

# Business Plus+



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### QRAA Special Disaster Assistance (Qld Floods Nov 2010 – Jan 2011)

All work must be completed and applications lodged to QRAA by 31 January 2012. QRAA representatives have confirmed that there will be no extension to this deadline. For further assistance contact QRAA's Client Liaison Officer, Bill Fletcher, on (07) 4160 0716.

### How Would You Cope If Your Business Partner Died?

One of the great problems of going into business with someone in a partnership, company or trust, is.... *"what would happen in the event of the death of a partner or shareholder?"* One of the major issues that arises is... *"how will the business buy out the equity owned by the deceased person without financially wrecking the business and what will be the circumstances for the spouse of the deceased person, if they are unable to receive any payout for the business investment within a reasonable period?"* A way of trying to reduce the financial burden in such an event is for the partners or shareholders to enter into a Buy/Sell Agreement when the business first commences and for this agreement to be reviewed every year, based on a valuation of the business. The agreement sets out the value of the partner's/shareholder's equity in the business at a specific date. A Buy/Sell Agreement is normally drafted by a solicitor. You should then arrange for an insurance company to issue life insurance policies on the life of the partner/shareholder, with these policies being owned by the other partners/shareholders.

The same situation would apply for each partner/shareholder in the business. In this way if a partner dies or suffers a very serious injury, the insurance policy would provide the funds which, according to the Buy/Sell Agreement, must then be utilised to purchase the deceased person's interest in the partnership or the company. The benefit of a Buy/Sell Agreement accompanied by a life insurance policy, is that this gives some certainty to all of the parties as to what would happen in the event of the death or serious disability or illness befalling one of the partners or shareholders. It is important that the various parties receive independent legal advice particularly relating to the legal effect of the Buy/Sell Agreement and the effectiveness of the insurance policies that have been negotiated.

Another matter to bear in mind is that, as people age, they can have difficulty in attaining life insurance, therefore regularly reviewing the Buy/Sell Agreement and the amount of insurance cover is a way of insuring that there is an insurance policy to cover a significant amount of the individual person's interest in the partnership or company, even though, at some future date, they might have had difficulty in obtaining a new insurance policy. If you would like more information on Buy/Sell Agreements please contact us.

## Age Limits For Superannuation To Be Scrapped

The government has announced that it intends to change the Law so that people, aged over 70, can continue to work and will be entitled to receive compulsory payments to superannuation. This is part of the government's strategy to encourage older people to stay in work. The new arrangements will commence from the 1st July 2013.

## Business Plans

Insurance - Questions to consider:

- Has the business considered applying for a Credit Insurance Policy?
- How often do you review your insurance needs?
- Have you established procedures for when a claim arises?
- Is a non-involved employee/management person allocated the responsibility of liaising with the insurance company/brokers for claim preparation?
- Have you prepared an insurance checklist to ensure all the potential problem areas have been considered for insurance covers?
- Does the business have Key Person Insurance Policies?
- Does the business have Buy/Sell Agreements backed with insurance covers?

There are over 50 questionnaires relating to the preparation of a Business Plan. In the next issue we will consider Quality Assurance.

## Who Are The "Winners" And "Losers" In The Carbon Tax Debate?

### Winners

Low income households.  
Specific renewable projects seeking subsidies.  
Snowy and Tasmanian hydro schemes.  
Land owners.  
Some professionals advising companies on their carbon tax policies.

### Losers

High emission power generators.  
Coal mines.  
Steel and aluminium sectors.  
Most manufacturers.  
Anyone earning more than \$80,000 per annum.

What can you do in your business to prepare? You need to understand your emissions' intensity. There are ways of reducing your energy consumption. Carbon costs will be passed through all types of suppliers, not just power and transport. Can you find ways to reduce the costs by undertaking new methods of production? Can you produce a more efficient delivery of products or service procedures? Could you contract with other suppliers who have lower carbon costs?

It is estimated that Carbon Tax will increase power prices by 10% - 20% over the next 2 - 3 years. One of the key issues is determining if suppliers can change the price they charge for long term contracts. For everyone else without long term contracts, suppliers will be charging more for their products to try and recoup the Carbon Tax that they have paid.

So, the key question that SMEs need to answer is - *"Can you pass on the Carbon Tax influence on prices to your customers?"* What will this do to your competitive position in the market place?

There is going to be some government funding available to assist in research and development and the actual development of products that reduce carbon emissions. We will provide you with details of these schemes as they are announced. If you would like to discuss the potential impact of the Carbon Tax on your business operations, please do not hesitate to contact us.

## Team Member Appraisals

The way you conduct performance appraisals for your team members is critical for the appraisal process to be successful.

- Ensure there are no interruptions.
- Give the employee your full attention.
- Establish rapport.
- Seek agreement on past performance.
- Remain calm and build on their strengths.
- Identify and agree on areas for improvement.

It is important to close the interview on a positive note and lead the way for future discussions. The performance appraisals can be a daunting process for both managers and employees. Planning an effective communication during the interview is the key. We can supply a Team Member Appraisal Template for you to use to document individual team member's appraisals.

## Export Market Development Deadline

The Export Market Development Grant Applications' deadline, in respect of the year ended 30th June 2011, is 30th November 2011. Applications have to be lodged with Austrade. If you would like to talk to us about the preparation of an Export Market Development Grant Application please do not hesitate to contact us.

## Stress Test Your Business

Now is a good time to **stress test your business** to see how it would stand up to a bank review.

The first area to start with is to look internally to see what improvements could be made. Could your working capital be better managed? This involves stock, work-in-progress and debtors. Could the investment in any of these areas be reduced through closer management supervision? Are you able to renegotiate terms with suppliers? Banks are difficult to deal with and most finance packages are only current for 12 months. Will you be able to satisfy the bank's requirements? How are you performing against the bank's covenants for loans, bank overdrafts etc?

Does your business convey a strong presence in the market which allows you to stand out from the crowd? Some of the items that you should be considering include Budgets and Cashflow Forecasts. For most banks these are now a given and, even if you are not asked for them, it is a good idea to submit them to the bank. Business plans should be updated and reflect the current business operation.

The other areas the banks are now closely looking at include branding. What is your key message? What is the unique selling proposition your business is offering? Are you articulating these key factors clearly so that you are very visible in the market place?

All of these things help to de-risk your business in the eyes of the bank. How will your business perform if there are further downturns, primarily because of the problems in Europe? Are your employees presenting strong positive messages to the market place, to customers and to the bank when they are talking to bank employees?

If you don't already do so, it is not a bad idea to create a firm commitment towards improved communication with employees. There are a lot of negative comments in the media at the moment about the world situation, the Australian political situation, Carbon Tax etc. It is a good idea to tell your employees that you have a plan on how to positively run your business. If you would like some assistance in being prepared so as to withstand a bank stress test on your business, please contact us for a review of your business.

## **Business Outlook Confused**

There are some confusing business indicators evident in Australia at present. Interest rates have dropped from 4.75% to 4.5% and unemployment has increased to 5.3%. Retail shop sales are down, however it has been indicated that internet sales, many of which originate overseas, have risen. This would be people taking advantage of the higher value Australian Dollar -v- US Dollar. The exchange rate is moving around. Some experts forecast that in 2012 the Australian Dollar -vs- US Dollar could fall back into the 80's. There is media speculation that the Australian government will have trouble producing the promised balanced budget for 2013. This will mean that the Australian government is still in deficit which will have a detrimental effect on interest rates. The USA economy is still performing poorly with an official unemployment rate at 8.5%. There are then the problems in Europe and Greece and Italy is now being featured as the next European country that might be feeling the "*blow torch*" of debtor anger at the way the country has been managed.

All of these factors are affecting business confidence and highlight the need for SMEs to keep their "*houses in order*" so that these challenges can be addressed.

## **Compulsory Superannuation Contributions To Rise**

The Australian government has announced that it intends to legislate for an increase in the compulsory superannuation guarantee rate which will be increased gradually over ten years. The initial increments, commencing on the 1<sup>st</sup> July 2013, will be 0.25 percentage points and from the 1<sup>st</sup> July 2014 increments of 0.5% percentage points every year until 2019-20. The overall affect being to increase the rate of superannuation to 12% of an employee's earnings by 2019/20.

## **New Work Health and Safety Laws**

New Work Health and Safety Laws (the National Harmonized Work Health and Safety [WHS] Laws) are scheduled to commence on the 1st January 2012.

It is expected that the WHS Act will be operational in Queensland, New South Wales, Australian Capital Territory, South Australia, Tasmania and the Northern Territory on the 1st January 2012 with Victoria and Western Australia expected to join the new laws later in 2012. Some of the codes of practice enshrined in the new legislation include:

- first aid in the workplace;
- managing risks in construction work;
- preventing falls in housing construction;
- managing electrical risks at the workplace;
- managing risks of hazardous chemicals; and
- managing risks of plant in the workplace.

The effect of this will be that Work Health and Safety Laws are similar in each State and Territory. The regulator for this scheme will be the present regulator in your State or Territory. We recommend that you consider the impact of this legislation on your business. If you require further information, please contact your Employer Organisation.

## What's It Mean?

### Historical Cost

Historical cost is the original cost for which the assets are acquired. In a Balance Sheet, many assets are normally reflected at their cost price thus being expressed as historical cost.

### Interest Cover

Interest cover indicates the number of times that interest charges are covered by EBIT (Earnings Before Interest and Tax) generated by the business. For example, a business has Earnings Before Interest and Tax of \$208,000, with an interest cost of \$47,000. The interest cover is:

$$\frac{\$208,000}{\$47,000}$$

Interest Cover = 4.4 times



### ATTENTION

Additional information on the articles contained within this issue of **Business Plus+** is available. Please contact your Client Manager if you are interested in this additional information.

#### 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.*

