

Welcome

Welcome to the eighth edition of the Accru Plus client newsletter.

Inside you'll find the new paid parental leave scheme explained, tips on how to prepare your business for sale and the story of a successful Accru Melbourne client who has ridden the wave of the video games explosion. Our article on the pros and cons of incorporation will get some of you thinking, and we revisit some timeless wisdom on the habits of highly effective people.



Babies are good for business

BY GLENDA NIXON, ACCRU FELSERS, SYDNEY

In May's Federal budget, the Government decided to defer the introduction of Paid Parental leave until January 2011, putting short term politics over long term economic and social benefits like many governments before them. Nevertheless, paid parental leave is expected to become a reality in less than 18 months. Accru Sydney outlines what the scheme involves, why it is being introduced and how it will affect your business.

As the parental leave scheme stands now, much of its impact will be positive. Its key business benefit will be to help employers retain highly qualified staff without additional administrative or cost burdens. This should be particularly welcome when the world emerges from recession and skills shortages rise to the top of our business agendas again.

Key points of the scheme include:

- + Providing Government funded postnatal leave for a total of 18 weeks with an additional two weeks of paternity leave. This will be paid at the adult federal minimum wage (currently \$543.78) for each week of leave and taxed in the hands of the recipient.
- + The payment is on a use it or lose it basis and to be eligible, an employee must have worked continuously (for one or more employers) for at least 10 of the 13 months prior to expected birth and for at least 330 hours in the 10 months. This means part-time staff will be eligible.

- + The government will pay employers the full leave amount upfront in instalments, addressing business's concerns about having to be the administrators of the scheme and the impact on cash flow.
- + Originally the scheme called for employers to pay superannuation entitlements of 9% over the 18 weeks of leave, but the decision on this less popular aspect of the scheme has been postponed.

An increasingly female workforce

The scheme's broad objectives are to improve the health and wellbeing of children and parents and the lifetime workforce participation by women. We would all recognise the potential benefits of the former, the latter has become an economic and social imperative given our aging population.

Australia's female participation rates during the key reproductive years of 25 to 34 have increased from around 45 to 70% from 1978 to 2008.¹ Despite the improving trend, Australia still has labour participation rates by women in their prime reproductive years that are substantially below men and relatively lower than many other OECD countries. Our tax system may be partly to blame.

Disincentives for women to return to work

A number of tax and welfare measures actually act as a disincentive for the secondary wage earner in a family, typically the female, to return to work. This has to do with unintentional flaws in some tax and welfare policies that were introduced in recent years.

A number of tax credits and family benefit payments warp the original progressive design of our tax system whereby the greater amount of income you earn, the higher in quantum and rate of tax you pay. Because some benefits are pegged to family income rather than individuals as the taxing unit, females are charged excessive marginal tax rates when benefits are withdrawn as they try to re-enter the workforce. I have calculated tax rates as high as 44% on income less than \$22,000. Our current top tax rate is 45%.



When women do the sums after child birth, often the decision is to resign. Career progression and promotion are interrupted or underachieved, and having been out of the workforce for long periods it is difficult to re-enter.

The proposed paid parental leave scheme is designed to address these inequities somewhat as well as bring us into line with other OECD countries.

Benefits for employers

Paid parental leave doesn't just pay social dividends. For employers, the benefit is retaining specifically trained and skilled staff. Business owners stand to gain by ensuring valuable skills and knowledge of their business, products and customers don't walk out the door. Parental leave encourages female staff to work up to the birth, and due to the scheme's design and delivery, will make female staff feel more connected to their employer.

Given parental leave payments will relieve financial pressures after the birth of a child, women's decision to return to work will not have to be made on the basis of financial necessity alone. This should have positive impacts on long term staff retention and productivity and efficiency within the workplace.

The proposed scheme also contemplates a 'keeping in touch' provision so that during their leave, recipients can return to work on occasions to keep their skills and product knowledge up-to-date as well as cover for others.

Self employed parents will also be eligible for parental leave and this should encourage more female business ownership.

So, as well as being good for mothers, babies and the country, parental leave looks set to be good for business by providing employers with a valuable staff retention tool.

¹ Page XV of the overview of the Paid Parental Leave of the Productivity Commission Inquiry Report, February 2009

BY MELISSA MCCRYSTAL
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Incorporation: The Pros and Cons



Practically anyone who operates a business, alone or with others, may incorporate. Under the right circumstances, becoming a company can provide you with a number of benefits – from asset protection to tax savings and structures that facilitate business growth. Accru Brisbane outlines some of the pros and cons.

Reducing personal liability

The principal and long-standing advantage of an incorporated company is that it has limited liability. If you're a sole proprietor and your business experiences severe financial difficulties, creditors can take away personal property such as your home, retirement savings, or any other asset you or your spouse own. By incorporating, only the assets of the company are at risk if your business is subject to legal action. Directors are not personally liable unless there is a breach of the Corporations Law, such as insolvent trading.

Access to lower tax rates and concessions

Individuals trading under a registered business name are taxed at the normal marginal rates of tax with the top tax rate being 46.5%. Incorporating allows you to access the company tax rate which is capped at 30%. Other potential tax advantages include:

- + The ability to pay franked dividends to shareholders and pass on the benefit of tax already paid
- + Research and Development tax concessions
- + Capital Gains Tax (CGT) relief if rolling over from an individual, partnership or trust structure.

Ability to use creative business strategies

A company structure can accommodate unrelated investors by the issue of new shares, so it is ideal if your business is looking for external investment. Specific classes of shares can be established to determine different voting, dividend and wind up rights. You can also retain profits within the company and pay these out in later years when shareholders' income is lower.

An enduring structure

If a sole proprietor or partner dies, the business may automatically end or become involved in various legal entanglements. An incorporated business has the advantage of continuing beyond the death of a shareholder.

Tax issues

There are a number of tax rules that can be disadvantageous to companies:

- + A company is not entitled to the Capital Gains Tax Discount for assets held more than 12 months.
- + If a company utilises the Small Business CGT concessions, the tax free portion of the capital gain remains in the company as unfranked profits. These would need to be paid out to shareholders on winding up of a company.

- + To ensure access to the Small Business CGT concessions, companies must have a significant individual shareholder, so care needs to be taken when establishing the shareholders of the company to ensure all relevant concessions can be used.

Costs and administration

While it is relatively simple and inexpensive to establish a company, there are some ongoing costs associated with accessing tax benefits, compliance and maintaining accurate company accounts. An annual fee is payable to the Australian Securities and Investments Commission – currently \$212 – and companies need to ensure all director, shareholder and address details are kept up to date with ASIC to avoid penalties.

Is incorporation for you?

Many factors influence the decision of whether to trade through an incorporated entity. We suggest you discuss your situation with your local Accru accountant who can assist you to decide what form your business should take, and structure it in a way that suits your specific circumstances and goals.

BY ACCRU SMITH CHILCOTT,
AUCKLAND

Preparing your business for sale There's no time like the present!



It has been widely publicised that a significant number of businesses may swamp the market in coming years as baby-boomers look to sell their businesses. This increased supply is likely to make selling your business more difficult than in the past, so it will be more important than ever that it is well presented for sale. Here are four practical suggestions to enable you to start preparing your business for sale in today's environment.

Prepare a formal succession plan

Before you can determine what sort of preparation or 'grooming' your business requires, it is important to clearly establish your succession plan and exit strategy. If your succession plan involves a progressive sell-down to key employees then an important consideration might be to establish a strong shareholders agreement. By contrast, if your exit plan involves a complete sale, then a shareholders agreement may be unnecessary. A formal succession planning document should include your goals and objectives, intended exit strategy (include a 'Plan B') and indicative timeframes to enable you to plan your sale preparation initiatives accordingly.

Obtain a valuation

A valuation of your business at this stage might seem premature, however, a formal business valuation prepared by a credible valuer will likely form a key part of your succession plan.

Amongst other things, a business valuation will:

- + Enable you to assess whether your lifestyle goals and objectives will be met by the sale of your business
- + Identify the key drivers of value in your business which will provide an important focus for your business grooming initiatives and identify areas where you can improve value.

Business valuation is a specialist area. It is important to ensure that the valuer you choose has the appropriate expertise and experience.

Document key business processes

Any potential purchaser will consider the ongoing assistance they are likely to require from you as vendor to operate the business going forward. Well documented business processes will minimise the required 'handover period' and will also maximise the conversion of 'personal goodwill' to 'business goodwill'. As a bonus, well documented business processes will also aid the induction and training of new employees.

Clean up the financials

One of the most important sets of documents upon which a potential purchaser will base their decision is your business's financial statements. Not only might these determine whether or not a sale takes place at all, but they will also have a significant bearing on the value you are likely to realise. It is essential therefore to ensure that your business's financial statements are as 'clean' as possible. This includes:

- + Ensuring any personal expenditure is not included within the Company's accounts
- + Paying 'fair market' salaries to shareholders and family members, and
- + Paying 'fair market' rents for premises owned by associated persons.

The process of preparing a business for sale is unfortunately something most business owners do not consider until it is far too late. By the time your business is placed for sale there are a limited number of options for improving its value. By contrast, good planning and preparation now will ensure you extract maximum value when you decide it is time to exit.

Client Success Story

Video Games: The Entertainment Revolution

BY DAVID PROVAN, DIRECTOR, BLUEMOUTH INTERACTIVE, MELBOURNE

David Provan, an Accru client in Melbourne, started his video games distribution business in 2003. As it turned out, his timing couldn't have been better. Video gaming has exploded into an industry of dynamic proportions and David's business has grown alongside it, now shifting more than 1.5 million items a year. David shares his insights into the industry and this extraordinary growth story.

If you're one of the 68% of Australians who play video games, you'll know that the gaming industry is no longer reliant on the stereotypical 'couch potato' gamer with a penchant for violence and sci-fi. Games are now family orientated, designed to get you off the couch, swing a virtual tennis racquet, play a virtual guitar to your favourite tune, or design an exercise regime around your own personal needs. By taking this approach, gaming has expanded its market to a larger and more mainstream audience.

At the time when I first joined this industry back in 1996, I could not foresee the mass market appeal that video gaming enjoys today. The digital medium was taking hold, the music industry was thriving, DVD was being adopted at a rate of knots – and the size of the games industry was modest in comparison.

I was, however, aware of one of the industry's unique features that would contribute to its phenomenal success. Every product life cycle runs through introduction-growth-maturity-decline. Whenever the video games industry reaches maturity, a new technology

allows it to 'reinvent' itself, bringing with it a new demographic and a larger target market. You can see this in the way that Playstation 2 combined internet, music and DVD with video games, or Nintendo DS allows you to touch a screen and play wirelessly against your friends across the room, or Guitar Hero allows us to play together in a four-piece rock band while competing with other virtual bands across the internet.

Taking advantage of the video games explosion, in 2003 my wife (Sally) and I left our jobs, and with my industry experience and Sally's marketing expertise, we established Bluemouth Interactive. Specialising in the distribution of leading games accessories throughout Australia and New Zealand, we structured Bluemouth on a variable cost model, importing product from China, UK, USA, and Germany and outsourcing our third party logistics and warehousing to a Sydney-based operation who could guarantee next day delivery to Brisbane, Melbourne and most of NSW.

As we grew, we kept our overheads tight, literally working from card tables in the second bedroom of our home, while selling product to leading retailers such as EB Games, Target, Kmart, and Toys R Us. At times, the growth spurts were tough on the cashflow, and if it were not for temporary assistance from our American Express charge card and my father, we would never have overcome these growing pains. As we grew, so did our understanding of the opportunities yet to be tapped in the marketplace. We concentrated on licensed product, understanding that this would provide us exclusivity, and therefore protecting our margins as best as possible from competing influences.

Soon, we had outgrown our home office and moved to a terrace house. As the industry grew, so did our position in the market as licensed product was becoming the consumer's preferred choice over aftermarket product and we could also seamlessly shift our product offering in line with consumer trends.

Six years on, we enjoy a leading position in the marketplace with every major retailer in Australia and New Zealand purchasing the brands that Bluemouth represent, including GAME, Harvey Norman, BigW, The Warehouse, JB Hi Fi, and Sanity. Maintaining a low overhead structure, we employ one part time bookkeeper and only three fulltime staff to control the sales, marketing, and logistics of our day to day operations. Considering the penetration of our brands and the fact that we move more than 1.5 million units a year, this is a model as efficient as we could ever hope for.

From the outset, Accru Danby Bland Provan in Melbourne have been there – helping us structure the business from start up and in countless other ways over the years as Bluemouth continued to confront new but exciting growth pains. From the provision of in-house bookkeeping services and cashflow forecasts in the early years, to monthly BAS preparation and financial advice, to annual audits and the preparation of financial reports, Accru have been with us all the way.

We look forward to experiencing many more exciting times ahead, knowing that the Accru network will be there to provide guidance as we encounter fresh challenges the industry throws our way.

THE VIDEO GAMES INDUSTRY GROWTH PHENOMENA

- + With annual growth of over 43% in the past two years, the Games industry is now worth around \$2billion, double the size of box office cinema and more than 40% larger than the DVD industry in Australia.
- + 88% of homes have a device for playing computer or video games
- + 68% of Australians play computer or video games
- + 95% of children under 10 own a gaming console
- + 46% of gamers are female
- + The average age of an Australian gamer is 30 years

Bond University, October 2008



The seven habits of highly effective people

BY KIRSTY HAYDEN, ACCRU PAGE KIRK JENNINGS, PERTH

Stephen Covey's international best-seller, *The 7 Habits of Highly Effective People*[®] has sold over 15 million copies in 38 languages and has been a top-seller for years. Some say it's for the simple reason that it ignores pop psychology for proven principles of fairness, integrity, honesty, and human dignity. At a time when many of us are trying to do more with less, here's some timeless wisdom on how to concentrate your efforts to exceed your goals. You may in fact find you already have the seven habits that Stephen Covey believes all successful people share!



Habit 1: Be proactive

Being proactive is about taking responsibility for your life. You have the freedom to choose your responses. Instead of reacting to or worrying about conditions over which you have little or no control, focus your time and energy on things you can control.

Habit 2: Begin with an end in sight

Develop a personal mission statement. It is your plan for success. It reaffirms who you are, puts your goals in focus, and enables you to stay on track. It lets you be the leader of your life.

Habit 3: Put first things first

What are our 'first things?' First things are those things you find of most worth. If you put first things first, you are organising and managing time and events according to your personal priorities. To live a balanced existence, you have to realise that it's all right to say no when necessary and then focus on your highest priorities.

Habit 4: Think win – win

Win-win sees life as a cooperative arena, not a competitive one. Win-win means agreements or solutions are mutually beneficial and satisfying.

To approach conflict with a win-win attitude you must possess three vital character traits:

1. Integrity: sticking with your true feelings, values, and commitments
2. Maturity: expressing your ideas and feelings with courage and consideration for the ideas and feelings of others
3. Abundance Mentality: believing there is plenty for everyone

Habit 5: Seek first to understand, then to be understood

Communication is the most important skill in life. You spend years learning how to read and write, and speak, but what about listening? What training have you had that enables you to listen so you really, deeply understand another human being? Learn to listen.

Habit 6: Synergise

To put it simply, synergy means 'two heads are better than one.' Working together can bring about effective teamwork, open-mindedness, and the adventure of finding new solutions to old problems.

Habit 7: Sharpen the saw

Sharpen the Saw means preserving and enhancing the greatest asset you have - you. It means having a balanced program for self-renewal in the four areas of your life: physical, social/emotional, mental, and spiritual. As you renew yourself in each of the four areas, you create growth and change in your life. Sharpen the saw keeps you fresh so you can continue to practice the other six habits.

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