

TAXCONCEPTS

ACCOUNTANTS & BUSINESS ADVISORS

34 Bakery Square (PO Box 774), Melton Vic 3337

Ph: (03) 9747 0255 | Fax: (03) 9747 0233

Website: www.taxconcepts.com.au

Email: admin@taxconcepts.com.au



December 2022

4 Myths of Starting A Business

Starting a business requires research, risk, passion and planning. The start-up phase can be exciting but also exhausting with research to be done on your market and your competitors plus the preparation of a business plan, marketing plan and cash flow budget.

The COVID-19 pandemic fuelled a surge in business start-ups with a significant percentage of the population changing career paths to pursue their passion. While the rewards are very appealing for small business owners, you need to take risks and there are plenty of pitfalls. Unfortunately, there is a lot of misleading information about starting and running a business and let's explore four myths and separate fact from fiction.

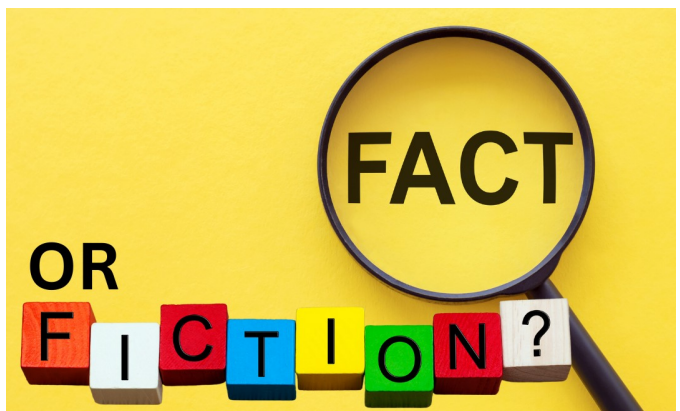
Myth #1 - Starting and Running a Business Is Easy

In 1971, the Australian Prime Minister Malcolm Fraser famously said, 'Life wasn't meant to be easy'. He may well have been referring to running a small business in 2022 given the pandemic, rising interest rates, surging inflation, staff shortages and supply chain issues.

The actual process of starting a business can be relatively straight forward, however, critical decisions need to be made regarding your business structure, bookkeeping software and insurances. When the business is in its infancy you might have to wear many hats including receptionist, bookkeeper, sales and marketing manager and cleaner. On a practical level you probably need to get a handle on the basics of all the roles, however, it would be counter productive to try and become an expert in every task. As you grow the business you can source and nurture team members who have expertise in each of these areas.

The potential for higher income, financial freedom and a better lifestyle lure people into the world of entrepreneurship, however, there's usually a price to pay. Employees often think the 'boss' doesn't work as hard as them and they earn five times their salary. The reality is, business ownership usually means longer hours, more admin work and financial stress.

While planning is a key ingredient to business success, things don't always go according to plan which can create pressure and lead to poor decision making. Statistically speaking, close to 40% of new businesses fail within the first year and 80 percent fail within five years. It's risky business and not everyone is cut out to be an entrepreneur. If you need proof of the fact that business ownership can be a roller coaster ride of ups and downs, look at the pandemic. Businesses were sent into hibernation and lockdowns for months on end. Small business ownership isn't easy!



Continues Next Page

The greatest compliment we receive from our clients is the referral of their friends, family and business colleagues. Thank you for your trust and support.

4 Myths of Starting A Business *(Continued)*

Myth #2 - It's A Licence To Print Money

Probably the biggest misconception about business ownership is that you will make more money, work less hours and enjoy more freedom. While it's the mission and certainly possible, a lot of businesses fail to deliver these benefits. Experience tells us that no amount of research or money can guarantee success in business and sadly, a lot of businesses fail leaving a trail of losses and debt.

Businesses fail for a range of different reasons and Michael Gerber in his acclaimed book, *The E-Myth Revisited: Why Most Small Businesses Don't Work and What to Do About It*, argues that most new business owners are technicians not entrepreneurs. They are skilled at their craft and spend most of their time working IN the business with a focus on the technical aspects of the job. Entrepreneurs tend to spend more time working ON the business.



Most small businesses stay small for a reason and the owners of highly profitable and valuable businesses hire other skilled technicians and offload the repetitive technical work so they can spend more time working ON the business. Most business owners will confess their 35 hour work week as employees has blown out to around 60 hours week as a business owner.

Running a business can deliver great financial outcomes but there's no guarantee. In fact, many business owners struggle financially and Gerber suggests that many solopreneurs have simply created a job for themselves and they could be earning more income as an employee without the stress, pressure, debt and administration. They would also get 4 weeks paid holiday leave! There is plenty of risk involved when you shift from the security of being a salaried employee to become a self-employed business owner. In the start-up phase you can expect longer working hours, less holidays and a drop in income.

Myth #3 - You Need a Lot of Money to Start a Business

It's a generalisation and your initial capital outlay will depend on the type of business you are launching and the industry you are entering. For example, if you're opening a retail store that sells products you'll need to fund a shop fit-out, fill the shelves with inventory plus purchase point of sale equipment and possibly a van. The outlay could be tens of thousands of dollars. By contrast, if you're opening a service business that basically sells time (like a physio, architect or bookkeeper) you'll still need furniture, computers, printers, signage and a website. The outlay might only be several thousand dollars.

If you are buying into a franchise operation you might need tens (if not hundreds) of thousands of dollars to buy in. Of course, there are many types of businesses that don't require a big upfront financial outlay such as an online business that may simply require a laptop, mobile phone, website and social media channels. When we talk about building a website, we are referring to a website that generates leads and sales. Unfortunately, most websites are simply electronic brochures that list the who, what and where of the business. If you're looking to build a lead generation website it will take time to plan the build and create content that resonates with your target market.

Irrespective of the size of the set up costs, you need to prepare a budget that projects your anticipated revenue and costs for the first 12 months. It will help you ascertain how much you need in the set up phase and how much (if any) finance you might require from a bank or other source.

Myth #4 - It Takes a Lot of Time to Start a Business

The start-up timeline will depend on the type of business you are starting and your dedication to the task. If you've done your research and developed a detailed business plan, there is no reason why you can't launch quickly.

Some businesses will require more time than others. For example, if you require a shop fit out, product design, testing and a requirement



Continues Next Page

4 Myths of Starting A Business (Continued)

to meet government regulations or council permits you can expect delays. In this current market, sourcing staff might also slow the launch down. There are some businesses that certainly lend themselves to quicker starts and in Australia there is generally very little red tape to delay your opening.

You'll need an ABN (Australian Business Number) and might want to register a business name. You might need to register for GST and PAYG with the Tax Office plus you need to decide on your business structure (e.g. company, trust, sole trader, partnership etc.) and get relevant insurances in place. None of these tasks will hold up your launch by more than a few days.



The entrepreneurship journey often starts with a simple idea but for many, it's a long and winding road with many hazards along the way. Turning your business idea into a profitable and sustainable business is a process and you need a roadmap to navigate your way and plan the journey. A business plan is essential and it should detail the milestones you need to reach along the journey. It should also identify the obstacles you might need to overcome along the way. It contains separate sections for your marketing plan, operations, sales and the financial projections. It drills into the who, what and where of your business idea and helps you prioritise the steps in the start-up process. Your research should alert you to the pot holes you might encounter along the way and have a plan to deal with the inevitable obstacles that could impact on your success.

If you need funding to get the business up and running your business plan needs to prove to the bank or investors that it is financially viable. It should outline your objectives and how you'll achieve your goals and grow the business plus manage possible bumps in the road.

SUMMARY

There are a lot of myths about starting and running a business. It can be highly rewarding but there is a lot at stake. There are risks and there's no secret formula that guarantees success so you need to research the market and your competitors.

In business, failing to plan is planning to fail.

“
IF YOU
FAIL TO PLAN,
YOU PLAN TO
FAIL”



Company Director ID Deadline Extended 14 Days

Existing Directors of Australian Companies were required to apply for a Director Identification Number (Director ID) by November 30, 2022. The business registrar has extended the director ID application deadline by two weeks, from November 30 to December 14.

New Directors will now be required to apply for their Director ID before their appointment.

Application for a Director ID is free, and you must apply for your own Director ID. There's no fee involved and the fastest way to apply is online using the newly established Australian Business Registry Services (ABRS) which is a single platform administered by the Commissioner of Taxation that brings together ASIC's 31 business registers and the Australian Business Register. All company Directors must apply for it themselves, as they are required to verify their identity themselves. There's a common myth that if you've got a registered tax agent, they can just apply for a Director ID on your behalf, but that's not the case.



Use your myGovID app with at least a standard identity strength to log in to the ABRS online to start your Director ID application. You will be required to produce your myGovID alongside two identity documents from a list including your bank account details, super account details, ATO notice of assessment, dividend statement, Centrelink payment summary and PAYG payment summary.

If you don't have the myGovID app, download it from the App Store or Google Play, enter your personal details and prove who you are by verifying your identity documents.

Under the law, Directors who fail to apply for a Director ID within the stipulated time frame can face criminal or civil penalties of 5,000 penalty units, which currently stands at \$1.11 million. Penalties will also apply for conduct that undermines the new requirements, including providing false identity information to the registrar or intentionally applying for multiple Director IDs.

The government expects the Director ID regime to help prevent illegal phoenixing by ensuring Directors can be traced across companies, while also preventing the use of false or fictitious identities.

The new regime is expected to cover over 2.5 million Directors, or roughly 10 per cent of Australia's 25.7 million population. The Director ID will be attached to a Director permanently, even if they cease to be a Director, change their name, or move interstate or overseas.

The ATO report that despite a record 78,000 directors applying on 29 November alone, around 700,000 had still to apply from a total of more than 2.5 million – equivalent to 28 per cent of Directors. ABRS deputy registrar Karen Foat said, "Some people might not actually realise they are a Director of a Company. You don't have to wear a suit or work in an office to be considered a Director," she said. "If you run a small business, self-managed super fund, a not-for-profit or even a large sporting club, you may be a Director, which means you'll need a Director ID."



ABRS registrar Chris Jordan said it would apply a "pragmatic compliance approach" to directors if they applied by 14 December. "The ABRS will not apply compliance resources to determine whether individuals met their director ID obligations by 30 November 2022 if they apply for a director ID by 14 December 2022," Mr Jordan said.

But Ms Foat reminded that missing the extended 14th December deadline could involve a maximum criminal penalty of \$13,200, or up to \$1,100,000 under civil law. "Whilst penalties can apply, the community can expect we will take a reasonable approach to support people to apply, particularly where Directors have been impacted by circumstances like natural disasters," she said.

The government has said that Directors who have reasonable grounds for missing the application deadline owing to their personal circumstances can seek an extension of time to apply.

ATO Identify 3 Primary Targets for Individual Taxpayers

Work expenses, omitted income and rental property claims have been identified as primary targets by the ATO to narrow the \$8 billion gap between what individuals pay in tax and what the Tax Office believes they should pay.

According to ATO Second Commissioner Jeremy Hirschhorn, "This year, we estimate that individuals are paying about 94 per cent of the tax they should be at lodgement. The three focus areas would be subject to increasing data scrutiny with special attention on the 90 per cent of rental claims that needed adjustment."

Hirschhorn said, "First we need to create a common community understanding about what is an allowable work-related expense claim. Incorrect claims in this area account for almost \$4 billion of the tax gap — almost half the total tax gap related to individuals."

He stated the second problem area was omitted income, particularly cash wages and income from the sharing/gig economy which the ATO estimate to be worth \$1 billion a year in unpaid tax.

According to Mr Hirschhorn, the most problematic category was property investments, "Which covers the full spectrum from true investment properties through to holiday homes which are occasionally rented out. We



estimate this contributes about \$1 billion to the net tax gap. In our work today in relation to 2021 tax returns, over two million rental property owners declared over \$45 billion in income and about \$43 billion in expenses. The random inquiry program that we applied to those claims that helped determine our estimate of the tax gap showed that nine out of ten returns reporting net rental income require an adjustment. This is startling and clearly something we need to address."

ATO is Watching the Cash Economy

The Australian Taxation Office (ATO) have revealed the industries they are watching carefully given the black economy is very active.

The black economy or 'shadow economy' refers to activities that take place outside of the tax system that includes business owners demanding payments in cash, not declaring all sales, and paying workers cash in hand. The ATO estimates it loses around \$11 billion in taxes each year from the shadow economy.

The ATO receives tip offs from the public and the industries that provided the most leads in the last year were:

- ✓ the building and construction industry
- ✓ hairdressers and beauty services
- ✓ cafés and restaurants
- ✓ road freight transport and
- ✓ management advice and related consulting services.

They get tip-offs from other business owners, customers, members of the public and even employees with New South Wales providing over 13,400 tips offs last year (Sydney over 6,500), Victoria more than 11,500 and Queensland more than 9200.

The top five regional locations that the ATO received tip-offs from in 2021/22 were the Sunshine Coast Hinterland, Cairns, Wellington in NSW, Wodonga, and the Mornington Peninsula in Victoria.

The ATO is aware of the fact that customers ask for discounts for cash payments to avoid paying GST and that many workers are demanding cash wages especially where there are labour shortages.



The ATO said there were some "tell-tale signs" a business may be operating in the shadow economy, such as "cash only" signs, offering a discount for cash, not accepting card payments, failing to provide payslips to workers, not ringing up sales, or even running illegal software that deletes or modifies sales transactions.

Tip-offs can be made online via the ATO website, via the ATO app, or by phoning 1800 060 062. All tip-offs are private and can be made anonymously.

ATO Fines to Increase

Businesses that fall behind on their tax lodgements can expect the financial penalties to increase dramatically from January 1, 2023, with more rises to follow.

Buried in the Federal Budget was a scheduled increase to Commonwealth Penalty Units from the current level of \$222 to \$275 at the start of 2023. Commonwealth Penalty Units dictate the value of fines for tax, communication, financial and fraudulent offences.

For businesses, those penalties can be applied to the following late returns, reports, and statements:

- Activity statements
- Tax Returns
- FBT Returns
- PAYG Withholding Annual Reports
- Single Touch Payroll Reports
- Annual GST Returns and Information Reports
- Taxable Payment Annual Reports.



Australian Government
Australian Taxation Office

Small entities can expect to pay one penalty unit for each 28-day period that their tax return or statement is overdue, up to a maximum of five penalty units. In effect, the increased financial value of Commonwealth Penalty Units means a maximum fine could become \$265 more expensive at the end of this year.

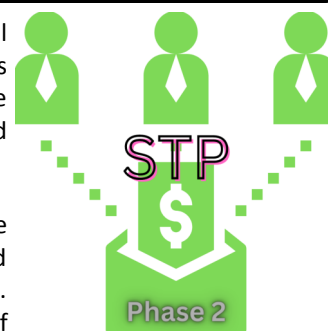
Medium-sized employers for PAYG withholding purposes, or those with assessable income or current GST turnover of more than \$1 million and less than \$20 million, can expect those penalties to be multiplied by two. Even greater penalties are expected in the future, as the budget papers note the amount will increase every three years in line with Consumer Price Index (CPI) growth. The next indexation is scheduled for July 1, 2023 and the Reserve Bank of Australia estimates CPI will grow 6.25% over the year to June 2023, driving the cost of late payments even higher.

Despite the increasing compliance activities, taxpaying businesses with extenuating circumstances can still apply for a penalty remission.

Expansion of Single Touch Payroll Phase 2

As part of the 2019-20 Federal Budget, the government announced that Single Touch Payroll (STP Phase 2) would be expanded with a mandatory start date of 1st January 2022. This expansion is intended to reduce reporting burdens for employers by ensuring multiple government agencies, such as Services Australia, receive the information in a timely and consistent fashion.

Your payroll provider (Digital Service Provider or DSP) may have already implemented Phase 2 reporting. If not, your DSP will have applied for deferral on behalf of their customers and you are covered under their deferral and no penalties apply before 31st December 2022. Individual employers can also apply for an extension past their DSP's deferral date, if required, to transition. If you need more time you will need to supply details of your payroll supplier, the reason you are requesting delayed transition, and the expected date you will be able to transition.



According to the ATO, the benefits for employers of the expanded STP Phase 2 system include the streamlining of employer interactions including:

- No requirement to send employees' tax file number declarations. This will be incorporated into STP Phase 2 reporting and employers just need to keep it with the employees' records.
- Lump Sum E payments (back payments relating or accrued more than 12 months before the payment date) won't require separate letters as the amount and period it relates to can be included in the payroll functionality.
- Separation Certificates may no longer be required as the date and reason for leaving will be in your STP report.
- Child Support deductions or garnishees can be voluntarily reported via the STP report reducing the need for a separate remittance advice to the Child Support Registrar.

Hello 2023 - Is it Time for a Business Health Check?

As the start of 2023 looms, now is the perfect time to conduct a 'health check' on your business to assess what is working in the business and what needs working on.

While the term health check conjures up some pretty negative thoughts for most business owners, we're not talking about experiencing personal prodding and poking, rather our suggestion is to take a step back and review the direction of your business and your financial goals for the year ahead.



Ask yourself these questions:

- Where do you see your business at the end of 2023 in terms of revenue, profit, staff numbers and business value?
- If you are planning a growth spurt what marketing activities will drive the growth?
- What do you plan to change from last year to achieve better financial outcomes?

As a starting point, we have identified the following five areas in your business that you could put under the microscope.

1. Business Planning & Goal Setting – Do You Have a Vision?

What is your vision for the business? There is a saying "People who aim at nothing generally hit it with tremendous accuracy". You need to have a vision in order to know where you are going and we often tell clients starting their business that you need to 'begin with the end in mind'.

Do you have financial goals for the year in terms of sales and profit? If you plan to grow your sales by 30% next year what marketing and business strategies do you plan to use? What tools, equipment, software and systems do you need to help you achieve those targets? It needs to be documented so you can measure and monitor your progress.

It's attributed to Einstein that: "Insanity is doing the same thing over and over and expecting different results." It's the same in business, don't just hope things will get better, identify the big impact items you need to address and create a list of actions steps. It might be the re-development of your website but identify who is responsible for each action step and set time lines for implementation. If you write down your goals and then create a list of action steps to achieve those goals you can measure and monitor your progress.

Is your website generating leads? Is it your silent salesperson open 24/7 or just an online brochure that lists the who, what and where of your business? Maybe you need to review your website and ramp up the search engine optimisation on the site. You might need to create a database of customers and start an email marketing campaign or get more regular newsletters to your customers. For others, the focus might need to be on your social media strategy or branding.



2. Forecasting your Profit and Cash in the Bank

Now that you have looked into the future, have you seen what your business needs to achieve financially? We recommend you create a cash flow budget to track the financial impact of the changes. How much will each of these strategies cost and what is the timing of the expenditure? We can help you do some financial modelling based on different prices and assumptions but it is important to quantify the financial outcomes and then measure these against actual performance. Most accounting software programs like Xero, MYOB, QuickBooks and Cashflow Manager have a budget and variance feature built in.

If your plans come to fruition you need to identify what extra resources you might need. It could mean higher levels of stock on hand and possibly more staff to handle the surge in sales. A budget helps you identify the amount of extra funding required and the timing of when you need the money. Is it time to extend the overdraft or finance a

Continues Next Page

Is it Time for a Business Health Check? (Continued)

vehicle or piece of equipment by lease or chattel mortgage? In this environment you need to plan your funding needs in advance because banks don't take too kindly to last minute funding requests.

3. Reviewing Costs is a Given But ...

While most accountants will tell you to cut costs, we tend to focus on how to increase your revenue.

But how do you increase revenues in your business? Smart marketing is the short answer. Having said that, you should also look to identify any costs you might be able to prune. Start with your biggest 5 expense categories on your profit and loss statement, however, this probably includes rent and wages that might be fixed. Maybe you could save on utilities and explore a cheaper phone and internet deal. Some costs might be superfluous to your needs and maybe you could drop some subscriptions or negotiate a better pricing deal from your major suppliers. In business, if you don't ask you don't receive. Business owners should be constantly reviewing their advertising and promotion costs. Are these channels working or could they be re-directed from off line methods to more effective on-line methods?



4. Don't be Afraid to Increase Your Prices

If rising prices in your supply chain have pushed up your supplier's costs then you need to think about passing them on to maintain your gross profit margins. Inflationary pressures are a fact of life and what would a 3% increase in prices do to your bottom line? Your rent and payroll costs probably both went up substantially but have you adjusted your prices accordingly? Would you lose sales by increasing your prices?

What have competitors done with their pricing in the last 12 months? Maybe it's time to get a mystery shopper to do some 'research' for you. If you do increase your pricing, how do you plan to notify your customers and will you announce that prices will rise effective from February 1st, for example, so they have some advance warning and opportunity to buy at 'old' prices before the deadline?

5. Marketing Moves

What are you doing to get more customers? How do you plan to get your customers back more often and spend more each time? Marketing and in particular online marketing is now a vital ingredient in any business. Have you had any feedback from customers that they had any difficulty finding information on your website? Maybe it's time for a website facelift? Maybe your branding is old and tired and in need of a makeover, particularly if you want to appeal to younger customers.



Does your website have an opt-in box where you give away a valuable, informative e-booklet in exchange for an email address? Do you have a customer database and how often do you market to these customers? Is it time to produce a regular newsletter and special offer? Is it time to embrace social media because your target market engages with those channels? Should you start producing videos and increase your online spending at the expense of off-line media?

It is essential that you constantly measure and monitor what is working with your marketing and if you need any help with your business planning contact us today.

IMPORTANT DISCLAIMER: *This document contains general advice only and is prepared without taking into account your particular objectives, financial circumstances and needs. The information provided is not a substitute for legal, tax and financial product advice. Before making any decision based on this information, you should speak to a licensed financial advisor who should assess its relevance to your individual circumstances. While the firm believes the information is accurate, no warranty is given as to its accuracy and persons who rely on this information do so at their own risk. The information provided in this bulletin is not considered financial product advice for the purposes of the Corporations Act 2001.*