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Planning For 2010/11 Financial Year

June is a great time to take time out and think about the challenges you may face in an economy that is presenting many challenges for a large number of small businesses. Some of the challenges include:-

Business Goals - The debate on the Resource Super Profits Tax has highlighted not only the projected difficulties for many major resources companies, but also a large number of SMEs who supply products and services to the resources industry. If you are likely to be effected by the cutback in supplier services to resource companies, what changes can you make to your business goals?

Getting Paid - If you are giving credit to customers, you need to develop a policy on chasing late payers and contacting them immediately the outstanding debt exceeds your business' payment terms.

Profitability Analysis - Have you analysed the profitability being achieved from various products and individual customers?

Customers - Have you sought your customers' input on business improvements?

Cashflow Management - is still one of the major problems for many SMEs. If you are utilising bank, or other lender facilities, you may need to budget for increased interest rates later this year and into 2011.

Government Grants and Assistance - The Australian Government and most of the State Governments have a wide range of programs to assist small/medium enterprises.

Human Resources Review - Some transitional arrangements in Fair Work Australia "modern awards" come into force on 1st July 2010. These relate to rates of pay and some other conditions. If you need additional information, please contact us or Workforce Guardian at www.workforceguardian.com.au.

There is also an expectation that there will be increased competition for outstanding employees because of the expected improvement in some segments of the economy. As part of your planning for 2010/11, consideration should be given to reviewing employment packages and training.

The Australian Taxation Office has started to wind back the *leniency policy* for late payments that it implemented last year. Insolvency experts are warning that the wind back of the leniency policy will affect many SMEs during 2010/11. ***If you are having difficulties in paying taxation debts please contact us immediately.***



Do You Operate Through A Trust?

The Australian Taxation Office has released a Taxation Ruling - Division 7A Loans: Trust Entitlements. The ruling expresses the Commissioner of Taxation's opinion on the circumstances in which a private company with a "present entitlement to an amount from an associated trust", makes a loan to that trust in circumstances where funds representing that present entitlement remain intermingled with funds of the trust.

Division 7A is a provision of the Income Tax Act which involves companies and non-company tax payers. In very broad terms, it creates a loan between a company and an associated tax payer whenever the company does any of the following with the associated tax payer:

- loans money;
- advances money;
- provides credit to or any other form of financial accommodation; or
- makes a payment on their behalf.

Where a Division 7A loan arises, then it will become a "*deemed automatic dividend*" to the associated tax payer, unless a seven year unsecured or 25 year secured loan agreement is put in place before the relevant income tax return is lodged.

At the end of the year, you may distribute profits to a company, but do not actually give the company the physical cash. This specific scenario is identified in the Taxation Office ruling and will be treated as a Division 7A loan which will result in an "automatic deemed dividend" being paid by the company to the associated tax payer, ie the Trust.

This applies for trust distribution to companies made after 16 December 2009. You can avoid the treatment of the distribution as a dividend if you implement a new Division 7A loan agreement each financial year – but this may lead to other problems.

If you are operating your business through a trust, this is a complex matter and will have major implications regarding your trust 2010 and future income tax returns, and possibly your current business structure. If you are operating through a trust, we recommend you contact us for reviews of the matters as it affects your particular circumstances at your earliest opportunity.

Do Your Customers Recommend Your Business?

Do your customers say "WOW"?

Do they recommend your business to their friends and associates?

Do you acknowledge long-term clients for their continuous support of your business?

Do you send letters to new customers thanking them for their patronage?

Do you encourage customers to give you referrals to their friends and associates?

Do you ask clients for testimonials that you can post on your website?

Do you give guarantees?

Does your staff understand the lifetime value of a customer?

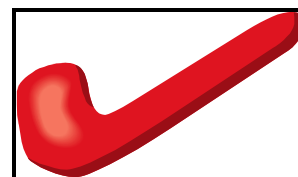
- Do you have a customer database?
- Do you understand the demographics of your customers?
- Do you have procedures in place for handling complaints?

We can assist you in a review of services being offered to your customers.

Commercialisation Australia Grants Checklist

If you would like to receive checklists for the following components of the Commercialisation Australia Grants

- Skills and Knowledge - Specialist Advice And Services
- Skills and Knowledge - Experienced Executives
- Proof of Concept Grants
- Early Stage Commercialisation Repayable Grant



Please contact us and we will send you a checklist.

Commercialisation Australia

Early Stage Commercialisation Repayable Grants

To be eligible for the Australian Government Early Stage Commercialisation Repayable Grants, applicants must have ownership, access to, or the beneficial use of any intellectual property necessary to carry out and/or commercialise the project being funded by Commercialisation Australia.

Grants are available to undertake activities focusing on enabling a new product, process or service to be developed to the stage where it can be taken to market. Grants from a minimum of \$250,000 to \$2M, on a 50% contribution basis, are available from Commercialisation Australia for eligible companies. *Group turnover* must be under \$20M for each of the last 3 years. Applicants need to produce an accountant's written opinion that the company's turnover has been under \$20M for each of the last 3 years and that the company has the ability to fund its share of the costs. Eligible activities include:-

- systematic work necessary for installing and establishing processes; and
- systems and services that enable a new product, process or service to be produced to the stage where it can affectively be brought to market.

Merit criteria for this grant includes:

- Need for Funding
- Commercial Plan and Potential
- Market
- Management
- National Benefits

This grant is the only product within Commercialisation Australia that is repayable and the following conditions apply:

- Once the company has achieved sales in excess of \$100,000 for the product that has benefited from the Commercialisation Australia grant, repayments are 5% of sales, payable every 6 months.
- Annual audited financial accounts must be submitted to Commercialisation Australia.
- If the business or intellectual property, that is the outcome of the project, is sold within 10 years of the end of the project, then the proceeds from the sale must be applied first to the repayment of the grant.

If you would like our assistance in completing the pre-application form, or advice on the practicalities of applying for assistance under the Commercialisation Australia programme, please contact us.

What's It Mean?

Estimate of Future Earning Valuation Method

This is probably the most common method of valuing shares in emerging companies. The estimated after tax profit at the projected exit date is multiplied by an appropriate P/E Ratio (Price Earnings Ratio) that has been determined from the Australia Stock Exchange quotation and then adjusted for being either an Initial Public Offering (IPO) (about one-third reduction) or a private company or non-listed public company (about two-thirds reduction).



Example:-

Forecast after tax profit in 3 years time (the estimated exit year) is \$2M.	
Price Earnings Ratio for the Australian Stock Exchange All Ordinaries index	15
Less two-thirds	10
Equals Estimated Price Earnings Ratio for a private company	5

Price Earnings Ratio multiplied by the projected after tax profit in 3 years time = 5 x \$2M = \$10M

This is the projected value of the company in 3 years time on the assumption that required capital is raised and that the profit forecast is achieved. This value is then discounted using appropriate discount rates to give the present value of the company. In the next Business Plus+ we will comment on discount rates used in the valuation of emerging companies.

Succession Planning

Succession planning is a major concern for many SMEs. A major challenge is the issue of Succession of Management for Australian businesses. There are a number of issues to be considered including family objectives, business objectives, conflict between personal values and commercial decisions, a need to professionalise business management to ensure ongoing prosperity, funding growth, funding the retirement of the founder, management succession and future ownership of the business.

We have assisted clients in the development of appropriate succession planning strategies for their your family business. Why not use expertise in this area and see what we can achieve for you?

Business Plans - Questions To Consider Part 21

Staff Development - Some of the questions that should be considered in reviewing staff development as part of the preparation of a business plan:

- Do you have a staff development plan?
- Do you encourage your staff to develop their own skills?
- What additional skills would you like your staff to develop?
 - Time management?
 - Selling?
 - Marketing?
 - Motivational and attitude training?
 - Leadership?
 - Computer software usage?
- Do you think you delegate properly?
- Have you developed a staff training manual?
- Do you involve your staff in developing your business' Business Plan?



Our next issue will consider staff training.

An Important Message

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



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