RENSHAW DAWSON LANG

overVIEW

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Is good cash flow management enough to save your business?

Like never before, business is being encouraged to actively manage their cash flow. The global financial crisis has put cash management under the spotlight as companies, large and small, fail. In the SME sector, cash flow issues are the most common cause of failure. Businesses simply run out of cash and collapse or are forced into liquidation by creditors unwilling to take on any further risk.

Similarly, fast growth businesses often find themselves under pressure to manage cash flow. Rapid growth and the extra demands it places on working capital put the business under pressure. In some cases they struggle through, in others they fall over in the growth phase.

Cash flow management is important; you need to understand your cash flow cycle, the demands of extra trading stock, the impact of increasing debtors and the effect and timing of your basic operating costs. A good cash flow forecast is essential for any well run business. You need a realistic forecast that has been worked up from the operations and budget projections of your business. This should then be accompanied by some sensitivity analysis, which is simply alternate forecasts that assess the effect if your basic assumptions are out by 10%, 20% or 30%.

Important as it is, the question remains, is cash flow management enough? The answer is no. Unless your cash flow forecasts are accompanied by a capital management plan you aren't in control of your business.

Capital management starts by identifying how much working capital the business needs and how much is provided by the owners. The reality is that your business is only funded by capital, debt, and retained profits. In the early days retained profits are often small or non-existent so the business is reliant on capital and debt for funding. Many businesses often operate in this phase with unnecessary pressure from undercapitalisation.

From the start there is a continuing requirement for capital management. This is about understanding:

» The initial requirements of the business

» Additional capital that will be required to fund growth

» The timing and amount required to replace or upgrade capital equipment

» Funding required to repay loans and retire debt

» Taxation requirements

» The expectations, stated or otherwise, of the shareholders for access to profits

None of these items appear in the operating budgets of your business, yet each of these suck cash from the business. You could have a profitable business and be cash flow positive from operations, yet be under significant cash flow pressure. Here are some questions to ask yourself:

1. Does your accountant sometimes tell you how much profit you have made and your first response is where is it?
2. Do you fund your depreciation?
3. Do you have a clear dividend policy?
4. Do you review and confirm your capex budget each year? (If you don't know what a capex budget is, then the answer is probably no!)

If you answered 'yes' to the first question and 'no' to most or all of the next three questions, then you don't have a capital management plan in place. If you are serious about your business, want to risk manage it and grow it successfully, then a capital management plan should be right on top of your 'to do' list.

If you would like to find out more about capital and cash-flow management can improve your business, contact us today.

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Testing times ahead

Taxpayers have been aware for several months now that their annual Payment Summaries for the 2010 financial year might look a little different.

In May 2009 the federal government announced that personal super contributions made from pre-tax income (salary sacrificed) would be reported on Payment Summaries and treated the same as income for a wide range of tests.

This move by the government is set to re-shape what has been a very effective tax planning tool for salary & wage earners where they could reduce their gross income through additional super contributions, and receive some of the benefits on offer from the government.

Such reportable contributions will be used to test individuals' eligibility to the Government Superannuation Co-Contribution, Senior Australian Tax Offset, Mature Age Worker Tax Offset, Medicare Levy Surcharge, Family Tax Benefits, Baby Bonus, HECS/HELP repayments, and many others.

Due to the nature of these changes, and the large number of benefits that will be affected, it may be necessary to review your personal circumstances with your RDL accountant.

Employees considering making personal tax deductible superannuation contributions during the 2010 and future years may also find that the new rules disqualify them from claiming a tax deduction for their personal super contributions. Accordingly, early planning will be essential.

Hidden charges on equipment purchases

Local business owners may be getting hit with a hidden charge on equipment and car sales as companies often inflate the price of an asset so that they can offer a more competitive finance rate to the buyer. This lower interest rate is promoted by some equipment providers as an incentive for the customer to make the purchase with them.

Business owners should be aware of this strategy and concentrate on securing the best possible cash price for the asset, and then assess the leasing deal separately. Most companies will offer a discount for cash payments. Purchasers should therefore negotiate the lowest price on the asset based on a cash payment, and then decide whether the finance rate offered really is good value.

Equipment providers may also fail to include all the relevant information in a finance quote. This can mean that the total cost of the equipment is more than the buyer is originally led to believe.

Some potential problems with finance quotes include:

1. Not including the residual amount with GST (which makes the repayments look lower but many clients end up paying more at the end of the contract);

Self Managed Super Funds – *What happens when you die?*

You may be familiar with the term "binding death nomination." It allows members of a Superannuation Fund to tell the trustees how to distribute their funds in the event of their death – a will for your super money, if you like. Without it the remaining trustees are able to ignore your wishes and distribute the funds however they like, provided that it is allowed under the fund's deed and superannuation law.

For the wider super community, binding death nominations automatically expire after three years, but Self-managed Super Funds (SMSFs) are a bit different. It has been held that SMSF binding death nominations were valid indefinitely, but recent developments mean that this is no longer certain. Many are now wondering whether their existing nominations are still binding after the three year window.

Keeping your nominations valid by updating them every three years can be fraught with difficulty. Forgetting or being incapacitated at the time you need to renew may mean that your nomination is no longer binding at the crucial time.

Death Benefit Agreements

An alternative is now available. New SMSF deeds are allowing "death benefit agreements." Just like a binding death nomination, agreements allow members to direct trustees how to distribute funds in the event of their death. The key difference is that they only expire if revoked or replaced by the member, and so they allow a degree of certainty that nominations do not provide.

If you have a SMSF we will be writing to you soon to recommend that you update your trust deed. Superannuation law keeps on changing so there are multiple reasons to update, but we feel that the peace of mind and administrative ease of the ability to put death benefit agreements in place is worth it on its own.

sting business owners

2. Comparing interest rates instead of repayments – repayments include all fees and charges;
3. Focusing on repayments only, not considering the taxation implications; and
4. Not quoting on the correct structure for finance, can result in the client paying a shortfall out of his or her own pocket at the end of the contract.

If you are seeking finance on business equipment acquisitions we would encourage you to seek independent advice from your RDL accountant before making any decisions. Clients would generally be better off purchasing assets at a lower price and accepting a slightly higher interest rate on the loan.

Special Disability Trusts

Special Disability Trusts were introduced in September 2006 by the Federal Government to assist those persons wanting to provide support for a disabled relative.

The arrangement is directed particularly at older parents caring for a disabled adult child, who is concerned for the wellbeing of that child when they are no longer able to provide support.

Features

The main features of a Special Disability Trust are:

» The beneficiary of the trust must be assessed by Centrelink as being eligible. In general, this means that the disability is such that a carer for the disabled person would be eligible to receive a carer payment.

» Distributions from the Trust are to be made for the accommodation of the beneficiary, and for expenses related to the disability. Distributions for everyday expenses such as food or clothing cannot be made from the Trust.

» Payments to relatives providing care or accommodation for the beneficiary are specifically excluded.

» The Trust can be set up via a Gift or under a Will.

Benefits of the Trust

To encourage establishment of such Trusts, concessions have been provided so that the Trust assets up to a limit (currently $551,750), a residence purchased by the Trust for the beneficiary, Trust income and distributions from the Trust are excluded from the incomes and assets test when determining the beneficiary's Pension entitlement.

When making a Will, parents of a disabled child have been concerned that a bequest to that child would reduce his or her Centrelink entitlement. Setting up a Special Disability Trust can remove that concern.

» Close family members are able to gift assets to the Trust, without this gift coming under the Centrelink gifting rules. An Age Pensioner, such as a parent or grandparent, can make a gift to the Trust without the gift counting as an asset for the next five years. In some cases, the pension paid to the person making the gift may in fact increase. There is a limit of $500,000 in total gifts from such sources.

» Earnings retained by the Trust are taxed at the beneficiary's personal income tax rate, rather than the top Marginal Tax Rate plus Medicare Levy, which applies to the retained earnings of most other Trusts.

Drawbacks of the Trust

» In common with all Trusts, there are additional expenses such as legal fees, accounting fees and financial planning fees. A Special Disability Trust is also required to have an Investment Strategy, and may be audited. The Trust needs to be of a significant value in order to justify these costs.

» The restrictive nature of Trust distributions limits the usefulness of the Trust.

Summary

A Special Disability Trust may enable you to provide for a disabled child, without affecting the child's Disability Pension. However, the Trust is restrictive in nature and may not suit every situation. More information is available from www.centrelink.com.au, or speak to an RDL financial planner.

For Your Information

The Renshaw Dawson Lang office will be closed over Christmas from 1.00pm Thursday, 24 December 2009 and will re-open on Monday, 4 January 2010.

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