

# Business Matters

STRATEGIES FOR MANAGING YOUR BUSINESS



**McLENNAN PARTNERS** PTY. LTD.  
CERTIFIED PRACTICING ACCOUNTANTS

## Make this year a perfect 10

**A**fter the economic roller coaster ride of 2009, businesses will be looking forward to a year that may be a little easier. With a more positive outlook for the year, now is the time to put a strategy in place to capitalise on the rising economy. Here is a list of six simple steps that are fundamental to business success in the next 12 months.

**1. Develop an annual business plan:** Set aside a few days to analyse past activities, set goals for the coming year, prioritise new efforts and most importantly, establish an action plan. An annual planning process can be the single biggest contributor to the ongoing and improved success of a business. Set goals, establish priorities and be realistic.

**2. Focus on core business:** With each new year comes the desire to expand in new directions. Entrepreneurs often get bored with their existing business and business fundamentals. When business owners allow themselves to get too distracted by exciting new projects, they often neglect their regular income stream. Remember what part of the business actually pays the bills.

**3. Increase marketing:** This is a resolution most business owners make every year, but generally fail to follow through on. A business cannot stop marketing and plan to grow.

**4. Do not start marketing randomly:** As part of the planning process, develop a marketing plan. Once again, set priorities and goals. Choose ongoing activities that are realistic based on your budget and time.

**5. Keep things interesting:** Most entrepreneurs are always coming up with great new ideas. The need to stay planted and focus on core, 'bread-and-butter' business can make things a little boring. Choose one significant new challenge for the coming year – securing an additional distribution channel, landing a major customer, launching a new product, or improving your online presence. Make that a priority – after the basic business has been taken care of.

**6. Reward and acknowledge:** No one succeeds alone. A successful business is always the result of a team effort. Sometimes that team is composed of employees, and they deserve a "thank you" regularly and acknowledgment of their ongoing contributions. That also means keeping salaries and benefits competitive.

Even a solo business can have a 'team' of informal supporters – family, friends, business associates and other entrepreneurs. Remember to acknowledge and thank them for their ongoing assistance and support.

**McLENNAN PARTNERS  
PTY LTD**

LEVEL 3  
66 ALBERT ROAD  
SOUTH MELBOURNE  
VICTORIA 3205

•  
TEL (03) 9699 5277

•  
FAX (03) 9682 9400

•  
EMAIL  
ian@mclennanpartners.com.au

•  
WEBSITE  
www.mclennanpartners.com.au

•  
DIRECTOR  
Ian Macpherson  
•  
Taxation  
Management Accounting  
Auditing  
Self Managed Super Funds



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# Working with family

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.

Because relatives may think of the company as an extension of the family, they may be more likely to be flexible and work into the evening and over weekends 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 that 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 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 there can also be great benefits, as long as you proceed carefully:

**Business is not a charity.** Do not 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 be let 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 the relative's 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 wonderful 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 reporting to one another or work 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 old family patterns emerge. If something goes wrong, don't be surprised if you hear: "He started it." "No, she started it."

**The trouble with spouses.** Spouses or domestic partners working together can present a number of difficulties. There are logistical issues: vacations or family emergencies may leave you doubly short-handed. And behavioural issues: a terrific, eager worker may change dramatically with a spouse around. The dynamics of a couple's relationship is stronger (and usually less comprehensible) than a boss/employee relationship. Moreover, in a small, new, or very risky company, having both bread-winners work for the same company puts a lot of stress on a family and their budget. That's a lot of extra stress on you.

**Be cruel to be kind.** Be toughest on your own relatives. It is essential to set ground-rules so that relatives are clear they are not entitled to a 'free-ride.' It is also important for other staff members to see this strategy in place. Before you hire a relative, make it clear to them that they're going to have to prove themselves, and they'll be held to the highest standards. Never supervise a relative directly.

**Don't play favourites.** 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 or they get fired. Even your mother.



# Simplified tax payment arrangements

The Australian Tax Office has strived to make the payment of tax debts as easy as possible, particularly over the last year when many businesses have suffered financially as a result of the economic meltdown.

One initiative has been the introduction of automated tax payment arrangements.

Businesses and individuals that have a tax debt of less than \$25,000 that would like to arrange a late payment or to pay by instalments, may do so with the ATO's automated phone service.

When taxpayers phone the self-help service, they will need to provide:

- their tax file number (for individuals) or Australian business number (for businesses)
- the amount outstanding
- the planned frequency of the payment. That could be weekly, fortnightly, monthly or a lump sum
- the date of the first payment. This must be at least 15 days after the phone call, giving the ATO time to mail out personalised payment slips.

The system is also designed so that taxpayers can 'make a suggestion' and the system will automatically propose an arrangement. Taxpayers that know the amount of each payment they

want to make can also make their own arrangement.

Once the Tax Office accepts the arrangement, they will send a letter and personalised payment slips.

Whilst this is a straightforward system, taxpayers (particularly businesses) need to ensure that any suggestion made is practical and in line with future business cash flow requirements. That reduces the likelihood of payment defaults.

Applying for a payment arrangement is no different than applying to a bank for a loan, so a little planning to ensure that repayments can be maintained is a valuable exercise.

## New industrial relations rules

Business owners arriving back to work after the New Year's break will be facing a brave new world of industrial relations.

The second leg of changes under the Rudd Government's Fair Work industrial relations regime came into effect on January 1. These changes include the new National Employment Standards and the Modern Awards system.

The laws can be confusing and apply differently to businesses depending on size and industry.

### National Employment Standards

Work Choices provided five minimum entitlements for employees. The new National Employment Standards however, contain 10 provisions:

- Maximum weekly hours of work
- The right to request flexible working arrangements
- Parental leave and related entitlements
- Annual leave
- Personal/carer's leave and compassionate leave

- Community service leave
- Long service leave
- Public holidays
- Notice of termination and redundancy pay
- Provision of a Fair Work Information Statement

Most of the new legislation has been carried over from Work Choices. However, employers need to be aware of changes regarding flexible working arrangements.

Under the new laws, any employee who is a parent, or cares for a pre-school child and has had 12 months continuous employment, can request flexible working arrangements. That is provided that there is a reasonable expectation of continuing regular employment.

Employers that require employees to work reasonable additional hours must take into account the employee's personal circumstances, the employee's entitlement to overtime payment, the employee's role and responsibilities, typical industry working patterns and the notice period given.

In relation to parental leave, employees can now request an additional 12 months parental leave, provided that it is requested at least four weeks before the end of the original leave period. An employer can only refuse that request on 'reasonable business grounds.'

One of the more challenging aspects of the new rule is the use of the term 'reasonable grounds.' The Fair Work legislation says that reasonable grounds include the impact that employees requests will have on the workplace and the ability to re-organise work with existing staff. The new laws mean that this definition is yet to be tested.

Annual leave entitlements have also changed, with four weeks of leave now given to employees. Shift workers become entitled to an additional week of annual leave for every year of service with their employer.

Notice of termination and redundancy pay has also been updated. Redundancy entitlements are now required by law for any company with 15 employees or more. The same applies for the application of unfair dismissal provisions.

### Modern Awards

One of the other major changes comes in the form of new 'Modern Awards.' Many employees will now come under the new safety net which will provide new minimum conditions.

Many businesses will be unsure whether their employees are covered under certain awards, and whether the standards (which cover employees not covered by another modern award) apply to certain workers.

Employers should carefully consider whether they are actually award free or if one of the new Modern Awards apply. If there is any uncertainty it is advisable that they contact Fair Work Australia.



# R&D tax credit - exposure draft legislation

The Rudd Government recently released draft legislation for the new R&D (research and development) Tax Credit. The draft legislation is intended to provide a more generous, more predictable, and less complex tax incentive by replacing the existing R&D Tax Concession.

Under the new R&D Tax Credit, companies will be able to invest with certainty, in the knowledge that they can claim a tax offset of at least 40 percent of their expenditure on R&D activities. This rises to 45 percent for companies turning over less than \$20 million.)

The R&D Tax Credit will allow small, innovative firms to get an immediate contribution towards their R&D expenditure despite not having yet turned a profit.

For instance, a company in with losses turning over \$10 million and spending \$1 million on eligible R&D activities will be eligible for a refund of \$450,000 rather than adding \$375,000 to its tax loss.

This will provide innovative start-ups with the certainty that they need to invest in growing their business.

Whilst the change seems like a positive one, the key factor impacting businesses is determining what actually qualifies as innovation under the new rules.

Currently, companies have to demonstrate that R&D activities are innovative or technically risky. In the move forward, companies will have to demonstrate both features.



What this means is that the legislation now seeks evidence of considerable novelty and high levels of technical risk. This creates a lot of uncertainty for businesses and is particularly challenging for SMEs.

The legislation is expected to be introduced into Parliament in early 2010 to ensure that taxpayers are prepared well ahead of the proposed 1 July 2010 start date for the new scheme.

## A Great Read

Drive: The Surprising Truth About What Motivates Us

Author: Daniel H. Pink

Riverhead 2009

The secret to high performance and satisfaction in today's world is the deep human need to direct our own lives, to learn and create new things, and to do better by ourselves and our world. That is the message from Pink who provides some interesting insight about how to motivate people - at work, at school and at home.

Drawing on four decades of scientific research on human motivation, Pink exposes the mismatch between what science knows and what business does - and how that affects every aspect of our lives. He demonstrates that while the old-fashioned carrot-and-stick approach worked successfully in the 20th century, it's precisely the wrong way to motivate people for today's challenges. In Drive, he reveals the three elements of true motivation:

- **Autonomy**- desire for self direction
- **Mastery**- urge to get better at something that matters
- **Purpose**- yearning be part of something larger than ourselves

Along the way, Pinks reviews companies that are using new approaches to motivation and introduces us to the scientists and entrepreneurs who are pointing a bold way forward.

Drive is bursting with big ideas-- the rare book that will change how you think and transform how you live.

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.

## WEB WATCH

### ESSENTIAL SITES FOR BUSINESS OWNERS

[www.fairwork.gov.au](http://www.fairwork.gov.au)

**Fair Work Australia**

This website provides information and advice about Australia's new national workplace relations system from the Fair Work Ombudsman.

[www.strategy-business.com](http://www.strategy-business.com)

**Strategy + Business**

This provides executives with commentary, research, and practical ideas that bridge the gap between theory and practice in contemporary global business.

## REMINDERS FOR YOUR DIARY

### FEBRUARY

- 21 January 2010 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 2 2009-10 (1 October - 31 December).
- 28 Activity statements - Quarter 2 (October - December 2009) activity statements: final date for lodgment and payment, including electronic lodgments.
- 28 GST - Annual GST return or Annual GST information report: final date for lodgment and payment (if required) if you do not have an income tax return lodgment obligation.
- 28 PAYG instalments - Quarter 2 (October - December 2009) instalment notices - forms R and T. Final date for payment and, if varying the instalment amount, lodgment.
- 28 GST instalments - Quarter 2 (October - December 2009) instalment notices - forms S and T. Final date for payment and, if varying the instalment amount, lodgment. Four-instalment payers to pay a further 25% of their instalment liability.
- 28 Income tax return lodgment and payment due date for self-preparing entities that were not due at an earlier date.
- 28 Income tax return lodgment and payment due date for large/medium entities and self-managed superannuation funds (taxable and non-taxable) that are new registrations.
- 28 Income tax return lodgment due date for large/medium business trust clients that were non-taxable in the prior year (includes new registrants).