

# News

## July 2006

Our Partners Are Your Partners



## How Winners Win

A new financial year is upon us and hopefully this brings some new vigor enthusiasm to your business. Follow the Soccerroos' example and push for a win in the game – train hard, substitute a few players if necessary, try some new tactics, and use some new ideas.

What do the top organisations in Australia have in common that makes them winners? Research has revealed some common characteristics in the best performers:

- effective execution
- alignment between systems, procedures and people
- rapid adaptability

- having a clear strategy, with a flexible open mind
- looking out, not just in
- getting the right, not necessarily the absolute best people
- managing the downside
- the ability to balance everything.

It is not just the ideas of talented people or the proceeds of entrepreneurial risk that produce winners. The research noted that the winning businesses see their procedures and systems as critical. They balance the need to be focused in pursuing a clear path with demands for flexibility and some risk taking. This includes an underlying

environment of opportunism and the idea that you should not be confined to what you are currently doing or what the strategy says. Good people management was another achievement of the top organisations where good teams were more important than a charismatic leader and recruitment concentrated on getting the right people for the business which lead to the long tenure of core staff.

It would appear these organisations have the big picture correct. One key conclusion reached was that these organisations spend a lot of time getting the detail right. This does not necessarily mean perfecting internal processes which may deliver operating efficiency and cost savings. You will make more money looking outwards to sales, such as making it easy and rewarding for your customers to buy from you.

## Tax News

*Can I deduct my car parking expenses when I visit clients before I arrive at the office?*

Yes. In circumstances outside of the usual travel by an employee between their place of residence and their primary place of employment, a deduction may be allowed. Generally, the tax legislation denies a deduction for car parking expenses at or in relation to your primary place of employment or business. This follows the 'non-deductible' nature of travel directly from your home to your work place.

Circumstances which can assist with the deductibility of travel and car parking expenses include:

- travelling from home to the primary place of employment broken by travel to a different place of employment (including a part time job)
- travelling from home to a place of part time employment, where work is performed, followed by travel to the primary place of employment

- leaving the primary place of employment to travel to a client's premises or a separate work site or a business related location before traveling home
- driving a number of journeys during the working day to perform work at separate places or in connection with separate places of employment or business.

You should also remember that a minor detour does not count. The nature of travel between home and work will not change where an incidental task, like collecting the mail, is undertaken 'en route' from home to work.

The ATO will consider the overall journey between your home and primary place of employment and similarly the return trip to home. If the travel is broken into a number of distinct and separate journeys each can be viewed as a separate travel event. The travel from home to a client's office, to a separate or remote work

location, or to a place of part time employment means the journey does not end at the primary place of employment. A similar outcome may apply to travel that occurs after you leave your primary place of employment if you travel to other work destinations before returning home.

In these types of circumstances, the travel is not directly between your place of residence and your primary place of employment and you may be allowed a tax deduction for car parking expenses incurred in relation to your primary place of employment or business. Contact your Sothertons partner to clarify your situation.

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# Federal Budget Details

## ETPS AND RBLs

As outlined in the June issue, there are numerous changes proposed as part of the Government's 'Simplersuper' papers. Amongst the proposals is to abolish reasonable benefit limits (RBLs) which are essentially the concessional limits for superannuation benefits. The RBLs also come into play with termination payments and capital gains tax concessions. The concerns of approaching or exceeding your RBL – and being taxed on excessive benefits at the top marginal tax rate – are no longer relevant if you can make it safely to 1 July 2007.

In line with that change, employer ETPs (eligible termination payments) will no longer count towards RBLs. A new treatment is proposed which will cap the concessional tax treatment of employer paid ETPs such that for the assessable portion which accrued after 30 June 1983, the first \$140,000 will be taxed at 30% for people aged under 55 and 15% for people aged 55 and over. The top marginal tax rate will apply to amounts over this threshold.

## SMALL BUSINESS CGT CONCESSIONS

Treasurer Peter Costello also announced that the Government will amend the small business capital gains tax (CGT) concessions. The claim is it will reduce compliance costs for small business

and increase the availability of the concessions. These amendments are in response to the recommendations of the Board of Taxation.

To improve access to the CGT concessions, the Government proposes to replace the current 'controlling individual 50% test' with a new 'significant individual 20% test'. The small business CGT concessions are intended for active participants in a small business. The new significant individual test would enable up to eight taxpayers to benefit from the full range of concessions instead of the current limit of two controlling individuals. The test will be able to be satisfied either directly or indirectly through one or more interposed entities.

Under the current test, there is a limit of two controlling individuals or one controlling individual and their spouse who has an interest in the business. The basis for the proposed significant individual test is to identify those people who have a substantial interest in a small business given that they tend to have an active interest in running the business.

Changes are mooted to the maximum net asset value test (increasing from \$5 million to \$6 million), the active asset test, the 15 year exemption, the retirement exemption, the small business rollover, and how concessions apply to partnerships. All amendments will apply to CGT events occurring from the 2007 financial year onwards. There are few details available

at present and a comprehensive analysis of the changes will not be possible until legislation is released sometime in the next year.

It would also be beneficial if the Government indexed or increased the \$500,000 limit. This is the lifetime limit for small business owners (CGT concession stakeholders) to fund their retirement and enjoy the concessional tax treatment. The \$500,000 limit has remained at that figure since its 1999 introduction – if indexed to CPI, it would now be over \$610,000. The increase proposed in the maximum net asset value test from \$5 million to \$6 million is less than the inflationary increase. Contact your Sothertons partner for more details and their application to your situation.



# FIFA Frenzy



If you have not read your newspaper liftout or football magazine on the FIFA (Fédération Internationale de Football Association) 2006 World Cup and you are struggling with conversation at the water cooler, arm yourself with a few facts and trivia on the spectacle of the world game:

- It is on now in Germany (you should already know at least that) – in all there will be 31 days, 64 matches (no replays), spread amongst 12 cities.
- Germany won the tournament last time it hosted in 1974 – the only previous appearance by Australia. Germany has played in 7 finals (as has Brazil).
- The group phase started on June 9 and ended June 23. From there the elimination rounds sort the top 16 teams out leading to the final in Berlin on 9 July.
- Over 30 billion people will watch the televised matches and around 1.5 billion will watch the final.
- The world cup idea can be attributed to Frenchman Henri Delauney who designed the first 'world championship' with compatriot Jules Rimet in Uruguay in 1930. In 1946, the trophy was named the Jules Rimet Cup.
- 13 nations attended the first World Cup which comprised just 18 games in one stadium. Host nation Uruguay won.
- Brazil has appeared in the last 3 finals and is favoured to win again (it has won 5 times). Australia was not expected to make it passed the first round.
- Brazil hosted the 1950 tournament. 174,000 people crowded into Rio's Maracana stadium (unofficial quote: over 200,000) for the final which Brazil lost 2-1 to Uruguay.

# The Service Business

Most small to medium business owners are in the service business. Sure they sell things or provide services to their clients and customers, but it is important to recognise that whatever the basis of their business may be they must focus on the service delivering the thing they do or sell to clients. Opportunities for growth, retention of clients, cross selling to clients, and generally for growth of the business's value are greatly enhanced by successfully developing strategies for the 'softer' skills.

The performance of the team is critical to service delivery. If staff performance is not up to standard the business owner has little chance achieving a satisfactory service reputation. Team members at the front line – particularly positive, friendly, and helpful secretaries and receptionists – can make a huge difference. The business's commitment to high standards of service depends on their owners' ability to involve their team in the service commitment on a daily basis and provide support and appreciation. An appreciation also that the pressure of pursuing hard results can affect everyone's efforts to devote sufficient time and energy to providing personal service. This needs to happen at all levels in the team delivery chain – there is a direct correlation between client satisfaction and the health of internal relationships at all levels. Businesses should have rewards and recognition systems encouraging excellent service which directly support the people-relationship goals internally and externally.

Good service can be a cost saving effort:

- It can cost two to three times more in resources to establish a new client as it does to obtain additional work from or make additional sales to an existing client.
- In many professional and personal service businesses around two thirds of business comes from existing clients – remembering that they also refer new clients.
- The majority of the marketing effort in many of those businesses is directed toward attracting new clients – rather should it be directed to ensuring that clients and customers are happy with the existing service?

Sadly for too many businesses, their clients and customers are dissatisfied with the level of service they are given and are actively looking around for an alternative. The risks of losing clients to competitors are greater today as people can purchase with greater convenience and therefore move their business much easier.

Business owners can often miss the point believing the most important aspect of their business is to be the best technically or the quickest or the cheapest or produce the best job or the best product that they can. Of course these issues are important but in many cases they are off the mark. Clients and customers often value service higher. Excellence in service delivery involves:

- Treating clients and customers with consideration and respect.
- Anticipating clients' concerns and presenting information, progress, alternatives, or solutions before the client has to ask.
- Meeting commitments, satisfying needs, and exceeding expectations.
- Eliminating surprises and disappointments for the client.
- Renegotiating or making good in advance if a commitment cannot be met, a product not supplied or not delivered, or a service not provided to suit the client rather than hoping the client will not notice.

Features can be irrelevant to many clients and customers – it is the benefits that please them. Often there is a basic assumption made by the purchaser that the professional's advice is correct, that the tradesman is technically capable, that the product does its job, or that the taxi driver is taking the direct route. If it is assumed that the majority of purchasers cannot accurately judge technical value, product quality or features to any real level of sophistication then products and services resemble commodities and the service delivery is how the business will differentiate itself.



When the client is treated with consideration and respect and enjoys the service, they are far less likely to question the quality and value of the product or service that they receive. If a problem does occur, the relationship is generally strong and will survive the problem, particularly if it has been handled with more good service – handled honestly and openly rather than hidden from the client. Consider the reverse when the client is not happy with the service – now everything comes under scrutiny and suspicion.

Time and resources spent improving the 'soft' skills within the business will show direct bottom line returns. Everyone in the business has to agree that excellent service is an important ingredient towards achieving success. The bottom line is that excellent service standards and good client relationships are the key to improved client retention and increased profits.

## DESK DIARY

"A good strategic decision outranks 50 operational ones. A chief executive should be almost entirely focused on strategy."

Peter Bartels, former Coles Myer CEO

# *GST Adjustments & Corrections*

Small adjustments for the goods and services tax reported and paid to the Tax Office should be made on your next business activity statement or when an annual reconciliation is lodged. Where the amount of GST is immaterial you should not bother to amend the activity statement of the quarter related to the original transaction.

The ATO allows small businesses with an annual turnover of \$2 million or less to adjust for the private use of assets (such as motor vehicles) on an annual basis for GST purposes, rather than on a quarterly or monthly basis. This means small adjustments such as remitting GST on employee contributions to fringe benefits or reducing the input tax credits claimed due to private use can be made when the calculation is completed (such as when your annual accounts are finished).

An input tax credit is allowed for a purchase (whereby you claim the GST paid) to the extent of your creditable purpose. Where the asset or expense purchased is wholly for business the transaction is wholly for creditable purposes and all the GST paid will be allowed as a credit. If you later decide that the asset was used partly for private use, the extent of creditable purpose you then attribute as 'not creditable' can be adjusted on the next business activity statement lodged.

If you wish to clarify what amount of GST will be considered immaterial or how this applies to your business contact your Sothertons partner.

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**IMPORTANT:** Professional advice should be considered before acting in any area. Clients and readers should not act solely on the material contained in this newsletter which is in the nature of general comments only. Material may or may not be applicable to your particular circumstances and changes in legislation sometimes occur quickly.

For details of each firm's financial planning arrangements and assistance with your financial affairs, please contact your Sothertons partner. Any decision to invest or not to invest should only be made after considering the specific advice of a licensed financial adviser.

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