



DFK AUSTRALIA NEW ZEALAND BUSINESS & TAXATION BULLETIN

keeping you informed **summer 2018**

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GRANTS, ASSISTANCE & OTHER SUPPORT

There are many state and federal government grants and assistance packages available for businesses looking to expand into new markets or develop new products.

For a comprehensive list of grants available across various states and territories of Australia go to www.business.gov.au/Assistance.

HAVING TROUBLE LODGING ON-TIME?

There may come times within your business which despite your best intentions, your Australian Taxation Office (ATO) lodgement requirements have not been met by the required due date. If this does occur, please advise your DFKANZ contact who can communicate with the ATO to discuss a catch-up plan.

If you prepare and lodge your own activity statements, lodging the quarterly BAS electronically through the ATO Business Portal rather than via paper will provide an automatic two week extension.

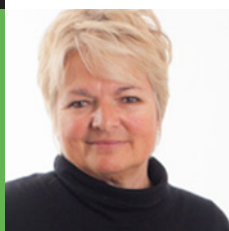
The ATO may impose late lodgement penalties for each month a document is late in addition to any interest charges on overdue payments.

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Woolcock
DFK ANZ Chair
DFK ANZ Chair
B.Bus (Accounting)
FCA CTA



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Binet
Executive Officer
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ADDITIONAL ONLINE SECURITY

In response to the increasing number of cloud based accounting providers who link directly with the Australian Taxation Office, there will be a mandatory requirement for two-factor identification by the end of this year.

Two-factor identification is where a user is required to provide multiple pieces of authentication information such as a password and a text message code. If you have not already set-up this procedure for your cloud based log-ins, we recommend you do so immediately.

GIC & SIC RATES

The ATO has published general interest charge (GIC) and shortfall interest charge (SIC) rates for the second quarter of the 2018-19 income year.

The GIC annual rate for Oct – December 2018 is 8.96% and the SIC rate is 4.96%.

COMPANY TAX RATES – CHANGES FINALLY LAW

The changes to the company tax rate announced earlier in the year were finally passed by the Senate on 23 August 2018.

This means that from 1 July 2018 the following company tax rates apply:

- 27.5% for a Base Rate Entity
- 30% for all other Entities

For a company to be considered a 'Base Rate Entity' it must pass the following tests:

- Have aggregated turnover (includes related entities and affiliates) in the relevant income year less than the specified threshold (\$25 million for 2018 year)
- Have 'base rate entity passive income' for the income year as no more than 80% of the company's assessable income

The concept of carrying on a business to gain a lower company tax rate has been replaced by looking at the actual income sources of the company for each respective income year. Once passive income exceeds 80% of total assessable income, then a company cannot access the lower income tax rate. The types of income considered passive income include:

- Interest
- Royalties
- Rent
- Net Capital Gains
- Dividends & Franking Credits (excluded if company holds more than 10% voting rights in company paying the dividend)
- Partnership Income (to the extent that it is attributable to an amount that is passive income)
- Trust Distribution (to the extent that it is attributable to an amount that is passive income)

The change in company tax rate will also change the franking percentage for a company when paying a dividend.

The company tax rate for Base Rate Entities will further reduce in future years according to the following table:

INCOME YEAR	AGGREGATED TURNOVER THRESHOLD	TAX RATE FOR BASE RATE ENTITIES UNDER THRESHOLD	TAX RATE FOR ALL OTHER COMPANIES
2017 – 2018	\$25million	27.5%	30.0%
2018 – 2019	\$50million	27.5%	30.0%
2019 – 2020	\$50million	27.5%	30.0%
2020 – 2021	\$50million	26.0%	30.0%
2021 – 2022	\$50million	25.0%	30.0%

YOUR BUSINESS HOME PAGE – MAKE IT COUNT!

Your business home page on the internet is first point of contact between you and a potential new customer. It is like a virtual shopfront to draw the customer in and make them want to learn more about your product and services offered, so make it count!

Branding: Clear and effectively displayed throughout website.

Site Navigation: A clear and simple navigation bar and use drop-down menus if your site has many pages. Ensure the first homepage is uncluttered.

Images: Ensure images are relevant to text and are of a high quality. Short videos can also enhance text.

Site Search Function – a clear location to help users find the information they seek.

Content: Keep paragraphs short, language simple and appropriate to your audience.

Typography: Keep styles consistent throughout the site and ensure it is easy to read.

Contact Information: Ensure contact information is clear and easily found to enable a potential customer to take the next step.

SINGLE TOUCH PAYROLL – COMPLY BY 1 JULY 2019

Businesses with 20 or more employees are already required to be processing their payroll through the Single Touch Payroll (STP) system and from 1 July 2019, all employers are required to comply. The STP system reports all payments from employers to employees in real time reporting which assists the Australian Taxation Office (ATO) in ensure all employers are meeting their tax and super obligations.

The ATO has requested a number of software providers to submit a low-cost solution for employers with 1-4 employees to enable them to be STP compliant. All the major small business accounting software providers have tendered for this project and further updates will be provided in early 2019.

DFK AUSTRALIA NEW ZEALAND FEATURE ARTICLE BUYING A BUSINESS

As we approach the Christmas season it gives many of us a time to relax and enjoy time with family. It also gives some of us time away from our businesses and some of us time to think about buying a business.

If purchasing a business is new to you, or it is something you may be thinking about over the Christmas period we have a series of answers to the most frequently asked questions from first time buyers.

HOW MUCH MONEY DO I NEED?

Before you begin looking at buying a business the first step is to work out your finances.

There is no point in looking at businesses that are beyond what you can afford. Calculate how much cash you have available and what other assets, such as property, you could borrow against.

With some types of businesses it can be difficult to borrow money using just the business as security, due to the difficulty a

bank may have in securing the loan, e.g. low asset base service industry etc. If you have a house or investment property you may be able to use this as security for a mortgage to buy the business, thereby requiring less cash.

WHAT INITIAL INFORMATION DO I NEED TO GATHER?

Gathering all the information you need to make an informed decision should start with the basics first.

PRICE – Is the business within your budget and can you fund the purchase?

LOCATION – Is the business suitable to you and is it a good area for this type of business? (demographics)

LEASE – How long is the lease?

RENT – How much is the rent and other associated outgoings?

STAFF – how many employees? And what are the current employee's outstanding entitlements

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INCOME – How much money will I earn?

TENURE – How long has the business been operating?

What are the 'barriers to entry' in other words how difficult would it be for a competitor to set up a similar business.

HOW ARE BUSINESSES PRICED?

Businesses are valued on the basis of the amount of money they earn combined with the desirability of the industry and risk factor.

Higher prices will be paid for businesses in more desirable industries that are operating in a market perceived as low risk. These types of businesses are in strong demand. Therefore the value of the business will be greater than for one in a less sought after industry and perceived to have a higher risk factor attached to it, despite the fact that both businesses may make the same amount of money.

WHAT IS THE IDEAL BUSINESS?

Often people ask "what is the perfect business"? There is no perfect business, as each business and industry has its own unique set of challenges for the owner.

It is important to buy a business in an industry that you relate to and in which you can learn and be comfortable. Look for a business with an eye towards what you can do with it, how you can improve it, how can you use your ideas and enthusiasm to make it more profitable and productive?

WHEN CAN I INSPECT THE BUSINESS?

A physical inspection of the business should come at a time when you have

considered the financial information given to you, are satisfied with this and wish to proceed further.

Remember that the owner of a business will be very sensitive about your visit, on the one hand wanting to provide you with all the information you require, yet on the other hand not wanting staff to know why you are really there. Please respect this sensitivity and have the courtesy not to embarrass him or her.

WHY SHOULD I PAY SOMEONE TO BUY A BUSINESS WHEN I COULD START ONE UP?

There are three main reasons:

- There is a large failure rate in new business start ups whereas an existing business has a statistically higher chance of continuing to be successful.
- Financial records on the business are available so you can see if it is making a profit and what spare cash you should have to live off and pay your financial commitments.
- It may be easier to borrow money as the business has an established track record to cover debt servicing costs.

HOW DO I KNOW THAT WHAT I HAVE BEEN TOLD ABOUT THE BUSINESS IS TRUE?

When you initially look at a business certain information will be supplied. However, in some cases the owner of the business will be reluctant to reveal too much about the business until an offer is made. Many aspects in the operation of a business are commercially sensitive and confidential, thus a business owner

would not be wise in disclosing all until a prospective purchaser has indicated a serious intention to purchase by making a conditional offer.

An offer is normally subject to the purchaser performing due diligence, a process whereby the purchaser requests specific information on the operation of the business. The owner will supply this under due diligence. The buyer must maintain the strictest of confidentiality through this process and must not disclose any information to other parties with the exception of any professional advisors they are using in the process.

The due diligence process is for the benefit of the purchaser giving them time to complete the verification process. If satisfied with the end result the agreement proceeds and you become the proud owner of your new business. If however you are genuinely not satisfied with the results of the due diligence, then the owner is advised accordingly and the agreement comes to an end. The deposit money held in trust is refunded in full.

As with all purchases of this nature it does require a lot of thought and professional advice. We can certainly assist you with any of the structuring, tax and due diligence side of things that are involved in buying a new business. We will also be able to assist with helping you to gain any of the financing requirements that might be needed.

Within our network we can also put you into contact with solicitors for the contractual side of the transaction and business brokers to make you aware of what businesses might currently be for sale that can integrate with your current business or see you going on a new journey.

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DFK AUSTRALIA NEW ZEALAND FINANCE ARTICLE BRIDGING FINANCE

You are considering selling your current home, and buying another. Ideally you would like to move straight out of your current home into the new one, which would mean both settlements occurring on the same day. But how do you finance the purchase of a new home if you cannot align the settlement dates?

There are a couple of scenarios to consider:

1. The Sale Settles First

In this case, financing is easier because you can use the sale proceeds to put towards the purchase, however, where will you live in between the two settlements?

- **A:** You could temporarily move into another house (e.g. a rental, or with family). This is often the only solution however you need to consider the obvious double handling with removalists etc
- **B:** You could potentially negotiate with the Purchaser of your home, to let you rent the property off them for the period in between settlements

2. The Purchase Settles First

You already have a home loan, and you don't have access to the equity / cash from your home because it has not yet settled! In this case you need to consider a Bridging Finance solution.

How Does Bridging Finance Work?

Bridging Finance enables you to borrow up to 100% of the purchase price to settle on a new purchase, whilst you work on selling your current home, however, there are a few important elements of bridging finance to be aware of.

Bridging Finance Is Not For Everyone

As a 'rule of thumb' it is most often only a viable solution if you have built up equity of at least 40% of your existing home's value, before you attempt a bridging loan. Otherwise, the total amount of lending that you need to settle on the new property (plus your existing home loan) may be more than the maximum loan amount available.

How Do You Borrow 100%?

Whilst you can also contribute some cash towards the new purchase, the bridging loan is often used to cover 100% of the purchase price and relevant stamp duties.

The loan is secured against both the new home and the existing home.

Even though bridging may only be required for a short term, the "total loans" (new and existing) cannot exceed 80% of the "total property value" (for both existing and new properties).

Potential Issues

To complicate the numbers further, various lenders use different models to calculate the value of a bridging loan. One common model includes a 15% allowance against the potential sale price of your existing home.

In other words, say you think you could sell your home for \$800,000, some lenders will assume (for the sake of approving or declining the bridging loan) that you will only sell for \$680,000. This immediately impacts whether bridging finance is viable, and reinforces the 40% equity guide discussed earlier.

How Do Repayments Work?

The loan is often split into two parts:

- **1.** The loan amount that you would eventually need once your sale has gone through (i.e. the ongoing home loan). Repayment on this loan are usually Principal & Interest over the standard term of 30 years (i.e. normal home loan repayments)
- **2.** The 'Bridging Loan' which covers the rest of the purchase price. This loan allows for interest to 'capitalise' on top of itself – in other words repayments on this loan are optional. However, the more interest that accrues, the less money you will receive from the sale proceeds

What Are The Risks?

The obvious risk is that for whatever reason, you are unable to sell your old home. Bridging loans typically have a maximum term of 6 months; after this date the lender may enforce a monthly repayment on the bridging loan (which can become a significant cash flow burden), and if the sale process still does not gain some traction, the lender may reserve the right to take charge of the sale process, which can result in a lower sale price.

If structured correctly, with realistic time frames and price estimates, bridging finance can ease the pressure of matching up settlement dates, and give you time to sell your existing property whilst securing your new one.



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Contact DFK ANZ on

- ✉ exec@dfkanz.com
- @ www.dfkanz.com
- ☎ 1300 DFK ANZ

UPCOMING KEY DATES & DEADLINES

21 DECEMBER 2018	November 2018 Monthly Activity Statement due for lodgement and payment
15 JANUARY 2019	Lodgement of 2018 income tax return for large and medium taxpayers
15 JANUARY 2019	Lodgement of 2018 income tax return for head companies of a large or medium consolidated group (including new registrants)
21 JANUARY 2019	December 2018 Monthly Activity Statement due for lodgement and payment if turnover is greater than \$10 million
21 JANUARY 2019	Quarterly PAYG Instalment Activity Statement due for lodgement and payment for head companies of a consolidated group
28 JANUARY 2019	Superannuation Guarantee Contributions due for payment for October – December 2018 quarter
21 FEBRUARY 2019	December 2018 Monthly Activity Statement due for lodgement and payment if turnover is \$10million or less
21 FEBRUARY 2019	January 2019 Monthly Activity Statement due for lodgement and payment
28 FEBRUARY 2019	Lodgement and payment of 2018 income tax returns for non-taxable large and medium entities
28 FEBRUARY 2019	Lodgement and payment of 2018 income tax returns for new registrants who are large or medium entities
28 FEBRUARY 2019	Lodgement and payment of 2018 income tax returns for new SMSF registrants
28 FEBRUARY 2019	October – December 2018 Business Activity Statement due for lodgement and payment
28 FEBRUARY 2019	Lodge and pay Annual GST Return if taxpayer does not have an Annual Income Tax Return requirement
21 MARCH 2019	February 2019 Monthly Activity Statement due for lodgement and payment
31 MARCH 2019	2018 Income Tax Return due for individuals and trusts whose latest return resulted in a \$20,000 or greater tax liability
31 MARCH 2019	2018 Income Tax Return due for lodgement and payment for companies and super funds with a turnover of greater than \$2million unless required to lodge earlier

FOR MORE INFORMATION & FUTURE NEWSLETTERS

For more information on anything contained in this bulletin please telephone or email to our details below.

DFK AUSTRALIA NEW ZEALAND

For further information or enquiries about any of the latest business and taxation topics discussed in this newsletter, please contact the Directors and team at DFK ANZ.

General Enquiries exec@dfkanz.com

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