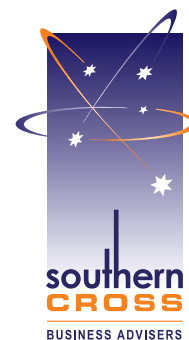


# Southern View

News & Information from Southern Cross Business Advisers

4th Quarter 2007



## Tax amnesty on private loans

**T**he Australian Taxation Office has recently announced that taxpayers have an opportunity to correct mistakes and avoid penalties under Division 7A of the Income Tax Assessment Act 1936.

Division 7A deems that any loans or payments by private companies to shareholders, or their associates are treated as assessable, unless repaid or placed on terms which are considered to be commercial. This includes debts owed by shareholders that are forgiven by a private company.

If a taxpayer breaches Division 7A, the amount of the loan, payment or debt forgiven is deemed to be taxable as a non-franked dividend. Where the breach occurred prior to 1 July 2006 the private company will also have its franking account debited. Amended tax assessment that include a deemed dividend will likely result in shortfall penalties and interest charges.

Recent changes to tax law enables the Commissioner of Taxation discretion to disregard the operation of Division 7A where the breach occurred as a result of an honest mistake or inadvertent omission.

As part of its commitment to small business the ATO is giving business owners a one-off opportunity to correct past mistakes regarding payments and loans from their

private companies and avoid penalties under Division 7A.

The offer applies to mistakes made between the 2001-02 and 2006-07 years. Taxpayers have until 1 July 2008 to take advantage of the opportunity to correct past mistakes.

Whilst the lead time for corrective actions seems significant, taxpayers need to be aware of what remedial actions need to be taken as some of these actions may require significant planning, particularly when there are cashflow considerations.

Corrective actions include implementing formal loan agreements and shareholders making payments of interest and principal under the loan agreement.

In addition, taxpayers must have lodged all income tax returns for the period of 1 July 2001 to 30 June 2007 to satisfy the amnesty requirements.

The Tax Office will resume audit work from 1 July 2008 to ensure payments made by private companies are correctly accounted for and company loans are not used to distribute tax free profits.

If you have concerns about your potential risks or identifying what steps need to be taken to rectify exposure and would like to take advantage of the amnesty, please contact our office.

### KEEPING YOU ON THE RIGHT TRACK

We can help your business and your personal finances stay on the right track.  
Call us now and we'll arrange a meeting to discuss:

- Strategies to help your business improve its efficiency and profitability
- Reducing the burden of taxes on your business
- The tax issues that affect you and your family
- Maximising your wealth
- Retirement planning strategies for you and other family members

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# Working with family and friends

One of the greatest complaints small employers have is how difficult it is to find good employees. But there's one place they often fail to search for new job applicants – the families and friends of their best employees. After all, current employees who have great work attitudes probably have brothers and sisters with great work attitudes too.

Before rushing headlong into hiring family or friends, consider the ups and downs.

## Advantages

Family members and close friends often come into a business with a strong commitment to the company, more so than the average employee.

Friends and family often think of the company as an extension of the relationship. They may be more flexible and more willing to work when needed, anticipating that they will personally benefit from the long-term success of the company.

Often you know family and friends well, and are familiar with their capabilities and shortcomings. This may enable you to place them in just the right position. Also, your familiarity may allow you to train them more quickly than other new employees.

## Disadvantages

A relative may take advantage of family status, knowing that it's hard to fire them when you're going to be sitting down at the dinner table with them at night.

Other employees may see the hiring as nepotism, especially if the family member is given preferential treatment, or given a

position without having the appropriate experience or training.

Family problems can be brought into the workplace. It's one thing to have a family disagreement at night and be able to leave it at home when going to work in the morning. But it is entirely different when you're facing the same person at work. The strain may affect the entire business.

## Managing the mix

Hiring friends and relatives is tricky. If not handled well, it can sour the work environment. But hiring friends and family can have great benefits, as long as you proceed carefully:

**Business is not a charity.** Don't hire someone's relative just because they "need" a job. If someone has trouble holding down a job, you don't want them either.

**Write a detailed job description.** Make it clear that if the relative or friend doesn't perform as expected, he or she will have to go. Hire on a probationary basis, establishing a two-week or month-long period to see how things work out.

**The right "stuff".** Ask specific, detailed questions about their qualifications before you agree to interview them. People rarely see their own relatives clearly. They're likely to make comments such as "He's a great guy" or "She's so smart." That doesn't tell you if they've had relevant work experience or training. While you want to hire people with the right attitude, leave yourself an out: "I'm not sure Chris has the right computer skills we need."

**Don't have too many chiefs.** It is advisable not to have relatives or friends reporting to one another, or working too closely



together. It's one thing to have siblings work for the same company in different areas, but if they work together on the same project, you're likely to see family or friendship patterns emerge.

**The trouble with spouses.** Spouses or domestic partners working together can present a number of difficulties. There are logistical issues: holidays or family emergencies may leave you doubly short-handed. And behavioral issues: a terrific, eager worker may change dramatically with a spouse around. The dynamics of a couple's relationship is stronger - and usually more emotive - than a employer/employee relationship.

**Cruel to be kind.** Be toughest on your own relatives. Before you hire a relative, make it clear to them that they are going to have to prove themselves, and they will be held to the highest standards.

**Never play favorites.** Make sure all the rules apply to all employees. Everyone has to be qualified and they have to do their jobs well. Otherwise, they're not hired.

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# Ordinary time earnings used for super

Recent changes to the superannuation laws have been made to make ensure all employers are treated the same for super guarantee purposes.

From 1 July 2008 all employers will be required to adopt ordinary time earnings as defined in the superannuation guarantee legislation to calculate super guarantee contributions.

Ordinary time earnings are generally considered what employees earn for their ordinary hours of work, including over-award payments, commissions, shift

allowances and paid leave. It does not include earnings such as overtime.

Most employers adopt ordinary time earnings to calculate super guarantee contributions. There are however, some employers that are calculating super guarantee contributions on earning definitions contained in industrial awards or existing employee agreements.

Employers should verify their current superannuation arrangements now to ensure that they are using the appropriate earnings to calculate super contributions. From 1 July 2008, where the super

contribution percentage in a specific earnings base is below the minimum 9%, employers will be required to pay extra to meet the minimum 9% and avoid additional super guarantee charges.

A definition of "ordinary times earnings" can be found on the Australian Taxation Office website at [www.ato.gov.au](http://www.ato.gov.au).

The ATO is also encouraging employers to consider building the increased super guarantee contributions into their workplace bargaining processes.

# A simple review of break-even point

A person starting a new business often finds themselves asking "What level of sales are needed for my business to make a profit?" Established companies often find themselves asking the same question – many times a little too late.

Break-even point or break-even analysis is based on the relationship between expenses and revenues. It is fundamental to understand how expenses will change as sales increase or decrease. Some expenses

increase as sales increase. On the other hand, some expenses will not change as sales increase or decrease:

## Variable expenses

Variable expenses increase when sales increase. They also decrease when sales decrease. These expenses include items such as cost of goods sold, or some wages.

## Fixed expenses.

Fixed expenses remain the same when sales change. These expenses include items such as rent and administration.

Consider the basic Profit and Loss Statement shown in Example 1. The business with sales of \$750 000 has not made a profit, but it has just reached break-even point.

## Calculating break even point

The basic formula for calculating break even point is sales revenue is:

FC (fixed costs) divided by the gross profit percentage (or contribution margin). In the example, \$450 000 divided by 60% gives a break even sales level of \$750 000. That's the level of sales required to break even.

## Targeting Profit

Break even analysis can be used to calculate the level of sales that are required to reach a desired profit. In order to do this, the desired profit is simply added to the fixed cost.

In Example 2, a profit of \$100 000 is targeted. The calculation for required sales is fixed cost plus profit, all divided by 60%. In this case, that would be \$550 000 (\$450 000 + \$100 000) divided by 60%, giving a required sales of \$916 667.

	Example 1	% of sales	Example 2
Sales	\$750 000	100%	\$916 667
less Variable expenses (cost of goods)	\$300 000	40%	\$366 667
Gross profit or contribution margin	\$450 000	60%	
less Fixed expenses	\$450 000		\$450 000
Profit	\$0	0%	\$100 000

# Improved drought assistance measures

The Government recently announced new and improved drought assistance measures for irrigators, dryland farmers and small businesses who have been severely affected by the drought. The initiative includes an additional \$714 million in drought assistance to support farmers.

New measures will make it easier for farmers and small business to access Exceptional Circumstance (EC) assistance, provide direct grants to irrigators and help with social pressures facing farming communities across rural and regional Australia.

The drought support package includes:

- An increase to the off-farm income exemption from \$10 000 to \$20 000. This means that farmers can earn an extra \$20 000 in off farm wages and salary without affecting eligibility for EC benefits
- An increase to the off-farm assets limit, for access to EC Interest Rate Subsidy, from \$473 000 to \$750 000. EC assistance is now more accessible to those who have held off-farm assets in excess of the previous assets test threshold.



- Immediate access to the \$5000 grants for professional advice and planning for farmers in EC declared areas to a broader range of farm businesses. The scope of the grants have also been expanded to include the development of all risk management and business plans, not simply a drought management plan.

- New support for eligible rural small business. Drought assistance is now available to eligible small businesses in town with a population of up to 10 000 population that have a significant reliance on farmers for their income, and have suffered an economic downturn.

- Exit assistance of up to \$150 000 for farmers who have decided to leave the land,

and an increase in the assets limit to access this grant, to \$350 000.

- An additional \$10 000 is also available for advice and retraining. Support up to \$10 000 for relocation expenses is available to those who take up the exit grant.

- The package also provides for interim assistance to the remaining agricultural land in New South Wales and South Australia that is not currently EC declared, until 30 September 2008. This enables farmers most in need to receive financial assistance immediately.

If you have any concerns regarding whether or not you may be eligible for drought assistance, please contact our office.

# WEB WATCH

## ESSENTIAL SITES FOR BUSINESS OWNERS

### Work Place Authority [www.workplaceauthority.gov.au/](http://www.workplaceauthority.gov.au/)

The Workplace Authority is the central point of contact for free advice and information on Australia's workplace relations system for employers and employees

### AusIndustry [www.ausindustry.gov.au/](http://www.ausindustry.gov.au/)

AusIndustry is the Australian Government's agency for delivering products, services and information that support industry, research and innovation. AusIndustry delivers more than 35 programs - including innovation grants, tax and duty concessions, small business skills development, industry support and venture capital.

## Fringe Benefits Tax Update

The following changes FBT apply for the 2008 FBT year:

- The '**minor benefits exemption**' threshold for Fringe Benefits Tax (FBT) purposes will increase from \$100 to \$300.
- Increase in the **reportable fringe benefits** amount threshold from \$1,000 to \$2,000.

## REMINDERS FOR YOUR DIARY

### OCTOBER

- 21 Activity statements - October 2007 monthly activity statements: final date for lodgment and payment.
- 21 PAYG instalments - Annual PAYG instalment notice: final date for payment and if using the rate method or varying the instalment amount, final date for lodgment.
- 28 Activity statements - Quarter 1 (July - September 2007) activity statements: final date for lodgment and payment.
- 29 Superannuation - superannuation guarantee contributions for Quarter 1 2007-8 (1 July - 30 September) - contributions to be made to the fund by this date.

### NOVEMBER

- 11 Activity statements - Quarter 1 (July - September 2007) activity statements: final date for electronic lodgment and payment.
- 21 Activity statements - October 2007 monthly activity statements: final date for lodgment and payment.
- 28 Superannuation guarantee charge statement - Quarterly (if required contributions were not made by the due date) for quarter 1 2007-8 (1 July - 30 Sept). The superannuation guarantee charge is not tax deductible.

### DECEMBER

- 1 Income tax - payment due date for companies and superannuation funds which were taxable large/medium business clients in the immediate prior year.
- 1 Income tax - payment due date for companies and superannuation funds which were required to lodge by 31 October 2007.
- 1 Superannuation - payment of income tax for superannuation funds where one or more prior year income tax returns are outstanding as at 30 June 2007. (Lodgement of return was due 31 October 2007).
- 21 Activity statements - November 2007 monthly activity statements: final date for lodgment and payment.

### JANUARY

- 16 Income tax - Due date for lodgment of income tax returns for companies, superannuation funds and trusts which were taxable large/medium business clients in the prior year and are not required earlier.
- 21 Activity statements - December 2007 monthly activity statements: final date for lodgment and payment.
- 21 Activity statements - Quarter 2 (October - December 2007) activity statements containing a monthly GST obligation: final date for lodgment and payment.
- 28 Superannuation - guarantee contributions for Quarter 2 2007-8: contributions to be made to the fund by this date.

## A Great Read

**Customers For Life:** How To Turn That One-Time Buyer Into a Lifetime Customer

**Author: Carl Sewell**

In this completely revised and updated edition, Sewell enhances his time-tested advice with fresh ideas and new examples and explains how the groundbreaking "Ten Commandments of Customer Service" apply to today's world.

Drawing on his success in transforming his motor vehicle dealership into the second largest in the US, Sewell reveals the secret of getting customers to return again and again in the original Customers for Life. A lively, down-to-earth narrative, sets the standard for customer service excellence has become a perennial bestseller.

Sewell focuses on the expectations and demands of contemporary consumers and employees, showing that businesses can remain committed to quality service in the fast-paced new millennium by sticking to his time-proven approach: Figure out what customers want and make sure they get it. His "Ten Commandants" provide the essential guidelines, including:

- Underpromise, overdeliver: Never disappoint your customers by charging them more than they planned. Always beat your estimate or throw in an extra service free of charge
- No complaints? Something's wrong: If you never ask your customers what else they want, how are you going to give it to them?
- Measure everything: Telling your employees to do their best won't work if you don't know how they can improve
- Borrow ideas from others: Sewell, for example, learned about hospitality from Japanese culture, cleanliness from Disney, and politeness from his mother.

The recent edition is an expanded version of the original. A great thought provoker for any business owner or manager.

Business and personal planning need not be left until the end of the tax year - talk to us now about tax and financial strategies for you and your business.

We are sometimes asked if we are able to help additional clients. We are a growing firm and do appreciate your referrals. We consider it a compliment when you recommend us to your friends and business contacts.