



Welcome

Welcome to the thirteenth edition of the Accru Plus client newsletter

This issue looks at the economic impact of the Queensland floods and what businesses can do to prepare for disasters like these. You'll also learn about the new rules around R&D tax concessions and paying dividends. We bring you the success story of an award-winning Hobart fitness centre, and provide some advice on dealing with 'people-related' issues in your business.



After the disaster

Business continuity planning can speed recovery

BY BRENDAN WATSON, ACCRU RAWSONS, BRISBANE

A tumultuous summer of floods, bushfires and cyclones followed by a 6.3 earthquake in New Zealand have highlighted the devastating impact of natural disasters. While we tend to think “It can’t happen here” or “It can’t happen to me,” the reality is that natural or manmade hazards can occur at any time.

As we have seen recently, natural disasters impact on businesses, directly or indirectly.

Yet most (57% of SMBs according to a recent Symantec survey) do not have a disaster recovery plan and are ill-prepared for these events. While you are unable to control the nature and extent of the natural disaster, planning for one will give your business a greater chance of recovery.

Preparation starts by developing a business continuity plan which should cover prevention, impact analysis, response and

recovery. Some useful guides and templates are available at www2.business.qld.gov.au.

When developing your plan, some aspects to consider are:

Cashflow and insurance

Speaking to your bank manager to discuss alternative financing options available in the event of a disaster can help you to plan for the effects on your cash flow. Also ensure that you have the correct insurance for your property, stock and other assets. Checking the terms and definitions of what events you are covered for within your policy can avoid disputes and delays with your insurer when making claims.

Cost of resuming operations

Following a natural disaster it is anything but ‘business as usual’. Getting back to business begins with evaluating your financial position to determine the cost of re-opening and starting to trade and where this funding will come from. Is your business’s current position strong enough to absorb these costs or will they be covered by insurance? Is there any government assistance available?

Your recovery plan also needs to consider your strategy to recover critical business operations, the resources you need to re-open and the actions required to do so.

Marketing and staffing

Once your business re-opens, it may suffer from a resultant decline in trade. Your plan needs to consider a marketing strategy, for example to promote that you are open for business, or to add or remove product lines or services to improve your overall trading results. Staffing is also a key consideration as your staff may have been affected personally and be unable to work, or in contrast, you may need to reduce your staffing levels.

Spending the time to develop a disaster recovery plan may not hold much appeal, however the benefits will be evident when a natural disaster presents itself and you are able to get up and running quickly.

Please contact your local Accru office to discuss the development of a disaster recovery plan for your business.

Queensland Floods and Cyclone Yasi: The economic cost

BY SEAN DAWSON, ACCRU DANBY BLAND PROVAN, MELBOURNE



The January 2011 Queensland floods covered an area larger than the size of France and Germany combined. Soon after, the damage it caused was compounded by Cyclone Yasi, the largest and most powerful cyclone to hit Queensland in living memory. In early February, the Courier Mail reported that almost three-quarters of Queensland was a disaster zone. Sean Dawson outlines some of the key economic impacts.

Loss of production

Loss of production in Queensland is significant. Queensland accounts for 56% of Australia’s coal exports. Over half of Queensland’s coal mines have had to halt or limit production, with only 15% able to maintain full capacity. Queensland also significantly contributes to Australia’s overall production of fruit (27%), vegetables (30%), cotton (44%), sugar (93%) and meat (45%). Australian inventory has been adversely affected as a result. Some of this loss will be offset by increasing prices.

Numerous businesses have lost their ability to operate. Losses are still accumulating due to closure. Employees who are not required due to these closures obviously have limited spending power.

The tourism industry is not only dealing with immediate loss of business, but also a perceived effect. Large tourist destinations have received cancellations for as far out as June 2011, despite many of these areas not having been hit by floodwater.

Additional economic activity

There will be a boost to economic activity during the recovery period, generated primarily by demand in three categories:

- + Domestic – homes, furniture, white goods, motor vehicles,

- + Business – capital assets, stock replenishment, crop replacement
- + Government Infrastructure – reconstruction of roads, railways, bridges.

Inflation

Inflationary pressures are expected, with examples including:

- + Retail pricing. Banana retail prices were around the \$2 kg mark, these have shot up to \$15kg.
- + A housing shortage within some highly populated areas. It is expected that rental pressure within Brisbane will force prices to an all time high.
- + Demand for skilled labour during the rebuild. The Australian mining industry is booming but is currently struggling to find enough skilled labour to meet production demands. The competition between the two will place upward demands within the relevant industries.

Interest rates

Consensus is that the Reserve Bank will overlook any short-term inflationary pressures caused by factors such as rising food prices. Interest rate stability is forecast until the middle of 2011, with the short-term focus placed on combating negative growth resulting from the floods.

Budgets

Federal and state budgets have already been affected by the disaster, with spending cuts off \$2.8 billion proposed. Emergency payments to flood victims by the federal government as at 23 February were in excess of \$770 million. The 2011 Budget had allowed only \$80 million for natural disaster relief. The rebuilding of infrastructure will also have a significant effect on future budgets.

Proposed flood levy

A proposed one-off flood levy for the 2012 taxation year has been introduced by Prime Minister Julia Gillard. People with a taxable income of between \$50,000 and \$100,000 will pay a 0.5% levy, and those over \$100,000 will pay 1%, in order to raise an estimated \$1.8 billion. Those who have received Australian Government Disaster Recovery Payment – currently over 663,000 Queenslanders – will be exempt from the levy.

Figures quoted are as at 9 March 2011

BY ANDREW CLINCH,
ACCRU FELSERS, SYDNEY

Research & Development Tax Incentive Update



For many start-up businesses commencing R&D activities and established companies undertaking current R&D programs, the new R&D Tax Incentive may prove to be a valuable source of funding.

The new R&D scheme was originally proposed in May 2009, but due to initial criticism the Bill has undergone numerous changes and only now sits before the Senate (as at March 2011). However, the proposed start date remains 1 July 2010.

The intention of the new R&D Tax Incentive is to give a leg up to small innovative companies that are heavily engaged in research and development.

What Changes?

Providing a company's total R&D expenditure is generally at least \$20,000, under the new scheme, the R&D Tax Incentive will apply as follows:

- + **Companies with a group turnover of less than \$20 million pa** – will be entitled to claim a Refundable R&D Tax Credit of 45% and there won't be a cap on how much can be claimed. (The 2010 cap was \$2 million). This means a company in a tax loss position with an eligible R&D expenditure of \$1million can potentially obtain a cash benefit of \$450,000.
- + **Companies with a group turnover of more than \$20 million pa** – will be entitled to claim a Non-Refundable R&D credit of 40% with no cap on how much can be claimed.

What activities are eligible?

To be recognized for the R&D incentive, R&D activities must generally be:

- + For an experiment that is conducted using the scientific method in order to address a significant 'knowledge gap'.
- + Determined by "applying a systematic progression of work that is based on principles of established science".

Some activities continue to be excluded as they do not normally occur as part of an experiment, for example market research and the undertaking of management studies.

Software R&D will now generally only be excluded if developed for 'internal business administration' use. If software is developed for sale, for integration into other products or devices for sale or developed to facilitate the on-line delivery of goods and services (e-commerce), this R&D is now potentially eligible for the R&D tax incentive.

Generally, only R&D activities undertaken in Australia qualify for the new R&D tax incentive, however there has been a slight relaxing of this requirement. R&D activities conducted overseas may qualify in limited circumstances where the activities cannot be undertaken in Australia or the activity to be conducted overseas has a significant scientific link to core R&D activities conducted in Australia.

Registration & administration

Innovation Australia (AusIndustry) has indicated it will subject applications to increased scrutiny prior to granting registration. It will also have the ability to provide private binding rulings, which is a major change and will provide an increased level of certainty to claimants.

What does your business need to do?

If your R&D activities are likely to meet the above criteria, ensure you maintain appropriate evidence on file to substantiate them as this information will be required in your claim. A strong and well documented application is important, particularly since the definitions of eligible activities are somewhat grey. Accru can assist you with this, so please contact your local adviser for further information and advice. If you are intending to submit an application for this financial year, please contact us as soon as possible as strict cut off dates will apply.

For a "Grant Finder" which outlines all Australian, State and Territory grants and assistance available to businesses, go to business.gov.au/Grantfinder/Grantfinder.aspx or see the link on www.ac cru.com/resources/tools

BY SAM FACY, ACCRU HARRIS
ORCHARD, ADELAIDE

Changes to Dividend Payment Rules



Historically dividends could only be paid out of company profits. Due to a change in Federal Government law last year, your company may now pay dividends in other ways provided certain requirements are met, including a balance sheet test.

Under the old rules, companies may have been prevented from paying dividends, for example if they were in the start-up phase and couldn't show accounting profits or because profits had been impacted by non-cash expenses such as unrealised fair value adjustments.

This new law brings about a positive change for many business owners provided the payment does not have a detrimental effect on the business's solvency.

The new rules – a solvency based test

Under a proposed amendment to s254T of the Corporations Act, companies will need to satisfy a three-tiered test to pay dividends:

- + The company's assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend; and
- + The payment of the dividend is fair and reasonable to the company's shareholders as a whole; and
- + The payment of the dividend does not materially prejudice the company's ability to pay its creditors.

Accounting Standards will apply

Most SMEs are not required to apply accounting standards when compiling their year-end accounts. However in order to determine whether assets exceed liabilities and the excess is sufficient to pay a dividend, assets and liabilities are to be calculated in accordance with accounting standards in force at the relevant time (even if the standard does not otherwise apply to the financial year of some or all of the companies concerned).

The application of accounting standards will potentially increase compliance costs, so a cost benefit analysis may be needed prior to taking this course of action.

Benefits and cautions

The primary benefit of the change is that shareholders may be able to extract dividends out of companies where they may not have been able to in the past. A word of caution however: before the application of the provisions, business owners need to make sure the following items are 'ticked off':

- + Your constitution allows you to comply with the new rules

- + You are aware of the new parameters that apply in determining whether a company is allowed to pay a dividend
- + Supporting documentation is in place to support the directors' determination of whether or not to pay a dividend; and you are aware of the potential income tax consequences.

Many of our clients are shareholders of SMEs and they often want to extract value from their business. This change may be a way of achieving the result you want, but before any dividends are paid outside 'traditional rules' it is imperative to seek advice from your Accru adviser.

Oceana Tasmanian 2010 Fitness Business of the Year Health & Fitness

BY DEAN EWINGTON, MANAGING DIRECTOR OCEANA HEALTH & FITNESS
AND MICHAEL BURNETT, ACCRU STEELE BURNETT NELSON, HOBART

16 years ago, two friends had the vision of starting a health and fitness business where they could apply their skills to benefit members and themselves as owners. That vision was the genesis for Oceana Health and Fitness, now a successful, award-winning gym with an amazing array of exercise options, from bootcamp to exercise physiology and aquatics, as well as tailored offerings for kids through to seniors.

With qualifications in physical education and experience in the fitness industry, Dean Ewington was running a small rehabilitation business, getting people with injuries back into work following accidents. His good friend Mark Blake was a swim teacher and coach at a government pool. Together they came up with the idea of Hobart's first private gym facility incorporating an 8 lane 25m pool.

The focus was clear: it was to be a family-friendly gym where people of all levels of fitness would feel comfortable. It would cater for school programs as well as rehabilitation patients and junior swim squads.

The cost was significant. To build a customised new gym and pool needed a significant space in a prime location with car parking – plus money to get the venture started.

Dean & Mark had the drive and vision. Backing it up with a business plan that conveyed this to the market was essential – step in Accru.

Dean had been thorough with his research, and in conjunction with Michael Burnett put together an equally thorough business plan and budget covering the size of the market, demographics of the region, passing traffic and opportunities to attract clients; the diversity of products offered and a competitive pricing strategy; size and scope of other centres and analysis of the interstate market and market movements; staff and operational requirements and costs. The business plan



was impressive enough to get funding for the \$2.5m venture. It was a great start but clearly just the beginning.

The banks were very wary – they knew that most gym facilities failed within the first 3-5 years. It was critical to get some financial partners – and the key ingredient – members. To attract members it was vital to deliver a quality service, listen to their needs and look at industry trends to continue to provide them with innovative new services.

At the same time, costs needed to be kept under control – reporting against budget was essential. It was also important to get tax advantages to ensure the cash available was retained for business growth.

This was achieved by maximising the depreciation on the pool and by delaying tax on membership income via the 'Arthur Murray principle'. Their other key area of advice was on the chart of accounts.

This enabled us to identify and focus on areas that were profitable, and areas to cull that would drive down fixed costs and result in a net gain on the bottom line.

As well as sound financial management, the success of Oceana has also been driven by great customer focus. As the great coach Ron Barassi said "If you quit when you are in front, you're losing." This mantra has meant that Oceana members are offered new services and options each year – it is this innovation that has enabled Oceana to win numerous fitness industry and national small business awards.

The accounting issues change as a business evolves and becomes mature – cash flow management is still king, however the Accru team now also help with business valuations, business opportunities, outside investments and superannuation. We are proud to support Oceana Fitness and wish them all the best for many years to come.



Dealing with 'People' Issues

BY KIRSTY HAYDEN, ACCRU
PAGE KIRK JENNINGS, PERTH

A recent study showed managers in organisations of less than 50 employees spend more than seven hours a week sorting out 'people issues'. In every workplace there are bound to be people who don't get along, employees who have personal problems and workplace conflicts that need to be mediated. So how do you deal with these? Accru Perth's HR Manager, Kirsty Hayden, shares her thoughts.

The 'people problems' that may arise in a business include:

- + Conflict resolution
- + Personal problems
- + Workplace harassment
- + Perceived inequalities between staff
- + Personality issues
- + Safety
- + Promotions
- + Workload and working hours.

Develop a strategy

The best way to deal with these issues is to develop a strategy involving all areas of your business in the process. Consulting with owners, managers and your staff on their concerns and getting their opinions and feedback is essential to create a harmonious workplace.

An effective Human Resources strategy should include policies on:

- + Working hours
- + Procedures and policies for leave and absences
- + Performance evaluation procedures
- + Compensation and benefits

- + Health and safety
- + Training and development
- + Use of company property.

Make a better workplace

A good strategy can encourage a positive work environment and produce the following benefits:

For your employees:

- + Increased job morale
- + Less personal illness
- + Less unexpected leave
- + More enthusiasm and willingness to work
- + Better team environment
- + More job satisfaction

For the employer:

- + Increased awareness of employees needs
- + Reduction in losses from staff illness and leave
- + More productivity
- + Better workplace environment
- + Better returns.



Show your commitment

Consultation and policies must be supported through action. Provide staff with ongoing training in areas where they want to improve and have company-related goals, then assess the outcomes.

Deal with the issues

If you are experiencing conflict between employees don't ignore it and hope it will go away, tackle it head on. Here are a few tips for dealing with disagreements:

- + Take them aside, don't let a confrontation happen in front of a group
- + Identify the problem
- + Let each individual state their perspectives
- + Ask each person what their ideal result would be
- + Try to find a realistic outcome
- + If this is unsuccessful, try to find a compromise

If you are one of many employers struggling to cope with a heavy workload and deal with employee issues, hiring a Human Resources Manager may relieve some of the pressure. HR Managers are generally responsible for training, absenteeism and employee concerns as well as recruitment. They can monitor what is going on in your workplace, tackle issues upfront, and help create a great workplace environment for you and your team.

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