensed personnel to be able to operate (e.g. Real Estate, Building & Construction). Information on licences required and application is available from BLIS as noted above.
- **Company Registration:** There is a formal process for registering a company. Your accountant and/or solicitor will be able to assist. Registration is made with the Australian Securities and Investment Corporation (ASIC), however discuss this with your Accountant first.
- **Business Name registration:** If you intend to trade in any name other than your own, you are required to register that name. In NSW it is through the Department of Fair Trading. Registrations forms are available from your BEC or the Department of Fair Trading.

7 RECORD KEEPING & FINANCIAL MANAGEMENT

Record Keeping Requirements

There are a wide range of records that the small business operator will need to keep for the business enterprise. These records must be kept to comply with either Corporations or Taxation legislation, or both. Your accountant will be able to assist in assessing your obligations in this area.

Unfortunately, the activity of record/book keeping is often seen as a drudge, yet it is one of the most crucial for any business. Ultimately your records will tell you how your business is performing and what your investment is worth. The process therefore needs to be undertaken on a regular and prompt basis.

As a result of the new Tax Reform Legislation business records will be required every tax period which may be monthly or quarterly.

The Record Keeping Process

The process starts with the collection and classifying of source documents – tax invoices, receipts, dockets, diary entries, cheques, deposit slips, bank statements.

An initial identification of categories will take place when compiling your very first cash flow projection/budget. These categories may be adjusted to suit the needs of the business as it develops. As well, the categories will vary depending on the activity and structure of the business.

Once classified, this information is processed through the bookkeeping system. This may be a manual or computer based system. Daily, weekly or monthly totals will provide figures for reports important to monitoring the business's activity. These include:

- Cash flow;
- Bank balance reconciliation;
- Profit and Loss Report – tracking performance;
- Balance Sheet – tracking owner's investment;
- Taxation obligations.

The content and classifications within these reports will vary for different business types (manufacturing versus retail versus service).

There are many excellent publications available to assist you establish and maintain a record keeping/bookkeeping system. Included are publications (and seminars) from the Australian Taxation Office; Cash Book/Accounting Books – providing the framework for your daily and monthly records and ideal for micro business; computer programs.

However, no matter what system you adopt, achieving results by using timely and accurate reports will come down to the discipline of recording information. If you are not good at this, pay someone who is: ***no business can afford the risk of not knowing***. If you have difficulty understanding the meaning of the reports, find someone who can explain it to you in words you ***do*** understand.

Additional Records from 1 July 2000

Tax Invoices

Business will need tax invoices to make input tax credit (ITC) claims before they lodge their Business Activity Statement (BAS).

Tax Invoices replace invoices, dockets, and receipts for all transactions of supplies over \$50 exclusive of GST, however you should have some documentary evidence to support all ITC claims. If asked to provide a tax invoice you must do so within 28 days.

Tax Invoices for supplies of less than \$1000 must include:

- the ABN of the supplier;
- the GST inclusive price of the taxable supply;
- the words 'Tax Invoice' stated prominently;
- the date of issue of the tax invoice;
- the name of the supplier;
- a brief description of each thing supplied;
- when GST payable is exactly 1/11th of the total price, either a statement along the lines of 'the total price includes GST', or the GST amount. (See Appendix 1)

Tax Invoices for supplies of more than \$1000 must include as above:

- the ABN of the supplier;
- the GST inclusive price of the taxable supply;
- the words 'Tax Invoice' stated prominently;
- the date of issue of the tax invoice;
- the name of the supplier;
- a brief description of each thing supplied;
- when GST payable is exactly 1/11th of the total price, either a statement along the lines of 'the total price includes GST', or the GST amount. (See Appendix); as well as:
- the name of the recipient;
- the address or the ABN of the recipient.

Taxable and non-taxable supplies

If the tax invoice is for a taxable supply and either a GST-free or input taxed supply, the tax invoice must also show:

- each taxable supply;
- the amount of GST payable (in relation to the taxable supplies);
- the total amount payable for the supply.

Adjustment Notes

From time to time businesses will need to make an adjustment to the amount of GST owed or refunded. This may happen if:

- All or part of the supply or purchase is cancelled;
- The price for a supply or purchase is altered eg negotiated discount
- A supply becomes taxable or a purchase becomes creditable;
- A supply stops being taxable or a purchase stops being creditable;
- The purpose of your purchase changes; or
- You have bad debts or you fail to pay a debt.

An Adjustment Note must include:

- the words 'adjustment note' in a prominent place;
- the name and the ABN of the supplier;
- the name of the recipient;
- the address or the ABN of the recipient;
- the issue date of the adjustment note;
- the issue date of the original tax invoice for the taxable supply, or, if there were any previous adjustment notes, the issue date of the last adjustment note;
- the price of the taxable supply in the tax invoice or previous adjustment note, the corrected price, and the difference between these amounts; and
- a brief explanation of the reason for the adjustment, for example 'discount' or 'return of goods'.

Reconciliation of Daily Supplies

There are a number of ways to record payments business receives. Payments received may be in the form of cash, cheques, credit cards, Electronic Fund transfers (EFTPOS), or smart card transactions.

If you use a cash register you can use a Reconciliation of Daily Supplies (sales) each day. If you use other methods such as tax invoices for recording your supplies, you may wish to use a Cash Book.

Cash Book

Business can record its payments and receipts in a cash book, which is a record of all your business transactions whether they take the form of cash, cheques, credit cards, Electronic Fund transfers (EFTPOS), or smart card transactions. Cash Books are sometime referred to as Journals. A cash book generally has two parts:

- A section for cash payments (the money going out from your business); and
- A section for cash receipts (the money coming into your business).

Accounting Files

Businesses need a good filing system that keeps track of all payments and receipts. One method is to maintain separate files for your invoices and your receipts; or files that are 'paid' and 'to be paid'. Remember business are required to have **in their possession** tax invoices before making claims for ITC's on their BAS.

The receipts and invoices could be filed by suppliers' names in alphabetical order, for easy reference.

If each tax invoice is numbered it can be matched against a bank statement or cash book entry (upon which you can make a corresponding number) which makes the system very easy to follow for bookkeepers, accountants and auditors.

Petty Cash

Petty cash is normally used for minor purchases that don't warrant writing a cheque. From 1 July 2000 petty cash vouchers will have to change to cater for a break-up between the value of the supply and the GST applicable. You will need to add up petty cash expenses separately at the end of the period and then add them to the total expenses. This will allow you to account for the GST component of these expenses separately.

8 TAXATION

Tax is often an area of concern for people entering small business. Below is an outline of various taxes associated with running a business. Each needs to be assessed for relevance and if necessary further information sought.

The Australian Taxation Office (ATO) provides excellent support by way of its 1300 numbers, Fax-from-Tax services and booklets for new businesses and record keeping activities. Your Accountant and Solicitor will also be able to help you assess your liabilities and responsibilities. Tax Law changes regularly, so it is important that you ensure you keep up with changes that are relevant – remember, ignorance of the law or change is no excuse.

Australian Business Number (ABN)

- All businesses require an ABN otherwise withholding tax of 48.5% must be forwarded to the ATO by your debtor on all transactions.
- There are implications for GST on this form. Discuss your business with your Accountant or BEC business facilitator.

Goods and Services Tax (GST)

- Registration is undertaken on the ABN registration form
- All businesses with a turnover greater than \$50,000 (and all charities with a turnover > \$100,000) must register for GST.
- For businesses with a turnover < \$50,000 registration is optional
- All businesses registered for GST must submit a Business Activity Statement (BAS) either monthly or quarterly dependent on your business size.
- All businesses must choose whether they wish to utilise a cash or an accruals basis for accounting purposes

PAYG

Pay As You Go (PAYG) is part of The New Tax System – a range of tax reforms that will benefit business. PAYG is a single, integrated system for reporting and paying:

- tax on business and investment income called PAYG instalments; and
- PAYG withholding which means the process by which you deduct amounts from payments to others and remit these amounts to the ATO.

PAYG replaces 11 previous systems including provisional tax, company and superannuation fund instalments, Pay As You Earn (PAYE), Prescribed Payment System (PPS), and the Reportable Payment System (RPS).

PAYG will be remitted via an Activity Statement. Most businesses will normally have four due dates – one for each quarter – or 12 if they remit PAYG monthly. Both monthly and quarterly payments are paid on or before the 21st day after the end of the tax period to which they relate.

PAYG and Partnerships

A partnership (other than a corporate limited partnership) is not required to pay income tax – consequently it is not required to pay PAYG instalments. Rather, each individual partner will be required to include a proportion of the partnership's instalment income in their own individual instalment income. As a partner you will know if you have to pay PAYG instalments if the ATO gives you an instalment rate. If your partnership is registered for GST, you will have to pay any PAYG instalments quarterly.

Annual Income Tax Return

Each business will still be required to submit an annual income tax return. In fact it will act like an adjustment sheet. The tax payable is worked out, based upon your whole of year income, then your PAYG instalments are deducted. The difference, if positive (i.e. underpaid) must be paid, and if negative (i.e. overpaid) will be credited.

PAYG Terms

Business Activity Statement (BAS)

A single form to report the business tax and obligations, including the GST, PAYG instalments, PAYG withholding, and FBT instalments.

Instalment Activity Statement (IAS)

Similar to the BAS but without GST and some other taxes. For businesses and individuals who are not registered for GST, and individuals who are required to pay PAYG instalments, or PAYG withholding such as self-funded retirees.

Tax period

Is the length of time for accounting (for GST) on your activity statement. It may be monthly or quarterly depending on your annual turnover.

PAYG Instalments

Usually will be paid quarterly, though some tax payers will have the option of making an annual payment if their most recent notional tax (as advised by the ATO) is less than \$8000; and you (or a partnership in which you are a partner) are not registered or required to be registered for GST; and you are not part of an instalment group. If you wish to pay on this basis, you must complete the form the ATO sends you and return it by the time your first instalment is normally due.

Benchmark tax

The tax attributable to your taxable income for the year, reduced by the tax attributable to any capital gains included in assessable income and your credits for amounts withheld from payments to you.

Base assessment instalment income

So much of your assessable income from the latest assessment of your most recent income year as the ATO Commissioner determines, is instalment income.

Instalment rate

A percentage figure, also known as the Commissioner's rate, (pre-printed on your form) worked out by the ATO based on the information in the most recent assessment for your most recent income year for which an assessment had been made. It is calculated by dividing **Notional Tax** by your **Base Assessment Instalment Income**, then multiplying the result by 100 calculated to two decimal places.

Instalment income

A dollar amount worked out by you – this is your ordinary income for the quarter or the year. It is your total ordinary income for the period for which you are paying the instalment.

Instalment methods

There are three methods for determining your PAYG instalments. Many PAYG instalment payers will have a choice between two methods. In most cases you will be able to vary the amount.

PAYG Instalment Methods	Available to		
	Quarterly Payers	Individuals and multi-rate trustees	Annual Payers
<i>Instalment rate x instalment income formula</i>	•	•	•*
Your variation of the instalment rate	•	•	•
Notional tax notified by the ATO, without an uplift factor	•	•	•
Your variation of the instalment rate	•	•	•
Notional tax notified by the ATO, adjusted for growth in gross domestic product (GDP)	•	•	•
Your variation of the instalment rate	•	•	•

* Only available from 2002-03.

Instalment rate x instalment income formula

This will be the most common method by which business will pay instalments. The main advantage of using the instalment rate x instalment income formula is that your PAYG instalments are based on actual income received, instead of a projection based on your notional tax. This approach helps cash flow management because your tax obligations are more closely aligned with your changing income and trading conditions.

Notional Tax

Generally, the equivalent of tax that would have been payable on your business and investment income, excluding capital gains, for your most recent income year for which an assessment has been made. The ATO will advise you of your notional tax amount.

Statutory income

Income other than ordinary income included in an entity's assessable income. Examples are net capital gains, some royalties, and dividend imputation credits.

Individual

For PAYG purposes, an individual can be a sole trader who is in business, or a person receiving investment income, such as a self-funded retiree.

PAYG Withholding

'Withholding' means the process by which you deduct the amounts from payments to others and remit these amounts to the ATO. In the past many businesses remitted withholding amounts in the form of PAYE group tax deducted from their employees wages.

The two systems previously known as PPS and RPS have both been abolished and replaced by the PAYG system from 1 July 2000. Under the PAYG system payees are either subject to withholding and have some tax deducted from payments they receive or they provide for their own income tax liability by paying instalments.

The amount of withholding should be in accordance with tax tables published by the ATO. The tax tables take into account the personal income tax rates plus Medicare levy, any offsets or rebates, the Higher Education Contribution Scheme (HECS), residency status and other relevant matters. Where the payee does not give you a fully completed tax file number declaration you must withhold tax at the highest marginal tax rate plus Medicare levy (currently a total of 48.5%).

Payments to employees, company directors and other workers directly involved in your business.

PAYG withholding generally includes the payments that have been covered by the PAYE system. You must deduct amounts from the following kinds of payments you make to others:

- Salaries, wages, allowances, bonuses or commissions paid to an employee
- Payments to company directors
- Return to work payments
- Eligible termination payments
- Payments for unused leave
- Compensation, sickness or accident payments.

PAYG withholding registration

Registering for PAYG withholding is different to registering for the New Tax System. You can either register for PAYG withholding by either completing the appropriate form or contacting the ATO.

If you make payments from which withholding is required, you must register with the ATO by the day on which you are first required to withhold amounts from payments to others under PAYG withholding.

PAYG obligations

- Registering for PAYG withholding
- Notifying and paying the amounts you withhold using an activity statement
- Giving an end-of-year summary to recipients
- Sending TFN declarations to the ATO
- Reporting annually to the ATO on all your withholdings.

The income tax laws provide for heavy penalties for failing to comply with obligations relating to withholding.

Reporting and Paying the amounts withheld

Most businesses will report and pay PAYG withholding amounts using an activity statement.

The dates depend on whether you are a small, medium or large withholder. Due dates for payment will be aligned so that all withholding amounts deducted by a business will be sent to the ATO at the same time.

- **Small withholders** have total annual withholdings of up to \$25,000 will be required to report and pay their withholdings once a quarter, and will receive a quarterly activity statement.

- **Medium withholders** have total annual withholdings of \$25,000 to \$1 million will report and pay their withholdings once a month. They will receive a quarterly activity statement for their overall tax obligations, and for the months in between they will receive an activity statement that needs to be completed only in relation to PAYG withholding (unless they pay GST monthly as well).
- **Large withholders** have total annual withholdings exceeding \$1 million will be required to report and pay their withholdings once a week.

Payments to contractors and seasonal workers

The ATO brochure *Status of the Worker* has guidelines that may help you determine whether a worker is an employee or a contractor. Payments made under a contract wholly or principally for labour are not specifically subject to PAYG withholding. However, you should check whether another type of PAYG withholding applies to these payments – e.g. payments to a labour hire worker.

Payments under labour hire arrangements

Labour hire arrangements commonly involve at least two contracts. A user of labour (the client) typically contracts with a labour hire firm for the provision of labour of a specific kind. The labour hire firm does not contract to perform the work; it merely contracts to provide labour to work under the direction of the client. The labour hire firm then contracts with the worker (individual) and pays the worker. The worker is not an employee of the labour hire firm or the client. There is no contract between the worker and the client.

Under PAYG, a labour hire firm must deduct tax from payments it makes to its workers for performing services for its client. There is no requirement for the client business to deduct from the payment to the labour hire firm. For more information see the ATO fact sheet *PAYG and Labour Hire Arrangements*.

Payments under voluntary agreements

A business, and a contract worker (individual) who has an ABN, can make a voluntary agreement to bring the worker's payments into the PAYG withholding system, if the work payment are not subject to any other PAYG withholding. When withheld, the contract worker will not be required to pay PAYG instalments for that income again. For more information see the ATO fact sheet *PAYG Voluntary Agreements*.

Non-cash payments

Under the PAYG system, anyone providing non-cash payments (or receiving such payments, in the case of taxpayers acting for non-residents) must meet their withholding obligations. A non-cash benefit includes property or services in the any form except money. For more information see the ATO fact sheet *Withholding for non-cash benefits*.

ABN withholding

Under PAYG withholding, if a business supplies goods or services to another business and does not quote an ABN on their tax invoice, the business that receives the supply is required to withhold 48.5% from the payment to the supplier and remit this amount to the ATO via the BAS. Legislation says that you do not have any responsibility to confirm the validity of an ABN or whether the amount of GST is correct, however, you will be liable to the ATO for the withholding you did not deduct. The liability is worked out by dividing the amount by 51.5 and multiplying the answer by 48.5. Note that this amount is not tax deductible for income tax purposes. The ABN Hotline is 13 24 78.

Group certificates and payment summaries

Group certificates will be replaced by payment summaries. The ATO prints payment summaries for you to use, or you may print your own in accordance with ATO specifications. The payment summary should record the total payments made and total tax withheld, and other information.

Payment summaries are given to payees by 14 July after the financial year. A payee can request a payment summary at any time during the financial year e.g. if they leave employment. However, the payer should not provide a mid year payment summary if they provide fringe benefits to the payee as it cannot be completed until the end of the financial year.

Annual reporting to the ATO

By 14 August after the end of each financial year, you must provide a report to the ATO about payments from which you withheld amounts (including nil amounts).

Fringe Benefits Tax

FBT is the tax payable on a non-salary benefit provided to an employee. It is payable by employers and is assessed on the value of the fringe benefits provided to employees or their associates. It includes any right, privilege, service or facility eg: providing use of a motor vehicle to an employee, giving ownership of a uniform provided by the business, etc. Since 1 April 2000, the FBT instalments have been changed to quarterly instalments and are paid at the same time as other quarterly payments. For more information see the ATO publication *Fringe Benefits Tax: A Guide for Employers*.

Company Tax

If you choose to run your business under a 'company' structure, the Company earns the money, pays expenses (including your wage as an employee of the Company). What is left after any allowable deduction/expense is classed as 'taxable income' for the Company. The company tax rate will move from 36% to 34% for the 2000/2001 income year; and further reduce from 34% to 30% for the 2001/2002 and later income years.

Import Duty

GST is payable on most goods imported into Australia whether by air, sea or post. These are called taxable importations. GST is payable on taxable importations whether you are registered or not. The GST is paid to the Australian Customs Service (Customs). Some goods imported into Australia will not be subject to GST. These are certain goods that qualify for certain customs duty concessions or would have been GST-free or input taxed if supplied within Australia. The amount of GST payable on taxable importations is 10% of the value of the taxable importation. The taxable value of the importation is the sum of:

- The customs value (CV) of the goods (calculated in accordance with Customs Legislation);
- Any customs duty payable (including wine equalisation tax); and
- The amounts paid or payable to transport the goods to Australia and insure the goods for transport (insurance and freight).

For further information see the ATO Publication: *Importing & The New Tax System*.

Importers are responsible for obtaining Customs clearance for consignments of goods above set value limits. Goods imported may attract customs duty. Contact the Customs Office to check whether the goods you wish to import require a permit.

Export Duty

Where goods are subject to export controls, the exporter must apply to the Customs Office for a permit to export, barriers may prevent your entry into particular export markets. Austrade, a Federal Government Agency to help Australian businesses successfully sell their products overseas, offers a service called "quick Market Assessments". These assessments will tell you the level of demand for your product and will highlight potential barriers to your entering the market including tariffs, charges and restrictions.

Exports will be GST-free if they are exported within 60 days of either receiving payment or issuing an invoice for the goods, whichever is the earlier. You must keep records showing the goods were exported before or within the 60 days for them to be

GST-free. These records could include:

- Airways bills
- Bills of lading
- Evidence from the Australian Customs Service that the goods were exported; or
- Evidence that the goods arrived in the country of destination, provided by the Customs authorities of that country.

Excise Tax

Excise Tax is a tax on the privilege of manufacturing, importing and removing certain goods specified by law from place of production, storage, or from customs custody.

Petrol and Diesel Fuel

The Government will reduce excise on petrol and diesel fuel from 1 July 2000 to compensate for the effect of the GST. This is known as the GST Special Petroleum Credit.

Wine

The A New Tax System (Wine Equalisation Tax) Act 1999 (the WET Act) introduces a tax on sales, importations and certain other dealings with wine made on or after 1 July 2000. The tax on wine is referred to as the "wine tax" although it is also known as the wine equalisation tax (WET). The wine tax replaces the wholesale sales tax that applied to similar dealings with wine and similar products prior to 1 July 2000 and is intended to keep the price of wine stable following the introduction of the goods and services tax (GST).

The wine tax applies to the following alcoholic products provided they contain more than 1.15% by volume of ethyl alcohol:

- grape wine;
- grape wine products such as marsala, vermouth, wine cocktails and creams;
- fruit wines or vegetable wines; and
- cider, perry, mead and sake.

Tobacco

Tobacco products have been subject to a per-stick rate of duty from 1 November 1999. The per-stick duty will apply to all products containing 0.8 grams of tobacco or less. This will include most cigarettes, very small cigars and beedies (also known as bidis). All other products will have duty calculated according to the weight of the tobacco they contain. This will apply, for example, to pipe tobacco, roll-your-own tobacco, heavy cigarettes and most cigars. Tobacco manufacturers pay excise duty on locally manufactured products. Importers pay customs duty at the same rate as the excise applicable to locally manufactured products. The Australian Taxation Office (ATO) administers the collection of excise duty.

Stamp Duty

Stamp Duty is a State tax. Stamp Duty is payable on various transactions including leases, sale of business and on some hiring arrangements. For more information apply to the Office of State Revenue 1 800 061 163 (NSW).

Duties

Insurance

The duty rate on general insurance (Class 1 insurance) has been cut from 11.5 to 10 per cent. The new rate comes into effect where the period of insurance begins on or after 1 October 2000 for premiums paid on or after 23 May 2000. This reduction does not change motor vehicle insurance premiums which attract five per cent duty.

Conveyances - Purchase of properties

Value of Property	Amount to be Paid
\$0 - \$14,000	\$1.25 per \$100 or part thereof
\$14,001 - \$30,000	\$175 plus \$1.50 for every \$100 or part thereof over \$14,001
\$30,001 - \$80,000	\$415 plus \$1.75 for every \$100 or part thereof over \$30,001
\$80,001 - \$300,000	\$1,290 plus \$3.50 for every \$100 or part thereof over \$80,001
\$300,001 - \$1m	\$8,990 plus \$4.50 for every \$100 of part thereof over \$300,001
Over \$1m	\$40,490 plus \$5.50 for every \$100 or part thereof over \$1 million

Mortgages

\$5 on first \$16,000 then \$4 per \$1,000 or part thereof

Share Transfers

a. Public Listed companies incorporated in New South Wales - duty payable is 30 cents per \$100 or part thereof with a minimum duty of 30 cents.

b. Private companies - the rate of duty is 60 cents per \$100 or part thereof with a minimum duty of \$10.

Leases

Duty is calculated at 35 cents per \$100 or part thereof on the total rental for the term of the lease. Rent includes outgoings paid by the lessee.

Other

As from 1 July 1998 documents must be lodged within 3 months of the date of the document or interest will be charged on a daily basis. From 1 July 1999, the rate of interest is 12.72% per annum.

Land Tax

Land Tax is assessed annually by all State Governments including the ACT (but not NT). It is based on ownership of land at a predetermined date in each year. The tax may be charged to the owner/user of land valued over certain values. The tax-free threshold in NSW for 2000 is \$192,000, up \$16,000 on the previous year. You may be liable if the value of land you own, other than the land under your principal place of residence, has a total value of \$192,000 or more. The land tax rate has been reduced in NSW for 2000 from 1.85 per cent to 1.7 per cent. For more information apply to the Office of State Revenue 1 800 061 163 (NSW); and other relevant State and Territory Departments.

Payroll Tax

Payroll tax is a State Government tax. The pay-roll tax has a varying threshold for liability to pay, varying from State to State (e.g. NSW is \$600,000; Vic. Is \$515,000; Qld is \$750,000). In NSW the payroll tax has been reduced from the current rate of 6.4 to 6.2 per cent effective 1 January 2001. The pay-roll tax rate will still drop to 6.0 per cent on 1 July 2002. However, in other States it vary between 4% and 7%.

Wages liable for pay-roll tax are:

- salaries
- commissions
- bonuses
- allowances
- payments under certain contracts
- director's fees
- fringe benefits
- holiday, long service and sick leave accrued from 1 January 1990
- "make up pay" additional to workers' compensation payments
- motor vehicle allowances that are more than 53.5 cents per business kilometre if they are not paid under the award specifying a rate per kilometre
- accommodation allowances that are more than \$130 a night if they are not paid under an award rate for accommodation
- cash allowances not liable for fringe benefits unless they are direct reimbursement of employee related expenses
- as from 1 July 1996 payments by employers to superannuation.

For more information apply to the Office of State Revenue 1 800 061 163 (NSW).

9 FINANCIAL REQUIREMENTS

There are many very important financial aspects to consider before starting a business.

- How much do I need/want to earn for working the business?
- How much will it cost to start the business?
- What funds do I have and what funds will I need to borrow?
- How much will it cost to run the business and how much will/can I sell?

Included in this document is a copy of a Preliminary Expense Budget for establishment costs and ongoing weekly/monthly or annual expenses.

When considering the funding needs of the business carefully assess all sources, some of which are available to you. These could include:

- own funds/capital
- family/friends assistance
- bank overdraft
- term loans/fully drawn advances
- personal loans
- mortgage loans
- leasing/hire purchase
- bridging finance
- commercial bills
- borrowing on insurance policies
- factoring debts
- trade finance
- Business Angels/Venture Capital
- Vendor Finance

Be warned: dependence on debt is a very real pitfall for many small businesses. Try not to borrow money unless you absolutely have to.

The work that is undertaken in these early stages will set the scene for future financial reporting and monitoring of your business.

10 WORKING FROM HOME

Running a business from your place of residence may be feasible in practical terms, depending on the nature of the business proposed. It also has the advantage of minimising costs such as rent, overheads and travelling expenses. “Home”, as a business base, is often used by professional people, but may also be used for other types of business activity.

Local Councils

Restraints on the business use of residential premises are imposed by planning schemes administered by local Councils. You should check with your local Council to determine the specific provisions relating to the intended business use.

There are sometimes significant limitations on the conduct of business from home and information should be sought from the local Council or planning authority for those people embarking on a “home occupation”.

Planning Permit

The responsible authority in your area - in most cases, your local Council - will be able to provide you with information as to the zoning of your land and the need, if any, for a planning permit to conduct the home occupation.

Accounting & Taxation Considerations

One of your reasons for wishing to commence business at your home address may be the minimisation of costs. Accordingly, it is important that you keep accurate records of costs and outgoings which may be attributed to your business activity, both in order to account properly for the costs which relate to your business and in order that adequate records exist for taxation purposes.

To make any claims for expenses, the ATO require that your working space be dedicated to the business use solely. Expenses such as charges for power and telephone may be apportioned between domestic and business use. The GST paid on each of those expenses claimed may be apportioned also. The Taxation Office will require substantiation of such apportionment. Therefore it is important to keep all bills and other records which serve to provide your total expenses and the proportion which is represented by your business and private use.

In many circumstances it is preferable to install a separate business telephone line in the house, rather than keeping detailed records which show the domestic and business uses respectively on one telephone line. Furniture and fittings used for business purposes may be depreciated, to the extent that they are used for business rather than private purposes.

Insurance

Domestic property insurance does not normally cover business equipment or losses caused by business use. This also applies to motor vehicle insurance. Therefore insurance requirements should be re-examined and your insurance company notified.

11 LEASING PREMISES

Remember, there is no such thing as a standard lease. Always consider leases in the light of:

- How do I get into it
- How do I get out of it
- What do I have to while I am subject to the lease

Unless the business premises are owned by you freehold do not start a business without signing a lease and before signing any business property lease or lease renewal option, always seek professional advice and consult your legal advisers. Make sure you are fully aware of the commitment you are undertaking. The following are some of the areas you should consider before signing:

Duration

What is the duration of the lease, e.g.. if you are taking over an existing lease, how much longer does it have to run?

Lease option

Does the lease have an option to renew? Does the tenant need to give prior notice of intention to take up the next option? Must this notice be in writing and how long before expiration of the lease is it required?

Rental Period

Is it annually, monthly, weekly?

Rent increases

How often and on what basis can the rental be varied? e.g.. is it based on turnover, gross profit, Consumer Price Index (CPI), a flat percentage increase or is it subject to agreement between the parties?

Rates and taxes

Who is responsible for payment of rates and taxes on the property?

Outgoings clauses

Beware of additional outgoings clauses. These sometimes involve a contribution from several lessees towards common expenses of a building development. They may include cleaning, security, merchandising fees, percentage of turnover, gardening, maintenance and replacement of air-conditioning plant. Also assess the right of the landlord to force a change of site within the lease agreement.

Insurance

Which types of insurance are required under the terms of the lease? Who is responsible for the premiums?

Assignment clause

Does the lease include a right of assignment clause, i.e. can you transfer the lease in the event of selling or leaving the business and if so under what conditions?

Sublet clause

Can the tenant sublet all or part of the premises? If so, under what conditions?

Arbitration clause

Does the lease include an arbitration clause to apply in the event of the landlord and tenant not agreeing on the rental at time of increase or taking up of an option?

Lease restrictions

Does the lease allow for the type of business the lessee intends conducting? Are there any limitations that might hinder diversification?

Special licences or Council permits

Does the type of business you intend operating require a special licence or Council permit? Permits are often subject to stringent conditions. How will these conditions affect your business? Have you checked whether a permit will be available to you if you sign the lease?

Costs of lease

Who is responsible for maintenance of the structure, fixtures, fittings, equipment and chattels? Although leases are very special contracts, and there are special rules relating to them, they are, nevertheless, contracts to which the ordinary contractual principles apply.

Other Lease issues to consider

Following are some other lease issues to be aware of:

- Be careful of a lease with a low starting rent to attract a prospective tenant. There may be a substantial increase at the first or subsequent annual review.
- If your business is the retail hire or sale of goods or services, the Retail Tenancies Act may apply to your lease. If so, you should familiarize yourself with the provisions of the Act.
- When the term of the lease has expired, and there are no further options, you have no right to remain in possession or to expect a new lease. If you want to stay on or want a new lease, commence negotiations early.
- Once you have signed a lease you are committed to pay rent and outgoings and fulfill all the other obligations of the lease for the full term, unless it is assigned. This may be a substantial commitment and should be undertaken only after the most careful consideration.
- Consider changing the locks at the business premises.

FINALLY: Do not enter into any lease agreement without first consulting your legal adviser.

12 BUSINESS INSURANCE

The small business operator must be prepared to take risks, but that does not mean they have to take unnecessary chances. Intelligent insurance is as important in a business as intelligent financing, marketing or manufacturing. Few businesses will need all the policies listed and some firms may need more specialised policies which are not listed.

You should understand the contents of your insurance policies and the ramifications thereof. In addition, if you operate your business from home, your business insurance needs are **unlikely** to be covered by your domestic insurance policies.

Compulsory Insurance Policies

By Law there are three compulsory insurances: Workers Compensation (for employees of the business); Third Party Person (CTP car insurance) and Superannuation.

Worker's Compensation

Work Cover operates in NSW, whereby a levy is paid to the Government or private insurer to cover the small business' liability to their employees should they be injured whilst working. Worker's Compensation Insurance is compulsory for any business employing staff.

Third Party Person

Also known as compulsory third party (CTP) car insurance only protects third parties in the event of you having an accident. You can't register a vehicle in Australia without it.

Superannuation

Payments under the superannuation guarantee charge are deductible to the employer. It is based on the *Ordinary Time Earnings* (OTE) of employees which is the total employees earnings for ordinary hours of work, over-award payments, shift loading and commissions. It does not include fringe benefits. In 2000 the contribution is 7% and this is expected to reach 9% by the year 2003.

Exemptions:

- Employees aged 65 and over
- Employees who receive salary or wages less than \$450 in any one month.
- Part-time employees under 18

Non Compulsory Insurance Policies

The following principal policies must be considered as a part of insurance coverage even though they are not compulsory.

Fire

To protect your principal assets (Not limited to fire only. May be endorsed to include lightning, flood etc.)

Loss of Profit

Provides cover if the business is interrupted through damage to property by fire or other insured perils. This insurance ensures the anticipated net profit is maintained, it pays wages to employees and pays additional working costs if alternative facilities have to be used, subject to economic limits.

Public Liability

To cover the business' potential liabilities to third parties for personal injury or property damage, should the business be shown to be negligent.

Personal Accident & Illness

If you are self employed and not covered by Work Cover, you should assess the need for compensation if you are absent from work by virtue of either a personal accident or illness. Benefits flowing from these types of policies vary and you need to ensure your personal needs are covered.

Professional Indemnity

Professional Indemnity is essential for anyone who offers service or advice in a specialised field. It covers errors or omissions in advice, design or specifications that causes the insured party's clients or others a financial loss.

Other Insurance Policies

There are a number of other policies that, depending on the type of business may be considered appropriate to the small business person. These include:

Burglary

Covers the theft of assets from the business.

Money

Cover for money and negotiable securities in transit, on business or private premises or money in a locked safe.

Plate Glass

Covers the unexpected destruction of windows or other plate glass.

Products Liability

If you are a manufacturer, or export goods for sale, you will need this type of policy.

Goods in Transit

Cover against loss or damage to property while being carried by your business vehicles, road haulage, air, rail or post anywhere. This can be simple insurance against collision, or an all risk policy which covers theft and negligence.

Electronic Equipment and Machinery Breakdown

Unexpected machinery and equipment breakdown: specialised insurance for computers, word processors, office machinery, etc.

Insurance Packages

Many insurers now offer package policies (a number of covers combined into one) for specialised applications. These include:

- Industrial special risks - available for most medium to large industrial concerns.
- Office pack policies - especially designed to cover small professional or commercial offices.
- Shop or Retail pack - designed for small to medium retail premises.

Alteration to Policies

All insurance policies are capable of being altered (endorsed) to suit individual needs of small business operators. Experts in the field should be consulted to assist in determining adequate covers required, e.g.: the fire policy can be extended to include such risks as, lightning, explosion, aircraft, storm and water damage etc.

Cover should also include the firm's stock in trade, work in progress and raw materials. Numerous other extensions and alterations may be made to a fire policy. Those mentioned above are only a sample.

13 MARKETING A BUSINESS

A Marketing Plan details information on what products/services are being offered to which clients; how they will be provided and what methods will be used to promote them and entice clients/customers to buy them. The basis of a marketing plan is market research which involves thorough research before commencement.

Know Your Market

Who is/will be your typical client? You need to thoroughly know your customers, what makes them buy, their likes and dislikes. By understanding who your customers are, you can keep abreast of their changing needs. The better you understand your customers, the more effective you can be with your promotions. To thoroughly understand your customer base, you need to conduct market research to ascertain the target market and its physical, psychological and behavioural characteristics.

To conduct your own market research you should carry out a comprehensive analysis of the market you are going to enter. Include a brief history of the market as well as elements like the overall growth of demand in recent years and increases or decreases in the number of competitors. This information can be obtained from trade & professional associations or the Australian Bureau of Statistics.

It is advisable to talk to as many potential clients as possible and indicate reasons why they would be likely to use your services/products instead of their present suppliers. This can be done by:

- Accessing existing records: Which customers bought the most and why?
- Which products sold the best and why?
- Talk to customers, confer with sales staff, visit clients.
- Ethically assess competition, their target market, perhaps visit their operations;
- Collate market information on profiles, market size/trends of the target market.

Know Your Product/Service

This sounds obvious, however you need to be able to describe your product/service benefits from your client's perspective. If they don't want your product/service - you won't have a business.

Product/Service description

What are you supplying to the market place?

What physical features make up the product/service?

Product/Service Benefits

What benefits will the product/service deliver to your clients?

Product/Service Availability

Where will the Product/Service be available for purchase ?

How will you make purchasing easy for your clients?

Set Your Price

The price you charge depends on what the market will pay. Be careful not to sell your product/service short. Many people in business make the mistake of limiting their price because they believe customers will not pay more. It is essential to cover:

- Cost of the product/service to you (for manufacturers, this will include all raw materials and their deliveries plus production costs, for retailers it will include stock cost and its delivery).
- Packaging.
- Overheads - proportioning cost of rent, electricity, phone, advertising, etc, to the product/service - these can be estimated and added to determine an hourly rate.
- Distribution.

- Labour.
- Management.
- Profit.
- Return on Investment.

Position Your Business

Key Competitive Strengths & Unique Selling Position (USP)

Your business needs to determine its key competitive strengths - why do customers go to you, what makes you different from others in the market? These strengths will form the central focus of any promotional message. You need to know what your strengths are and promote them - tell everyone - customers and employees alike.

Business Image

All internal and external promotions should consistently reflect the same business image. Customers should continuously receive the same message. You need to assess what business image you wish to project to the world at large. Once deciding on an image, the message should be consistent in all promotional activities/materials.

Distribution

Decisions may need to be made about how and/or who will distribute your product/service. If you are providing your product/service directly to the end user, then you are your own distributor. However, if you are wanting other people to sell for you, you will need to establish appropriate distribution channels to ensure your product/service is represented as you expect and promoted/pushed to its maximum. Methods of distribution include:

- Direct Selling - retail; door-to-door;
- Mail order;
- Internet sales;
- Sales Agents;
- Wholesalers and Warehouses.

Internal Promotional Strategy

Before you commence external marketing to attract potential customers, you need to ensure that the internal promotional functions have been finalised. It is no good attracting customers to the business if, when they get there, the image and appearance of the business is inconsistent with the promotion conducted. The following issues need to be assessed:

- Image: premises, signs, vehicles, shop front and street signs, receptionist and reception area, displays, telephone manners, customer access;
- Staff: uniforms, name tags presentation, selling methods, product knowledge and attitude;
- Presentation: product labels, ticketing, point of sale advertising, layout and atmosphere;
- Presentation: corporate image and documentation, use of microphone promotions in the store, tapes of radio advertising and videos of TV commercials can create atmosphere; and use of manufacturer supplied displays.

Promote Your Product/Service

'Marketing' your business product/service can be undertaken in a number of ways. A Promotional Plan needs to be developed showing how, when, why and what outcome is expected from the marketing strategies you choose. Strategies from each of the following need to be developed:

- ✓ **Publicity:** free & credible reporting of any newsworthy aspect of your operations, product, service.
- ✓ **Public Relations:** Networking, creating a profile and involvement where you/staff represent your business outside the premises (e.g. Chamber of Commerce, Rotary, Business Groups etc).
- ✓ **Personal Selling:** Customer relations and contact, sales techniques, etc.
- ✓ **Sales Promotions:** Special events or promotions at various times during the year e.g. Trade Shows, Easter promotions, product promotions, etc.
- ✓ **Advertising:** Paid advertisements through radio, TV, newspapers, magazines, yellow pages, billboards, catalogues, brochures, newsletters, trade journals, leaflet, direct mail, telemarketing, sponsorship, etc. Bear in mind that advertising is designed to bring customers through the door, so the most valuable yardstick is the head count. If the number of people entering the store is considerably up by comparison with, say, last year, it could mean that the advertising has done its job.

Your promotional plan will depict the full range of marketing strategies/activities. In developing a promotional plan, take into account: Seasonal factors and regular events (Summer, Easter); Holiday periods, government paydays, sale days, long weekends; Economic and social environment; and Special products/services.

Be thoroughly conversant with your competition and their profile in the market place. If they have a competitive edge in certain aspects of their business, find out why, learn from them and introduce strategies to counter.

Measure Your Results

There are many examples of marketing activities that haven't worked. In small business, every dollar spent is one less you don't have, so you want to be sure that your valuable dollars are earning your results. Some computer accounting programs have facilities to help with this tracking activity, linked to budgets.

14 EMPLOYING STAFF

If you will be employing people to work with you, there are many responsibilities you will be required to take on. These include:

- Establishing Job Descriptions and recruiting procedure.
- Collecting Employee's Tax File Number Employment Declaration Forms and determining tax levels.
- Setting pay rates.
- Registering as a PAYG withholder and remitting your employees' PAYG withholding tax to the Australian Tax Office (ATO).
- Obtaining and having available a copy of the relevant Award(s) or a negotiated, registered enterprise agreement.
- Establishing and monitoring systems to record time, wages and leave.
- Meeting Occupational Health & Safety requirements and setting First Aid procedures.
- Establishing workplace, discipline and performance policies.
- Workers Compensation Insurance.
- Superannuation requirements.

The cost of an employee includes wages and related labour on-costs. You will need to consider:

- compulsory Superannuation
- compulsory workers compensation
- annual holiday leave loading
- staff amenities
- training and development
- employee fringe benefits and tax on the fringe benefits
- administrative costs in managing payroll
- payroll tax

Further Information

Contact the Department of Industrial Relations (see Contacts List) to obtain a copy of the Award Wages, both State and Federal or see your Solicitor/Business Consultant to obtain assistance with enterprise bargaining.

In addition, you might check whether there is apprenticeship/traineeship support available (see Contacts List). The ATO and Department of Industrial Relations are able to provide further information.

BUSINESS EXPENSES – Preliminary Budget							
Establishment Costs	\$Amount	Weekly Costs	\$Amount	Monthly Costs	\$Amount	Annual Costs	\$Amount
Accountant		Accountant		Accountant		Accountant	
Advertising		Advertising		Advertising		Advertising	
Bank Fees		Bank Fees		Bank Fees		Bank Fees	
Bond/insurance – Gas and/or Electricity		Cleaning		Cleaning		Cleaning	
Bond/insurance - Phone		Drawings		Drawings		Drawings	
Bond – Premises		Electricity		Electricity		Electricity	
Connection - Electricity		Equipment		Equipment		Equipment	
Connection - Phone		Freight		Freight		Freight	
Equipment		Insurance		Insurance		Insurance	
Insurance		Loan Payments		Loan Payments		Loan Payments	
Printing		Motor Vehicle		Motor Vehicle		Motor Vehicle	
Rent – Advance		Phone/Communications		Phone/Communications		Phone/Communications	
Signage		Printing		Printing		Printing	
Solicitor		Rates & Taxes		Rates & Taxes		Rates & Taxes	
Stationery		Rent		Rent		Rent	
Stock		Repairs		Repairs		Repairs	
Sundries		Replacement Items		Replacement Items		Replacement Items	
		Stationery		Stationery		Stationery	
Other		Stock		Stock		Stock	
		Sundries		Sundries		Sundries	
		Wages		Wages		Wages	
		Superannuation		Superannuation		Superannuation	
		Workers Compensation		Workers Compensation		Workers Compensation	
		Other		Other		Other	
TOTAL	\$0	TOTAL	\$0	TOTAL	\$0	TOTAL	\$0

Appendix 1: Types of Tax Invoices

Simplified diagram of a Tax invoice which shows the total GST
 Simplified diagram of a tax Invoice which details the GST on each item.
 Both these methods of tax invoice are acceptable.

Tax Invoice	
Brickpit Pty Ltd	ABN 12 345 543 005
Date of issue	19 October 2000
Supplied to	Fred Builder Pty Ltd
	Building Address Hometown NSW 1234
Date of Supply	19 October 2000
2000 Yellow Paving Bricks	\$550.00
The total amount paid on this invoice, includes \$50 GST	

Tax Invoice			
Brickpit Pty Ltd	ABN 12 345 543 005		
Date of issue	19 October 2000		
Supplied to	Fred Builder Pty Ltd		
	Building Address Hometown NSW 1234		
Date of Supply	19 October 2000		
	Price	GST	Total
2000 Yellow Bricks	\$500.00	\$ 50.00	\$550.00
1000 Commons	\$250.00	\$ 25.00	\$275.00
Total	\$750.00	\$75.00	\$825.00