

### **Tips for first time business operators:**

Starting a business isn't easy. It is a big change from being an employee, and there are many different compliance obligations to consider. At DFK, we have extensive experience in helping first time business operators establish their business. No matter how big or small, we can assist you on the road to becoming your own boss.

- Structuring is very important and there are many different options available for business operators. Some structures offer ease of establishment, whereas others help protect your personal assets through limited liability. It is also important to consider how you want the income distributed/allocated because different structures provide greater flexibility.
- Business planning is essential. Consider:
  - What do you wish to achieve?
  - How will you achieve it, and how quickly?
  - Have you identified what your anticipated costs are?
  - How many products do you have to sell to break even?
  - How will you differentiate yourself from your competitors?
- Individuals will generally need to contribute capital to get a business up and running and pay for items such as assets, inventory, cost of goods sold and other expenses. Consider your working capital requirements and how long it will take for the business revenue to cover expenses and asset additions.
- To obtain funding, banks will generally require that you provide them with accurate cash flow projections. We recommend that you prepare them from the start when you are making outlays for equipment, up until when you predict the business will start turning over the desired amount each month. That gives the bank an indication of funds required and how quickly the business will become profitable.
- Banks are a useful source of funding, but have you considered other avenues such as bringing in additional partners, crowd sourcing, supplementing your business with wages or borrowing from family?
- If you project that your business will turn over more than \$75,000 per annum in revenue, you will be required to register for GST. Depending on the business, you may be required to register regardless of turnover. GST is a complicated area and we recommend that you seek the assistance of an accountant or experienced bookkeeper to get you and up running.
- If you are purchasing assets for use in the business, be sure to be registered for GST prior to making the purchase so that you can claim back the GST portion of the cost.
- This may be the first time when tax is not automatically withheld from your income. Therefore, the onus is on you to appropriately budget for any tax payable. After your first tax return is lodged, the ATO may enter you into the Pay As You Go (PAYG) Instalment system, however it is your responsibility to ensure you put enough money aside for income tax and GST each year.
- The Australian Taxation Office has strict requirements for invoices, so remember to check to ensure you are compliant. The ATO has a guide available on their website which discusses all of the compliance obligations for invoices.
- While keeping an excel spreadsheet or folder of receipts may be appropriate for individual tax returns, business operators will experience a greater volume of transactions and should endeavor to use an electronic accounting program to record their income, expenses, assets and liabilities. Accurate records are not just important to comply with taxation legislation, but they are also useful to measure the success of the business. Accurate financial records are

also highly desirable if you wish to sell your business – you have a better chance of selling your business if the buyer can accurately ascertain if your financial performance is accurate.

- Cash flow management is pivotal to the success of your business. Consider your payment terms and how this will affect your cash flow. If you have to outlay a substantial amount upfront to deliver the product, consider asking the customer to pay a proportion of the invoice upfront. Discounts for early payment may also be advantageous.
- If you are engaging predominately with one organisation, it is important to confirm whether the Personal Services Income rules apply. These rules clarify whether you are really classed as an employee of an organisation, rather than a contractor, and limits the deductions you may be able to claim. Different superannuation rules apply for contractors and it is important that these are understood.
- If you are employing staff, there is a myriad of legislation that will apply here. SGC, withholding tax, WorkCover, awards, HR rules and regulations, these may all apply.
- Are you using your place as a home business? If so, you may be liable for Capital Gains Tax when the property is sold. It is important that you discuss this with a registered tax agent.
- Do you have a distinct brand or logo? Consider trademarking it to protect your brand. Or if you have intellectual property that sets you apart, consider a patent to protect your asset.
- In order to be profitable and maximise the use of your assets and staff, it is important to be aware of the industry benchmarks for sales, gross profit, net profit and expenses. By comparing your business against the industry standard, this can also help you establish your budgets and goals for the business, as well as increase revenue and decrease expenses.
- When you are starting the business, the last thing on people's mind is the exit strategy. But if you are going into business with others, you need to be clear about the responsibility of each person. Additionally, it is important to clarify what will happen if one of the owners wish to leave. Part of the exit strategy is considering how you can make the business more attractive to potential buyers and investors.

DFK is able to assist you in all of these areas, plus plenty more.